“Innova Captab Limited Q4 FY24 Earnings Conference Call”

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MANAGEMENT: **MR. VINAY LOHARIWALA – MANAGING DIRECTOR, INNOVA CAPTAB LIMITED**
MR. LOKESH BHASIN - CFO, INNOVA CAPTAB LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Innova Captab Limited Q4 FY24 Earnings Conference Call.

This conference call may contain forward-looking statements about the Company, which are based on the beliefs, opinions and expectation of the Company as on date of this call. These statements are not 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. I now hand the conference over to Mr. Vinay Lohariwala - Managing Director of Innova Captab Limited. Thank you and over to you, sir.

Vinay Lohariwala: Thank you. Good afternoon, everyone, and thank you for joining our Earning Conference Call to discuss the operational and financial performance for Q4 and FY24. On this call, we have been joined by Mr. Lokesh Bhasin - CFO and SGA, our Investor Relation Advisor. I hope everyone had an opportunity to go through the financial results and investor presentation which has been uploaded on the Stock Exchange and on the Company website. I will give you a quick overview of our year gone by and then Mr. Lokesh will take you through the operational and financial highlights.

Since many of you are joining the call for the first time, let me give you a brief description about the Company. Innova Captab is an integrated pharmaceutical Company in India with a presence across the pharmaceutical value chain, including research and development, manufacturing, drug distribution, marketing and exports. FY24 has been a landmark year for the Company as we got listed on Indian Stock Exchange in December 2023. As a domestic CDMO player, we cateres to India's top 14 out of 15 pharmaceutical companies. We have license to manufacture products through four state-of-the-art manufacturing facility at Baddi, Himachal Pradesh, Dehradun, Uttarakhand and at Taloja, Maharashtra while maintaining WHO-GMP, EU-GMP, UK-MHRA and other major registrations with these facilities.

With the support of our world-class manufacturing facility and the reliable supply value chain, we are continuously working to maintain high efficient operations. The foundation of our Company is our in-house R&D, which helps us to focus on build our product portfolio. Continuous development in quality and regulatory requirement are currently causing challenges for the pharmaceutical industry. We at Innova take the changing dynamics as an opportunity and with the quality first approach and with rigorous protocol of our domestic and international customers, Innova has been adhering to all quality and regulatory requirements since inception and continually try to further improve our progress.

Coming to four major business area performances. Contract Development and Manufacturing (CDMO). Our CDMO business continued to get good attraction. While the demand continues to remain strong, lowering API price has had an impact on our business performance as compared to last year, as we do a cost plus model, we are looking forward for next financial year and quite optimistic that the CDMO business is expected to grow on the back of decent visibility in demand. As on FY24, our number of CDMO customer is at 193. Revenue contribution from the business is nearly 58% in FY24.

Domestic Branded Generics: Our domestic generic business performance has improved, backed by our constantly increasing Pan India network of distributors, stockists and pharmacies. Revenue contribution for this business is nearly 18% in FY24.

International Branded Generics: Our international branded generic product business is focused on export to emerging and semi-regulated international markets while expanding our business to regulated markets like the UK, Canada. We had exported our branded generics to more than 20 countries. Revenue contribution from this business is nearly 11% in FY24.

Sharon Bio Medicine: In June 2023, we acquired Sharon through CIRP process. Sharon has strong CDMO formulation manufacturing capabilities including API and manufacturing and it caters majorly to international markets including Canada, UK, Europe, Australia, Korea and Vietnam. Revenue contribution from this business is nearly 13%.

Recent developments:- Our Greenfield plant in Jammu is on track and by Q2 FY25, we are expecting to commercialize and commence operation in all four blocks, that is Cephalosporin, Penicillin, Penum & BFS to manufacture oral solid dosages, dry powder injectables, dry syrup, BFS, large volumes, small volume parenterals, respiratory respule product and revenue ramp up is expected from Q3 FY25 onwards. The Company will benefit from the new central scheme for industrial development of J&K. In addition to our existing R&D center in Baddi, the Company is also establishing a new R&D center in Panchkula, Haryana.

Also, with the acquisition of Sharon, we aim to create long-term synergies with additional product offerings like formulation and API. Over the last 3-4 years, we have grown at a healthy rate of 20% plus CAGR and with our upcoming Jammu facility and recent Sharon acquisition we are positively looking forward to maintaining the same 20% plus CAGR in the next 3-4 years.

As a Company, we continue to drive sustainable growth by exploring new opportunities and focusing on value-added products. Indian pharmaceutical companies are set to experience significant growth in mid to long term, as both domestic and global manufacturers seek reliable and sustainable suppliers like us.

I now request Mr. Lokesh to take you through the operational and financial performance for the quarter 4 and FY24. Over to you.

Lokesh Bhasin: Thank you, sir. Good afternoon everyone. Q4 and FY2024 has been a good quarter for us and all our key products witness healthy demand. The financial highlights for Q4 FY24 are our total income stood at around Rs. 268.3 crores with the growth of 10.2% on a year-to-year basis. The business mix for the quarter are as follows, CDMO contributing 53% for the quarter. Domestic branded generic is at 18%. International branded generic is at 11% and the balance of 18% is contributed by Sharon, which is into the business of formulation and API.

EBITDA came in at Rs. 43.8 crores clocking a growth of 48.7% on a year-to-year basis. EBITDA margin stood at 16.7% as against previous year of 12.2%. Profit after tax for the quarter came in at Rs. 28.7 crores with the growth of 66.5% on a year-to-year basis. The FY24 highlights are as below Total income for FY24 came in at Rs. 1,093.8 crores, with a growth of 16.9% on a year-on-year basis.

The business mix for the year are as follows. The CDMO contributed 58% for full year, domestic branded generic stood at 18%, international branded generic is at 11% and the balance of 13% is contributed by Sharon. EBITDA for financial year 24 came in at Rs. 166.9 crores with growth of 35.9% over last year. Profit after tax for FY24 came in at Rs. 94.3 crore with the growth of 38.9% on a year-on-year basis. For FY24, our net cash generated from operating activities stood at Rs. 146 crores as against Rs. 67 crores in FY23.

We are delighted to inform you that utilization of our IPO proceeds is on track as per target declaration submitted in the IPO prospectus. Excluding the term loan borrowed for our Jammu project, we have repaid all our existing debt. With this, I would like to conclude the presentation and open the floor for questions and answers. Thank you very much.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Amey from JM Financial. Please go ahead.

Amey: The first question I have is on the CDMO piece. I understand that there is a pricing decline during this year and we have to pass it on. So, is it possible for us to give breakup in the volume and the pricing for CDMO piece for the quarter and for full year? And also I have seen the decline has sharpened during this quarter, so should we assume that the prices have dropped sharply over Q-on-Q for the business?

Vinay Lohariwala: Thank you Amey, so, there are two parts of the question. One is that the price correction and the other is the volume growth. So, historically, if we see quarter 1 and quarter 4 are the lower quarter and the Q2 and Q3 are the upper quarter. So, if we take 100 as the days, then generally the Q1 is like 22%-23% vis-a-vis Q4 also is like 23%-24% where the Q2 and Q3 are generally at the higher level of the yearly pay. So, one is that if you compare the Q3 with the Q4, there is always historically, if you see the previous quarter also, the number declines in that also. And second is there is API price correction. So, due to that as we are working on the transfer cost plus model and that is benefits passed to the customer, due to this there is a decline in the topline, but there is a healthy growth in EBITDA and PAT, which means that there is a volume growth in the volume that is showcased on the volume growth.

Amey: Sir, the reason I asked is because going ahead for this quarter, has the pricing gone down again from Q-on-Q that is the main question, because that will have impact going into FY25. That is the reason I asked?

Vinay Lohariwala: Yes, so if you compare year-on-year, there is a price decline, the base is lower due to the price decline and if you compare Q-on-Q, we cannot say that there is 10% price decline. So, what we can do 2%-3% price decline and yearly compare then there is a 6%-7%, 8% price decline.

Amey: So, going into FY25, now the base is set here, so do you expect growth for the CDMO business if the prices are stabilized at this level?

Vinay Lohariwala: So, what we can say, Amey like volume should grow like 10% plus double digit whereas pricing impact we cannot speculate. So, if the pricing impact is on the positive side, then the topline growth will be more than like 15%-20% and the price erosion continue, then it can nullify the volume growth. But overall, as you see, our EBITDA is not linked with the topline. EBITDA is linked with the unit margin.

Amey: The second question I have is on the GM improvement. Throughout the quarter, across four quarter, we have seen there is a gradual improvement in the gross margin. So, is it solely led by the API pricing or is our export business or the branded generic domestic gross margins are significantly higher than the CDMO?

Vinay Lohariwala: I like to highlight one more thing that gross margin depend on the product mix also. So, say if the product mix changes towards the lower cost product, then our EBITDA or the gross margin increases. It is a hybrid or complex scenario that how the topline and EBITDA come out and it is very difficult to analyze as we are manufacturing more than 400-500 products.

Amey: So, should we assume that this is led by product mix and not the business mix?

Vinay Lohariwala: If we historically compare like our CDMO business is at a lower margin comparing with our own Univentis Medicare on generic business and the SBML business, ("Sharon Bio-Medicine") business. So, with the addition of SBML also, it help us in improving our margin.

Amey: And just last question, if I can squeeze in, the Jammu plant, the block which is getting commissioned in Q3, what would be the gross block for that block which is getting commissioned?

Vinay Lohariwala: So, in Q2, we will start all four blocks and the size of gross block will be approximately Rs. 460 crores.

Amey: And how fast we expect to optimally utilize this Rs. 460 crore block?

Vinay Lohariwala: So, once we start, we are having good visibility. We are discussing this with our existing customer, and we have very good feedback from all the existing customers and we are eagerly waiting to start the commercial production. So, we expect that once we start commercial production, down the line after 4-5 months, our revenue should start ramping up.

Moderator: Thank you. The next question is from the line of Lakshminarayanan from Tunga Investments. Please go ahead.

Lakshminarayanan: What has been the revenue from Sharon last year and what has been the revenue contribution this year you have mentioned, so how that Company has actually grown in the last one year?

Lokesh Bhasin: So, basically you are talking about Sharon, right?

Lakshminarayanan: Yes.

Lokesh Bhasin: We acquired Sharon on June 23. So, we acquired Sharon through CIRP process, and it was on the IBC for last 4-5 years. So, before acquisition during FY23, they had crossed full year revenue of around Rs. 192 crores. This year, on a full year basis, they had clocked the revenue of Rs. 190 crores. So, we see while the revenue seems flat on a year-on-year basis, but after acquisition, we have started efforts to strengthen our pipeline, start working on adding new products to the basket as well as working on a new customer addition to the piece and we are very hopeful. Since it has been export business and the gestation period to bringing on new customers on board or introducing new product is slightly higher, it may run into years also, but we are very hopeful that the effort that we have started putting in after our acquisition will start fructifying in coming period.

Lakshminarayanan: Sir, the second question is that this India CDMO business, which has shown underwhelming performance in the last two years in succession if I look at it, how does it compare with the industry? So, when I talk in the industry, already one player is listed, one player has actually filed the DRHP, so I just want to understand that whether it is an industry issue or client specific issue or our Company specific issue or is it reflective of the industry generally? However, you talked about the pricing scenario, just want to hear your thoughts.

Vinay Lohariwala: So, our business is basically domestic CDMO focused business. So, in domestic CDMO business, if you see like there are some regulations coming up and due to that there is a consolidation in domestic CDMO also. So, our CDMO growth depends totally on our own capability, our capacity availability and of course the price. So, if you see like we have the two facility, existing two facility in Baddi region, so one is Cephalosporin and the other is General facility, in our Cephalosporin facility we are already operating at a higher utilization level. And in our general facility, we have the free and spare capacity. We are operating at 40% to 45% of the utilization compared to Cephalosporin where our utilization is 70% approximately. So, we estimate that 65%, 70%, 75% is the optimum utilization where the facility on the yearly basis can operate looking at the seasonal variation also. In the last year, our growth depends on our general block quantity increase or volume increase vis-a-vis the price increase impact us negatively. So, if you see still the overall volume growth we have observed in approximately 10% in the last year also that resulted into our EBITDA and PAT. So, looking forward, we are increasing our capacity of Cephalosporin block with Jammu, and we are putting three more blocks. So, we are very confident and hopeful that in the coming year or the next year, we can grow at 20% plus in CDMO category also.

Lakshminarayanan: And industry, what has been the growth, sir in your view last two years?

Vinay Lohariwala: So, if you see the market data, the growth in the pharma market is like 3%-4% only whereas in CDMO space, the bigger client is benefited with the consolidation also. Due to the revised regulation, the business is concentrating more towards the compliance side.

Lakshminarayanan: So, is it right to say that the industry as per the data what we have, the CDMO growth is around 7.5% for the industry, at least for the last two years, FY21 to FY23, if I look at it. Now, within that, the consolidation is going on where our growth should be ahead of at least 7%-8%, right, I am just trying to get my numbers right?

Vinay Lohariwala: So, you can say that, but there is no clear-cut data visibility available in by any research agency I think. But due to this consolidation and free capacity availability, new plant introduction in Jammu with the benefit of GST we are very hopeful and confident to achieve 20%+ CAGR in within this year.

Lakshminarayanan: While I agree on that I am just trying to understand why last two years, when the same thing is being played out, we haven't grown the Indian market?

Vinay Lohariwala: So, if you see, there is still double-digit volume growth in our business, but due to the COVID, the price gets inflated like anything, for example like Paracetamol grown up to like Rs. 600-Rs. 700 now, it is Rs. 300. So, the price is less by 40%-50% in few of the API, right. So, that topline impact is there due to that and as we are working cost plus model, we need to pass through the price benefit to our customers.

Lakshminarayanan: Sir, second, we have seen your balance sheet that there is a high capital work in progress as well as increase in capacity, so I just want to understand by the next coming year, how much you are investing and how one should think about it?

Lokesh Bhasin: So, for capital work in progress that has been reflected in our consolidated balance sheet mainly represents the amount of capital that we had invested in our upcoming project in Jammu, which is around Rs. 330 crore. So, as we discussed during the call, we are planning to start or commercialize our Jammu plant in quarter2 FY25. So, the overall project cost would be somewhere around Rs. 450 crore. So, we are anticipating around next Rs. 100 crores in these coming quarters to be invested in Jammu plant.

Lakshminarayanan: And on a longer basis, maybe three years or five years out, what kind of taxation you think you would actually have on a blended basis even that you are actually going to expand in Jammu and some other places where the taxation may be lower? So, how does it work let us say in next 5 years?

Vinay Lohariwala: As on date, like we will have the GST benefit from the Jammu plant. So, approximately, say Rs. 85-Rs. 90 crores approximately will be the yearly GST benefit available to us. So, on sale of say Rs. 800 crores approximately, we can say that 12% GST will be reimbursement as per the central scheme and other benefit will be like we have a few income tax losses benefit available in Sharon Bio-Medicine. We have Rs. 235 crores project loan for Jammu facility that is at 6% interest subvention. So, these are the few benefits available to us by the Government of India.

Lakshminarayanan: Sir, another question is that because I think this year taxation came to around 27%, so that is why my question on this front. The last question from my side is when client decides to give the contract to you or the other CDMO players, how does it work? What is an advantage you have over others? Is there niche area where you are actually much better than the others, or you actually shared clients across multiple other seamless service providers?

Vinay Lohariwala: Client, lets say, supplier partner will totally depend on the technical capability, spare capacity, previous track record or previous relationship and of course pricing and based on all these clients, select the partner to work with.

Lakshminarayanan: And in which areas we are stronger?

Vinay Lohariwala: So, let us say our plants are well quality compliance. We have the high certification like EU-GMP also and Jammu facility is also like say state-of-art facility with all the high automated machines like Rommelag and all that and as per the current CGMP norms, we are doing all the erection and commissioning of the facility, so we are far ahead with the or we can say that the facility is well state-of-the-art in the dosage form what we are offering to.

Lakshminarayanan: I will put it slightly different. So, when a client goes to Akums or when the client comes to you, while these are the table states that you have to have, basic hygiene, basic quality parameters etc., which you are, now, is there a specific therapeutic area or a particular science where you are better or a particular dosage format where you are actually better than the others or you have a stronger capability in terms of R&D I am just trying to understand from that angle?

Vinay Lohariwala: So, when we talk about the major CDMO player, it all depends on the spare capacity availability, technical dosage availability, technical knowhow availability and with the supplier relation they select the vendor and based on that the business come in.

Moderator: Thank you. The next question is from the line of Nitesh Dutt from Burman Capital. Please go ahead.

Nitesh Dutt: Thanks for the opportunity. First question is on our gross margin, so both for our standalone and consol business' gross margins have gone up. So, in standalone, I think the margins are now at 27% versus earlier levels of 22%-23%. And as well as in consol, the gross margins are now at 36%. So, I just want to understand from your perspective, what should be the sustainable levels of gross margin, assuming normal prices etc., going ahead, what kind of GM do you expect?

Vinay Lohariwala: Thank you, So, generally we in Innova, our gross margin historically remain at 25% plus minus 2%-3%. So, if you see like increase in gross margin, that is because of totally there is decline in API, but increase in volume. So, if that situation reverse the gross margin would be like 25%-26% rate and then if you see at a consol level that is because of the consolidation with the Sharon as that business is in a regulated space and we have the better grow conversion margin there in the Sharon Bio Medicine. So, looking forward, the range will be like for Innova there will be like 25% plus minus 2%-3% and with Jammu we have the benefit of GST. So, 12% GST benefit is there, something will be like the pass-through to the customer, some benefits will be pass through to the customer and still we will be able to manage some better GST benefits and can retain the GST benefit, so that will improve our EBITDA margin further.

Nitesh Dutt: And sir, for the existing business side, if I split it up in the four divisions, CDMO, Domestic branded, International branded and then Sharon, can you just give a rough idea on the gross margin. CDMO you gave like 25%, but for the other three segments, what is the gross margin?

Vinay Lohariwala: So, breaking with the different domain is a bit difficult for us because there is consolidated P&L, but we can say that we have the better margin in our own branded business, better margin in our export and better in Sharon compared to CDMO.

Nitesh Dutt: Sir, next question is on the CDMO business side, so if I look at a yearly level FY22 to FY24, FY22 we did Rs. 687 crores, similarly, in FY23 and FY24 is at Rs. 622 crores. Now, I understand there is some impact of price decrease, but what you are effectively saying is there has been 10% kind of volume CAGR in the CDMO business. Does that mean that prices have corrected by 20% or so from the FY22 levels, is that a fair assessment?

Vinay Lohariwala: There are two factors as I earlier explained also that one is the price correction, the other is the product mixing. So, say if I am making one product like Rs. 1 per tablet, one product like Rs. 4 per product. So, if the product is the same that also changes my revenue number. And more or less our EBITDA margin is based on the unit economy.

Nitesh Dutt: Sir, but even at an EBITDA level, so if I look at the EBITDA of standalone in March 24 this quarter it was Rs. 23 Cr versus Rs. 31 Cr of last quarter, so roughly 25% degrowth. Annual level FY22 and FY23, I think we were at Rs. 100 Cr. FY24, we are at Rs. 108 Cr in the standalone business. EBITDA also, we haven't grown that much, rather Q4?

Vinay Lohariwala: So, if you see yearly basis, ICL EBITDA grown from Rs. 107 to Rs. 118 crores. So, there is an approximately 10% increase in EBITDA in ICL standalone.

Nitesh Dutt: Standalone, you are saying at Rs. 118 crores?

Vinay Lohariwala: Rs. 118 crores compared to Rs. 107 crores last year. So, there is a 10% increase in EBITDA compared to last year. So, that you can say that like the cost of operation always increases year-on-year, that way cost will increase the whole operation cost increase. So, maintaining even the same sale base in the CDMO there is a 10% increase in EBITDA. So, that is basically rides on the volume increase.

Nitesh Dutt: And typically during your pricing contracts with customers, is it the rupee EBITDA that you have fixed, so for example, if your cost of production is Rs. 100, are you maintaining a fixed Rs. 10 or are you like charging percentage EBITDA, trying to maintain percentage EBITDA? So, is it rupee EBITDA that fixed or is it percentage EBITDA that you try to manage?

Vinay Lohariwala: So, there are generally 2 category of how we cost the bill of material cost. And then let us say we have the (CCPC) Conversion Cost Packing Cost and then we have the profit margin. So, the profit margin increased decreased with the API cost or bill of material. But CCPC is basically fixed and increase year-on-year basis. So, you can say like 60%-70% profit margin is in or the gross conversion is in the fixed form and 40% is in a variable form.

Nitesh Dutt: Variable basically relates to your cost of production?

Vinay Lohariwala: Yes, bill of material of cost of production.

Nitesh Dutt: Last question from my side is on the other income this quarter. So, I think we have had roughly Rs. 6 crores of other income, just want to understand the nature of this because the cash on books, I don't think it was that much. The ending cash was around Rs. 80 Cr or so where did this Rs. 6 crores come from and will it continue in future for us?

Vinay Lohariwala: So, our other income is basically if you see there is a forex gain loss, then government incentives for the export sale, then there is a Rs. 63 crores I think approximately where we are incurring the interest from the fixed deposit as well.

Nitesh Dutt: Sir, what will be the export incentive versus fixed deposit interest if you can split it?

Lokesh Bhasin: Talking about this Rs. 6 crores other income, the major constituent is the FD income that we have generated. So, let me take you slightly backward, so our IPO proceeds were planned to be deployed spread over two years. So, out of Rs. 293 crores of IPO proceeds, Rs. 62 crores was planned to be deployed in FY25. So, that unutilized IPO proceeds along with our some of our internal accruals which come to around Rs. 70 to Rs. 75 crores had been deployed in a fixed deposit till the time it is utilized in FY25, so that is bearing an interest. So, that is one of the reasons of our increase in our other income.

Moderator: Thank you. The next question is from the line of Hrishit Jhaveri from Pi Square Investments. Please go ahead.

Hrishit Jhaveri: Congratulations Sir. I just wanted to understand, we are coming up with new phases in the Jammu and Kashmir which will have a greater contribution of the overall CDMO space at the consolidated level and with the falling API prices and the lower margins in the CDMO space, what type of margins do we expect at the consolidated level for next 2-3 years?

Lokesh Bhasin : If I talk specifically about Jammu, so Jammu while it is an added location, the manufacturing capabilities at the same time business model will remain as per core CDMO. So, on a business-as-usual basis, we look at the same margin profile as we are carrying on our existing model, but considering the added incentives that we are going to accrue in Jammu, which is basically the GST benefit to be more specific. We are expecting since we may be able to claw back some of the incentive to our margin despite passing some of the portion to our customers. So, we are looking at a better margin profile in Jammu as compared to our existing locations.

Hrishit Jhaveri: And sir, I think what is your take on, how long the API downturn will continue? So, are you expecting another one to two years of this lower prices or you expect the prices to stabilize and then go up again?

Vinay Lohariwala : So, like during the COVID period price get inflated and in the last one or two years we have witnessed that the price has declined. And we expect that the next year, the base should be like, there should not be any further decline in the prices that is expected as the market is also speculating the same thing that the further price degradation should not happen in the market.

Hrishit Jhaveri: And sir, do we expect the export share to remain the same or are we planning to increase the export?

Vinay Lohariwala: Our export revenue?

Hrishit Jhaveri: So, currently on 23% to 25% exports?

Vinay Lohariwala: We are working focused on all the verticals of our business operation whether it is our own market, domestic business or CDMO or international sales, we are equally focused and concentrated on all, with Sharon on all 4 verticals. And each business is growing its own at a healthy rate, right. So, in the future, if some business segments grow at a faster pace, then there can be 1% or 2% shift in overall book.

Hrishit Jhaveri: And just one last question, sir, we are planning to spend another Rs. 100 to Rs. 120 crores for Jammu in this year. Do we also plan to spend any other maintenance, obviously smaller sum, but how much do we expect to spend for the maintenance status of the existing plant in Baddi?

Lokesh Bhasin: So, our normal maintenance CAPEX should be in range of around Rs. 5 to Rs. 7 crores per annum, not more than that.

Hrishit Jhaveri: And another Rs. 100 crores in Jammu?

Vinay Lohariwala: Yes.

Moderator: Thank you. The next question is from the line of Miten Lathia from Fractal Capital Investment. Please go ahead.

Miten Lathia: What would be your FY24 chronic acute mix and what will be expected to be after the Jammu facility comes online?

Vinay Lohariwala: So, chronic acute mix, if you see like the CDMO, technically not classified chronic acute, but still our acute is like 50% and chronic is like 50%. And with Jammu, our acute will increase further as most of the section in Jammu is from the antibiotic side.

Moderator: Thank you. The next question is from the line of Jainil Shah from JM Financials. Please go ahead.

Jainil Shah: Hi Thank you for the opportunity Sir, our working capital days are significantly improved. Is this sustainable now and is there room to improve this?

Lokesh Bhasin: So, I will talk more or less on our cash generation cycle. So, we have deployed successfully our IPO proceeds and while maintaining the operational efficiencies and keep on working on those efficiencies, we are looking to bring the range in which we are currently operating in a broad level, slightly here and there.

Jainil Shah: So, in presentation, we have shown revenue from CDMO customers who have been with us for 5 to 10 years. There is a dip this year. Any specific reason that you would like to call out?

Lokesh Bhasin: So, see if you see our relationship, revenue from CDMO customers more than 10 years has been increased. So, it is more of the shift from 5 to 10 buckets to more than 10 years, so that is the major reason.

Jainil Shah: But nothing specific on that particular?

Vinay Lohariwala: No, so if the relationship is there for 9 years, now that relationship has within this 11 years, so there is a column shift. If you refer the third column greater than 10 years, so there is an increase from 239 to 279.

Jainil Shah: So, it is mainly a reclassification?

Vinay Lohariwala: Yes, reclassification what we do.

Lokesh Bhasin: So, it is more of an aging thing, the way we look at our aging. So, we normally gave the relationship on the day which we have started our first billing in the first month. So, most hopefully in the coming years, I would take it on the positive side because normally we work hard to maintain and retain our customers, so slowly and steadily that customers which is less than 5 years will move to 5- and 10-year buckets and then further it will move to greater than 10 year bucket.

Jainil Shah: And just one last one, what is the EBITDA margin for Sharon in this quarter and for FY24?

Lokesh Bhasin: EBITDA margin remains in the range. For FY24, for three quarters that we have reported EBITDA margin stood at around 24% and for quarter four it is in the range of around 26%-27%.

Moderator: Thank you. The next question is from the line of Nitin Gandhi from Inoquest Advisors Private Limited. Please go ahead.

Nitin Gandhi: Regarding the Jammu block, what is likely to be the optimal revenue against Rs. 450 crore block?

Vinay Lohariwala: So, looking at the past, we used to do 4 to 5x of the asset turn. So, this block is capable in doing the same asset turn, and in the 3-4 year we are looking at a revenue of Rs. 1,000 crore plus.

Nitin Gandhi: And what was the Sharon net profit because you said the accumulated loss is somewhere high. So, can you share that figure also?

Vinay Lohariwala: So, accumulated losses is basically when we acquire it from the CIRP IBC process that time it is all cleared. So, now this year our net profit was, Lokesh can give the figure.

Lokesh Bhasin: For FY24, our net profit for three quarters that we have reported, Sharon has clocked the PAT of around Rs. 12 crores. See, when we say about carry forward losses, it is more of a benefit since Sharon was in IBC for last so many years and there had been some accumulated losses and that taxation benefit has passed on to after acquisition through our IBC process.

Nitin Gandhi: So, can you share that number? What is the accumulated loss which we will be setting up?

Lokesh Bhasin : So, it is a range of around Rs. 20-Rs. 25 crores.

Nitin: Rs.25 crores So, that will be set off this year itself?

Vinay Lohariwala: Yes.

Moderator: Thank you. The next question is from the line of Karan Shah from Gee Cee Holdings. Please go ahead.

Karan Shah: So, just one question. How are we seeing the inflows in the new inquiries from new customers and for new products across geographies and especially for the Indian geography?

Vinay Lohariwala: So, Karan as you see that we are already working with 14 of customers and we have a healthy relationship with all the pharmaceutical companies. And we are discussing our Jammu facilities and we are getting very good feedback from most of the customer and in pharmaceuticals generally there is no free agreement. Once we start the facility, then we do the audit and order starts flowing to us. We are in advanced phase of our discussion and once we start our commercial production, immediately the relationship will start there in Jammu also.

Karan Shah: And, sir, what about the existing facility at Baddi? Because we see still there is huge headroom for increase in utilization as well?

Vinay Lohariwala: Earlier also I explained that we have two blocks, Cephalosporin and General. So, in General we have the spare capacity. We are working at capacity of 40%-45% wherein our Cephalosporin is at a higher utilization. So, we look forward to improving our general facility utilization.

Karan Shah: So, are we getting new inquiries which are getting converted for the existing facility as well, right?

Vinay Lohariwala: Yes, let us say that is increasing the wallet share with our existing customer, onboarding the new customer, increasing the product, number of SKU, number of products with new and existing customers.

Moderator: Thank you. The next follow up question is from the line of Nitesh Dutt from Burman Capital. Please go ahead.

Nitesh Dutt: I just had one question on our depreciation this quarter. So, it has gone down from I think Rs. 5 crores last quarter to Rs. 3.4 crores, so just want to understand if there have been any write offs or anything else?

Lokesh Bhasin: No,as such the lower depreciation is mainly on account of Sharon, which they have done due to some realignment with our group policy, accounting policy. That is the only thing.

Nitesh Dutt: So, the Rs. 1.5 Cr change is because some accounting policy has changed, for example, increasing the life of assets, etc.?

Lokesh Bhasin: No, it is not like this. Basically see, when we acquired Sharon, they were on some different accounting policy, now as it is part of our Innova group, so this quarter with the help of the auditors, we have realigned their accounting policy with overall group's accounting policy and this is just an impact on Sharon currency.

Moderator: Thank you. As there are no further questions from the participant, I now hand the conference over to Mr. Vinay Lohariwala for closing remarks. Over to you, sir.

Vinay Lohariwala: Thank you. Thank you everyone for joining us in the earning call. We appreciate your time and showing interest in our Company. In case of any inquiry, you can get in touch with us or SGA, our Investor Relations Advisor. We look forward to meeting all of you over the next call. Thank you.

Moderator: Thank you. On behalf of Innova Captab Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.