“Gufic Biosciences Limited
Q2 FY2022 Earnings Conference Call”

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MANAGEMENT: **MR. PRANAV CHOKSI – CHIEF EXECUTIVE OFFICER & WHOLE-TIME DIRECTOR - GUFIC BIOSCIENCES LIMITED**
MR. DEVKINANDAN ROONGHTA – CHIEF FINANCIAL OFFICER - GUFIC BIOSCIENCES LIMITED
MR. AVIK DAS – INVESTOR RELATION TEAM- GUFIC BIOSCIENCES LIMITED
MS. AMI SHAH – COMPANY SECRETARY - GUFIC BIOSCIENCES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2022 earnings Conference Call of Gufic Biosciences Limited. 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 for an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Ami Shah – Company Secretary Gufic Biosciences Limited. Thank you and over to you Ms. Shah!

Ami Shah: Thank you so much. Good evening, everyone. I am Ms. Ami Shah – Company Secretary of Gufic Biosciences Limited, welcome you all to Q2 FY2021-2022 earnings Conference Call of our company. I have with me Mr. Pranav Choksi - Chief Executive Officer and Whole-time Director; Mr. Devkinandan Roonghta - Chief Financial Officer and Mr. Avik Das - Investor Relations Team to give the highlights of the business performance of the company and to clarify the queries of the investors during the call.

We will begin the call with opening remarks from Mr. Avik followed by Q&A session. Before proceeding, I would like to draw your attention that some statements which may be made by the dignitaries of Gufic in today's call describing the company's objective, projections, expectations or any other events which might be forward-looking statements and are dependent on various factors must be viewed in consumption with the risk and uncertainties involved in our business. The company assumes no responsibility to publish update, amend, modify or revise. Any forward-looking statement based on any subsequent development, new information or future events accept as required by the applicable or laws, we seek the apology in advance in case if we are unable to address any of your queries, to your fullest satisfaction. However, our attempt is to be fully transparent in our disclosure and to enable the investors to get a clear picture of the company.

I will now handover the call to Mr. Avik for his opening remarks. Thank you all. Over to you Mr. Avik!

Avik Das: Good evening, everyone. Welcome to our earnings call for Q2. The Q2 sales are a true reflection of our unit end-to-end business model, diversified across domestic branded business with exports, CMO and API. Each of these business areas have a deep and a well-defined product portfolio that targets a wide range of therapeutic categories as a result, we find ourselves serving a large addressable market that includes therapeutic categories that are growing faster in the overall pharma industry.

As per September 2021, IMS data Gufic's market is growing at 36% year-on-year and 14% on three-year CAGR basis. Our domestic marketing business has rebounded to pre-COVID levels, which is in line with industry trends. We have leveraged the existing planned equity of our portfolio to drive growth and focused on new launches to add to the topline. Some of our brands within Criticare, Ferticare and mass marketing segments have witnessed better traction than pre-COVID levels as well. The rebound in sales is a testimony to our varied product offerings within the therapeutic categories, excellent supply chain management and strong focused on medico marketing.

On the exports front, the 171 products registrations in 25 countries have resulted in sequential increase in export revenues, this is driven by new product registrations and increase market penetration of our existing portfolio especially in developed markets such as Germany, Portugal and several other emerging markets. In the current financial year, we have successfully renewed 50 of these product registrations. Each of these products and each of these markets have a growing an addressable market and going ahead re-foreseeing this growth will not only continue as we receive new registrations but also as we unlock the value of existing registrations. The demand of COVID related drugs receding in Q2, we utilize the capacities to service depending on order book in the CMO business, as a result, a product portfolio within the CMO business has also rebalanced itself to pre-COVID levels, we foresee strong growth in this area with launch of new molecules in high growth, therapeutic segments coupled with NDDS and best amongst to a unit economics given a large manufacturing base of Lyo Injectables.

The API R&D projects are in line with the plant timelines. We expect significant growth in the domestic and international markets as these projects begin commercialization. This will open up an altogether new opportunity for us, not only in the domestic but also the export market. The capex in Indore is also progressing as per timelines. We have acquired the land, the drawings and details engineering are complete, and we finalize the orders for all key equipments. The Indore project will be game changer for us as it will slate us as one of the largest manufacturers of Lyophilized Injections in the world. Later in the call Mr. Pranav Choksi will speak more about a vision and plan for the Indore facility.

So, as you can infer from the current performance and the underlining drivers of the performance that we are not a one product, one therapy or one market company, ours is a very well balanced business model that benefits by leveraging the well diversified product portfolio across each of these high growth business verticals, a performance in Q2 surely is going to be the way ahead for us. The quarter had very negligible contribution of COVID drugs and with this we proved that we are not only a serious player in the domestic market and in the injectable space but now that approvals coming in from regulated markets like

Brazil, Canada, South Africa and other countries, we are very, very sure to capture market share in these markets given our economies of scale and flawless quality track record.

So, with that I will pass on the call to our CFO to speak more about the financial performance of the company. Thank you.

Devkinandan Roonghta: Thank you Avik. Good evening, everybody. I am Mr. Devkinandan Roonghta, the CFO of the company. I am just highlighting the financial performance for this half year and quarter ended September 2021.

First, I would like to highlight the financial performance for the half year ended September 30, 2021. The financial performance for the current six months compared to last six months was not comparable because during the last year because of the COVID-19, the whole country was under lockdown for the period in the month of April and May and also lockdown was continued till September 2020.

If you see the sales for last year the sales was 189 Crores, the current year sales has been improved from 189 Crores to 445 Crores. There is a total growth of 135%. EBITDA, profit before interest, depreciation and tax, last year it was 36 Crores, this year it was 83 Crores, there is jump of 132%. EBITDA margin has remained at the same level of 19%, last year also EBITDA margin was 19%, this year also EBITDA margins are 19%. Profit before tax that is operating profit last year it was 20 Crores, this year it was 72 Crores, there is a jump of 256%. Operating margin has been improved from 11% to 16%. Net profit after tax last year it was 15.90 Crores, this year it was 54.54 Crores. There is total increase of 243%. Net profit margin has also improved from 8% to 12% and good news is that the cash generation from operation has been gone up from 19 Crores from April to September 2022, 110 Crores during the current six months.

Now, I am highlighting the financial results for the Q2 compared to last year Q2. The topline has been last year was 129 Crores, this year it has been improved to 194 Crores. There is a jump of around 51%. EBITDA profit has increased from 31.67 Crores to 36.13 Crores. There is jump 114%. Profit before tax has been improved from 23 Crores to 31 Crores. There is a jump of 32%. Profit after tax has been improved from 17 Crores to 23.34 Crores, there is a jump of 35% and net profit margin remain at the almost is the same level that is 13% last year, this year it was 12%.

Thank you. Now, I am requesting Mr. Pranav Choksi to take over.

Pranav Choksi: Thank you Roonghta Sir, thank you Avik and thank you Ami. My discussion mostly will be in regards to some updates of the quarter and also the journey going forward, so we try on a quarterly basis through this call to give you an update about what our future projects are and what our current growth and would say vectors are and then we will also update you whether if there are any new products or pipeline or in other word any infrastructural addition which has been done.

So, keeping that in mind, the normal way I would take it forward is to divide the Gufic's business into four strategic business units which comprises of domestic business, contract manufacturing is the second one, Bulk drugs and fourth one is a of course international business. of course, revenue wise, there might be in a different operations, currently what we foresee and what we target that we see that the domestic business should always continue to be around 42% or 45% of our revenue going forward.

The international business right now even though being less should eventually on a matured manner in the next two years to three years come to around a 30% revenue, 20% of our revenue will be still controlled by contract manufacturing being one of the most I would say, keeping in mind our diverse product portfolio, we also realize that we might not be able to I would say commercially launch all of them, so that is why we always look at good partners and good distribution partner or good marketing partners not only in India but abroad which can take care of our R&D process as well as the infrastructural in terms of manufacturing.

So contract manufacture is one of the important pillars which will continue to rise and we foresee 20% of the revenue still will be governed by our contract manufacturing and of course 10% of our revenues will be of Bulk drugs because still now as I have mentioned in the last few quarters our API which has been our part of a legacy business was mostly in regard to some anti-fungal and anesthetics but in the last two years not only capacity increase but we also have focused on a strong R&D pipeline which 50% will be part of our in-house consumption and I foresee down the line 50% of the API capability will also be used for outward sale. So there are certain cardiac, diabetic and also like I would say hormonal as well as certain biological products which we would be focusing on the API front and we strongly would become 10%. Overall, since there will be a growth happening in all of them, we foresee that this is a ratio by which the revenue would be governed in the future.

Starting with the domestic business as well put up by Avik, we saw a good traction in Q1 because of Immunocin Alpha uptick and Doxycycline and that is why you have seen that number jumped to 250 Crores, the major jump was because of the COVID drugs along with

the Black Fungus drugs Liposomal Amphotericin B and I was also very categorially very clear that the uptrend of that revenue was around 20%-25% and at the same time we had some backlog of infertility or I would say little bit of a lull in the infertility business as whereas other I would say AESTHADERM business which has come back in Q2 and of course in Q3 in spite of Diwali we are seeing a good traction happening.

The domestic business on its own is continuing to slide forward and we have come back to our normal trend with the launch of Stellar and with the launch of AESTHADERM and of course with the launch of three new molecules also in the healthcare spark and critical care divisions, we foresee the domestic business who always outgrow the industry growth rate specifically we have a very small base and a low base, so that will continue to grow.

We also are now launching the Botulinum Toxin in the Critical Care space, so that also will provide some traction going forward apart from the antifungal and the antibiotics which are lined up for Q2 2023 Q4 2023, so that was ahead.

I foresee that the domestic market we are going to enter into one more therapeutic segment which is again close to our infertility business, it is most specifically to gynec and women's healthcare which it is complimented by Spark that should also start kicking in. I think we already have mentioned in our presentation that we have launched for the first time in India, a very unique folic acid analog which is QF3 which is Quatrefolic and that is something therapy is used by a pregnant lady or by I would say another therapeutic applications via women or by a male for more than six months to eight months, so that product with a unique combination QF3 should have a good traction coming up in the future.

Our PFS business also with the launch of Enoxaparin even though being a generic product in the fight against critical care, that is something which is doing quite well, and I think in a very short time in ORG we have come in the top ten, so that is something also in the testimonial to our marketing progress.

Coming to the contract manufacturing business, like I said we already are in the process of expanding our capacity in the month of December to January in our Navsari infrastructure itself where we are going to start manufacturing our own Penems and we are going to come up with the new drug delivery system line which should start kicking in from April 2023. Along with that we also have forayed into Madhya Pradesh where in Indore we have like as Avik updated, we have started the construction of our state-of-the-art R&D center and along with that we also have started the construction of our additional Lyophilized line where the total capacity what we foresee would be around I would say 40 million per year again. Along with Lyophilized facility we also have entered into liquid vial and prefilled syringe

product lines, which makes the entire offering of our injectable on a much more broader way.

Currently if you see the Navsari factory has a very clear demarcation that is mostly focused on the Indian business, the emerging markets and of course the European markets along with Brazil, Canada and Russia but we saw the traction happenings in the last one and a half year even without COVID, we did not have these countries still contributing to us, so we foresee in the next one year to one and a half year, we will be running out of capacity in Navsari and that is where the Indore plant will play a role.

Also Indore plant is specifically made with a mind to take care of certain CMO opportunities for markets apart from what we are present in. To make it more clearly, right now I think we have approved by almost all countries except US and Japan, so with the Indore project coming in, we hopefully foresee ourselves at a CMO provider for countries like US also in the future.

We are very clear that there are certain markets where we were very clear is going to be a CMO partner and then certain markets where we are going to have our own forward sort of a distribution channel or marketing channel and that is where the Indore project along with R&D set up there and complimented well by our Navsari infrastructure, I think we will be a first to recon in the next three years to four years in the field of injectables overall.

The plant in Indore also will be complimented by one more block which will be started in the month of January and construction of that block will be started in the month of January 2023 which will be an additional product line in terms of injectable that is Penems which will also be like I said for all countries mentioned before, so what we foresee as Gufic become one of the one stock shop avenue for all injectable requirement from antifungal, let us say antiinfectives to all the way for anaesthetic to all the way for nutrition and also down the line to a certain infertility and lifesaving products also.

We foresee our product line to happen with Botulinum Toxin unit also up and coming, so we are looking at 2024 where another separate block will be added in Indore and then of course there are certain other recombinant products and biologicals which are working on, so they will be separate blocks which will come eventually in year two, year three in Indore where we have enough land bank to take care of our requirement for the next five years along with the API, infrastructure investment which is required.

That is where the role of Indore will be playing an important role not only in the contract manufacturing specifically much more in the international business and also will well

compliment and keep help us get some capacities diverted to Indore, so we can use that existing capacity Navsari for domestic as you know to take care of the current growth which is happening in Europe, and I would say emerging markets also.

Before I come to Vizag I would like to focus on international business also. International business as we have already been saying is growing at much faster pace apart from just getting registrations it is important to also renew those registrations as well as also make commercial sense of these registrations, otherwise we just keep on paying money and get them without any revenue the registration makes no sense, so we have actually been successful not only in getting the 50 of them done because they were due for renewal and successfully all the registrations which we have got almost 85% to 88% of the registrations have directly added into commercial traction, so I foresee that now markets like Brazil which we just got I mean we have already announced by registrations couple of months we are looking at some more in the next three months along with that Canada and Russia, South Africa and of course Southeast Asian some countries which become part of the emerging markets and of course Columbia which is another market which is doing quite well, we foresee that the export market will continue its trend of doubling up year over year and like I said eventually in the next three years to four years, we should foresee 30% of our revenues being purely on international market.

Coming to the Bulk drug business, we have invested in the infrastructure, in the R&D, in the product pipeline not only trying to safeguard our interests internally where we are not dependent on any imports from specifically risky or geopolitical issues, so with Bulk drug I would say R&D and the infrastructure which we have already invested in the last two years and if need be in the next three years we have the option of Indore to set up more blocks I think, a 10% of our revenue for Bulk drugs with some new products coming in especially in the cardiac diabetic which I am very excited about should be good time going forward for us.

I think before I come to the question and answer round, lot of people were asking me about whether it is just a COVID impact or non-COVID impact, so I think with this quarter, we have clearly shown that I mean all companies have the COVID bump which comes in April to June but we have strengths beyond just those products and we have well balanced portfolio as well as geography as well as basket to take us forward. So if any questions are there specifically to anything of what we have just said or of course anything new, we are much more open to take your query as transparently as possibly. So, I handover the session back to I believe Ami and then we can start with the Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Kushal Shah from Motilal Oswal Financial Services. Please go ahead.

Kushal Shah: I wanted to ask on the MR strength which our MR strength just being above 1000, how much of the Indian domestic market would be recovery and what is the potential over there like would they need to increase it substantially and region wise if you can talk about how the coverage region where we can improve?

Pranav Choksi: Pranav here, just to answer specifically, we have actually eight divisions which are part of I would say four major divisions so specifically since we are into more of little bit of a specific and therapies which are more related to the class A and class B towns in almost six out of the eight divisions most of our field force is very specialized where we look for a very high PM. We have total two mass marketing divisions which are of course Healthcare and the Spark where we have around 240 people and we have another division we have 140 people, so there enough scope is there because we are mostly restricted to I would say three quarters of the country not the four quarters and there also they are restricted Class A-B towns also, so going to forward as you rightly said for those mass marketing the possibility of expansion is much more and hence we are looking at eventually reaching to the number of 300-350; however, our mindset is very different as of now rather than to have, you have rightly said in the Indian market there are people who have 18,000, 20,000 8,000 and all that where we have overall I would say 850 field force as of now that also includes I would say 900 people including managers also and that is something we have been very particular about from day 1 because we foresee that of we incentivise and pay our existing people well, we can always get a better PMPM which makes sense much more because of the product line which we need. We need a lot of medico science in most of the products which we launch and hence we are able to give it to a people who are really paid well who can actually and he have a special category or degree required for which is an internal requirement for going forward. To answer specifically, Critical Care, infertility is mostly taking care of on an all India level, Stellar Division which is a newly launched division last year which was mostly related to ortho and gynec we have just opened up in four states, our AESTHERDERM is right now restricted to eight cities where we have 33 people and we have like I said Healthcare and Spark which is related to mostly three-four of the country. Infertility and Critical Care has two divisions of their own by which there were division and also off shoot, which is almost all India, so the remark scope for us to expand in these divisions also but provided the right PCPM comes. I hope I answered your question well.

Kushal Shah: Sir but if you are expanding to other geographies as well in the fourth market, do not you think for our skill we are expanding the management bandwidth too much and then it would

create issues like how we are doing domestically and how we are doing for the export market?

Pranav Choksi: To answer that specifically, we have a very different, there is a separate President with three Vice Presidents and a separate team of GMs, NSMs and marketing manager who handle purely the Indian business along with Nepal and then we have a separate set of directors and CEOs along with a separate sale management system which takes care of international markets where we also have then our plans I mean already we have around two national managers who take care of the country, so we have a very clear cut segregations, so it is not that the management bandwidth is affected in anyway because as you see any I would say organic way of any company to grow I mean be it pharma or otherwise also, there are always I would say experts from the field which have been recruited which take care of certain countries where the domain knowledge and the cold competency compliments that, so we do not see any challenge happening there because this is an ever evolving and dynamic situation where we are always often looking into add lot of unique manpower, you will not believe in terms of the insulation business also we have really ramped up that in the last eight months to ten months because regarding the COVID, we realized that there are lot of opportunities in the government hospitals where we are not present in, earlier we thought because of the margins being low but now I think enough scope is there because a lot of ESIC opportunities along with lot of unique and amazing hospitals which have come up and the government is doing a great job and that is where we have actually done an added experts from that field also which are doing a good job, I think the entire insulation business has just become five times in the last nine months itself which also talks much about if you have a right people taking care of it, I think nothing is impossible.

Kushal Shah: Sure Sir. Just last one thing, if you can explain on the terms of opportunity and where we stand as of now for the domestic market and how we can increase that, so let us say for example, we 900 field force what do we envision it to be in next three years and what the potential of the revenue can be in some case like whether it can be divisional or in totality which ever you can?

Pranav Choksi: I will just tell you heads which we have set in earlier past also I will not talk about the number of field force have or where will go or revenue I think Roonghta Sir may be can throw more light over it but currently what we have in mind is we have enough scope I think Avik mentioned in his talk, the entire represented market of Gufic in India is growing at 36% year over year and are on 14% CAGR. If you follow Gufic growth, it has been much faster than that but what I am trying to say that we have been entering into the segments which always the high growth potential beta derma, infertility and the infective except for last year have shown a good slow growth also this year. Apart from that we have a product

pipeline and economic of scale of infrastructure coming which will always help us to take care of the Indian market also. Like I said we will always be growing may be faster than in any market because of the low base but because of inherent strengths also otherwise. Internationally, like I said we always have Avik mentioned we have doubled up our international business in the last two years to three years consecutively, so that is the way we feel that the revenue eventually should come and it would be high numbers there itself also because we have just started the entire international operation I am saying in terms of matured market and in terms of now other regulated markets coming in. So, the more growth factors would be mostly by adding new and new therapeutic segments which we have I already mentioned it will be adding up at least one therapeutic segment which complements our core competency and we always have anchor products for those, so ventured well into derma because of the Botulinum Toxin which we have, we went into ortho gynec because of this QF3 which we had, we are going to go into let us say XYC because of some unique proposition which we will offer to the people of India and that will be the anchor for us to go forward, so like I said but I am sure Roonghta Sir we have already being saying that around 15% to 20% year over growth is what we foresee and we try to take care of that minimal I am saying in a pure market, COVID situations of course are different but in a pure organic way we have enough should take care of 15%-20% year wise growth but of course better improvement of bottomline.

Kushal Shah: Sure. I will get back.

Moderator: Thank you. The next question is from the line of Chetan Phalke from Alpha Invesco. Please go ahead.

Chetan Phalke: Thank you for the opportunity and congrats Pranav for a great set of results. Just correct me if I am wrong, when we look at things in the overall context, it appears that our business is pretty thinly spread I mean we have too many divisions and too many products AESTHERDERM, herbal, criticare, Stellar, infertility and so on and also at the same time on the distribution side we are focused on the corporate hospitals, government hospitals where as per my understanding there is pricing pressure at the year and we have to maintain the ground work force as well where in the expenses are also bulking up, so in this context the business model appears ot be very challenging per se and this reflect in our margins I mean despite peak demand, our margins are arrested at around let us say 17%-18%, so what are your thoughts on this and what will drive our margins towards say 25% as we scale up, is that possible?

Pranav Choksi: Thank you for the question. If you see, we little bit differ in the overall business portfolio because if you see the anchor products which we mostly go into always have that some sort

of monopoly in terms of either patent protection or they have some sort of uniqueness at the time of launch. But like any product cycle we always observe that especially in critical care market or infertility market three years to five years is the time when it starts becoming a generic and we lose that shine of the margin going forward. Having said that we have a product pipeline if you see we have gone into this critical care business since 2015 and now it is six years, and we are still maintaining the growth and we have still maintained the appetite of launching a new product as well as a new drug delivering system or a new product which helps us to take care of the margins. Another important fact is that even though the pressure in critical care or the hospital-based products are mostly margins because of things but we always are into an economic of scale models. So, our margins do not erode as much as what you would otherwise see maybe like people always talk and compare us with US where you have innovator entering and then generics companies come, and their margins really fall down. Of course, it is a wrong comparison which I am doing it right now but just to put into perspective for us the erosion is not that much because we always have efficiency in production and efficiency in sourcing which helps us cater through as well as our growth traction and of course not only our growth traction but the Indian market is so beautiful that it offers us that organic push also in terms of the numbers going up, in terms of revenue, so even though that even protects us going forward. Coming to the major thing, if you see a lot of our margins which you see are being affected is also because we do not see is their lot of investment goes behind in terms of every dossier, every R&D product and I am not saying that with anything but for a company of our size the amount we spend on research, development or formulation developed or even in API synthesis we spend a huge amount in terms of R&D and consumption. The consumption which you see here wherever we get a positive cash flow we try to put it back in system, any new product, any new dossier which we focus on cost us around Rs.2 Crores to Rs.3 Crores for a normal unique product and out of that maybe around 70% cost is only for the RM and PM where you have take three validation batches put them into stability for six months and continue that till two years or three years depending on their shelf life and then of course we cannot always commercially sell the entire thing and that has to be written off. So, at once you can imagine that every quarter, we get around maybe at least three to four products in every division. Like you see that we have eight divisions to market in but apart from that also we develop a lot of unique products which we eventually use as a CMO model or out licensing model also. That process will always continue but if you see that improvement of margin is happening from 8% to 12% on PAT level and 18% solid happening on PBT or I think maybe after this I will ask Roonghta Sir to add up to what I have said, but if you are how our EBITDA margins also have been increasing year-over-year. We foresee that eventually our investment in R&D will be automatically going on, but we see and exponential increase in our operational margins coming up and that is where you

will see this benefit coming in. I cannot answer your question about 25% being there or not but with the exports coming in we already are seeing a better margins coming in and this will push us to our targeted margins going forward which is of any standard pharma company. So, I am just trying to say that today because of the amount of research and some of the amount of clinical data we are trying to produce because of the dossiers which we are trying to produce, getting into all these countries and getting four, four, five, five products for the country every year it is not a small thing and even if you consider Rs.2 Crores – Rs.3 Crores for a basic product to maximum of Rs.5 Crores to Rs.6 Crores for a complex product like for any antifungal or something we are looking at a cool Rs.30 Crores – Rs.40 Crores just on basic dossier development apart from R&D and the API synthetic stabilities. This is where I feel and with our product pipeline also moving into new drug delivery system, we will foresee a better margin coming for the new launches which we have lined up I think we should be okay. Roonghta Sir, can you add some light over it whether if I have missed out anything.

Devkinandan Roonghta: Thank you, Sir. Firstly, I would like to inform you that in case when we want to have a topline growth of more than 15% - 20% then there will be always a pressure to launch a new product. Whenever the new products have been launched there will be R&D expenses till we want to have a growth of more than 20% the margin which is EBITDA margin presently is 19%, I foresee certain improvement if you see the past history of Gufic the EBITDA margin was around 13% - 14% over the years it has improved to 19% I am confident that it will be going to touch 21% in two three years' time but to reach to 25% is going to take a long time. Thank you.

Chetan Phalke: Pranav, what could be our R&D expense run rate going forward I mean ballpark number and what is the recurring registration expense that we incur every year?

Pranav Choksi: I would not like to comment on quarter wise, like I would say right now because of the extra cash flow coming in we have just launched two three important biological projects with Dr. Balram Singh which will start kicking in. Maybe we would be spending as of now including RMPM and other costs would be around 10% to 11% of our revenue of last year and current year and this year might be little bit more because of certain plans which we have to accelerate certain products also in the market. Also, I would like to tell you that once the Indore factory comes next year you will see the same phenomena because whenever a new site comes, a new site transfer happens always we do these validation batches and the other things which will also start kicking in of course by then we will have much more better operation leverage to take us to and take care of those. So, we always see opportunities where we can use up this material to forecast and we will get it also and people normally say that how could you go from a Rs.480 Crores to maybe we have

finished Rs.440 Crores in the last two years that is just because of the product basket which we had. If we were not able to get the Enoxaparin done or Lipoampho done and leuprolide done or maybe for that even the Immunocin Alpha done because of the R&D expense which we did in the last two years and even Botulinumtoxin maybe, we have spent more than around Rs.22 Crores on the Botulinumtoxin project itself apart from the infrastructure expense all that will start paying off eventually in much more exponential way.

Chetan Phalke: The R&D expense includes the registration expenses as well?

Pranav Choksi: You can say R&D and registration expense all together would be around 15% to 17%. I think Roonghta Sir would it be right understanding, but I think some of them are in gross margin some are reflected in other expenses, right?

Devkinandan Roonghta: There are two types of expenses, one is validation expenses for the consumption of RMPM that is around 7% to 8% then there are registration expenses and all those expenses around 2% to 3%. So, overall R&D expenses, is about 10% on total revenue.

Pranav Choksi: And the dossier expenses will be another I think 6% - 7% Sir?

Devkinandan Roonghta: No, that all will be coming in this 10% - 12%.

Pranav Choksi: Okay, so it is my mistake then it will be around 10% - 12% which comprises of everything.

Chetan Phalke: Got it. This gives us the clarity here. If I can ask one more question on exports. On the export side as, you just mentioned on the opening commentary we have some 170 odd registration fact as it is. What is our game plan let us for going towards 500 registrations, are we going with one country multiple products kinds of an approach where in our marketing cost comes down in that particular country or we are taking products wise approval that let us take this one product and start exporting it to 25, 30 countries or something like that?

Pranav Choksi: It is very dynamic if I tell you maybe for the market like Myanmar or Thailand or Vietnam or Philippines we would like to go for one country having multiple product registration where we can as you rightly said afford a field force going forward and medical marketing team taking care of them and there is a market like we have a patent of Tigecycline where the product is going off patent in 2026 but we are still aggressively pushing it to countries like South Africa, Russia, Canada, Brazil and of course Europe where these unique products will have its own takers because of the entrants in the IFS and of course where there is only one or two players going in. Depending on the product potential and the different molecules

you will see a much more regulated market is more market centric where we do not have a front end as of now, we mostly use a distribution model where our distributor or a marketing either we are the MA holder, or the client is MA holder, and they have a good basket which kicks through certain hospitals there we use that single product versus market approach whereas in certain markets where we know clearly that this is what we have we try to register all of them and then we have separate field force which we can govern and take care of business. The business internationally also depending on the country is either tender based or it is marketing base. Depending on the country we have timeline and model in either of the cases.

Chetan Phalke: This is and in growing our export that if I am not mistaken in the opening commentary, you said exports can go up by 100% year-on-year?

Praveen Choksi: That is want we have been doing in the last two years and I am not sure that I will double up continuously, but we can see high growth happening in the next few years as also as our base becomes bigger and bigger.

Chetan Phalke: All right. That is, it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Keshav Kumar from RaxSan Investors. Please go ahead.

Keshav Kumar: Thanks a lot for taking my question. Are we looking at NCE or MB developments base for peptides and biological as well, why I ask this is because last time you had mentioned about innovative NTDS gaining a big factor in peptide and biological space and I can understand that we have strengths and track record in injectable and liasonization and recently I came across that among dosage forms sterile liquid are witnessing the strongest route and CMO outsourcing so, are we valuating that space?

Pranav Choksi: Yes, Keshav absolutely. I will answer your last part of the question first, if you see the way we have gone into the capacity expansion in the last two years and also now we are doing with Indore going forward. We foresee that the sterile injectable space specially in the regulated markets and upcoming markets to see a good traction by which the Indore and the Navsari factory will play a very important role and surely as a CMO we foresee like I said still 20% of the revenue is to come down the line also from the CMO business or maybe that also has its own amplification model, and I am sure we will be ready for that. Because right now we have just started opening up our geographies and the interest and the feedback which we are getting from geographies after getting one two products done, I think we will get more and more. So, you can always scale our sourcing potential and our sourcing

efficiencies are really helping us to take care of the market. Answering your second question about innovation in NCE, I would like to say currently our focus is new drug delivery systems where we use something which is possible in the form of Lipoampho we try to do it in liquid or in a PSI or we do something which is in the form of injectable we are trying to do it in oral or sublingual way or maybe in the form of I would say a patch or a topical way. So, the new drug delivery is something which really excites us, and we are quite deep into it from the last three to four years and that asset of us will be used not only for our anti-infective market but also for pain and it is also cardiac and other issues also. Coming to an NCE, NCE would be in the form of some innovation which we come in the form of biologicals like we are talking about new form of Botulinum Toxin or we are talking about a new form of drug which is going to be used for peptide there is much more in that but NDDA is something which is much more aggressive but NCE has its own investment, has its own clinical trial journey which as of now apart from biologicals or maybe vaccines down the line we are not interested in. so, biologicals, toxins and vaccines are something where we will try to focus and get some new technology in which is core to our DNA as biotechnology company eventually and that is where we foresee our growth coming in.

Keshav Kumar: My second question would be, we have foraying into RDNM, and I wanted to understand like what is the significance in Gufic's scope of work?

Pranav Choksi: Can you ask me the question again is we foraying into RDNM as Gufic or as the world?

Keshav Kumar: In Gufic's scope of work I am trying to understand the significance, I mean is it that we are looking any source four to five years into getting to more complex long chain molecules basically touching back on what you said in the last call also, that you look for low hanging fruits when you foray into high space, is that initially we will build capabilities or working on smaller simpler molecules but then externally moving to more complex ones?

Pranav Choksi: What I understand from your question, yes we are definitely getting into like I said biological toxins and something to do with vaccines eventually something which attracts us which has because of the core competency which we have clicked in with our association with Dr. Balram Singh in United States, so those are something which we are deeply getting into and in terms of new innovative low hanging fruits what I was referring towards mostly that you have like a Depo injection which is right now in the form of injectable but you want something ready to use and then you want a direct PFS system being set in. so, those are those low hanging fruits where we have just come up with a new drug delivery system option which makes the patient compliance very amplified. So, you have rightly said that those things are going side by side along with these high-end things which will actually see

the light of the day maybe in four to five years because the entire regulatory cycle is so unique, and we also try to do it in multiple countries for one of the molecules down the line which will get us better traction.

Keshav Kumar: Thanks a lot. All the best for the quarter.

Moderator: Thank you. The next question is from the line of Gurudutt Kamat an individual Investor. Please go ahead.

Gurudutt Kamat: Thank you and wonderful set of numbers, Pranav Bhai. I am having been associated with Gufic I can see the good growth trajectory coming on a fast track also. Couple of questions Pranav Bhai in terms of the Botulinum Toxin in terms of short-term how is it coming up in terms of the monthly revenue if at all you can diverse if not maybe talk in terms of percentage numbers. Secondly, what will be the potential maybe two year three years down the line because it has lots of applications as you have told and you guys are also looking at and the third one is just wanted to know about Penem how is the whole landscape looking like not much of information who are the competitors, what are the margin profiles and what are your thoughts why are you looking at that particular area and what is that overall thing looking at from again two to three years perspective?

Pranav Choksi: Sure Mr. Kamat thank you. Answering your first question the Botulinum Toxin was launched in February and right now we will launch in the Amsterdam division and there we have seen the first three months it became three times and then two times and now on an average we see 1.5 times the last month happening. But we are very like I said keeping in mind the entire international market I was just talking to my sales team two days ago when we had the review of the last month the international market of any product would always reflect in the Indian market, so Botulinum Toxin is one such unique thing where international market is being around $6.5 billion and in India, we are looking only at Rs.120 Crores. So, $6.5 million US Dollars versus in Indian market of Rs.120 Crores is a big difference and what we foresee and like I said always for us getting the market built would be more important for us and if you ask my appetite I feel we have been going on okay in AESTHADERM with the brand name right Stunnox which is launched in AESTHADERM and now with Garbot coming in from 1st January 2023 we will foray in to the medical use also where you rightly said there are lot of applications opening up. So, keeping those in mind I foresee that from a zero we can maybe bring it to close to our size where eventually this molecule itself has a potential to become X percentage of the total Gufic revenue. Now, I am trying to control my words and numbers because I do not know how much I am allowed to talk about it, but I foresee a big chunk of my revenues going forward maybe I am sure in India but of course definitely in the next three years when we enter the international

market should be governed by Botulinum Toxin and also its new addition which will come in the next two to three years. So, I am quite excited, but it is not going to be an easy journey specially in India where we have to create and build the market, create more prescribers, teach people I would not say teach but I would say medically educate a lot of the uses why to use it and why it is the drug of choice for certain indications where there is no other option available. We are going to set up training centres we are already are in the process of having advisory committees; we already have planned now because COVID has gone down. I think these were plans of last year but now we will be implementing it where we will have experts coming in from Germany, form United States and also from UK and we are planning in the first quarter of calendar 2023 i. e. from January to March and then from April to June in the second quarter where they will come and we creating training centres and they will be presenting how this product can be used for certain indications where our Indian population might not be even aware about and I think we have enough experts here in India also I know for a fact so many doctors who have done so much amazing work in Botulinum Toxin applications also the only problem what they have is that how do they educate the patient that there is the solution available here and they can come and approach to the doctor for the same. So, that is the role which we want to play we want the patients who have these conditions, but they do not know where to go to be connected to these doctors and that entire operation of us which I am sure will be back braking that we will tell we have lot of rewards waiting for us down the line. So, the growth which we have seen in AESTHADERM which is already a well-established thing, and everyone knows about it I am sure once we get into the area where lot of awareness and connections are required, I am sure we will gallop much further. Answering your question on Penem, the reason we are getting into Penem is because it complements our current basket very well, we are currently already in Penems where we outsource the product and now, we have reached to such a critical mass in terms of our revenue for India that we want back end that up with our own production line so we can be risk free of supplies and we really have a back-to-back end connected. Also, when we take our products international like I was just explaining to Mr. Keshav earlier that when we go to any other country and we want to market our products they always ask for the entire spectrum, entire basket of products coming and that is where we feel our anti-infective space will be incomplete if we cannot offer the Penem markets and Meropenem and Piperacillin/Tazobactam also coming in. So, with this new unit coming at mostly by January and then with of course the bigger unit coming in at Indore after one and half year we foresee that we will be a serious manufacturing and strong partner for Penem also for many good companies around the world and especially for our own front-end marketing also we will be a good support for us. Penem is interesting for us also because we also have some new drug delivery system is coming plus some new launches coming for certain APIs which we are working on which

will be first time in India in terms of the combinations along with the current Penem which are approved. That is why it makes strategic sense for us to get into this and also be independent of any outsourcing.

Gurudutt Kamat: Thanks Pranav Bhai. Just the margin profile of this these are higher margin products?

Pranav Choksi: Gurudutt Ji what I am earning right now I am sure when make it in all I will earn maybe 10% more which will make my factory free in the next two and a half years. So, at least that is what is pushing me through.

Gurudutt Kamat: Just couple of things which is more around COVID situation are we still supplying the black fungus product and the Remdesivir product in the market, is that still going on or has it come down?

Pranav Choksi: It has come down drastically from July itself, June end only it has come down. Black fungus was still there somewhat in July, but it came and just went out fast and I think Government of India did a wonderful job where lot of import was done of course we played some role in June end then somewhat till mid of July in that space. But otherwise, I have seen that the control done by the government is quite good we do not see so many cases happening up in terms of black fungus anymore and of course COVID as you all know from June mid it has gone down still of course there is some trickling in happening but it is very negligible as compared to the overall space which we foresee might not be even 2% to 3% or this quarter might be even 3% or 4% only.

Gurudutt Kamat: Fair enough. Thanks a lot Pranav Bhai and all the best for future. Thanks for your answers.

Moderator: Thank you. The next question is from the line of Deep Master from One Up Financial Consultants. Please go ahead.

Deep Master: Pranav and team and congratulations on great set of numbers. I know you have answered this question a bit on the margins, but I just wanted to get some more clarity on the same. It seems like the hit on the gross margins also may have limited your margin expansion this quarter, is that more a function of the mix of sales or was there some impact on raw material which could rates going forward and help in margin expansion over the next couple of quarters?

Pranav Choksi: First of all, thank you Deep Bhai for your question and some impact the third quarter much more than what we saw in the second quarter. But like I said there are lot of development to my validation which we have taken up because as soon as the Remdesivir pressure went in

the month of June and July we started lot of validation batches which were kept on hold for the other market going forward. So, almost you can imagine from once the first wave came and the second wave came lot of our capacities were blocked into these Remdesivir and Lipoampho. So, as and when we got an opportunity we got certain product baskets three bathes taken and validation is done and that is the reason that has impacted the gross margin while the consumption which has already been done for these products going forward and which you see a quarter where suddenly we have pushed in as many batches required for R&D and formulation development as well as we have like I said the Penem coming in in the month of December so in our validation or a pilot plant we already have taken a lot of batches or Penem also in this second quarter by the time launch time comes maybe in April 2023 we have around six to nine months data available which will be required for submission to DCGI. Just to go back to the API rates we do not foresee much hit to be there in the second quarter but in the third quarter there are some hit but that has been also being taken care of by some price rise. So, I would still say maybe 2% margins might be hit with a still substantial and significant, but the majority of the hit is because of the other factors of R&D and dossiers and all that.

Deep Master: Understood and that as you said is more a function of scale so as get to gain more scale in individual products and gain size and I guess penetrate deeper into some of these markets that should begin to normalize as a percentage of your sales?

Pranav Choksi: Absolutely that is true because that should happen up from till the normal progression of margins would go up as we have shown in the last two years. Like I said till next year you will see this increase will happen 1% to 2% only. Once the Indore factor comes in and the scale goes to the different level in terms of revenue also, so with the Indore coming along with the Navsari going to full fledge and of course our export market clicking in we foresee that is where you will see the big jump which we all are waiting for.

Deep Master: In the mix of business that is more focus on the injectables would there be anything that would limit your margins to mimic what other larger companies would do in the injectables business, some of the larger companies do high 20's or sometimes even low 30's in terms of EBITDA margins in the injectables business?

Pranav Choksi: Absolutely and that is something which we clearly look into like I said, and you rightly said and that is thing actually I want to bring the point up also when they asked me earlier that injectable market is not as cost erosion due or as commodities that what people simply see. We are not aminoglycosides, or we are not a normal generic player in terms injectables otherwise we would be just analyzing where the scale we would not go up. So, like you said eventually when you see us, and I have been following lightly low-down good companies

also in the market who have evolved in the last ten year they have at least been to gland be one of biggest and best one. The geographic connection with the product basket which we offer is always pushing and propelling us towards that level of 20 to 30 which eventually I am sure we will achieve.

Deep Master: Great that is very heartening. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Dinesh Shah and individual Investor. Please go ahead.

Dinesh Shah: Thank you for taking my questions. Pranav Bhai I just wanted to know what is the current spare capacity in our plant that is my first question, and second question is when will be the commercialization of the plant-3 and plant-4?

Pranav Choksi: Dinesh Bhai first of all thank you for your question. I hope when you say individual person I hope if you are looking for some extra capacity you can directly contact us, we are more than happy to take up your request. Answering your question specifically with the Remdesivir and the Lipoampho being little bit down we have at least 15% - 20% capacity going in but what we foresee that with Brazil, Russia, Canada coming in that might be affected that is why we actually preponed some machinery to December–January and I think in the month of January we are going to add another 500, 1000 vials per month capacity with a two more lyophilized lines coming in Navsari itself. So, first we thought that the Indore project that is plant-3 and 4 just to tell you the Indore project is now known as Alpha, Beta, Gamma because Alpha is Lyo, Beta is Betalactum Penem plant and Gamma is R&D block there so they will be operational from around 2023 April worse come worse we have more aggressive time internally but I do not know lockdown and all that things might come up or might not come up. We foresee April 2023 for them to start kicking in terms of numbers. We foresee this five lack vial capacity from January should help us pull through till then and we first saw that these two Lyo plants might not be required in Navsari but because of this Indore project might take time and we foresee these other markets coming in I think we will be well placed till then with the new addition coming in Navsari in January.

Dinesh Shah: Thank you Pranav Bhai. All the best.

Moderator: Thank you. The next question is from the line of Apoorva Bandi an individual Investor. Please go ahead.

Apoorva Bandi: Thanks for the opportunity. As recently we have seen that US drug Amneal has acquired Puniska Health are there any plans for acquisitions like be the domestically or internationally are there any capex which we are doing?

Pranav Choksi: You are asking me if we want to buy something out, that is what you are asking me?

Apoorva Bandi: Yes.

Pranav Choksi: I do not know I think we are too small. You are asking me to create something is already going to be much cheaper than buying something which is more ready because we have our core competency and knowledge inside. So, I do not know much about the Amneal and Puniska deal I heard it is a good plant and we have spent a good amount of money and Amneal has a good front end there so I am sure will be a good fit. But what I just like to say that with the capacity which we are coming in Indore which will be much bigger than what all these companies have and I am sure I will doing with that much better price I heard somewhere in the newspaper again I do know if I am allowed to quote this or not but I heard somewhere it is set up for around Rs.700 Crores which I feel makes perfect sense for them but for me I cannot afford Rs.700 Crores because I know I can do it a much better price in that. So, for me I do not mind waiting for a year and half and creating something which will be much more efficient as per my control and as per my quality managing systems and I am sure I will be able to extract something about as per my potential much more. I always believe be it brands or be it infrastructure we are much better off to make it our own of course till opportunity comes where something which gives us immediate gratification in terms of some new heredity segment or some new technology or something new. Even if you see Botulinum Toxin was very easy for me to go and in license the product from Korea, China or somewhere else but why I went to US and when made the entire product from scratch in India was that I knew that I would get much better margins, I will get much better gross money to spend and create a market. If I were just in-licensing or buying something out I would have spent a lot of money and I would not have enough money to create that market in India. When we do something from scratch it always helps us to become more economically viable in the long run that is my opinion. I may be wrong. My thoughts might change once Roongtha Sir teaches me about something but as of now I do not think acquisition is the way forward for us in the next year but creating infrastructure is definitely the way forward for us in the next two to three years.

Dinesh Shah: Thank you. That is, it from my side.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question for today. I now hand the conference over to Ms Ami Shah for closing comments.

Ami Shah: Thank you everyone for joining this call. I hope we have clarified all your queries and in case there are any further queries that have remained unanswered today you can reach out to us. The contact details are provided on the last slide of the presentation uploaded on the website of the stock exchange and also on the website of the company. Thank you so much. Please stay safe and take care.

Moderator: Thank you. On behalf of Gufic Life Sciences Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.