Innova Captab Limited Q3 & 9M FY25 Earnings Conference Call

February 06, 2025

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MANAGEMENT: **MR. VINAY LOHARIWALA – MANAGING DIRECTOR, INNOVA CAPTAB LIMITED**
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Moderator: Ladies and gentlemen, good day, and welcome to the Q3 and Nine Months FY '25 Earnings Conference Call of Innova Captab Limited.

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 touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ayush Kumar Garg – Head, IR, Innova Captab Limited. Thank you and over to you sir.

Ayush Kumar Garg: Thank you. Good morning, everyone. And thank you for joining us on our earnings call today to discuss the "Operational and Financial Performance" for Q3 and nine months FY '25.

Joining us today on the call we have Mr. Vinay Lohariwala – Managing Director; Mr. Lokesh Bhasin – Chief Financial Officer; and SGA, our Investor Relations advisor.

I hope everyone has had a chance to look at the Financial Results and Investor Presentation which has been uploaded on the Stock Exchanges, and on the Company's website.

Now, I would like hand over the call to Mr. Vinay for his Opening Remarks. Thank you and over to you, sir.

Vinay Lohariwala: Thank you, Ayush. Good morning, and thank you all for joining us on today's earnings call. We will be discussing our Business Performance for the Q3 and nine months of Financial Year 24-25.

Before I get into the specifics of our business performance, I am thrilled to share a major milestone in our growth journey, the commencement of commercial production at our Kathua, Jammu facility, effective from Makar Sankranti, 14th January, 2025. This is a significant development, and it enhances both our production capacity and our ability to meet the dynamic need of our customers.

With this facility now operational, we expect it to further drive our growth trajectory in the years ahead.

Vinay Lohariwala: While we already have a cephalosporin block at our existing Baddi facility, and the one in Jammu is an extension owing to high demand, Penum, penicillin, and general blocks are new products and dosage forms introduced by us. To elaborate with the new general block at Jammu, we are venturing into blow fill seal category of product such as LVP and respules. In general blocks, we also have the dry powder injectable facility.

Client feedback has been very good and positive for us and we are already seeing a strong interest for these new products. With the Jammu facility now up and running, we are proud to have a robust manufacturing footprint of five facilities comprising of nine independent production blocks.

We are also set to benefit from the Central Government's incentive scheme which will further strengthen our financial position. Specifically, we are eligible for a GST linked incentive of 300% of investment made in the eligible plant and machinery available for up to 10 years from the start of commercial production. Additionally, we are eligible to receive a capital interest subvention on loan taken on investment in eligible plant and machinery, reducing our interest cost by approximately 600 basis points.

Turning to our Business Performance:

I am pleased to report healthy growth across key business areas. Our overall top line grew by 4.6% year-on-year to ₹316 crores in Q3. Our CDMO, contract development and manufacturing organization business continued its growth trajectory and recorded ₹172.2 crores of revenue in Q3 FY '25. For nine months ended, the business generated cumulative revenue of ₹505 crores. We service over 190 pharmaceutical companies, including some of the largest players in the industry. With the introduction of new products and dosage form, this business area is poised to continue its growth trajectory.

Our domestic business continued to experience strong growth, underpinned by our vast distribution network of 1,50,000 touch points, including distributors, stockiest and pharmacies. In Q3 FY '25, we had a revenue of ₹58.6 crores, while for the first nine months FY '25, the revenue from the segment reached ₹169 crores. This was a portfolio of 600 products, we remain committed to expanding our presence in Tier 2 town and cities, while liberating our existing network to drive deeper market penetration.

Our international business has been another key growth driver, registering an impressive 17% year-on-year growth, reaching ₹41.2 crores in Q3, accumulating to ₹113 crores in nine months. FY '25. We export to 25 countries and we have recently expanded our footprint into regulated markets like Canada and UK, which we believe will drive future growth.

Sharon Bio-Medicines, Sharon has a well-established international formulation and API business, both of which strategically align with Innova Captab business' value chain. Sharon clocked ₹44.5 crores of revenue, which was 6.5% below last year's revenue. This was largely because certain orders have been deferred to our fourth quarter. We are confident that the ongoing strategic initiative and leveraging on the benefits that accrued with Innova Captab, Sharon is well positioned to drive strong performance in the years to come.

With the successful launch of our Jammu facility, and our continued focus on enhancing existing facilities, we are confident in our ability to sustain strong growth. We are excited about our future prospects and remain committed to driving long-term value and growth for our shareholders.

We look forward to continuing to execute on our strategic initiatives.

Thank you. And with that, I will now hand over to our CFO – Mr. Lokesh Bhasin, to take you through the financial performance in more detail.

Lokesh Bhasin: Thank you, sir. And good morning, everyone. I will now take you through the "Financial Highlights" for Q3 and nine months FY '25.

Q3 FY '25 - our consolidated revenue stood at ₹316.5 crores, registering a year-on-year growth of almost 5%. Business mix was largely in line with our trend this year so far, with CDMO business contributing 54% to the overall topline, clocking ₹172.2 crores. Domestic generic business was at 19%, that is ₹ 58.6 crores. International generic business stood at 13%, recording ₹41.2 crores, and Sharon contributing 14% overall revenue from operations, with ₹44.5 crores revenue in the quarter.

We witnessed decent improvement in our profitability with the overall EBITDA margin improving by 8.5% to ₹50.9 crores. EBITDA margins improved by 60 basis points to 16.1%. Profit after tax witnessed a year-on-year improvement of 36.3%, reaching to ₹34.2 crores. PAT margins also improved to 10.8% versus 8.3% in quarter three FY '24, mainly led by better EBITDA margins and reduction in interest cost.

Coming to nine month FY '25, overall revenue for nine months FY '25 stood at ₹928.9 crores with year-on-year growth of 13.5%. Business mix was 55% from CDMO business, 18% from domestic branded generic, 12% from international generic, and 15% from Sharon.

In absolute terms, business area wise revenue for nine months FY '25 were as follows. CDMO, ₹505.1 crores. Domestic generics business, ₹169 crores. International branded generics at ₹113 crores and Sharon at ₹141.9 crores.

With this, we 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 with the question-and-answer session. The first question is from the line of Sudarshan Padmanabhan from JM Financial PMS. Please go ahead.

Sudarshan Padmanabhan: Yes. Thank you for taking my question. Sir, my first question is a little bit more on the operational side. You talked about some delays happening on Sharon, if you can quantify it. And does it also explain a drop, I mean, we have seen about 130 bps, 120 bps drop in your gross margin. My understanding would be, Sharon has higher margins, so that would also explain you know, the drop in margin. I have another question which I will come back to.

Lokesh Bhasin: Yes. So, there are slightly reduction of Sharon revenue in quarter three, which was mainly due to certain orders spilling over to Quarter 4. It was to the tune of around 250 crores estimated. We are very much **(Inaudible)** this Quarter 4. And talking about gross margin, the gross margin is slightly higher mainly, yes, one of the reason contributing factor was that Sharon, which is having a slightly better gross margin, contributing to a lower revenue contribution. And at the same time, in other business also there was a certain product mix change which contributed to slightly higher gross margin.

Lokesh Bhasin: There was also a certain price reduction in the play in this quarter, as CDMO is more of a pass through pricing model which has also slightly contributed to the higher gross margin in percentage terms.

Sudarshan Padmanabhan: Sure, sir. Sir, my second question is a little bit more strategic in nature, now that your Jammu capacity has come in. Just to understand from the demand perspective, ramp up perspective and also given that the product is slightly more complicated and a little bit more differentiated from what we have been doing. So, I mean, do we have the technology and the manufacturing. And everything in place, so how do you see the ramp up in the near term as well as the Jammu facility utilization over, say, next two to three years?

Vinay Lohariwala: Hi, Padmanabhan. This side Vinay. So we have the four blocks in Jammu and three blocks are new to our basket. We have already developed almost 30-plus products in our R&D and that will be rolled to the production floor. We have started doing the process validation and generation of the data. And from the cephalosporin, we already have the established product and that has been tech transferred to the Jammu facility. So, we are discussing with all of our customers and clients, and we are getting a very positive feedback from there. And as it is backed by the GST incentive, so we are very hopeful that the ramp up will be very high at a very high speed. And as we already communicated that we will be able to see revenue of say ₹400 crores to ₹500 crores next year.

Sudarshan Padmanabhan: Sure. And you will start seeing some revenues in the fourth quarter as well, right?

Vinay Lohariwala: Yes. So we are saying that as we have already commenced the production on 14th January, so we definitely will have some revenue in this quarter as well.

Sudarshan Padmanabhan: Sir, one final question before I join back the queue is, if my understanding is right, Sharon has got better margins so that you have a benefit from Jammu. So from this current margin if I am not looking necessarily at the fourth quarter or the first quarter of this year, say, by FY 27, FY '28 the capacity gets fully utilized, where do we see the return ratios and margins of the overall Company?

Vinay Lohariwala: Yes. So Sharon margin profile is already factored in our balance sheet. From Jammu perspective if you see, so like not the first year but down the line say FY '27 or FY '28 the overall margins should improve.

Sudarshan Padmanabhan: So it should be probably mid-teens or high-teens, I mean, would that be the right understanding, sir?

Vinay Lohariwala: Come again, I was not able to listen.

Sudarshan Padmanabhan: Somewhere between mid to high-teens should be something that we should be looking at moving from say 13%, 14%?

Vinay Lohariwala: So, there may be improvement of say 100 basis point or 200 basis points, it will be difficult for us to comment now. So as we progress say down the line one year, then only the picture will be more clear.

Sudarshan Padmanabhan: Sure. Thanks a lot, sir. I will join back the queue.

Moderator: Thank you. We will take the next question from the line of Amey Chalke from JM Financials. Please go ahead.

Amey Chalke: Thank you so much for taking my questions. Yes, I was asking, on the CDMO side is it possible to give some color on the pricing trend? Are we seeing any uptick or revision in the prices this quarter or is it still at the similar level what it was in the last quarter?

Vinay Lohariwala: So, Amey, pricing of the API if you see, is more or less in a stable region. But if we compare, say, year-on-year basis, so slightly we can say it is on a lower side.

Amey Chalke: Okay. So on year-on-year basis it is still negative, and impacting our CDMO business basically?

Vinay Lohariwala: Yes, on a year-on-year basis. But if Q-o-Q basis we see, more or less stable.

Amey Chalke: Okay. And second question I have is on the Jammu side. So we said when ₹400 crores, ₹500 crores revenues would come in next year, how much would be by shifting our production from existing to Jammu? And how much would be the new contract basically?

Vinay Lohariwala: Yes. So this ₹400 crores, ₹500 crores what we are discussing is the incremental revenue. So we are already factoring the sifting of the product, so that is only one block. And there we have a capacity constraint. So, say, if we are transferring our domestic business to the Jammu facility, so that will be fulfilled with the ROW business. So we are counting that only the incremental turnover of ₹400 crores to ₹500 crores.

Amey Chalke: Okay. So you mean to say the actual revenue generating from Jammu would be higher than ₹400 crores during that year?

Vinay Lohariwala: Slightly higher, it will be like ₹50 crores, ₹60 crores business will be transferred. You can say like the balance would be like ₹450 crores to ₹550 crores.

Amey Chalke: Okay. And initially this ₹400 crores, ₹500 crores would come in from which formulation particularly, like would it be only tablets and capsules or any other line which it would be?

Vinay Lohariwala: No, no, whole four block and all four category of the products. There we have like dry syrups, dry powder injections, tablets, capsules, then respules, large volume parenteral injection, general dry powder injections. So, in revenue, everyone needs to contribute then only we can reach to the ₹500 crores mark.

Amey Chalke: Okay. But all these lines, do we need a validation and filing of these products, will that take some bit of time or is it already factored in in our numbers?

Vinay Lohariwala: Yes, that is already factored in. We are doing all the studies and all that from the last, say, August or September.

Amey Chalke: Got it. So you would be having fair bit of idea like who would be the customers and how the revenue will ramp up basically next year?

Vinay Lohariwala: Yes, yes. So our BD team is working hard to onboarding the customers and the number is worked upon all the commitment and internal workings.

Amey Chalke: Sure. And the third question I have on the trade generic side, is there any seasonality which we should keep in mind while factoring numbers on a quarterly basis?

Vinay Lohariwala: So in generic business there are two factors, one is the seasonality. So if we see the trend from the seasonal point of view, generally Q2 or Q3, sometimes Q2 tops or sometimes Q3 tops, means the September or October are the top months. So sometimes it's like the consumer demand sector, like Diwali is the top, for pharma the worst season is like from the health point of view is the September, October. So sometimes our Q3 tops.

Amey Chalke: Okay. But as such, there is no issue as such in the segment, it's just the impact of let's say the quarter two was higher this year, so that's why the quarter three saw some lower growth basically?

Vinay Lohariwala: Yes, but the segment is having well, growing at a very healthy pace rate, overall sector is growing at a very healthy rate. So if we see, our nine months we have registered 18% growth, and this quarter we have registered a 13% growth. So as I explained, sometimes Q2 tops, sometimes Q3 tops. Overall, if we see the nine months performance, then we have grown by 18%.

Amey Chalke: Right. Sure, Sir. Thank you so much, sir. I will join back the queue. Thank you.

Moderator: Thank you. We will take the next question from the line of Karan Shah from GeeCee Holdings. Please go ahead.

Karan Shah: Thank you for the opportunity. Sir, one question on Sharon. Could you highlight how do we see the growth from the Sharon business in the coming years? Will it be at the Company level or shall it be a tad bit lower than the Company level growth for the Sharon business?

Lokesh Bhasin: So, Sharon business is growing at a decent pace, and we had been working on multiple fronts at R&D, RA, international BD team, and we expected it to grow in early teens in the coming years.

Karan Shah: And how do we see the margin profile from this business?

Lokesh Bhasin: Margin profile would remain stable at where it is as of now.

Karan Shah: Okay. And one question on Jammu, sorry if I would have missed it earlier. At a sustainable level, can we see a 17% to 18% margin level from the Jammu plant?

Lokesh Bhasin: See, as we already shared earlier, so at a long term perspective, yes, we are looking to accrue certain benefits coming out of the GST benefit, which is going to add up our normal gross margin. So, we are still working on it. In the coming years we are very much positive that, yes, our stabilized EBITDA margins is going to be slightly higher than our baseline margins.

Karan Shah: Okay. And last question, on the qualitative front, how are we seeing the customer traction at our Jammu plant?

Vinay Lohariwala: Yes. So customer audit and security visit is already getting a very good attraction for the Jammu facility. It's a state of art facility, well designed, and it is having a lot of imported equipment. So that fulfills the current need, or it is a well CGMP compliant facility.

Karan Shah: Okay. That's it for me. Thank you.

Moderator: Thank you. The next question is from the line of Akul Broachwala from Avendus Investment Managers. Please go ahead.

Akul Broachwala: Yes. Thanks for the opportunity. So, sir, talking about the ramp up at Jammu, so just wanted a qualitative sense as to the incremental revenues that you are envisaging, what's the profile? I mean, is it that you are expecting the last part of this to come from existing customers or are there new customers as well who are looking into these new blocks?

Vinay Lohariwala: So, most of the revenue will come from the existing customers. So we cover a large percentage of the top Indian domestic players, right. So, as the 80:20 rule, the 80% business lies with the top players. So we are hopeful that the customer is already onboard. So for Jammu we are trying to increase our wallet share.

Akul Broachwala: So my next question was on schedule M implementation. So, this year the government has kind of postponed implementation of schedule M for the pharma companies below ₹500 crores. So just wanted a sense on as to how you are looking at this move by the government. And are you sort of building any sort of business from that particular policy move this year in the coming calendar year?

Vinay Lohariwala: No, no, we have not build any data based on the Schedule M. Our facilities are well compliant to the domestic regulation as well as the international regulation. And this being a new facility, when we do any new facility, we see the future say 20 to 30 years ahead. So the facility should last for the next 40-50 years, so that is the vision behind doing any new project.

Akul Broachwala: Understood.

Vinay Lohariwala: Our facility is well compliant and we have our own sense rather than speculating on the government implementation of the Schedule M and all that. We have our own strength. Our customers are generally the large domestic players. And we have a healthy relationship with them. And based on that, we attract the business.

Akul Broachwala: Understood. And last question is on the CDMO revenue, so is there any element of service income or R&D income in and the CDMO revenue that you have? Just wanted a clarity on that.

Vinay Lohariwala: Yes, we have, but that is very less, only few percentage points.

Akul Broachwala: Got it. Thanks. That's it from my side.

Moderator: Thank you. We will take the next question from the line of Hiten Boricha from Sequent Investments. Please go ahead.

Hiten Boricha: Yes. Good morning, sir. Sir, my question is on the Jammu facility. You mentioned we have recently started facility, so assuming this facility will be operating at lower utilization in Q4, but the operating cost will come in the Q4 itself. So will this lead to our margin decline in Q4, is my understanding correct?

Lokesh Bhasin: So, Hiten, we have just commercialized our facility this January'25. And we are working continuously with our BD team and operations team to mitigate any headwind that may accrue. So, we are still working to mitigate any EBITDA headwind on that part.

Hiten Boricha: Okay, sir. Sir, but eventually the cost should come in Q4, right, that's what I am trying to understand.

Lokesh Bhasin: Yes, you are absolutely right.

Hiten Boricha: Yes, so it will impact margin, right, sir?

Lokesh Bhasin: So see, it's a start of the project, we are in ramping up stage. And yes, there are certain semi variable and fixed costs. So we are working to maximize our sales to mitigate that EBITDA hit or EBITA cost which may come to our EBITDA. So, by trying to maximize our top line and gross margin within this quarter itself, we are working hard to mitigate any cost that may hit our EBITDA.

Hiten Boricha: Understood, sir. And sir, my next question is on Sharon, you mentioned there was some decline in revenue and order has been delayed to Q4. So what exactly is the reason for this, if you can elaborate more on this?

Vinay Lohariwala: So, a few international customers have the December closing, and they have deferred the delivery to Q4. So we are hopeful that that Q3 hit will be covered in the Q4.

Hiten Boricha: Understood, sir. Thank you for clarification, sir. Thank you.

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

Abdulkader Puranwala: Hi sir. Thank you for the opportunity. Sir, first on the CDMO growth. So I understand in your opening remarks you talked about some bit of a pressure on API pricing, but would also want to know if the growth slowed down in this quarter, was that also because you have already started getting some product from Baddi to Jammu.

Lokesh Bhasin: No, Abdul, just to clarify, we started our Jammu facility in January itself. So these results for are till 31st December, so there was no impact of any shifting and we had not at shifted till 31st

December itself, and the number does not represent any shifting of revenue from our Baddi to Jammu.

Abdulkader Puranwala: Okay. And secondly on the Sharon, even the participant was asking, so would it be possible for you quantify what was the quantum of the order which has moved from Q3 to Q4?

Lokesh Bhasin: You are talking about Sharon?

Abdulkader Puranwala: Yes, Sharon.

Lokesh Bhasin: So the tentative number is somewhere around ₹4 crores to ₹5 crores.

Abdulkader Puranwala: Okay. And sir, just for next year I understand there would be some cost which you are trying to mitigate from Jammu, so what could be the sustainable EBITDA margins of your business if you have to look from a two to three years' perspective? Where should this settle, or would this be between 15% to 16% or it can be slightly higher than that?

Lokesh Bhasin: So, Abdul, as our current margins are, our blended margin at consol levels are within the range of 15.5% to 16%. So in the long run we are very much positive that we are going to get a slightly more benefit out of it, as Jammu is ramping up and other business is also contributing to this. So yes, it is going to be slightly higher. And within next coming period, as and when Jammu will get more mature and more established, we should be able to get a more quantifiable number around it.

Abdulkader Puranwala: Got it. Thank you. And wish you show all the best.

Lokesh Bhasin: Thank you, Abdul.

Moderator: Thank you. We will take the next question from the line of Kartikeyan from Suyyash Advisors. Please go ahead.

Kartikeyan: Yes. Good morning. Just one question on the Jammu facility. What would be the peak headcount at the Jammu facility? And can you talk about the challenges you are facing in terms of hiring there?

Lokesh Bhasin: So you are talking about the headcount at Jammu facility?

Kartikeyan: Exactly.

Lokesh Bhasin: So as of now, our existing Jammu facility headcount is somewhere in the range of 500 to 600, and there are certain apprentices also. And as and when it is going to ramp up, the headcount is bound to increase. So the recruitment, we had already been working proactively on the recruitment of our manpower, right from starting at helper level till our senior management at plant level. So the crucial and the sensitive positions have already been filled up around one year or even two years back. If I talk about plant head, we were having a plant head around two years back, we have already hired them when the plant was in construction stage. The other sensitive positions like QA, QC, other regulatory affairs, that has already been filled up. And we had been doing this recruitment drive through each and every modem whether through word of mouth, by walk-in across the country, by references and other portals also.

Kartikeyan: Right.

Lokesh Bhasin: Even we have went to as far as Sikkim to get a good workforce and an experienced force in pharma, we had done some walk-ins there also.

Kartikeyan: Interesting. And what would be the peak headcount according to you?

Lokesh Bhasin: Peak headcount at the optimum level should be in the range of, say, 1,200 to 1,300 employees.

Kartikeyan: Right. And if you have it readily, what would be the current split of locals versus non-locals?

Lokesh Bhasin: That I have to check from HR, we can come back on that.

Kartikeyan: Fair enough. Thanks for clarifying.

Lokesh Bhasin: Thank you.

Moderator: Thank you. The next question is from the line of Rohan Vora from Envision Capital. Please go ahead.

Rohan Vora: Hello. Sir, thank you for the opportunity. So, sir, the first question was, as I understand, in three blocks for Jammu facility we are going to manufacture new products. So are these products which our clients are manufacturing in-house and we will win those orders? Or are we winning those from our competitors, I mean, increasing market share? So which one would it be? That was my first question. Second question was with ₹400 crores of additional revenue coming in from Jammu, so do we see ourselves growing at 25% plus next year? That was the second question. And third was on the CDMO business, Y-o-Y growth was in low single digits, so in addition to the API price erosion, was there any other reason to that? Thank you.

Lokesh Bhasin: So your first question was that whether the new three blocks that we are going to get, whether the revenue is coming from the in-house shift of our clients or is it going to be addition of new products, was that the question?

Rohan Vora: Right, yes sir. So is it in-house shift from our clients or are we winning from our competitors, those products?

Vinay Lohariwala: So, as the three new blocks are new to our product basket, product portfolio, so definitely the business will be new to us. So that will be, say, the principal that the first line companies that are already doing the market and that will be transferred to us from the other site or maybe from their in-house.

Rohan Vora: Okay. So, it is possible that we might be winning market share or it is possible that it is an in-house products that are getting transferred?

Vinay Lohariwala: Yes, both, mix of both.

Rohan Vora: Got it.

Lokesh Bhasin: And your second question was around Jammu revenue over the coming year?

Rohan Vora: Yes. So we said we will be doing around ₹ 400 crores, so are we on track to do 25% plus growth in the next year?

Vinay Lohariwala: Yes, of course.

Rohan Vora: And just a ballpark number on consolidated revenue growth, if you can, for FY '26.

Lokesh Bhasin: So, we will still try to refrain from giving any guidance on the overall numbers as of now. But in the coming period, we will surely be able to comment on that.

Rohan Vora: Okay. And the and the third one was, is there anything in addition to price erosion to the single digit growth in CDMO business?

Lokesh Bhasin: So, if you talk about CDMO business, see, the CDMO is just a business segment, whereas our main core strength is our manufacturing capability. So our manufacturing capability basically drives and pushes all of our business segments, whether it's our CDMO or domestic generic business and international generic business. So, if you see on overall perspective, our each and every segment is growing at a healthy pace. And even from a manufacturing capability point of view our volumes have also increased from year-on-year basis. And if I talk about a very ballpark figure, it should be in the early teens itself. So yes, after considering the pricing impact, it is showing a year-on-year increase of around 7% to 8% at a standalone revenue level. But volumes had been better on that part also.

Rohan Vora: So you said mid-teens?.

Lokesh Bhasin: Yes, early teens, I would say early teens.

Rohan Vora: Early teens, okay, got it. Thank you for the clarification.

Lokesh Bhasin: Thank you.

Moderator: Thank you. We will take the next question from the line of Naman Bhansali from Nine Rivers Capital. Please go ahead.

Naman Bhansali: Yes, sir. Thank you for the opportunity. First question is more on the industry side wherein last quarter the largest player in our segment alluded to some sort of slowdown in the industry led by slower ordering from the pharma companies. As well as slowdown in the volume growth for the IPM in India. So, what are your views on this and how are the trends shaping up in terms of growth for the CDMO side?

Vinay Lohariwala: So if you see, One is that the overall market increase from the IPM point of view, and the other one is that from the CDMO perspective, right. From the overall IPM perspective, yes, you are correct that the volume growth is like 4%, 3%, right. And there are the generics also that is not counted in the IPM, so that business is not covered by the IPM. And then from our prospective if you see, so we are largely working in the area of CDMO. So there the growth comes not only from the IPM growth but from the product shift also. The product shift may be from site to site or from in-house to site. That's why if you see that from the past also we have delivered like the CAGR of 20% plus. So, mostly because of the extension, additional facility, additional product line. So if you see that in Jammu also we have expanded ourselves in the three new categories of the product. So there currently our business is zero. So most of the business will come not from the IPM growth but from the existing sites.

Naman Bhansali: Got it. And second question, as you talked about generics, so there was a news article wherein it was talked at generics is being accepted by certain other countries globally as more of a non-regulated sales. So does that open up a next level growth opportunity for us going forward?

Vinay Lohariwala: So, let me clear that, other than innovator, everything is generics, right. So from that perspective, the business in the ROW and the other market is already being covered by the generics.

Naman Bhansali: Sir, I am talking about the trade generic side wherein a lot of unregulated countries are talking about adopting the Jan Aushadhi model which is in India. So in that sense, are we catering to those opportunities?

Vinay Lohariwala: No, currently it will be difficult for us to comment on this point, because as I said, the opportunity comes then only we can envisage on this front.

Naman Bhansali: Got it. Thank you.

Moderator: Thank you. The next question is from the line of Neha Kharodia from Abakkus. Please go ahead.

Neha Kharodia: Yes, hi. Thanks for the opportunity. My question was regarding the Jammu facility. Sir, we are talking about ₹400 crores to ₹500 crores revenue for FY '26 from the same, so just wanted to ask regarding the margins for the facility, whether with the mitigation efforts it can be in the early double digits or high single digits, or will it only be breakeven for us?

Vinay Lohariwala: So, Neha, if you see that our margins are in the range of say 15% to 16%. So once we will do the full year at a level of ₹400 crores to ₹500 crores, so the margin profile should be in line with our existing base business.

Neha Kharodia: Understood. And for the facility, do we expect peak utilization in FY '28?

Vinay Lohariwala: '28, still we have the headroom for growth in FY '29 and FY '30 also. Most of the growth will be covered up to FY '28, say 80%, 70%. And then it will grow like 10%, 12% type of growth for the FY '29 and FY '30. So, how we see from the manufacturing facility perspective, whenever we put a new facility, so say initial year we have a large leap of 30%, 35% capacity utilization. Then in the year two, year three we reach to say 50%, 55%. And after that three, four years, then the growth rate will be like 10%.

Neha Kharodia: Understood. So peak utilization would be somewhere around 80% to 90% and I assume --

Vinay Lohariwala: No, no, 70%.

Neha Kharodia: 70%?

Vinay Lohariwala: Yes, because throughout the year there may be some months where we get the utilization as 85%, 90%, or there may be some few months where the utilization will be like 50%, 55%. So that's why we factor in that all seasonality to our number, then the peak utilization we estimate at 70%, 75%.

Neha Kharodia: Understood. And at that level, the revenue that we can do would be probably about ₹1,200 crores to ₹1,300 crores, or do we have a potential to have higher revenue maybe with the product itself?

Vinay Lohariwala: So our estimate is that the peak utilization is like a ₹2,000 crores somewhere. So, 70% is like ₹1,500 crores, ₹1,600 crores. And in two or three years' time that starts with the ₹400 crores, ₹500 crores, we can reach to the ₹1,000 crores mark in the Jammu facility.

Neha Kharodia: Understood, great. Thank you.

Moderator: Thank you. The next question is from the line of Aniket Nikumb from ABN Capital. Please go ahead.

Aniket Nikumb: Thanks for the opportunity. Sir, I have two questions. The first question was a little bit covered by an earlier participant, just on the schedule and delayed implementation for MSMEs. Can you comment a little bit on what are you seeing on the ground? Do you think a lot of the industry can transition to compliance? Or will they lose share? What's the feeling you get when you are chatting to customers?

Vinay Lohariwala: Yes. So if you see from the regulatory perspective, so in India also if you see the all the segments, everywhere there is a tightening of the regulatory framework. And as we proceed with the timelines, it happens in all the segments. So similarly in our pharmaceutical also there is a continuous tightening of the norms, and that is at par with the international norms. So, our revised also is at par with the all international regulations. And I want to comment that our facility like the Jammu or Baddi, and Sharon's Dehradun facilities, say in Dehradun we are having the EU-GMP, in Baddi also we have the EU-GMP. So our facilities are well designed and compliant to the international certification also. So, from the market perspective, yes, there are some headwinds with Schedule M. So let's see that how it proceeds. The government has relaxed one year from MSME point of view that is good that they have relaxed for one year.

Aniket Nikumb: Got it, sir. But do you think it's practical for some of these sort of smaller units to get to the right manufacturing standard? Or will that be too expensive for them? Just trying to get an industry perspective, is it even possible for them to do that transition?

Vinay Lohariwala: So from our side, it is difficult to comment on this question.

Aniket Nikumb: Okay, sir. That's fair. My second question was a little bit on the bookkeeping side, sir. Just wanted to get a little bit of guidance or just some pointers on how do we expect the depreciation to move? Now that obviously we have done a fair bit of Capex, so what do you think will be the depreciation for next year?

Lokesh Bhasin: So, yes, we are still working on the final depreciation workings, but we estimate that our annual depreciation from Jammu plant should be in the range of ₹20 crores to ₹25 crores per annum.

Aniket Nikumb: Okay, sir. Thank you. All the best.

Lokesh Bhasin: Thank you.

Moderator: Thank you. The next question is from the line of Raghav from JM Financial. Please go ahead.

Raghav: Hi. So just one clarification, did I hear correctly that for CDMO segment this quarter the volume growth was in early teens?

Lokesh Bhasin: So, the early teens growth has been for nine months, year-on-year.

Raghav: I was asking that in 4Q, can we assume that volume growth would be at a similar level or can it be higher? Because I think the base quarter in FY '24, you were impacted by the pricing decline for APIs. So just want to get a sense of how 4Q will pan out.

Vinay Lohariwala: So as I already covered that, if you see Q-on-Q then the prices are stable from our perspective, and year-on-year there is a bit decline in the prices. So from here onwards we see a stable price increase. So there may be few price decrease and few price increase. So, overall, now there is a stable price .

Raghav: Okay. Yes. Thank you for the clarification.

Vinay Lohariwala: Our growth is basically from the two perspectives. One is the existing volume growth, other is from the Jammu angle.

Raghav: Okay, understood. And just one quick question on Jammu, how do you see the 4Q revenue panning out for this year?

Lokesh Bhasin: So, Raghav, we are still working with on the order book with the BD team, but at a high level, we estimate that Quarter 4 Jammu revenue should be in the range of ₹20 crores to ₹40 crores.

Raghav: Okay. Understood. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Vinay Lohariwala: Thank you, everyone, for joining us on the earnings call. We are pleased with our progress this quarter and nine months FY '25. The successful commencement of our Jammu facility marks a significant milestone in our growth journey, complementing our growth, ongoing business performance. With growth drivers already in place across our existing business areas, we remain confident in our ability to deliver continued growth over the years to come. We look forward to build on these successes as we move into the final quarter of FY '25 and beyond. Thank you for your continued support.

Lokesh Bhasin: Thank you very much.

Moderator: Thank you very much, sir. Thank you, members of the Management. Ladies and gentlemen, on behalf of Innova Captab Limited, that concludes this conference. We thank you for joining us. And you may now disconnect your lines. Thank you.