“Gufic Biosciences Limited Q4 FY24 Earnings Conference Call”

May 30, 2024

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MANAGEMENT: **MR. PRANAV CHOKSI – CEO, WHOLE-TIME DIRECTOR**
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MR. AVIK DAS – INVESTOR RELATIONS
MS. AMI SHAH – COMPANY SECRETARY

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY '24 Earnings Conference Call of Gufic Biosciences Limited. As a reminder, all participants' lines will be in the lesson only mode and anyone who wishes to ask a question may press star and one on their touchtone phone. To remove yourself, you may press star and two. Should you need assistance during the conference call, please signal an operator by pressing star and zero on your touchtone phone.

Please note that this conference is being recorded. I now hand the conference over to Ms. Ami Shah, the Company Secretary. Thank you and over to you, ma'am.

Ami Shah: Thank you, Manuja. A very good evening to all ladies and gentlemen and a warm welcome to Gufic Biosciences Limited Earnings Conference Call for the fourth quarter and financial year 2023-24. We have with us today Mr. Pranav Choksi, Chief Executive Officer and Whole-Time Director; Mr. Devkinandan Roonghta, Chief Financial Officer; and Mr. Avik Das from Investor Relations team to give the highlights of the business and financial performance of the company and to take questions, if any.

Before we begin, I would like to say that some of the statements that will be made in today's discussion may be forward-looking in nature. It is subject to unfortunate risks and uncertainties and the actual results could materially differ. The company undertakes no obligations to update or revise any forward-looking statement, whether as a result of new information or future events or otherwise.

We'll now begin the call with the opening remarks from Mr. Avik followed by a financial overview for Mr. Roonghta. Thereafter, we'll have the forum open for the interactive Q&A sessions. The participants are requested to ask two questions in the initial round. I'll now request Avik for the opening remarks. Thank you.

Avik Das: Thank you, Ami and good evening, everyone and thank you for joining us on this investor call to discuss our Q4 performance. I'm pleased to provide an update on the significant developments and achievements that are taking place this quarter at Gufic Biosciences and I will begin with the Indore capex update.

We have made substantial progress with our manufacturing facility in Indore. Our media fill validation studies are underway, ensuring the robustness of our aseptic process. This validation is crucial for minimizing product batch rejections and streamlining the approval processes. We are confident that this will lead to faster regulatory approvals and certification and also enhance our production quality as well as reliability.

Moreover, a pre-audit by a distinguished ex international inspector has further helped us prepare for the upcoming regulatory inspections. Their expertise and practical recommendations have helped us improve our compliance and operational processes, setting the stage for hopefully smoother future inspections and fewer regulatory hurdles once we commence the regulatory audits.

On the product development front at indoor. So our team has been actively working on over 40 niche products. We are developing a wide array of products, expanding our portfolio from antibacterials and antifungals to molecules used in the treatment of schizophrenia and bipolar disorder to HIV treatment and innovative products for neuropathic pain management.

I'll quickly give an update of the various business divisions that we have now starting with Critical Care division. So our Critical Care division has sustained growth through enhanced market penetration and leadership in niche antibacterial and antifungal products. We have successfully penetrated over 2,000 hospitals now with brands like Guficap, Micafungin, Micafung, Polyfic, Ticofic and Merofic becoming preferred choices among medical professions as per the market data that's available to us.

We are also proud to introduce Sankalp. This is Gufic's first patient assistance program. This initiative supports economically strained patients requiring long-term therapy, providing free therapy that will be delivered to their doorstep with 50 doctors and 500 patients expected to participate. Sankalp will definitely enhance patient engagement and build trust among health care providers.

We've also done some differentiated product launches in this division. So we've launched the Merofic dual chamber bag. This is an innovative closed drug delivery system that ensures zero human intervention, setting a very new standard in medication safety and efficacy. This innovation is strengthening the market position in Critical Care drugs and we intend to add more and more molecules to this drug delivery system, which is very proprietary to Gufic at the moment in the market.

Another notable launch was Dalbavan, which is a second-generation lipoglycopeptide antibiotic, which is used for serious bacterial infections. This is also a once-a-week dosing frequency, which will help reduce the treatment burden on patients and the health care providers. We have a range of unique products in our pipeline planned in this division, which includes a next-generation Tetracycline or next-generation carbapenem, , a next-generation echinocandin as well as an azole.

Now coming to our Ferticare division. Our assisted reproductive drug portfolio has been strengthened with the planned launch of differentiated products such as the ultra high purified HMG, the recombinant FSH. These products offer superior efficacy and safety addressing the complex fertility challenges, demonstrating significant growth potential in the domestic market.

We've also introduced Guficin Alpha, which is effective in recurrent implantation failure.

Now coming to Sparsh. The Sparsh division continues to excel with its direct-to-hospital distribution model. We have established business channels with over 1,400 hospitals and in this division with complete visibility on the tertiary sales.

And we've also noticed a very high retention rate of customers and this transparent and efficient business model have positioned us well to launch more value-added products and expand our offerings. And we mentioned in our presentation the kind of therapeutic segments that we are adding to Sparsh in the coming quarters.

Now a quick update on the Aesthaderm division. Our Aesthaderm division is growing through knowledge sharing and unique training programs like the GROW program, which democratizes the use of botulinum toxin and expands our market reach. We've also achieved milestones such as hosting Face-Off India's first hands-on cadaver and injectable workshop and publishing comparative studies on botulinum toxin type A with other leading brands of botulinum toxin in the market.

A quick update on the Neurocare division. Our Neurocare division has successfully launched Zarbot, the first Indian botulinum toxin of international category. Zarbot has quickly gained the confidence of leading neurologists with acceptance and prescriptions by over 100 leading neurologists in India within a year of launch. And we are continuously conducting scientific activities, workshop and injector programs to expand Zarbot's user base and reinforce its position as a suitable alternative for neurologists.

Now I'll give you all a quick update on our mass market division, which includes Sparsh, Stellar and the Healthcare division. Here, we've conducted various knowledge sharing programs. We've also conducted diagnostic camps across India. For our Stretch Nil product, which is a very unique product for stretch marks, we've come up with a proprietary device, which helps us measure the stretch mark and which can help us to be proactive in ensuring the right treatment because as we know, stretch marks are irreversible.

We also filed a patent for this particular device. We have some very interesting products which are set for launch in these divisions. We mentioned them in our presentations, one -- and the notable ones are the extended release dydrogesterone, which is a very exciting market.

Now a quick update on the international business. Our international business strategy has yielded new product approvals and registrations across a diverse range of townships that include U.K., Australia, South Africa, Nepal, Sri Lanka, Philippines, Thailand as well as Myanmar. With over 200 products now registered across regulated and semi-regulated markets and another 150-odd products in the pipeline, we are well positioned to leverage our existing combinations and targeting new market opportunities.

We also have a very exciting announcement about a unique pain management solution, which we licensed in the past quarter. This is a synthetic analgesic with a mechanism of action that is similar to an opioid but without the associated side effects. This product acts as both agonist as well as an antagonist at opioid receptors that provides effective pain relief while reducing the risk of respiratory depression, which is the most common side effect of opioid pain treatment options.

This is also a once-a-week pain management product, which would mean it has a lower abuse potential and is particularly suitable for managing moderate to severe pain, including postoperative pain. There is a patent for this product and the patent period for this product in India is still 2031.

In conclusion, Q4 has been a quarter of growth in strategic advancement for Gufic. Our dedicated efforts in product development, market penetration, regulatory compliance and patient

engagement are driving our way ahead. We remain very committed to delivering innovative and high-quality health care solutions while enhancing value for our stakeholders.

Thank you all for your continued support and confidence in Gufic Biosciences. I look forward to addressing questions later in the Q&A. And this concludes my update and I'll now hand over the call to Mr. Roonghta for the financial highlights and updates.

Devkinandan Roonghta: Thank you, Avik. I am just going to highlight the Financial Results for the Q4 of Financial Year 2023-24 versus the Q4 of FinancialYear 2022-23. I will also going to highlight the "Financial Results" of 2023-24 versus the financial results of 2022-23. The total revenue for Q4 of this financial year is Rs.194.9 crores compared to Rs.173 crores of Q4 for financial year '22-23.

The EBITDA for the current Q4 is Rs. 34.6 crores compared to the Q4 of last year, Rs.32.8 crores. The EBITDA margin for current Q4 is 17.8%, whereas the Q4 financial year '23, it was 18.9%. The profit before tax for the Q4 for this financial year is Rs.26.6 crores compared to Q4 of FY2022-23 was Rs. 23.9 crores.

The PBT margin for the current -- Q4 of the current financial is 13.6%. Q4 of last financial year, it was 13.8%. The profit after tax for the current financial is Rs. 19.5 crores. The Q4 of financial year '23, it was Rs.18.1 crores. The PAT margin for the Q4 is 10%. The Q4 of last financial year PAT margin was 10.5%.

Now I'll highlight the Financial Results for FY 2023-24 versus FY 2022-23. The total revenue from the operation is Rs. 806.70 crores compared to Rs. 690.6 crores during the financial year '23. The EBITDA for the financial year '24 is Rs. 148.05 crores compared to Rs. 137.2 crores of last financial year. The EBITDA margin for current financial year that is '24 is 18.4% compared to financial year '23, it was 19.9%.

The profit before tax for the current financial year '24 is Rs. 115.7 crores. For the financial year '23, it was Rs. 106.7 crores. The PBT margin for the current financial year '24 is 14.3%. For financial year '23, it was 15.5%. The profit after tax for current financial year '24 is Rs. 86.1 crores compared to financial year '23, it was Rs. 79.7 crores. The PAT margin for the current financial year '24 is 10.7 % where the financial year '23, it was 11.5%. Thank you very much.

Ami Shah: We can now start the Q&A session.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of from Nitya Shah from Kamayakya Wealth Management.

Nitya Shah: I wanted to understand whether the Biosecure Act, which has been passed in the U.S. recently, what impact do you think that would create for Gufic? Is there any big advantage you're seeing out of that?

Pranav Choksi: I'm sorry, actually, there was a little bit of a disturbance. Can you repeat that question again, please?

Nitya Shah: Yes. I was saying that the Biosecure Act that has been passed in the U.S., how do you see the impact coming on Indian players such as yourselves? Do you see this as a good benefit going ahead?

Pranav Choksi: So very frankly, it's very preliminary and very early to comment on that because in the past also, they had come up with some other act in terms of the generic market, which eventually then got changed once the election changed. So I'm assuming since the act has been made, there will be, what do you call, a proper execution.

For us, keeping in mind the India market specifically, keeping in mind some specific products, is that -- if we are able to do a good regulatory profiling of our factory and there are certain technologies where -- and there are certain, I would say, USPs by which, as a U.S. FDA pattern having prime bio as a part of that, there can be some advantages. But again, I would like to say because it's very preliminary to comment on that. And right now, I'm still not the expert because what my team told me, let's wait. That's what I would try to give you the same feedback.

Nitya Shah: And after going through your presentation, is it a fair assumption to say that in quarter 2, we will start seeing the commercialization of the Indore capex?

Pranav Choksi: So that was a good observation what came out. If you see last year, we were trying to go for more and more hospital penetration and direct supply rather than primary supply to stockist and to focus on the indoor thing. So even right now because of the different experts whom we have called in Indore to get the audit done and the feedback done, I think there's a delay of 1, 1.5, 2 months happening in terms of the actual commercial production starting.

We visited DCAT also in the month of March and there were some clients whom we already are engaging for the U.S. markets and it's not much -- I think the discussions have really taken a good turn. And their QA team has come and they also have given their inputs, which can be changed right now.

So implementing those changes, taking the confidence and as Avik said, we also had ex U.S. FDA inspector who has retired and she does consultancy. She also had come and gave her a good insight about certain processes which are being implemented and executed right now as the media fill. And something we did before the media field and right now something will be done side by side in utilities also.

So I hope the Line 3, Line 4, which will be starting the -- revenue should be captured from approximately June end and that will be for the last week or maybe by July first week and yes, as you said, the utilization full fledge revenue should we start capturing from July and August first week. So you can say maybe 2 months full of Q2 will be somewhere where you will see the revenue going up because we have a big order book and we are right now struggling with execution. So I hope -- I mean, I'm not sure how I'm sure, we will not hope anymore. We are sure that from July onwards, we can see the revenues being captured in our profit and loss.

Nitya Shah: And now that you've crossed Rs. 800 crores of top line in FY '24, are you confident on reaching close to Rs. 1,000 crore revenue mark by FY '25 end?

Pranav Choksi: I'm confident for sure and I'm sure we'll be doing especially what Indore comes and other things coming in the order book what is that they are looking for. But more or less, I would like to make a point where it's very clear. Gradually, year-by-year, we are right now derisking ourselves from contract manufacturing, getting into more front-end where the profitability is. And even now, even with Sparsh and Critical Care, even in Infertility, we are trying to get more and more involved in direct supply to the doctors, to the patients where we can maneuverer the pricing, also manoeuvre the, what you call, the quantity.

So keeping this in mind, primary is not something I'm focused on. But yes, I think Rs. 950 crores to Rs. 1,000 crores is something, if I look even with all these parameters and we hope we can cross that also.

So the more you get into tertiary and secondary billing rather than primary billing, the numbers might take a hit, but not that much also, but at least we'll get more -- we can control our business much more where we have our control of which hospital, which nursing home and all of them are buying it rather than depending on certain distributors. So yes, I feel we are closer to Rs. 1,000 crores.

Nitya Shah: And last question from my end was regarding -- I've noticed the working capital structure has been a little more stretched, you had explained due to onboarding more hospitals and penetration into the hospitals. So in this year, are you seeing the working capital to ease out a little bit like better payable terms from the hospitals and so forth?

Pranav Choksi: Yes. So that was, I think, a very good question. So in the first year to get the confidence, get the penetration done and also to -- some people -- all the hospital care this talk is and these people are giving us so much benefit, can Gufic give us the same? So in the initial run, we have definitely stretched it not only in terms of hospital and nursing homes, even with certain infertility centers also, where we know what are the cycle going on.

But we feel going forward, by September, at least around 40 to 50 crores of the amount will be back in circulation because we have some other parameters of discounting, which we have started now. And I think by the end of the year, we feel that the data should come back to the normal level. So that is the one big thing which we also realized because we thought that going and reaching the end customer is good, but sometimes, we expect that getting the money and expect more discounts. So we are taking care of them from now on.

Moderator: The next question is from the line of Aditya from MSI Capital Partners.

Aditya: Quickly, I wanted to understand what would be the revenue spread across our FBO that is domestic branded business, international business, CDMO and API? And how has that grown over the last year?

Pranav Choksi: So very frankly, because of the demand of Sparsh and domestic, that 55% of our domestic revenue has gone to 58%, then, of course, API, I mean -- then the next biggest thing would, of course, be exports, which has gone -- I would say, no, the next biggest thing would be contract manufacturing, which has fallen from 25% to around 21% or 22%.

We have seen -- or actually a little less, it's actually 19% if I consider Q4 also. And then the API -- the export business has increased. The problem with exports business is because of the capacity constraints, there are some U.K. tenders, which we have just won in Germany, which we hope to fulfil in Q2 this year, instead of Q1 this year. That will, of course, give that percentage change.

And then, of course, API business is around 4% to 5%. So export would be around 20%. The next thing will be -- I mean export would be around between 18% to 20%, contract manufacturing go from 19%, what was their last year, would fall down to 17% or 15% this year. And then domestic business will be anything around 58% plus or minus, with the Sparsh division also getting further held by the Indore plant.

API, like I said, between 3% to 5% because the base of the other division will increase much more than the API, so the API fall from 5% to 3% or maybe 6% to 4%, something like that.

Aditya: Understood. And gross margins have improved quite well on an annual basis. Is this sustainable or there were some onetime material benefit that we got?

Pranav Choksi: So that's the problem I'll tell you. So these gross margins are in spite of our validation that is happening at Indore and Navsari. So that's the reason if you remember last 3 quarters, I have been telling you, I'm trying to go off the primary billing and going more to directly to a hospital, to nursing homes and to doctors, which is having an impact on the debtors. But at the same time, the margins are definitely improving, but I'm getting much more transparency of business. So someone who was buying 100 units and then discounting themselves as a primary thing, I can ensure now I know each and every where we my 100 units are being sold at a better price.

So this is one thing which has helped us for gross margin. In spite of the prices also -- if you see the prices from China have eased off only in the last 3 months. Otherwise, the prices last year were quite high and they went up in spite of that and in spite of the validation batches, which are also part of the consumption, the gross margin be able to maintain because of this direct penetration we're trying to increase.

So now -- that's why I answered the first question also. Now, is it worth keeping this pricing benefit against the debtor's level? So that is why we are coming up with new solution also from March onwards, where we are trying to give some more discounting, which is still lesser, still our margins will be kept here but we'll give some discounts to the hospital and incentivize them to pay us a little bit more on it. So that will ease out hopefully by September and next March.

Aditya: Understood. And sir, the previous participant also asked this, so even you highlighted also why. But if I will -- just to get a colour across the SBUs other than Sparsh, which would be a division that impacted the increase the most?

Pranav Choksi: So Critical Care, because there also, we are directly now supplying to hospitals and keeping that marg data where we really come to know what hospital is buying how much and at what pricing. So the stocking patterns have reduced, so the primary has gone down because distributors have stopped stocking it. So whatever orders from the hospital that only is taken care of since last September.

So last February, we started Sparsh, that is 2023. From September, we started Critical Care, where all the inventory they keep is based on the hospital actual supply. And third division that is Infertility, we have started only 3 products, that is Puregraf, then Guficin Alpha and of course Graviparin. So these are the 3 products which are part of Infertility, which consume around 25% to 30% of our revenue of Infertility.

These are all only tertiary business, which happened and all this is in additional to the Stunnox business. The Stunnox and Zarbot, since launch of the divisions, have been directly doctors supply. So there's no primary billing which happens. So all these, I would say, different product line of Sparsh, Critical Care, then Infertility, 25% revenue, full revenue of Stunnox and full revenue of Zarbot. All of them are directly tertiary business only which we penetrate on where directly we give it to the hospital, the nursing home or the, what you call, the doctor. And we ensure that, that penetration -- and we have real-time data of who is buying how much and on a work limit and this is the total which is affected.

Aditya: So even in Critical Care, we have superseded the super stockist -- the entire supply chain. So we're not dealing with super stockist anymore.

Pranav Choksi: So we still have stockist, but stockist have a marg data. So the stockists still are very important. But without stockist, we cannot work because they have a good penetration and collection. And because as a company, we can't outsource or enter NovaCare to go and collect from a small Class B, Class B towns. But now the stockists of your stock is working at an ex margin that is 8%-10%.

So any order is validated by the team and that is only supplied for by which we get real-time data at which hospital, which nursing home is buying for. So it's not that we used to do the primary billing they used to supply to other people also and make a little bit more margins wherever possible. So that is a little bit difficult now overall.

Aditya: Sir, just last couple of questions. So we have got an in-licensing approval from an innovator who manufactures pain management molecules. So...

Pranav Choksi: The once in a week pain management product, yes.

Aditya: If you can highlight that a bit how large is the market, who is the innovator if that is possible?

Pranav Choksi: It's a company based in Taiwan and they have already got approval in Southeast Asian markets like Taiwan, Singapore, Malaysia, I think and 2 more countries. I think, Japan, they are in trials. In U.S., they are looking for a partner for Phase III. In India, we have taken the exclusive rights for India, where we have -- also it's actually 2 sort of a relationship.

Firstly, that they gave us the exclusive marketing rights for this pain management. So what is in pain management? Any IQ-based question or any doctor or any orthopedic -- any ortho, I would say, pain release or even gynec will - wherever the acute pain is there, when you want immediate pain relief, where you either have to take, I would say, like a Morphine or something or if you have to take a diclofenac or anything of that matter, depending on the nature of the pain, of course.

These products can work well in conjunction and also maybe sometimes in some cases, in isolation also. You don't need to pop in pills every day. You don't need to take injections IV every day. If you take an injection on the first day, then you need to take the injection on the fifth day or the seventh day depending on the seriousness of the pain.

So the entire compliance of the patient and the doctor just grows. So you go to an ortho with a severe pain, he just gives you an injection on Day 1 and then for Day 5, you are still okay. So you'll be also happy that certain people who take NSAIDs who have acidity issue or some people have kidney issues, some people with metabolism issue or some people have other side effects. This is completely avoided.

So this is a good product, which we are quite gun go-on. And like I said, tomorrow, if you reach a particular milestone on sales in India, then we get a localization option also where we can be a contract manufacturer for them for other countries also along with India. So it's a good relationship. It's almost one year we worked on the deal. Finally, it got signed. And I think it's a good addition to our ortho range as well as ICU setup range also. And even in gynaec range, where cesareans and other sort of pain or even hysterectomy or others are involved. So it fits our front end very well.

Aditya: Congratulations. And how large would this market be? So pain management is a large market, but inside pain management...

Pranav Choksi: Yes. For the day-to-day pain, which is there, which can be managed by oral, of course, we will not get into that because they're going to price it also differently. So that is where our discussion is happening with the innovator and how do we price it. So based on the pricing, which clarity should come because first, we are doing a clinical trial here in India also. I mean we have asked for a waiver, but if they ask us to do a clinical trial, we will do a clinical trial in the Indian subset also.

If that happens, we'll come to know also, like the Indian patient pool, how is the product happening even that we have some pricing options. So if we decide pricing it, then the market addressable so and so, we have to decide pricing within the market addressable is something else. So I think let's wait for a quarter or 2 and then we'll give you a little bit more insight when you are looking at launching this product around in 2025, Q1 or Q2. So that is where the time line is assuming that we have to do a Phase III. If we don't have to a Phase III, then we're looking at Q3, Q4 this year, let's hope for the best.

Aditya: Sir, this will be manufactured from our Indore plant?

Pranav Choksi: No, no. This is right now will be manufactured in Taiwan and it will be imported here. Moment we reach a particular milestone in sales in India, then it will be manufactured by the Indore factory, yes, down the line.

Aditya: Understood. And sir, for Indore plant, what would be the time line where we would figure -- we would not directly go for U.S. FDA. We'll first move for an ANVISA..

Pranav Choksi: We will be targeting it parallelly. So we are looking at 3-5 molecules, which are immediately starting in every line, Line 1, Line 2, Line 3, Line 4, there are total 4 lines. After that 40, 45 products which Avik spoke about, there'll be around 4-5 products, which will be -- which have been planned on every line. We'll be triggering the inspection from the first 2 products only in all these lines.

So we have Europe, U.S., then, of course, Brazil and I think even Russia and others also planned, but because most of the products which are there in the first 5 launches in every line are something products, which eventually we want to take in all these countries.

So how you have Navsari, which is approved by all, I would say, countries except U.S. and Japan. Now Indore opens up the market also for U.S. and Japan. So we will be filing as and when with all these clients right now. In Japan, we don't have a client yet and as well as, I think, in some -- 1, 2 other countries we don't have a client yet. So other countries, we can take it up as thumbs up trigger.

Aditya: So when are we planning to trigger...

Pranav Choksi: So the batches will be taken by July, like I said, in August. And then on 3 months stability that is around October, November, we'll file for the -- what do you call, we can give the dossier . But moment the WHO GM comes and also we have -- so we are looking at 2025, where most of the audits will be triggered subject to the availability of the auditors. So anything between Q1 to Q4 2025, you will have a series of audits happening in Indore.

Aditya: Understood. Understood. And then we will even start registering the products in those markets where we receive the health certifications.

Pranav Choksi: Yes.

Moderator: The next question is from the line of Bhavya Sonawala from Samaasa Capital.

Bhavya Sonawala: Am I audible?

Moderator: Yes, sir, please go ahead.

Bhavya Sonawala: Just had 2 questions. First on what we spoke about in terms of going from dealers to directly kind of handling hospitals. I just wanted to know how useful the -- you spoke about, we do get a lot of data, right? I wanted to know how useful this data is. And in the short term, will we face some challenges because it's pretty big shift of the channel flow.

Pranav Choksi: Not -- we are facing sometimes considerable challenges because you're going against the tide where you have people with other interests coming in and I would say, trying to disrupt that, especially, I would say, that other channel partners. But yes, more than the data, it is the transparency of business and the margin expansion is what we are looking for.

So today also -- I mean, more and more competition is coming in Critical Care, where the price erosion is happening. And that way, actually, that price, whatever you try to give as a company doesn't always reach the right hospital. And we got a teaser and some good acceptance in

Sparsh,and that's made us confident to do it immediately by September in Critical Care and along with that in Infertility also.

So definitely, the data is useful in terms of whether my -- so we have these different pincode-wise mapping done. Pincode-wise mapping also gives an indication of what particular molecule is happening in pincode-wise and what are the hospitals thinking. So sometimes -- I'll give you a small example. Our prima care hospital is there, secondary hospital and a tertiary. Tertiary is something like an Apollo or, what you call, MAX and Medanta. Prima care has the potential of buying advanced antibiotic, whereas we think that no, it is only a piperacillin, tazobactam or meropenem will be sufficed there.

But now we have seen when we go and actually meet there, I mean, first, we realize with this data that even after 6, 7 years in Critical Care, we have only penetrated 800 hospitals. So that was one eye opener once we got with the data.

Now just in that September onwards to what you call, let's say, April 2024, that Critical Care division itself has gone from 800 to 1,200 plus hospitals. So that is something which is good. Sparsh anyway has its own journey going on side-by-side. Even in Infertility, we always feel that there are only -- who is actually giving you business? There are only maybe 3 to 4 infertility centers per MR, which gives us the business. And where we know the potential in that particular town or city or whatever he is being represented is around 25, 30, 40, 50, depending on the population and the share market side.

Today, if 3 people are able to give us a PCPM of Rs. 5 lakhs to Rs. 6 lakhs per month, why don't we actually go and penetrate and maybe go for other, what you call -- open up the other IVF centers also which can be our target for the future. So such data is very invaluable. Of course, there's always pros and cons, you face challenges. Sometimes the stockist just buys and keeps it ready for 2 months, he pays you in 30-day, 35, 45 days and it's okay.

Sometimes when you directly deal, you have to pay for the stockist spaces. But I think the gains are much more than the cons. So, I feel a little bit with discounting. If we can take care of the cons of the debtor, then I think this is -- we're on the right track and we should take it forward.

Bhavya Sonawala: That actually makes sense. But in terms of the penetration we have right now, will we -- what I'm trying to understand is will we see a slowdown because Obviously, this would take a lot of transition from actually going to dealers and putting out our own people to go into the hospital. So, that's what in, let's say, year or 2, do you see any slowdown in terms of this?

Pranav Choksi: No, actually, it -- so again, so if my primary, let's say, from 690, if I could do 900 with the primary sale, I must have done only 808, I always have 10% hit coming in because that is the 10% stocks, which a dealer will always help me to do it or keep it or stock it or -- if the dealer will give me that business, which is in his control, he will never expose that to me. That might be 10% to 15%.

But in terms of our growth and the margin expansion, that's a small price to pay when downtrend , we feel more and more transparency coming in the entire equation. With companies like Entero,

NovaCare coming in, they have brought the entire distribution, I would say, bandwidth in the country to be much more transparent and much more upfront.

And so gone are the days where you have -- I would say, you have this cat and mouse game, when no one knows where they are selling and you don't ask also, don't ask, don't tell. That is something which is going out. So, I feel it's -- in the short term, yes, we will be paying the price of 10%, 15% or maybe 10%, I would say, not even 15%. But long term, it will help us out with this database for sure.

Bhavya Sonawala: The second question, we've been doing about Rs. 200 crores a quarter now. So is it fair to assume that this is the peak revenue from the Navsari facility until Indore comes online? Or is there some scope for this to increase in terms of product mix once Indore comes online?

Pranav Choksi: So rightly said, yes, Indore is more – Navsari's lyophilization and injection capacity is more or less full now. We cannot do much with it. And that is where you are seeing that revenue breaking things. But things like penance and things like Botulinum toxin and things like other things and Herbal products will always give that traction, which will be going and growing here.

But you're right, if I want in terms of the capacity in terms of injectables, which is a substantial chunk of our revenue, Indore will help us to unlock that. Indore is almost 1.5x than Navsari. So, that is something which we feel that, yes, definitely, once Indore starts from July, August in the Line 3, Line 4 and Line 1, Line 2, then definitely we'll see more of the orders being preponed.

So, now we have orders since 90 days, 120 days for exports, which is a little bit getting on -- we are on the burner right now. We are pushing Indore to start as soon as possible, at least we are able to take care of all these tenders and orders much more. And there are some orders we have stopped taking now at least for the next 1 months, 2 months, which are, sudden sporadic orders, immediate orders,which we could have encashed if Indore was there. So, that would all start from July, August.

Bhavya Sonawala: And just a follow-up to the first question. You spoke about tertiary and prima care in terms of categorization of the hospitals. Can you -- is it possible to just give a rough kind of estimate on how we lie in terms of prima care and tertiary where we supply the highest?

Pranav Choksi: Yes. Tertiary still becomes a bigger chunk for us completely. So like what is Max, Medanta, Apollo will be still where will be present always and that is where our people always go there because that's the catchment area. But sometimes we see in the primary markets and the secondary markets, there are much better margins but there are -- the quantities consumption are much low and they're much more fragmented.

And that is where we now need to get up on and get introduced much more. So, we were always, I think, leading and doing a good job in the tertiary hospitals, which had a good economic of scales. But the margins are quite getting eroded year-over-year. And this primary and secondary was something which is a good insight we are getting. So if you ask me right now, majorily we might be still 60% in all our business of critical care 60%, 70% would come from tertiary.Secondary would be another 20%, 25%. 5% only would be right now, primary care market.

Moderator: Thank you. The next question is from the line of Ayush Mittal from Mittal Analytics.

Ayush Mittal: One question I have is how much would be the revenue for the whole year from Aesthaderm division for us and particularly from Stunnox?

Pranav Choksi: So, the Botulinum toxin contributes around Rs. 25 crores. That is both aesthetics as well as neuro. And right now, exports have not yet started. So, it is just the current thing. And the other products in Aesthaderm would be approximately maybe Rs. 5 crores to Rs. 6 crores.

Ayush Mittal: So, other thing the observation I have on our numbers for a fairly long time like if you see for the last 10 quarters, 12 quarters, the company is stuck in a range of revenues of about INR170-odd crores, Rs. 180-odd crores and now Rs. 200-odd crores since last 2 quarters, 3 quarters. But when we see about many of our divisions, sub-segments, we see that we are the market leaders in areas which are fast growing. The natural growth is more than 15% or 20%. So why doesn't that translate into our numbers overall? No, yes, you can answer this, maybe I'll have a follow-up.

Pranav Choksi: Yes. So, there are 2 or 3 things. In Critical Care, also in Infertility, there is also an API price dependency which we have to stick to. So as I was saying, the price peaked post COVID. And after COVID, after the peak, it actually went down from the last 3 months to 4 months. So there are some molecules which start coming down in what you call September, October, November 2023 and some started coming from May, June 2023 also. So that is where -- let's say, I'll give you a typical example of an HCG, where the urinary HCG comes from China.

China at 1x per mega was selling at almost $300 or $280 to $300. The same -- and we could sell the injection. If I tell you in terms of the injection, the injection selling price in India was around Rs. 220 to Rs. 230 per vial, even though MRP was around Rs. 490 or something. Now the actual selling price of Rs. 230 has come down to around Rs. 140, so that is because, again, the API dependency because the API has come down from $300 to $80 or something.

Same thing with meropenem, which had reached a peak of around 150,000 per kilo. That has fallen down to almost Rs. 50,000, so 1/3 the API prices happened. So in certain cases, when you see Infertility as well as in, what do you call, Critical Care products. And even now fungin, also others, as and when the efficiency and the prices have become more stable or we have gone into backward integration, there is a price erosion which happens either because of the price cycle of the product or because of or because of things.

So, there's always -- and these are the -- I'll just gave you an example of 2 or 3 molecules. These are the 2 top 3 molecules which contribute to around 15%, 20%, 25% of the products. That, there are more examples. I'll just give you an example of top 3 to 4 products only. So, this has an impact on the top line, even though the volumes are remaining or the volumes are increasing also.

So, that is 1, 2 impacts, which come there. Second impact also, as I said, more or less -- in terms of top line, we have stopped primary billing, which was happening before a little bit stopped since last year -- not last year, last September 2023. So, that is where also we always have 2

months or 3 months, so I think not more than 2 months inventory lying at the, what you call, stockist level and our month inventory at the PSA level.

So, that has now almost come down to 45 days because actually the primary is equal to the secondary or the tertiary directly. So, there's also some stocking also which we have reduced on which we had -- we cannot just suddenly start supplying to the doctors and the inventory is lying at the distributor, there will be more of an issue for us in terms of associations and all that.

So first, we had to liquidate the inventory at the stockist level and then directly go for supply, which helped us to also keep everything cool and calm and everyone taken care of in terms of statutory compliance. So, that is where we feel these are the little bit 2, 3 challenges, which have impacted the top line. But do you see numbers and numbers volumes, they increased at a much higher percentage.

Ayush Mittal: But like we say that we are in -- on the formulation side, branded side, the price change would not be so much like even if the API prices have fallen so much, do you have to decrease your prices by 20%, 30% in the 6-month period?

Pranav Choksi: Absolutely. All this in the segment, what we are the advantage and the disadvantage is that if the price increase, we get the pricing benefit immediately. If the price reduce, we have to give the discounting immediately. So, this is where the entire compliance is all because of the link to the, what you call, the API pricing. And that is where we told you that we have backward indicator of certain fungus which is helping us to take it forward. But yes, the sensitivity of the pricing, not only for us, but even, let's say, an example, for the US. market or other market for Enoxaparin or for Heparin or even for that matter and other onco molecules, are all API dependent.

Ayush Mittal: And the other thing is like, though we have not seen much growth happen but on the balance sheet, this has been based earlier also but I still don't get a good understanding of this. That's why I'm repeating on it that the inventory has more than doubled in the last 3 years, so as the debtors, while the business hasn't grown that much.

Pranav Choksi: Okay. So, the first thing is you're in...

Ayush Mittal: What I'm trying to say is that either our margins should have gone up like given the business we are in, where we have a brand where we have that dominance in terms of penetration, leadership, so what usually have -- we see with other companies is that your margins increase when you have to do such kind of other things.

Pranav Choksi: Right. So I'll explain. So when you have to consider the inventory also consider Indore as, what do you call, a year of transition for us also. For us, in any injection plant to start any plant, we have to do validation studies, media fill studies, other studies also where we -- like we have the 3, 3 batches, each of the highest batch size, the lower batch size as required by QA team and keep the batch size for 6 months and then eventually sell that in the market.

In terms of U.S., we don't have to do -- certain products we have planned for U.S., then eventually, either you have to wait for the U.S. business to happen or before that if the U.S.

business doesn't happen, then that has to be a completely, I would say, consumed and goes away. So that's why the consumption is dependent on where any validation batches, which we have taken and we have been completely written off without any revenue because that's where the valuation is happening.

In certain cases, where the validation batches, but we can still keep it and hope that once the approval and registration comes from WHO, GMP or something, then we can sell it in the Indian market or we can sell in any other market which is allowed by European authority or allowed by the Russian authority and so on and so forth.

So such things -- because we have invested more than Rs. 300 crores in the Indore factory and we have 4 lines. In the entire year, the effort from October 2023 itself until when the actual qualification started, most of our stock is being used in terms of keeping the validation better. And so even when you come there, you will see a huge pile up of vials, rubber bungs and what do you call -- whatever primary, secondary packing materials, along with that some APIs lines, which is also used for certain trials and error also.

So that year in transition here, it started from last year. And again, coming back to your first point in terms of the thing -- so if you see from a Rs. 440 crores revenue, we had gone to the peak revenue of Rs. 800 crores -- I think Rs,790 crores or Rs. 800 crores when the COVID time happened, when everything was hand to mouth and the inventories were coming in and out.

The moment that happened, then of course the year of where post COVID where we went to a revenue of Rs. 690 crores, there we have a lot of returns coming in from the market at which we had to salvage and take it off.

And then from a Rs. 690 crore whatever crores, we have gone to Rs. 800 crores, like I said, keeping in mind the transition that we are going away from the primary market to , what do you call, a much more secondary and tertiary market. So if you analyze the last 3 years and then you see the next 3 years, which will be coming in, you will see all those things which you are hoping for and asking for should be visible in the next 3 years once these become much more consolidated or much more, I would say, absorbed.

Ayush Mittal: Okay. Okay. Sir, last 2 questions. One, can you tell us what kind of utilization do we aim for within the 6 months of our commercial operations or a year if you can give some perspective to it, one. And second -- also in terms of revenue. And second, we raised funds from Motilal Oswal. We did a press release almost Rs. 100-odd crores. What was the objective? And how does that help us given that we had good cash flows also? So why that decision was taken?

Pranav Choksi: So actually, can you repeat the -- second question I understood. The first question, can you repeat utilization of what?

Ayush Mittal: Yes, the Indore plant, a bit of perspective on what -- capacity or revenue, what kind of numbers are we expecting once we start the commercial operations, some time line and some perspective on that.

Pranav Choksi: Okay. So first, I'll answer that question. So Indore hopefully, starting by, like I say, June end for Line 3, Line 4 and July for Line 1, Line 2, let's take July and August for these 2 lines. We foresee in the first year, at least till March, gradually 5%,10%, 15% going to around 20%, I would say, capacity utilization in assuming, of course, one shift, okay? This is I am assuming one shift, because in lyophilization, the shifts are all 3, in Line 3, Line 4, which are liquid and vial, we're looking at one shift as of now. Maximum we can go for 2 shifts because of the aesthetic because this is what I see.

Revenue-wise, I'll ask Roonghta sir to reply. I'll not comment on that. Answering your second question about Motilal Oswal's investment of around 99.99. The 3 things are there, which were very important. One was, of course, the validation batches, which we needed to take and we've had those years to make, which will help us to penetrate into the foreign market. So we do not actually wait for Indore to come.

Certain validation have been taken care of in Navsari itself or in the R&D sort of a setup. And then we thought that we'll just do a tech transfer to Indore to save time. Otherwise, we would have to go for a complete analytic method validation, complete PBs once again and then take it forward. Those were the one of the reasons.

Second reason also was keeping in mind the penetration coming in about the -- what you call, growing from primary to secondary tertiary, we knew that the margin expansion was more crucial and we would need some working capital required for the penetration Sparsh, Criti Care and even for Aesthaderm going forward.

And the third thing is that we had a loan of around Rs. 40-odd crores of long term, which we paid off completely out of that. So that was how the 3 utilizations were taken care of.

Ayush Mittal: No, it was -- that's how you utilize the cash, but to raise funds from an investor, usually the thought process -- why did we need to tap our investors? We could have managed this by the internal cash flows also.

Pranav Choksi: No. But like I said, tomorrow is getting the dossiers and -- I have right now, when you see Gufic is a very different company. Some companies are either domestic centric or some companies are export centric. It is very easy for us to just focus on one market and then wait for 2, 3 years to enter the other market.

Now since Indore is coming in, we have invested more than Rs. 300 crores in the Indore facility. Out of that also if you see, I think Rs. 300 crore or Rs.330 crores -- I think, Roonghta sir is much better to say how much has been invested there. We have taken only a loan of Rs.160 crores, so the remaining thing, of course, we have done with internal accruals or via our own thing.

But the issue is that if I don't encash that capability or that facility with dossiers on time, with the regulation -- I mean, the product line on time, the R&D, like there are 4 products, which Avik spoke about, which also requires these special Dyno mill that requires a homogenizer and all that. If we don't encash and all that, then I'll be again staying forward.

At the same time, coming back to the domestic market, right now is the time where we need to penetrate into more and more markets where I have to be independent of the channel partners, where they can dictate my business. So today, if I am able to encash on the Indore's capability of capacity by having a front end, which is sustainable and which is predictable, that always makes sense much more.

So these 2 factors of getting domestic and export done at the same time, we thought that it is better that we take this dilution and then we take an investor in because this will help us to reach our objective much faster. And the Indore factory will be, I would say, in a much better healthier position in terms of capacity utilization than it would have been otherwise if we went in straight forward internal cash generation mechanism there. That is where we took this decision.

Moderator: The next question is from the line of Bhavya Sonawala from Samaasa Capital.

Bhavya Sonawala: Just one question previously to the previous participant, you just said that the last 3 years have been kind of a transition from COVID to kind of getting the Indore facility up and running. And you spoke about how the next 3 years will actually show the results. So just again, trying to understand in the next 2 years, you've done a lot of innovative and a lot of new things in terms of getting Stunnox up and running, Sparsh and doing a lot of interesting things.

But in next 3 years, is it possible to just guide us in terms of some numbers? Do you think we'll be able to reach kind of Rs. 1,500 crores, Rs.1,800 crores revenue, will we be able to double our revenue? Some kind of guidance because we are doing a lot of things and we are also seeing good results of that. So our guidance will kind of be more helpful to understand where the company is growing in this direction?

Pranav Choksi: So very frankly, if you see whatever has to be done in terms of capex, what has to be done in terms of manpower expansion, what has to be done in terms of divisions, we are more and more spotted. There will be no more capex, so there will be no more new divisions coming in except like I said an add on to existing division also, which is part of the main thing.

So now all those things have done. And this was a good opportunity because we are quite bullish on the industry -- pharmaceutical industry that we will see the actual boom happening in the next 5-7 years. And I don't expect to be waiting there.

So again, numbers, I will not be able to give you anything. Of course, I'll request Roonghta sir to maybe comment on that if we can do it after I finish my explanation. But like I said, when we were Rs. 300 crores, we could reach that Rs. 800 crore number because we had the infrastructure and the manpower in place to actually take care of that.

So it's not that we are going to get an opportunity of COVID back again. But what we learned from that COVID phenomenon that there is a huge amount of business upside or a penetration which is available there, which we need to just get ready for in terms of infrastructure divisions, product pipe and all that, which we have done in the last 3 years in terms of investing whatever we earn in all these things. So yes, Roonghta sir, you want to take it right now? So I think revenue-wise -- yes, please go ahead, yes.

Devkinandan Roonghta: Revenue wise, we already said in a lot of investor calls that we are expecting the top line should be growth between 15%-20% year-over-year for at least next 3-4 years. That is our expectation. But numbers is very difficult for anybody to give the number. It's depending about a lot of things, approval is pending. And we feel that, yes, there will be a growth between 15%-20% over the year for the next 3-4 years.

Moderator: The next question is from the line of Mishal Manchanda from Systematix Shares. Please go ahead.

Mishal Manchanda: On Indore, if you could share a number as to how much you would have spent this year on the media fill validation and other batches you would have produced. So basically to understand what's the normalized number of your -- normalized profit of your business.

Pranav Choksi: Yes. So I think Roonghta sir, can you take this question?

Devkinandan Roonghta: Yes. The Indore facility is commissioned in the month of March, then there was a lot of validation batch and trial was going on. Approximately, I can say between Rs. 8-Rs.12 crores we have spent on these trials. And current quarter also, we're going to spend certain amount in the trial. And total capex for Indore plant till March 2024 will be around Rs. 290 crores. Another Rs.15 crores, Rs. 20 crores capex is pending that is going to happen in the month of April and May.

Other than this, around Rs.30 crores amount has been blocked under GST receivable account because of input credit, we are not able to utilize for Indore. So total cash outflow is around Rs. 325 crores. It may go to increase by Rs. 15, Rs. 20 crores. So total outflow after full erection of the commission of the Indore plant will be around Rs. 340crores.

Mishal Manchanda: Got it. And just one more, so basically, we have been introducing a very unique and very differentiated products in India. Just wanted to understand like whether we are putting an adequate sales effort around these products to scale them up or there could be kind of -- there is an option for you to kind of enhance your medical representative, your kind of MR count and basically make this products larger in a faster time frame?

Pranav Choksi: No. Actually, no. I think we are quite okay with the manpower of what we have. It's just that we are making, let's say, we had the Aesthaderm and then we carved out around 7 people out of that Aesthaderm division of around 40 people, which are like a special task force.

Now in Ferticare, we have launched Guficin Alpha, Supergraf and there will be other external products launch, which I think they're on June, what we are doing from the existing field force where the productivity and the performance is not coming as per the mark. We are coming up with a new team of Fertimax, which is from -- using the same field force either experts from here and then maybe some good experts on the industry from reputed companies and we come up with a 25-30 field force for that.

So increasing the manpower is not the right way according to me. And we feel that it's more of a PCPM thing. Moment every division of ours has a particular PCPM, we need to cater to. And if the PCPM that is reached, then we, of course, go open the expansion in that same territory or

joining territory, which is not represented. But like I mentioned that like even though we have a field force, some people are doing Rs. 5 lakhs, Rs. 6 lakhs,Rs. 7 lakhs, but they might be getting that business only from 4 -- 3 to 4 infertility centers from that same town.

Now that same person if he works out much better, he can get business from around 10, 15 more IVF centers, might be the quantum might not be that high, but at least still possible for him to handle 20, 25 IVF centers by which his scale would be going to Rs. 15 lakh, Rs. 20 lakhs also.

So our focus would be to go better monitoring of the people, see how many calls do they make? How many is the -- so we have since last 4, 5 months also because of this new data coming in. Once we started getting data from Ferticare and for Criti Care, for Sparsh, we actually could now find out what is the hospital-wise business what is happening. And based on that, we can actual tell him that you are working in this hospital and you're getting this -- you have got this business of Rs. 2 lakhs,Rs. 3 lakhs, that means why don't you attach one more hospital, which is next door, which our team have identified, which will help you for a better PCPM.

So I hope this answers your question well. It's more about penetration and increasing the PCPM rather than increasing the people. That's what I feel we are going forward is with this data.

Mishal Manchanda: Got it. Sir, just a follow-up, like would you have a sense as to how much your competitor in case of -- like Stunnox, your competitor would be -- what kind of a sales force would they be using to push their product? What would be the -- what would be their size of sales force? Would it be a similar size or somewhat larger?

Pranav Choksi: We do have. It's not much larger. It might be 20%, 25% more.

Moderator: As there are no further questions, I would now like to hand the conference over to Ms. Ami Shah, the Company Secretary, for closing comments. Over to you, ma'am.

Ami Shah: Thank you very much. I appreciate all of you joining us today. If any of your questions remain unanswered, you can get back to the Investor Relations team and we'll be happy to take those separately. With that, we'll conclude today's call. Thank you. Take care.

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