

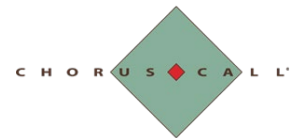


“RPG Life Sciences Limited Conference Call”

September 18, 2024



Dolat Capital



**MANAGEMENT: MR. YUGAL SIKRI – MANAGING DIRECTOR –
RPG LIFE SCIENCES LIMITED
MR. VISHAL SHAH – CHIEF FINANCIAL OFFICER
– RPG LIFE SCIENCES LIMITED**

MODERATOR: MS. CANDICE PEREIRA – DOLAT CAPITAL

Moderator: Ladies and gentlemen, good morning and welcome to the RPG Life Sciences Conference Call hosted by Dolat Capital. As a reminder, all participant lines will be in a 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 Ms. Candice Pereira from Dolat Capital. Please go ahead.

Candice Pereira: Thank you, Ryan. Good morning, everyone. I, Candice Pereira, on behalf of Dolat Capital, welcome you all to the conference call of RPG Life Sciences Limited for an update on the stock exchange announcement made on September 13, 2024. I would like to thank the management of RPG Life Sciences for giving us this opportunity to host the call.

Please note that the management will only be addressing questions related to the stock exchange announcement at this time. Today, from the management team, we have with us Mr. Yugal Sikri, Managing Director; and Mr. Vishal Shah, CFO.

I now hand over the call to the management for the opening remarks. Thank you, and over to you, sir.

Yugal Sikri: Okay. Thanks, Ms. Pereira. Good morning. Thank you for being available today. You have read the outcome of the Board meeting held on September 13, 2024, where the Board had approved two decisions. One was the payment of transfer charges of INR32.2 crores as per the order received from MIDC against the ULC exemption under amnesty scheme. And the second is with respect to execution of a binding agreement with M/s. KRSNA Dynasty for a consideration of INR144.9 crores plus the applicable GST.

You would also read, we mentioned there, the financial impact emanating from the MIDC order of the payment of transfer charges against ULC exemption is expected to be fully cushioned upon the successful consummation of the binding agreement. Now, behind this outcome -- behind these decisions, let me present to you the business context.

Let me just start by refreshing that RPG Life Sciences operates in three business segments: Domestic Formulations, International Formulations, and API, contributing to 65%, 20% and 15% to our revenues. You would also remember that we have been mentioning that we in the beginning decided to focus on Domestic Formulations, which contributed to two-thirds of our business where you would have seen that we have grown the business continuously faster than the market. This is our much talked about five-pillar growth strategy.

Now, with Domestic Formulations on steam, we now turn our attention to other two segments, that is International Formulations and API. And you know well that API is largely export. And thereby, we now want to make International Formulations and API as our growth engine two and growth engine three.

And in this connection, we decided to have two prerequisites with respect to export, the two prerequisites which we have talked about is, one is modernization of our plants. And the second is development of an R&D pipeline.

Now, today's discussion, since it is pertaining to the API and API transactions, which happened with respect to API land, I would restrict myself to only API. Now, in the modernization and capacity expansion exercise for the API plant, which is located at Navi Mumbai, we also realized one more opportunity and the opportunity was consolidation, consolidation of the plant operations in a way that we can free up a good part of the API land.

A total of 34,483 square meters of the land is there, where the API plant is currently located. We have worked out the whole modernization, expansion plan of the API plant in a way that we were able to free up 15,015 square meters. This freed up 15,015 square meters part of the plant we decided to be monetized. And we all know that this is located at a very strategic location in Navi Mumbai, which is quite a high priced one. So we thought we will dispose of -- we will monetize that part.

And whatever the proceed we get out of monetization, that will add to our corpus and kitty, which is already available to us in the form of the cash surplus coming out of the good operations, which have been happening in the organization for the last four, five years. This proceed will further add to the kitty which we will use for our growth opportunities, and particularly in the inorganic growth opportunity, which you all know, we have been pursuing.

And we have been pursuing -- as I mentioned earlier, we've been pursuing these inorganic growth opportunities, both in case of formulations and API. So that is the context. The first part of the announcement was with respect to payment of INR 32.2 crores as the order received from Maharashtra Industrial Development Corporation, MIDC.

To explain this part, I would request Vishal Shah, our CFO, and also, I will request him to briefly cover the binding agreement which we signed with the assignee, and thereby monetizing the freed-up land of 15,015 square meters. So, over to you, Vishal, if you can briefly explain the two areas to all of us.

Vishal Shah:

Sure. Thanks, sir. So, as you know, as per the announcement, MIDC has levied ULC transfer charges under the 50% amnesty scheme and the amount is INR 32.2 crores. So the reason for this is that under the ULC Act, MIDC granted an exemption in respect of surplus vacant land subject to certain terms and conditions.

In the past, RPGLS assigned a part of its land to an assignee, wherein MIDC was supposed to levy ULC transfer charges, but had not levied at that point of time. In fact, it did not levy on any leaseholders across the state. Now, MIDC came out with 50% amnesty scheme, and under this scheme, - we have been issued the demand order of INR 32.2 crores. And this is what has come to us, which we have to pay for closing this transaction of the past.

And what has triggered right now is that since we are going to MIDC for further assignment of our land to an assignee, MIDC is asking us to pay this ULC transfer charges. This is with regards to the ULC transfer charges.

With regards to the portion of land, which Sir just mentioned that we are assigning to an assignee with the proceeds of INR 144.9 crores. So, these are the two transactions what the board has approved on 13th of September. I hope I have made this clear.

This in brief was, we wanted to clarify. And if you have any questions pertaining to this, to the extent we can, we would like to answer. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now be conducting a question-and-answer session. Our first question comes from the line of Ankur Kumar with Alpha Capital. Please go ahead.

Ankur Kumar: Thank you for taking my question. Sir, I wanted to understand, in the announcement to exchanges you have said that this amount will likely have an impact on Q2. So, is it like this INR 32.2 crores, we will be booking as one-time loss in Q2 and then the INR 144.9 crores will be one-time gain in the Q2?

Yugal Sikri: I think what you heard is correct. Vishal, would you like to explain?

Vishal Shah: So, in quarter two, you correctly mentioned that INR 32.2 crores will come as a one-time extraordinary expense in our P&L of the company. This new transaction of assignment will be subject to MIDC's approval for subdivision and transfer. Hopefully, it will consummate in quarter three of FY25. So, at that point of time, the income will come in the books of accounts of the company.

Ankur Kumar: Got it. Thank you, sir. Thank you and all the best.

Moderator: Thank you. Our next question is from the line of Amish Kanani with JM Financial. Please go ahead.

Amish Kanani: So, if you can just remind us of the proceeds, how are we planning to use? Is it predominantly more future capex that we'll be funding with the cash that we have plus the receipts of these income and land of sale that we'll have? Also, there was a probable, we always say that we look at some strategic M&A if and when we get an interesting opportunity. Is there any thought on these lines?

Are we using cash more for expansion and or M&A? Or are we just keeping this cash on the book because we are a very high ROE company, but this cash is affecting our ROE a little bit. So, just if you can give us some thoughts there, that will be really helpful. Thanks.

Yugal Sikri: Thanks, Amish. I think your question covers the answer. Just to add to what you just mentioned, yes, we are building up cash surplus thanks to the operations over the last three, four years after we paid up the debt. We are close to over INR 100 crores cash in our books now, and we will be adding another ~INR90 crores coming to us through this transaction. The purpose, as I mentioned in my opening remarks is to grow the business. As I have explained every time that we are keenly looking at the inorganic opportunities, be those opportunities in the formulation space or in the API space.

We are actively looking at, as I mentioned, we have seen close to about 18 proposals. Right now, also, there are proposals on our table to be evaluated, which we are evaluating. Therefore, our intent is to make use of this cash, which is now augmented cash, which we will have post this transaction, for the purpose of growth or business expansion.

As I mentioned earlier, we are restricted only to formulations, inorganic opportunity. Now, we have opened up even for API acquisitions. This corpus is expected to be used for growth and largely in the M&A.

Amish Kanani: And if you can just quickly remind us of our capex programs of this year and also next year, if possible.

Yugal Sikri: As we elaborated earlier that we have spent over INR 140 crores on both the plants, modernization cum expansion. And that modernization cum expansion plant is coming to its final leg now. In fact, in case of the API plant, it is almost through.

And in case of the formulation plan, it will be through by the end of this financial year. And we have got the regulator already come and visited our API plant and approved it. And we are calling EU regulator to come and approve our plant in Q3 this year. So, therefore, the major chunk of our modernization capex gets completed now. Going forward, our capex would be used on growth, which is developing new products. That is one area.

Second, we being in the generic business, we get certain topical opportunities. And those opportunities entail some amount of customized expansion in the plants. Like the way we had a business, which we got from a very reputable customer from Australia. And we actually did customized expansion in our Ankleshwar plant. And actually, we are supplying the product today from the expanded facility from Ankleshwar plant. Some such similar opportunities, which we are also pursuing, will entail some amount of capex that we will use plus the maintenance capex, which we see every year.

I would ask Vishal to give some approximation of the numbers for the total capex for the plants.

Vishal Shah: Yes. So, as you briefly mentioned that some portion of the INR 140 crores capex will also be coming in this financial year, and along with the growth capex, we expect around INR 30 to INR 35 crores of capex coming this year.

Amish Kanani: Okay. Thanks a lot, and all the best.

Moderator: Thank you. The next question is from the line of Aditya Khemka with InCred PMS. Please go ahead.

Aditya Khemka: Hi, thanks for the opportunity. Did you guys talk about the nature of the transaction? If I understand the press release correctly, this is the land that we own, and we are sort of leasing it out or selling it to another entity. And before we are able to do that transaction, we have to pay some sort of a tax for levy to the MIDC. Am I reading the transaction, correct? Or is there something I'm missing?

Yugal Sikri: Aditya, thanks for joining. If we gave the context in the beginning, but just to re-mention again, it's a leasehold land. This plant is on leasehold land, and we have 34,483 square meters of the land there. As a part of the modernization cum expansion plan, we also saw the opportunity of consolidation, and thereby we did the consolidation, and thereby freeing up 15,015 square

meters. And this 15,015 square meter is what is being now assigned to an assignee for a consideration of over INR 140 crores. So, that's the context.

Aditya Khemka: Got it. So, this INR 140 crores is a lease payment that he's making you for the next 30, 50, 100 years. Is that the arrangement, or is he buying?

Yugal Sikri: Yes, for that arrangement only.

Aditya Khemka: That's right. Okay. And the INR 32 odd crores that you're paying to MIDC, what is the nature of that payment?

Yugal Sikri: That's in lieu of the ULC, Urban Land Ceiling Act related charges, which the MIDC charges. This ULC charge was applicable to any transaction which happened before the 23rd June 2021. After 2021, these charges have been waived off, have been removed. The government has removed those charges for everybody. But any transaction which happened before this date of June 2021, the ULC related charges are being levied. We had a transaction in 2013, and this charge is with respect to that transaction.

Now, it so happened that this charge was not charged to anybody in the state for any transaction. Now, since we are assigning this land now, this charge has got activated. In order to complete this transaction, we have to pay this charge to the MIDC.

Now, MIDC came up in March 2024 with an Amnesty Scheme, 50% Amnesty Scheme, which was valid till June 2024, which they extended up to 15 September 2024. We have made use of that Amnesty Scheme, and this INR 32.2 crores charge is coming against that.

Aditya Khemka: Understood, sir. So, basically, we had extra land, which we are leasing out, and we are getting money in consideration, and obviously, the ULC charges apply. So, I get that. So, once we receive this cash in third quarter, what would be our expected cash balance, Vishal, around that time? Maybe INR 250 crores plus or hereabouts?

Vishal Shah: It would be difficult at this point of time to comment on that, but specifically to this transaction, we expect around INR 90 crores net cash in our hand. And that way, from the operations right now, as sir mentioned, that we have around INR 100 crores plus cash surplus. But depending on the performance going ahead, the net cash will improve

Aditya Khemka: Got it. So, one last question. So, you mentioned that you likely use the cash as a war chest for acquisitions, either on the branded side or on the API side. So, a branded business, I can understand, obviously, that's something we have done pretty well. On the API side, what kind of an acquisition would you look at? I mean, I'm not talking about scale, I'm talking about what kind of capability would you really want on the API side?

Yugal Sikri: Yes. So, our strategy in terms of the kind of the portfolio, which we are building up, whether in the international formulation business or the API business is centred around two or three points. One is we are focusing on immunosuppressants. Okay. That's our one portfolio. And when I'm saying immunosuppressants, we have azathioprine already there, we are talking about mycophenolate.

And we are also looking at tacrolimus. The second is – actually on the chemical side, it will be only azathioprine and mycophenolate. The second is we are looking at the molecules which have low competitive intensity. And the DMF filings are lower in number. It might not be big size molecule, which will attract the attention of the big players in the field. But the ones which are quite good, but not as big that the biggies have the attention, those are the second categories of the products which we are looking at.

So, these are the broad considerations we have at the back of our minds. Further depends upon the kind of the opportunity which we get going forward. And we are looking at opportunities, frankly speaking. We'll try to see that our criteria is met, but it all depends upon the kind of the opportunity comes in our way.

Aditya Khemka;

Sorry for this one follow-up on that. I just want to understand the management's priorities at this point in time. So, if you have a branded acquisition, which will obviously be slightly more expensive when you compare it to an API acquisition, given the nature of the businesses and the ROEs that this business can potentially generate. What would be your preference between the two?

Yugal Sikri:

Yes, I hope it's a seller's market now. And we also have very clearly defined framework, which we have mentioned earlier. But then we realized that we need to be a little more flexible. And so, though our intent is very clear, that we will have sustainable, profitable growth in the business. That is what would be the guiding principles for us. But it depends upon what kind of opportunities we get.

Yes, formulation business definitely would be important provided it comes to us at valuation, which we feel are okay. We have opened up to API also. Of course, when we are looking at API, we will definitely consider the margins for that API business. This is a limited comment I can make at this stage, Aditya.

Moderator:

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

Yugal Sikri:

So, thank you so much for being here to listen to the details of the board announcements. And I just want to indicate that this transaction or these board announcements are perfectly in line with the announced growth strategy of the organization. And this will help us to enhance our ability to pursue our growth ambitions more rigorously, largely inorganic. And if it is organic, I'm sure this corpus will come handy, but largely inorganic. So, thank you so much for spending your time and being here in the morning. Thank you.

Moderator:

Thank you. On behalf of Dolat Capital, that concludes this conference. Thank you for joining us. You may now disconnect your lines.