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August 9, 2022

To
Listing / Compliance Department
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai – 400 001

To
Listing / Compliance Department
National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G
Bandra Kurla Complex
Bandra (E), Mumbai – 400 051

BSE CODE: 543329

NSE SYMBOL: WINDLAS

Dear Sir/ Madam,

Subject: Q1 FY23 Earnings Conference Call Transcript

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached herewith Q1 FY23 Earnings Conference Call Transcript.

You are requested to take the same on record.

Thanking you,

Yours faithfully,

For Windlas Biotech Limited

Ananta Narayan Panda
Company Secretary & Compliance Officer

Encl: as above

"Windlas Biotech Ltd. Q1 FY23 Earnings Conference Call"

August 5, 2022

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 05th August 2022 will prevail.

MANAGEMENT: **MR. HITESH WINDLASS – MANAGING DIRECTOR, WINDLAS BIOTECH LIMITED**
MS. KOMAL GUPTA – CHIEF FINANCIAL OFFICER, WINDLAS BIOTECH LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Windlas Biotech Limited Q1 FY'23 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Hitesh Windlass – Managing Director at Windlas Biotech Limited. Thank you, and over to you sir.

Hitesh Windlass: Good afternoon, everyone, and thank you for joining us to discuss today our financial results for quarter-ended June 30, 2022.

We have uploaded the press release and investor presentation on our website as well as on the exchanges. I hope that everybody must have gotten an opportunity to go through it.

Initially, I would like to discuss key company highlights for Q1 FY'23, followed by financial highlights of the company, which will be shared by our CFO, Ms. Komal Gupta.

The company reported a top line growth of 8.1% for Q1 of FY'23, which was mainly on acccount of robust growth in the trade generic vertical, which witnessed a growth of 73.2% YoY.

CDMO vertical also reported a resilient performance and remained largely flattish on a YoY basis to Rs.94.8 crores. the growth in CDMO was slightly below our expectations, which is impacted due to product mix and high base on a YoY basis owing to the second wave of COVID-19 in FY'22 Q1. However, the company continued its focus on improving the product mix by increasing the contribution from complex generic products. Products in these focus categories offer new growth opportunities, along with better realization. With the focus presence in unique value proposition, the company was able to pass on increase in raw material prices to the end consumers, thus, protecting the margins despite the sustained inflationary pressure on input cost.

The company has accelerated its R&D spending. In the recent past as the company continues to advance towards being a partner, as opposed to a supplier to the key domestic pharma customers. This has also helped the customers get a first mover advantage for innovative products in the domestic market, resulting in turn into value creation for them and reinforcing their position in the market. With accelerated R&D, we will further expedite product innovation and faster rollout of products under our pipeline. Although, this is expected to impact the margins to some extent in the short run, we believe that in the long-term, it will build up and reinforce top line as well as return ratios.

In the trade generics vertical, the company is seeing a very strong traction driven by rapid addition of stockists and distributors. The growth in this vertical is expected to remain robust as there is a tremendous untapped opportunity in this space that company continues to leverage.

Exports vertical is also expected to grow with recent SAHPRA and EU GMP certification which have facilitated entry into newer and semi-regulated markets.

CDMO vertical too is poised to grow through a foray into patent expiry launches, growing wallet share from existing customers, new customer addition and launching unique products, supported by our accelerated R&D, and a planned capacity for injectable dosage form.

I will now request Ms. Komal Gupta, our CFO to discuss the financial performance highlights.

Komal Gupta: Thank you, Hitesh. Good afternoon, everyone. The company reported resilient financial performance amid multiple headwinds such as the sustained inflationary nature of input costs, supply chain interruption and numerous geopolitical risks. For Q1 FY'23 consolidated revenue, EBITDA and PAT grew by 8.1%, 11.4% and 46.6% respectively to Rs.119.9 crores, Rs.13.8 crores and Rs.9.8 crores. EBITDA margin for the quarter stood at 11.5% compared to 11.2% YoY. The margin expansion would have been higher in the absence of accelerated R&D costs, and product development and registration costs. However, R&D will continue to remain a key focus area as the company expects to reap the benefits of it in the years to come.

Now, coming to the Vertical Wise Highlights: CDMO Vertical. Q1 FY'23 revenue remained largely stable at Rs.94.8 crores. CDMO vertical contributed approximately 79% for Q1 FY'23 to consolidated revenue.

Trade Generics Vertical. Q1 FY'23 revenue for trade generics stood at Rs.21.4 crores, up 73.2% YoY. Trade generics vertical contributed approximately 18% for Q1 FY'23 to the consolidated revenue.

Q1 FY'23 revenue for Exports vertical stood at Rs.1.9 crores compared to Rs.2.2 crores YoY. Exports vertical contributed approximately 2% for Q1 FY'23 consolidated revenue.

That's all from our side. We can now begin the Q&A session. Thank you.

Moderator: We will now begin the question-and-answer session. First question is from the line of Nisha Desai from NM Securities. Please go ahead.

Nisha Desai: I have a couple of questions. My first question is regarding the gross margin. We have seen that the gross margin has improved on YoY basis and as well there's also improvement in EBITDA margins despite the R&D costs. Can you highlight some reasons behind that?

Hitesh Windlass: I can speak a little bit about the business context and then I'll request Komal to also speak about some of the numerical numbers context. So, as you have seen that our trade generics vertical has registered a very strong growth. And as we have also mentioned in the past, trade generics overall is a higher material margin business for us. And our long-term objective is indeed to strengthen and bolster this vertical more and more. So, some of our work in the field in terms of creating an umbrella branding image for Windlas generic is paying off. Our engagement with the stockists and distributors is also showing signs of very strong traction. And that is why the growth in trade generics has exceeded what we had thought, and we believe that it will therefore have an overall impact on improving the material margins, also, it should reflect in the EBITDA margins as well.

Komal Gupta: So, just to add, this is in line with what we have been saying that as trade generics and exports contribution to the overall revenue increases, we will have growth in margins. So, this quarter, as we were able to bring in growth in trade generics vertical, that has resulted in EBITDA and material margin per cent growth. EBITDA margin growth, as rightly mentioned by Nisha, is a little lesser than the material margin growth caused by R&D expenses increase. And in spite of that, there is increase, and if the R&D costs would not have increased, we would have recorded a higher growth, but R&D expenses as everyone understands an important area to focus on for future building of business.

Nisha Desai: My second question is out of IPO proceeds utilization for the injectables, CAPEX has been very low. So, what are the reasons behind that and do we need Rs.50 crores to complete this CAPEX?

Hitesh Windlass: CAPEX has been low, as we have been negotiating on the machinery. Some of the initial machineries that we were looking at were imported machinery and due to various geopolitical reasons, we decided to change track and go for domestic machinery manufacturers, because the uncertainty in delivery times would otherwise have some impact. However, the CAPEX proceeds were to be spent over a period of about two years, and we expect that in FY' 23, we will come very close to the proposed value in terms of CAPEX for injectable, and this amount should be sufficient to cover the project costs. So, we are not expecting any escalation in costs.

Moderator: The next question is from the line of Aakash Mehta from Capaz Investment. Please go ahead.

Aakash Mehta: So, I just have a couple of questions. One is on the export market. So, have we started selling to the export markets post the successful completion of the audits of EU GMP and SAPHRA? And also, is there any pipeline for regulatory approval from the non-US developed markets?

Hitesh Windlass: I will take your second question first. The SAHPRA, South Africa, basically is one of the regulated non-US markets. And yes, we have a pipeline, couple of products we have filed for registration and our commercial partner over there is Cipla, which is one of the largest presence in South Africa itself. So, we are expecting that dossier approval to come through. The timing really depends on the agency's review. But we are expecting it to come through soon. And for the EU GMP certification that we have got for our plant-IV, our strategy is, again, as you rightly said, non-US regulated as well as some semi-regulated markets. And there, we are looking at various opportunities to build our pipeline both organic as well as inorganic.

Aakash Mehta: On the US FDA front, are we planning to invite them soon? And if yes, what's the timeline for that?

Hitesh Windlass: On the US FDA front, we have completed our complete remediation and given the final response to US FDA. My understanding is that the timing of their coming back to the site, depends on their prioritization in terms of their own audit queues. But we are ready. And although, we don't have any commercial products anymore over there, but from a completeness of responsibility towards regulatory compliance, we are ready.

Aakash Mehta: So, no tentative timeline?

Hitesh Windlass: They do not provide any visibility or schedule.

Komal Gupta: So, no tentative timeline, but we do not have any plan of building a business in US.

Hitesh Windlass: Correct. We are also not looking at commercializing of any of our ANDAS there.

Moderator: The next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.

Nitin Agarwal: Hitesh, on the India CDMO business, this year, there's been a slew of diabetes off patent expiries have happened and likely to happen. And diabetes has been one of our core areas. Somehow we've not seen the traction coming through in our business on that account. How should we look at CDMO business now going forward?

Hitesh Windlass: See, one big patent expiry in diabetes actually happened on 6th of July, Nitin. So, my sense is the impact of that and how much share in that we are able to garner we will see in Q2. But yes, that is a great opportunity, and we are looking at various commercialization in that space with the Sitagliptin and its various combinations. My sense is that when we read at Q1-to-q1 comparison, we have to sort of keep in perspective that the overall Indian pharma market had a tough quarter. So, there was a volume degrowth, while the chronic therapies did well, and we are in the chronic space, many of our customers were also adjusting inventories, waiting for prices to come down to then stock up again. So, there is that transient aspects and supply chain issues also have hampered to some extent our ability to quickly convert and shift within the timeframe. So, my sense is that strategically and structurally, there is no change. We expect the CDMO vertical also on the back of our new product launches and patent expiries like you mentioned, to come back into growth phase.

Nitin Agarwal: But, likewise, if you also have the Vildagliptin expiry happening last year, which is again our largest molecule, but we didn't see much of a bump up in our numbers because of that. So, what kind of opportunities essentially fall in our target segment given the fact that chronic is what we're focusing on, just trying to figure out why has it not reflected in our sort of customer traction on the very large molecules like Vilda? Sita, you mentioned it's going to probably reflect in Q2 onwards.

Hitesh Windlass: So, in Vilda also, we have several brands that we are manufacturing, but Vilda was a very unique case, Nitin, because a lot of the large cardiovascular players launched it from in-house. So, the diabetes, players in the Indian pharma market launched it from in-house. So, Vilda didn't turn out for the CDMO industry to be very large of an opportunity. Now, there is another space opening up when the product comes off-patent, its combination with other molecules which have been previously off-patent, also gets unlocked in that opportunity. So, we have a few things in our pipeline, which we are working on. And we still remain bullish in terms of the long-term potentials of these patent expiry molecules. So, even though things may not have jumped in our numbers immediately, but these are very strong good therapies and are becoming reference in terms of fixed dose combinations for physicians when we have several ideas in our pipeline where we are bringing these off-patent entity along with the previously expired patent entity as a fixed dose combination. So, I am expecting some momentum to come in future in this.

Nitin Agarwal: So, structurally, CDMO business for us still remain like on a compounding basis, early teen, mid-teen growth business, because you've struggled for the last few quarters now because of various reasons?

Hitesh Windlass: So, definitely going into last year and this year, we were looking at CDMO business to come with some strong growth numbers. But as you see from an overall market perspective also, aside from, let's say, one or two players, most companies have had a tough time, our customers have had a tough time in driving volume. So, the overall growth in the market in terms of rupee value has been bolstered by the price increases that customers have taken, which we don't participate in. But despite that, what we are finding is that in the CDMO space, the opportunity will be driven by new launches. And this is something that our customers also value very deeply with us. And we are still converting customers, and we are bringing new products in. So, my sense is that on the back of this, we will gain traction. Now, whether it happens on a quarterly basis, we'll be able to see it or not, I'm not sure, but, at least on a long-term basis, our guidance has been that we want to double this business over five years and we are still targeting that.

Nitin Agarwal: Secondly, on the injectables CAPEX, what is the timelines for it now in terms of the commercialization of the plant-III on the business?

Hitesh Windlass: So, on the injectable facility, our timeline was end of this financial year. So, March is where we wanted to have a first commercial batch. We are still working with that same targeted timeline in mind. Obviously, it is dependent on media fill and completion of the validation for the injectable facility. But the change from imported to domestic machinery manufacturers was done in order to essentially bring some definiteness in the timeline and still try to make our original target date. So, I will be able to give a better update probably in this quarter in terms of if there is any impact. As of now, we are maintaining the same.

Nitin Agarwal: Last one on the generic, generic business, obviously, correct me if I'm wrong on that, so there are two parts of the business. One is a), the generic-generic business that you do on your own which essentially is what reflected in the growth that you've achieved. Is there a largest generic-

generic opportunities we're also getting on the CDMO side? And how was the dynamics for the CDMO business on generic-generic versus the branded business if that opportunities available for us?

Hitesh Windlass: On the generic side, customers definitely are getting their generic products also manufactured by us. As you would have seen, there were recent announcement by a slew of large branded companies that they are going to trade generics, so, Mankind, Erythro, many others made some of these announcements, and as a business partner, we are supporting them. For us the thought process has been that obviously we will maintain the same quality standards regardless of it is a branded generic product for a customer or a trade generics product for a customer or a trade generics product for under our own brand. We have sort of not differentiated in terms of our economics or in terms of our expectation from manufacturing contracts, whether the end use may be for trade generic or whether the end use may be for branded generic. My sense is that the trade generics is catching more and more momentum.

Nitin Agarwal: And for us, economics, if I got it right are similar?

Hitesh Windlass: I am sorry, Nitin, that was not very clear. Could you repeat the question?

Nitin Agarwal: I'm saying the economics for us are similar whether we're doing a trade generic product or a branded generic product to the customer.

Hitesh Windlass: Yes, for us, they are similar, because we are a cost plus business, and our value proposition is that we will be the guardians of quality. So, from that perspective, we expect the same kind of realization regardless of the end use of how are customers marketing it in the channel.

Moderator: The next question is from the line of Sharad Agarwal from SK Capital Partners. Please go ahead.

Sharad Agarwal: Just extending the question which has been asked recently on CDMO, I think my understanding is that you have the capacity, you're one of the top players in the industry. So, by definition, you should have a lot of demand, and I think demand has not been a general challenge in industry is what I understand given the robust growth in the sector. I see our capacity utilization is still sub-50%. So, how are you thinking about that… are you aggressively selling the capacity, do you expect growth in that sector? And I understand your point on the end customers not being, but still what's our plan on the CDMO side.

Hitesh Windlass: Sharad, we have been somewhat disciplined in terms of our margin expectation as well as the kind of contracts that we will take up. In a B2B environment, if you get desperate to fill capacity, you very quickly lose margin. And so, our focus has been to not go after the largest opportunities, not go after the smallest and sort of target this medium space, where we are doing something complex, and we are able to offer a sustainable partnership to our customer. So, in some sense, yes, the demand is not an issue, the selection of what we bring in-house, our choice to remain more and more focus on complex products. So, we have been increasing our concentration on complex generics I think at the end of this quarter, this was somewhere in the range of about

75% complex generic. So, we want to continue doing that, because we believe that's the long term sustainable place where customers need us and we add differentiated value as compared to some of our competitors.

Komal Gupta: And just to kind of add to what Hitesh said, our strategy for growth has been new customers additions. So, we have added more than 75 customers in this quarter. Obviously, the sale might not come there in this quarter itself, and that should come over a period. Also, we have added new products. So, there are product launches, which we are continuing, which should bring in the growth. So, although everything might not happen in a quarter or two, but we are continuing with the strategy that we have promised and basis that we are confident as Hitesh said that we still feel confident that we are on track to deliver the committed numbers of doubling the growth.

Moderator: The next question is from the line of Parth Vasani from KK Advisory. Please go ahead.

Parth Vasani: I had a couple of questions on R&D side. So, how are we utilizing the R&D spend. Is it predominantly for the process improvement or for new product launches?

Hitesh Windlass: So, on R&D I would say almost 85% to 90% is on new product development. What we are doing is, we are looking at chronic therapies where fixed dose combinations are the treatment of choice due to drug resistance or physician preferences and things like that, and we are coming up with more and more options. So, we have for example launched Mirabegron Solifenacin in the urology segment. That has become a leading combo. I would say most of the market in the urology segment is taking that formulation from us. Similarly, we are expanding this portfolio coming up with more and more. So, when we do this, there is a product development cost which is incurred, there is a bioequivalence, and sometimes there are small clinical trials also that we have to do and submit that to the Drug Controller General of India. So, that's the basic areas in which the spend on R&D is happening.

Parth Vasani: How much is our target for R&D spend in terms of percentage of revenue for FY'23?

Hitesh Windlass: See, in FY 20-21, we have been about 1% or slightly above that, and long term, we should be around 2%. So, we don't really sort of curtail R&D from this perspective that we have to stay within this, but we look at opportunities and do this. So, long term, we believe that we should be covered sufficiently with a 2% kind of number.

Moderator: The next question is from the line of Dhruv Jain from TDS Financial. Please go ahead.

Dhruv Jain: Sir, I have a couple of questions. The CDMO and exports vertical growth has been stagnant on year-on-year basis. So, what are the reasons behind that?

Hitesh Windlass: As I mentioned that in the CDMO space, we were coming off of a high Q1 in FY' 21, because that was the second wave, where a lot of Vitamin C, Ivermectin and combination kits were being sold even sanitizers and all that. So, all of that obviously is no longer being sold. And we have replaced a lot of that with the new product launches that we have done, as well as other contracts that we have extended or gotten more customers for existing formulations that we are manufacturing. So, on the CDMO side, this is one reason where we believe Q1 of last year was a higher Q1, because of the second wave COVID. However, if you look at Q1 overall for the industry, there has also been a volume growth of negative 8%, 9% and we have been still able to maintain a flat this thing. So, my sense is that some of our new launches also are going to come up in subsequent quarters. Structurally, no change, but these are some of the reasons which have had a play on the flatness of growth. On the exports side, it's a very small base that we have. So, in the clients who are buying from us, they have their own buying cycle. So, we are still expecting exports to show growth overall in a full year basis. So, that remains. We don't see it as an area, any trend change or anything over there for us to comment on.

Dhruv Jain: And sir, can we expect like around Rs.450 crores from CDMO vertical for FY'23?

Hitesh Windlass: Ma'am, we have not been giving yearly guidance. So, I cannot comment on that.

Dhruv Jain: Sir, share of trade generics has gone up significantly to of course 18% from the range 10% to 12%. So, do we expect it to remain in this range or should revert to normal average in the coming quarter?

Hitesh Windlass: Ma'am, we are doing a lot of work to bolster the trade generics vertical. So, as I mentioned that because this is a higher gross margin vertical for us, and we also don't have a model where there's a large medical reps-based field force. So, in this vertical, any growth that comes is definitely more rewarding for the company in terms of bottom line. So, our endeavor definitely is to make it stronger and we are also doing many branding activities, where umbrella branding, to talk about high quality, Windlas generic has been going on in the sales channel. So, some of these things are yet to further show impact. So, for us, this is a very healthy sign and we want to continue to build this for sure.

Moderator: The next question is from the line of Viraj Shah from Shah Investment. Please go ahead.

Viraj Shah: Sir, I have a couple of questions. Are you planning to do any CDMO for international pharma companies through these regulatory approvals, or we will only do exports throughout our brands?

Hitesh Windlass: No, we are evaluating and we have ongoing conversations for also doing CDMO for export markets. Although the cycle time for concluding a contract, doing the tech transfers and initiating commercialization for international markets are longer, because customers' dossier has to be updated with our site and the data on batches taken at our site. But, yes, definitely, that's an area and we are working on it.

Viraj Shah: And sir, have we started any manufacturing CDMO or trade generics for recent anti-diabetic diabetic products?

Hitesh Windlass: Sorry, could you ask that question again?

Viraj Shah: Sir, have we started any manufacturing for CDMO or trade generics for recent patient anti-diabetic product?

Hitesh Windlass: Yes, yes, definitely. In CDMO, we have more than 210 brands of diabetes products being sold. And in trade generics vertical, which is our own branded vertical, also, we have several diabetes products, that portfolio itself has more than 200 products. And so there also diabetes is a major component. But in CDMO, yes, definitely, we are selling Vildagliptin combinations, Teneligliptin combinations, Metformin-Glimepiride combinations, lots of combinations, Sitagliptin, also, we have commercialized on day zero for several clients. So, yes, it remains a key focus area and we are continuing to build on that.

Moderator: The next question is from the line of Yogesh Tiwari from Arihant Capital. Please go ahead.

Yogesh Tiwari: My first question is basically in your presentation; you have mentioned that the CDMO industry is expected to increase by about 15% on a CAGR basis till FY'25. So, then we assume that the company CDMO business would also increase in that range going forward.

Hitesh Windlass: The guidance that we had given was that in five years, we will be sort of doubling our business in CDMO. And if we look at that, then neighborhood of this number is what was our belief that we will be able to achieve. If you see in our past, we have had years where CDMO business has grown in single digits, but we have also had years where it has grown in above 20% also. So, this is a growth that is possible in the industry and we are exploring various ways to achieve that.

Yogesh Tiwari: So, we can assume that between FY22 and FY27 the CDMO business would double revenues, am I correct?

Hitesh Windlass: Yes.

Yogesh Tiwari: Sir, secondly, what would be the margin differential between the CDMO business and the trade generics?

Komal Gupta: Trade generics maybe 4% to 5% higher than our CDMO business margin.

Yogesh Tiwari: Currently, like trade generics is about 19%. So, what would be the targeted revenue contribution two, three years down the line?

Hitesh Windlass: So, what we have said is that in the long-term five year basis, we look to double our CDMO, triple our trade generics and quadruple our exports business. Of course, right now, the growth rate that we are seeing is far, far beyond tripling, but obviously, we are on a smaller base right now, last year, we did about Rs.61 crores. So, we have to see. But, this is an area of great opportunity, because a lot of the tier-2 and tier-3 class towns and villages cannot be catered by the branded generic model. So, if you see, there are only about 400-odd towns and cities, which have more than one lakh population in India, and there are six and a half lakh villages and kasbas which are having lower than that population. And in these places, there are very few doctors, the patients have to travel and get medicines. So, branded generic model doesn't work in these places. And it's only through the chemists channel people able to access these medicines. So, this is the area of focus for trade generics. And our idea and philosophy is that we will give authentic, affordable and accessible products in this trade generics vertical is what we are leading with. So, we believe that the overall potential is much higher. Obviously, then you have to balance it, because when you're selling across India to 600, 700 stockists with a very small sales force, then you want to make sure that collections are very healthy. So, we keep a strong discipline on that and that's how we are growing. So, I give a long answer, but –

Komal Gupta: So, in three to four years, I think 15% to 20% of the overall revenue contribution is what we would want to keep.

Yogesh Tiwari: Currently, I think it is 19% trade generics.

Hitesh Windlass: That's correct, in the similar range. Because right now CDMO, our exports growth is not as much and we are hoping to really bring it in the long-term as we said. So, overall, with the higher revenue, it should still remain in this range of 15% to 20%. So, I'm not saying that TG will not grow, I'm saying that others will also grow and that's why overall contribution should be in this range of 15% to 20%.

Yogesh Tiwari: And in the CDMO segment, I assume that you have 285 clients as of FY'22. So, we have added another 75 clients in this quarter. So, it's like 365 clients as of now, if I am correct?

Komal Gupta: It doesn't work like that. Every time, the sale does not happen to all the customers. That's how it works. So, the number of customers that we have served in this quarter are more than 200, but there have been growth and there have been no sales to a few customers. That's how it works.

Moderator: The next question is from the line of Deepti Kothari from Kothari Securities. Please go ahead.

Deepti Kothari: So, my first question was that how much is the current capacity utilization?

Komal Gupta: It is in the range of 40%.

Deepti Kothari: Do we have something solid in the pipeline for inorganic growth?

Hitesh Windlass: So, ma'am, we're looking at various ideas and we are evaluating several of them. But I cannot comment in terms of timing, whether we will end up proceeding on one or more of them or not. So, as such, however, as you know we are a very strong cash flow generating company and we have strong reserves also in terms of almost Rs.200 crores being on our balance sheet. So, we are looking to have a good strategic selection and want to explore this definitely, but, as of now, something is not finalized, so, I cannot comment.

Moderator: The next question is from the line of Yogesh Tiwari from Arihant Capital. Please go ahead.

Yogesh Tiwari: I just had some follow up questions on the CDMO business. So, if you can share some details on what is the pipeline like in the CDMO business, and like how it is shaping up basically for the second half of this year?

Hitesh Windlass: Are you asking about the R&D pipeline?

Yogesh Tiwari: I mean to say how is the interaction with the clients and how do you see the business or new plant expected to come in the CDMO business?

Hitesh Windlass: Yes, definitely. See, we are looking at three ways to grow the CDMO business. One is taking our existing product portfolio to new clients. The second is to add new products and offer them to both old and new clients. So, we have now a team of almost 13 business development managers under an able leadership of our chief business officer who is sort of building this pipeline together with the conversations with our clients, medical team, regulatory team, marketing team and outsourcing team. And certainly, the idea is to bring the capabilities of the company capacity, product development, quality, and innovation. I was just saying that we have a business development team which engages with all our clients, and definitely there is a pipeline of queries and project commercialization with clients new products as well as old products, new brands, new variants, all of that definitely is there. And those conversations and our innovation pipeline is what gives us the confidence that we will be able to bring some growth back into this vertical as well.

Yogesh Tiwari: Just wanted to understand what would be the drivers for margin expansion within CDMO. So, one would be like, if you can increase the complex generics within the CDMO. So, if you can share some thoughts on it, what would be the contribution from complex generics and along those lines if possible?

Hitesh Windlass: If you see the CDMO space, there are two kinds of people who are working in the 7% to 8% EBITDA, and then people like Windlas who have in the range of 10%, 11% or like 11.5% for us this quarter. So, largely CDMO players are grouped in these two categories. So, any margin expansion that is going to come in CDMO is going to come from operating leverage, which is basically better capacity utilization. So, as we have more orders, and as we deliver higher numbers in a quarter, our fixed costs don't change that much, and therefore, that will cause the improvement in margins. As such, we are a cost-plus business. So, you have seen that despite all the input pricing pressure over the last year, Metformin prices went up by 3x, 4x, Paracetamol, huge changes, we have still been able to maintain our margins. So, part of the model with us is in CDMO that we are a cost-plus business. So, we tend to have some stability, which is because of this margin. Therefore, I believe that we will have better margins through in unlocking operational efficiencies at our end rather than anything else. So, my sense is that CDMO margins will improve with capacity utilization. And if we expand and put a new capacity to cater for the future years, then obviously, those changes will be there. I would look at gross margin as a more representative number to look at the space overall.

Yogesh Tiwari: So, what would be like the gross margin differential approximately between complex generics and other non-complex generics division?

Hitesh Windlass: As I mentioned, this quarter 75% of our output has been on complex generics. So, if you look at our competitors, who are operating maybe in the 7%, 8% EBITDA range, and their gross margin might be in the range of 20% to 25%, then you could probably compare and make that call. We also don't categorize to that level, where if a customer needs a simple product also manufactured from us, we will not say no. So, we will take that contract. So, the idea is that the differentiation between complex generics and simple products is something that we want to, over a long-term increase, but not just because of margin, we want to increase that, because that is a service that our customers really value. Because, for the complex products, we become a stable partner for them. And for the simple products, they can anytime take it in-house or go elsewhere and shift and do all those things. So, that's sort of the more overall strategic reason to focus on complex.

Yogesh Tiwari: What would be the average terms of contract under CDMO?

Hitesh Windlass: In our CDMO contracts, we typically have a five year to kind of contract, some multinational customers have no termination date, the exact volume or the brands keep on getting added or subtracted depending on customers. And on an average, our customer relationships have been more than seven years. We have customers who have been with us for last 20-years. So, since as a core supplier to their business, and who is also able to bring innovative products to them, we tend to become more of a partner. So, it's a master services agreement with a long, not really a sort of a take or pay contract.

Komal Gupta: After five years, mostly it is renewed. And that's how it works. We don't recall losing any customer over the period of the life of the customer.

Yogesh Tiwari: So, within the trade generics, you also go for government tenders. So, what would be the proportion of that in the overall trade generics revenue?

Hitesh Windlass: Right now, it's very, very small, it's probably less than, 7%, 8% or 10% max. But going forward, we expect slowly this also to increase because institutional buying due to Jan Aushadhi, Ayushman Bharat and all those are increasing. And that again becomes a very strong opportunity, because only manufacturers can participate in those and they have requirements for WHO GMP approved manufacturers having three years' experience and all those qualification criteria there. It's very small right now, but it remains to be a very viable and long-term good opportunity that we are also pursuing.

Yogesh Tiwari: But government contracts in trade generics would be like lower margins, if I am correct?

Hitesh Windlass: It depends on quite a bit on product-to-product.

Moderator: As there are no further questions from the participants, I now hand the conference over to Mr. Hitesh Windlass for closing comments.

Hitesh Windlass: Thank you, everyone, for joining us on this call and for your questions. Please reach out to our IR consultants, Strategic Growth Advisors or us directly should you have any further query. We can now close the call. Thank you and have a great weekend.

Komal Gupta: Thank you.

Moderator: Ladies and gentlemen, on behalf Windlas Biotech Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.