



# GUJARAT THEMIS BIOSYN LIMITED

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**GTBL: CS: BSE-CORR/2021-22**

**19<sup>th</sup> November, 2021**

To,  
BSE Limited  
Floor 25, Phiroze Jeejeebhoy Towers,  
Dalal Street.  
Mumbai - 400 001.

**Scrip Code: 506879**

Dear Sir / Madam,

**Subject: Earnings Call Transcript - Q2 and H1 of FY22.**

This has reference to our intimation bearing ref GTBL: CS: BSE-CORR/2021-22 dated **18<sup>th</sup> November, 2021**. The first page of transcript in the management details Company name -Gujarat Themis Biosyn Limited has been inadvertently appeared after the name of Mr. Tushar Dalal and Mr. Sangameshwar Iyer and Compliance Officer after Mr. Sangameshwar Iyer.

We have therefore rectified the typographical error and no change except the first page.

Hence, we are enclosing herewith the Earnings Call Transcript pertaining to Q2 and H1 of FY22 Financial Results of the Company with the rectified first page.

The aforesaid information is also being made available on the website of the Company at [www.gtbl.in](http://www.gtbl.in).

Kindly take the same on record.

Thanking you,  
Yours faithfully,

**For Gujarat Themis Biosyn Limited**

**Rahul Soni**  
**Company Secretary and Compliance officer**



**Encl: a/a**



**“Gujarat Themis Biosyn Limited's Q2 & H1 FY'22 Earnings  
Conference Call”**

**November 12, 2021**



**MANAGEMENT: DR. SACHIN PATEL – DIRECTOR, GUJARAT THEMIS  
BIOSYN LIMITED  
MR. TUSHAR DALAL – GROUP CHIEF FINANCIAL  
OFFICER  
MR. SANGAMESHWAR IYER – GROUP COMPANY  
SECRETARY**



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November 12, 2021*

**Moderator:**

ladies and gentlemen, good day and welcome to the Q2 & H1 FY'22 Earnings Conference Call of Gujarat Themis Biosyn Limited. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in 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 star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Dr. Sachin Patel -- Director at GTBL. Thank you and over to you, sir.

**Dr. Sachin Patel:**

Thanks very much. Good afternoon, everyone. I would like to wish you all a very warm welcome to GTBL's Earnings Conference Call for Q2 & H1.

I would like to begin by expressing my gratitude to you all for taking the time to join us today. Unfortunately, Mr. Rajneesh Anand will not be able to join us for this call as he is not keeping well. However, we have on this call with us Mr. Tushar Dalal -- our Group CFO; Mr. Sangameshwar Iyer -- our Group Company Secretary and Compliance Officer and Bridge IR, our Investor Relations Team.

Since this is our maiden earnings conference call, I would like to share a brief overview of our company and its recent developments before we get into the business and financial performance.

GTBL was established in 1981 as a joint venture company between the Government of Gujarat in form of GIIC and Chemosyn (P) Ltd. and subsequently it became a listed entity in 1984. GTBL has grown over years through collaboration with various other players such as the pharmaceuticals business group that is PBG and Yuhan Corporation.

In due course of this time, GTBL established a strong R&D which enabled it to develop its own expertise in fermentation products. Today, GTBL is one of the few fermentation based manufacturers of pharma intermediates in India with a robust technical know-how and capabilities. We have an environmentally-friendly and sustainable process using aerobic bacteria for fermentation.

Our current product portfolio grew with Rifampicin in 1991 and Lovastatin in 2003. Subsequently, the company started manufacturing Rifamycin as an intermediate for Rifampicin.

During the year 2020, we changed our business model from contract manufacturing to own manufacturing and sales model. After fulfilling all the contractual obligations, we were able to make the strategic shift which has led to improved realizations and substantially improved margins. This change gave us better access to markets and a competitive advantage to command better margin.



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Our current product portfolio comprises of Rifa S that is Rifamycin S and Rifamycin O in addition to the state-of-the-art manufacturing facility in Vapi, Gujarat. We are also expanding our R&D base to focus on new product development.

As mentioned earlier, fermentation-based process for intermediate development has its own challenges. But with our long experience of product development and making it commercially viable, our confidence is high.

I hope you must have gone through the presentation where we have also mentioned about a roadmap for development and launch of new intermediates. Also, we plan to move up the value chain and forward integrate into manufacturing APIs.

As for numbers, the impact of the change in the business model is evident in the performance over quarters with the shift barring minor fluctuations due to lockdowns.

Now coming to some key recent developments. As you're all aware in the last year and a half, this world has witnessed an unprecedented calamity in form of the COVID pandemic which brought the whole supply chain and entire economies to a staggering halt. It impacted every aspect of our lives from personal lifestyles to businesses and industry worldwide.

Like every other business we were also impacted by the logistics and supply chain hurdles due to various lockdowns to curb the virus outbreak. The second wave also led to a lockdown in the beginning of this fiscal year. However, being in the pharmaceuticals sector we were able to continue to cater to our healthcare industry.

During the last quarter of '21, we took a planned shutdown of our plants for approximately three months. This was for maintenance and upgradation of the facility which is done periodically. As a result we were able to improve internal operations, efficiencies when we resumed operations.

On another note, we recently concluded our strategic partnership with South Korea-based Yuhan Corporation and bought over their stake in the company to one of the parent group companies. While Yuhan has been one of our oldest technology partners, the association had come to its fruition and there was no further value addition for either of the two companies. The decoupling would enable us to better formulate and execute future growth strategies in the long-term.

Going forward, we are focusing on R&D and new product development and strive to expand our presence in the value chain and overall market.

Now coming to the financial performance, I shall hand over to Tushar Dalal, who will take you through it. Thank you.

**Tushar Dalal:**

I am Tushar Dalal, Group CFO. A very good afternoon to all of you. Now, let me take you directly to the Q2 for the financial year '22. We reported Rs.35 crores in the revenue during the



Q2 financial year '22, a 28.86% year-on-year rise. This growth was driven by higher volumes and better product mix. Our EBITDA excluding the other income for the quarter was 18.45 crores, an increase of 25.1% year-on-year and our margin was 52.60%. Our PAT during the quarter is at Rs.13.79 crores as against Rs.11.35 crores in the second quarter of financial year '21, an increase of 21.5%, net profit margin stood at 39.35%. Earning per share for this quarter is Rs.9.49. The paid up capital per share is only Rs.5.

For the half year ended H1 '22, we reported Rs.67.49 crores in revenue during H1 '22, a 57.46% year-on-year rise. Growth was driven by strong rise in the volumes and the improved product mix. Our EBITDA excluding the other income for the period stands at Rs.35.17 crores, increasing 64.84% year-on-year. EBITDA margin is 52.11%, an improvement of 233 basis points. For PAT during this half year is Rs.26.71 crores as against Rs.16.92 crores in the first half of financial year '21, an increase of 57.8%. Net profit margin stood at 39%, higher by 11 basis points. Earning per share for this period is 18.39.

This is all from our side. We can now take the questions. Thank you

**Moderator:** We will now begin the question-and-answer session. The first question is from the line of Srinath V from Belwether Capital. Please go ahead.

**Srinath V:** Just want to get a better understanding of who are the key players in this market? Since it's the first concall, we're just trying to understand your company, what would be the total fermentation capacities in India? I'm told that there's pharmaceutical application and non-pharmaceutical applications also for fermentation like mock meat and so on. So want to understand the dynamics and where we stand in this whole picture.

**Dr. Sachin Patel:** I think as a company we are purely focused on pharmaceuticals. So we would have little knowledge on the fermentation sector which is not pharmaceutical-based. As you rightly pointed out, we have sectors like food supplements, at the same time enzymes too. I would not get into that. But from a pharmaceutical perspective, there was a time where there were almost about a dozen or even more companies in India which unfortunately could not stay for a very long time due to the pricing competition that came from China. So, at the moment there is probably a handful of companies that still remain but as an independent company I think it would be Concord that would be one of them and there are one or two more which are coming up as independent fermentation based company.

**Srinath V:** This China competition that the whole industry faced few years ago, was this driven by which of the price cost levers that they had and I can see power cost is a significant part of your process but outside of that what were the other advantages that China had and what has changed in the last two years for this migration back to India?



**Dr. Sachin Patel:**

I think there have been two factors. So one is as you've rightly pointed out power, in case of fermentation, the largest cost in terms of utilities comes from power, the raw material cost is not as significant as the cost of utilities which is essentially power. So that is definitely one. As one sees across sectors, not just fermentation but across sectors, the increase in power costs or tariffs in China and also the unavailability of the same in certain areas, there has been a disruption in supply chain at the same time prices also. So I don't think it is only related to fermentation but overall you have seen increase in prices of products coming from China and this is one of them. I think the only difference over here being that there are not too many companies that still continue to be in fermentation of pharmaceutical products in India. So we believe that there is a unique position that all those companies who are in the fermentation sector for pharmaceuticals that are there in India have going ahead.

**Srinath V:**

A little basic question out here. So what is the complexity in fermentation that a large player who either the API large player who's buying the intermediate from you or the formulations player who is buying API is not doing the same thing in a captive manner because our Indian pharma companies are largely champion companies who have now gained significant global market share in formulations. So what is the specific reason why large companies don't prefer doing this in-house and would have players like you or Chinese players kind of handling this complex product?

**Dr. Sachin Patel:**

The complexity starts from the fact that you need to have access or you need to be able to develop those microbes that are going to produce this product. That is only the beginning. The second part is the way these microbes behave very differently when you move them from a laboratory to a 50,000 liter fermenter. So the economics completely changed. So that is the second part of complexity which is there. The third is how do you design these kind of fermentation facilities from lab data to commercial data. So that's know-how that knowledge is very important which not too many people have. And fourth is which is probably easier. I would put it this way the CAPEX which is required. So you may start in the laboratory but for example a replacement value of a facility that we have right now would be upwards of Rs.200 crores excluding the land and the paraphernalia that goes with it. So that is the kind of CAPEX that you need to put in while not knowing a lot of what is going to happen from the laboratory till you reach final production. And then there is time because it would take at least two years if not more to set up this facility, followed by that it would take even more time for regulatory approvals to come. So there is a good gestation period besides the risk which is involved in going forward.

**Srinath V:**

Again a macro picture. Which are the therapeutic areas of products that use fermentation in the API, a significant portion of the API value is being derived out of fermentation and so from where we stand here, I would like to understand the five, seven year opportunity in therapeutic areas? Again, there is a lot of biologic products that are coming in from a new drug discovery. Is there an opportunity in that space also in small batch production? So if you could kind of map the current fermentation landscape and how is it likely to change over the next five, seven years?



**Dr. Sachin Patel:** I'll address the question into two parts: The first is therapeutic category that involve fermentation, they are wide and varied because you have something which is starting from penicillin derivatives to other anti-infectives and then you have something which is even in the field of statins which is cholesterol reduction. So it more depends upon what is the synthesis or how a product is produced more than therapeutic category. And our selection again is for products that we want to work on or we are working on in terms of the future is not therapy-dependent but is technology-dependent. What are we going to be good at in terms of producing, we believe so. That is going to be the strategy going ahead. And with regards to biologics, that's a completely separate area. We are not into it as yet. We don't know what we will do going ahead, but at the moment our focus is on secondary metabolite fermentation products and not biologics.

**Moderator:** The next question is from the line of Keshav Kumar from RakSan Investors. Please go ahead.

**Keshav Kumar:** Sir, since December 2019 our margin has expanded considerably and your disclosures had attributed the change of the business model, the reason for the same. But I notice that you had also started making Rifamycin O which is used for Rifaximin around the same time. So how much of the shift or growth has come about due to Rifa O?

**Dr. Sachin Patel:** So the change has come in because of the change in business model and not necessarily in terms of what we are producing, whether it is Rifa O or Rifa S because the concept essentially is that before that we were working on a cost plus basis or a fixed margin basis and then we started working. After concluding all those contractual obligations, we came out of it and we started moving to a market price based model. So that was a big change that led to change in the margins rather than one product over the other.

**Keshav Kumar:** Sir, on your website I can see that it's largely a two product company, is that right?

**Dr. Sachin Patel:** That's right.

**Keshav Kumar:** So sir could you elaborate if we do get a substantial chunk from Rifa O or is it not largely contributing a lot to the overall picture?

**Dr. Sachin Patel:** I think it would depend from month-to-month. Overall, we would say that it is probably evenly balanced out.

**Moderator:** The next question is from the line of Punit, an individual investor. Please go ahead.

**Punit:** Sir, I have two questions. One is on the sales and operating profit margin. So can we consider the recent run rate of Rs.30 crores which is very good actually in the last two quarters. Is it sustainable along with your operating profit margins of 50% approximately and from where it is coming -- is it because of volumes or something else?



- Dr. Sachin Patel:** I think we would not be making any forward-looking statement in terms of what is going to happen ahead. So unfortunately I will not be able to answer that particular question. With regards to where the margins are coming from, I think it is efficiencies and market-related pricing.
- Punit:** My second question would be what is your capacity utilization as of now? And any further plans for CAPEX in the coming quarters or months?
- Dr. Sachin Patel:** In the last financial year, our capacity utilization was about 75%. In the first two quarters, we are close to almost complete capacity utilization. And we have significant CAPEX plans going ahead considering that we want to increase the number of products that are there. We don't really feel the need to increase capacity for our current products, but we definitely see a lot of opportunity in terms of introducing new products which we are working on in the facility.
- Punit:** So, are they expected to be launched within this current financial year or the plans of further ahead for those?
- Dr. Sachin Patel:** It would be further ahead. There is a gestation period.
- Moderator:** The next question is from the line of Ranvir Roy, an individual investor. Please go ahead.
- Ranvir Roy:** I wanted to touch upon the earlier participant's point on the CAPEX. You just mentioned that the plans are significant, but this will start contributing from the next financial year. Is that a correct understanding?
- Dr. Sachin Patel:** Yes, the return on the CAPEX would be in the next financial year, even the year after that perhaps.
- Ranvir Roy:** And these will be products in similar lines, I mean the fermentation to start with?
- Dr. Sachin Patel:** Our business would be focused on fermentation products.
- Ranvir Roy:** So the CAPEX will be largely funded from internal accruals or funding would also be required for the CAPEX?
- Dr. Sachin Patel:** For the moment, it will be internal accruals, but we are open to moving to debt too considering the fact that project cost is anticipated to be in the vicinity of about 200-plus crores.
- Ranvir Roy:** This entire Rs.200 crores which you guys are planning, will it be commissioned over next financial year or the year after that?
- Dr. Sachin Patel:** No, it would be spread over two to three years.





- Moderator:** The next question is from the line of Nikhil Upadhyay from Security Investment. Please go ahead.
- Nikhil Upadhyay:** Continuing on the discussions, if we look at last one year the way government has moved on the fermentation, India is weak and the PLI schemes which are coming up, are you looking at participating in any of the PLI products or are purely new products that you are developing?
- Dr. Sachin Patel:** No, our strategy is not focused around PLI products. Unfortunately those products don't match what we are looking at. So, our products are pretty much out of that box.
- Nikhil Upadhyay:** Can you just share what is the pipeline of product in terms of number of molecules -- would it be like five, seven molecules which are currently in the R&D stage and would be scaled up?
- Dr. Sachin Patel:** We're looking at six products for now.
- Nikhil Upadhyay:** Their commissioning would be in line with the CAPEX commission?
- Dr. Sachin Patel:** Absolutely.
- Nikhil Upadhyay:** On a large part what we understand is from our discussions with various players is like China was a key player in the fermentation facility globally and even in India. Would it be largely like import substitution kind of a market which we are looking at? And even on export in the fermentation-based products, have prices have gone up significantly where you see that our entering those molecules may make sense now versus earlier?
- Dr. Sachin Patel:** So the strategy that we are going by has to be a mix of replacement of imports plus new products which have literally just come out. So we can't work on a strategy which is simply a replacement of China. I don't think it would be something that would be great. So it is a mix of both and a product selection and how we intend to commercialize the same is also very clear in our plans. Obviously, this is something which would be I think trade secrets at this stage.
- Nikhil Upadhyay:** My question could be naive a little bit, but what we understand is as you mentioned the CAPEX is a major deterrent in terms of any new player entering the fermentation manufacturing, as a result there are very limited capacities in India or players who are able to do it in a successful way. How do you see the scenario playing out because what has happened is that the pricing has also gone up for many of these molecules with the issues around China, incrementally, there could be more players, so is it capital the only reason for not putting capacity or is it like the ability to handle the molecules in a successful way a larger barrier?
- Dr. Sachin Patel:** In fact, I raised capital as only the fourth point which I said was insignificant, because you will always be able to find capital. So I don't think that is a deterrent if project has viability. I think it is more of the know-how and people. These are the two key points I believe in this industry going ahead. Capital will come from one source or the other in my opinion.



- Nikhil Upadhyay:** You mentioned like three years back there was a change in the contractual terms from cost. So can you just educate me what was the earlier arrangement and whom we had the arrangement with and what was the reason for the change in model, so is it we decided to end the contract, the customer is the same, but on a new price basis we have entered the contract because I'm new to the company so I don't know what was the history earlier and now what is?
- Dr. Sachin Patel:** We had a contract which was a cost plus base contract where we had zero risk in terms of the cost to be covered and we had a fixed margin business over there. And we were working with a single company and we decided that we would like to come out of that, take the risks which would come moving with a market price model rather than a cost plus model which means that if we were not able to sell, we would have a problem. But we decided to come out of that contract and enter into a sales contract which was market-price dependent.
- Nikhil Upadhyay:** This contract was not related with our parent company, Themis Medicare, it was an independent company or...?
- Dr. Sachin Patel:** Yes, it was an independent company, it was nothing related to the parent.
- Moderator:** The next question is from the line of Vaibhav Badjatya from HNI Investment. Please go ahead.
- Vaibhav Badjatya:** Just I have one or two questions. So on the existing contracts that we have with the customers, if you can help us understand what is the general typical nature of the duration of the contract and how the price resetting mechanism works, I mean, is it resettled every one year, two years, three years and what is the general tenure of the contract?
- Dr. Sachin Patel:** I would only say that they're fairly stable contracts. Anything beyond that would be difficult for us to put out in the public domain.
- Moderator:** The next question is from the line of Karthikeyan from Suyash Advisors. Please go ahead.
- Karthikeyan:** More of the same set of questions. So just trying to understand the business a bit better. My first interaction. So kindly bear with me. A couple of things. You talked about developing six different products. So can you talk about the process involved in developing new products and is any of this coming from customer request or do you develop these independently? Secondly also the capacity you are planning to put up, can you give us a scale perspective in terms of what percentage of say a local requirement would we be able to meet or global requirement? I wouldn't have a context. So kindly talk about that. And also, is there any dependence on China for the basic materials sourcing, the microbes basic cultures or whatever those be coming from China?
- Dr. Sachin Patel:** I'll address your second question first. In terms of the capacities, the total fermentation capacity we have at the moment is about 450 cubic meters and we are planning to double this for which we have already received the EC clearance. So that's on the capacity side. With regards to raw materials or anything else associated with this project, we are not depending upon China. To



your first question, the products are developed in-house which means that we are not expecting nor are depending upon any customer to provide us any help on this particular front. In terms of the cycle, it typically involves having the strain growing it in a laboratory, growing it in a pilot facility, understanding the strain how it grows, what is the most efficient way of producing it and then scaling it up to a commercial level. So it's a step-by-step process. At each stage you understand what are the environmental conditions which are best suited for a microbe to grow and produce what you wanted to produce and that's how the process works. And finally when you move to a large scale, you have to figure out how you are going to be able to extract the product of interest from this broth which has a lot of things including the microbe to its pure form that is required as a pharmaceutical product.

**Karthikeyan:** Broad contours I understand. What I asked you was what was the time involved in developing these six different products, so if you start today by when would you be able to commercialize a particular product?

**Dr. Sachin Patel:** We envision that in about two years we'll start producing them for the Indian and the ROW markets and three years for the regulated markets.

**Karthikeyan:** When you say that there is no China dependence, so these basic materials are locally available as such?

**Dr. Sachin Patel:** Yes.

**Karthikeyan:** Would you be able to indicate the broad areas at least to say therapeutic or otherwise?

**Dr. Sachin Patel:** Unfortunately not because it would give a very clear idea in terms of what molecules we would be perhaps working on.

**Karthikeyan:** In terms of yield, would you be able to confirm whether you're at a reasonably commercially shall we say, viable yield, have you been able to achieve that, would you be able to say anything on that?

**Dr. Sachin Patel:** Yes, that we can because we cannot compare it with other companies because we don't know what's necessarily their yield is but we can compare it with the market price.

**Karthikeyan:** And you think that you are in a good place?

**Dr. Sachin Patel:** We are in a good place, yes.

**Moderator:** The next question is from the line of Prateek Poddar, an individual investor. Please go ahead.

**Prateek Poddar:** Just a bit curious, when I look at your balance sheet the CWIP of Rs.4 crores but you talked about a Rs.200 crores CAPEX. I'm just trying to understand where do you get this confidence



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of even if I look at your net fixed asset they're just like Rs.17 crores and you're setting up 200 crores kind of CAPEX, when does this CAPEX really start contributing to your revenues -- is it H2 of FY'23 or FY'24?

**Dr. Sachin Patel:** I think in terms of confidence we see an opportunity and we see cash flows and both these things combined together we have the knowledge and the know-how to be able to do that. I think probably that third part was the most important. That I think gives us a reasonable confidence that we should go ahead with these projects. With regards to when the project will come? It could be end of '23 beginning of '24 but I would say two years from now we should be in a position to have something for the Indian and/or ROW market.

**Prateek Poddar:** Sir, what is the size of potential opportunity of these six molecules? Not getting into the names, etc.,

**Dr. Sachin Patel:** So the way we are calculating it is that if we are doing a CAPEX of Rs.200 crores, we should be able to see a ROI within three to four years.

**Prateek Poddar:** You're a company since 1981. Was this contract manufacturing something which was a shackle to you and once you got out of that contract now, we will see the true potential or you can see the true potential of your R&D getting commercialized?

**Dr. Sachin Patel:** I wouldn't say that. I think the contract that we had before was also a very important one because those were turbulent times in this industry. This opportunity that we see at this time did not exist at that time. So I think it's a question of standing in the right place at the right time.

**Prateek Poddar:** When you talk about three to four years ROI, is it post-tax or pre-tax?

**Dr. Sachin Patel:** That will be pre-tax.

**Prateek Poddar:** This is such an old company, you got listed in '84 as we talked about, yet we've not scaled up. So any thoughts as to why has that happened?

**Dr. Sachin Patel:** As I said at the start the first question that came in the fermentation industry in India went through turbulent times. So there were lots of ups and downs and if you see all major companies had fermentation units but at some point or the other they decided to stop that. And the reason essentially was that the companies were bleeding because of the pricing pressures which were there, which has changed now not from only a pricing pressure angle but globally companies are also looking at building up supply chains which are varied. So I think both those things combined together, make it an interesting area to be in.

**Prateek Poddar:** Are these margins which you have reported sustainable?



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**Dr. Sachin Patel:** What you're asking me is to speculate what the pricing of the product from the world is going to be tomorrow. It's hard for me to say that.

**Moderator:** The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

**Dhwanil Desai:** You talked about the process or the difficulty level in the fermentation side when you scale up to commercial scale, how the living organisms behave on a much larger reactor, it's very difficult to predict. So when you go into the CAPEX mode, I'm sure that the risk will exist when you scale up from lab scale to the commercial scale. So how do we handle that risk apart from having the prior experience?

**Dr. Sachin Patel:** I think what you said is a key thing – prior experience. That is probably the most important aspect in terms of designing facilities in terms of new products that you want to set up. For example, this current facility was also set up or the key modifications were made with the technical collaboration that we had with Yuhan Corporation at the time and through that experience of working together for so many years, we have learned how to do the same. So that is where the crux lies we believe.

**Dhwanil Desai:** But is it a possibility that for a different molecule when you actually go for scale up it may take much longer than anticipated and we may have to kind of realign the process, all the parameters and the stabilization timeline can be different than what we anticipated in the beginning, is that one of the...?

**Dr. Sachin Patel:** No-no, it is absolutely possible, the entire exercise from day one till even after 15 years of production is a reiterative one whereby we have to keep on improving the thing. So improvement is a continuous process in this area like most areas I think.

**Dhwanil Desai:** Currently, we are doing like let's say two capacities leading to Rs.140 crores of revenue in our existing setup and if somebody else wants to put up this setup it may cost him Rs.200 crores. So is that the right asset-to-revenue ratio for the incremental CAPEX?

**Dr. Sachin Patel:** I think someone asked a question with regards to what is the revenue that we would expect from the new CAPEX that we are putting up and I responded that this is the ROI we expect because the revenue is I think not as material as the margins that we're going to make over here because it depends upon what we produce. Sometimes in this particular case for a typical API industry to have this margins, you would have to have significantly larger revenues than what we are seeing right now. I trust you will agree with that. I wouldn't go by revenue, I would more go by bottom line.

**Dhwanil Desai:** I think you said that we have this product we can commercialize over time into the new CAPEX. But in terms of the overall product basket or the team that you look at, how many products you start with and then finally at the commercialization stage you may end up with four or five



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products so that ratio for number of products that you work on vis-à-vis how many products get commercialized if that is like what, 3:1, 4:1, how does it work?

**Dr. Sachin Patel:** I think it's a good question. One cannot expect that everything that one works on will actually reach the market, but I think we would have to work on a dozen products to get six out, that's for sure.

**Dhwanil Desai:** Or it can be more also because typically one is a very normal...?

**Dr. Sachin Patel:** You're right, it could be more but right now this is what it is. With time next time we will figure out what more is required.

**Moderator:** The next question is from the line of Alisha Mahawla from Envision Capital. Please go ahead.

**Alisha Mahawla:** Firstly, I just like to understand that like you mentioned earlier in the call the CAPEX that we're currently talking about will sort of commercialize only towards the end of '23, '24 and our current capacity is also utilized. So in the interim over the next one year, where is the growth going to come from, is there scope to debottleneck or change our process or product mix or anything on those lines?

**Dr. Sachin Patel:** We are working on multiple strategies in terms of what we could do over the next couple of years but I'm not absolutely clear on it.

**Alisha Mahawla:** For the timing I think the current run rate is sort of what we will be able to achieve till something commercializes? Got it, okay. And the tuberculosis drug that we do, what is the contribution of that to our overall revenue?

**Dr. Sachin Patel:** I think this was a question which was also asked how much Rifa O, how much is Rifa S. The two products that we have are pretty much in line with each other. There is no one which is bigger than the other, depends from month-to-month.

**Alisha Mahawla:** I understand, putting those two together, how much would that contribute to total revenue?

**Dr. Sachin Patel:** 100%.

**Moderator:** The next question is from the line of Srinath V from Belwether Capital. Please go ahead.

**Srinath V:** So just a few clarifications. so the CAPEX that we're putting, again very basic question does it come in a phased manner we'll have to get all the reactors together at one go, so this 200-plus crores CAPEX how would this play out from capacity addition that we could utilize to generate revenues?



- Dr. Sachin Patel:** It would be in a phased manner most definitely, it would not be a single that we'd be placing. This CAPEX includes upgradation of certain parts of our facility, it also includes setting up a new R&D facility, CGMP pilot facility. So there are multiple steps involved in this particular process. It will not happen on one day for sure.
- Srinath V:** How would the cash outflows kind of play out broadly over two years? I'm looking at both from ability to generate revenues and the expenses that hit us.
- Dr. Sachin Patel:** So about 30-40% of this would be in the first year and the rest of it would be in year two.
- Srinath V:** So first you would be largely more stable in the construction part of it and the second year the heavier part is because the machineries are purchased, right?
- Dr. Sachin Patel:** That's right.
- Moderator:** We move to the next question from the line of Vaibhav Badjatya from HNI Investment. Please go ahead.
- Vaibhav Badjatya:** See, we have done this business model change from December 2019. Why it was not done earlier and why it was not done later, what was the trigger point here which has allowed us to change this whole model?
- Dr. Sachin Patel:** Our contract was getting concluded at that time and we saw market opportunity whereby we felt that it is worthwhile taking the risk of getting into business ourselves.
- Vaibhav Badjatya:** Secondly, this Chinese competition, why they are not able to compete now? I'm not talking about what has happened post-COVID, there are supply chain disruptions and China Plus One strategy currently going on. But our margins has improved even pre-COVID for December '19 and March '20 as well which is pretty much pre-COVID. So our pricing was quite attractive even at pre-COVID level. So it seems like we had the pricing power even pre-COVID period. So what has changed from the Chinese side in pre-COVID era which has allowed us to have such a good pricing?
- Dr. Sachin Patel:** The prices of fermentation products and even non-fermentation products have increased from China, not just during the COVID time, but even before that.
- Vaibhav Badjatya:** I wanted to understand why there was a price increase from Chinese player -- was there some additional taxes levied by the government or some kind of power subsidy going away for them?
- Dr. Sachin Patel:** I wouldn't be able to say for sure what exactly the reasons and I think probably most people wouldn't be able to say for sure exactly what the reasons are, whether the power subsidy is removed, whether export incentives removed, whether the financial costs have changed, whether



environmental regulations have come in or whether it is an amalgamation of all these things, but the fact remains that for a lot of products, all prices have gone up.

**Vaibhav Badjatya:** If you can name few of the Chinese players for both of our products, I think that would be really helpful for us?

**Dr. Sachin Patel:** I will not be able to tell you at the top of my head. I don't think there's anyone from China who's offering Rifa O, with regards to Rifa S. There would be but it's not something that I would know. But it would be easily available from the public domain information I'm sure.

**Moderator:** The next question is from the line of Ranvir Roy, an individual investor. Please go ahead.

**Ranvir Roy:** Top ten clients contribute how much to the revenue?

**Dr. Sachin Patel:** We are working on contractual basis with two clients at the moment and we are adding another two.

**Ranvir Roy:** So it's largely the revenue coming from two clients, correct?

**Dr. Sachin Patel:** That's right.

**Moderator:** The next question is from the line of Nikhil Upadhyay from Security Investment. Please go ahead.

**Nikhil Upadhyay:** My question was that when you are doing the Rs.200 crores of CAPEX and considering the market environment which we are seeing in terms of fermentation-based products, like most other companies who are the leaders in their product segment are undertaking a large CAPEX, generally have a good sense of the demand from the customers or customers are generally giving a surety on the volume. So do you have any sense on or do you have any confirmation with the client and basis which you are undertaking such a large CAPEX or is it like the market development would be done more post the CAPEX, just to understand how we are going about it?

**Dr. Sachin Patel:** We have a fair understanding in terms of what the market sizes are and who is doing what in that respective product in the world and also a strategy in terms of how we are going to commercialize the product that we have selected. I think beyond that it would be difficult for me to comment on.

**Nikhil Upadhyay:** Secondly, my question could be a bit naive but like in many chemical processes what we understand is the chemistry and the ability to improve the yield which creates a big difference. But when we are going into the fermentation, you mentioned that the ability to work with the enzyme and checking on how it operates in our lab environment while in a manufacturing environment becomes the key differentiator. But in similar lines like many companies work on





a similar chemistry like either chlorination or that kind of a chemistry to improve the process and improve the yield. So in fermentation also are there similar lines around which you would focus on in terms of enzymatic technology or is it like it could be across multiple domains and our current fermentation capacities, are they restricted to a product or they can be used across products?

**Dr. Sachin Patel:** First of all, what we are doing is very different from enzymatic chemistry. That is a completely different area from what we are talking about. Enzymatic chemistry facilitates reaction-a to reaction-b while we are producing something with the microorganisms. So it's a different area, right.

**Nikhil Upadhyay:** Where I'm coming from is like a similar line of enzymes, we would be more comfortable working with or is it like we are not restricted, we can work with multiple lines of enzymes, is there some optionality around the working process or on the R&D process, just to understand it, this could be a very basic question?

**Dr. Sachin Patel:** We are in a position to handle various strains which is of bacteria or fungi. It is not necessary that it is only one *Philosin* that we need to work with.

**Nikhil Upadhyay:** Are the capacities restricted to a particular product or they can be used across products like many in chemical companies people do a campaign production and then use the capacity for some other products, so fermentation how does it work?

**Dr. Sachin Patel:** So it cannot necessarily be used for all products, but it can be used for a few products, you have to be selective because each product has its own requirements in terms of size of fermenters and also the downstream part which is essentially purifying the material from this microbial broth which is there to a final API. So it is not generally possible to use the same plant for all kinds of products, but for a few kinds of products, sure.

**Nikhil Upadhyay:** Lastly, based on our current gross block and the new CAPEX which we would be doing, how many fermenters we would be putting in terms of number of machines? You mentioned that we would be doubling the capacity to almost 900 cubic meters but that would be like across how many fermenters would you say or how should we think over here?

**Dr. Sachin Patel:** I think we can only talk about in terms of overall volume, we cannot talk about how many fermenters because it depends on product; some products may require a fermenter which is only 10 cubic meters some products may require a fermenter which is 100 cubic meters.

**Moderator:** The next question is from the line of Keshav Kumar from RakSan Investors. Please go ahead.

**Keshav Kumar:** Sir, for Rifa O and S both, do we have domestic competitors?

**Dr. Sachin Patel:** No.



- Keshav Kumar:** Are we choosing the molecules with the same strategy that we have limited competition domestically?
- Dr. Sachin Patel:** There are such few manufacturers of fermentation products domestically. Most of the products you will select in fermentation would not have any too much competition... more than one or two players.
- Keshav Kumar:** Sir, just trying to draw the demand and supply scenario. So you mentioned that we have two customers currently. So is there substantially more domestic demand for the same molecules? I believe for Rifa S won't be, for Rifa O. Or more growth will largely come for us in the future from the new molecules only?
- Dr. Sachin Patel:** We plan for growth from new molecules. The reason being that we would like to make sure that the risk is divided over a few products, not just one or two or three but many more and multiple customers. But we don't want to go to a scale in any of the products where we are saying that we are going to have this much percent market share. We have been very clear in terms of what is the market share we would like to target. So that enables us to get our pricing what we want with a forward integration strategy with a respective customer even though not identified.
- Moderator:** The next question is from the line of Vaibhav Badjatya from HNI Investment. Please go ahead.
- Vaibhav Badjatya:** I think earlier you said that you currently have two customers and you are adding two more right, am I correct?
- Dr. Sachin Patel:** Yes.
- Vaibhav Badjatya:** So we don't have any more additional capacity for next two years. So how these new customers are going to get served – is it like there will be offtake by existing customers and the two new will replace them or how it is going to work because we don't have additional capacity as of now?
- Dr. Sachin Patel:** I wouldn't say that, right. We mentioned that the capacity utilization in the last financial year was 75%. We have 25% capacity.
- Vaibhav Badjatya:** We can actually go up to 100%, will it be feasible to do that?
- Dr. Sachin Patel:** We hope so, if not 100% at least close to that. There have been sizable improvements which have been made in the plant during the shutdown whereby our productivity has improved.
- Moderator:** The next question is from the line of Jaiveer Shekhawat from Ambit Capital. Please go ahead.
- Jaiveer Shekhawat:** My first question is can you please break down the revenue growth, so how much is it coming from volume and how much is because of higher prices?



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**Dr. Sachin Patel:** The pricing has pretty much remained the same, there hasn't been a very big difference over last year and this year, but as you can imagine in the last year the first quarter was disturbed for everyone, right.

**Jaiveer Shekhawat:** Second question was actually in relation to the prices itself. Now given that we have seen RM inflation over the last three, four quarters across commodities and across sectors. I understand that the RM cost doesn't form a big chunk of your overall revenue. But are you able to pass on these historically as well to your end customers and how much time does it take to actually pass it on?

**Dr. Sachin Patel:** No, we haven't been able to pass it on and our contracts are such that we would not be in a position to pass on the RM costs to the end buyers. That is something that we'll have to absorb.

**Jaiveer Shekhawat:** On your key raw materials, most of your suppliers would now be passing on the higher prices to you guys. Could you help me understand what are the key raw materials and probably because of that are you also expecting a contraction in gross margins going forward as well?

**Dr. Sachin Patel:** We don't expect a major contraction in gross margins. Maybe a couple of percent here and there. A lot of our raw materials in fermentation are natural products unlike in chemical synthesis because natural products have not increased by that percentage, but yes we do consume solvents for recovery and there is increase in rates that we see. But as I said the impact of that would be a few percentage here and there.

**Moderator:** As there are no further questions, I would now like to hand the conference over to Dr. Sachin Patel for closing comments. Over to you, sir.

**Dr. Sachin Patel:** Thank you very much for organizing this and we look forward to meeting everyone during the next call. Thanks again.

**Moderator:** Ladies and gentlemen, on behalf of GTBL, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.