“Neuland Laboratories Limited Q3 FY21 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Neuland Laboratories Limited Q3 FY21 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ravi Udeshi from Christensen IR. Thank you and over to you, sir.

Ravi Udeshi: Thank you, Janis. Good evening friends and good morning to those who are joining from the Western part of the world. Welcome to the Q3 FY21 earnings conference call of Neuland Laboratories Limited. To take us through the results and to answer your questions today, we have with us the top management from Neuland represented by Mr. Sucheth Davuluri - Vice Chairman & CEO, Mr. Saharsh Davuluri – Vice Chairman & Managing Director and Mr. Deepak Gupta – CFO.

We have sent out the press release as well as the detailed presentation and the same have been uploaded on the website as well as to the exchanges. You could take a look at that or in case anyone of you wants it, we could e-mail the same to you.

Before we start, I would like to remind you that everything that is said on this call which reflects any outlook for the future or which can be construed as a forward-looking statement must be viewed in conjunction of the risks and uncertainties that we face. These uncertainties and risks are included but not limited to what we have already mentioned in the prospectus and subsequently in the annual reports which you will find on our website.

With that said, I will now hand over the floor to Mr. Saharsh Davuluri who will now give the highlights of the quarter gone past. Mr. Saharsh!

Saharsh Davuluri: Thanks, Ravi. Good evening, friends. Thank you for joining this call.

As in the previous quarters, I will be speaking for a few minutes on the overall financial performance and also touch upon the drivers of the business. Post which, we will open the call for Q&A. I hope you have had a chance to go through our new look presentation that we had shared earlier today and we have also filed this presentation to the exchanges. The idea of this presentation is to ensure that investors get to understand the business in greater granularity. We would certainly appreciate your feedback on the slide deck and we would be happy to incorporate any inputs that you believe will make the disclosures more informative.

Let me turn my attention to the quarterly performance. So after 2 quarters of headwinds due to COVID related issues where we face multiple challenges on various fronts, we believe that the operations have started to stabilize, though we continue to remain cautious. We are taking adequate precautions at our workplaces and factories to ensure safe working conditions that are confident of growth

all concerned. The quarter's performance revenues of Rs 245.6 crores, it was almost 20% growth over the corresponding quarter in the last fiscal and the drivers of this growth was good traction both from GDS as well as CMS segments. We are confident of sustaining this momentum in the medium to long term as well. The EBITDA margins at 19% showed an improvement of 480 basis points over the corresponding period. This improvement is something that we alluded to in the past and we are quite satisfied with the trajectory that the margins have taken over the last few quarters. We hope to sustain the margins with better business mix, operational efficiencies and overall growth in the business.

On the GDS segments, we have seen levetiracetam as well as mirtazapine as the key drivers for the prime segment while Dorzolamide and Deferasirox have done well in the specialty space. CMS continues to move along with good momentum and this quarter saw greater contribution from development projects that are close to commercialization. We believe our CMS portfolio has built some scale now and we are definitely seeing positive momentum going forward. Focus on key CMS projects continues to be a top priority for the company and will be critical for ensuring the current momentum and performance.

all good

Unit-III has started commercial operations; I had mentioned in the last call and we have started shipping 2 APIs from this facility to our clients. While it has taken time for Unit-III to get fully functional, we now believe that the base for future growth of the business has been established and we see Unit-III driving growth as more products start getting approved for production from this facility. I would now request Deepak to take us over the financials and brief.

Deepak Gupta: Thanks, Saharsh. Good evening, friends, and very warm welcome to everyone for our Q3 FY21 earnings call. I will touch upon the financials, after which we will open this call for Q&A session. Total income for the quarter was Rs 245.6 crores, which was the growth of 20% on year-on-year basis and 1.5% on quarter-to-quarter basis. EBITDA was Rs 46.7 crores. This translates to EBITDA margin of roughly around 19% which was 480 bps improvement over the corresponding quarter and 190 bps on a sequential quarter basis. Profit after tax stands at 26.7 crores which shows improvement of 141.5% on year-to-year basis and 25% on quarter-to-quarter basis. PAT margins for this quarter was almost 11%. EPS for this quarter stands at 20.79. The cash and cash equivalents in our books are Rs 32 crores as of today.

everything high

The debt for our books including working capital stands roughly around Rs 199 crores, which includes term loan of Rs 115 crores and our debt margin continues to be at a comfortable level. We had a capex of Rs 78 crores during this financial year for the 9 months till date.

With this, I will request the moderator to open the line for the Q&A session. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Sajal Kapoor from Unseen Risk Advisors. Please go ahead.

Sajal Kapoor: So first question is regarding our peptide business. Global innovators are projecting significant growth in the peptide molecule with respect to the chronic diseases like diabetes and some peptides like Liraglutide and Semaglutide there is generic opportunity which are also disclosed in our related pipeline of molecule. In fact, the forecast of Semaglutide is well over $8 billion projected to be there by 2024. So given our decade long focus on peptide chemistry on the surge of global diabetic population, with generic opportunity in peptide should be quite meaningful when these molecules that we have disclosed in our pipeline they go off patent?

Saharsh Davuluri: Thanks for the question, Sajal. Just to be clear the question was about opportunities in peptides, so I think given the fact that peptides are being developed for more broader indications like metabolic diseases like diabetes etc. and the question is specifically about is there anything Neuland is doing on the generic side of peptides. I think just to respond to that question as all of you know, we have been working on peptides for several years now. Initially, the focus is more on making peptide building blocks, but more so the last several years we have been making new chemical entity peptide APIs as well. And as a result of that, Neuland has been involved in a lot of CMS projects which are peptides. Over the last couple of years, we also consciously looked at the generic peptide opportunities and given the fact that Neuland has a strong GDS business, we believe that generic peptide APIs could actually had a lot of value both to our clients as well as to the company as well. We have started developing a few peptide APIs internally. We have already developed peptides like Linaclotide. We are working on peptides like Liraglutide and Semaglutide, and these are peptides as you have also recognized have huge commercial value going forward. However, these peptides being fairly complex in nature, the timelines for development for filing a DMF are longer. Typical small molecules take anywhere from 3 to 9 months to file a DMF whereas the complex peptide like Liraglutide or Semaglutide could take 2-2.5 years. But given that the opportunity is fairly large and we are excited about these molecules and hopefully, we will have a few interesting partnerships on the generic peptide side as well and we continue to keep the focus on the CMS business for peptides as well.

Sajal Kapoor: And secondly when it comes to novel molecule for the NCEs, we have seen much faster approval coming from the US FDA around the areas of the rare disease or the orphan diseases and majority of these molecules in pipelines are generated by small and virtual biotech, which has been the core focus for Neuland's custom synthesis business. So how do you see our CDMO business scaling up from here, see we have done 54% YoY growth in this year, but how do you see the medium-term future and can this become 40-50% of our overall business in the medium term?

Saharsh Davuluri: See, as you have said Sajal, the NCE business, obviously the cycle times for approvals of orphan drugs is much shorter and depending on the indications, some drugs take longer time. They require longer clinical trials. Neuland at the core of it is an API company and we are agnostic to therapeutic areas as well as the concepts of orphan disease versus conventional disease. So our portfolio of CMS projects has a fair mix of orphan drugs as well as conventional drugs and where we have had orphan drugs, we have seen that the timelines for approval has been fairly shorter. I think today if we look at our pipeline, we are fairly confident as I had mentioned in the opening

Only increase guidance

remarks also we are seeing that a lot of late clinical molecules, already commercial molecules are getting scaled up today, and these are molecules which will add to the commercial revenue of our CMS in the future years. It is difficult to give a clear guidance on what will be the revenue contribution of CMS on the total business because it really depends on how the drugs will perform market wise and what kind of API revenues, it will generate for Neuland, but our estimate, this year our CMS business is about a third of the total business and last year maybe it was 25%. So we expect that the proportion of CMS business to the overall business will increase, but whether it will be 40%, whether it will be 45% or 35%, it is something that really depends on how these molecules scale up and become commercially successful.

Sajal Kapoor: That is perfectly understandable, Saharsh. And lastly, in the post COVID world, we have seen a surge in depression and anxiety cases worldwide. Neuland is known as a global leader in molecules like Levetiracetam and Mirtazapine and our sales have been growing in these molecules as well in recent quarters. Also, Dorzolamide catches my attention because in a world where everything is getting online and zoom-enabled as well the ageing population, rising cases of glaucoma and myopia, these 3-4 molecules I think are very well positioned given our backward integration of course and so even on the GDS side, these specialty molecules such as Dorzolamide and maybe Levetiracetam and Mirtazapine etc., they should continue to see some traction as we have been reporting in recent quarters. What are the thoughts around these, please?

Sucheth Davuluri: So Sajal going back to your earlier comment, the reason why we are saying and I think Saharsh mentioned, Mirtazapine is one of the key growth drivers on the GDS side and that is happening not essentially because the market from Mirtazapine itself is growing, it is also because of a conscious choice of strategy for Neuland saying that now whatever molecule we will get into will continue to invest in that molecule in terms of cost, capacity, customers so that we will become the market leaders over the long run and that is why we are seeing all the molecules such as Mirtazapine, Levetiracetam as key growth drivers because we continue to invest in those molecules and become market leaders. Similarly, as you know one of our key focus areas has been to develop our capabilities in specialty APIs whether it is Dorzolamide, Solu-Medrol, Indacaterol so on and so forth. So we are seeing lot of traction from those. Our overall strategy does not change whether it is a prime molecule or whether it is a specialty API, we will continue to focus on it and continue to gain market share. So we have kind of answered your question yourself that the market opportunity is there and our focus will continue to establish ourselves the market leader.

Moderator: Thank you. The next question is from the line of Hasmukh Gala from Finvest Advisors. Please go ahead.

Hasmukh Gala: Just two questions sir I wanted to know. My first question was that there is a degrowth in revenue in rupee terms in the Prime segment and Specialty segment. So is there any element of seasonality in that, that was my first question, and second question was Union Budget related. Are there any positives or negatives for company like us in different areas?

Saharsh Davuluri: So in terms of the absolute numbers, there has not been a degrowth, we would just like to clarify that.

Hasmukh Gala: It was Q-o-Q sir. Q3 over Q2. Q3 over Q2, there has been a minor small degrowth of 7% and 8.5%.

Saharsh Davuluri: Correct. So I think between Q3 and Q2, there has been a minor dip as we have rightly said. Prime is Rs 105 crores and Speciality is Rs 44 crores. I think a lot of this is a factor of what gets shipped out, in which quarter and it is not necessarily characterized by any trend per se. I think it just happened that whatever shipments that happened in Q3, those were the numbers, but other than that, there is no discerning trend or concern or anything whatsoever. I think I would probably look at a larger horizon like YTD numbers of this year versus last year to get a better clarification and I think on an overall sense basis also, we are quite happy with growth not just at a GDS level, but even within GDS, prime and specialty had been charting their own growth. For example, if you take a molecule like a Paliperidone, the sales of Paliperidone in Q3 were not as much because there were no shipments scheduled, but when that happens, that number would go up. So I think it is a matter of just how the shipments have gone out, but there is nothing more particular I would add to that.

Moderator: Thank you. The next question is from the line of Sunil Kothari from Unique PMS. Please go ahead.

Saharsh Davuluri: So maybe just a quick response on the Union budget question previously from. Deepak.

Deepak Gupta: So budget, what we have done, we have evaluated the changes in the budget which may impact our business. So one thing which we picked up is regarding the goodwill. We do carry goodwill in our books and the Tax Department has come up with a provision wherein the goodwill tax allowability has been reversed from the previous year which means the current year. So currently, we are taking benefits of goodwill in tax liability. So that benefit will go away from us. So that is a very small portion of the total tax liability that we have, but that is the only impact which we can foresee as of now because of the recent changes in the budget which has come up.

Moderator: Thank you. The next question is from the line of Keval Ashar, individual investor. Please go ahead.

Keval Ashar: Congratulations sir for the great set of numbers we are seeing the scaleup in the CMS segment. What I would like to ask is to know if we see a sustainable growth in our specialty segment as revenues in the segment have been flattish over the last 4 quarters if you see. So can you throw some light on this and what are the key molecules that you see driving this headwind ahead?

Saharsh Davuluri: I think in terms of the specialty segment, I think as I mentioned in the opening remarks, products like Dorzolamide, Deferasirox have been fairly important drivers of the business recently, but I think other than that, we have had products like Salmeterol, Paliperidone as well as products like entacaponeand ezetimibe which also have played a key role in the growth. In terms of the last 12 months or the recent period, I think the growth in the specialty has been relatively lower, but it still has been recent, maybe around 15-16%. I think going forward, the growth will come and spurt because as we expect products to scale up, we expect that the volume growth will come, and we should see healthy volumes. So for example, we expect volumes from ezetimibe, Paliperidone, some of the other products to pick up in the next 1 or 2 years and that should probably drive the growth of the specialty segment and a lot of the new products that the company has been developing also are in the specialty segment. So I think over time specialty segment will along with prime drives the overall GDS business.

Moderator: Thank you. The next question is from the line of Sahil Sharma, individual investor. Please go ahead.

Sahil Sharma: Congratulations on wonderful set of numbers especially the way the CMS segment has performed. One thing we see is that the total number of projects has only increased by 2 from, I think, 74 to 76 in the last one year. I was just wondering if you can give some direction on how that will pan out and whether that slowdown in growth is something structural or what is the reason there?

Saharsh Davuluri: Thanks for the question. I think it is important and I think at the outset for us the table that we provide is just to show the current health of the projects and again in terms of our business itself, it is important to look at the numbers on a broader horizon rather than a quarter-to-quarter horizon. So I think as I was making this point even the last conference call, this number of 76 that we have was probably around 36 or 38 two years ago. So overtime, it has gradually increased and what is important is that the quality of the projects has increased. We have seen more projects coming in into phase 2, phase 3 and development and that has given us a very strong basis for good performance in CMS in this financial year as well as the previous financial year. Now coming to the specific question of 78 falling to 76, it is something that we think is part of how our pipeline evolves. There will be periods where we may have even a reduction in the number of projects because we have come to know that phase 2 molecule has failed. So we would remove it from our pipeline as part of our diligence and as we get new projects, we would continue to add them. On an overall basis, I would also like to just share that our new business momentum has continued to remain strong. In FY21, this current financial year, we have added more new business than in the previous financial year and Neuland has also started to establish a lot of business through the referral network. So which means that we are getting a lot of business through the reputation and the kind of track record we have established for ourselves and therefore we are less reliant on marketing for new projects, but nonetheless, we believe that overtime, this number will keep increasing, but I think what we are more keen on looking at is the quality of these molecules. We would rather in a molecule that contributes Rs. 50 crores of profit than 10 molecules which do not give us that much. That way we are continuing. We continue to be very happy with this pipeline.

Sahil Sharma: The next question I have for you, the second one is that if you look at the different segments, there is prime, there is specialty and then there is CMS. And my understanding is that the prime segment would have the lowest margin as compared to the CMS segment and what we see is that even the last couple of years, we have been filing DMFs for APIs in the prime segment. My primary question is do we have any kind of competitive advantages there because of which we keep filing APIs in this segment where the margins are overall much lower than maybe your CMS segment?

Sucheth Davuluri: I think it is a good question. I would not look at all the molecules in the prime segment with the same lens because even in the prime segment, we have certain molecules which have very good margins and at the core of our strategy is to actually look at each and every molecule individually and identify where the margins are under pressure and what we can do at an organization to unlock some of those margins. I think the name of the game for the prime segment is sustainability, we have to stay with that molecule and long enough so that we can gain a leadership position and the margins as we have seen based on our track record continued to be healthy. Therefore, even in the past and repeated calls, they said that our focus is never to deemphasize the prime segment, but continue to make investments in prime, specialty as well as CMS because it is not for the prime segment which contributes a significant part of the profitability though the margins may not be as high as the specialty and CMS, it is still a very important part of the business.

Moderator: Thank you. We take the next question again from the line of Mr. Sunil Kothari from Unique PMS. Please go ahead.

Sunil Kothari: Sir, my question is we will have some objective and some vision for the company. Other than revenue and profit and all this target, what basically your focused area? Where you want to see yourself over next 3, 5 years? Any type of qualitative reply will be very helpful?

Saharsh Davuluri: Thanks, Sunil for that question and really appreciate your kind words. I think we are very passionate about prime to make Neuland a world class contract manufacturing organization, a destination for APIs and we want to be seen, perceived by the pharmaceutical industry as a reliable partner when it comes to APIs. And I think when it comes to the API space between contract manufacturing of NCE as well as manufacturing of generic APIs, we see this to be a very large market probably $35 to $40 billion in terms of market size. So we see a huge headroom in terms of possibilities of growth. We obviously want to do that meaningfully through a mix of prime, specialty as well as CMS and we want to do it in a sustainable way and obviously, we want to do it by investing in the right kind of technology that give us certain unique value proposition and ensure a sustainable growth. In terms of financial guidance, I think we have been very cautious in terms of giving guidance per se, but in the past we have always maintained that from a 3 to 5-year horizon perspective, we at least expect to have a 15%-20% kind of a revenue growth. And in terms of margins, we aspire to be closer to 20% EBITDA margins, but again this is subjective to how exactly the business unfolds and a lot of the macroeconomic movements.

Sunil Kothari: So sir related to this reply, just would like to understand from you which are the major areas of the weaknesses or may not be weaknesses, but where you feel you would be giving your personal major time where you feel you required to overcome some hurdles or some challenges for attaining or achieving these objectives?

Sucheth Davuluri: It is a good question, Sunil. We could call them weaknesses; we could call them threats as well. And I would not necessarily differentiate them. I think one of the areas in some of the molecules, there is always a constant pressure on margins as well as supply chain. One of the things that we have done in the last several years even much prior to being hit by COVID, we actually derisk a significant part of the supply chain and brought it closer to home. So there was a point where almost 60% of raw materials were coming from China. By June of this current calendar year, less than 10% of all our raw materials will come from China and that too even for that 10%, we are not dependent on China. We are just buying from China because it makes us much more competitive. In the past, Chinese have been good partners for us. They helped us stay competitive. So we are taking a very conscious call of maintaining that. I think apart from that, we always have the dollar versus rupee appreciation versus depreciation. Nobody knows where this is going to go. People think it is going to depreciate. There is equal number of people who think that it is going to appreciate, but it is anybody's call as you would know. That is definitely a risk that we face. There is always a risk of regulatory action. There is always a risk of government coming up with policies to protect their local economy. Sometimes at the expense of country from which they are actually importing, that is another significant risk. There is always risk of quality or some of the molecules being cannibalized by new launches of other molecules. So long story short, we have a very robust system within the organization to look at these kind of risks or weaknesses and constantly discuss them so that we are aware of what could go wrong. It does not mean that we will be able to anticipate everything that comes our way as the whole world is seen with COVID, but at least we are in the right state of mind so that we can be agile and redeploy our resources the same way we did in this current financial year so that we are able to perform to our potential.

Margin
Currency
China - 50% → 10%
Scale up
Scale &
Skill
Same majly

Moderator: Thank you. The next question is from the line of Yachna Bhatia, individual investor. Please go ahead.

Yachna Bhatia: My question was how many years do you think it is going to peak for full scaleup of Unit-III and accordingly, what are your next CAPEX plans? Which segment and what kind of amounts do you see in CAPEX over the next 2-3 years?

Saharsh Davuluri: Thanks for the question, Yachna. I think in terms of scalability of Unit-III, Unit-III is geographically a larger size and today we mentioned it is fairly underutilized because only a few production blocks are operational over there. Our plan over the next 2-3 years is to continue making specific investments to create specific production areas within Unit-III in order to meet the needs of CMS as well as the GDS business. So in many ways as I mentioned in my opening remarks, a lot of the growth in the next 2-3 years will be driven by the capacities at existing

Unit-III as well as the capacities that we would be creating in Unit-III. How long before we will have to expand beyond Unit-III also largely depends on how our business grows over the next 3 to 4 years. We would expect depending on how quickly the business grows, perhaps the need for fourth facility, but at the moment there are no plans for that because Unit-III has a lot of headroom. In terms of investments, Deepak, you want to give a give a quick response.

Deepak Gupta: So currently for this year, we are roughly at around 80 crores of investments and we do have a plan to basically evaluate certain CAPEX proposals which are in the pipeline in the range of 50 to 60 crores in this year. So it depends how a particular molecule looks like if it makes the attractive business investment, we go ahead and do that kind of investments. And in the next year also, we are also having a similar kind of investment plans because the business is looking attractive for new propositions which we are evaluating. So that is where we are.

Moderator: Thank you. The next question is from the line of Pratik Kothari from Unique AMC. Please go ahead.

Pratik Kothari: Sir, my first question is on the margins. If you look at our margins over last 2-3 quarters, it has largely driven on the growth margin side and our expectation is once Unit-III commercialization begin, we see a lot of operating leverage which should come in and other expenses should remain stable, but if you look at it on a quarter-on-quarter, on a year-on-year basis, it has gone up quite substantially. So if you can just share some light on our fixed cost area?

Saharsh Davuluri: I think broadly what you are saying is logical, Pratik that Unit-III is not fully operational so and Unit-III is incurring cost, therefore the operating leverage is still not kicked in. And therefore going forward, as we make more products out of Unit-III, the operating leverage will result in better margins. I think broadly your comments are right; however, I would just caution on one part which is what Deepak was also alluding to. I think as a growing company that is also creating capacities for the future, we will also be continuously investing in Unit-III and other facilities. So we will be creating more capacities which means you will be making more investments and we will have capacity created ahead of time which means the capacity utilization will not be as optimal as you might look at it from a static point of view. But yes, I think in a nutshell, definitely we expect operating leverage to improve. If you see for the last 5 quarters, I was looking at the data from 14% EBITDA, we have gradually moved to 19% EBITDA which is also a clear healthy indication that operating leverage has improved. How much it will further improve, to what extent it will improve, I will lead that to you and your modeling.

operating leverage

Moderator: Thank you. The next question is from the line of Darshan Mehta from DM Equities. Please go ahead.

Darshan Mehta: Just one question. If you can just guide in terms of how do you see probably this year, you probably might do a 1000 crores topline. On the margin front also if you can guide because you said that you have improved from single digit to almost 20% now. Why do you say that margins will be maintained at 20% because if you take a look at how generally API companies form? Margins are usually in the range of 25% to 35%. Do you have an expectation probably we will reach that level and why are you conservative on the margins?

Saharsh Davuluri: I think broadly speaking, no specific reason I would say. I think the way we are looking at our numbers I think the way we budget our numbers whether it is prices, raw material cost, Forex assumptions etc., we tend to be on the conservative side, and I think as a growing company with the lot of growth drivers and a lot of moving parts, we always feel more comfortable to be on the conservative side rather than to be aggressive. We also expect our numbers to be better than what we estimate, but let us see how it goes and hopefully we should deliver better than what we say, but we are comfortable with what we have said, and I think the basis for what we said is the conservative assumptions that we have which is raw material cost, prices, Forex assumptions etc.

Moderator: Thank you. The next question is from the line of Kumar Saurabh from Scientific Investment. Please go ahead.

Kumar Saurabh: I have one question on the margin side only. So if we see historically 2014-15 or if we see 2017-18, there were big fluctuations in margins because of raw material prices like 17-18 like almost 14% jump and we know that we have been able to work on lot of trends like reducing our dependence on China and all. Also, the business has evolved in terms of revenue mix, in terms of CMS versus rest, so considering all of that if we compare our volatility of margin in past, how do you see in future will it remain the same or will it be much more stable? Can you give some insights on that?

Saharsh Davuluri: I think we think the volatility will reduce. Obviously, we do not know what is unknown, but I think because of the size of the growing business, we were a 500-crore company then and now we are close to 1000 crores company. I think today if you see, last 3-4 years ago, we had some businesses shrinking, so we had a year with PMS actually fell from Rs 130 crores to Rs. 90 crores, but GDS, prime grew a lot and raw material prices had gone up. I think if you see the performance in the last 2 years, all the businesses have grown. So prime has grown, specialty has grown, CMS has grown, and the scale of the business also has grown. So I think it is fair to assume that the volatility will come down doesn't mean that we won't have uncertainties or unexpected issues, but I think we were a stronger company today, I think we learnt from those mistakes and if the same issues hit us, we definitely will be much better prepared, whether it is raw materials out of China or any other kind of uncertainties.

Moderator: Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

Nikhil Upadhyay: Sir, one question, you said on Unit-III, basically the CAPEX can sustain for 3 to 4 years, I just want to understand that the CAPEX would be driven by two things, one is like new product which we would be entering or visibility of the order book on our existing product, so one is, how large this CAPEX can be and what can be the revenue potential and of the two factors, which one would be driving our CAPEX decision?

Saharsh Davuluri: So Nikhil, what we do is that in business we have a process where we actually forecast the revenues for the next few years, and we will map those products as well as their expected volumes to the manufacturing facility that we have, and the CAPEX estimation goes based on that. Of course, these forecast changes as the market evolve and the market share as well as the consumer behavior changes and we keep updating these numbers frequently. As Deepak was saying earlier, this year we would spend approximately 100 crores of CAPEX with some more provisional approvals already in place, we expect a similar number next year. So as far as Unit-III is concerned, as some of our investors and analysts have observed, we are going to leverage the volumes and we will get those economies of scale and the CAPEX will depend on how the market evolves, but generally if you want to know, it is very similar to what Deepak mentioned on this call earlier.

Moderator: Thank you. The next question is from the line of C Shrihari from PCS Securities. Please go ahead.

C Shrihari: Basically, my question was pertaining to pricing, so how was the pricing being for if you can specify for a few key products that would be better or at a macro level and how do you see that going forward?

Saharsh Davuluri: So I think on the GDS side, we typically tend to be on par or even have a premium with regards to market prices, we tend to moderate the prices through export data etc., so we find ourselves having always small premium or may be on par. Very seldom are we below market prices for any of our products and a lot of that is also attributed to the track record and reputation Neuland has as a reliable API company. When it comes to the CMS business, we tend to less comparison because tend to be one or one of the two supplier in the market and that information is not as widely available, but I think on an overall basis, we do believe, we command a premium for our pricing.

Moderator: Thank you. The next question is from the line of Ranveer Singh from Sunidhi Securities. Please go ahead.

Ranveer Singh: Sir, can you give unit by capacity utilization currently in Q3?

Sucheth Davuluri: It is a tough question to answer Ranveer because that capacity utilization changes based on the product mix and which product we decide to scale up, but if I have to give you a range of capacity utilization, I would say that in terms of productive use of capacity anywhere between about 75 to 90% based on that particular production block.

Moderator: Thank you. The next question is from the line of AM Lodha from Sanmathi Consultants. Please go ahead.

AM Lodha: Sir, when we can expect monetization of our Nanakram Guda property, when the money can come in the books of the company?

Saharsh Davuluri: We would be actually getting occupancy of that facility this calendar year, we expect to get occupancy of that facility this calendar year and as you may know, it is basically an IT SEZ. So the plan for the company is to monetize it either through sale or lease rental discounting mechanism or the other option which would be less preferred would be a lease option and then use that funds for the business, however, given that it is a real estate venture and there are uncertainties in this time due to COVID, etc., we exactly don't know or we don't have the exact timing for when the transaction will happen, but we expect it will be ready for the transaction soon.

real estate?

Moderator: Thank you. The next question is from the line of Rahul S from Shefa Family Office. Please go ahead.

Rahul S: Sir, my question is about risk management perspective, as unit 3 is almost ready and we are increasing the utilization, what risk we foresee that our sustainable growth of maybe 20% get air pocket**?** That is the question?

Sucheth Davuluri: Rahul, you are talking specific to Unit-III and the risk of that or are you asking overall?

Rahul S: Overall business?

Sucheth Davuluri: See, overall I was mentioning slightly earlier Rahul, I mean there are couple of risks, one is, some of the product volumes don't take off the way we anticipate it either on the contract manufacturing side or the generic side. Therefore, every time we make a CAPEX investment, what we are also doing is that we have what we call contingency or a backup plan, so we evaluate multiple product mixes in that block so that we know even if one product does not perform well, at least there are other two or three products that can be scaled up there, so that the overall CAPEX and the investment is protected. That is definitely one kind of risk. There is always an ongoing risk from China and dependency on China, however, we have significantly de-risked from China as I was mentioning earlier by June of this calendar year, less than 10% of our procurement will have from China, but we will still continue to partner with China wherever it makes sense. There is always the currency risk, risk of regulatory action, quality issues, obviously we do handle a large number of hazardous chemicals. Safety is our number one priority. The health of our employees is our number one priority, so we had very strong protocols in place. So long story short, we have a robust enterprise with management profits in place that is viewed at the highest level frequently, so that we can continue to manage the rest. Hope that answered your question.

Moderator: Thank you. The next question is from the line of Hasmukh Gala from Finvest Advisors. Please go ahead.

Hasmukh Gala: Lot has been said about the emerging opportunities that pharma API exporting countries will have, as China plus one strategy, so beyond this 1800 crore type of CAPEX investment which we are talking about, do you think that we can grow much bigger?

Saharsh Davuluri: I think Hasmukh a lot of decisions for CAPEX or any kind of investment strategies are based on the business visibility and I think one of the things that Neuland has been really focused on is building strong and deeper relations with all the pharmaceutical companies that we are in business with. As a result of these relationships, time to time we do get business opportunities, may be large molecules, may be big contracts etc., and when such opportunities come, we would have to make larger investments. I think the numbers and the guidance that Deepak gave is based on our budget that we made for next year, conservative outlook that we have for investments, but if things ramp up, we definitely would have to make preparations for larger investments and I think as a company we are ready for it.

Moderator: Thank you. We take the last question from the line of Aman Vij from Astute Investment. Please go ahead.

Aman Vij: My question is regarding Unit-III, so what utilization are we targeting say in FY22 as well as we have already spent around 300 crore and you have talked about may be 100 crores additional each year for next 2-3 years, so what is the peak gross block we can see in Unit-III over the next 2-3 years? These are my questions

Sucheth Davuluri: See Aman, we can't answer that question because I think Saharsh was saying earlier that we are planning on building more production blocks in Unit-III. So as those production blocks come online, you will see that the utilization will drop and then go up when the products are launched from those, so currently, Unit-III has about 5 production blocks which have completely come online. The occupancy of this production blocks is gradually going up and we will continue to build in capacity as we launched more products from there. So I don't have an answer in terms of utilization currently, but we have taken the necessary approvals in terms of products and product mix from the statutory auditors.

Once again good evening to everyone who is still online. Once again on behalf of everybody at Neuland, we thank for all the questions. We thought there were pretty insightful questions about CAPEX, the product mix, the margin across all three segments, Unit-III, how is it going to get operationalized, what are our future CAPEX plans, capacity utilization, I think very good questions and questions which are important for us to think about and make conscious choices. Everybody knows that the markets are becoming uncertain, the global economy is becoming more and more uncertain and within Neuland, we strongly believe that an organization that is very focused on its business and is agile enough to adjust the reality by redeploying its resources on a periodic basis and making use or capitalizing on the opportunity or the kind of organizations that we will succeed. That is where our focus is and we continue to appreciate your support and your input and we look forward to more in future calls. Thank you very much.

Moderator: Thank you very much. On behalf of Neuland Laboratories, we conclude today's conference. Thank you all for joining, you may now disconnect your lines.