

February 24, 2022

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Subject: Transcript of Earnings conference call (Q3FY2022) held on February 18, 2022

Dear Sir/Madam

Apropos the captioned subject, the transcript of Q3FY2022 Earnings conference call held on February 18, 2022 is enclosed herewith. The above information has also been uploaded on the website of the Company and can be accessed at <http://www.orchidpharma.com/downloads/Final%20transcript.pdf>

Kindly take the above information on your records.

Thanking you,

Yours faithfully,

For **Orchid Pharma Limited**

  
**Nikita**  
Company Secretary



“Orchid Pharma Limited  
Q3 FY2022 Earnings Conference Call”

February 18, 2022



**ANALYST: MR. KUNAL RANDERIA - EDELWEISS SECURITIES LIMITED**

**MANAGEMENT: MR. MANISH DHANUKA - MANAGING DIRECTOR - ORCHID PHARMA LIMITED**  
**MR. MRIDUL DHANUKA - WHOLE-TIME DIRECTOR - ORCHID PHARMA LIMITED**  
**MR. SUNIL KUMAR GUPTA - CHIEF FINANCIAL OFFICER - ORCHID PHARMA LIMITED**

**Moderator:** Ladies and gentlemen good day and welcome to the Q3 FY2022 Earnings Conference Call of Orchid Pharma Limited hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal 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. Kunal Randeria from Edelweiss Securities. Thank you and over to you Sir!

**Kunal Randeria:** Thanks Margaret. Good morning everyone. Welcome to Orchid Pharma Limited Q3 FY2022 earnings call. We have with us Mr. Manish Dhanuka, Managing Director, Mr. Mridul Dhanuka, Whole-time Director and Mr. Sunil Kumar Gupta, Chief Financial Officer. We will begin with opening remarks from the management and then can have an interactive Q&A session. Over to you Mridul.

**Mridul Dhanuka:** Good morning. Welcome everyone to the earnings call for Orchid Pharma. I would like to just start with a brief summary of the financial performance then I will talk about a few qualitative things that we have done in the last quarter. So in the last quarter our sales has improved from Rs.98 Crores to almost Rs.159 Crores, a jump of 63% while on nine month basis this number has gone from Rs.315 Crores to Rs.376 Crores a jump of 19%. Our EBITDA in Q3 has gone up dramatically from Rs.0.7 Crores to Rs.17.2 Crores and on a nine month basis it has dropped from Rs.50 Crores to Rs.34 Crores. This large drop in EBITDA is largely due to the factors of raw material cost increase, more sales in ROW as we expand our reach in different other markets (Orchid was a regulated market company earlier), freight cost increase due to larger volume which we are able to sell and lastly energy cost. Coal as you are aware is become costly almost by 100%, so these are the four factors which are largely as the cause of this decline in EBITDA as we work more to utilize our capacity and debottleneck to improve and access newer markets.

Qualitatively just for last quarter, we were able to visit CPhI in Europe, we were one of the few Indians there and that gave us an opportunity after one-and-a-half years of taking over the business to meet some of the customers. As you are aware Europe is the largest market for Orchid and this visit, gave us an entry into meeting the customers and create that relationship again, share our credentials with them, the background of the Dhanuka Group and assure them of continued services. The customers appreciated meeting us and got confidence that Orchid is here to stay and that is going to result in future growth from these customers for Orchid. Besides that our merger process is well on its way. It has also been uploaded on NSE and BSE website and we hope to get approval from SEBI shortly after which we will file for NCLT approval. We hope to complete that exercise by end of this

year, so that is all from my side as a brief summary and I would like to open the house for Q&A. Thank you.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

**Viraj Kacharia:** First of all thank you for the opportunity. I just have a couple of questions. If you can share the DLL performance for the first nine months of this year and how does it compare in the previous year?

**Manish Dhanuka:** Dhanuka lab did a turnover of, can you repeat that what was the sales of Dhanuka labs for nine months? EBITDA is Rs.10 Crores and sale is Rs.300 Crores.

**Manish Dhanuka:** Those are the unaudited results of Dhanuka labs for nine months.

**Viraj Kacharia:** There has been a moderation compared to last year?

**Manish Dhanuka:** Just like in Orchid last nine months has seen unprecedented rise in the energy cost you may be aware the coal prices have almost doubled in last six months I would say from June onwards and at the same time some of the solvent costs and some cost of Chinese input have risen unprecedentedly and we face the same headwind in Orchid as well, so it is not that easy to pass on the increase in the raw material costs and energy, because both companies tend to procure orders three to six months in advance that is why in the last nine months we felt that due to increase the input cost there was pressure on EBITDA for the company; however now in the last two months we have made it clear to the customers that the companies cannot bear the increased input cost and slowly we are able to pass on the cost to our customers and we are able to raise our prices as well. We hope to see improvement in the bottomline in the next three to six months.

**Viraj Kacharia:** Okay. Second question is we have announced capex of Rs.50 Crores for the biotech, chemical and intermediaries so what are the products we have chosen, what are the size of each of these products, what products we are looking to cater to and another subsidiary of which we are looking to do capex so would we get any benefit of lower tax rate?

**Manish Dhanuka:** I could not understand your question actually, your voice was breaking. Can you repeat it please?

- Viraj Kacharia:** Yes, we have announced the capex of Rs.50 Crores biotech, chemical and intermediaries, so just trying to understand what products we have to be, what will be the size of each of those products and number of products we are looking to commercialize and others?
- Mridul Dhanuka:** That is right now only an exploratory one. There is no committed investment that is only part of exploratory area that we are working on in biotech nothing concrete on that front right now.
- Moderator:** Thank you. The next question is from the line of Nikhil Upadhyay from SIMPL. Please go ahead.
- Nikhil Upadhyay:** Sir, few questions. One is, if you can just highlight like in this quarter we have seen a good growth, so is it like more price led or is it like we have seen a better demand for Cyclosporine because I think last two years COVID had resulted in a weak demand so is it recovering in demand in terms of volume or is it more price driven?
- Manish Dhanuka:** We feel that during this quarter, we have not been able to increase the price, it is largely driven due to increase in demand, what we saw in the last two quarters was that in Europe, the demand was very much subdued so we have found slight increase in the demand of our European customers as well. At the same time we had been trying to feed our products in many different new customers even in the ROW markets as well as in regulated markets, so we find it has an impact of some of those customer assimilation process that we had started and we hope to see more results in the near future.
- Nikhil Upadhyay:** Based on the order book and even in last call you had mentioned that post CPhI many customers were again looking at Orchid as a supplier, any progress there in terms of new customer editions or any new orders or just qualitatively if you can highlight how are we progressing there, you gave some comments at the beginning, but if you can just elaborate a little bit more, are we seeing initial successes?
- Manish Dhanuka:** We have found a very important customer for the US market and the customer has filed the change for their ANDA by including our API and we are very much hopeful that in few months that approval will come and we will be able to supply significant quantities to this new customer for the US market. For Europe and some of the other regulated markets like North Africa, we have started giving samples to some of them but as in pharmaceutical more so in the regulated market it is a little time consuming thing, so we are hoping this to happen over next six to eight months time. This should definitely lead results not just that we have also started seeding some of our advanced intermediates which Orchid specializes in and we will be looking at some sales to Japan and some more sales to Europe in the advanced intermediate stage which will lead us to a better capacity utilization. So at the

same time we are working on the new products which should I would say in the medium term result in increased sales over the next one-and-a-half to two years.

**Nikhil Upadhyay:** Last question on Enmetazobactam one is a clarity which I wanted to understand like if we see Allecra has been out licensing the product for the marketing into different geographies. Now if you have to understand the royalty which Orchid gets is it like on the commercial sales or is it like what Allecra gets from that we get the income, so is it like if Rs.100 of sales happen in China we get Rs.8 from that Rs.100 or is it like the double digit royalty which Allecra gets out of that 8% bigger so how does that work just a clarity.

**Mridul Dhanuka:** 8% on global sales whatever sold in whichever geography 8% of that but that is a net sale number not a gross sale number.

**Nikhil Upadhyay:** And lastly on India filing for Enmetazobactam where are we and secondly if these sales which are happening globally, do we have a API supply tie up for anything of that sort or those companies can define their own API suppliers, do we have any supply agreements?

**Manish Dhanuka:** For which product?

**Nikhil Upadhyay:** For Enmetazobactam, if the sales happens globally, are we the API or intermediary suppliers or we only get the royalty and there are no supply relationships?

**Manish Dhanuka:** In the past, the relations between Orchid and Allecra had soured so in between Allecra had gone and found a supplier in China, but now after our taking over, we have developed good relationship with Allecra and started discussion on becoming a second supplier for these products, so we have started R&D on the product so that we can develop a commercially viable process and then we hope to file the DMF in Europe as well as USA, so that we are able to supply to them the API, but that would take some time, but the discussions are in progress and we hope to become a second supplier.

**Mridul Dhanuka:** With respect to your question on India registration, we have received the test license for the product from the government in Tamil Nādu and we have filed for the formulation license and the next step will start shortly for this product and we hope to start approaching the CDSCO for registration in the next coming few quarters.

**Nikhil Upadhyay:** Thanks a lot. I will come back in the queue.

**Moderator:** Thank you. The next question is from the line of Himanshu Upadhyay from O3 Capital please go ahead.

**Himanshu Upadhyay:** Good morning. So continuing with Enmetazobactam, the approval what we see for the Allegra and advanced the press release what we read. The approval is only for hospital applications, is it so and if yes then the market size of it will be small and how is it going to be priced means can you elaborate on the application part and press release seemed it was only for hospital applications?

**Mridul Dhanuka:** Himanshu, all the injectable products are for hospital applications only. With time for Insulin for example, Novo Nordisk which are some of the product which you can apply on your own, but Enmetazobactam is an injectable product which has to be administered in a hospital setting. With respect to the market size I do not think it limits it of course it makes it more I would say process heavy with respect to going to the hospital, but just to give you some numbers, some largest selling products in India are injectables like Piperacillin Tazobactam Rs.1000 Crores market just in India, Meropenem Rs.1000 Crores market, Ceftriaxone Rs.1000 Crores market in India so these are just Indian numbers and very, very large numbers for Cephalosporin is an antibiotic to be administered so I do not think that is going to be a concern, most of these infections are acquired outside and has to be treated in a hospital setting and would require hospital stay as well.

**Manish Dhanuka:** I would like to add one thing, what is important to understand is that this product is targeted for hospital acquired pneumonia and CUTI. The phase 3 studies have shown that the most commonly used antibiotic for this purpose is the Piperacillin Tazobactam and our product has shown 20% better efficacy to this product, so it is now up to the marketing companies how they pitch it and how the doctors perceive the product, so we are hopeful because of its better efficacy, it will have a good future.

**Himanshu Upadhyay:** And the patent life for the product starts from which date to which date in Europe and is there some five year extension patent life for this product, so some more clarity on the life especially in the Europe?

**Mridul Dhanuka:** As thing stand now, the patent life would expire somewhere between 2032 and 2033 depending on the market and in some markets it might be even one year more 2034 but mostly we can take 2032-2033 as the year the patent expires.

**Himanshu Upadhyay:** Okay and one few more questions. More only on the generic business or the API business okay, to win the game of API we need to be quality focused, efficient and most cost competitive, in this journey where are we versus our competition because even we look at DLL the margins are low and ourselves also the margins are not there where it should be okay, so what are we doing especially on the second and third part which is efficiency and being cost competitive versus our peers, so can you elaborate on that?

**Manish Dhanuka:** Good question Himanshu. If you look at Dhanuka labs, the cost competency of Dhanuka Labs is probably the most efficient in the industry in terms of the percentages that the costs are probably one of the lowest, but as it operates in the ROW markets, there is of course pressure on the margin, there is no doubt about it, but at the same time the process efficiencies are quite high that is the reason Dhanuka has done so well compared to a lot of competitors and also there is focus on some of the new Cephalosporins that only Dhanuka labs has a prominence at the market, so now the benefit that Orchid and Dhanuka combination gives is to leverage the process efficiencies that Dhanuka had by virtue of its R&D and which Orchid had lost over the last five to seven years, because the focus on R&D was lost so now with the usage of those efficient processes and increased capacity utilization, the other shortcoming that Orchid had was higher cost structure which was higher in terms of percentage because the capacity utilization was low, so as we plan to increase capacity utilization and leverage the better efficient processes of Dhanuka I think it gives a dual advantage to work it that is what we want to demonstrate in coming time. At the same time I think in last year we demonstrated that how we have reduced the cost of Orchid itself significantly and we are continuing to work in that direction you will probably see in the next year. We would have reduced the energy cost significantly as we have invested in solar energy in Tamil Nādu, so we are working on both the areas, reduction of cost as well as improving the process efficiency and by virtue of being present in the regulated markets and with the customers having good confidence on Orchid. We feel that this combination of Dhanuka and Orchid can deliver an EBITDA which will be much above the industry standard.

**Himanshu Upadhyay:** One small thing, how is the order book looking Q-on-Q and Y-on-Y I do not want a specific numbers, but let us say percentage growth wise if you can say that my order book what was let us say the beginning of last quarter?

**Mridul Dhanuka:** Based on our earlier guidance we would maintain this 20% CAGR kind of a number that is our intent and the order book is in line with that kind of number and we hope to continue to grow that.

**Himanshu Upadhyay:** Okay and one last question then I will join back in the queue, which are the largest molecules in Cephalosporin and the fastest growing products, can you elaborate on how is our positioning in those molecules for the combined entity, DLL and Orchid?

**Manish Dhanuka:** Generally speaking I think most of the molecules that the prominent large volume molecules Dhanuka and Orchid combined would have a percentage share between 20% and 35% depending on molecules to molecules. In terms of oral, the largest product for Orchid is Cefixime for Dhanuka also Cefixime but Orchid has the advantage of supplying to the innovator and that is why the export had much higher value than the competition. The

second product is the Cefuroxime Axetil there also Orchid has the advantage of being present in Europe so we are trying to take a leadership position in this product. With respect to sterile, Ceftriaxone is the largest product but most of the production of Orchid goes in the regulated markets, so we have now started almost full capacity utilization of our plant and whatever surplus only we sell in the non-regulated market.

**Himanshu Upadhyay:** Thank you. I will join back in the queue for further queries.

**Moderator:** Thank you. The next question is from the line of Tarang Agarwal from Old Bridge Capital. Please go ahead.

**Tarang Agarwal:** Good morning. Just wanted to get a sense on how volumes have grown in Q3 on-a-year-on-year basis and on a nine-month year-on-year basis for both Orchid as well as DLL?

**Mridul Dhanuka:** Our growth actually is practically entirely volume-led so in Q3, we have done quite well growing by 60% on nine month basis that number looks like 20% in Orchid and in Dhanuka Labs on a volume basis mostly it looks like around 8% to 10%.

**Tarang Agarwal:** If you could just give us a sense on how the raw material pricing has actually moved before we get into that what are your most critical raw materials in terms of your raw material cost in terms of your absolute value of raw materials?

**Mridul Dhanuka:** Most of those are key starting materials which come from China and these are fermentation products where China has the monopoly globally so everybody buys from China and we also buy from China and these products contribute to the total cogs depending on the product 70% of the cogs would come from these products in China.

**Tarang Agarwal:** And how much of that would be Pen-G?

**Mridul Dhanuka:** Pen-G directly for Orchid is not used at all, because it comes from a different class of product, but Pen-G indirectly is used because one of our joint venture partners we have shared earlier Otsuka chemicals uses that to make GCLE which is the key raw material for the largest product. So Pen-G is the key raw material for them, so Pen-G price increase has a direct impact on Orchid in terms of increasing our cogs.

**Tarang Agarwal:** And how have Pen-G prices moved from what I understand they have gone up significantly and if you are going to give us a sense on in the last maybe 5, 10 years, what are the main prices for Pen-G and consequently GCLE?

- Manish Dhanuka:** Pen-G prices have fluctuated over the last four, five years in the range of \$8 to \$12 and last we heard from the Otsuka the purchase was around \$13, but the rumor is that they are likely to increase further so this may probably have an impact on the PLI that Government of India has given to Indian manufacturers and this impact would probably come down after about in a year's time when Indian manufacturers start production.
- Tarang Agarwal:** Okay and on the Dhanuka Laboratories performance you did Rs.900 Crores of revenues in nine months, what was this figure in nine months FY2021 and generally what is the gross margin that this business operates on?
- Manish Dhanuka:** So we did Rs.300 Crores, the sales were Rs.300 Crores in nine months.
- Tarang Agarwal:** And what was the figure last year?
- Manish Dhanuka:** Last year the total sales were Rs.383 Crores in the full financial year and EBITDA was Rs.32 Crores, this year there is a dip in EBITDA in nine months it is around Rs.10 Crores.
- Tarang Agarwal:** And generally what are the gross margins that this business operates Sir?
- Mridul Dhanuka:** It is about 8% to 10% EBITDA margin.
- Tarang Agarwal:** Got it. Thank you.
- Moderator:** Thank you. The next question is from the line of Viraj Parekh from Carnelian Asset Advisors. Please go ahead.
- Viraj Parekh:** Thank you so much for the opportunity. A couple of questions. Can you shed some light on how the NPNC segment has performed for this quarter nine months versus last year, also can you give me an update on the Enmetazobactam filing in US in the last call you mentioned that you are still in the process of finding a partner for the US market so how is that progress?
- Mridul Dhanuka:** I did not understand the first question, can you just come again please?
- Viraj Parekh:** NPNC segment, non-penicillin, non-cephalosporin how is that performed on a nine monthly basis can you share some numbers for that?
- Mridul Dhanuka:** That business was sold if you remember in Q2 to Bion pharmaceutical so that number is not available with me right now.

- Viraj Parekh:** So DLL has NPNC segment correct?
- Mridul Dhanuka:** You are talking about DLL performance, I got confused.
- Viraj Parekh:** Yes.
- Manish Dhanuka:** Out of the Rs.300 Crores DLL did about Rs.100 Crores of NPNC.
- Viraj Parekh:** Okay and how number performed till last year?
- Manish Dhanuka:** Last year it was around Rs.80 Crores and nine months, so there is about 20% increase in NPNC.
- Viraj Parekh:** All right and my second question was...
- Manish Dhanuka:** Enmetazobactam we are still looking for a partner for the US market. As of now they have out license for Europe as well as China.
- Viraj Parekh:** Okay and in terms of plant capacity in the last quarter it was 75% utilization for oral it was 33% and on DLL side Cephalosporin was working at 80% plant utilization and NPNC is at 60%, can you provide me the numbers for this quarter in terms of plant capacity utilization?
- Manish Dhanuka:** What we have done is we have tried to utilize the sterile capacities to the full in Orchid Pharma, although we continue to find debottlenecking opportunities to increase the capacities and reduce time cycles so that the same plants can be utilized for more production. At the same time we are now starting to look at some investment by virtue of which we can increase the capacity by another 25% that there is a block which is almost ready and it needs to be commissioned with some investment, we are looking at that right now and in Dhanuka labs as you ask the capacity utilization of NPNC has improved by 10%, our Dhanuka Laboratories remains largely same may be slightly reduced because one of the key products that Dhanuka makes that the demand for that was much reduced during this current year due to higher Pen-G prices as some other gentleman asked for.
- Viraj Parekh:** Okay and last few questions from my end, is that how and when do you plan to reduce the promoters stake to 75% and sale of Orchid Tower expected to be completed in this fiscal, is it still on track?
- Manish Dhanuka:** Yes, it will depend on how SEBI advises us to do, we have time till March 31, 2023 to come down to 75% so now that we have filed for merger, we are waiting for SEBI guideline.

- Mridul Dhanuka:** Our intent is to do it once the merger completes and well before the timeline like last time if you remember our OFS timeline was September 30 and we completed it in Q1 only similarly we would like to go somewhere by end of this year if you know to the approvals and merger process is on track as we mentioned and on Orchid Tower, our intent was to bring down the debt to Rs.100 Crores by this sale. Looking at the Omicron clear up during this time, the real estate prices although improved from last quarter, but they are not very expected to be so if not this quarter definitely by next quarter that would be sold and the number would be reduced.
- Viraj Parekh:** All right. Thank you. That is it from my mind. I will get back in the line.
- Moderator:** Thank you. The next question is from the line of Devansh Nigotia from Skill Ventures. Please go ahead.
- Devansh Nigotia:** Thank you for the opportunity. I just wanted to understand the tax losses of Rs.2000 Crores that we have, till which year it can be carry forward?
- Manish Dhanuka:** We probably have to check on that, but I think it should be for eight years or something that as for the law I am sorry we have not updated on this.
- Devansh Nigotia:** Okay, so if we generate Rs.2000 Crores PAT then we do not have to pay any tax, but it will lapse after eight years?
- Mridul Dhanuka:** So not eight years from now every year something would lapse because as you can see our depreciation is also accumulating, so yes definitely for the next foreseeable future we do not imagine paying any tax.
- Devansh Nigotia:** Okay and how will the MAT provisions if at all how will that play out?
- Mridul Dhanuka:** I think in the new tax regime again I am not the best expert on this, our CFO is not able to connect probably, but with the new tax regime I think no other tax rate is applicable as far as I understand.
- Devansh Nigotia:** Okay and the new capex which will be happening in FY2023 will be eligible for 15% taxation right?
- Mridul Dhanuka:** Again on taxation I am not the right person to answer.
- Manish Dhanuka:** But I do not think so we probably want to take advantage of the past losses and I do not think we can opt for the new policy.

- Devansh Nigotia:** Okay. That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Himanshu Upadhyay from O3 Capital. Please go ahead.
- Himanshu Upadhyay:** My question was in the margin profile of the products what we are producing or the gross margin profile, how different is it for the molecules we are producing at the Orchid, so the lowest gross margin product and the highest gross margin product what difference can it be?
- Mridul Dhanuka:** That is a very tricky question Himanshu, but the difference between the two could be very high just to give you some examples on some of our products let us say Cefixime tablet if you go and buy in the market between the cheapest tablet and the most expensive tablet actually there is no comparison of gross margin that is the marketing thing. Similarly for some of our niche products which we sell only a few hundred kilograms every year, the gross margin in percentage are very, very high, but they cannot be extrapolated for rest of the products where the gross margins are closer to our overall gross margins as you can see in our financial statement.
- Manish Dhanuka:** It is important to understand that Orchid is the only company in India probably in the world which manufactures 25 Cephalosporin products in sterile and oral so there is hardly any Cephalosporin that Orchid does not produce, some of the products probably Orchid is the only one in the world to manufacture and that too in regulated markets may be nobody is there so those are the key niche products where margins are very high, but I think that would be a confidential information.
- Himanshu Upadhyay:** Okay and who are the largest global players in the market and are they the same in regulated and unregulated markets and what could be the size of their business of Cephalosporin, any thoughts on those terms?
- Mridul Dhanuka:** So the largest players in globally for regulated Cephalosporin business comes from three or four players I would say of course Orchid is there, when Qilu from China is there largely in sterilized base and ACS DOBFAR from Italy is there. Then depending on the product you have Lupin and Aurobindo selling their own formulations in the US market but their API is not for sale for other companies so if you have to talk about API then it is only the companies largely in the regulated state.
- Himanshu Upadhyay:** Okay and the gross margin difference for a product in regulated versus unregulated market, can be how different things?

**Manish Dhanuka:** Again it varies product to product, some products it is as high as 50%, some products it is just 20% it is all of demand and supply and the number of players, it varies from product to product.

**Himanshu Upadhyay:** And when we bought this asset in 2019, we would have made certain assumptions on margins and break even point in terms of revenue, can you elaborate on it and after acquisition, how have your estimates about break even point in terms of revenue and margins changed in last two years and are you moving ahead of the timeframe you yourself projected or you are lagging behind, so some thoughts on that will be helpful?

**Manish Dhanuka:** The asset was not purchased based on what was the margin percentage or product wise margin percentage and what would it look in the future, I believe that is a game of demand supply you really do not have much control over how the competitor plays so the reason to purchase this asset was that because it was a great asset. There was very well trained manpower. The plant capacities were there. The approvals were there and I think we have been able to leverage that quite well. The fact that the plant operated at high cost which we thought we could result in significant reduction by our management, we have demonstrated that I think quite well in the last one and a half years and the fact that we could increase capacity utilization. We could introduce new products through our R&D skills and we could increase efficiencies so those were the opportunities that we saw and the combination of asset and what we could do with the asset that is what attracted us towards this company and I think we are moving in that direction. The rest is all competition and we have to play by the competition rules.

**Himanshu Upadhyay:** The peak revenue which Orchid touched was more than Rs.1400 Crores how far are we or how much time do you expect you can reach that point and when the company reached that revenue was it because of onetime factors of price appreciation or it was a normal business operations and normal price point which took it to those high revenue figures though you invested in the company but just historically what lead to the high numbers just some elaboration will be helpful?

**Mridul Dhanuka:** It is very difficult to comment on the past. I do not know what all went on in Orchid before we took over. Obviously everything was not right that is why the company went through bankruptcy. In terms of our growth I would just like to reiterate what we have said earlier. We expect to grow at 20% CAGR and from where we are going to that number we can do the math when that comes.

**Himanshu Upadhyay:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Anuj Sharma from M3 Investments. Please go ahead.

**Anuj Sharma:** Thank you. I have two questions. One is on the Enmetazobactam, it was prescribed or it was applicable for few indications? As time grows do we find the applications or indications for this particular molecule increasing and if it is increasing then what is the new size of market we are looking at?

**Manish Dhanuka:** The molecule is already covered on two larger segments in terms of hospital infections that is pneumonia and urinary tract infection and if it is applicable to other therapeutic categories or other indications that will depend on what kind of trial the licenses carry out in the future those who have already licensed out the molecules so it should not be proper for us to comment on that.

**Anuj Sharma:** Alright. My second question is again on the same line? If we read the efficacy papers on end metals your back term dating back to 2019 and we are in 2022 and still waiting so do you feel a sense of urgency amongst the regulator to clear this because the efficacy and both the safety profile seems to be in line in fact better than the existing available options so some thought into that and when do you see earliest it being getting launched in the market thanks?

**Mridul Dhanuka:** Anuj based on those only and especially because this product is targeted as an anti Carbapenem product so just to give you a bit of background now with microbial resistance increasing and just last month there were several articles about antimicrobial resistance increasing so this product spares the Carbapenem, which are in a way called AMR but the bacteria has become resistant to that so this product is targeted for that application. It is therefore USFDA has put it on fact track approval. That means once they file the dossier it should be cleared in 6 months unless they have a query or anything like that so we expect after filling this should happen very, very quickly and based on our discussions with Allecrea it should happen in the next quarter or so.

**Anuj Sharma:** Alright that is very helpful and just addendum to the first one? As per the current indication so what is the size of market we are envisaging for the spreader globally?

**Mridul Dhanuka:** Yes as we have demonstrated in the clinical trials it is significantly superior to the Piperacillin and Tazobactam and in 2008 in its hay days just in the US market Piperacillin and Tazobactam had a market of more than \$2 billion so since then I do not think the numbers would have changed with respect to total market in the US and US can be used as a segway of approximately 50% of the world market in terms of value so that would be the number I would put at as the total potential but of course there would be other competing

molecules now which will not be there so we were estimating in our earlier presentation our total life science sale of patented life of 10 years of approximately \$1 billion to \$2 billion.

**Manish Dhanuka:** I just want to add one thing to this. In my opinion going into the future China is going to be the largest market for antibiotics and it will in the next five to seven years it will overtake US and we are happy that it was out licensed in China first. That clearly shows their appetite for the new molecule and we are hoping that there will be large sales from China.

**Anuj Sharma:** Alright that is very helpful. Thank you and wish you all the best.

**Moderator:** Thank you. The next question is from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

**Tarang Agrawal:** Just a couple of follow-ups. One is I understand that the demand supply is a factor which drives prices in both your regulated and ROW markets but just if you were to give me on an average level because Cefixime is the biggest molecule for both the DLL as well as Orchid generally what is the differential that you might have seen on prices in ROW versus regulated markets?

**Manish Dhanuka:** So generally speaking since it is a large volume product, the non reg would be around 20% of GSV and in the regulated markets would be upwards of 70%.

**Tarang Agrawal:** So there is a 70% price difference is it?

**Mridul Dhanuka:** No the price difference is 40% to 50%. The gross margin value is like that.

**Manish Dhanuka:** The price is around three times. Right now the price is I would say 2.5 times, but that is available only to Orchid because we are supplying to the innovator. It may not happen in all the molecules. It depends from molecule to molecule.

**Tarang Agrawal:** Sure. The second is while I am not particularly aware of Qilu but from my limited understanding ACS Dobfar is a pretty prominent player in this space and has been so for a fairly long time so in terms of your internal estimates given DLLs presence and scale where do you think would you be fairly well placed in terms of your cost in dynamics with your peers like with Qilu and ACS as the DLL Orchid transaction comes through?

**Manish Dhanuka:** Our understanding is Dobfar what has happened over the years that the Cephalosporin manufactures have almost dried out so most of the innovator companies they purchase their raw material, their API or may be even finished product they get contract manufactured at Dobfar, Dobfar completely in a different space compared to us where we are a major player

in the generic market so in the past one and a half years in fact we have not faced much competition from Dobfar. Our main competitor I would consider is Qilu and that is where we are betting our future because many customers that we met they went with the China plus one policy. They wanted to include us as an approved vendor because they want to derisk against China. That is our understanding of this business.

**Mridul Dhanuka:** In terms of reputation Orchid quality and product quality is considered right up there with Dobfar especially in Europe where we are extremely well entrenched.

**Tarang Agrawal:** Sure China has been a leader for the key raw materials. Your key competitor is sitting out of China and you anticipate China to be one of the bigger markets going forward so how does the math work specifically against your Chinese peers?

**Manish Dhanuka:** I would say we are kind of fortunate that in China the key raw materials those are concentrated in terms of large volume fermentation product manufacturers who are different from Qilu like our competitor who are focusing on buying the same intermediates from large manufactures and then they kind of stages or synthesis that Qilu does we do to the same extent so we are as backwardly integrated as Qilu I would say. We feel that we do not have any significant disadvantage against the Chinese manufactures. To give you an example one of the products we recently got registered in China it is a sterile API and we have sold reasonable quantities to China itself so the Chinese are open to purchasing API from India where they feel there is a quality advantage and they would like to buy from USFD and European approved companies because they are kind of I would say groups within China and there are certain groups who cannot buy from the group associated with Qilu and they are looking for alternative suppliers. So I do not see as a significant disadvantage. Of course you cannot predict what will happen in the geopolitics of India and China. That is something we cannot predict.

**Tarang Agrawal:** Absolutely. Thank you Sir.

**Moderator:** Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

**Nikhil Upadhyay:** Thanks. Just two follow-ups. One is you mentioned that in the previous question that there are no new players in cephalosporins as a result innovators move to Dobfar for manufacturing so what is happening overall in terms of no players in the market and do you sense more capacity could come in if the prices are remunerated? How do you see the scenario playing out?

**Manish Dhanuka:** The cephalosporins is a category which has a certain advantage and a certain disadvantage. The disadvantage being that it is a kind of I would say a secluded category and if you set up a plant for cephalosporins it cannot be used for other categories so that is a disadvantage. At the same time it is an advantage because nobody can set up a general purpose plant and introduce a new cephalosporins so the competition largely is going to be restricted to the current players of cephalosporins so we feel that it is to our advantage and that is the reason we feel that we got this asset at a reasonable price as it would be very difficult to set up a complex asset like Orchid and make it viable by investing large amount of money and then waiting for two to three years to get all the USFDA approval. It is not easy to set up a new facility like this so we feel there would not be many new players coming into cephalosporins so probably the completion will revolve around the current players and whatever growth opportunities are there they have to be shared by the current players.

**Nikhil Upadhyay:** So in a way then it means that for Orchid and DLL it became economies of scale because as the volumes keep on improving our efficiencies keep on improving and we become much larger versus any new player?

**Manish Dhanuka:** That is what we plan.

**Nikhil Upadhyay:** So in that context how will be our capacity versus the competitors which you mentioned like in terms of capacity we would be similar to Qilu and others and some sense? I believe Nectar Lifesciences also was into cephalosporins so how are we compared to their capacities? It is just if you can just help us understand in terms of capacity where are we?

**Manish Dhanuka:** So combined together from the Indian market point of view, Dhanuka and Orchid would be around 25% to 35% depending on the product. The question with respect to Nectar I think they have a large capacity but their major focus is on the nonregulated market primarily the Indian market.

**Nikhil Upadhyay:** With respect to international competitors our capacities would be similar?

**Manish Dhanuka:** So far in terms of capacity is much lower but their value is higher being associated with the innovators and Qilu would have higher capacity. Of sterile they would be higher capacity and of oral they would have lower capacity.

**Nikhil Upadhyay:** Lastly on Enmetazobactam I read in a few papers where I just wanted to understand is like people have been talking about that this product is like a useful product since AMR in terms of the treatment level and also does that help us anyway improve the usability use cases of the product and secondly you said if new indications on which this product can be used will

depend upon the trials with the marketing or Allegra others? In that case also we would get the royalty or is the royalty only fixed to the current two indications?

**Manish Dhanuka:** The royalty is with respect to the molecule. It has nothing to do with the indication. If the indication increase we would be entitled for those royalty.

**Nikhil Upadhyay:** On AMRs do you think the used cases increase a lot more for the product versus the NMs or the similar product?

**Manish Dhanuka:** We are not the microbiologist but our understanding is this that very, very common Beta Lactam like Amoxicillin and Tetracycline their efficacy increased significantly when they were used by Beta Lactam inhibitors like Clavulanic Acid and Tazobactam so in our combinations we have two advantages. First of all the Ceftrime is a fourth generation cephalosporine which itself is much more potent compared to any antibiotic and Enmetazobactam is more potent than Tazobactam so the combination itself becomes very efficacious and we feel it has significant advantages. The rest is to be seen once it gets commercialized. Lot of economics come into play how the licenses market and all that, but as a molecule it has lot of advantages.

**Nikhil Upadhyay:** Thanks a lot and best of luck.

**Moderator:** Thank you. The next question is from the line of Varun from Brimstone Investment. Please go ahead.

**Varun:** Good morning and thank you for the opportunity. Most of my questions have been answered. Just one or two more so in addition to what we have already done what more can we do to improve the efficiency and cost competitiveness of Orchid Pharma?

**Mridul Dhanuka:** So it is almost a continuous process Varun so Orchid has a dedicated team who works on process improvement that is lowering the cost of raw materials, improving solvent recoveries and things like that so that is one continuous effort which is every time being done. The other one advantage will come from leveraging our fixed assets that is increasing capacity utilization, debottlenecking, improvement of batch cycles, batch sizes, improvement in cycle times instead of one batch in 24 hours may be one batch in 20 hours and things like that. All of those are dedicated teams which are working on these opportunities for a continuous improvement like you would have done in any process plant so these are all opportunities available and Orchid with the fact that for the last five to seven years focus was not there. These opportunities are much larger and we are already seeing the impact of some of these in terms of the quarterly numbers what we have been able to deliver has happened only because we have been able to debottleneck to churn out these

kind of an output and we would continue to do so and we believe that going forward for the next two to three years we do not need any major capex to give the numbers that we have talked about for our growth rate.

**Varun:** That is helpful and what is the revenue contribution for us from top three and top five molecules in Orchid Pharma?

**Mridul Dhanuka:** Yes so top three molecules contribute about 50% and top five molecules contribute two thirds to the sale.

**Varun:** That is it from my side. Thank you.

**Moderator:** Thank you. The next question is from the line of Viraj Kataria from Securities Investment Management. Please go ahead.

**Viraj Kataria:** Thanks for the opportunity. I just had one question. What will be the debt as of today and the key property? We have put in the board meeting so how much are we expecting from that?

**Mridul Dhanuka:** The debt position today is around Rs.150 Crores. That is the term loan I am talking about and our target was to come down to roughly Rs.100 odd Crores in this year, which depending on the property prices and our sell of Orchid Towers would happen in this quarter or the next and in terms of the value expected from the tower that is confidential information since we are talking to a few buyers, I would not like to divulge that information right now.

**Viraj Kataria:** Fine. Thank you very much.

**Moderator:** Thank you. The next question is from the line of Tharang Aggarwal from Old Bridge Capital investment. Please go ahead.

**Tarun Aggarwal:** To an earlier participants question you said that the top three products are 30% and the top five products are two third was that accurate because then the math does not add up right?

**Mridul Dhanuka:** 50% and two third.

**Tarun Aggarwal:** Thanks.

**Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

**Mridul Dhanuka:** I would like to thank you all the joiners for this call for asking these questions. Some of them do give us food for thought for our future and we would like to welcome you for the next call whenever it happens where we hope to deliver better results and continue this growth that we are doing at Orchid Pharma. Thank you for joining.

**Moderator:** Thank you members of the management. On behalf of Edelweiss Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.