"Strides Pharma Science Limited

Investor Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Strides Pharma Science Limited Investor Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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 Abhishek. Thank you and over to you sir.

Abhishek: A very good evening and thank you for joining us today for Stride's Investor Call. Today we have with us Arun, Founder, Executive Chairperson and Managing Director, Badree, Executive Director of Finance and Group CFO and Neeraj Sharma, CEO Designate for OneSource. Please note that today's discussion may be forward looking in nature. After the end of this call, in case you have any further questions, please feel free to reach out to the Investor Relations Team. I now hand over the call to Arun to make the opening comments.

Arun Kumar: Thank you Abhishek and thank you friends for joining in this late in the day. I appreciate your time. It has been a busy several weeks. In the last Earnings Call, we did announce that we will come back to investors with the design for our CDMO division which we have today. We have a detailed presentation that is available, but I will also use this opportunity to introduce Neeraj, who then will give more details about himself, who's joining this call today. Neeraj has been at Steriscience and Injectable CDMO Division, and he is the CEO Designate for this new company. So it will be important for you to hear his perspectives and also ask him questions that you may have.

Before I start, before I do that, quickly what we have done today is we believe a significant unlock of value, value for Strides shareholders. We have of course reset Strides since our April 22 clarion call that we get back the company to shape, which we have done. I'm delighted in the last quarter to have announced significant improvements across the board in terms of reporting our highest EBITDA, meeting our debt reduction target, our gross margins reaching our historical peak. And there were some parts of our business which had niggles, which needed to sort to get sorted, which we have.

There are a few more things that we are working on. But I'm also now more confident to reaffirm our guidance that we provided for the company as a whole in terms of its EBITDA outlook between INR700 crores and INR750 crores. And also now more than enough confident to confirm our debt reduction. We'll track to a guidance of under 3 in FY24. We actually mentioned exit run rate FY24, but now we are more and more confident it will be on absolute FY24.

The core business will grow significantly. What we have done, and we'll discuss that in more detail, is that we have moved all our technologies and our high-end CDMO businesses under the new platform, OneSource. This includes a soft gelatin business, which is currently embedded in Strides, and it gets the valuation of a generic company. We are amongst the top seven or eight Rx only soft gelatin players worldwide, with almost every single product approved and having dominant positions, and that's a very significant B2B part of our business.

And ever since we announced our intentions to be at CDMO, we have started onboarding several customers in our business, which we would not under normal circumstances. And I'm delighted that the fairness opinions and the valuations track the value of that business at around 17 times, which is a 60% to 70% premium to where we currently trade. So I'm also delighted that we are positioning ourselves truly as India's first speciality pharma CDMO.

This covers biologics, drug device combinations. We are one of the few players in this space. We'll talk a little more about it when we come to specifics. But also complex injectables are erstwhile B2B business of Agila is now part of this CDMO part of the business. And we believe that this will result in not only unlocking value but will create the kind of attention and focus the two businesses would need to live its own lives. I'm also pleased to say that Stelis has been reset post several mishaps at Stelis.

The last 12 months has been historic in terms of how we've brought the company back to shape including on post our FDA approval we now have 15 unique customers in our biologics business. In the last five months, we have contracted more master services agreements than we did in four years. And we have now started commercial sales from that site, including two FDA inspections, which makes us one of the few pure play biologics companies that fully integrated with fill/finish and biologics drug substance and microbial, plus added to now with our injectables business and our oral technologies and soft chips.

It's very important and pertinent to note that we are not in API CDMO or CMO activities, neither are we in plain oral dosage forms, because we believe that is not the, that is not what we want to focus on. We believe the high capex long gestation story has played out well for Strides Group in the past and having completed a large phase of that journey, we only believe that it will magnify further as we build out OneSource. So OneSource, so eventually we also announced that we signed up a binding term sheet to sell our third plant to Syngene for 705 crores, which is what we invested in that plant.

We have subsequently converted that transaction into a business transfer agreement. I'm in the last phase of completing our CPs and as both companies have announced, we believe that in Q3 we will complete the transaction. This will correspondingly, this will lead in an immediate debt reduction at Stelis from a peak of 1,400 to what it is now at around 900 crores and will come down to about 350 crores as net debt. Correspondingly, Stride's guarantees, which at the peak had been 1,100 crores, for which most of our investors and shareholders were supportive, and recently approved us issuing fresh guarantees.

Nonetheless, I'm also pleased to say those corresponding guarantees will fall off, leaving those guarantees to be under 350 crores and further reducing by the time the NCLT process is completed. Considering that this transaction has got significant related party matters. It was pertinent for us to be above cautious, so the whole transaction was supervised and managed by an independent group of directors. We work with marquee names. We had Transaction Square as an advisor to this program. Although regulations require us only to have one valuation, we had valuation reports from both PWC and Grant Thornton.

Additionally, we did financial and tax VDD and valuation exercises from PWC and our legal partners and this was DSK Legal

Moderator: Ladies and gentlemen, please stay connected. Line for the management, drop. Ladies and gentlemen, thank you for your patience. We have the line for the management reconnected. Sir, you may go ahead.

Arun Kumar: Sorry, I didn't know that we lost you, but I was basically saying that we've used marquee names to ensure that everything was done about kosher and the fairness opinion was issued by Jeffries and the valuation reports by Grant Thornton and PwC, although it was only mandatory for us to bring in one valuation. Transaction Square was our Advisor and DSK Legal was our Legal Advisors and completed the legal DD for the companies. All this results in a very significant outcome for Strides shareholders.

And considering that it is very important that we get the best outcomes for Strides shareholders, it's important that we take a little, a few minutes to understand that better. One is that we have unlocked close to about 200 and, sorry, we have unlocked close to about 2,400 crores of equity value in soft gelatin, 100% of that staying with the, with Strides shareholders. When it comes to Steriscience, the trading multiples are approximately 15% discount, discounted to peers. And in the case of Stelis, based on the NPV model of our contracts in hand, we have announced that we now have close to about USD600 million of sales contracts in Stelis starting from 26 to 32.

And we only see that book increasing. So, based on a DCF methodology and different weightages both valuers and the fairness opinion makers have we have secured a fairly reasonable valuation for Stelis too, although the company is just about in its break-even phase.

Strides shareholders will get 44% of the economics of OneSource. This translates to approximately an implied value of INR364 per share of Strides and I'm sure if you adjust for the Stelis multiples because it's just a breakeven company, but the fact that we have invested over USD200 million in capabilities there.

These you will see that the incoming EBITDAs adjusted for Stelis is over 30%. Historically, our soft gelatin business delivers this kind of margins. Historically, our injectables business has always delivered margins of these levels when we used to own and operate Agila.

So, we're delighted that we are creating a business adjusted for Stelis is already in the 30% of EBITDA with significant free cash generation. What it also does is that we bring debt to a very reasonable level in both our companies about USD35 million or INR300 crores of debt gets pushed on from Strides to OneSource reducing the debt to EBITDA and Strides to about 2.5 times and with free cash generation we expect that will accelerate even further going down rather going forward in the next one year.

We are in Strides also guided as we would take away INR500 crores of revenues from Strides and about INR150 crores of EBITDA. We have taken the liberty of guiding long range, saying that our FY25 numbers will not be lower than what we do today, which effectively means INR4,000 crores of sales and not less than INR700 crores to INR750 crores of EBITDA.

I can err on the side of caution, I mean on the side of optimism on revenues, but not on the margins. So, with that, I think that we have solved for the challenges the group faced, which as you would recall went through difficulties for the first time in its history, but we all remember the blemishes, and we are delighted that we are now coming out stronger from this very difficult situation that we went through the last two years, especially during COVID.

Promoters have invested close to about a INR1,000 crores between sorry about INR850 crores between Stelis and the other companies that comes into this program and consequently the shareholding of the promoters move up from 30% to 39% which reflects the value of the capital that we have invested.

We also have a very strong professional management as you know that post-Agila and our non-compete. We have most of our senior leadership back at the group and we're delighted to have all of them running the new shift and I'm sure that the new company will deliver significant value for our stakeholders. We expect this process in terms of an NCLT to be completed in approximately 12 months to 15 months given the nature of such transactions.

And we hope that the net result of this will be an outstanding outcome for all our shareholders, both in the parent and the new core that is created out of this. This also brings to conclusion my own commitment to my significant stakeholders that not only will the family come back to run the business, but we'll stay invested, but also therefore it was very critical that we align our interests in the group.

Now, I must also be honest in saying that not all of our businesses have started to be aligned in the group, because if we do that, it will be very dilutive to Strides shareholders. But over time, as valuations increase for both these companies, we will always consider subject to shareholder approvals and being reasonable to combine all our interests under one factor.

But at this time, we don't have any competing businesses with these two the platforms that we have created and I'm happy we have reached here at this stage in a relatively quick time. And I will now -- we have a very detailed debt which includes shareholding pattern, the contours of each of the businesses, what we are doing, and I can also tell you that we have a very strong H2 across the company, including this platform.

So, we're very confident of meeting both our guidance of the platform EBITDA and also the products company, which is Strides Pharma. Most importantly, I can also assure you that both the injectables business and the soft gelatin book is quite full for the next year. So, we don't have to scramble for any new business to meet our guidance of USD180 to USD200 million.

The reason why the range is 180 to 200 is more to do with Stelis because it depends upon how quickly our partners get approvals, but we expect Stelis to add USD5 to USD6 million of EBITDA in FY25. But we've also guided in this document that we see this business doubling in three to four years, and that's mainly because of our leadership position in drug device combinations.

We have now about 14 customers in our GLP-1 programs and I'm also pleased to let you know that for many of the first to file in the U.S and various other markets, we are there preferred or sometimes sole supplier. So, we're excited to partner with our global partners. We have now added top 10 big pharma in our group as customers, and I'm excited to be extremely confident about where the CDMO will not only be differentiated, but a very different quality of business.

The biologics works on a significantly higher gross margin and EBITDA as is the case globally. What this also does for the benefit of our investors is that there are only two unique companies in the world which offers -- of course they are much bigger and do a lot more than us, but the only two unique companies that offer soft gelatin capsules, biologics, injectables and drug device combinations are Thermo Fisher and which is erstwhile Patheon part of Thermo Fisher, and also Catalent

Of course, Catalent has its own challenges as all of us know, but I'm just giving these two names as comparison as you will not have a pure comparison in the Indian ecosystem for CDMOs. I know this has been a slightly longish opening statement and I'm sure you guys are getting used to it. Let me now hand over the line to Neeraj for him to make his introduction and after that we'll open the house for questions. My colleague Badree who is our Group CFO and I'm here and along with Neeraj will address your queries. We are hoping that this meet will mainly address questions related to the deal that we have announced. We appreciate that. Thank you, Neeraj.

Neeraj Sharma: Thank you Arun. Hi, thank you everyone for listening in. So, it's a real privilege for me to introduce myself and OneSource which is as Arun mentioned going to be India's first specialty pharma CDMO. So, a little bit about myself, I've spent 28 years building and running businesses globally across multiple geographies. I started with India, then moved to Southeast Asia, Latin America, and now in Europe, where I'm based for the last 17 years.

In fact, the businesses which I have led have not only been across new regions and geographies, but also across all stages of evolution. Starting up or scaling them up, turning around, and even post-merger integrations. So, that's with all this, I have, I can say, a complete 360 degree view of the pharma value chain.

Having spent large part of my 28 years with Ranbaxy and then with Sun, I joined Steriscience as its CEO about two and a half years back. As Arun mentioned to build our specialty injectables business. In fact, with a very strong legacy of Agila, it's very formidable experience, expertise in Strides injectables and most of the same exceptional team which built Agila. We have been building Steriscience as Agila 2.0 and building it at a breakneck speed as you would expect from a company run by the group.

This is a little bit about myself and now about OneSource. So, I personally have been always very keen to run a technology-led CDMO. And I strongly believe that pharma outsourcing to a specialized company like ours will continue its growth trajectory well into the next decade. In fact, that's why I'm hugely excited to lead India's first specialty pharma CDMO. OneSource will have as its growth engine two of the fastest growing trailblazers, as Arun already mentioned those.

One is biologicals and the second as GLP-1, which as you may know already, that the new medical therapy for diabetes and weight loss and so on and so on, as new things keep coming up with GLPs, where Stelis already has a significant presence and we are set to emerge as a very dominant CDMO.

Add to these the complex injectables and the high-tech soft gels, I think will make us our complete offering immensely attractive to both our current as well as new customers. I would just like to talk now a little bit about the company in some detail. Arun has mentioned many of these points, but I will just give you a summary.

So, while the venture is new, its three individual parts, as you know, are already successfully operating and we are set to deliver about anywhere between 140 million to 150 million of revenue in the current year FY24. And Arun also mentioned that thanks to some of the recently signed contracts which we have, including actual customer forecasts and a very strong, large funnel we see this business growing anywhere between 20% to 25% year-on-year over the next many years.

We have a significant number of customers already in place for our GLPs with almost 350 million forecast of sales coming from them just for their first three years. And very strong margins, especially in these complex drug device combinations, as well as the synergies coming from the merger of the three individual businesses, will drive our EBITDA from current about 25% to up to 35% in the next two years to three years.

And obviously that we've got all our sites FDA approved, which will continue to open many more doors for us in the largest outsourcing market in the world which is the U.S. So, when it comes to our capacity, as you see, not only do we have currently some of the industry leading capacities in many areas, but as you all know that we also have an unparalleled record of expanding capacities as and when these are needed.

So, just to close, that with our prone capability and large and dedicated team, OneSource is all set to be a specialty CDMO force to reckon with in this industry. Thank you very much. Over to Arun.

Arun Kumar: Thanks. Thanks Neeraj. Neerav, we are good to open for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Abdul Qadir from ICICI Securities. Please go ahead.

Abdul Qadir: Yes. So, hi. So, thank you for this opportunity. So, my first question is in terms of when you talk about the different line of businesses with the combined entity now, could you help us understand, what would be the contribution from a top line perspective of all the three business units and between biologics and the chemical chemistry and what would be the revenue contribution going up in the next three, four years?

Arun Kumar: So we are not giving a long-term guidance. We have given an FY '24 guidance, which is there. The pro forma numbers are there in our deck, which is \$145 million with 25% EBITDA. And we have guided that in FY '25, this will grow to approximately \$200 million with 30% EBITDA.

Abdul Qadir: All right, okay. And my second question is, if I look at the current revenues that is FY '23 revenues of the soft gelatins and Sterisciences, so that ranges is almost at between $30 million to $40 million each. So this we expect that to go up to $60 million- $65 million annually in the next year. So just wanted to understand, if this would be a result of some inter-segment revenues, what Strides have been sourcing from the new one source entity now or this would be a normal course of business, which is coming from some quality customers?

Arun Kumar: No, so just to make corrections to your understanding. The $65 million and $60 million that you're referring to are actually this financial year, right, and we are tracking to achieve those numbers without a problem, okay. So we are guiding you and we're tracking those numbers without a problem. Now, these businesses in the soft-gelatins business of $65 million, currently in FY '24, will sit within the Strides numbers because the NCLT process will only be done in FY '25 and the effective date is 1, April 2024.

So there will be no change or no transfer of revenues from Strides into this until the company is formed. We are, the growth for us is coming from new customers that we have added, including we just received a product approval which is like any CDMO, goes to one of the largest generic companies in the USA, which we announced on Friday, which is also a typical CDMO model. So new growth will come from those kind of programs that we have.

Abdul Qadir: Sure. Thank you. And sir, what is possible to share in the...

Arun Kumar: Abdul, if you don't mind, come back on the queue. There are too many questions.

Abdul Qadir: All right. Sure. Thank you.

Moderator: Thank you. Next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.

Nitin Agarwal: Thanks for taking the question, Arun, and congratulations to the team for this transaction. Arun, on the GLP-1 contracts that you've referred, referenced to a few times in the conversations, can you give us a little more color on by when do these businesses start, and are they all generic businesses, we're talking about?

Arun Kumar: Yes, obviously we are, currently all the GLPs are under Patents, and they go off patents from 24, with critical patents getting off on the main drugs in 26 and, from 26 to 32, and then the newer ones up to 37. But as a CDMO, we work on all the three products based on what our partners think are the opportunities for them to litigate, to fight patents, to win settlements.

So we currently are working with on all the three GLPs. So the combined GLP business, if I'm not mistaken now, is still little over $25 billion, $30 billion range and growing rapidly. But we do all the three GLPs because all of them are drug-device combinations. And we are very strong in drug-device combinations because we have got very solid investments in devices and we are a leading drug-device player globally, if I may.

Nitin Agarwal: And secondly, on the biologics business, obviously there's business starting out, you've talked about the contract that you've signed up, but if you take a slightly more three, four, five year view of the business qualitatively, how do you see this business evolving, and what strengths do we carry in this business?

Arun Kumar: Typically, from a, moving from an MSA to a CSA, which is a Commercial Sales Agreement, the process can be as low as two years to as high as 10 years. So you need an array of businesses, customers, and programs that ensures that we have a very solid order book. In our case, we just got FDA approval now for the plant, and most of the products are still under patent.

So the capacity utilization moves up significantly only once we get these products commercial, which starts from '25 to some extent on some of the products like the Liraglutide, whereas the Semaglutide, the Wegovy and Ozempic, the patents in different countries have got a range, a big range. But the fact of the matter is that, there are not many players doing that. But we also, if you recall, announced in our last transaction that we have signed our largest biologics drug substance deal in the last quarter.

So we continuously add contracts, but when the opex leverage flows through only when the CSAs, the Commercial Sales Agreements, reach a high level of maturity, which will happen in the next two to three years. That is why, we have guided in this document today that we have no challenges in seeing this business doubling from the $200 million that we will do in FY '25, when that scheme is completed in less than three to four years and all of that will come from or a lot of it will come from the growth on the biologics division and that's why we also upped our EBITDA to 35% at that time because the opex leverage is significantly higher in the biologics business.

Nitin Agarwal: Thank you. I will come back later.

Moderator: Thank you. Next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Good evening, sir. Just a few clarifications. So the valuation for soft gel as well as the Steriscience is around 17x FY '24 EBITDA. Is that the right number, sir?

Arun Kumar: Yes, you're right.

Sarvesh Gupta: Okay. And in case of Steriscience, it's not a clean merger and we see that 99% is getting demerged. So any reason, why we did not pursue a complete merger?

Arun Kumar: Well, from what I know, it's a clean 100% demerger, merger into the scheme. I do not know what you're referring to, but I can check and come back to you.

Sarvesh Gupta: Okay. And sir, is there any shareholding of strides in Steriscience as of now?

Arun Kumar: You go to the slides that we have presented. It says that, it's already shows the cap tables.

Sarvesh Gupta: Okay. And finally, on the guarantees, which Strides has given to Stelis. So would we in a sense that once these two companies are separate listed companies, there would not be any guarantee from Strides towards Stelis?

Arun Kumar: Well, that's the assumption. We obviously have to, all of this is subject to shareholders and lenders consent. But that's the assumption and that's the right thing to do too. I'm confident that we'll get that.

Sarvesh Gupta: Understood, sir. Thank you and all the best.

Moderator: Thank you. Next question is from the line of Naitik Mohata from Sequent Investments, please go ahead.

Naitik Mohata: Sir, just one question from my end. So there's a bit of confusion. I would like some clarification. What is the valuation of Steriscience that we are assuming for the entire scheme?

Arun Kumar: Sorry, what is the confusion?

Naitik Mohata: So my question is, what is the valuation that we have assumed for the merger of Steriscience?

Arun Kumar: If you go to the valuation synopsis, all the valuations of all the companies are mentioned in slide nine. I'm sorry, the slide is not numbered. If you go to the valuations synopsis, you will see that the valuation is INR2,195 crores.

Naitik Mohata: Okay, sir. Thank you.

Moderator: Thank you. Next question is from the line of [Avid Mundhra], individual investor. Please go ahead.

Avid Mundhra: Thank you for the opportunity, sir. In one of the slides, you have mentioned our aim to grow the OneSource business to almost $180 million- $200 million by FY '25 with a 30% margin. So would we be requiring any capex investments to achieve the same?

Arun Kumar: No.

Avid Mundhra: Okay. And my second question was relating to the working capital. So what would be the working capital requirement for the OneSource entity, given the CDMO business is a quite working capital intensive business?

Arun Kumar: Well, the CDMO business is, you're right, it's both capital intensive, but it is not so much working capital intensive. So we expect the total debt to EBITDA to be around 2.25x in FY '25. Half of it will be working capital, and half of it will be term debt.

Avid Mundhra: Okay. All right. Thanks.

Moderator: Thank you. Next follow-up question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.

Nitin Agarwal: Thanks. Just following on the previous question ask you, at what stage or do you envisage any large capital infusion required in the -- for the OneSource business for the growth plan that we envisaged?

Arun Kumar: So Nitin, the business, as you would see from the numbers that are already delivered and carved out and adjusted for Stelis, has got a very significant ability to generate free cash. And in the CDMO business, at least in our model, a lot of the capex, especially in biologics, is partnered. The partner pays for most of it. So unless we are going to expand significant capacities, which we have to, especially in our drug device capabilities, we currently have only about 40 million devices that we can make, we probably need to double that or even more. But we don't need to do that now.

We will do this closer to FY '27 and we think the business will generate enough free cash to do that on its own. But it will not require equity infusion into the company unless we are making very significant plans. But as we see it now, we don't see any need for any new capital in the near term, not significant capital. There will be INR200 crores, INR300 crores of capital even in its first phase of growth, when we think we will be able to double our revenues from $200m to $400m.

Nitin Agarwal: And secondly, when we talk, taking this number of this total $400 million number for the OneSource business, obviously, the three main contributors, as you highlighted, would be the GLP-1 contract, the soft gelatin, as well as the injectable business. But what about, how do you see, what growth part do you see for the plain biologics business? You talk about the drug substance contract that you've signed up, but…

Management: The drug substance, on the drugs, on the substance, drug substance, but both in mammalian and microbial, especially mammalian, we just commissioned our facilities about three months ago, the 4,000 litres capacity. And we have the ability to go to 8,000 litres in the same plant, and for which we already have equipment. So this is a business, which is very nascent for us, so we would see a lot of the ramp up on the biologics to be closer to two years to three years away.

But the key to be successful CDMO is to sign new contracts, either new biologics, a new NNB or a Biosim. And that is what we are doing, and we have a nice funnel of customers who are keenly looking at us, especially now that we are FDA approved on our drug product. It has been quite easy to attract more customers, so the number of RFPs that we have issued have been quite significant in the last several months.

Management: And grow in different markets.

Nitin Agarwal: And last one, with this restructuring now, which is done in OneSource, how do you visualize the Stride business, ex of soft gelatins and ex of OneSource? What quality of your three to five year period?

Arun Kumar: Well, Nitin, you've been following us for 10 years, 15 years. We don't do two to three of view. We had to do this in OneSource simply to give because it's a completely new company and we wanted our investors to know the value of that business that we're creating. The, for now for FY '25, we are saying that the INR500 crores revenue and INR150 crores EBITDA that we lose to OneSource in Strides will be 100% recoup.

And there could be even growth from there. Beyond that, we should be able to get back to our historical growth, within which is typically now more focused on bottom line growth as you can see from our numbers and a gross margin expansion. Not so much focused on top line growth, maybe 12% to 15% CAGR, but EBITDA CAGR like I said in the last earnings call will be significantly greater than that.

Nitin Agarwal: Thank you. Thanks, Arun. Best of luck.

Moderator: Thank you. Next question is from the line of Chetan from Pragya Equities. Please go ahead.

Chetan: Yes. I just wanted one clarification. In presentation, at one slide you wrote that Strides shareholders to participate in value discovery by holding 44% in OneSource. And another slide, it shows that the shareholding post-demerger will be 61%. So I'm a little bit confused.

Arun Kumar: Yes, that is because that 61% is the total public shareholding that includes all the shareholders of Strides because there are other shareholders in the other two companies right Chetan?

Moderator: Thank you. Next question is from Rahul Mangla, an Individual Investor. Please go ahead.

Rahul Mangla: Actually, I want to ask a question. There is a current debt of around INR3,000 crores. How is the company going to plan to reduce this debt?

Arun Kumar: So firstly, the announcements we made today solves for the debt to EBITDA ratio, because you'll also appreciate that the combined EBITDA of the two companies are now INR1,200 crores, close to that. So the debt to EBITDA is a very comfortable situation to operate a company of this size and scale.

We started off 18 months ago at five to six times run rate and now we are in a very comfortable situation. There's enough free cash generation for logical debt reduction, but debt is not something we are, we don't think there's an overhang of debt or something that we can't handle.

We mentioned that in Strides, our working capital cycle times are long, given that our business in the U.S. has a long working capital cycle time. That is reducing significantly. And for the first time last quarter, we generated free cash. We expect that to be a phenomenon during the year. And I think in two to three years you'll see us, if not free cash on the main company, relatively very marginal debt.

Rahul Mangla: And thank you. And like, is there any plan for company like for bringing like the stock buyback program is in? Like other companies are going through that?

Arun Kumar: No, we don't.

Moderator: Thank you. Ladies and gentlemen we'll take the last question from the line of Rahul Bohra from InCred Capital please go ahead.

Praful: Yes hi, Arun, Praful here. Arun, can you just take us to the pipeline in each of your segments and the current portfolio so, you know, in the soft gel, injectables and the biology?

Arun Kumar: Yes, sure. So, let's start with the biologics, because we've done a lot of conversation around that. We don't have, in biologics, it's 100% CMO/CDMO. We do the D part of our biologics business is more to do with work to help our partners to improve their yields or cell lines and stuff like that. We don't do much of the D, because in the biologics we anchor customers who have already done a lot of work and then we are their CMC partner mainly, because that's how the industry works.

In the soft gelatin business, we have a very strong – I mean, we have, I would guess, Praful you know us for some time, eight out of 10 approved products globally we already have. The other two may not be material, but now being a CDMO they become material because our expanse is now the world and not what we would look at in narrow eyes of what Strides would want in territories and markets it operates.

We have a very strong pipeline. Our approval for Icosapent is a good example. That was the only large soft gelatin product that was not in our pipeline, not in our approved list. We do have some very nice products. We are now expanding into the controlled substances and oncology space in New York facility, because we have the ability to make those products. There are a few soft gelatin which requires containment which we don't do in India.

So that expansion will happen in the next close to about a year from now. But R&D for that is already happening. So I think by end of FY ‘25, every single product that is approved would be in our pipeline in terms of partners or products.

Steriscience is a legacy business. We have a very strong pipeline of approved products. We have about 14 ANDAs approved, and we are adding more and more products into that portfolio. We expect that business to grow. We are full up on capacities for this year and next year. So this module will also allow us to expand capacities at Stelis because it's an FDA approved site and we already have space to add another line.

Once we add another line, that will help double the Steriscience business in the next three to four years. This is a business we know very well and it has always been a B2B business, a kind of a CDMO revenue share profit modelling. We were pioneers in that model. So, we're just getting back to what we did earlier, better with less number of products, but more smarter products in the marketplace.

Praful: So, in this clarification, Arun, the current business we do in Strides, is it B2C business or B2B business?

Arun Kumar: It's a combination, but more than half of it is B2B.

Praful: So once it gets shifted to the OneSource entity, I mean, where the structure is mostly for the CDMO and the B2B kind of a business, so does it change anything for us or would it continue the way it is?

Arun Kumar: No, so Strides will continue to, Strides will be a partner for some, for those products that it markets, but even those products, Praful we don't have exclusivity. If you look at IMS, on many of the soft gelatins, you will see market share 60% to 70% on our own IP with two or three players, and that's a standard practice that we've been doing for long. So we have much more market share than what you see in the IMS, simply because of this model that we've been adopting for soft gels for a long period of time.

And we've just expanding capacities from 800 million to 2.2 billion units and that will be commercial as early as end of this year. And I can also tell you that a large part of that expanded capacity is now being consumed by the Rx, OTC space, which we never used to operate earlier.

Moderator: Thank you very much. And now I'll hand the conference over to the management for closing comments.

Arun Kumar: Thank you. Thank you all. Really appreciate your time today. And as always, if you have questions, please reach out to our Investor Relations team or to Abhishek or any one of us. We'd be more than happy to chat with you guys. Thank you all and have a good evening.

Moderator: Thank you very much. On behalf of Stride Pharma Science Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.

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