Windlas Biotech Limited

Reg. Off.: 40/1, Mohabewala Industrial Area
Dehradun, Uttarakhand 248 110, India
Tel.:+91-135-6608000-30, Fax:+91-135-6608199

Corp. Off.: 705-706, Vatika Professional Point, Sector-66,
Golf Course Ext. Road, Gurgaon, Haryana 122 001, India
Tel.:+91-124-2821030

CIN-L74899UR2001PLC033407

Ref No. WBL/SE/2022-2023

May 16, 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: Q4 FY22 Earnings Conference Call Transcript

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached herewith Q4 FY22 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 Limited Q4 FY'22 Earnings Conference Call"

May 12, 2022

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the Company's website in respect of conference call held on 12th May, 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 the Q4 FY'22 Earnings Conference Call of Windlas Biotech Limited. This conference call may contain forward-looking statements about the Company, which are based on the beliefs, opinions, and expectations of the Company as on date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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

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

Hitesh Windlass: Good evening, everyone. It's a pleasure to connect with all of you present on the call today. We have uploaded the "Press Release" and "Investor Presentation" on our website, as well as on the exchanges. I hope everyone must have got an opportunity to look through it.

Initially, I would like to discuss Key Company Highlights for Q4 & FY'22, followed by Financial Highlights of the Company, which will be shared by our CFO, Ms. Komal Gupta.

The Company registered a consolidated adjusted revenue growth of 11% YoY in FY'22 on the back of strong growth in domestic trade generics and exports vertical.

For Q4 FY'22, consolidated revenue, EBITDA, and PAT grew by 14.3%, 28.7% and 150.8% respectively.

The Company reported this robust set of performance despite challenging business environment on account of continually rising input costs, supply chain disruptions from uncertain geopolitical situation.

Our FY'22 revenue for CDMO services and products vertical stood at Rs.379.7 crores, up 4.9% YoY, which contributed approximately 81% to the consolidated revenue.

The Company continue to focus on growing revenue share from chronic and sub-chronic therapy in complex generic products, which are high growth segments of the market.

Over the past year, we have reinforced our R&D capability and continue to do innovative product launches for our customers. Our R&D costs have grown at a CAGR of 16% since FY'19. The Company expects to realize the benefits from these investments in the coming years.

Company has also received GMP Certificate from South African Health Products Regulatory Authority for the Audit that it has undergone in September 2021.

Apart from this, the Company has successfully concluded EU GMP Inspection by National Institute of Pharmacy and Nutrition, Hungary for Plant-IV with Zero Critical and Zero Major Observation. The Company is expecting a positive outcome on the EU GMP in coming months.

The positive outcomes by inspections from reputed regulatory authority, reflects our sustained efforts on improving quality, systems and capability. Successful completion of these audits allows us to expand our geographic presence.

FY'22 revenue for Trade Generics vertical stood at Rs.60.8 crores, up 39% YoY.

The Company continue to focus on levering the existing stockists and distributor network along with additional new brand launches to drive this robust growth.

Trade Generics vertical contributed approximately 13% to the consolidated revenue. The Company is focused on growing the trade generics business through channel, product, and geographic expansion.

The growth will be further supported by government schemes that increase generic adoption and reliance on generics across India, such as Jan Aushadhi Yojana, Ayushman Bharat, etc.

FY'22 revenue for exports vertical stood at Rs.20.9 crores, up 10.2% year-on-year and export vertical contributed approximately 4% to our consolidated revenue.

Initiatives for CDMO vertical, like new patent expiry launches, increasing wallet share from existing customers, foray into injectables, and new customer addition, is expected to drive the growth in CDMO.

Growth in domestic trade generics vertical is expected to come through brand building, channel expansion, new product introduction and geographic expansion, while for export, growth would come through new dossier filing and registration in existing and new markets.

I will now request Ms. Komal Gupta, our CFO to Discuss the Financial Performance Highlights.

Komal Gupta: Thank you, Hitesh. Good evening, everyone.

Let me quickly take you through Consolidated Financial and Operational Highlights:

For Q4 FY'22, our consolidated revenue, EBITDA, and PAT grew by 14.3%, 28.7% and 150.8% respectively, to Rs.122.1 crores, Rs.14.3 crores and Rs.14.8 crores, respectively.

For FY'22, consolidated revenue and PAT grew by 10.8% and 32% respectively to Rs.465.9 crores and Rs.38.1 crores, respectively.

The Company's financial performance strongly reflects the Company's execution capability, strict control on costs and resilience despite several challenges that impacted supply chain and input prices.

EBITDA of the Company remained largely stable on YoY basis despite sudden and sharp upward movement in input costs. The Company successfully managed to maintain the gross margins above 35% mark. Higher R&D, product development costs, registration costs and product mix impacted the EBITDA margins to some extent.

I will now take you through Vertical-wise Highlights:

CDMO: Q4 & FY'22 revenue for CDMO vertical stood at Rs.96.9 crores and Rs.379.7 crores, up 11.4% and 4.9% YoY, respectively. CDMO vertical contributed approximately 79% and 81% for Q4 & FY'22 respectively to the consolidated revenue.

Trade Generics Vertical Highlight:

Q4 and FY'22 revenue for trade generics vertical stood at Rs.14.7 crores and Rs.60.8 crores, up 30.7% and 39% YoY, respectively. Trade Generics vertical contributed approximately 12% and 13% for Q4 & FY'22 respectively to the consolidated revenue.

Export vertical for Q4 & FY'22 revenue stood at Rs.9.5 crores and Rs.20.9 crores, up 14.3% and 10.2% YoY, respectively. Export vertical contributed approximately 8% and 4% for Q4 & FY'22 respectively to the consolidated revenue.

The Company continue to be a net cash positive Company. The Company is utilizing cash judiciously for injectable CAPEX, while maintaining the strategic reserve for inorganic growth opportunities. Out of Rs.152 crores raised in the IPO; the Company has spent Rs.71.6 crores on different objects outlined in the prospectus corresponding to a usage rate of around 47.1%.

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

Moderator: We will now begin the question-and-answer session. The first question is from the line of Aditi Shravan from ATM Advisors. Please go ahead.

Aditi Shravan: I have a couple of questions. First is in our CDMO vertical, total numbers of customers served in FY'22 has increased by 40% while the CDMO revenue grew only by 5%. So, can you explain this gap? And can we assume these new customers are low revenue contribution customers? And also, can we expect the revenue growth to catch up the new customer addition growth rate?

Hitesh Windlass: Firstly, I would like to say that as a CDMO, we are serving more than 200 customers, and it is always our desire to continue to fan out this customer base. And, in fact, one of our health metrics is that we try to not have too much dependence on our largest customer, and we want to continue to serve a broader set of customers across geography, across therapeutic categories and so on.

What we have seen is that though our growth in CDMO has been on a year basis, fairly low at 4%, 4.5%, the number of customers that we've added has helped us maintain diversity, and also not come too much under pricing pressure. So, our growth has come from new accounts, where new launches have been done, and we are now looking to mine these accounts for further growth in the coming quarters and the coming years. So, these new additions are a very rich source for increasing business for us in the coming period. Now, when we add a customer, usually, the product range that we supply to them is smaller, the amount of risk that a customer is taking with us is lower, and so immediately the values per customer will not rise. But as we increase service level, as we offer a wider range, as we engage more and more, we grow these accounts. So, that is, in short, a way that we expect to sort of nucleate more accounts and then growing them. And while I cannot comment whether the growth rate of sales can catch up to the growth rate of customers, but this is a constant parallel activity, and we must continue doing it.

Aditi Shravan: Just correct me if I'm wrong, like in our CDMO vertical, our contracts are priced as per cost plus model. So, if that's the case, can you explain what has impacted our EBITDA margin?

Komal Gupta: Actually, we have done a lot of R&D expenditure and product development expenditure to the tune of 29 million higher than last year, and also product registration that we have done this year is 9 million higher than last year. So, net-net, about 38 million from product registration or development and 80 million of ESOP reserve that we have booked for this year. These are the factors that has mainly dragged the EBITDA margin a bit down, although not operational, because this is more like an investment for us for future growth. But yes, we have did **the** expenses and the picture looks like this. Having said that, in material margin also, there is reduction of 0.8% as compared to last year. But as we discussed in the last quarter also, the overall impact of global supply chain issues and product availability impacted to some extent and there is a lag between when we are able to get the increases from customers throughout

Aditi Shravan: Our exports revenue growth for H1 FY'22 was negative while we closed the whole year with 10% growth. So, can you throw some light on what has gone well for us in H2, and can we expect the similar momentum for FY'23? as well?

Komal Gupta: In H1 actually, we were facing a lot of supply chain issues at customs, so the goods manufactured, but we were not able to ship them because of a few restrictions that were there either at the countryside or from our side to ship. So, we were able to resolve the problems, overall situation becoming better, has resulted in a growth. So, we should not look at probably at quarter-on-quarter number for growth, year-on-year growth is what we should consider.

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

Dipti Kothari: Our EBITDA margin for FY'22 is around 11.5%. What kind of margin can we expect for FY'23 and FY'24? Also, what is the long-term target of EBITDA margin?

Komal Gupta: So, as we discussed for FY'22, the margins have been impacted a bit, we were hoping to bring in purchase efficiencies and end up at better material margin. But given all the supply chain issues that have been in place to meet the kind of growth that we have delivered, we had to actually let go a some bit of material margin. We will be in a better position to explain about what can we expect for '23 and '24. After a quarter, we are hoping that we are able to see more stability and we will be in a better shape to then probably comment except for long-term material margins and EBITDA margin level. We expect 1% to 2% better than currently we are at once stability is in place and we are able to get the operational efficiencies here.

Hitesh Windlass: In the long term, we expect to increase the proportion of our site-specific and export distribution, both of which are higher material margin businesses for us. Also, the injectable facility once it comes up and fully utilized towards the end of our five-year period will also be a much higher EBITDA margin business. So, everything that we are doing to grow will help in improving margins, whether it is operating leverage, whether it is buying efficiency, whether it is increased proportion of higher profitability businesses, but yes, we will have to travel the path through that period of investing and then growing. And as you can see, we are investing through our P&L. So, when we do that, the R&D costs, and the registration costs kind of have to be looked in perspective when looking at margin, but yes, we are also looking to build improvement in margins, but we have to wait and see what happens to the global supply chain issues. As you know that a lot of the input costs material, crude, hydrocarbon, solvent, fine chemical, all of these are still in flux. And therefore, probably we can revisit this question one quarter down the road.

Dipti Kothari: With IPM growth slowing down to the significant extent, in fact, significant growth in FY'21 and FY'22 came mostly due to COVID-19 related drugs, can we expect our revenue growth to stagnate due to that?

Hitesh Windlass: So, as far as what we can share without revealing from a competitive perspective, last couple of quarters, hardly much shipment of COVID products have gone from our side. So, we are almost after the second wave, which happened in the April, May, June timeframe, we have pretty much not been shipping much of any COVID-related products like hand sanitizers or all these things. Anyway, we are not participating in antibiotics. So, that is where last year FY'21 and FY'22 especially IPM saw very big jump in antibiotic consumption during the second wave. We did not participate in that. So, my sense is that at least those base effects are not built in, but the way we have focused on bringing new products is to stick to our core expertise in cardio-diabetic space in urology space, and in these chronic disease spaces where there is a need of the market and also our core capabilities there to deliver.

Dipti Kothari: Lastly, the cash on our balance sheet is close to Rs.114 crores while our CAPEX requirement over the next two to three years is Rs.50 crores. So, can you share how are we planning to utilize this cash balance? And also, you had mentioned in the previous call that the Company is actively seeking inorganic growth opportunities. So, any progress on that? Also, what kind of opportunities are we seeking for inorganic growth?

Komal Gupta: Just a kind of clarification, the liquidity that we have on our books is Rs.180 crores as of today. Having said that, out of which, about Rs.50 crores, you are right, will be spent on CAPEX and there will be about Rs.17 crores of working capital for which we will take out the money from IPO proceeds once there is increase in working capital. So, Rs.67 crores out of this will be used to that extent and rest is obviously, we are looking for the merger and acquisition opportunities on this space.

Hitesh Windlass: So, as I spoke in the past also, we are continuing to evaluate as various options come to us, and we have looked at a couple of options, but not found something that immediately we can jump on, but we're continuing to evaluate. The criteria that we are looking for in terms of inorganic opportunities is very, very clear in our mind. The first is that it should be a growing business and in the space that obviously, we have some either a value chain play or expansion kind of a play. And the second is that we are looking to not just look at something where, what is the size and how cheaply can we buy, but we also have to see, what can we do with that acquisition and what value can we add and what next level we can take that to. So, this is a very deliberate discussion and we have been evaluating, and I hope that in the coming years, some further success will be obtained in terms of finding a good opportunity.

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

Akash Mehta: I had a couple of questions; one on therapies and one on CAPEX. Some therapies front what is the long term aim for the contribution from chronic and sub-chronic therapies?

Hitesh Windlass: So, currently, in chronic and sub-chronic, we are in the range of 60% to 70%. Komal can give the exact number. We feel that more and more of our new launches especially are in this space only. So, as we see going forward, we expect this concentration to increase and this is where the disease burden for India and the markets that we are operating in is also there. So, we expect to increase this.

Akash Mehta: So, firstly, the ballpark contribution from this, and the second would be when we expect the civil work of injectables, CAPEX to get off and when we expect the capacity to reach peak utilization level?

Hitesh Windlass: For the injectable, our goal was to have the first commercial batch come out by end of this year. We have to see, but we believe that at least there will be a one, one-and-a-half-year period where there will be operating losses compared to capacity filling. So, this is the gap that we have to bridge and we are evaluating various options to try to see if we can get our own trade generics to carry some injectable portfolio, so, which we can move in-house later on and various other options. But what we see is that the full impact of injectables will be by FY'25-26 where the utilization levels and contribution levels should reflect in our financials as a positive force.

Akash Mehta: In FY'25-26 we expect peak capacity?

Hitesh Windlass: We expect even the third line to be put in and the final year where we expect a significant contribution.

Akash Mehta: What is the peak revenue potential from injectables and what kind of margins can we expect in this?

Hitesh Windlass: So, in the asset turnover ratio for injectable business is very different from oral solids. In our case, oral solids, we are doing somewhere in the range of 4.5 to 5. But in injectables, we believe the asset turnover ratio will be more in the range of 1.25. So, for this project, over a period, we will be spending approximately Rs.70 crores I believe, therefore, revenue potential from here could be in the range of Rs.100 crores to Rs.125 crores. Obviously, it depends on product mix to the markets we are shipping to and so on. But from a margin perspective, we are expecting somewhere around 18% to 19% kind of EBITDA. So, this is our expectation.

Moderator: Next question is from the line of Ria Varma from ORSL Securities. Please go ahead.

Ria Varma: I had two questions. Firstly, can you help us with gross margins for chronic, sub-chronic and acute therapy? Secondly, how the revenue contribution in terms of percentage would look like between CDMO, TGx and exports for five years down the line, once you're close to our 2x, 3x and 4x target of revenue towards these verticals?

Hitesh Windlass: So, obviously, our desire is to increase the proportion of trade generics and exports. As you know, exports is a more fag ended business where initially you invest in the registrations, and as these various registrations come in, then the revenue stacks up. So, this is where we said that in five years from FY'21, we will try to have a 4x kind of a size for exports vertical. Say for trade generics, this is where we said that we will expect to triple. My belief is that the opportunity intention is actually greater and so obviously, we will be gunning for improving this further. In the CDMO business, we have said that from FY'21 in five years, we will double that business.

Komal Gupta: Domestic should be somewhere in the range of 65% to 70% is our estimate. TGx is somewhere 15% to 20%. Exports is about 10%. Injectables if we keep separate is somewhere between 5% to 10%.

Moderator: The next question is from the line of Priyanka Shah from NN Securities. Please go ahead.

Priyanka Shah: As per your press release, the board has approved Rs.3.5 per share dividend. Will we continue to distribute excess cash to dividends?

Hitesh Windlass: Ma'am, we have a dividend policy where we have mentioned that as close to 20% of PAT is possible, we will continue to distribute. And only in cases where we see imminent use through something else are we going to not do that. My sense is going to be that we will try to maintain the discipline of distributing, and only in very rare cases, will we look at not sharing the dividends at all. This is something that we want to make sure that we are able to provide predictability and provide comfort to our investor base, that yes, we will do.

Priyanka Shah: Our R&D cost is just close to 1.4% of revenue for FY'22, which seems to be on lower side if we compare with other listed pharma companies. Is this the level we expect going forward as well?

Hitesh Windlass: So, ma'am, I think if you compare as to other listed pharma companies, since they are investing heavily into international assets, ANDAs, supplies to US, Europe, and they are also doing new chemical entity research, that comparison may not be apples-to-apples. In our space, which is largely unlisted, we are the only listed player in formulations, for CDMO for India. We believe that R&D should inch up. Over the five years, we expect it to go to about 2% of our top line. So, slowly, we will ramp and that's how we think that it should follow through.

Moderator: The next question is from the line of Miten Lathia from Fractal Capital Investment. Please go ahead.

Miten Lathia: If we were to look at Q4, should we say that the CDMO business normal material margins as a whole maybe not, but at least towards the end of Q4?

Komal Gupta: We expect the normalization to happen maybe in Q1 or Q2 down the line. The normalization has not yet happened. Overall improvement that we see in Q4 is mainly driven by TGx higher proportion in the quarter. Having said that, we have seen the betterment in the margins, and we expect that to normalize soon.

Hitesh Windlass: The price increases that happened over the last year, for example, in Metformin or in Paracetamol, were not like zero small percentages they went 2x, 3x of the initial prices. So, to the large extent, we were able to transfer these increases to customers, but there is obviously a pressure on them to improve their margins. So, there is that negotiation. And on the other side, the input material price fluctuations, which were earlier led by China and Winter Olympics in China and so on and so forth, there are other global reasons, like the crude going up and which are all input raw materials for fine chemicals, intermediates, and thereafter APIs. So, some impact of this is yet to come and it's probably anybody's guess in terms of timing. So, that is why we feel that it's very hard to comment on what will be the near-term future. But we believe, yes, in the long-term, we should be able to work at the margins that we have historically worked on.

Miten Lathia: Because both on customer relation as well as on the product diversification, we've done reasonably well on FY'22 as a year. So, that positive tailwind also should be visible on FY'23, is it fair to say, or this mining will take a bit of time?

Hitesh Windlass: Definitely, our internal goals are to harvest the momentum that we've got and we are more than keen, but as I mentioned in the past also, from a quarter-to-quarter perspective, we're too small as a Company as compared to the overall market. So, our guess will be to look at a slightly longer horizon, and that's why I'm more confident of a long-term, and it's very hard to say, what happens to certain API prices tomorrow. And we continue to work to optimize. In fact if you remember, coming into this year, we were expecting to improve margins and we were able to maintain more or less same material margins, but to some extent also because of our better performance on our trade generics where obviously we have better margins. Sorry to not to be able to give a clear definite answer, but these are the factors which are playing behind the uncertainty.

Miten Lathia: Thanks, appreciate that a lot. I mean, I was not looking for definitive answer, more a directional thing about how things are panning out on the ground and I was also not looking for quarterly sort of trend, I was more thinking about FY'23 as a year, should it be closer to normal or no, but I guess that's probably not so certain as you state.

Komal Gupta: No-no, these kind of margins where we are in FY'22, we are we are confident to maintaining that. What we were talking about is how much we can sort of improve and –

Hitesh Windlass: FY'21 kind of margins.

Komal Gupta: Yes, so, that is where we struggle when would that start. So, we are not saying that this can go below in the long-term scenario. We are actually looking forward for the growth only. But obviously, quarter-to-quarter variation can happen, but as a year we are estimating same or better.

Miten Lathia: Anything you'd like to call out on the trade generics side that would change the trajectory for FY'23? And also on the export side, is it business as usual onboard?

Hitesh Windlass: No, I would stay conservative and say it's business as usual onboard.

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

Hitesh Windlass: Thank you, everyone, for joining us on this call and giving us an opportunity to share our perspective with you. Please reach us through our IR consultant, Strategic Growth Advisors or directly should you have any further query. We can now close the call.

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