



“Gufic Biosciences Limited Q1 FY22 Earnings Conference
Call”

August 12, 2021



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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY'2022 Earnings Conference Call of Gufic Biosciences Limited. As a reminder, all participants' lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note 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. Ami 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 Q1 FY'2022 Earning Conference Call of Gufic Biosciences Limited. I have with me Mr. Pranav Choksi -- Chief Executive Officer and Director; Mr. Devkinandan B. Roonghta – Chief Financial Officer; Mr. Nagesh Y -- Chief Operating Officer and Mr. Avik Das from 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'll begin the call with Opening Remarks from the management, 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 objectives, projections, expectations or any other events which might be forward-looking statements and are dependent on various factors and must be viewed in conjunction with the risks and uncertainties involved in our business. The Company assumes no responsibility to publicly update, amend, modify or revise any forward-looking statements based on any subsequent developments, new information or future events except as required by applicable laws. And I just would like to say that we are just new to earning conference call and we seek your apology in advance in case if we are unable to address your queries to your full satisfaction. However, our attempt is to be fully transparent in our disclosure and to enable the investor to get a clear picture of our Company.

I will now hand over the call to Mr. Avik for his Opening Remarks. Thank you, all. Over to you Mr. Avik.

Avik Das: Good evening, ladies and gentlemen. Thank you for your time. I hope everyone and your families are safe in these trying times. Just to begin, I'll give you all a brief overview of Gufic domestic formulations business. So as you all know in these trying times, Gufic has endeavored its level best to serve the nation and its people through life-saving and affordable medicines. Through the contract manufacturing division, Gufic ensured availability of COVID drugs and all medicines for the deadly black fungus. We continue to grow our various divisions, staying true to our underlying principle of leveraging our large manufacturing base and applying the art and science of lyophilization into new drug delivery systems.

A Quick Overview of our Domestic Business. MAT ranking for Gufic has continued its progression from March '21 till June '21, reaching a rank of 74 from 92. Gufic has emerged as

the fourth fastest growing Company amongst the top-100 pharma companies in India. This is as per the ORG IMS data that we received.

Criticare division via brands Immunocin Alpha, ULINAFIC, Guficap, Guficol, which was a very critical drug in the black fungus outbreak have contributed towards the domestic sales rise. A strategy is in place to sustain the momentum via well-defined plan to reinforce our growth within and beyond the ICU setup.

Healthcare division via brands of Immunocin, which is a herbal immunity booster and Goviro, which is a herbal antiviral, has created a niche in the market in these times.

Spark division which is focused on pediatrics and general physicians that started the year on target with the brand Gufidox which is antibacterial.

Ferticare and AESTHADERM faced a slight challenge in the lockdown and second wave of COVID-19 as these therapies took a backseat. Stunnox has been one of the most successful launches in the division and the brand has carved its niche in the aesthetic dermatology segment. The safety and efficacy of the product is excellent and well accepted. We are confident that the future prospects of Stunnox specially type-3 and the topical formulation which is in the pipeline, will be successful game changers in the segment of aesthetic dermatology.

Also, as the unlock phase continues, infertility business is making a strong comeback, which is in line with our expectation and experience from a previous unlock trends. Strategy going ahead is to launch some new drug delivery systems, transdermal products, oral hormones and synthetic hormones in the coming quarters. We believe there's a large unmet need for these products. This coupled with the revival in demand that we are witnessing in our existing product basket. We foresee a strong and buoyant runway for this division. We're already seeing healthy signs of it in the last couple of months. Moreover, with the insights of the medical fraternity, we have innovated prefilled syringes and are working on other new drug delivery systems, which make the patient administer the same in the comfort of their home, especially where travel needs to be avoided in these pandemic times, and is not encouraged for women who are undergoing pregnancy.

We've recently introduced a division to focus on the growing orthopedic and gynecological segment with products spread across segments like pain, infection, pregnancy and lactation and bone and muscle health. We've selected nutraceutical products, and certain NDDS products that receive that target the entire gamut of arthritis to tendinitis and basic pain management. We have received good response for the products from both patients and doctors. Given the niche area in which the division operates, with a well-defined and target product basket, we are fairly certain to attain our targets of this division as well.

We are one of the largest market share in Boswellia Serrata-based products through our flagship brand, Sallaki, which is part of our mass market product portfolio. We have realigned our business strategy for the division by planning a launch of specific new extensions for Sallaki in pain management. We have onboarding new leadership team to catalyze the business strategy as well. Apart from India, this product has been exported to Switzerland and Germany. There's a good demand for this product and we foresee a good runway of growth in these markets as well.

Our other products, like Lomocare and Gufinox which is mainly used for management of clots, and Amphotericin, which was used for black fungus have also aided our growth.

To summarize, we have a well-defined businesses with business divisions with more than 1,100 talented and driven field force. We have an excellent supply chain across the nation with 23 CFAs catering to the remotest cities. We have a solid marketing and distribution structure all around India, which has helped us establish ourselves as a national niche player by leveraging our product pipeline, and reach we aspire to become a national multi-specialty player within the next two to three years via affordable cutting edge innovation.

Now I'll hand over the call to Mr. Nagesh, who is our COO to give you all a brief about our Export, API, Contract Manufacturing and our Product Pipeline. Mr. Nagesh, over to you.

Nagesh Y:

Yes, good evening to everyone, and thank you so much, Avik. I would like to update on Export, Contract Manufacturing, API, R&D Set Up, Pipeline and New Projects. Exports took a hit in quarter due to the unprecedented Indian patient needs, and Gufic is being one of the largest manufacturers in the world of antifungal, antibacterial, antiviral, and other life-saving drugs. So, we committed our total capacities to Indian market demand in order to service our domestic healthcare system and from Europe, Southeast Asia, Africa and South America orders were de-prioritized; however, with ease of Indian demand, we will be catering to order buildup in the second quarter. We are happy to announce that we have received marketing authorizations for Vancomycin 500 mg and 1000 mg from Malaysia and Pantoprazole 40 mg, Vancomycin 500 mg and 1000 mg from Health Canada.

Our patented formulation of tigecycline to CNG injection received marketing authorization from Russia and South Africa. With this, tigecycline injection is now registered in three regulated markets, we also received a marketing authorization for Teicoplanin injection, 200 mg and 400 mg strength from Germany.

The high growth in contract manufacturing business has been driven by manufacturing of Remdesivir and Liposomal Amphotericin B, which were used for the COVID-19 as an antiviral and antifungal respectively.

Just I would like to update on API. To accelerate the API, research and development, we have started fully equipped state-of-the-art R&D facility in Navsari, Gujarat with a dedicated team of

scientists. The API R&D activities are focused on developing non-infringing novel cost-effective and scalable chemical process for APIs and peptides and cyclopeptides. The API developed are mainly used for in-house formulation development, and some of the APIs may be offered for the sale of domestic as well as for global markets. Currently, our API R&D is developing molecules in various therapeutic category like antifungal, anticoagulant, tetracycline antibiotics, Progestin, anti-diabetic and cyclopeptides.

We also foresee the API business to continue the targeted growth with increase of pipeline and also leaves all sorts of facilities.

I'd like to Update on Pipeline. Apart from the candidates of these 29, 426, IS6, Stunnox DO and DE, Gufic has invested a lot in the first quarter in raw material, developmental of these products, validation of these products and dossier preparation for certain new molecules which should have short term and long term significance in these testing times of pandemic and beyond.

I would like to hand over this session to Mr. Roonghta, our CFO to present the Financial.

Devkinandan B. Roonghta: Thank you, Nagesh ji. Good evening. I am D. B. Roonghta, CFO of the Company. I am just giving you a brief highlight of the Q1 of the Financial Year '21-22. I am making all the comparison with Q1 with the Q4 of 2021 because of the Q1 of 2021 was abnormal result due to COVID-19, the whole country was under lockdown till 17th May, all the comparable figure of Q1 of '21-22 versus Q4 of '20-21. The revenue from operation has been gone up from Rs.132 crores to Rs.251 crores. The main contribution for increasing the revenue is due to the sale of COVID-related products and medicines. The employee benefit expenses has been increased from Rs.17 crores to Rs.25 crores. The main reason for giving was the incentive to the sales employees for achieving the sales target and it was linked to sales target and therefore there will be increase in the incentives.

Other operating expenses has been increased from Rs. 26.00 crores to Rs. 32.00 crores. Main reason for increasing is the commission to C&F agent because of the increase in the transportation expenses. EBITDA has increased from Rs.24 crores to Rs.46 crores. EBITDA margin remain at the same level of Rs.18.5 crores. Profit before tax has been increased from Rs.13 crores to Rs.31 crores and PAT margin has increased from 10% to 12%.

Nagesh Y:

I would like to update on new facilities also. I missed that one. Actually globally, the antibiotics are valued at 40 billion and expected to grow at a CAGR of 4%. The market size is expected to reach almost \$57 billion by 2026. The global market of carbopenems is also expected to reach \$1.8 billion by 2029. So, the management has been approved to set up two manufacturing units; one is penem facility and second one is the general facility. For penem facility, two to three major players in India in carbopenem antibiotic that is one is Aurobindo and Gland. Now, we are setting up a plant with lyophilized facility of 3 million oral solid 30 million tablets and capsules and dry powder injections 30 million vials, apart from this, first time in India we are

setting up a new drug delivery system with dual chamber bags with 24 million IV bags. So currently, we are manufacturing general injectable lyophilized vial, 18 million vials in Unit-I and Unit-II 30 million vials and now we are setting up almost 36 million vials from the Unit-III. Currently, we are manufacturing prefilled syringes, almost 33 million prefilled syringes in Unit-I and Unit-2 and now we are setting up a capacity of 30 million prefilled syringes in Unit-3. Currently, we're manufacturing 12 million ampoule and we are expanding this one to 60 million units in Unit-3.

So to summarize this, currently, our capacities will increase in lyophilized facilities from 48 million to 84 million vials. In prefilled syringes 33 million prefilled syringes to 66 million prefilled syringes. Based on this current market scenario, we are expecting our trailing order book to be 1.5x of the total capacities.

Apart from this I would like to happy to tell you that about the marketing authorizations in regulated markets, we have the marketing authorizations in Germany for seven products, three marketing authorizations in Portugal and three marketing authorizations in Canada, South Africa one marketing authorization, Malaysia, three, Russia one and Colombia seven marketing authorizations. So we are thinking that for the future this new facility will add more and more marketing authorizations and export business.

I am handing over to our Executive Director.

Pranav Choksi:

Thank you, Avik, thank you Nagesh ji and thank you Roonghta sir. So before we go to the question and answer session, I just want to address some questions which has been asked to me and to the Company and I'm sure they would be having further questions going forward. So, the insight provided by Avik on domestic production we have and our products going forward, and couple that with the export registrations, which Nagesh ji just spoke about was in the last one and a half year and apart from that, we have around 120 registration already existing for the regulated market, we already believe that a capacity which we are investing right now should help us in this, I will take these requirements for these, I would say spurts going forward.

Also one more thing, the current domestic increase, which we have seen in the first quarter, I feel has also opened up another opportunity, I'm just putting the reference to what Dr. Reddy's, I would say, senior management also claimed. We have seen Indian domestic space open beyond what it was in the last few years and I feel that Indian domestic market, which is close around maybe US\$30- US\$35 billion, definitely is on a much higher growth trajectory. So, even in this capacity, which we are mentioning to you right now, if something else comes apart from the pandemic, we see a natural progression of sales happening much beyond the pandemic also. So, that's why the capacity which we have planned to invest in the future is the need of the hour for the Company, and which will be mostly taken care of by internal accruals, at the same time, we are keeping options open also debt going forward.

Also, like a lot of people telling us, “Is this COVID base top line, is this a COVID base bottom line?” So I would just like to elaborate on that also. COVID has definitely helped to push up maybe around 15% to 20% of the revenue what you see right now. But it doesn't mean that, this is something which is one-off and cannot be sustained in the future. We have our own road growth roadmaps in terms of divisions domestically. If you see the first quarter, we could not entertain or supply to any of our regulated markets or maybe we had short supply to a lot of markets, and there is a big bang in orders which we are trying to take care in this quarter. This coupled by the natural demand which will come up for infertility and for plan surgeries and for basic, I would say, ortho and gynecological procedures, we foresee that the growth can be sustained, I would not say in the years to come, but we hopefully with the capacity and inorganic growth which we have, by the end of the year we should have a sustainable sort of a business which complements the first quarter.

At the same time, I would like to add there is a component of again of around 15% to 20% which also goes away. But fungus varies slightly, was a phenomena which was of a maximum and a half, is mostly captured in the contract manufacturing, it has not contributed much I would say to the top line, but before black fungus Liposomal Amphotericin B has a great future as well in the international market also. So till now this last quarter has seen us to some extent, exert our strength and exert our ability in the domestic space. When this is complemented by the internet, at the same time the domestic market is going up for other I would say SBUs of the Company, we foresee sustainable growth for years to come, and I am sure this is not the quarter is isolation.

I think this is all I had to share for myself, already have given you a Company presentation in the last call about the financials. I will hand over to Vikram for Q&A.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. We have a first question from the line of Rohan Agarwal from Loop Capital. Please go ahead.

Rohan Agarwal: My question pertains to the Botulinum Toxin foray that we have planned. Can you just give us more color on where we stand right now on commercial production and any regulatory approvals that would be for?

Pranav Choksi: Sure. So first of all, thank you, Rohan. Like I said in the earlier quarter that Botulinum Toxin or Stunnox, which is a brand is a more, I would say, long-term **product** which of course has own, I would say, valuation and also expectation in terms of revenue. We have to answer your question specifically. We have launched the product in the month of February, where the name is Stunnox, it's a Type-A Botulinum Toxin which is a similar one, the Botox, which is in the market. So, we're the first Indian Company to actually collaborate with an American Company for the basic strain. And then we have engineered the finished formulations in-house here in India itself. And that has given us a lot of confidence. Like I said, April, May was a little bit challenging, but June onwards, the Botulinum Toxin has shown almost doubling up every month

in terms of sale. However, very small, by say, the contribution to Botulinum Toxin as of now cannot be even below single digit percentages. But the scalability is something which we attract such towards this business because we have a land of a new analog, which is type-B which is going to be first time in the world, again, with a collaboration with Dr. Balram Singh from United States where he holds the patent for the same. So using his basic strength in the engineering and using our strength in formulations development, we're going to come up with a set of pipeline of these different analogs and topical options of Botulinum Toxin which makes the entire drug much more patient-friendly, cost effective, and also gives solutions which also like to give you a little bit of a technical ally, type-A is something which touch the nervous system for a period of four to six months. We're working on something which can lock the nervous system only for a month, which can be used in some sports injuries, which can be used in some other neurological conditions also. And then also we are working with the topical application also. There are certain things where patients are averse, injection or there are certain things where you'd want a minimum dose to be applied on certain areas, there is a topical option. Just to summarize, we have heavy expectation, keeping in mind \$6.5 to \$7 billion international market and currently, our focus is mostly on India. In the next two years, you might see the Company once we have enough critical mass in India to foray into the, I would say, the international market also.

Moderator: Thank you. We have next question from the line of Ashutosh Garud from Ocean Tile AMC. Please go ahead.

Ashutosh Garud: First, I wanted to understand the operating aspect of your business, because if we see the top line has moved up quite sharply from QoQ basis as well. But your other expenses and your employee expenses have also gone up in a similar proportion and your EBITDA margins have been same QoQ basis. So could you explain how this works? Is that the variable component so high in these cases, or do you think if we have these kind of top lines, then our operating leverage will kick in and our margins can be much better going ahead?

Pranav Choksi: I'm sure Roonghta sir will contribute to this first and I'll just add on later.

Devkinandan B. Roonghta: Employee cost has been gone up because of the incentive has been given to the marketing employees for increasing the targets, it's like a variable expenses, whenever there is increase in the sale, the proportion automatically there will be increase in the incentive and it will lead to the sale target. Other operating expenses is basically commission given to the C&F agent as well as transportation costs, it is also like a variable cost, whenever there is increase in the top line, similar proportion, there will be increase in the operating expenses. But we feel that this quarter, we have done even lot of samples for COVID patients free of cost also, and there has been a lot of R&D expenses, the cost of goods may come down, the margin may improve from 18.69% to around 20%, but there have been increase in the top line, EBITDA margin will be in the range of around 30%.

Pranav Choksi:

And just to add, I think what perfectly said by Roonghta sir also, because if you see the gross margins have been affected by four major, I would say, things; one, of course, being the API cost going up because a lot of API which have been used for NCA, anti-infective are still sourced from China. And it didn't feel right at the same time, because of the NTPA in India, which is the price control in India, and apart from that we have our own commitment also to the hospitals, we did not increase our selling price to the market in the time of the pandemic even though the API price in some products, I would say, have skyrocketed. And that's one of the reasons we have started our own API R&D, where we can actually back end to most of our sourced products from China, which might still take a year, year and a half for scale up, but we should be there at least, where we feel around 60% of the API should be either made in India or out of that maybe at least 30% of what we consume, should be made by us keeping in mind not only the domestic market, but because of a commitment to the export market also. Rightly said by Roonghta sir, it was also required by us and that's what we decided by management and everyone. A lot of free goods of these pandemic were given as a part of that and that is a substantial amount which is added in the consumption. Apart from that, we also have seen that the export sale in this quarter was almost very less because all our capacities had to be diverted to the domestic market. So that naturally also brings a little bit of a reduction in the percentage going forward. So going forward, when the export starts kicking in, the domestic market product mix of infertility AESTHADERM also kicks in, which is of course, much higher margin plus of course our operating leverage kicks in, we expect the margins to be better in times to come.

Ashutosh Garud:

I had a follow up. So, if I look at your gross block it has almost doubled in last two years. What is the kind of utilization levels we have in the new capacities which have come up? And if I understand correctly, out of this 250 crores if you're saying 15%, 20% is related to COVID. So even if we take Rs.200 crores kind of a top line run rate, what is the scope, where it can even go up to what kind of a quarterly run rate are you targeting, reaching given the gross block doubling?

Pranav Choksi:

So one of the major reasons for the gross block doubling is the merger, which is the Gufic Lifesciences was merged into Gufic Biosciences. And that's the main impact that has come. Apart from that, we have added one more separate lyophilization line in the year 2020-2021, which has helped us to take care of this Remdesivir for the domestic market. So if you see most of the revenues, which you see are right now on the loan license front for certain COVID drugs, that's why I mentioned it's around 15%, 20% of the current revenue. To sustain our growth forward, I think this is what Nagesh bhai also explained beautifully that the Canadian, the Russia, the South Africa, I'm just naming four or five countries but all these markets have still not even started and the Brazil for that matter. So when these things start coming in and the current domestic market push which we have plus the existing German market which is reacting to us along with the Southeast Asian markets, we feel that we are going to be 1.5 times our order books.... currently, we already at 1.5 times, we foresee this order to be over-leveraged by almost 1.5 times till December, and that's what the need is to come up with a new facility going forward. In terms of revenue, as we say that we always had planned a 15% minimum year-over-year thing

going forward. However, of course, this year has been, I would say, a little bit on the positive side because of this COVID. But however, it has also opened a lot of avenues by which we have got fast track approvals for certain international markets apart from new launches in Indian market. So hence, we feel all these factors put together, maybe 15%-plus revenue growth year-over-year on the combined entity is something which we minimum expect out of us in the next few years.

Ashutosh Garud: What is your export percentage in revenue?

Pranav Choksi: So currently, the export percentage is around 22% to 25%, which we hope that this year with the normal thing should start come to around 30%.

Moderator: We have next question from the line of Chetan Phalke from Alpha Invesco, please go ahead.

Chetan Phalke: Sir, I was just looking at our previous numbers also, I mean, our employee costs which used to be less than Rs.5 crores, today we are sitting a run rate of almost Rs.25 crores per quarter, and I'm talking about 2013 to 2021, and we have also increased our revenue from 100-odd crores to 500-odd crores, so, phenomenal growth over the last seven eight years. Would like to understand now, what next, I mean, what is the peak revenue that we can hit from our existing capacities, one? Second, if I look at the capacity addition plants on our lyophilized vials in Unit-3 we're adding 36 million units over there per annum, we are also adding for the 3 million liquid injections capacity and penems and everything. So, what kind of revenue or peak revenue that we can expect post this expansion, that is being put out in the presentation and what kind of capital which is required for this CAPEX?

Pranav Choksi: So, first of all, thank you for your questions. As you know, we mentioned that if you see the increase in employees and the revenues already was planned, because of the organic marketing launch which we did in 2015, where we entered the Indian domestic space, then we suddenly went from 100-odd to almost now close to 850, 900-odd people and hence, we see that the expansion of the team in the last few years have not been as much which has happened in the three years before, but there we are already getting some operating leverage and we're getting the economy of scale, which is eventually helping the margin improvement also. So, answering your next question that, yes, the next growth drivers or the revenue drivers would be these new international markets opening up, taking more market share, not only the Indian space, but also in the regulated and the semi-regulated space, also come up with pipelines consistently for the next I would say three to five years, we already have a plan set and now we are looking at subjects beyond the sixth year onwards, because there are some products which are low hanging fruits, we just need to have basic testing and stability done and there are some things we need clinical data, we need clinical trials and we need the entire jingbang Phase-3, Phase-4 also. So, in a pharma industry, no one can actually tell you this is the thing, which is going to be true, right. We always work on maybe 10 things and maybe if three of them work now, we are more than happy and we more than cross our basic target. But again, I will not give you any specific

numbers, but all I can say is that minimum 15% year-on-year growth is what we expect with this capacity expansion pipelines, increasing of market share, opening operating leverage, because of the existing field force, which we have and the new dossiers we have going in. Just to give an example, in the first quarter we saw some avenue of cash flows coming in, and hence, we immediately started to work on certain products, which were low hanging fruits, which got us the traction in the first quarter and will get us some traction in the second quarter also, which are part of COVID or some which are beyond COVID also. Coming to it might be Navsari or it might be some other place in India, where these two Unit-3s and Unit-4s which will be coming in, they will help us to take care of the future growth because again we are international contract manufacturing as well as a marketing Company. So we foresee a lot of our avenues either will be pitted in bottom line or some of them will be reflected in top line when we have either an LL or direct sales option also. So, to say, the nutshell, 15% year-over-year is minimum what we expect and beyond, and all these factors combined can help us for sure. Regarding CAPEX, we are expecting in this year alone would be around 120 to 130 crores. If you foresee our cash flow for the last two years, we already have paid up a big chunk of our debt. Of course, there has been a positive cash flow coming in and that's one of the reasons that we have preponed our CAPEX plan from next year to this year also, because our order book is also increasing at a much faster pace and we have to be ready. So, we're looking at 120 crores to 130 crores CAPEX in this year alone, which will be taken care of by internal accruals, yesterday it was presented to the board also and at the same time, we are keeping some option of debt also if some other opportunity comes up because we are also working on product dossiers and new product development and R&D for which also there will be some cash flows required. So, a combination of internal accruals with some part in debt is the way forward for this new infrastructure expansion.

Chetan Phalke: And we will complete the entire Unit-3, Unit-4 this year itself by spending Rs.100 crores?

Pranav Choksi: No, it will be in the next one month depending on how the board approvals and everything is going on and we should be in a position of commercialization by Q3 next year.

Chetan Phalke: Total CAPEX for the next three years will be more than 120, 130-odd crores or....?

Pranav Choksi: Yes, mostly we are trying to become as efficient using internal cash flows, and whenever if there's an opportunity, which is much beyond that, then also debt is always an option which we have keeping in mind the current....

Chetan Phalke: Basically, I'm just trying to understand to complete the entire CAPEX plan which has been laid out in the presentation, how much money do we need, that's what I want to understand and how much time it will take?

Pranav Choksi: Like I said, cash flow for the next year should take care of it, if needed, little bit of debt will be required and it should be in the next 12 to 14 months. For Phase-3, board have not taken decision, it will be too early for me to comment on anything.

- Chetan Phalke:** What will be the next leg of growth, I mean, which are products from where it can come in, I mean, hormone injections, depot injections, or any other products that you see, which can really change the course for the Company?
- Pranav Choksi:** Again, I'm saying we are working on some of anti-infective, cardiac, infertility and hormones, and also aesthaderm and these toxins and we are also working on certain of our pipeline, it's going to be a quandary call, but Yes, I would say in terms of products pipeline, it will be mostly in injectables and new drug delivery systems surrounding injectables and lyophilization should be the growth drivers for us in the years to come.
- Moderator:** We have next question from the line of Ishita from Ashika Stock Broking. Please go ahead.
- Ishita:** Just to go back to Amphotericin, you mentioned 15%. 20% top line, and you mentioned that market beyond COVID for Amphotericin. Can you please shed some light on that? That's my first question. My second is, is it right to assume that Stunnox sales as of now are negligible or do we have something?
- Pranav Choksi:** So I'll start with the last question. How are you Ashita? Thank you for your questions. So, you're right that Stunnox are right now negligible as compared to the other brands, which we have of course, but we are expecting a much better trajectory in terms of growth, because of the uniqueness which we offer and also the market presence whether limited or almost, less competition. Amphotericin is a drug specifically for black fungus otherwise, apart from Amphotericin, there have been many drugs which we have worked on, which have aided in that 15%, 20%. So, again, I would say that 15%, 20% is not only Amphotericin, but a combination of COVID drugs and Amphotericin B also. Going forward, beyond that, we have certain product pipelines, which will sustain beyond COVID because they are used not only for the purpose of black fungus, but a lot of candida species and a lot of other species going forward, you require the use of lipo, ampho along with other kind of candid like Caspofungin, Micafungin, Anidulafungin where we are the major or the biggest manufacturer of not only formulation, but also API. So this is where I feel the sustenance of the business will be much beyond the COVID. And that's why I have my confidence. And like I said, Stunnox is negligible right now, but will have a better trajectory, because of the roadmap, it's very unique.
- Ishita:** Just a follow up, I understand that there are a lot of species that can be targeted from these antifungals. But do we have a number on how large the market is even including outside India?
- Pranav Choksi:** Yes, the countries where we are targeting and the Indian market, of course, we have our numbers, which has been given to us by certain estimates of, I would say, search agencies or whatever, IMS data and all that and based on that, we go ahead with the projections.
- Ishita:** Do we have a number?

Pranav Choksi: Yes, it will change but as of a year ago, which I remember, close to around Rs.300 to Rs.500 crores in the market where we are looking for, I'm saying these are all infective.

Ishita: And do we have any plans to enter US or are we just not touching that regulated market yet?

Pranav Choksi: No, very frankly, there has been some push from certain people as a contract manufacturing for US. But I have always maintained that for a Company of our **size** where our focus on a pipeline is we like to be a little bit well spread in other countries first, before we even think about United States. So maybe a contract manufacturing opportunity for the United States might be welcome in the future. As of now, we will be mostly outside the US at least for the next two years according to me. With time anything can happen.

Moderator: We have next question from the line of Surabhi Saraogi from SMIFS Capital Markets. Please go ahead.

Surabhi Saraogi: My first question is that your CritiCare and contract manufacturing division has registered high growth this quarter driven by COVID-19 medicine. So, can you give some comments on the sustainability of that?

Pranav Choksi: Sure. So, like I said, contract manufacturing of the COVID drugs and I would say black fungal drugs have taken a seed, but there are other drugs beyond COVID have in terms of drugs for plants or trees for other species of fungus or they are used in certain other medical therapies also. So that's why I feel that maybe apart from the 15%, 20% which may be the extra push which might have come, there are other opportunities which might still sustain and keeping in mind the growth in the Indian market, which we asked or which happened organically, I feel they will be quite okay to sustain but on a new pipeline of drugs entering every quarter by Gufic, we are fine, I think the sustenance should be okay in the CritiCare space as well as the contract manufacturing space also.

Surabhi Saraogi: My next question is regarding your recent successful launch of Stunnox. Can you quantify the amount of sales this quarter?

Pranav Choksi: This quarter numbers I cannot quantify because like I said from June, July onwards, the doubling has happened, but hopefully in the next quarter, I can give you some indication where the actual thing comes up.

Moderator: The next question is from the line of Kushal Shah from Motilal Oswal Financial Services. Please go ahead

Kushal Shah: Sir, what would be our penetration into the domestic market, like how much can we grow, what kind of views you have, what would be the headcount to grow in terms of area, regional coverage and MR strength with current products?

Pranav Choksi:

I believe it's mostly for the Indian market, right, this question, as of now. So, in terms of CritiCare, I will just give an example, I can go division by which gives you a little bit of an insight, so, CritiCare market till now was mostly focused on the secondary and the tertiary hospitals, then we realized that there is a separate I would say, antifungal taskforce required which took care of certain hematologist, certain, I would say, oncologist which also takes antifungal because all the patients really going through chemotherapy or have immunosuppress going also same time. Criticare has given birth to a Microcare division, which is focused on antifungal products specifically, then it also has given birth to a prime market division. So that's prime division is also a division which is catering to the Class-B centers and Class-C centers of India, where we see a big penetration coming in. I was very impressed when I was going to my factory last couple of months, a big hospital, Nirali Hospital has come up when you just enter Navsari which is headed by L&T Naik saab. And there you see a lot of penetration not like that we have seen in different parts of India, where the CritiCare space actually moved beyond the major A-towns to B-towns and C-towns. And this penetration can be further aided by the prime care division accessibility of high end medicines at much affordable costs. And that should be a good growth driver going forward. Apart from the infertility, we have just started around four years ago, where we have focused on basic conventional products and lyophilized products with a prefilled syringes and ready to use patches, the gels coming in, we see a lot of therapies, which are much more convenient for the patient to administer in their own house been closed by registered medical practitioner. So we foresee a sort of divisions and different specialties coming in, this will help us to answer certain unmet needs in terms of penetration. Penetration might get saturated in some areas of the major class, A-town, which can be further grown by adding new molecules, and by adding new drug delivery systems whereas there will be new geographies opening up like I mentioned, the Class-B and Class-C in CritiCare.

Kushal Shah:

So I just want to know, how has this strategy changed over the last four or five years, like how our vision has changed. Because at that point of time, I was very clear you were articulating what the Company is going to stand for and what we are doing. So if you can shed some light on that part?

Pranav Choksi:

Vision and the growth drivers are still the same. Thank you for meeting me five years ago, and believing in me. Just coming back, if you met me that time also, I was saying that, this Indian market, and the Europe market along with the semi-regulated market for the way for us, I'm not interested to go to US and Japan for the time being. If you ask me right now, I still feel we are two years, three years away from that market, because we all have our friends. And luckily, our current channels and avenues are giving us enough opportunity to grow and expand, and we don't need to go to the US and the Japan market right now at the same time certain of my clients who have their big contracts with me, are pushing me to become a contract manufacturer for the American market. Because they can also amortize the same basket into a US and Europe market or the US and Brazil market, which like I said, so again, if you ask me, for me to file my own ANDA into US, might be still not our plan at the time being, but we might enter in the next two

to three years with, let's say, have we also become more risk, I think we know also that we can handle a risk, and we can handle that bandwidth also. We have a big team who is a part of our current growth effort and they also give us a lot of confidence internally, let's go and try for certain markets, which may have seemed alien for us some time ago. So that's the reason I again, say for we have enough opportunities in the market, which we have started around five, six years ago. But if an opportunity comes up, which is too difficult for us to say no and it's too lucrative for us to say no, and I know that my team will back me up and we all are there and we already here, we will not turn away that opportunity. So that is the only thing which has changed. Nothing else has changed otherwise.

Kushal Shah: Sir, if you were to say for next few three years, top five focus geographies for the export market how would you go?

Pranav Choksi: It would be Southeast Asia, Brazil and South America, Russia would be part of that thing. So Yes, that is what I would say.

Moderator: Thank you. We have next question from the line of Aman Vij from Astute Investment Management. Please go ahead.

Aman Vij: My first question is if you can give the breakup of the core business success, sale for Q1 and maybe for Q4 also and then subdivide it into India basically you like to explain it in AGM that will be helpful?

Pranav Choksi: You mean, the domestic contracting export on API?

Aman Vij: Yes, first is that and then obviously, you also used to give further breakup of the domestic we have six, seven segments now.

Pranav Choksi: Yes. Please excuse me today for the domestic breakup will be with me on hand, but of course I will hand it to you when your query comes. Coming back to the four space, only for this quarter, there has been little of a deviation, the domestic space, which was earlier having the majority has given a bunch more, because the exports, we could not cater because our capacities have been diverted to the domestic space. So, I would say, the contract manufacturing has grown by around 15% to 20%. The domestic space has a bigger chunk of the export. So that is now higher side around 70 for this quarter specifically. API this quarter it has gone down to 6% to 7%, because of the specific other combinations going on. So, exports, I'm saying year-on-year we might see the percentage becoming consistent, or maybe exports like I said will be increasing eventually and growing, at the same time, the domestic space also will increase.

Aman Vij: One suggestion, and then I'll move to second question. Maybe you can include these numbers in the presentation itself because...

- Pranav Choksi:** Good suggestion. Definitely.
- Aman Vij:** You expect this export to come back in second quarter, or it will take say third quarter to start coming back?
- Pranav Choksi:** The second quarter has already been initiated from mid-July, because we got a little bit of capacities free from mid-July. So I feel second quarter should see a good jump. And then of course third quarter has his own organic. We already are expecting Canada, Brazil and Russia orders anyway, they've already come and we're catering them from October onwards. So, I foresee the thing to come back by second quarter itself.
- Aman Vij:** My second question is basically on the capacity. So, you said, we will be doing 120 crores CAPEX. So, just to get this further, so, we already have Rs.100 crores of say net block, which is Unit-1 and Unit-2 and we are already achieving a sale of you can say Rs.200 crores, if I'm removing Rs.50 crores of COVID sales quarterly run rate. So, if you can explain and then give some timelines also like Unit-3, Unit-4 combined is Rs.120 crores or we will require maybe 30, 40 crores more or is it Rs.100 crores per year you are targeting CAPEX and what will be the peak sales from these two units?
- Pranav Choksi:** Okay, I would say that the 120 to 130 crores is the cost of both the Unit-3 and Unit-4 combined. Of course, I'm not counting the land cost as a part of this, so land cost will be Apart from this, this is the plant machinery and basic building. I mean, it will be very difficult for me to give you any numbers of the revenue. But of course, just to give you a hint about that, that we are creating a capacity in this Unit-3 which will be a combined capacity of Unit-1 and Unit-2, so that is the scale up which we are doing and apart from that we are adding some other lines also drug delivery systems. The penem of course comes with its own I would say opportunity because currently in the Indian domestic space we have our penem products which are outsourced. So a lot of that outsource markets will come back in-house which will make our margins improved, at the same time because it's a cut-throat, it's a commodity type of product line. The differentiation will come because we come up with a new drug delivery system of these penems, which will be the game changer for us in the years to come. Maybe over time, like I mentioned, both these blocks would be ready by Q3 2023, that is next year, September to December we see the commercialization happening from these blocks and they definitely will be the next growth drivers going forward. If you put me on a gunpoint and like I said all this will eventually contribute to the 15 year-on-year minimum growth what we expect.
- Moderator:** Your next question from the line of Runjhun Jain from Nirmal Bang. Please go ahead.
- Runjhun Jain:** Sorry, I am new to the Company, so if my questions are very basic, pardon me sir. You have said that COVID contributed to 15-20% growth of Q1 sales.
- Pranav Choksi:** Yes, of the quarter sales, 15% to 20% have been this COVID drug.

Runjhun Jain: So if I remove that and what you said that 15% for the year, then the quarterly run rate for the next nine months comes very low. So is it something very conservative, or is it something because you taper down because of the COVID portfolio going away?

Pranav Choksi: So again, I say that 15% is the bare minimum which I'm saying, of course, this year will be beyond that 15% because of this first quarter and other growth factors which we have, I agree with you. So yes, this year, it might be much more than 15%. But I'm saying because the base of this year will be a little bit higher as compared to the last year, in the future years too we are at least targeting and planning something that we have a 15% minimum growth beyond this year also, that is where all these efforts are going in. So COVID being there or COVID not being there, we should have enough avenues by which we sustain on a 15% year-over-year after this year.

Runjhun Jain: One more on the financial side we actually gone into different side for the sales and the margin from last year second quarter, September quarter onwards, is it because of the combined merger of the Gufic Biosciences and Gufic Lifesciences or something because of COVID impact?

Pranav Choksi: So if you see, it's not I think per se due to COVID. If you follow the Company in the last five, six years, a lot of efforts have been gone in terms of expansion of capacity, number two expansion of a presence in the domestic space, number three exploration of a product pipeline and also an expansion of like I said, geography is coming in and new markets opening up. So, all these factors had some time had to evolve in terms of the basic revenue. So, what we have seen in the last I would say one year or maybe last nine months to 12 months is that a lot of things have started now opening up and clicking for us where all these efforts have been put in from 2015 '16, '17 onwards. New market, new opportunity comes in, the German market has been also very kind to us and we have got a good market share. So, different, different avenues, I will not put it to one way, but like I said putting COVID aside we are quite, I will set my own time to take it beyond and COVID just came as an additional help which helped us with cash flow by which we can further tune our future growth prospects with this new investment going forward.

Moderator: We take the last question on the line of Keshav from RaxSan Investors. Please go ahead.

Keshav: So my first question is that you've been doing R&D and are also ready to commercialize three biological peptides this financial year. So peptide and biologics is a niche space and we don't see a lot of small size players here. Even other products like Botulinum Toxin position given a differently product wise from most similar sized, and even more mature players. So I would first like to understand your vision in the medium term for all the niche complex molecules in the pipeline, I would love to know your experience of why it is such a difficult space to enter the challenges and what sets you apart from the other players?

Pranav Choksi:

So Keshav, a very good question. So I'll just give you a little background about me. I am a B.Pharm from University of Mumbai and then I did my M.Sc in Biotechnology from Johns Hopkins. So I came back to India... and I'll just take a minute or two of you to explain why this mindset has come with my team is we realize that with the size which we have, if we try to go in the conventional way or in the generic way, it's going to be good at that, you can have that huge factory and so much I would say money also to our resource available, when we started off there, we could go and do something much. This low hanging fruit in terms of injectable space, which gave us enough, I would say, impetus to create a mark there. Give you a little background, Gufic in terms of injectables is sort of a three-generation affair for us, so it's my grandfather, my father and myself, we all have been part of the process and we have somewhere I would say, not talking in a very arrogant way but in a very, I would say assured manner, we have created a small space for us in the injectable space, and we are quite confident of it going forward. If you come to the injectable space, apart from what else is the peptides going forward. And that way, we say there are certain low hanging fruits or certain things like instead of me to focus on 10 molecules of tablet, or 50 launches a year of random molecules, I would rather focus on limited candidates, which have a sort of long term, I would say, sustainability. So to put it in some way you have maybe a Paracetamol, but you also have maybe, Aspirin or you have maybe Indomethacin, or you have other combinations of painkillers. But when you talk about a Botulinum Toxin for the next 10,15 years, I don't foresee a new toxin coming and completely evading out Botulinum Toxin. We talk about certain hormonal peptides or certain immuno peptides or something. There are very few, I would say, new pipeline, which can come and completely offset the entire growth curve. So, if I take those candidates and I combine them with a new drug delivery system, which is a core competency of the Company, that is a way forward is something which makes me quite confident because I'm not good at other things. So let me just be good at what I am and my Company is, and we just try to explore and that that potential forward, and that makes us more confident of the results going forward.

Keshav:

Really heartening to hear that. Sir, my second question would be that we are also entering into penems and corporon is also expanding in the space apart from the two players you mentioned at the beginning of the call. So what is the opportunity size? Do we see competitive intensity going up for penems or how difficult is it for a new player to enter, and would it be more of an export-centric line for us in domestic?

Pranav Choksi:

I think a lot of all, because if you ask me only for the domestic space, would I have entered penem? Definitely not, I would still be much more happy to outsource than keep another part of my basket. The drug delivery system, which we are going to offer to the Indian market is number one reason. The number two reason is, of course, the export market where we go with these 20, 30 molecules, or now maybe 40, 50 molecules in the future. They say why don't you offer me this also, because as a buyer who's having a good business there, or we have our own marketing there, they also want the entire basket of life saving injectables and ICU-centric medicines happening together. So that gives us a second reason to get into that thing. Number three also,

domestically, we always feel that the operating leverage will be there going forward in terms of the economies of scale. So we are trying to get into things where we know that we will have an economic of scale and that buying power to make us always earn enough of margins, apart from the conventional one which we have. And so these three factors, the operating leverage, the export basket offering and also because of the new drug delivery systems makes a little bit different from other people getting into penem. And I am saying, yes, a lot of competition already there internationally, it's already there in India, but our vision is beyond just India and the conventional products, it's orals, its lyophilized, its new bags, dual chamber bags, and much beyond for penem which makes it a little bit different from others.

Keshav: Sir, do you see a positive impact due to non-COVID on your basket of drugs, positive to the Company obviously, positive...?

Pranav Choksi: If you ask me, as a normal individual, I hope this COVID eventually with the vaccination everything goes off because we have lot of other things to also offer beyond that and people will stop asking me are you COVID-centric, your Company can offer beyond. So beyond COVID we have our own plan set up before this 2021 year or even in this '21-22 year, and which I explained in all these events in terms of APIs in terms of market and all that. So even if COVID continues, yes, we have traction going forward. COVID goes away, should start opening up and take it forward. But yes, like I said, I'm being very honest and upfront. This first quarter had a traction in the top line and the bottom line because we have also said 15%, 20% of the top line is required and that's why the thing is there. Going forward, without COVID also, we have many places in the near future at all by the end of the year that we obtain this growth. In the next two quarters, maybe not at this level or might be depending on how the market opens up. But yes, these are numbers, not in isolation. We hope we can sustain them for years to come with a 15% year-over-year growth.

Keshav: I do not mean if the COVID prolongs, basically, long-term effects of COVID can lead to other neurological...

Pranav Choksi: Yes, yes, sorry, sorry, I misunderstood your question. So yes, of course, that's what I mentioned in my team meeting also, that why we did we started investing a lot in R&D also, in the first quarter, we saw a lot of new product pipelines coming up, especially in diabetes, in cardiac issues and also in terms of nutraceuticals, where a lot of post-COVID I would say issues are coming up in people. And there's another avenue of I would say even possible which we can play a role into. So, yes, you are absolutely right, not only us, many pharma companies are foreseeing this, we are also working on something which can be given along with vaccination which helps to have antibody response, which is much more I would say, which is much more assistance. Of course, there are a lot of other will definitely have to play post-COVID and different things, which we are working on also.



*Gufic Biosciences Limited
August 12, 2021*

Moderator: Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Ms. Ami Shah for closing comments. Over to you, ma'am.

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 remain unanswered today, you can reach to our Investor Relations team. Thank you so much. Please stay safe. Take care.

Moderator: Thank you very much, ma'am. Ladies and gentlemen, on behalf of Gufic Biosciences Limited that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.