

**Date: 02.06.2023  
Bangalore**

To,  
**M/s. Bombay Stock Exchange Limited**  
Phiroze Jeejeebhoy Towers  
Dalal Street,  
Mumbai-400001

**Security Code: 524654**

**Subject: Disclosure under Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015**

Dear Sir/Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, we wish to inform you that the Company participated in the Investors Conference Call on Monday, 29<sup>th</sup> May, 2023, enclosed herewith please find transcript of earnings conference call on Audited Financial Results for the 4th Quarter and year ended on 31st March, 2023. No unpublished price sensitive information was shared/discussed in the meeting. Kindly take the same on your record.

**Yours Faithfully,**

**For Natural Capsules Limited**

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SHILPA BURMAN  
BURMAN Date: 2023.06.02  
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**Shilpa Burman**  
**Company Secretary & Compliance Officer**





## Natural Capsules Limited

Q4FY22 Earnings Conference Call

29<sup>th</sup> May, 2023

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### Management Participants

Mr. Sunil Mundra –Managing Director

Mr. Raj Kishore Prasad – Chief Financial Officer



Analyst

Abhishek Mehra – TIL Advisors

**Moderator:**

Ladies and gentlemen, Good day and welcome to the Q4 FY23 Earnings Conference Call of Natural Capsules 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 opening remarks concludes. Should you need assistance during the conference, please signal an operator by pressing “\*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Mehra from TIL Advisors. Thank you and over to you, Mr. Mehra.

**Abhishek Mehra:**

Thank you, Melissa. Welcome everyone and thank you for joining this Q4 FY23 Earnings Conference Call of Natural Capsules Limited. The results and investor updates have been emailed to you and are also available on the stock exchanges. In case anyone does not have a copy of the same, please do write to us and we will be happy to send it over to you. To take us through the results of this quarter and answer your questions we have with us today, Mr. . Sunil L Mundra – Managing Director and Mr. Raj Kishore Prasad – Chief Financial Officer. We will be starting the call with a brief overview of the business and the financial performance in Q4 FY23 which will be followed by the Q&A session.

I would like to remind you all that everything said in this call reflecting any outlook for the future which can be construed as a forward-looking statement must be viewed in conjunction with the uncertainties and the risks that the company faces. These uncertainties and risks are included, but not limited to what we have mentioned in our annual reports which you will find on our company website. With that said, I will now hand over the call to Mr. Over to you, Sir.

**Sunil Mundra:**

Thank you Abhishek. A warm welcome to each and every one of you to Natural Capsules Limited's maiden earnings conference call. It is a pleasure to have you all here today. As this is our first ever earnings call, I would like to take this opportunity to provide an overview of our business verticals before delving into the performance highlights of Q4FY23.

At Natural Capsules, we currently operate in two distinct business verticals: capsules and API. I'll shed some light on each one, starting with our capsule segment. With nearly three decades of experience in this industry, we are proud to say that upon completion of our ongoing CAPEX, we will become the second-largest manufacturer of empty hard capsules in India.

Our journey in this industry took a significant leap forward in 2019 when we adopted ground-breaking manufacturing technology. This innovation has enabled us to become one of the fastest and most efficient producers of hard empty capsules worldwide. Leveraging this, we expanded our capacities by almost threefold in the past three years, operating close to peak utilization levels. As a result, our performance in this vertical has significantly improved, with revenues increasing from 60 crores in FY20 to 172 crores in FY23. Furthermore, our operating

margin profile has shifted from 9% to 20%, leading to a substantial rise in Profit after Tax from 1 crore to 18 crores.

This remarkable progress can be attributed to the advantages offered by our new-generation machines. These machines consume approximately 40% less power per unit manufactured compared to their older counterparts. Moreover, their highly automated nature requires fewer manpower resources, resulting in reduced costs per unit produced. We have also witnessed a significant decrease in rejection rates, with only 3% compared to 8% in the older machines. Importantly, the manufacturing speed has tripled from 1.5 million capsules per day to an impressive 5 million capsules per day. Collectively, these factors have contributed to higher efficiencies and profitability for our company. To further enhance our capabilities, we are expanding our capacities by adding HPMC lines, which will yield higher realizations and better margins.

Now, let's turn our attention to the API vertical. In 2020, we established Natural Biogenex Private Limited as our subsidiary to undertake API manufacturing operations. We have targeted the production of four major APIs and their derivative salts, three of which have received approval under the PLI scheme of the government. Significantly, we will be the sole manufacturer in the country for two of these APIs, considering that they are currently imported in large quantities. Recognizing the immense opportunity to capture the domestic market, we have strategically set up our facilities to comply with regulatory requirements for potential exports to regulated markets as well. In line with our expansion plans, we have invested approximately 130 crores in our API business, utilizing a mix of internal accruals, debt, and support from HNI investors and a renowned private equity player.

Having successfully completed our expansion phase in the past three years, during which we substantially increased our capsule capacity, we are now confident about our growth trajectory. Our aim is to leverage our strong position in the capsules business and rapidly gain domestic market share in the API business by offering cost-effective import substitutes to our customers.

Before we delve into the performance of the quarter, I would like to share some positive developments with you. We recently secured an exclusive distribution agreement with a multi-billion-dollar corporation for our capsules in the Mexico market. This presents a significant opportunity for us, given Mexico's high demand for imported capsules. Sales recognition from this contract is expected to commence in the second quarter of the current financial year.

Despite the challenging operating environment in the domestic pharmaceutical industry, we have managed to maintain our volumes without experiencing any declines. We believe that the period of declining realisations is behind us, as evidenced by a gradual rebound in realisations in Q1 and our anticipation of further increases throughout the year.

Additionally, we are making progress in setting up HPMC lines, with the integration process of the first line already underway. We anticipate the remaining two lines to be operational in the second and third quarters of FY24, respectively.

On the API front, we are delighted to announce that we anticipate commencing the sale of small commercial batches from the second quarter, gradually ramping up production from the third quarter. As a result, we have revised our earlier guidance on achieving 50% capacity utilization in the first year, considering the commencement of commercial sales in Q2FY24.

Regarding the Production Linked Incentive (PLI) program, we have received government approvals and have decided to opt for the PLI incentive from FY25. This strategic decision is based on the program being determined by sales quantity. With our confidence in significantly surpassing the volumes of FY24, we anticipate higher incentives in FY25. Furthermore, the removal of the minimum 90% capacity utilization condition for eligibility to receive the incentives is a positive development. Now, the incentives will apply to any quantity manufactured and sold.

Looking ahead to the upcoming financial year, we remain excited about our growth trajectory in both business verticals. The commencement of the HPMC lines is expected to drive top-line growth and improve the margin profile of our capsules business. For our API business, our focus will be on rapidly scaling up operations.

Before I conclude my remarks and open the floor for questions, I would like to inform you that moving forward, we will ensure the practice of conducting half-yearly conference calls (H1 and H2). This will provide all of you with ample opportunities to interact with us and have your queries resolved.

Thank you for your attention. With that, I now invite any questions you may have.

**Moderator:** Ladies and gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Keshav Kumar from RakSan Investors Please go ahead.

**Keshav Kumar:** Sir, for API why have we revised the asset terms expected downward to 2X compared to 2.7 X which was in the earlier presentation?

**Sunil Mundra:** See this has happened mainly due to two reasons. One, of course, the total project cost has gone up in case of assets earlier it was around 96 crore anticipated at the time of applying for the PLI back in December of 20. Now currently we are running at about 130. The second reason of course is the latest small correction in the pricing of these most of these API products in last one year added both together we are thinking that immediately in the coming FY24 and FY25

we expected to be around 2 X, but going forward as regulated market supply starts probably we should be able to achieve the 2.7 to 2.8 X.

**Keshav Kumar:** And sir what percentage of Biogenex minority share according to the according to the current schedule and do we rule out any further dilution going forward?

**Sunil Mundra:** At this moment the minority shareholding is 10%, 90% is held by the holding company. Going forward, the private equity investors milestones which is given for FY27 I think the maximum dilution that could happen would be about 35%, natural capsule will continue to hold about 65.6% or so. At this moment, we do not foresee any further dilution in our subsidiary company.

**Keshav Kumar:** So, the 130 crore CAPEX as far as we understand it is divided in two parts we doing phase one and then on the success of it we will commence with Phase-2, so in FY24 and 25 what capacity utilization are we looking at on the overall 130 crore?

**Sunil Mundra:** Yeah. So, I think originally we had proposed some 50% capacity utilization based on starting in Q1, but since there is a change in delay in installation I mean commissioning of the small scale volume, the large production batches. I think we are now projecting that total capacity would be something like say still we would try and now achieve 50% of the capacity. Our earlier target was we said we will target 100 crore maybe we will now try to achieve 50% of that.

**Keshav Kumar:** So, sir this 50% would be EBITDA break even or we will need higher utilizations to reach that?

**Sunil Mundra:** I think so it should be at least in FY 24 may not be possible, but if FY 25 certainly will be cash positive.

**Keshav Kumar:** Sir, for the off-take part do we have any contracts ready for validation and subsequent soft commitments from clients or but basically, I am trying to get a sense on whether this could come as a source of risk if even if our scale up succeeds?

**Sunil Mundra:** We already have been in touch with most of these buyers of these steroidal APIs, many of whom are our existing customers for our capsule business and we have got good response for them and I think now that our R&D stability data are available and in about 5 to 6 weeks we are launching our small volume in kilo lab. We will be able to sell it to them. We have got certain letters of intent and certain kind of commitments also. We do not find anything challenging on selling our produce.

**Moderator:** Thank you. We have the next question from the line of Ashutosh Agarwal from NB India. Please go ahead.

**Ashutosh Agarwal:** My first question is with respect to the margins impact which we have seen from Quarter 4 majorly, so what are the future conservative margins we are seeing as per the two months of Quarter 1 and how we are looking at the next two quarters like Q1 and Q2?

**Sunil Mundra:** Actually, Q4 margins had come down basically because of that sales realizations had dropped a bit, but we could save something on the raw material cost also. We had net sales realization coming differently on domestic and export sales. Domestic did drop a little bit more than the exports. I feel that the drop bottomed out now domestic realization whatever drop had to take place is bottomed out. From Q1 we are seeing good green offshoots and we have seen a marginal growth in the realization and also the good thing is that in the RM side also the costs are softening a bit and we expect a saving about 2% to 3% there per kilogram of the raw material. So, all in whole I think that the margins are going to improve are coming the next two quarters.

**Ashutosh Agarwal:** So, are we expecting that the margins may come back to the earlier which were there in the Q1 or Q2 of FY23?

**Sunil Mundra:** Yes, I think with the addition of HPMC lines probably yes it will add on a little more margins there. We expect by at least by Q3, Q4, we should get back to the levels what we have achieved last year.

**Ashutosh Agarwal:** So, we are expecting majorly from Q3, Q4 when HPMC will kick in the show, so are we expecting the further delay in the projects because we are seeing those delays as per the economic situation and market situation from the last two, three quarters?

**Sunil Mundra:** Now there is no more delay. HPMC capsule was first on the lines actually these HPMC lines are being tried out for the first time on these new generation machines high speed machines earlier we have been producing HPMC on one million machines where the capacities were quite limited and so because of some technical issues we had delayed that. Now that the first line is in our facility and the technical integration is on. We expect, I think trial production to begin by third week of June. So, once this line stabilizes and if at all any newer modifications not required. We would immediately ask for the other two lines to come get supplied which we expect that in Q2 and Q3 one line respectively would get added.

**Ashutosh Agarwal:** So, we are expecting that maybe from Q3 the one line of HPMC will start contributing to the revenue conservatively?

**Sunil Mundra:** Yes, no one line would start from Q1 end. The second line was Q2 end and third line from Q3 end. So, we will totally have three lines of HPMC by the fourth quarter of this year.

**Ashutosh Agarwal:** So, that will drive our operating margin to coming back to 20% we are expecting that?

**Sunil Mundra:** Even otherwise also gelatin also as I have already said the drop in the realization in the Q4 of last year has now bottomed out. We have seen feedback from the market and the prices are improving and we hope to get better realization. Now, our other strategy is to focus more on exports which always bring about 15% to 18% higher realization. So, that is also paying as well

and our increased strength in the marketing team for export would help us to improve the metric sales realization.

**Ashutosh Agarwal:** My question related to Mexico contract also there that are we going or are we foreseeing that the Mexico contract will roll out on the time like on Quarter 2 is there any chance that it may also get delayed or what kind of opportunities we are looking from the Mexico market if we can get an idea?

**Sunil Mundra:** See, whatever our forecasts we have given we have not considered any additional boost from this Mexico contract, but we expect incremental business of almost about 1.8 billion capsules per annum on an average, about four containers are going to Mexico which the company has committed to us and they are quite large trading house in Mexico. So, I think that would give it as I already mentioned some time back that exports bring in at least about 15% to 18% better sales realization this would definitely improve our bottom line.

**Moderator:** We have the next question from the line of Yogansh Jeswani from Mittal Analytics. Please go ahead.

**Yogansh Jeswani:** So, two quick questions for you, so first is on the incentive factor so you have mentioned in your presentation also that now the incentive structure does not have the requirement of 90% minimum capacity utilization and we have shifted the incentive scheme from 24 to FY25, so if you could just share a little more color on how the overall incentive structure has changed and the 67 crores that we are supposed to receive how will this flow to the company?

**Sunil Mundra:** See the PLI scheme under which we have availed these benefits consists of a period for 6 years. So, initially the scheme is supposed to have started for chemical I mean molecules it was 1/4/23 for fermentation 1/4/24, but keeping in mind that most of the fermentation projects are taking time, the government has extended the starting day. Now, another clarification earlier guidelines said that to get 100% incentive we must meet 90% of the committed capacity and if we achieve only 80% sales you will be eligible only for 50%, but I believe now the new guidelines have been made in such a way that you will be eligible for the same rate of incentive whatever the quantity you produce this change has been notified. Now, the reason why we switched over to next year is that in if we start in the current year which anyway we are saying that half year will go in achieving the large-scale batches. So, we would have lost the incentive for half year. So, since the number of duration of the scheme is 6 years and 6 years could have started either from '24 or '25. So, that is why to turn the maximum benefit out of it we thought that it would be prudent to start from 1/4/25. We still hope to achieve that 67 crores of incentive over a period of six year.

**Sunil Mundra:** So, if I if I understand it correctly this 6 year is financial year, so even if you start say last quarter of this financial year this will still count as one full year. So, then it may make sense to start especially from next year.



**Yogansh Jeswani:** And sir in terms of the commercial and the trial batches that we are about to start, so are we doing this for all three of the APIs or is it for just one or two?

**Sunil Mundra:** So, the commercial trial batches are right now going on for the basic APIs like Dexamethasone, Betamethasone and Prednisolone and their complete route of synthesis there are most of these products involved at least about 10 to 11 steps of synthesis, two steps of fermentation. So, initially your R&D lab had done with gram batches and went on to kilogram. Now we are scaling up them to about 100K to 200K batches. So, for these base API, where the complete in-house backward integration is being done, we are trying to scale up step by step to a bigger scale of 100 to 200 kilogram. Now as far as the derivatives are concerned so our strategy was to import intermediate from China and convert them into derivatives, put them to stability, make them ready for the marketability. So, we are now ready with that at least 16 products stability data with the tech transfer dossier ready we will approach the drug department to get license for them and once these licenses are with us we can manufacture and start supplying to customers those who are ready to take based on our R&D sample. There are few customers who would expect the samples from the commercial batches to be evaluated by them internally because the supplies would begin quarterly.

**Yogansh Jeswani:** And just one clarification on incentives earlier the incentive was linked to the production and the higher production we do year-on-year the incentive will flow in line with that, but now with this utilization levels as a requirement going away, so these incentives will be based out of what? Will this 67 crore we divided equally for all 6 years or is there another method of calculating the incentive?

**Sunil Mundra:** I think the incentive was always fixed per kg earlier there was a condition we had committed say capacity for Dexamethasone 10 metric ton, Betamethasone 12 metric ton. So, earlier there was a clause which said that we will be eligible for 100% of the rate of incentive per kg if we achieve 90% capacity, if we achieve only 80% we will be eligible for 50%. So, this was the condition which has been now removed. What they are now saying is that you will be eligible for 100% of the incentive irrespective of the percentage of capacity even if I do 50% production out of 10 metric tons of dexamethasone completed capacity I will be eligible for the 100% of the incentive per kg. I hope I have answered.

**Yogansh Jeswani:** So, we get fixed ₹ per kg on whatever production that we do now so overall we are better position?

**Sunil Mundra:** Right.

**Yogansh Jeswani:** And last one question on your Mexico order so with this Mexico order coming in and now I think 20%, 21% of our business is from export, so this year do we see the export turnover to increase substantially or this will start at a lower base and since North America is 3%, 4% of our overall sales this will still be a smaller percentage?

**Sunil Mundra:** So, I see this way the current year Mexico orders would start kicking in from Q2. So, probably this year we will see at least the jump from 21% to 27%, 28% next year it could go up to 35%. So, definitely it is going to give a boost.

**Moderator:** Thank you. We have the next question from the line of Shlok Dave from CAO Capital. Please go ahead.

**Shlok Dave:** Sunil sir if you can just repeat the last figures that you gave on the export this year how much exports have you done you mentioned they can cross 35%, but what was the number for this year?

**Sunil Mundra:** I think it is about 21% to 22% and probably with this Mexico order coming in, our major focus on exports going up, HPMC getting added definitely we are confident currently probably it could increase by 5% to 6% next year go up to 35%.

**Shlok Dave:** Sir, just to summarize everything that you have discussed regarding Q4 results whatever has happened is transient in nature, is my understanding correct whatever on the realization side happened is transient in nature probably because of inventory destocking that we are seeing in the domestic market and things have started normalizing, realizations have started picking up at least they have stopped falling you expect that they will come back and once you go back to the previous realizations your margins will mean revert to the let us say Q3 levels and whatever changes are happening on the API side they are just delays one quarter here, two quarters there, but overall sum total remains the same delayed by probably 6 months on the on the higher side maybe by a quarter, but overall the equation remains the same.

**Sunil Mundra:** Yes, your understanding is right as far as the capsule business is concerned domestic excess inventory at all levels right from the raw material till the finished goods inventory into the hands of retailers probably that caused a bit of slowdown in the domestic finished formulation industry which and that be impacted on companies like us so I think that period is now getting over and most of the coming companies are coming back to kind of normalcy in their pickup of raw material. So, I hope that now whatever the price erosion we saw in the last quarter or so probably will come back to normal. We saw only in the last quarter some of the other competitors saw it much earlier and we see that the trend is reversing. Now coming to the API, your question was yes there is a couple of quarters of delay for the larger volume and the quarter delay for the smaller volumes that of course there is an impact to some extent due to the cost overrun there one is that. So, probably a certain might get less as compared to what was committed in the first year or second year, but going forward as we see that our ultimate aim is to what to get into the regulated export customer there I do not foresee any challenges even in the current year the export import data shows that the prices of these APIs have fallen, but I would interpret it this way. These rates have fallen for the non-registered suppliers quantities. There are two types of suppliers for this, every API comes from registered source and unregistered source. Unregistered source keeps fluctuating, registered source or more or

less stable. Our competition or our aim is to supply to those customers who regularly buy from registered source from China.

**Shlok Dave:** My guess is that had you guys been supplying already you would not have seen much volatility in your prices, had the API being the unit being commercially supplying to your clients I guess you guys would not have seen massive fluctuations in the pricing?

**Sunil Mundra:** What I would say is this kind of volatility yes we are seeing that there is some kind of correction of 10% to 15% in some of the API pricing, but this is also transient I would say that next couple of quarters China would again be back and picking kicking up and the prices would go up, but what I am saying is that our aim is also ultimately first year we are targeting to meet the category C customers who are very price sensitive and all that, but going forward we have moved up the ladder of the customer quality and where the sensitivity to this generic imports, unregistered source API imports will be drastically down.

**Shlok Dave:** So, if we were to take a three year view nothing has changed the three years from now whatever was supposed to happen will still happen. It is just that in between this inventory destocking has hit the capsule business for a quarter or two and the API the good thing is that what you mentioned about the government notification. So, one final question on if you can guide because there is I do not really know how the new capsule facilities will ramp up I cannot figure that out at all sir can you give some sort of a volume guidance for the capsule business this time for this year and also for next year like will the ramp up be very, very quick there or will it be slow and steady if you can give some ideas, some understanding we are starting Q2 how will the ramp up happen for this year and then what will happen next year?

**Sunil Mundra:** So, in FY23 our actual gross production if you look at the installed capacity what the actual gross production we achieved almost 96%. We have our installed capacity 18 billion we manufacture something like about 17.3 billion. In FY24 we have to do a similar run rate for gelatine caps and if HPMC first line starts in Q1 and the other two lines also come online in next two quarters depending on how soon we are able to stabilize the first line we should be able to add at least 6 months of annual capacity of capsules.

**Shlok Dave:** So, that ramps up very quickly then so if you have six months of availability you can do six months of production, is that understanding correct sir?

**Sunil Mundra:** Yeah I said average first line is running for say 9 months, second line was 6 month and third line for 3 months. Average of 6 months for three lines production could be about 1.2 billion capsules and probably that add on to our existing capacity

**Shlok Dave:** But sir is the understanding correct that if you have 30 days of availability of that machine you can do 30 day of production during that period when the machine is freshly installed like

wherein it is a new machine you have just installed it, but next 30 days you can actually have 30 days of production?

**Sunil Mundra:** Yeah, but any new machine for a production facility takes some time to stabilize and to arrive at the correct quality parameters.

**Shlok Dave:** But that would not run into quarters and quarters and that would not take two quarters to stabilize?

**Sunil Mundra:** No, we are confident. See, we have been manufacturing HPMC capsules for the last two decades, but what we have been doing is on the older generation machine, now we have machine of high speed and new generation.

**Moderator:** Thank you. We have the next question from the line of Tushar Talwar from Regulation 30. Please go ahead.

**Tushar Talwar:** Sir, I just wanted to ask that there's been a lot of filings on the fund raising that we are doing at a subsidiary level in natural biogenetics and we have been doing it at a valuation of anywhere between 200 and 250 crores as the cash has started increasing, so my question is that so what is the logic for such a large fundraise at the subsidiary level and especially since we are now down to I think around 67% stake in that especially given the fact that we had fully financed the entire API unit from the rights issue and the debt proceeds, so is there something new in terms of the future outlook for that entity that we are choosing to dilute so much and also raise so much capital which is in excess of what we need for that at this point in time?

**Sunil Mundra:** See, we have brought in investor subsidiary level as investors are keen to invest only in API business actually. So, I can say that there are no further plans to dilute at this moment and then other than those which are already in public domain. Actually, the reason the rationale behind the raising the CAPEX was for two, three reasons. One is that API project had undergone some cost increase originally our cost was about 96 crores. Now it has gone to about 130 crores and additionally keeping in mind the current business scenario the working capital cycles have stretched a bit. So, with those requirements in mind and also that the total group is having some kind of a debt now. We did not want to further it is we thought it prudent not to over leverage ourselves raise some equity to derisk the business.

**Tushar Talwar:** So, there is no further expansion plans and all which are planned in terms of that entity it is just something that we are doing to strengthen the balance sheet?

**Sunil Mundra:** Yes absolutely. At this moment whatever the funding has been done is basically taking care of all the plans which have been made earlier and are in public domain.

**Tushar Talwar:** And sir what is the basis for the 250 crore valuation that we have arrived at considering that we'll be getting back almost 60 crore, 67 crores from the PLI itself, so any kind of benchmarks and all you have in terms of what is the expected revenue at 50% utilization, 100% utilization, what kind of logic is there in terms of the valuation we have done the fund raise?

**Sunil Mundra:** Of course, the valuations have been done with the standard business practices. We have given a business forecast for the next 5 years to the investors and based on those they have arrived at the valuation and we foresee that the real business growth will happen in third year onwards when the regulated market export business start.

**Tushar Talwar:** And sir can you give us a flavor of these forecasts sir?

**Sunil Mundra:** We had already said initially we said about 2.7 asset turn to start with year two or three, but now probably we expect around asset turn of about 2 in the first couple of years, maybe third or fourth year when the reg market business is significantly about 25% to 30% our total revenue, we expect it to go to 2.5?

**Tushar Talwar:** Sir my second question sir is in terms of the guidance that we have been giving for the capsule expansion, so I just wanted to point out that when your first presentation has come out in November 21 we had guided that by Q2 FY23 we will have all the three lines up and once Q2 FY23 got over the guidance was revised to Q4 FY23 and we had also done a little bit of adjustment on the capacity and so now that Q4 is over we have again put it forward by two quarters, now I understand sir that business circumstances changed, but just as a small feedback maybe you could consider being a little more conservative on the guidance because that is something which the investors take very, very seriously?

**Sunil Mundra:** We take your input Tushar.

**Moderator:** We have the next question from the line of Rohit from iThought PMS. Please go ahead.

**Rohit:** Sir my question was on the capsule side so lot of the other players have also put up capacity in the last maybe a year or two in India, so I mean in your comments have said that this realization drop which is happening more in the domestic markets is sort of bottomed down, so my question is despite the massive supply that has come you have also put up new capacity which is also coming online in other places also despite that we think that the overall drop in realization has bottomed out I just wanted to understand is that understanding is correct and if yes why would that be just that despite a lot of supply coming in?

**Sunil Mundra:** Sales realization is not completely only linked to the capacity available. Yes, one of the important factor is availability of material. It is not a kind of commodity product and is not a totally commodity product. Ours is a drug input. So, there are something like customers where we have our products registered and they continue **(Inaudible)**. So, capacity will affect but not

to 100%. Second, my answer why we feel that the price realization dropping has bottomed out based on the input that we are getting from our customers that their domestic demand has picked up again in overall pipeline inventory at various stages where we have got stuck in during the last two years has now got normalized and probably we are getting orders at the similar levels as we were earlier or to a large extent at those levels. I would think that the additional capacity should not have any kind of an effect on our realization going forward it will have some effect, but we have also taken measures to derisk that by I mean attempting it better quality customers, going for larger export markets and tying up with better distributions in international.

**Rohit:** So, you do not think that we will be margin dilutive or it will not hamper your margin improvement from there?

**Sunil Mundra:** Our personal feel is that the margins are bottomed out at this moment. I mean the sales realization have bottomed out and from here onwards we are seeing small improvement in domestic markets. Going forward, it will be very small, but incremental growth in the realization at the same time there is a softening up of raw material prices so that will add on to the margin. Our approach is that we should rely more on exports so that would give us much more comfort.

**Rohit:** And in terms of the API business so this PLI benefit that you have is based on your productions and it does not matter whether you are exporting or you are selling it in the domestic market it is more based on production, is that correct?

**Sunil Mundra:** Yes, you are absolutely right it is direly linked to production.

**Moderator:** Thank you. We have the next question from the line of Anupam Agarwal from Lucky Investment Managers. Please go ahead.

**Anupam Agarwal:** My question was if you can call out the prices of the three products in the API business that we are putting CAPEX for, you mentioned in your opening remarks prices has sort of corrected which has led to a lower gross terms for a business, can you call out the pricing in the last 6 months, 8 months of those API?

**Sunil Mundra:** So, as I already mentioned the prices of these API's say I am basically referring to say prices of three major API which we have taken the PLI Betamethasone, Dexamethasone and Prednisolone, so Betamethasone was say in the range of running around \$820 a kilo now imports are happening.

**Anupam Agarwal:** Sorry your voice is little muffled can you repeat again, please?

**Sunil Mundra:** Yeah, so I was saying that I can talk about three major API's for which we have taken the PLI sanction the Betamethasone, Dexamethasone and Prednisolone say for Betamethasone the earlier prices about a year back was about 825 US dollars for per kilogram. Now they have softened up to say 740 and way for Dexamethasone which was around 400 it has gone down to about 345 or so, Prednisolone was also in the same range of about 425 has gone to 350. These kind of pricings are for those unregistered sources, but if you look at the EXIM data imports happening from the register source continue to be done at the prices which were prevailing about a year back, there is no major correction in those types.

**Anupam Agarwal:** Secondly, sir you made a comment that the working capital in API business will be slightly stretched, can you elude to versus the capsule business what will be the working capital like in the API business?

**Sunil Mundra:** I was more referring to the capsule business. This is capsule business we had seen better cash rotations in the last two, three years during COVID period. They get got a bit straight now and then maybe our volume of business is also tripled over last three years. So, working cycles are in the range of about 90 days in our capsule, but I anticipate in API business it will be a little bit higher and 90 to 120 days is what we are expecting API business.

**Anupam Agarwal:** And would the API business be at a slightly higher margin compared to overall group level of 18%, 20%?

**Sunil Mundra:** Yes, I think margins in API business purely depend on the type of customer to whom you sell and kind of certifications and kind of monograph standard that you supplied. So, to begin with in first year when we are targeting domestic generic players the margins would be limited, but going forward in the third year or fourth year when our target is regulated market customers we expect reasonably good margin.

**Moderator:** Thank you. We have the next question from the line of Umang Shah from India Bridge Capital. Please go ahead.

**Umang Shah:** Sir, with respect to the Mexican order is the fresh price included in our contract price or it is something that we take a response?

**Sunil Mundra:** Could you repeat your question please I could not catch you.

**Umang Shah:** My question was with respect to the order that we are supplying to Mexico the freight cost is it included in the pricing or is it something that we have no control over?

**Sunil Mundra:** There is no fixed pricing there the pricing will be the prevailing market price.

**Umang Shah:** Sir any what are the contracts like are you getting any interest on the HPMC capsules that are looking to sell and is that domestic or is it export?

**Sunil Mundra:** HPMC domestic market is lesser than what it is in the international market, but we see that in domestic also a lot of products are getting introduced in HPMC older a lot of Neutra and herbal products are going into HPMC, demand traction is there in domestic market as well.

**Moderator:** Thank you. We have the next question from the line of Praveen Sharma an Investor. Please go ahead.

**Praveen Sharma:** My first question is sir in this API business since we are doing significant dilution these private equity guys they are bringing some expertise to enable us to penetrate the regulated market or it is just the money which they are bringing on to the table?

**Sunil Mundra:** At this moment of course, there is no such commitment from their side, but I believe most of them will give this value add advice and service to us. I believe they have investors who are based in the US and all that so they will probably be able to help us.

**Praveen Sharma:** My second question is sir just to understand on one of the slides in this API it is 23 slide number PLI scheme it is written for fermentation-based products incentive for FY25 to 28 would be 20% and then 29 would be 15 and will be 30% 10% in 30. Now this is 20, 15, 10 are basically the percentage in terms of share from the revenue top line means 20% of the revenues whatever revenue you do because now that minimum utilization thing has gone. So, this is the minimum?

**Sunil Mundra:** Yes your understanding is right. The revenue from that particular product.

**Praveen Sharma:** So, the incentive per kg will also fluctuate depending on utilization?

**Sunil Mundra:** No, the scheme has already fixed the qualification price for which the incentive will be applicable. For each of these products the incentive amount per kilogram is already fixed.

**Praveen Sharma:** But that is the minimum price which you have to sell and then if we sell at higher?

**Sunil Mundra:** No, there is no correlation between the selling price and incentive. The price quoted in the scheme was only for the purpose of qualifying for the purpose of incentive.

**Praveen Sharma:** So, this 20%, 15% doesn't mean anything it is a fixed thing whatever you produce you will get this fix?

**Sunil Mundra:** No, for example, for Prednisolone we have quoted something like Rs. 23,399. So, I am eligible. for 20% incentive of that price.

**Praveen Sharma:** And sir you said that once you penetrate the regulated market in three years it will be 2.7 x the asset turn, so basically we are looking at 350 crores on the CAPEX of 134, correct that is the way we are looking at it?



**Sunil Mundra:** Yes it should be.

**Praveen Sharma:** Because it was slightly confusing the first year will be 50% utilization which means how much will be you already gave the prices, but the ballpark how much will be the revenue accretion from the top line acquisition from API business?

**Sunil Mundra:** We are expecting the first-year revenue since the small volume lab is starting in Q3 and the business will have some sort of a lag for the validation. We expect revenue of about 50 to 65 crores of business in the first year.

**Praveen Sharma:** When you said 2 two times so that means 60 crore 130 into 2 when we will be reaching?

**Sunil Mundra:** I think year three we should be reaching around two times. Phase-2 capacities of the fermentation also comes on board that that is the time when probably are the whole volume will come into play and the year three would be the first full year of operation for that full capacity.

**Moderator:** Thank you. We have the next question from the line of Piyush Jain from NX Wealth Management. Please go ahead.

**Piyush Jain:** Sir first question I want to understand since this is the first call we are having what has happened over the years last two or three years something where we were doing some 8%, 9%, 10% of margin and suddenly companies in the range of around 18% to 20%, can you throw some light on that?

**Sunil Mundra:** Yeah in my opening remarks itself I said that the two we were operating with the traditional capsule manufacturing machines which were producing about 1 million capsules per 24 hours to 1.5 million capsules for 24 hours. We had done improvisation in house and maximum capacity was about 1.5 million capsules about 24 hours. Now in the last three years in 2018 December we launched our first capsule. We did a joint kind of a collaborative effort with the external robotics company where they made a customized design machine for us which started producing 2.5 million initially and later on about 5 million capsules. This was a breakthrough that made the whole change and as I said mentioned in my earlier remark the savings in terms of power, manpower wastages and higher kind of a better quality all these added on to the operational efficiencies. So, these operational efficiencies added on to our bottom line.

**Piyush Jain:** Sir, one more point small thing sir you said Mexican order will be around 1.8 capsules, so how much it will translate into a revenue?

**Sunil Mundra:** 1.8 million capsules of HPMC at 250 per 1000 capsules and gelatin....

**Piyush Jain:** One of your some interview I think I heard correct me if I am wrong that starting you were doing some fermentation purpose this API and then you revised to some different process, is

it something which we envisage something and then we change something which will have any bearing and impact on our profitability something and sir what would be the margin in the API business like the capsule business you are doing around 18% to 50%, so what will be the margin trajectory API business?

**Sunil Mundra:** I think your first question was about the margins in capsule business margin of 18% is our current margin probably it will improve a bit. API business as I already mentioned that being the first year in partly operational probably we should be happy to do kind of a breakeven cash in cash.

**Piyush Jain:** Once it is ramp up fully 100% or 80%,90% capacity basis?

**Sunil Mundra:** Yeah, I think we have indicated in our earlier presentation it depends on the type of market the third year when about 30%. 35% revenue comes from regulated market export we should be something in ranges about 20% plus.

**Piyush Jain:** On fermentation process any change in fermentation process?

**Sunil Mundra:** No, we are still on the fermentation track only all the products are fermentation at two stages. We are now launching production processors having about 12 to 14 steps, 2 steps for fermentation rest are chemicals then there are about 10 or 11 steps of chemical synthesis. Again, another round of fermentation, then couple of synthesis step, fermentation is a heart of the whole process,

**Piyush Jain:** Sir, just last question in three years' time let us say just in assume for FY27 or something, what type of mix you see as a natural capsule consolidated basis right now you are doing capsule business 170 odd crores this capacity is also being getting added from 18 billion capsule to 22 billion plus you are also going in this vegetarian capsule plus API will also ramp up and let us say second year of third year operation, so what would be the revenue mix it will be around 250 crores from capital business and how much from the API business, what could be we can see the number of console bases revenue top line?

**Sunil Mundra:** See the third or fourth year of API business of API business where we expect a regulated market business. We probably might touch the original forecast that we have given 2.7 times the asset earn in case of API business and capsule business we have already said that we will be doing 2.5.

**Piyush Jain:** So, can I say 130 crore CAPEX 2.79 works out around 300 to 350 crore from API business?

**Sunil Mundra:** Yes in the year when we are able to touch about 30-35% exports to regulated markets.

**Moderator:** Thank you. We have the next question from the line of Vivek Joshi from VB Capital LLP. Please go ahead.

**Vivek Joshi:** All my questions are mainly regarded to the Biogenex subsidiary, so I want to understand that now that the minority shareholding is also now significant post this investment, so what is the current equity that natural capsules hold, what is the block of equity, what is debt that is given, will that be repaid so could you give some color and what is the current quarterly expenses under the Biogenex?

**Sunil Mundra:** Natural capsule currently holds 90% minority shareholders 10% natural capsule has invested about 20 crores into equity and has given 20 crore long term unsecured loan to them to the Biogenex. The next question was your quarterly expenses at this moment including R&D and all that I think we are incurring about 20 lakh odd per month.

**Vivek Joshi:** 20 lakh per month that is not actually translating in the difference in your standalone and consolidated, so maybe you can get back to?

**Sunil Mundra:** We have started doing only from this quarter onwards hereto it was being absorbed by natural capsule.

**Vivek Joshi:** So, this 20 crores that has been given what interest rate has not been given at like.....

**Sunil Mundra:** We have a loan agreement where we have said the applicable our bank rate whatever rate at which natural capsule is borrowing will be the same rate applicable.

**Vivek Joshi:** So, will this continue with this investment or will that capital now come back to natural capsules post this investments of 80 crores or whatever like 75 crores?

**Sunil Mundra:** I presume that over a period of time I will get converted into equity or and come back depending on how terms because as per the agreement with the banks and with the investor it will be withdrawn only after repayment of loans or their exit.

**Vivek Joshi:** So, the other loans exist on the books of Biogenex or do they exist on the loans of books of natural capsules?

**Sunil Mundra:** I think it is of the Biogenex.

**Vivek Joshi:** One last question is that this investment of 75 crores was this the amount that we were looking to raise or this is something the investor said that we want to invest at least 25% because it seems a very large dilution that I am probably repeating a point, so was it that they wanted minimum 20%. 25% hence the large the amount was decided?

**Sunil Mundra:** So, even at this stage also it is coming in two tranches the agreement is for 75, but we are initially taking only 50. The second one would be with the mutual agreement; 35 crores will be only if you decide to go ahead.

**Vivek Joshi:** 25 crore only if we decide to go ahead?

**Sunil Mundra:** No, initially 50 crore is the infusion second tranche would be depending on the need based in case we see some opportunities further investment or merger acquisition.

**Vivek Joshi:** So, both have a right to refuse or they have a put option like they can take if they want?

**Sunil Mundra:** It has to be done with mutual consent.

**Vivek Joshi:** Just to understand is that if we take only 50 and for whatever reason the projections are better so the dilution will be less, is that what the understanding is correct?

**Sunil Mundra:** It will be proportionate.

**Moderator:** Thank you. We have the next question from the line of Ashutosh Agarwal from NB India. Please go ahead.

**Ashutosh Agarwal:** My question is related to API division mainly now that earlier we were thinking that we will be able to raise 50% capacity utilization and we have the soft commitments or the contracts as well, so how that will impact overall situation like since we have the soft commitments and we were not able to reach to the 50% utilization?

**Sunil Mundra:** The capacity utilization has gone down in year one is due to delay. Commitments are still there, there are some commitments for taking technical grade of API from some of the foreign buyers those still stand.

**Ashutosh Agarwal:** And second year we are expecting somewhere around 60% utilization right?

**Sunil Mundra:** We said 50% here.

**Ashutosh Agarwal:** And the margin will be improved like about 2% when we enter the regulated markets from either year three or max by year four, is my understanding correct?

**Sunil Mundra:** Yes.

**Ashutosh Agarwal:** So, 60% will be reflected on natural capsules balance sheet and P&L account consolidated after three to four years. So, with the interest more in natural Biogenex by the foreign investor I think Somerset said is one of the FII, so do we have a plan of demerger in the longer time frame if that is like mutually decided by the natural capsule boards and the Somerset Investors.

**Sunil Mundra:** It could be one of the possibility yes technical listing is always a possibility.

**Ashutosh Agarwal:** That will be the long-term plan maybe after four to five years as of now the main focus is next three years to utilize the plan?

**Sunil Mundra:** Absolutely.

**Ashutosh Agarwal:** Is there any unknown or unseen risk in execution of the project in the next three years which maybe because of the China or maybe some other macroeconomic sector?

**Sunil Mundra:** I think Chinas story is playing out to our advantage that worldwide there is a need for China plus supply chain and I think the Chinese inconsistency in terms of pricing also is making some of the pharma companies to look for alternatives table and the fact that we are going to be one of the few integrated players across the world out of China probably the only one where we are doing the manufacturing rights from the base fermentation probably we would be able to commit prices on a longer run and we should get preference in terms of both large domestic pharma companies in international market.

**Ashutosh Agarwal:** And since the Somerset is also investing by their healthcare fund, so do they have or since they are they may be holding more than 10%, so are they helping us to get like more contracts because since they are in touch with many, many of the European based pharmaceutical companies and they are investing by the same fund, so do we see any like more improved opportunity for ramping up the API business?

**Sunil Mundra:** While they have not committed to do so, but I presume they will do it ultimately because they do have investments in various companies outside India also and their partners are also from some of these regulated countries.

**Moderator:** Thank you. We have the next question from the line of Anirban Manav an Investor. Please go ahead.

**Anirban Manav:** My first question would be what would be the revenue in H1 of FY24 and for the full year FY24?

**Sunil Mundra:** So, you are referring to the natural capsules or the API business?

**Anirban Manav:** Both considering capsules and API both for H1 and full year?

**Sunil Mundra:** As I have already said that we are seeing some stability in the realization and the volume remaining consistent we probably can forecast similar revenues and going up because of the addition of capacity.

**Anirban Manav:** A ballpark number for H1 and H2 if you can provide?

**Sunil Mundra:** I think gross assets in the range of about 100 crores. We do about 2X kind of things over a period of full year.

**Anirban Manav:** And Mexico will start contributing from Q2, right?

**Sunil Mundra:** Yes, we hope so yes.

**Moderator:** Thank you. We have the next question from the line of Suruchi Parmar from NX Wealth Management. Please go ahead.

**Suruchi Parmar:** Actually you are doing with the t APIs of Dexamethasone and prednisolone with the fermentation process, so can you just throw some light that I have read somewhere that Divi's and Ipca also there with the same terrible APIs, so are you only the fermentation process or they are also doing with the same process or what is the difference in both?

**Sunil Mundra:** Yeah, so the companies what you are referring they are actually importing advanced intermediates from China and then converting into two or three steps and selling those APIs whereas our whole process is a completely backward integrated process where we are doing for base intermediate in India and we are I mean doing completely two stages of fermentation and about 10 steps of synthesis that is the difference.

**Suruchi Parmar:** Sir just API you will do only for domestic sales or later further you will go and export also in this?

**Sunil Mundra:** Yeah, we, we will be going for exports and we hope to do the regulated market exports in the year 3 and 4.

**Suruchi Parmar:** In this you might go for this exports of these expected?

**Sunil Mundra:** No, I could not understand your question.

**Suruchi Parmar:** In these exports when will you enter the market in exports in this API means the target for this in which year?

**Sunil Mundra:** Target for entering into exports for ROW market probably year 2 and rent market will be year 3 or 4.

**Suruchi Parmar:** So, for that some audits will be needed like EUGMP and US FDA approval no need to take audit has to be done?

**Sunil Mundra:** Yes, obviously, yes EUGMP will be done and US FDA audit will be triggered by buyer in US market.

**Moderator:** Thank you. We have the next question from the line of Godwin Fernandes an Investor. Please go ahead.

**Godwin Fernandes:** My question is since we have invested a lot into this R&D activity and now we are going for this PLI process since our activities are backward integrated in the way we might come across a lot of other opportunities, so I just wanted to check are our activities confined to only the four mentioned APIs or in the due course if any good lucrative openings or opportunities arise we can steer our team for achieving the same.

**Sunil Mundra:** Mr. Fernandes at this moment we are completely focused on steroids then going forward in about four years our aim is to get into the other corticosteroids like hormones. So, though there is a huge amount of portfolio of lot of other fermentation based Immunosuppressants and other product, but we are restricting our focus towards corticosteroids and the steroids at this moment.

**Godwin Fernandes:** And sir my second question is still for this capsule opportunity I think we have a lot of market yet to be tapped, what are our plans for tapping into this capsule market still there is high room for growth, can you kindly put some color on that?

**Sunil Mundra:** Yes, as you rightly said there is a good amount of opportunity out there for tapping the export business in capsule market. The reason is that capsule is a bulky product when it is transported from say India to some country in Latin America, cost of transportation time taken is pretty high and worldwide capsule manufacturing is restricted to very few countries. So, there are a number of countries with high population and high demand where there are opportunities of somebody going and putting up a local manufacturing selling it. So, we are looking around for these kind of opportunities at an appropriate time we would explore those points.

**Moderator:** Thank you. We have the next question from the line of Soumitra Joshi Investor. Please go ahead.

**Soumitra Joshi:** Now the question specifically so I may have missed out on the earlier part where you might have given this, but understanding that there have been so many altercations maybe because of the delay or changes in plan, I just wanted to understand like last year as a whole from a sales perspective we were around 175 kind of a margin, this year specifically because the API business what I understand is probably it is going to gain traction from next year onwards, so natural capsules against the backdrop of let us say around 170, 175 crores last year where do we see ourselves in terms of sales this year itself that is by FY24?

**Sunil Mundra:** The capsule business as I already mentioned has been growing and consistent. The volume which I can talk of at the moment is consistently growing and probably last year we did 96% our installed capacity 18 billion and probably in the coming year it will be also around the same range for the gelatin capsules for the, for the HPMC capsules we are going to add up about another 3 billion or so out of which in this year we would be utilizing about 50% capacity because of the scattered implementation. So, putting all together and all I think our asset based on the gross level is about 100 crores. We should be doing about 2 to 2.1 times of the asset.

**Soumitra Joshi:** So, at a pace of around let us say 170 this would be upwards of 200 for this year?

**Sunil Mundra:** Yeah, you may assume so.

**Moderator:** Thank you. As we have no further questions, I would like to hand the floor back to Mr. Sunil Mundra for closing comments. Please go ahead.

**Sunil Mundra:** Thank you, Melissa. I would like to thank all the participants for joining the call today. I hope I was able to answer all your queries in case there are some unanswered queries, please feel free to reach out to Abhishek our Investor Relation Advisor. I truly enjoyed our conversation today and I look forward to future interactions with all of you. Thank you once again for your time and have a wonderful day.

**Moderator:** Thank you members of the management. Ladies and gentlemen on behalf of Natural Capsules Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.