



Pharmaceuticals Limited

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Date: 17th February, 2024

To,
The Manager,
Corporate Filings Department,
BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai- 400 001

The Manager,
Listing Compliance Department,
National Stock Exchange of India Ltd.
Exchange Plaza, Plot no. C/1, G Block,
Bandra-Kurla Complex, Bandra (E),
Mumbai - 400 051.

Security Code: 532815

Symbol: SMSPHARMA

Dear Sir/Madam,

Sub: Transcript of the Conference Call held on 12th February, 2024.

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, please find the attached transcript of the Conference Call held on Monday, 12th February, 2024 for the third quarter ended 31st December, 2023.

A copy of the said Transcript is being uploaded on the website of the Company www.smspharma.com

Kindly take the same on record and disseminate on your website.

Thanking you

Yours Faithfully

For SMS Pharmaceuticals Limited

**Thirumalesh Tumma
Company Secretary**



“SMS Pharmaceuticals Limited Q3 FY24 Earnings Conference Call”

February 12, 2024

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on February 12, 2024 will prevail



**MANAGEMENT: MR. VAMSI KRISHNA POTLURI – EXECUTIVE
DIRECTOR,
MR. LAKSHMI NARAYANA TAMMINEEDI – CHIEF
FINANCIAL OFFICER
MR. THIRUMALESHTUMMA – COMPANY SECRETARY
& COMPLIANCE OFFICER**

Moderator: Ladies and gentlemen, good day and welcome to the SMS Pharmaceuticals Limited Q3 FY24 Earnings Conference Call.

This conference call may contain forward-looking statements about the Company, which are based on the beliefs, opinions and expectations of the Company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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.

Today on the call, we have Mr. Vamsi Krishna Potluri - Executive Director; Mr. Lakshmi Narayana Tammineedi - Chief Financial Officer and Mr. Thirumalesh Tumma - Company Secretary and Compliance Officer.

I now hand the conference over to Mr. Vamsi Krishna Potluri - Executive Director. Thank you and over to you, sir.

Vamsi Krishna Potluri: Thank you. Good afternoon, everyone. Thank you for joining the Earnings Conference Call to discuss the financial performance for the Quarter and 9 months ended 31st December 2023.

I hope everyone must have got an opportunity to go through our financial results and the investor presentation which has been uploaded on the stock exchange as well as our Company website.

I am pleased to highlight that our company has seen a year-on-year topline revenue growth of 9% quarterly and 24% during the first 9 months of the fiscal year 2024. In Q3 FY24, EBITDA was up by 57% year-on-year at Rs. 29 crores and PAT was up by 205% year-over-year at Rs. 11.5 crores. Our topline growth has been fueled by strong sales, volume growth and enhanced product mix and successfully launch of new products. In addition, our operational profit margins have had a significant improvement due to our enhanced focus to reduce our cost. Our capacity utilization was a significant increase in Q3 FY24, rising from about 50 to 55% in the prior quarters to around 65 to 70% sequentially.

We have successfully implemented a backward integration strategy that has effectively reduced our overall cost and boosted our profit margins. As a result, our gross margins have experienced a significant improvement. However, there have been price erosions or otherwise the profitable margins would have been much better. We have observed a notable surge in the sales volume of various products in comparison to previous quarters. Given the significant rise in sales volume, we are now beginning to reap the benefits of the operating leverage.

API segment highlights, Q3 and FY24 and 9-month FY24 revenue for the API segment stood at Rs. 160.3 crores and Rs. 456.1 crores respectively. Q3 and 9 months FY24 API segment contributed approximately 99.3% and 98.4% to the consolidated revenues respectively. Within the API segment, 12% of the revenues came from the domestic market and 88% from the export market, including deemed exports for Q3 FY24.

Within the therapeutic areas, anti-retroviral contributed 33%, anti-diabetic 13%, anti-migraine 13%, anti-ulcer 8%, anti-epileptic 1%, anti-inflammatory 18% and the rest contributed to around 6% for the total sales for Q3 FY24.

Few segmental highlights:

As we have been highlighting in our previous earnings calls, our Ibuprofen product has shown a consistent improvement in performance over the past few quarters. It has gained considerable traction in the market following the receipt of approval from both the US and Europe. We have already started providing commercial supplies in several of these regulated countries. There has also been an upward trajectory in the price realization for Ibuprofen.

The ARV segment has demonstrated vital progress with sales experiencing an optimistic upward trend, leading to a sturdy momentum in the segment. Sitagliptin, our anti-diabetic product is also experiencing a significant increase in volume. Our other therapeutic categories are doing very well characterized by our consistent influx of new customers.

Now, coming to the Business Outlook:

The Company is poised to capitalize on the CAPEX it has undertaken, which further ramping up Ibuprofen production in the coming quarters. We are optimistic about the future prospects as we strive to further expand our presence in the Ibuprofen market. Ibuprofen will be the biggest growth driver as sequentially every month we expect to keep adding new customers and witness better volume offtake. We anticipate strong growth in the coming quarters for two of our major segments, anti-diabetic and the ARV segment due to the strong expected volumes. Our niche of peak products is also doing relatively good, and this growth will receive additional momentum as we have exciting new products in our pipeline set to be launched for FY25.

Our objective for the upcoming fiscal year is to file a minimum of 10 drug master files in the US. Given the boost in our R&D investment, we can anticipate a substantial surge in the volume of new products launch. As a result, we will maintain a proactive approach in introducing fresh product offerings and consistently strive to attract a broader customer base. In the next fiscal year, we anticipate achieving growth in the mid-teens, Company accompanied by our slight enhancement in operating margins. The Board of Directors had approved a fundraising initiative by issuing convertible equity warrants to the promoter group on a preferential basis. The warrants will be priced at Rs. 127 per warrant totaling Rs. 114.3 crores. 55% of these funds will

be allocated towards CAPEX, 35% towards working capital and the remaining 10% for general corporate use. We shall disclose the detailed CAPEX plans in the near future. Thank you.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. The first question is from the line of Karan Sharma from Sharma Securities. Please go ahead.

Karan Sharma: What strategies does our company employ to manage pricing pressures within the industry?

Vamsi Krishna Potluri: See the pricing pressure is something that is definitely prevalent throughout the industry, right? So, price erosion happens every year, irrespective of the product, it happens every year, but the only control that we currently have with us is backward integration. So, that is the reason this year, as it was explained in the call, I think majority of the focus that we are giving is backward integrating into critical, most of our KSMs for most of our critical products. So, that is the way we could hedge our risk and try and see if it maintains our profit margins.

Karan Sharma: Sir, one more question, are there any plans in place for the Company to expand its range of value added products?

Vamsi Krishna Potluri: Yes, definitely that we have a good set of pipeline. As I was explaining I think the target is to file at least 10 US DMFs every year from now on. So, definitely we are expanding our niche product pipeline as well along with our volume ones.

Moderator: Thank you. The next question is from the line of Payal Shah from Billion Securities. Please go ahead.

Payal Shah: I have a few questions. First is, what operational measures are being implemented in the anti-diabetic market and what growth pattern is anticipated in the future for this market?

Vamsi Krishna Potluri: So, anti-diabetic segment, we are one of the largest in anti-diabetic segment in Europe. So, as you know this product is still in patent in the US and a few other countries, but in Europe, the particular salt Sitagliptin HCL is off patent, so we have almost 50% market share in Europe. So, we have a pretty stable business, and this is part of our joint venture with one of our partners. So, we anticipate a strong focus on this segment from the Company.

Payal Shah: Sir, my next question is on like what are your assessments on the Pharmaceutical industry as well as where is the organization positioned within it?

Vamsi Krishna Potluri: So, we think that definitely, I think for the next 6 months it will be a consolidation mode. I think people, there will be a lot of price pressure and volatility will be there for the next 6 months to 9 months, post that I think it will probably settle down once the consolidation phase happens.

Payal Shah: Sir, my next set of questions is on capacity utilization, so what is the projected target for capacity utilization in the coming years?

- Vamsi Krishna Potluri:** So, right now it is at 65 to 70% and we are undertaking the CAPEX expansions at this point of time in order to mitigate to add more volume in our facilities.
- Payal Shah:** And sir, I just wanted to know, on the specific Ibuprofen, what is the current level of capacity utilization?
- Vamsi Krishna Potluri:** So, current utilization is close to around 50% at this point of time.
- Moderator:** Thank you. The next question is from the line of Ravi Shah from Opal Securities. Please go ahead.
- Ravi Shah:** So, basically, my first question is that how does the Company plan to set itself apart from its peers when it comes to product offerings and market positioning?
- Vamsi Krishna Potluri:** So, with coming to product offerings, see typically I think the number of new launches, the number of NCE products have reduced, as such in the market. So, I mean there are a number of people offering somewhat similar product range that we are, but the advantage that we currently have is that, so we have been offering some of these products like almost 25-30 years. So, we have a good customer base already and a stable customer base and since the majority of our business is in US and Europe, it is not very simple to switch supplies. Definitely, I think people will add alternate source based on pricing and other factors, but we have fairly good business relationships in those markets. So, that is one factor and definitely I think in order to sustain our market share, definitely I think we keep improving on the pricing that we are doing due to backward integration of our products.
- Ravi Shah:** Sir, my next question is on the ARV sector. So, it hasn't like, it has made major revenue contribution in Q3, could you give some additional information or plans that we have to put us into or help more like particular segment and development like flourish in that specific segment in ARV, could you comment on that a little bit?
- Vamsi Krishna Potluri:** So, the ARV segment that we are doing is the contract manufacturing. So, definitely it is B2B, right, so it is definitely depending on our customers getting awards and tenders, their winning tenders will translate API volume to us. So, fortunately, I think some of our big customers have good tenders this year. So, we anticipate that will be the case actually going forward.
- Ravi Shah:** Sir, my next question is like a follow up on the ARV only, could you kindly elaborate on the anticipated margins for this segment? I mean it is contract manufacturing, but it would be helpful if you could share the margins?
- Vamsi Krishna Potluri:** It will be a higher single digit margin because this is the CMO, right? It is not our own product where we make profit actually. It is only on conversion basis that we take. So, when you look at that I think it will be on single digit only.

Ravi Shah: And one last question, sir, on capacity enhancement, you had mentioned in a previous question. So, I am wondering where at 70%, 60% capacity realization we are still doing an enhancement, any reason for that? I mean why can't we just utilize more of our existing capacity?

Vamsi Krishna Potluri: No, typically, ideally, I think in an API this thing I think more than 80% is not possible to utilize the capacity because of changeovers, there will be lot of bottlenecks, there will be lot of choking that will happen. So, I think ideal capacity will be 75 to 80% only any Company, I think in API. I think that will be the ideal capacity, 75 to 80%. So, more than that, they can push it, but there will be a lot of back orders, there will be lot of shortage that will happen. So, that is the reason when we start, when we say that we are doing a CAPEX it will easily take around 6 to 8 months by the time this comes up, these new facilities come up, we do validations and all that. By that time, I think we are anticipating that the occupancy of our existing capacities will be around 80-85%, so that is the reason we are initiating it right now.

Ravi Shah: Sir, and any calculation we have done on how much additional revenue this will provide this CAPEX like and how much revenue?

Vamsi Krishna Potluri: It is too early at this point of time. We are just budgeting in, factoring it in that we have to do a CAPEX. So, it is a little early because we have introduced some products in the pipeline that we are anticipating, but it is a little too early to estimate the revenue.

Moderator: Thank you. The next question is from the line of Hiten Boricha from Sequent Investments. Please go ahead.

Hiten Boricha: Sir, I have a couple of questions. Sir, my first question is on the sales growth which we have seen around 8-9%, so can you break up what is the volume growth and the value growth here as you have already told in the opening remarks, we have seen some price erosion, it will be helpful?

Vamsi Krishna Potluri: So, in terms of volume growth, I think almost all our top 5 products have grown almost by I think 15% in terms of volume, approximately 15% to 20% in terms of volume. We don't have the exact percentage growth for this thing, but it will be in the range of 15 to 20% almost all the top five products growth actually, like I just pull it up, so in front of me it is there like, for example, Q3 FY23, volume-wise I think it is 15 to 20% approximately. Each product has grown by volume.

Hiten Boricha: Sir, just wanted to understand on which segment we have seen a lot of price erosion?

Vamsi Krishna Potluri: I think most of our products, we are a little under price pressure due to competition, due to many people coming up with the same product. So, obviously I think there will definitely be a price pressure in all segments, especially anti-migraine there is price pressure, anti-inflammatory there is price pressure, Ibuprofen there is price pressure, and even quieter price pressure on the anti-

diabetic space as well and also definitely anti-retroviral, that is not our business, but still there is a lot of price pressure on that product.

Hiten Boricha: It should be anywhere between 5 to 10%, sir?

Vamsi Krishna Potluri: The price pressure that you are talking about?

Hiten Boricha: Yes.

Vamsi Krishna Potluri: It depends on product to product. You cannot categorize it 5% to 10%. Yes, I think few products, I think you have to go down to just 20% also, I think where there were insistent that we have to go down to 20% also to retain our existing business and to add a few other customers. But the good part is that we are getting more volume, so getting more volume and adding more customers is a positive sign, but we are trying to see how we can make up those margins, maybe mostly try and backward integrate and try find sources to internally reduce the cost so that will not take a toll on the margins.

Hiten Boricha: Sir, my second question is on the CAPEX. As you already mentioned, we are looking for forward to spend this CAPEX on the growth, but any color on the backward integration? Are we also looking to spend something on backward integration to improve our margins?

Vamsi Krishna Potluri: Yes, major, for example in that CAPEX budget, I think maybe 60% to 70% is on towards backward integration only. So, we focus backward integration as a critical aspect at this time.

Hiten Boricha: And sir, my last question is on the guidance, you have given mid teens growth for this year, was it for FY24 or FY25? And also if you can throw some color on margins also?

Vamsi Krishna Potluri: No, that is FY25.

Hiten Boricha: FY25?

Vamsi Krishna Potluri: Yes.

Hiten Boricha: So, we will grow mid teens FY25 and any number on margin, sir?

Vamsi Krishna Potluri: EBITDA will be around 18 to 20%.

Moderator: Thank you. The next question is from the line of Raj Mehta from Wisdom Advisors. Please go ahead.

Raj Mehta: Sir, couple of questions. My first question is, could you give more detail on the cost optimization measure implemented by the Company during the quarter?

Vamsi Krishna Potluri: So, cost optimization, see first of all, we have reduced, since we are taking more volume, right, so we get more leverage to negotiate better pricing with our suppliers. So, that is our first phase where we bargained and negotiated better pricings with our existing suppliers and the second point is I think slowly product by product, I think this thing, cost optimization is being done at the plant level where different mechanisms to batch size increase or multiple this thing has been done to try and see where we could reduce the cost. And also the majority of our R&D work right now, I think more than 50% is being focused on cost reduction only because we know that is where we have to keep up our EBITDA and PAT margins.

Raj Mehta: My next question was, would you be able to provide some additional light on the key aspects of the fundraising initiative?

Vamsi Krishna Potluri: Yes, as you know, right, so I think we have issued warrants, the Board of Directors has approved the fundraising initiative. So, this is to issue warrants at the price of Rs. 127, right? So, that comes up to around Rs. 114.3 crores. And also, I think briefly, I have also justified where this is being used 55% for CAPEX and 35% for working capital, 10% for corporate use and this has been put up for shareholder approval, which will take place shortly. So, post that I think will be, once it gets approved by the shareholders and definitely I think we can discuss more about it.

Raj Mehta: And sir, I wanted to know what are the prevailing pricing patterns for Ibuprofen and what are the anticipated market developments for this particular product?

Vamsi Krishna Potluri: So, price pattern is fairly stable at this point of time because we have been already in the market since almost 7-8 months. So, we have a fairly stable price pattern at this point of time. But again, we are trying to add more geographies for Ibuprofen because it is a very commoditized product, used across the world in many countries. We are trying to add more geographical locations on this particular product and we have already have CEP in place, we already have US DMFs in place. So, now we are trying to add a few other ROW countries also.

Raj Mehta: Sir, my last question is, would you please provide details regarding any upcoming product launches that the company may have in the pipeline?

Vamsi Krishna Potluri: That will be a little confidential. Once it is closer to the launch, we will keep you posted, but we have got a good line of products that are coming in.

Moderator: Thank you. The next question is from the line of Yug Mehta from AP Capital. Please go ahead.

Yug Mehta: Sir, can you please share projected revenue and profitability in margins for Q4 FY24 and FY25?

Vamsi Krishna Potluri: So, we currently do not have them at this point of time, and we have not even put it up to the board. So, we unfortunately cannot disclose it at this point of time.

Yug Mehta: Sir, additionally, can you share the Company's strategic vision for the next 3 fiscal years?

- Vamsi Krishna Potluri:** So, that being said, we are anticipating the 15% growth on sales and EBITDA approximately on an average for next year.
- Moderator:** Thank you. The next question is from the line of Jiya Shah from Wealth Securities. Please go ahead.
- Jiya Shah:** I just wanted to ask what was the main contributing factor to the company's impressive financial performance in this quarter?
- Vamsi Krishna Potluri:** Again, as we said, right, so ARV space has contributed, I mean it was not there last few quarters, but again that ARV business, our customers getting some tenders has actually got some business on the ARV space and also definitely month by month there is an increase and improvement in the Ibuprofen sales that the company is doing at this point of time. So, that is a good number that we added and we have done some process improvements and increase the profitability on some of our old legacy products. So, those contributed quite well actually.
- Jiya Shah:** So, basically in the export segment, right, the Red Sea situation, to what extent did it affect us in this quarter and how much are we anticipating that it will affect us in the coming quarters?
- Vamsi Krishna Potluri:** It is most likely negligible to be honest, because I think most of our products are like, majority of our exports is for deemed exports, so majority of our customers are based out of India, shipping their finished dosage to the US and Europe. So, that way we will be delivering the product in India itself. So, that is one part and the second part is all the customers who actually take product from us apart from very handful of customers, majority is by air, so we don't foresee any issues with the Red Sea problem.
- Jiya Shah:** Just a follow up on that, what kind of growth trajectory is sustainable in the coming quarters for the export segment? Have some of the new registration come through for our export like export vertical?
- Vamsi Krishna Potluri:** So, it will be probably again, if you see the topline, I think is more or less similar to our previous quarter results. So, it is fairly stable, it is anticipating around 10 to 15% growth rate in our export business also going forward.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Vamsi Krishna Potluri for closing comments. Over to you, sir.
- Vamsi Krishna Potluri:** Thank you everyone for joining this call. As we continue to focus on delivering value to our customers and driving innovation, we are confident that our strategic approach will continue to yield positive outcomes and contribute to the overall success of our Company and ensuring that we deliver superior value to our stakeholders while upholding our commitment to sustainability.



SMS Pharmaceuticals Limited
February 12, 2024

Please reach out to our IR consultants, SGA or us directly should you have any further queries.
Thank you again for your time today. Thank you.

Moderator:

Thank you, members of the management. Ladies and gentlemen, on behalf of SMS Pharmaceuticals Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.