Management Discussion

Amit - Moderator, Gujarat Themis Biosyn Limited
So good evening everyone and a very warm welcome to the Capital Market Fraternity present here for this analyst meet of Gujarat Themis Biosyn Limited, or GTBL as we usually call it. I must thank you for taking your time out and become a part of this deliberation. Today on the dais representing the company are Dr. Sachin Patel, Managing Director, Mr. Rajneesh Anand, Director, and Mr. Kripesh Patel, Chief Financial Officer. I must let you know that a presentation created for this meet has been uploaded in the exchange a short while ago.

It can be accessed by all now. It shall enable us to understand the larger thoughts and vision of the management, which shall be presented here today. After this, we shall open the floor for the Q&A session, post which the

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
Management shall be available for one informal discussion over the dinner. Before we begin, I would like to remind that certain statements made in today's discussion may be forward-looking in nature and may involve certain risks uncertainties. Also, I request you to please keep your mobile phones either on silent mode or switched off. I now hand over the dais to our MD, Dr. Patel, to take us through the presentation and share his valuable thoughts with us. Thank you, and over to you, sir.

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
Thank you very much, Amit. So let me start by first- yeah, let me start by first welcoming everyone again for this first physical analyst meets that we are doing as a company. And besides a lot of other reasons, the main reason why we decided to do this is because of an interesting journey we believe we are embarking upon. We felt there is a lot to share in terms of where we are going, and a physical platform would be more ideal in terms of what- how we can explain the same. Now, as most of you may be aware, GTBL has been a fermentation-based company manufacturing intermediates and now APIs too.

For those who have tracked the company for some time, you must have seen that our business has been pretty steady. We have quarter on quarter had reproducible production and also top line and bottom line. So a few years ago, we embarked upon a thought that what do we do from here? Do we, do we get into same fermentation products, do we get into different fermentation products, where do we want to go as a company. We appointed BCG at that time to work with us in terms of figuring out what is happening in the area of fermentation globally, where is this space going and where would be our path going ahead.

Now long story short, it became clear to us that to move to the next phase, we needed to transform ourselves from intermediate API fermentation company into a fermentation-based CDMO. And this is very important because it had to be fermentation-based. This is our DNA, this is our ethos. We wanted to stick to that particular formula, but yet do beyond what we were doing, that is intermediates and APIs. So we essentially shortlisted what are the capabilities that a company that wants to be in the CDMO space in fermentation have?

And we put the whole list down, and these were some of the capabilities that came up: peptides, ADCs, plasmids, bioconversion, precision fermentation. And we actually went through a whole process of identifying what it would take for us to internally develop these capabilities along with customer base. That is very, very much important in case of CDMOs because at the end of the day

it's all about relationships and past track record. At the same time, what were the assets which were available globally in this particular space with this kind of a business?

And to be very frank, there weren't many in the fermentation space which were open for inorganic acquisition. So the top of the list, so the list that we came up with was actually a very small one. The top of the list was this particular applicant, Japan MicrobioPharm, which we have now acquired. So we felt this was interesting because Japan is a premium market, very difficult market to penetrate. Most importantly, besides the 2 facts that I've just mentioned, the culture we find in Japan is that once- it takes a very long time for the Japanese companies to take decisions, but once they make a decision, it is practically for a lifelong unless you do something horribly wrong.

So this was, this was interesting for us because along with all the capabilities, the quality of business being stable, being reliable, and was important. And I think with all these parameters, we started targeting this particular company almost about 3 years ago. They were not ready for sale at that time, but when they were, the owners, a private equity firm, also ran a process in India, which typically they wouldn't. This size of a Japanese company would not come to India for divestment in the first place, but they did because of the interest that we had shown and the continuous engagement that was there.

So, what we will do today in the presentation is take you through MBJ Microbiopharm and then of course GTBL and also give you an idea in terms of why this makes sense and where we are going with these 2 companies put together. So, I should also state that besides all these capabilities, in fermentation itself, which is in- at the moment, our bread and butter. Microbiopharm also takes us into spaces that we were not there before: immunosuppressants, oncology, anti-infectives. Our anti-infective basket increases, and also some non-pharma business.

And as you see today, with the advent of the progress which is happening in synthetic biology, fermentation capacity is going to be extremely precious, and capabilities of doing this kind of work are going to be extremely important, and this is what MicroBioPharm also gives us. So we have summarized over here what we are getting with MicroBioPharm. I've mentioned, I've spoken about it a little bit in the previous slide, but one is technology enhancement. We get precision fermentation, we get bioconversion.

Bioconversion, if I have to simply explain, is when you're doing multiple synthetic steps in chemistry, you are replacing that by one single step or 2 single steps which are enzymatic. So this is, this is interesting. We get business diversification. Besides just doing intermediates and APIs that we are doing, we also get more of the same, but at the same time CDMO services. And relationships, most importantly relationships with top Japanese pharma and other companies, which is extremely important because as an Indian company, if you wanted to target the Japanese market, not so easy.

But with the relationships, with all the history which Microbiopharm enjoys, it makes sense for them to work with us through Microbiopharm, if nothing else. It gives us a global platform in terms of manufacturing. This is also interesting because yes, CDMO is a hot space in India, CDMO is a hot space globally, but the fact of the matter is that we as India still have a very small percentage of the global CDMO market. So we believe that the whole culture in Japan which gives due importance to IP, gives due importance to GMP, is definitely something that we feel we can leverage on when we are working with top pharmas in the world, not just in Japan but globally.

And for now, with all these things happening, the most important thing is integration. So how do we integrate all the capabilities that are there, which I just explained, at MicroBioPharm with GTBL. If I have to very quickly summarize, we feel that in a way MicroBioPharm would act as a feeder for

projects not just from Japan but globally in all these various spaces into GTBL and be able to leverage the Indian cost advantage and the ability for us to have capex-friendly investments going ahead. In terms of numbers, it's got 3 facilities in Japan, all of them FDA approved, and a turnover of close to about 550 crores.

So this gives an idea in terms of the quality of business that is there at MicroBioPharm. About 60% of the business is CDMO, 40% of the business is manufacturing its own APIs and selling in the market. If you see the chart over here, it is pretty well diversified. There is a similar amount that goes into contract manufacturing of biologicals, similar amount that goes into the contract manufacturing of pharmaceuticals. At the same time, so when I say contract pharmaceuticals over here, that is CMO activity, which means under long-term arrangements, this is already under manufacturing.

And the developed ones are the ones which are the CDMOs. So all in all, we find that this particular business is pretty robust and pretty solid in terms of how it has performed over the last few years, and we'll give you a few numbers to just give an idea about the same. So on this chart, unfortunately we are not able to give the name of the companies because of the CDA reasons, confidentiality reasons. But this is just to give you a perspective in terms of the companies that we are working with.

And if you see the number of years that the company has been working with the respective manufacturer for. So there's been a long history of working with all these customers. Just to give you another perspective, the company has had- has done a CapEx investment of a few hundred crores, close to about 500 crores over the last 5 or 6 years, and significant amount of that CapEx has been funded by the customer. The customers have the confidence in the company to actually give them the advances to do the CapEx which is required for future business.

So again, this is something that we hope very much to harness and to leverage in the future to get more projects not just for Japan but also for India through these relationships. Now, in terms of ability or capabilities, we find that MBJ has the capability of doing the entire spectrum, starting from working on projects in drug discovery to clinical development and manufacturing. And there are projects which are there in all 3 phases in various areas, starting from small molecules to gene therapy.

So The pipeline looks pretty interesting. Then, as every CDMO has a risk of this, we will see how those pipelines progress through the clinical studies and beyond. So, the 3 unique platforms that come with MDJ, one is Plasmid DNA manufacturing, something that GTBL is not doing, but something which we find very fascinating in, in the area, starting from the new biotech which is there, starting from gene therapy to DNA, RNA, and many other things. Then we have ADC conjugation. Now this is interesting because besides the US, the next biggest hub for ADC development is Japan.

They are at the most advanced stage in this particular space and having a CDMO over there with a proprietary platform technology is interesting. I must say that this is the only technology which is technology-based ADC which is very recent and MBJ still doesn't have any projects for it but we are counting on this particular technology to do much more than what has happened so far. But this is something which we find interesting, but yet not in pipeline, if I may say so. And then of course there is this, the last part, which is for bioconversion.

As I mentioned quickly, when you have multiple synthetic steps, what everyone in the world is trying to do for various kinds of chemistries, how do you convert that into a single or 2-step enzymatic processes? Because essentially that is a significant reduction in terms of cost and at the same time

gives you a much more better market viability. So at GTBL, these are the 3 areas where we feel we can actually grow NBG quite significantly over the next few years. Now the growth strategies for GTBL.

For small molecules, it's divided into multiple areas. One is overseas sales expansion. So although 40% of MBJ's business comes from outside of Japan, they have very limited distribution network in place for growth, which is where we can contribute quite significantly through our network which is there. And if I may say so, I think as Indian companies we are much more geared up to globalize the products than this particular company. At least I won't say all Japanese companies, but this particular company which was very Japan-focused so far in terms of selling its own APIs.

So another thing that they have done is they have implemented this whole technology whereby you are reducing the cost of manufacturing of a particular API quite significantly, and those APIs are now under regulatory approval. We are expecting those regulatory approvals to come through in the near future, with which we believe that not only profitability will increase but also market share in those respective APIs will increase. There are some products which MBJ has developed themselves which are in clinical stage with partners, depending upon how the clinical programs are going.

So this starts from the whole area of drug discovery where MBJ has been working with respective customers for developing new molecules which are currently in clinical studies. So as they progress, this is another opportunity for MBJ In case of biologics, MBT has just started accessing the US and European markets. So far it has been again Japan-focused, and the reason why they are able to enter into these markets is because of the superior technology that they have in producing plasmids, for example.

So they've already started gaining traction. We are expecting that this will gain further and further as time goes by. It has a dedicated facility for immunosuppressants and in this particular space the capacity utilization is quite low but they manufacture for the originator which is a nice feather in the cap to have. With that we feel that there are many more opportunities in immunosuppressants. We know some companies doing extremely well in India also on immunosuppressants but we feel that there is a possibility.

Because the fixed costs are already absorbed. We can see what we can do with the variable cost and increase market share over here. Precision fermentation is gaining a lot of momentum. Over here we are talking about producing anything starting from milk protein to, you know, meat-free protein in fermenters. So a lot of opportunities in this space. MBJ is already working on projects of this kind. We feel that to a particular capacity, great to do it in Japan, but when you want to really expand and make sure that you have a few hundred KL fermenters doing this, then India is a great destination for us to bring those projects in.

And I've already mentioned the bioconversion area. Through the slides, I've also explained some of the synergies that we are talking about, but I will still take you through it. In terms of fermentation, we get additional capacities, we get additional products. In case of relationships, long-term relationships come onto the table which GTBL has not been having so far. We have additional platforms coming in in terms of technology, which we hope we will be able to capitalize on in the near future.

We have a product portfolio that starts from immunosuppressants. So right now we are essentially into a single category of products. To that we add immunosuppressants, we add oncology, another bunch of anti-infectives. So the portfolio becomes much more larger than what it is right now. And of course, depending upon when and how, there could be changes in the manufacturing site.

Starting from Japan coming to India or the other way around depending upon where projects and interests take us. And of course all the enhanced capacities that are there.

So I think with this we truly believe that GTBL or the new GTBL with MBJ has all the capabilities that a modern-day fermentation-based CDMO needs to have, which means we have everything on the menu card to be able to go into the into the market and say that, okay, we are the right candidates and we are one of the very few in the world to have all these capabilities in fermentation. And we truly believe that the fermentation market or the use of fermentation in manufacturing, starting from intermediates to APIs to natural ingredients to, I would say, proteins, materials, is increasing every single day.

I believe that with this additional capacity and the capabilities, we are there at the right time to capture these opportunities which are going to explode or which are already exploding, we feel. I will ask Rupesh to just comment on the financials. So these are the financials of MDJ that we have historically. Sindhu mike

Unidentified Participant - Analyst
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Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
These numbers are as per Japanese accounting standards, and when we convert these numbers into as per Indian accounting standards, there is no material impact on the sales. As you can see on the screen, the MBJ has maintained steady and stable revenue in last 3 years, and the EBITDA, as you can see, has been increased from 20% to 25% from FY24 to FY26. We expect the current year numbers on the same line as of the previous year. So now this slide is all about how we have funded the acquisition of MBJ.

So as you know, we have already successfully raised Rs 750 crore from PIP. Then we have raised 2 MACE financings, one in NCD India and one from NCD Singapore. So through this, we have paid total Rs 1,351 crore as a purchase consideration. This constitutes 3 components. One is the hundred- one component is for 100% equity buyout. Second one, we have as a part of the share purchase agreement, we have to pay for stock options rights which some existing employees held. And third one, we have to pay bonuses to some existing employees.

So all 3 components constitutes around Rs 1,351 crore in INR terms. Uh, the second one which you see, NCD India, that the partial repayment of the same will happen, uh, through the proceeds from the preferential issue, the approval of which just we are waiting from the stock exchange. It can become at any time. Second, as a part of the share purchase agreement, we have to refinance the existing loans which are sitting in the books of the MBJ, which was around Rs 632 crores. That we have funded through the another same maze which we have raised from the Singapore for forty-three crore, and we have utilized one eighty-nine crore from the books of the MBJ.

And we feel this was a somewhat ideal cash which should be put in place to refinance the existing loan. Thanks, Rupesh. So I move to GTBL

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
Now in terms of what we are doing and. Where we are going from here. So GTBL has been around for a long time and it has changed multiple hands. We have been running GTBL now for a decade and a half or a bit less or a bit more. In terms of what we are doing right now or how GTBL started was that it was the first company to manufacture rifampicin, which is a very important drug for the

treatment of tuberculosis. So that is the whole history, and we still continue to work on that. I think on the basis of the numbers and our past history for almost about 8 or 9 years, I would say that we are reasonably good in terms of efficiency in terms of manufacturing this particular product and at the same time business has been pretty stable too.

Now looking at the same, we decided that this was a good time to expand our capacity. For a long time we have been running on capacity of about 450 cubic meters and we have been pretty much sold out. So for about 5 or 6 years, if not more, our capacities have been sold out and the demand is reasonably good. What we saw is that if we produce X amount, 2X is imported into the country at a price which is lower than our selling price. So all these things put together and coupled with the fact that we saw a good demand expansion going ahead, we felt it is a good idea to double capacity from where it is right now.

The 2 key intermediates that we manufacture are VIFA-S and VIFA-O. VIFA-S goes into manufacturing tuberculosis APIs and VIFA-O goes into manufacturing anti-infective for gut infection, which is rifaximin. Now, as a part of our CAPEX plan, as a part of our expansion, we also went out and put up a facility to manufacture or forward integrate all these intermediates into APIs, which means we now produce rifampicin, rifapentin, and rifaximin. All the 3 APIs are now produced internally, which means we can not only sell the intermediates, but we can also forward integrate.

We have also forward integrated to sell the APIs in months and years to come.

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
So when we started at Themis, we had 7 fermenters of 50 KL each, and during the course of period we added 2 more and we reached 450 KL capacity. So at this point we thought of, as Sachin bhai explained, expanding the capacity for grabbing the existing opportunities, and also it can be a very good and handy asset for adding any new high-value products. So now we have added another 450 KL and doubled the capacity of GTBL to 990 kiloliters. In order to reduce cost, because power is a major cost component in fermentation processes, we have invested into 18.45 megawatt of hybrid power plant, which means we have a 9 megawatt of solar plant and 9.9 megawatt of wind energy.

On 9th of October, we commissioned the first phase of this plant. Which was 9 megawatts of solar and 1 wind turbine of 3.15 megawatts. The next phase, we will add 1 more turbine, which will be somewhere by the end of November, and by December the whole project will be up and running, and that would add 3- we would have 3 turbines running together. So this put together will reduce our energy cost to half. And energy cost, as I said, is a major component of all the variable costs in the company. So it will make us competitive, and it is, you know, dependence on the grid power.

Sometimes there are shortages of power on the grids. We will not be affected, so we can continue to produce evenly, and our dependence on the grid will be low. And we will be also reducing the carbon footprint of the company and making it more environmentally friendly manufacturing and sustainable manufacturing.

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
So I think in terms of future outlook, if I have to summarize, first is integrate with MDGA in terms of capabilities and in terms of manufacturing. The second one is actually getting to the commercial manufacturing of whatever we are planning to do. With the synergies coming in of technology and cost which comes from India, we should be able to expand globally, which we are already doing, but together we should be able to do much, much more. And of course, that should lead to better profitability and growth in the coming future.

For financial performance, I'll ask Rupesh again to comment.

Unidentified Participant - Analyst
As you

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
Can see on the screen, revenue were almost flat as we were practically sold out in terms of old fermentation capacity. Now we have started our new fermentation facility from September 26 onwards, and the output of the same will start to come in from Q3 FY27 onwards. Our EBITDA was temporarily impacted, uh, in Q2 FY27 as we have started our new fermentation facility and the operating expenses of the sale has started to hit the P&L in this quarter. The revenue benefits of the sale will start to flow in the subsequent quarters starting from Q4 FY27, and we will expect the EBITDA margin to come back- EBITDA and EBITDA margin to come back to the original levels.

Apart from EBITDA, So temporarily, uh, temporary acquisition-related missed financing cost has impacted the PAT, and because of that, the PAT and PAT margin has come down. So commenting on the consolidated results, this is the first quarter after the acquisition of MDJ and putting up our subsidiaries overseas. So major impact has come because of the unrealized Forex conversion losses of around Rs 16 crores, which is a non-cash adjustment entry. Second one, and thus just to reiterate the same, it is just accounting adjustment, and with the favorable currency fluctuations, it will get reversed in the next quarter and have an unrealized gain also.

Second one is a partial consolidation period of MBJ. Since the ownership of the MBJ has been transferred to us on 18th September we have to consider only 13 days of the P&L. Their major revenue was booked in the- for the month of September in the first 17 days, but the fixed expenses and the cost will be there for the remaining of the days. So because of the- because of that, the MBJ P&L has been in the loss for the 13 days period. Third impact has been the exceptional expenses, which you can see 1.2 crores, because that is Uh, in July end, uh, there was earthquake in Japan and one of the plant of MDJ has impacted.

So to start the operations, there was some Rs 1.2 crore expenses have been incurred. All these things put together, which is we consider as a one-off, has impacted the EBITDA and PAT for the consolidated results.

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
I think that concludes our presentation part. Very happy to take questions.

Questions & Answers

Amit - Moderator, Gujarat Themis Biosyn Limited
Yeah, so as said, let's open the forum for the Q&A session. We have 2 microphones here. If you can raise your hands please, and request you to kindly let us know your name and organization that you belong to before asking the question. Thank you.

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
Hi, this is Hitesh from Kosha Capital. Thank you for the opportunity. Sir, coming on NBJ, I think the company when it was earlier part of Mitsui, I think 2010 they had a scale of about ¥4.5 billion, and then when the acquisition- or when the ownership changed to the T Capital Partners, it was about ¥7.5 billion. That was about in 2019, and from there Revenue scale has been flat, profitability has

eroded in that phase. Uh, also what has happened is in 2019 there was this big investment of 3.5 billion yuan on anti-cancer APIs, and subsequently there was also, uh, one more investment which, which is on this plasmid which you had mentioned, and I, I'm not sure how much scale is that yielding.

So I just want to understand what happened during this phase where the growth was lacking and why do we feel that we can maybe turn around things over here? Because talking specifically about GTBL, our exposure outside India isn't there today. Through Themis Medicare, yes, we do have an exposure, but that also I feel it's very concentrated sales we do on the API side. So why do we think we can probably do or what different can we do over here which MDJ couldn't do it in these years? Thanks. Yes, I think when the private equity group came into MDJ, they changed.

So first of all, you're right, it started with Mitsui. Can you hear me? It started with Mitsui and Mitsui being a very large organization, they had their own agenda, they had their own track record. So we're not sure how much focus Mitsui was actually putting into this particular business. This was not, if I may say so, very, very important for them, and that is why they also divested this to a private equity firm. And when the private equity firm came in, they decided to transform this particular business as we have, you know, as we are trying or we are working on, from a typical fermentation-based business which is working with a few customers, supplying a few things to them, to a CDMO.

And one of the strategies that they brought around was to focus in gene therapy or plasmid manufacturing. The reason for this being was that Japan is one of the places where there is a lot of work which is being carried out in the space of gene therapy for neurodiseases, that too rare diseases. There's a lot of funding in Japan in this particular space. At the same time, a lot of R&D is being worked out. So this was a good space to be in in terms of providing service. Now, you have a fair point.

How successful is this going to be? And this is really going to depend upon how successful the projects are going to be. The only good news that I have, which is near-term good news, is that their most advanced- they have about close to, I think, 20 products in various stages in gene therapy development. But the closest product that they have is in advanced phase 2, or the phase 2 is completed, and the authorities are actually considering giving them an approval to do marketing for this, or the respective company that is working on this, to do marketing on this even on the basis of phase 2 study.

So that is, that is a promising thing, and it is for a rare disease in the neuro space which is quite interesting to be in. So I would put it this way that the whole area of gene therapy, plasmid manufacturing, etc., for humans is high risk, high reward. But that's what CDMO is about. But at the same time, they have diversified pretty well in this particular space in terms of supplying plasmids itself. So because their technology to supply plasmids is quite, um, is quite superior to what everyone else has.

They are in a position now to supply plasmids not only in Japan to other companies but also to Europe and elsewhere. So I think that is on the basis of the plasmid part which is there. In case of the other spaces, how do we- I think your question was they have not been able to grow it, um, in terms of top line by the private equity firm. But EBITDA has improved from the entry point of EBITDA, I think it was about $7 or $8 million and they've moved it to about close to $14-15 million. So EBITDA has improved, a lot of business internally has changed, but more importantly platforms have been created.

And, you know, we have- we paid about close to 12 times EBITDA. For this particular company. From an Indian perspective, not a bad price, not a bad multiple to pay at, but from a Japanese perspective, slightly higher. We know that there were competitive bidders at about 10-11, so we paid a bit of a premium. But the reason- but all the other companies in Japan will probably go at about 8 times EBITDA. So why the premium for this particular company? And that was because of the technology base that is there.

Created in this particular space. As I mentioned in the beginning, we had a choice. Do we develop all these capabilities and relationships ourselves or do we buy the same? And we decided to do the latter just because of time. Because let's put it this way, from an Indian perspective, how many fermentation-based CDMOs are there right now? One. Really only one true fermentation-based CDMO. PMOs. It would have taken us a decade to catch up over there. Over here, this gives us a jump start. Now what we do with it, with that technology, and remember this is not just Japan, this is Japan and India combined together.

So when we talk about what growth is possible, what are the possibilities that we can actually bring on the table by arbitraging the Indian cost advantage? I think this is also a very important part of it. So I think The 2 coming together will make sure that there is significantly more growth in MDJ and India put together and individually also. So that's how we are seeing it. But if you ask me specifically, is there a particular project that we have in mind? We have a few projects in mind which we are already working on, but we hope that the same will be confirmed over the next quarter.

Quarter [Foreign Speech]

Unidentified Participant - Analyst
[Foreign Speech]

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
[Foreign Speech]

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
[Foreign Speech] cubic meters of fermentation capacity now. We can do precision fermentation over here. So we can, if we get projects to produce XYZ thing coming in from there or coming in from anywhere, typically R&D scale-up can happen in Japan, manufacturing can happen in India. That is the first one. And this is not just for precision fermentation, but there are so many other things that we can think of. The second place that we see clear advantages, they are enzyme engineering, the P450. They have only explored this particular technology.

This is- if I have to spend a minute on this, this is quite interesting and, you know, a breakthrough in my opinion, because you are converting multiple steps of synthetic chemistry into a single step, which is enzymatic. If you are able to successfully do that, you have a remarkable change in the costing of the respective product and hence competitiveness. Now they have only explored and they have only ventured with Japanese innovative companies in terms of where this can be useful. There's a massive generic industry and India is probably the largest producer of APIs in the world.

Where we feel that this particular technology can be applied to in a lot of generic spaces, where we see collaborations happening with- through GTPL with a lot of other Indian pharmaceutical companies, where we can supply, develop the enzyme over there, produce the enzyme in India or over there, and supply to the various companies under profit-sharing arrangements, etc. So just 2 synergies. Of course, there are many more. Yeah,

Amit - Moderator, Gujarat Themis Biosyn Limited
If- yeah, after, person will ask you question from behind. Yeah, please. Your microphone is not on, sir. If you can switch on your microphone.

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
Hello? Yeah, so I would like to understand a little bit more about, you know, you're talking about synergies especially on the cost side. Today when I look at the capabilities that you've built initially specifically on the tuberculosis side and the capabilities which, you know, the Japanese company has, you know, created, capabilities are quite different. And if I look at specifically what really moves the needle

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
As far as fermentation is concerned, it's the yield. The yield specifically in Japan could be quite different from the yield in India, and the, you know, the scenarios, the environment, etc., is quite different. So just like to understand a little bit more about how you think about tech transfer and, you know, the cost synergies, a little bit more on that. The second is, you know, if I look at again the technological, you know, advancement which, you know, MDG has specifically with, you know, ADCs, peptides, these are again, you know, quite different and quite more, you know, advanced.

So from that end, how do we look at building and, you know, recreating a tech transfer from an Indian platform? So I agree that we have been producing tuberculosis products, or rather specifically rifampicin-based products, intermediate so far and now API. The fermentation facility that we have can of course be adapted to other products also. And yes, it doesn't- the Japanese conditions are different, the environment is different, and the title value will be different. And of course, there is always a question mark in terms of whether we will be able to reproduce or better those numbers over here.

Now, all I can say is that our previous experience- so when we are manufacturing rifampicin today, the entire technology transfer took place from South Korea, and I think we are where we are. So our team and our capability as a company is reasonably good in terms of tech transfers and scale-up in terms of technology. And this is, I have to admit, only one data point that we have in terms of what we have done in terms of the competition. But I think the kind of infrastructure that we have built up now at GTBL to be able to do this kind of tech transfer is significantly better than what we had in the past.

So even without that, we've been able to do it in the past. But with that, I feel with the team that we have and the same time the CGMP pilot facilities, scale-up facilities that we have built up, we are in a good position to do tech transfers from anywhere in the world, not just Japan. Now, what kind of products do we foresee that we'll be doing a tech transfer on? There are some products which are manufactured in Japan currently which we feel with the right projects, coming in Japan may not be manufactured in Japan but could be manufactured in India and we could have a significant benefit out of that, both the companies.

MDGA by producing those new products and GTBL because if you look at the same numbers and if you look at production cost from India and selling price from India, it is very, very attractive. So these are 2 examples but Again, the new fermentation facility that we have put up can also be used for things like E. Coli and yeast to be produced on the large scale with the right kind of projects, which MDG is already in discussion with the respective Japanese companies. There is a possibility that there is at least an option that could come to India too and not just Japan.

Now, that is on the large fermentation part. With regards to the specialized products, ADCs and plasmids, I'll divide the subject into 2 parts. One is plasmids. Do we foresee any projects coming in into India on plasmids? No, we don't. We feel that it is a very specific area where more than cost, all the companies are going to be dependent upon reliability and all the other factors that go with it. So we very much expect that that business will remain in Japan and we are very happy to do that because as you saw on the slide, that is a very small part of the business yet although a major part of the strategy.

So the capacity utilization for that particular block right now is hardly about 2 or 3% but it is expected to increase significantly over the next 3 to 4 years. In case of ADCs, Again, I'll put it this way that the main ADCs, whatever work has to be done is with the Japanese companies. They don't want to go outside of Japan, forget about, you know, coming to India. So I think those projects also will remain there unless- now in this particular case, we can bring in CBMO projects for generics. So that is a separate issue because the platform is there.

The development capabilities are over there for ADCs. They are also developing the, uh, not just the linkers but also the cytotoxics. So the whole platform is there. Now it requires one, one customer, just one customer on the generic side, which they have never explored. They've only explored the innovators. Just one customer on the generic side to say that, okay, we are going to jointly develop so-and-so ADCs. And even if you look from Indian perspective, the number of companies who can develop ADCs at a GMP level are not too many.

I'm not saying there aren't any, there are quite a few, but not too many, which means there is a good space to be in because you just- you don't have just development capabilities, but you also have GMP manufacturing capabilities.

Amit - Moderator, Gujarat Themis Biosyn Limited
Yeah, hi. So I have a question on the margins of the Japan entity. So they've fluctuated quite a bit if I see. So last year we had an improvement from 18% to 25%. So what drove this and sustainable, what are the EBITDA margins we can expect from here?

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
So there is a bit of a consolidation that happened in Japan also. For example, they have 3 sites, but let's say I'll take the first site. A part of the first site had to be shut down. They wanted to shut it down because it was an old site, and they transferred all the manufacturing to another site. So when the transfers are happening, you are incurring costs on 2 sites. So as a result of, you know, 2 fixed expenses, the margins are lower. But once that particular site has now shut down, you are only working on one site, so the fixed cost goes down and automatically the margins go up.

So this is one reason why there has been a little bit up and down in terms of margins. The second part is one of the key products that have. This is probably one of the most profitable products for them. And interestingly, this product was developed through the bioconversion route for a big Japanese pharma. Now, since they were able to do this, now the- and they were only supplying the intermediate, but now because they were able to do this, the company has asked them to supply the entire API. So again, you have a flux whereby for 6 months you are going to have intermediate supply, then you're going to have API supply.

So a little bit of shuffle in the dispatches. So this is what it is, otherwise the business is pretty stable and the margins are also pretty stable is what we have seen.

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
So a 25% EBITDA is sustainable or do you think there's more room for improvement? Can we move towards- There

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
Is definitely more room. I think this 25% EBITDA is- so I'll divide the business into 2 parts. One is CMO business which was old traditional traditional business that they- legacy business that they have where the margins are low. But all the new businesses which are coming in are at a significantly higher margin, 35% and up. So as new businesses are coming in and they take over in terms of volumes, we expect that the EBITDA margin should definitely increase. Typically, all the new projects are coming in at, as I said, over 35% EBITDA margin.

Amit - Moderator, Gujarat Themis Biosyn Limited
Right, so on this deck we don't have much on the Sanofi, where we stand today. By when do you think all the antitrust, FDA, all the clearance will come?

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
So Sanofi is a very interesting business that we are looking at. If I have to, without going into further details, if I have to summarize, whatever we are doing on the API side, that is forward integration of that. So that really gives us a healthy EBITDA level in terms of where we are going. We expect this to be completed by February, January and February, all the FDIs to come through. We intentionally did not talk too much about it or anything about it right now because we felt that once we have closed this, that will be the right time to bring in all the details as we have for MicroBioPharm.

Amit - Moderator, Gujarat Themis Biosyn Limited
This should- this too should be at a similar EBITDA margin level, let's say 30%. What kind of margins can we expect?

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
I think this particular business is at about 25%. Sanofi is better.

Amit - Moderator, Gujarat Themis Biosyn Limited
Just based on the current question, Questions and answers. You, what I could interpret it, if you can, it's like part of the manufacturing from Japan comes back to India because of the new fermentation. And based on that, the whatever the today 25% margin of the Japan entity, and we see the Earth Smile GTBL or the present GTBL which is around 45% EBITDA margin, how will we see after 12 to 18 months if

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
So a small correction. We, we have not planned for now for any of the current commercially produced products from MBJ to move to GTDL. What, what we are looking at is there are a lot of projects that MBJ has to say no to. Although they have to develop it, they have to say no to in terms of manufacturing because it's not It's not viable for them. It's not interesting enough in terms of EBITDA margin for them. As I said, any new projects are not taken at an EBITDA margin of less than 35%. In India, we can take those projects.

So I think what I meant is the CD can happen over there and the MO can happen in India for projects of the future.

Amit - Moderator, Gujarat Themis Biosyn Limited
Especially about India because for the last two years to dent had a capacity so that the revenue going grow now since the capacity is almost doubled how could we see the next financial so

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
We have to as Krupesh mentioned our second fermentation facility has started operating From, well, from Q3 onwards.

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
And a more broader question, like what- excuse me, sir,

Amit - Moderator, Gujarat Themis Biosyn Limited
If you can hold your mic this side up. If you can hold your mic closer. A more broader question, like if you see, uh, 6 months back what GTBL, and maybe 2 years down the line what GTBL would be on a consolidated level, what was the thought process to take such bold measures in a sense?

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
As a company, as a management, we are very passionate about fermentation. And, you know, so far for so many years, there hasn't been an opportunity for us to do beyond what we've been doing. And as I mentioned in my introduction, we've been looking for something for the last 4 years because that is where we felt we can do it. Now the question is, should we have done something as bold as we have or not? And we feel that there is so much happening in this space. Literally this morning I had an interview with someone and they had data from BCG, Bain, etc., McKinsey globally stating that with all the science, developed science which is happening Today in this particular space, the global fermentation capacity is 1/7 of what is required over the next 3 to 4 years.

1/7 of what is required. So I think we have to do something horribly wrong not to capture this particular opportunity with the kind of capacity that we have now and with the kind of capability we have right now. So if you would have done the same thing 5 years from now, and we would have said we are going to do this slowly and gradually, I think we would have been behind the curve. I won't say we are ahead of the curve, but now we are pretty much catching up with the curve with this particular technology base and manufacturing capability that we've brought into place.

Amit - Moderator, Gujarat Themis Biosyn Limited
Thank you and all the best.

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
Hi sir, so few questions. Firstly, you mentioned the second fermentation unit has started. What can be the peak turnover from this unit at full utilization? So I'll put it this way that look, it's no secret, you've seen our numbers for the last so many years, they are what they are with one capacity and we have doubled the capacity. So you can take a guesstimate without me exactly telling you what it is.

Amit - Moderator, Gujarat Themis Biosyn Limited
So that

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
Is where the variation will be. It will depend upon how much of the intermediate we can convert convert into API or how much of the intermediate we choose to convert into API, looking at the

whole business strategically also because we cannot get in- we want to do APIs, we are going to do APIs but selectively, not in a way whereby we are cannibalizing our current customers. So I think there's got to be a right balance in terms of what we are doing right now and where we want to go with the APIs.

But there's a lot of opportunities with APIs over the next 3, 4 years, 5 years which we would have never been able to capture. If we did not have that facility. So slowly but surely, our API business will be, will be increasing. We- to just to add one more line on that, I think over the next 3 to 4 years, at least half of our intermediate capacity should be converted into API is what we are seeing

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
Of the total

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
Capacity. So whatever intermediates that we were producing in the past the same quantity should continue, but the other half should be converted into API, into forward integration. That would be, that would be an ideal case scenario, I feel. And, uh, second question is on NVJ. Uh, so you mentioned that last few years they have not been able to grow the top line. Uh, they have not been able to grow the top line, you mentioned, right? So when would an ideal scenario be for us that you start growing top line with new orders.

So I'll put it this way that as per their business plan, from now it is year 3 where there is a hockey stick. There's a significant increase in the top line. I'm not saying that there's no increase in top line in the meantime, but a significant increase in top line is in year 3. But we have some different plans in terms of how we can pre-pone that particular increase in the top line. But to say anything definitively today is too early. We literally just had one management meeting review with them.

We will wait for at least until the end of December, beginning of January, for us to start working on what, what all possibilities are there. Right now we are more in the phase of understanding the nitty-gritty and details in terms of feasibility of some of the thoughts that that we have, but whatever we see right now seems quite interesting. And the current management team will run the show over there? Absolutely. So all the senior management has been there for more than a decade. The CEO has been there for about 5-6 years now.

Our first impression is very positive in terms of what they have built over there, and we like the transparency with which they are working. Just to give you an idea, the last 5 years' board meeting minutes, which covers everything from manufacturing to sales to business development to HR to environmental, everything, everything is minuted and everything is shared with us. And even right now as we speak, as we do board meetings, they send us information much in advance in terms of all the all the points so that there's adequate transparency.

Just one last question on the financials. With H2 normalizing, as you mentioned, with the one-off, and with MBG also getting consolidated from H2, what is the kind of free cash flow we expect to generate?

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
You are talking about MBG

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
Combined entity, the base business in India, and then MBG also?

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
So as we see here, the another thing you have to consider is, consider is that another some of the acquisition also we are planning to do. Yeah. So excluding,

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
Excluding the acquisition and any incremental capex. Yeah. What kind of cash flow? So

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
MB just said we can expect easily around 90 to 100 crores in iron atoms.

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
Okay.

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
Yeah. And see, after

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
The interest cost that, that is there. Yeah,

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
Yeah. So this is a free cash flow, so you have to deduct interest and everything. Yeah.

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
Yeah, right.

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
Yeah. And on GTBL side, since obviously you see, you have seen that we have already done so much of investment and still we are doing it. So you can take around 15 to 20 crores, you can expect in terms of free cash flow. 15 to 20

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
Crores.

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
And, and what will be the CapEx? So already we have already invested in the CapEx. There is not much incremental CapEx right now required to be done at the GTBL level. Okay, okay. Thank you and all the best.

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
Sir, could you give some color on the key products in MBJ today and in the next 2 years? Which are the other products or other molecules which will get added to the portfolio? Like how we have an understanding in GTBL, like that, if you can give some insights on MBJ. I think you are referring to some molecule which is moving from intermediate to API with the customer. So what we cannot share is projects which are CDMO with the companies because there we are bound by CDA. So that we cannot share.

But what we can share is the products that MBDA themselves have developed in our setting. So the major business in that particular space would come from anthracyclines. So it's the whole derivatives of donorbicillin and all the derivatives around that, where a lot of that has been made efficient in terms of converting synthetic process into bioconversions. So that is one part. And the

second one is, uh, josamicin, where they are the only registered source in Japan, and that is they are relaunching this in various parts of the world.

So these are the 2 molecules that they are doing. And then others are still in R&D which we are not disclosing. But these two are public information, so we can go ahead and say this.

Unidentified Participant - Analyst
In the next two years, what gets added to this portfolio?

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
That's that's what I meant. So the others are still you know not in a stage whereby we have put it out in the public domain. Sure. And so second one is it's really I mean the culture is a very big aspect for working with a Japanese company and. And it's good to hear that the entire team will be with us. How do you plan to incentivize this team and what will be really our role in, you know, whatever plans we have with MBJ? How do we plan to work with this team? I think it's a very important part.

It's a good question. It's a very important part of how we are going to make this happen because we can have a lot of ideas, we can have a lot of thoughts, but unless everyone is aligned, we cannot move ahead. So what we've agreed with the CEO over there is first we need to align in terms of what we want to do. You know, that is the first important aspect. So we hope that before March we will align in terms of what we see the future of MBJ and GTG and MBJ together. So this is very important. And so far the whole private equity game or private equity model has been to work on the EBITDA.

So everyone was incentivized on EBITDA. From our perspective, what we are working on is a model whereby people are incentivized not just on EBITDA but EBITDA and growth, both put together. So I think with these 2 things So first of all, aligning on what we want to achieve and then incentivizing on them, along with bringing in some consultants who are working with us in terms of how to give them also the benefit of the Indian equity markets. So I think a combination of these 3 will be finalized by the end of this financial year for us all to speak with one voice and not multiple ideas.

Amit - Moderator, Gujarat Themis Biosyn Limited
Thank you. With Sanofi acquisition of brands, how much revenue do you expect? So the Sanofi

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
Portfolio is, I think, about 64, 65, 62 million euros. In terms of revenue. Hi, thanks for taking time. Just one on the core business. I noticed our COGS went up this quarter. I'm assuming not too much noise from the MDJ acquisition, but our COGS have generally last few quarters been in the 10% to 12% of revenues. This quarter has gone up around 24%. That's outside of the adjustment of FX and all of that. So just wanted to understand, is this like some one-time cost increases that we're having in our raw materials?

What, what's happening on the core business? So if you see our COGS in the last quarter, they were unusually low. It was because of the adjustments in terms of inventory or whatever you want to call it, but typically our COGS have been about sub-20 in terms of percentage. So yes, this quarter was a bit high because some API is also coming through, but I don't think comparing with the last quarter is correct because that was unusually low. We have never had COGS at this level.

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
Even Q4 was I think in the 12-14 range. This quarter it seemed unusually high, so I was just- if there

are one or two inputs that have If you see, there is an obvious inventory impact we have come. So if you just study the balance sheet from- so there is a- in COGS, when you calculate as per accounting standard, you have to adjust the inventory adjustment, closing and opening inventory. So that, because of that adjustment, Q4 also has come down the COGS. And there is no FX impact actually. Yeah, on COGS there is no FX impact.

And because of this inventory adjustment factor, Q4 COGS was low. What exactly is this? So see, when you calculate as per accounting standard, what is your opening stock of WIP in FG and your closing stock of WIP in FG, you have to take the differential and accordingly you have to put the same in the P&L. Correct. So when our closing stock was higher, that impacted the COGS, and because of that closing- higher closing stock, our COGS was come down in Q4 and

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
Also in Q1 then, right? Yeah. So

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
You can see the balance sheet, it is Clearly visible. Got it.

Amit - Moderator, Gujarat Themis Biosyn Limited
Okay. Just so CWIP as on September is 174 crore. When this gets into production, CWIP is around 174 crore as on September 26th. When it comes into production,

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
So this majorly consists of the hydropower plant which we already discussed. And another is the R&D, which we are investing right now in R&D infrastructure. So it is actually not into production, we can say, but it will obviously impact us since hybrid power plant already Anand sir has mentioned that it will improve the P&L at the end of the day. When

Amit - Moderator, Gujarat Themis Biosyn Limited
It gets operational, power plant?

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
Phase 1 is already operational, as it was explained. All the phases get operational before December.

Unidentified Participant - Analyst
Thank

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
You. So yeah, if you can name yourself. Yeah, my name is Monil. Can you hear

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
Me?

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
Yeah, so I've got 2 questions. So first one is with respect to, uh, the core business that we have at GTBL. So right now the current run rate for employee benefit expenses is around 4 crore. So, uh, since we have doubled our capacity and our API plant is also online So do we anticipate any increase in our employee expenses since there is an additional output which will be there? You mean the OPEX you are talking? No, employee benefit expense. So right now the current employee strength, factory worker strength is around 200.

And the expense is around Rs 4 crore, which is for the quarter. So there has been no increase if

Amit - Moderator, Gujarat Themis Biosyn Limited
You look at quarter on quarter or year on year.

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
So as we go forward in implementing all the plants, there will be only marginal increase in the manpower

Unidentified Participant - Analyst
Because

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
Only the production area would require more manpower, and almost there is a 50% manpower in other areas. For example, you utility areas and all. So that will be like same people can manage higher capacities. So that would be, you know, the synergy of volumes.

Amit - Moderator, Gujarat Themis Biosyn Limited
So this Rs 4 crore run rate would be more or less same is what you are indicating?

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
Yes.

Amit - Moderator, Gujarat Themis Biosyn Limited
And the second question is with respect to the MDJ. So I think I saw

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
Somewhere that MDJ has filed some patent in relation to this ADC, EZ-AD is something like that. So do we have any update on that patent which has been filed with the US authorities?

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
So there are 2 areas. In terms of ADCs, the patent is received, but not from the- I'm not sure whether the patent is received from the US or Japan, but at least one of them, the patent is received. And for the plasmids, the patent is pending. So both of them are innovative platforms in terms of development. And if the plasmid patent comes through, that is quite interesting because a lot of projects which are happening. So as I mentioned, there are about 20 projects in various stages in the plasmid development at CDMOs.

There is also a possibility of getting royalty revenues.

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
So do we anticipate anything in the near term or is it too early?

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
I think too early for us to say right now. To be very honest, what we are doing at the moment with MBJ is a deep dive into one particular section. So as I mentioned, there are multiple areas that MBJ is working on and has capabilities and capacities for. Plasmids is one, large-scale fermentation is another, immunoseparates is a third, biopeptides is another, biologics is another one. We are doing deep dive every month into 2 of these areas to understand much more than what we have so far. More specifically from understanding what are the things that we can do together.

So I think by March we'll be very well aligned in terms of how both the companies can work together going ahead.

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
And with respect to the our mezzanine financing that we have secured from Singapore for refinancing. So do we expect like to get it repaid like by when?

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
Absolutely, absolutely. You know, it is very important because that is, that is short term. It is very important for us to move to the Japanese banks who were already funding MDJ because the rate of interest is very attractive with the Japanese banks. And the process is also underway. We have already received a term sheet Now final due diligence is going on. We don't anticipate too many issues to come up because the same bank was funding NBG and the same management for, I don't know, for a very, very long time.

And our personal meetings with the Japanese banks essentially gives us an idea that they are very comfortable and happy working with the management.

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
So the forex loss which we have in this current quarter, so So once this refinancing is routed through the Japanese bank, so are we expecting the same to happen in the future quarter, or is this completely related to the mezzanine financing that we have like secured from Singapore? No, it is not related to mezzanine financing which we have secured from Singapore. It is between GTB and TBJ, our subsidiary. So we have, we have already financed TBJ through 2 ways, through equity And through borrowing.

So in a TBJ level, uh, GTBL borrowing is stated as in INR terms. We have agreed between INR terms. There is agreement between GTBL and TBJ. So at the end of the quarter end, they have to revalue the- this, uh, borrowings, this monetary liabilities. So because of the adverse currency fluctuation in JPY, this loss has come back.

Amit - Moderator, Gujarat Themis Biosyn Limited
So yeah, so once, once it is repaid back to GTBL, so we don't expect that. And see,

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
If the currency fluctuation If there is appreciation in JPY, in the next quarter you, you will see unrealized gains. So this is just an accounting adjustment.

Amit - Moderator, Gujarat Themis Biosyn Limited
Thank

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
You.

Amit - Moderator, Gujarat Themis Biosyn Limited
Hi, I'm Sumit Jain. Just wanted to understand, how do you intend funding Sanofi brand acquisition? Because that's also going to be a large one, and the free cash flow generation from the current one would still be not large enough to justify that.

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
I think it's a very important question. For now, we have funding in place for Sanofi, which is obviously based on debt, mezzanine financing. But as days go along, we will figure out whether we want to raise further equity or not. The thought is very clear. We want to close Sanofi with the term sheets that we have in terms of debt, consolidate all the 3 numbers for at least a quarter. We believe that the consolidated numbers will look quite interesting from a perspective of EBITDA and sales. And with that, look at the option of raising equity.

But for sure, we have to raise equity to make sure that we become very clear in terms of the debt that we hold on the balance sheet. So So the consolidation with the Japanese entity has already happened, right? We consolidated 13 days. So full consolidation with MDJ will happen in Q3. Sanofi depends upon when we close. So if we close Sanofi in the month of February or end of January, beginning of February, we will have 2 months to consolidate Sanofi. If we close by end of February then we have 1 month to consolidate.

So I think as soon as we close Sanofi, we'll be able to consolidate, and we will wait at least for a quarter of numbers together to take a further decision on this.

Amit - Moderator, Gujarat Themis Biosyn Limited
What's your current cost of borrowing for the CDs that you have raised?

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
So currently it's about 16-17%, but as I said, this is mezzanine financing. With a bullet payment at the end.

Amit - Moderator, Gujarat Themis Biosyn Limited
So eventually, once you refinance this as well, because this is a limited period borrowing, what's your expected cost of borrowing that you think you will come to?

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
About 9%. But so again, I'll put it this way, that it's very, very important from our perspective. The way we see it is that this is mezzanine financing, and we have to convert this into equity. So it is not that we are going to get funding from somewhere else. We may for a temporary basis, but at the end of the day, at the right time, we will be raising funds to pay off this debt. Thank you.

Amit - Moderator, Gujarat Themis Biosyn Limited
So on a consolidated basis, after all your acquisitions, and right now taking the cost of fund at, uh, 9% on the borrowed money, so what kind of EBITDA and what kind of interest cost on a pro forma basis, uh, at a steady state basis, current numbers we are looking at? Because right now when we see our market cap and the amount of borrowing which will require, I think the investors will have to do a lot of calculations. So if you can simplify it for us.

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
I will, I will still ask you to do some calculations, but I'll give you some, some clues on this. You have seen our top line, you have seen our capacity utilization, you have seen our CapEx which is coming through. So you can guess what we are aiming for in terms of top line and EBITDA from our GTBL. You have the revenues from Japan and you have the EBITDA numbers over there. Currently we are paying mezzanine finance of about 7.5%, which is with Japan expected to go down significantly, maybe about 4% or less.

And with regards to Sanofi, I mentioned that the revenue is about €62 million and the EBITDA I mentioned is better than Japan. So I think if you amalgamate all the 3 numbers in terms of top line and bottom line, you have a fair idea where we, where we are going. Hi, Sahil. So one question on the Celofe portfolio. If you can give the breakup between TB and the other therapies. The reason for asking is, I don't know if this has been asked before, TB is sort of a dying disease because of United Nations target.

Even Indian government has a target to eliminate TB by 2030. They're distributing handheld machines to all the government hospitals to eradicate TB. So given this scenario, what is the reasoning behind acquiring a TB-heavy portfolio rather? So 2 things. One is there is a- in the portfolio there is 50% TB and 50% is anti-infectives. But amongst TB also, there is a change in the way TB is being treated. Although the number of patients in case of The way it is being treated is changing. For example, till yesterday we had rifampicin as the main product for treatment of tuberculosis.

It is now moving to rifapentin. Rifapentin requires a lower- so it can cure TB in lesser number of months, so it saves a patient 2 months in terms of treatment. But at the same time requires more of the intermediate that we are manufacturing. So both things put together, we don't think TB is disappearing anytime soon. And there is this whole idea about eradication of tuberculosis by the WHO and India. And if you see the benchmarks which were to be met, have they been met or not is for all to see.

And one of the most important aspects over here, and this is very important for the portfolio that we are acquiring, is that to eradicate tuberculosis, you also have to take care of latent tuberculosis. Now what that means is that in India, for example, in our population, 70% of the population has latent tuberculosis, which means we have some tuberculosis but it is not in the active form. It becomes active when we are either in the presence of someone who has got active tuberculosis or we are immunocompromised.

Our immune system goes down. So immune system will go down, you know, because of some reason or the other. You are, you're not well, you have a viral, you have whatever it is, it will go down. Now if you are not in a position to- and that is the time when actually the passive form or the latent form of tuberculosis becomes active. So again, you have one more case coming up. Now if you don't treat latent tuberculosis you are going to have a problem in terms of eradicating tuberculosis. We are- we can just manage tuberculosis, we cannot eradicate tuberculosis.

The only drug which is approved today for latent tuberculosis comes from the Sanofi portfolio. So this is, this is one of the important products that we are looking for, and we have some ideas in terms of what we can do for this in many parts of the world. Thank you. Sir, in case of Sanofi, you're not acquiring any manufacturing assets. You're just brands and, you know, the rights in different geographies. Whenever this transition happens to- the portfolio transition happens to us, do you see a disruption in this space, number one?

Number two, without

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
Having manufacturing assets, you still can have a 25% or whatever better margins than NVGN? I mean, Little hard to digest, but just want to understand on this.

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
So one is, um, first let's talk about assured supplies. So there is a 3-year MSA, material supply agreement, that we have with Sanofi, whereby Sanofi is obliged to supply us the products for at least 3 years. And if we want even more, which we don't want obviously, and the 3 years is because that is amount of time it will take for us and then to do the technology transfers to our CMOs and do the manufacturing. Now in terms of margins, Sanofi portfolio right now has a gross margin of about 55 to 58%.

And when we integrate it with our API, because remember we are buying this portfolio so that we can integrate with our API, when we integrate with our API, it will take 3 years. It goes to 74-75%. So that is a shift in margins that we see when we integrate our API with Sanofi's portfolio. So there is a very, very clear-cut synergy in terms of us going for this particular portfolio. So if you look at, you know, the multiples that we are paying at entry, they are very attractive. With integration, they are even more attractive.

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
And sir, what has been the growth of this portfolio in the last 3 years?

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
Um, not too much. I would say 5-6% CAGR over the last 5 years.

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
Sure.

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
And one last question. So what over there also? I would say 5-6%, maybe a bit more, because it's very difficult to say because you had COVID years, etc. So things have gone haywire, but I would say it's flat, but they would say it's 5-6%. Okay. And so last question on your debt, what is the peak debt that we will have in our books, or what is it that you are comfortable- what metric that you are comfortable with, either debt EBITDA or debt equity, or how should we think about it, sir? I think we are still in the process of finalizing that particular bit.

Um, we will, we will see. I, I will not be able to give you a very clear-cut and straightforward answer on that at this particular stage. As I said, you can see our debt levels right now including NCDs. They will go down obviously because we are coming out with a pref of about 300-odd crores. So that NCDs will go down. So we have room to take further debt to in fact close the entire transaction without going to the equity market at all. That is for sure. And we see numbers which are reasonably promising.

And the good thing with both, you know, I think someone asked, we're taking a bold move. Yes, we're taking a bold move, but in both the cases, they have been very steady businesses. There's no ups and downs, there is no hockey stick in terms of up or down. Earnings have been very steady. The The cash flows have been very steady. Both of them are cash flow generating businesses. So when you look at both these things, we feel confident enough to take risk to a level whereby we want to ensure that we further raise equity at the right price.

Unidentified Participant - Analyst
Got it. Thank you.

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
As I mentioned, we want to make sure that we have at least a quarter consolidation of all the three entities.

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
Sir, Ramesh Bhujwani from Meta and Vakil. Somebody rightly mentioned you have taken the boldest move so far in date. Many congratulations. You have calculated. Every- you have done your SWOT analysis thorough and you have taken over MBJ at 12 times EBITDA. That itself is saying that you are very, very sure and confident of the payback and the returns. What can be the indicative payback period of this takeover of MBJ at 12 EBITDA?

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
I, I will answer that question in the next meeting. As I mentioned, we are at a stage whereby- so we obviously have some aspirations We have some ideas in terms of what to do, but we would like to understand more about the company. So I think when we are going for any acquisition, we have a certain amount of understanding about the company. And this was a process which was run by a Japanese bank, so we had access, but we did not have absolutely the amount of access that we would have wanted. Now we are getting much more information about it.

So there is enough access to figure out what was happening and what is their business plan. But what we can add to the business plan is something that we are figuring out now. So I think by end of March we'll be in a much more confident situation to say that, okay, this is what we are exactly expecting out of MDG over the next 5 years. But right now we are going by their business plan and we are not adding anything to it, which we feel is good enough for us to build cash flows and cash in MBJ as years go by.

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
Wonderful, sir. And MBJ, is the manufacturing capacity utilization peak or it is yet to peak?

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
We are far from peak. That is, that is one of the advantages that we saw, that there is a lot that can be done in terms of manufacturing capacity. Each block is at about 20-30% capacity utilization, some of them even lower than that. So there is, there's a lot, there's a lot to be done without any increase in CapEx from here. That's wonderful to hear. Thank you and all the best. Hello, sir. Hello, sir. Hello. Couple of questions, sir.

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
Hello. Hello, sir. This is Pritesh. So my question is, I mean, you have taken very wonderful initiative after number of years doing the, you know, TB-related product. And as you said, the time has come now as per the consultant study and all that. But taking to the capability of the company which has been acquired, like say 5-6 API what they are doing, what is the market size of this API? And are we looking to scale up this existing API or the product which is there in the pipeline of that Japanese company's R&D that we plan to see scale up and manufacture?

Do you got some kind of a contract or early success of, you know, selling those products? So just a little bit more color about the, you know, the upcoming business which we have acquired. And what is the need of simultaneously, you know, acquiring another large-scale portfolio from Sonofi? And adding to the debt level, is it because this opportunity just now came and it is very similar line as what we were doing for last 2-3 decades? That was the reason, or suddenly we thought that we will

go and, you know, upscale ourselves suddenly in a very large-scale company?

Thank you.

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
So the Japanese business, as I said, is divided into 2 parts. One is the APIs that they have developed themselves and are selling. The second one is CDMO. What we want to do in the future is increase on the CDMO business, which means have more contracts in place with more companies and grow in this particular space. Not to say that the current businesses or APIs that they have developed don't have the potential. They have a few billion dollar market value. So there is a lot to achieve over there, but that is what we will do.

We will try and produce more of the same, we will try and sell more of the same, but our focus is very clear. It is going to be on CDMO business in MBJ coming from large and biotech Japanese companies and global companies in terms of the capabilities that it has. Now, why did we go for 2 different businesses? Well, I'll put it this way, that when you are manufacturing intermediates, you want to forward integrate and you want to make APIs. Once you start making APIs, you want to forward integrate and make finished dosage forms.

This risk assessment and risk management, I think this is what it is. We could not get into finished dosage forms without cannibalizing our current customers. And this is very important because this is our bread and butter. So the only portfolio that we could actually go for was a branded portfolio which was not being supplied by, or which was- which were the markets which were not catered to by our current customers. And there is only one portfolio, that is Sanofi's portfolio, because that is the originator's portfolio, reference product portfolio.

And this was in no way affecting our current customers. So again, like we approached MDJ owners about 3.5-4 years ago, we approached Sanofi about 2.5 years ago. It just so coincidentally happened that both of them started the process. It was not one-to-one negotiations. They started the process at the same time within a month's period for divestment. And we took the bait and we decided to go for both knowing very well that With Sanofi, we have a long stop date of June next year, which means there is a fair amount of time between the two to close this respective deal.

But we believe that if not this, then there is nothing else. Then we have to forget about forward integrating into our API portfolio, which is, if you ask me very frankly speaking, apart from the fact that it gives very good EBITDA, It is a security of our bread and butter to make sure that our margins remain what they are. In fact, not just remain what they are, but they improve from where they are right now for every kilo of the intermediate that we are manufacturing. And MBJ was- so again, if you look around, if you ask around, there aren't too many assets like this.

Really, there aren't too many assets like this. We have really, through all these firms, scanned the global environment in terms of assets having these, all these capabilities, and there aren't many. So we were very clear that we wanted to go for this, and if we wanted to transform ourselves from a traditional fermentation-based company to a cutting-edge CDMO, then this was the one to go for. So I think both these things were very clear in our mind.

Unidentified Participant - Analyst
Compensation capacity globally install are one seventh of what is revised. so you have a market ready waiting to be capped a right price and in a right time. so now that question is 900 clear, this almost second the capacity is worldly, like global computer just

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
So currently we are operating only 450 because the 900 has just come through. So whatever revenue, whatever you see is on the base of 450, but with the expanded capacity of 900 also the revenue will be very different from what anyone else is doing, and that is the case for each fermentation product. So you can have a large amount of synthetic capacity also and 1/5 of a revenue. It depends upon what you are producing inside and what, you know, what is working for you. So our product is what it is.

We really cannot ape what someone else is doing, otherwise I feel that we will We will fall on our face.

Amit - Moderator, Gujarat Themis Biosyn Limited
Hi, this is Ahmed here. First question on MBJ side on a similar lines which you have spoken about. You can be a little louder, please.

Unidentified Participant - Analyst
Yeah. [Foreign Speech] in terms of selling of the growth and also in terms of margins, there's approval, there's activity and there's approval available to 40 percent side and 40

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
I think I mentioned briefly in one of the previous answers that their increase in revenue is back-ended, which means about '29-'30. What we are currently working on is what projects are we going to do whereby revenues are going to come in the next year or so. So that is the whole purpose. We obviously from our perspective would like to pre-pone revenues before their plan and we don't feel it is too much of a challenge because their thought was very focused and very rightly so from where they were coming from on plasma manufacturing, on gene therapy, on those areas.

They had not thought of or explored the generic world. They had not thought of, explored the non-pharma world. They had to a certain extent, but not to the extent that is possible, which we feel we can bring on the table for quicker, much more quicker revenues. I think almost about 80 or 90% of the markets are now covered. We have distribution partners in place. It's already started. It's already started. So as Rupesh mentioned, we have started our second fermentation facility in September. So we expect output to come in.

Maybe not 100% will come in, maybe 80% will come in, but we expect significant increase in production output in this particular quarter. We have time for one last question. Yeah, thereafter

Amit - Moderator, Gujarat Themis Biosyn Limited
We can have the floor open for

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
Informal meeting with the management. Please,

Amit - Moderator, Gujarat Themis Biosyn Limited
Just a couple of questions. So one clarification on the debt that we have taken. So NCDs in India were 580 Rs 495 crores, if I'm not wrong, of which we've used Rs 493 crores. So the rest is sitting as cash right now. And

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
No, we have to- we have paid as acquisition costs, uh, all the money. We have utilized this amount.

Amit - Moderator, Gujarat Themis Biosyn Limited
Okay, so we've utilized it. And just, uh, like previous, uh, question, can you just elaborate on the growth strategies for Sanofi? That, uh, how are we going to drive growth? Because it's So look,

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
I think I've given a flavor in terms of what Sanofi is looking like. Let us close the transaction and we'll do another meeting to give granular details in terms of where Sanofi is going and what is happening over there.

Krupesh Patel - Chief Financial Officer, Gujarat Themis Biosyn Limited
And can you please conduct regular earnings calls after, like every year?

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
I think for the last couple of quarters we have. I think we've just not had physical meetings. This is the first time we've had a physical meeting. I think we So while I totally agree with you, unfortunately or fortunately, the situation that we had was we had limited capacity. That was the unfortunate part. The fortunate part was we were sold out. So, you know, that is what we would have to say. We have capacity and we are sold out, and this is what the constant revenue is, and this is what the earnings are.

I think now we have something happening, so I think this is a good time to start off and share in granular details what we are going to do and what we are able to do. So thank you everyone, thank you very much for being a part of this deliberation, incredible one. Prabhu sir, your thoughts on last closing remarks for everybody. I think again thank you very much everyone for being here and not just listening to us patiently but also listening to all the questions and answers patiently. Thank you.

Very much value your inputs and I think the meeting was, as they always are, quite interesting because some of the questions that are asked make us also think in terms of how we need to refine our thoughts and our ideas further. So thank you very much and have a lovely evening. So we have the dinner served right

Amit - Moderator, Gujarat Themis Biosyn Limited
Outside and the management will be available for an informal

Sachin Dinesh Patel - Managing Director, Gujarat Themis Biosyn Limited
Get-together. Peace.