

Vimta Labs Limited

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Listing Centre
B S E Limited
P J Towers, Dalal Street
Mumbai: 400001
Scrip Code No.524394

Asst Vice President
National Stock Exchange of India Limited
“Exchange Plaza”, Bandra
Kurla Complex, Bandra (E)
Mumbai – 400051
Trading Symbol: VIMTALABS

Dear Sirs,

Ref: Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.
Sub: Transcript of the Q2-2023 earnings/investor call held on 28th October 2022.

Please find enclosed herewith the transcript of the Q2-2023 earnings/investor call held on Friday, 28th October 2022.

Further, pursuant to Regulation 46 of the Listing Regulations, the aforesaid information is available on the website of the Company i.e., <https://vimta.com/investor-earnings-call/>

This is for your information and necessary records.

Thanking you,

Yours faithfully,

for VIMTA LABS LIMITED

Sujani Vasireddi
Company Secretary



Encl: as above.



“Vimta Labs Limited
Q2 FY '23 Earnings Conference Call”
October 28, 2022



MANAGEMENT: **MR. HARITA VASIREDDI – MANAGING DIRECTOR - VIMTA LABS LIMITED**
MR. SATYA SREENIVAS NEERUKONDA – EXECUTIVE DIRECTOR - VIMTA LABS LIMITED
MR. NARAHAI NAIDU - CHIEF FINANCIAL OFFICER - VIMTA LABS LIMITED
MS. SUJANI VASIREDDI – COMPANY SECRETARY – VIMTA LABS LIMITED

MODERATOR: **MR. MITESH SHAH – NIRMAL BANG INSTITUTIONAL EQUITIES**
MR. RAHUL ARORA – NIRMAL BANG INSTITUTIONAL EQUITIES

Moderator: Ladies and gentlemen, good day and welcome to the Vimta Labs Limited Q2 FY '23 Earnings Conference Call hosted by Nirmal Bang Equities Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchstone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mitesh Shah from Nirmal Bang Equities Private Limited. Thank you, and over to you, sir.

Mitesh Shah: Thanks, Lizann. Good afternoon, everyone. On behalf of Nirmal Bang Institutional Equity, I welcome you to Vimta Labs Q2 FY '23 Earnings Conference Call. I thank Vimta Labs management for giving us an opportunity to host this call. Today, we have with us senior management of the company represented by Ms. Harita Vasireddi, Managing Director; Mr., Satya Sreenivas Neerukonda, Executive Director; Mr. Narahai Naidu, Chief Financial Officer; and Ms. Sujani Vasireddi, Company Secretary. I now hand over the call to the company's management for opening remarks and then after, we'll start the Q&A session. Over to you, ma'am

Harita Vasireddi: Thank you, Mr. Shah. Good afternoon, everyone. Thank you for joining us for our Q2 and H1 FY '23 Results Conference Call. We are pleased to have this opportunity to update you on our business performance and answer your questions. We delivered yet another robust quarterly and half yearly performance, where we substantially grew in operating revenue and profit. The second quarter result is a reflection of our strong business performance.

Before our CFO, Narahai gets into the details on numbers, I wish to share with you a few highlights for the quarter ended September 2022. We achieved a consolidated total income of INR 806.2 million, this is a growth of 23.5% on a Y-o-Y basis, excluding the service concession revenue we booked last year with regards to set up of National Food Lab.

EBITDA for the quarter stands at INR 261.4 million for the quarter, this is again a growth, a substantial growth of 38.6% compared to corresponding quarter year-on-year. Again, this also excludes the service concession revenue, which we booked in the last year. Coming to half year performance, we achieved a consolidated total income of INR 1,606.4 million, this is a growth of 25.4% Y-o-Y.

During the year, we have been able to strengthen our relationship with existing partners and add new long-term partnerships as well across a few business verticals. On the operational side, majority of our service sectors continue to grow steadily and this, of course, lays a good path to meet our short and long-term growth objectives. We continue to invest in technology to add more capacity.

The National Food Lab that we operate in JNPT Navi Mumbai, underwent a Phase II NABL accreditation audit last – in Q2. And as of last week, we have now full accreditation for all the food categories under FSSAI. Accreditation for food categories, all food categories in under 12 months is not a normal feat and probably no lab could have achieved this so far.

The expansion project we shared with you in our last call is well underway. We did the groundbreaking ceremony and the construction activity has commenced. This expansion will add about 140,000 square feet and we are also keeping an option open to increase it to 200,000 square feet. This will practically double our existing capacities of our Life Sciences facility in Genome Valley. We think this expansion will hold us good till about the year 2030.

Our electronics and electrical testing facility, I'm happy to share with you, was inaugurated formally in a very grand manner by Shri. K T Rama Rao, Honorable Minister for Industry & Commerce, IT, E&C, MA, Telangana State. This was done on October 18. We commenced operations last year itself. However, formal inauguration took time as we were waiting for minister's dates. We are focused on our efforts to achieve our short-term and long-term growth targets and are confident to achieve the set goals in the coming quarters as well.

I will now conclude my opening comments, and with this request our CFO, Mr. Narahai, to please take over. Thank you.

Narahai Naidu

Thank you, Ms. Harita. Good afternoon, everyone. Thank you, Mitesh, for organizing the call. I thank everyone for joining us for our Q2 and half year results conference call. We are pleased to take you through the consolidated financial performance of the company for Q2, for the half year ended September 2022.

Vimta once again delivered a very strong financial performance during the quarter and half year ended September 2022. Our consolidated revenue from operations for Q2 is at INR 797.6 million as compared to INR 650.9 million in Q2 FY '22, which translates to a growth of 22.5% compared to same quarter last year. This is considered excluding the revenue from service concession arrangement, which we recorded as part of revenue from operations in the same quarter last year.

The profit before tax for the quarter stands at INR 177.6 million with a margin expansion of 199 basis points compared to same quarter last year. This was achieved with a better cost management and operational efficiency across our business verticals. The employee benefit expense commensurate with the increase in revenue from operations, which also includes the ESOP amortization expense, a positive impact of operational efficiencies and better cost management during the quarter were to an extent, offset by higher G&A expenses, largely due to increase in our business promotion and travel expenditure. And there is an increase in depreciation expense for the quarter and half year, this was owing to the capitalization of our Electrical & Electronics business segment.

Moving on to half year performance. The revenue from operations for the half year ended September 2022 is at INR 1,589.9 million as compared to INR 1,264.5 million in H1 FY '22, this translates to a healthy growth of 25.3%, of course, in H1 FY '22, we have excluded revenue from service concession arrangement.

EBITDA for the half year stands at INR 509.3 million, recording a very healthy growth of 42.6%. As I mentioned, the depreciation and finance cost for the half year has increased compared to previous H1 FY '22, this was mainly owing to the capitalization of our Electrical & Electronics testing operations, as well as our National Food Laboratory commenced in quarter 4 of FY '22.

As of September 2022, the company had a positive cash balance of about INR 46 crores. Profit before tax for H1 FY '23 is INR 343.6 million, recording a growth of 43.2% compared to H1 FY '22.

With this brief summary, I will hand it back to the operator and we'll be happy to take the questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. Anyone wishing to ask a question, may please press star and one on your touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handset while asking a question. Ladies and gentlemen we will wait for the moment while the question queue assembles. The first question is from the line of Ankit Gupta from Bamboo Capital.

Ankit Gupta: Thanks for the opportunity. Congratulations for a good set of numbers. Ma'am, if you can briefly talk about how the three segments for us, Pharma, Food in JNPT labs, Diagnostics, Electrical and Environment Testing. How the three segments are doing? And how do you see the growth in these segment going forward?

Harita Vasireddi: All the segments are doing well. Pharma, especially is very encouraging, Food is also growing at a faster pace than earlier. Diagnostics, it can be better, it's a tough market out there. So sometimes it's two feet forward and two feet backwards. But we have made some interesting partnerships in new cities, so that's also fairly okay. E&E, the Electrical & Electronic Testing division has had a very good opening response from the market, our capacities are already full in one shift. So we are planning to expand into the second shift of operations as well. Coming to our Environmental business, Q2 typically tends to be a low season, because it's monsoon. But again, third and fourth quarters will be quite strong.

Ankit Gupta: So, we reached a quarterly run rate of around INR 80 crores for the past quarters crores, INR 79 crores, INR 80 crores and normally, we are normally seeing that in the entire -- H2 has always been better than H1. And given our targets of INR500 crores that we are targeting in FY '25, we'll require a quarterly run rate of around INR 120 crores to INR 125 crores. So how do you see this gap of reaching from INR 80 crores to INR 120 crores, INR 125 crores over the next two years and how confident are we of achieving INR 500 crores revenue in FY '25?

Harita Vasireddi: We are pretty confident. That's one of the reasons why we have gone in for expansion of our facilities. It would have been ideal to have the expanded facility available for us immediately, but because of COVID we had to slightly postpone our plans for expansion. But which is still

okay, I think the expanded capacities will come into good use after about 12 months. So, things are going well, we don't anticipate any surprises. Of course, any growth would have steps, there could be an increase and then a quarter of landing stabilization and then an increase again.

Ankit Gupta: So, we expect second half to be better than first half for us. As has been the trend in earlier years as well?

Harita Vasireddi: We are quite optimistic that it would be better.

Ankit Gupta: And then if you can talk about how the JNPT lab is doing for us, are we scaling up now, how has been the operations? And when, do you expect to reach the optimal revenue that we were targeting for JNPT or like when you expect to do those revenues?

Harita Vasireddi: JNPT, we were running with half scope accreditation, until last week. But as of last week, our accreditation is now full scope. So there will be a joint steering committee that will be set up by FSSAI, in which we are also a member. So in that committee, there will be a decision on allotment of higher volume of samples, to NFL and we expect that, both meeting our samples and therefore the revenues will be better.

Ankit Gupta: And if you can please share how has been the monthly ramp up. are you seeing monthly growth in revenues from JNPT or it has been segment since they have last commenced operations?

Harita Vasireddi: The samples are quite in line with the imports that happened through that port. Of course, there are seasonality's of some imports, but it's quite a stable number of sample inflows into the lab. But now since we are expanding, now we have full scope for all the FSSAI categories, the number of samples that NFL will get will increase.

Ankit Gupta: Because earlier, we were also facing competition from the labs which are around JNPT and there are share of samples which are going to them. And it was slowly increasing towards us. So how has been the sample divergence towards us compared to the other competitors in and around the vicinity of JNPT?

Harita Vasireddi: The owner of the sample is FSSAI. So it is FSSAI's discretion as to how they distribute the samples. Before NFL, there was an ecosystem of several labs catering to this requirement of import sample testing. So I think FSSAI is trying to take a balanced walk and slowly adjust the sample flows duly and justly for the labs that were testing samples earlier, and to its own lab now. So, I think it will be a gradual process, but slowly and steadily, the NFL share has to increase.

Ankit Gupta: So what kind of capacity utilization do you expect to reach by, let's say, by end of this year since we have gone for the accreditations now?

- Harita Vasireddi:** We are probably at around 50%, 60% capacity utilization. So there's plenty of scope to increase the utilization
- Ankit Gupta:** And 50%, 60% is on 3 shift basis or we have just started -- I think in last call, you said we have started more in 2 shift basis?
- Harita Vasireddi:** Yes, the shifts are there, it's just that we'll be adding more number of human resources when we have more samples.
- Moderator:** The next question is from the line of Pratik Kothari from Unique PMS.
- Pratik Kothari:** Now my first question is regarding the capital intensity of our business, we have always mentioned that our CapEx would be in line with our depreciation. And just to understand, this features is usually through updates and upgrade the equipment that we already have in place or this is usually to add more capacity as we go forward?
- Harita Vasireddi:** So for us, capital is both building and then also the instrumentation. With the new target expansion that we are taking up, it's more about expanding our footprint. So we are creating a new building for this., This happens not very frequently. Like for example, the last time we took up a huge expansion was in 2005 and 2006. So, we are doing this now again only in 2022. And since our growth ramp has been good, we expect that the new capacities that we are building will help us sustain for another at least six, seven years. The Instrument CapEx, yes, typically, the depreciation amount is used up for replacement or upgrading the technology. That's typically our trend.
- Pratik Kothari:** This is because the testing standards should be evolving, right? So earlier we were testing say, part per million, things changed over a period of time, maybe we are testing, we need to test parts per billion now or maybe something more number of tests, etcetera. So hence, the upgradation, the constant upgradation that we need to keep making, right?
- Harita Vasireddi:** Yes. There are multiple reasons why we would buy, keep on buying instruments. One is definitely to increase our capabilities.... scientific capabilities. The other one is just replacement. Third one is to also add more capacity.
- Pratik Kothari:** And ma'am, to achieve our target of INR 500 crores-odd, what would be CapEx that you would require over the next 2, 3 years?
- Harita Vasireddi:** We haven't put all those numbers together. That is usually our plans are on an annual basis. The only forward planning that we do is with respect to building and space, because the business plans are quite dynamic in nature and if we have to prioritize among the various options that are available, we go ahead and do that. But the equipment on CapEx, you can take depreciation as the minimum amount that we would spend in the next couple of years as well.
- Pratik Kothari:** And ma'am, just one question on an industry perspective, in the past calls, you have talked about what the addressable market sizes and if you could sum it all up from food, electronics

and pharma, the number is massive, it's between INR 15,000 crore and INR 25,000 crores or maybe more. And we are the largest players in a couple of segments. But if you look at our size itself, it's INR 300 crores-odd in the market which is INR 25 crores. So the market seems extremely fragmented and we or the other MNCs have been present in this industry for many, many years and envisaged So what do you think industry as general status, what challenges do we face as an industry, but no one in this -- no one has been able to steal our content now?

Harita Vasireddi: You have rightly said that the opportunities are very good in each of the segments that we operate. The biggest challenge that we have always faced is the right kind of human resources, the right kind of technological and scientific leadership that is required for a knowledge industry like ours.

Pratik Kothari: And in one of our notes to account, you have mentioned some INR 0.97 million as some revenue and cost. This is, I believe for the JNPT where you would have added some capacity to the lab, the one which is ready for us, right?

Narahai Naidu: Can you please come again, Pratik?

Pratik Kothari: In a notes to account, we have this INR 0.97 million for this quarter and INR 3.3 million, I believe, for the last quarter, which is revenue from operations and lab status expenses includes, representing the revenues relating to lab status, so it is provided on their SCA?

Narahai Naidu: Yes. So this is nothing but the revenue what we had included as part of revenue from operations by setting up National Food Laboratory. So this is an accounting treatment in line with Ind AS. So if you are seeing our results in the corresponding quarter, we have included a revenue of 104 million in the top line, which is again a part of cost of lab set up. So there's a debit and credit. So we are excluding that and seeing the improvement in business performance.

Pratik Kothari: So this does not include the revenue that you would have generated from the lab, right? This is just to set up that lab?

Narahai Naidu: Absolutely.

Moderator: The next question is from the line of Dikshit Doshi from Whitestone Financial Advisors Pvt Ltd.

Daksha Doshi: The first question is regarding the JNPT lab, can you give us the revenue number for that?

Harita Vasireddi: We are not authorized to share that information.

Dikshit Doshi: So can you just mention that, let's say in Q2 or H1 that business independently would be profit making or still we have not reached that stage and maybe making some loss?

Harita Vasireddi: It is profit-making.

- Dikshit Doshi:** It is profit making, after all the expenses and revenue shared to the JNPT?
- Harita Vasireddi:** Right.
- Dikshit Doshi:** My second question is regarding the ESOP cost, which is coming in the employee expenses, how much more it will come, let's say, in H2 and going forward in FY '24?
- Narahai Naidu:** This ESOP expense is an ongoing activity, because we have launched a five-year scheme and we have taken a pool of 2% of the overall share capital. We haven't exhausted fully in terms of our eligibility to issue options. So as and when we issue fresh options, there will be fresh options which will be coming in. But having said that, the majority of the expenses would get absorbed in year one and year two.
- Dikshit Doshi:** So FY '24, the expenses would be much lower?
- Narahai Naidu:** Yes. We can expect it to be lower than FY '23.
- Dikshit Doshi:** And can you just briefly touch upon the Diagnostic business, how it is doing because last year, you were mentioning that since its first year of expansion, we would be going slow in adding the centers and once we see how it is performing, we will expand rapidly. So if you can just broadly touch upon diagnostic business?
- Harita Vasireddi:** Sure. In diagnostics, we have opened up our regional reference labs in Delhi and Kolkata. Delhi is getting to a stage where it's slowly ramping up. Kolkata, we have difficulty in generating a decent amount of business there, but our efforts are still continuing. Having said this, our silver lining on the cloud is that, we are focusing more on B2C strategy, wherein we are tying up with strong players locally who have complementary services or who want to outsource their lab management activity to companies like ours. So there, we have had good success.
- Dikshit Doshi:** And when we see, let's say, we are confident of INR 500 crores by FY '25. Let's say, if one of the segments don't do well, let's say, just like Diagnostic where the competition is very high and every player is finding a difficulty in growing. So even if one of the segments don't perform, we are confident that we will be doing such growth?
- Harita Vasireddi:** Diagnostics also plays a key role in our '2025-2026 target, but we do have a plan B, if this is not gearing up, then we have other verticals that can -- which we will push, and make it towards the INR 500 crore mark.
- Dikshit Doshi:** And last question from my side. On the EBITDA margin, so we are seeing it is consistently improving. The major one of the reason would be that our gross margin is almost 75%, 80%. And the other expenses and employee costs don't go up in line with the revenue growth. So is it fair to assume that by whenever we'll reach INR 500 crore, the EBITDA margin would be much higher than the current level?

Harita Vasireddi: It should be definitely better than what we have now.

Moderator: The next question is from the line of Dinesh Kumar Jain from Kawad Investments. Please go ahead. Dinesh Kumar, we are unable to hear you clearly. Sir, we are not able to hear you. Sir, your audio is sounding very feeble. Sir, can you use the handset more while speaking and not the speaker phone?

Dinesh Kumar: Ma'am, can you hear me now? I think it's clear.

Operator: Sir, please proceed.

Dinesh Kumar: Yes, congratulations on a good result, you have been consistent to your mark and also congratulations on the getting all categories of FSSAI testing agencies. I have two questions. One, majorly, is there anything or any major write-offs during the year -- sorry, during the quarter, quarter 3. quarters 2? Has there been any major write-offs in the books of accounts.

Harita Vasireddi: Write-off is a routine business. Typically, our write-offs tend to be around one and odd percent. So nothing atypical this time.

Dinesh Kumar: And also what additional revenues are we expecting some -- all the categories? I think before you used to do only, how many, 30% or so ma'am of all the food categories and you have now shifted to 100% or how?

Harita Vasireddi: I'm sorry, your question is not clear, can you repeat.

Dinesh Kumar: Yes, ma'am. So what additional revenue are we expecting from testing samples for all food categories, which FSSAI is going to provide us – what additional revenue are you expecting in the coming quarters?

Harita Vasireddi: I don't think I'll be able to comment on that. Like I said, this is a decision that will be taken by FSSAI. Meeting is expected either in November or December.

Dinesh Kumar: Do you think we'll be to maintain the same EBITDA margin on the same additional revenue?

Harita Vasireddi: Yes, we'll be able to.

Dinesh Kumar: And one final question ma'am. Are we seeing any cash exports for the coming quarters, any immediate CapEx or any?

Harita Vasireddi: Yes, CapEx is continuous for us. We have a budget that is spread across all four quarters.

Dinesh Kumar: And are we expecting any CapEx in the coming year for achieving their revenues of more than INR 100-plus crores to maintain the record?

Harita Vasireddi: Yes, there will be a CapEx requirement every year.

- Dinesh Kumar:** Is it possible, can you quantify the CapEx.
- Harita Vasireddi:** As I said, our plans are not yet made for next year, so I don't have those numbers with me right now.
- Dinesh Kumar:** And this segment does you think is doing exceptionally well in the -- ma'am which segment do you think is doing exceptionally well as we have all the three segments right now, Diagnostic, pharma, food, electrical and electronics, which is recently we have started. What segment do you think should we concentrate more on?
- Harita Vasireddi:** Good question. Pharma is doing very well for us. Food, environment is also doing very well for us. Electrical has picked up nicely. Hopefully, that trend will continue in the coming years. Diagnostics, like I said, it can do way better, but the market is quite tight, but our efforts are fully there. We are patiently waiting for the results.
- Dinesh Kumar:** So we are expecting some – and are we venturing into all the four verticals gradually or are we seeing any particular vertical to be expanded in the coming next year or two years, so on?
- Harita Vasireddi:** This is all opportunity dependent. We will be pushing all our services across all segments.
- Moderator:** Thank you. The next question is from the line of Anurag Patil from Roha Asset Managers. Please go ahead.
- Anurag Patil:** Thank you for the opportunity. Ma'am, on the employee cost side, excluding the ESOP expenses, this INR 22 crore run rate for the quarter is it sustainable? Or are we expecting any increase in the coming quarters?
- Narahai Naidu:** Yes. So on the employee cost, in percentage terms, we can expect it to continue the same way as it is now. But in absolute number, it may go up in proportion to our revenue from operations growth.
- Anurag Patil:** Okay. So, say you will purchase in FY '24 onwards also? So can I assume that?
- Narahai Naidu:** So we can assume a cost to range in between 28% to 30%. That has been our past trend. We can expect that to continue in the future as well.
- Moderator:** Thank you. The next question is from the line of Pooja Doshi an Individual Investor. Please go ahead.
- Pooja Doshi:** Hi, ma'am. So my questions are related to clinical results out of the business. So within that, I assume that's the only business which is large enough to accommodate like this additional revenue. And I suppose that I heard that word with huge interest in clinical resource side. So just wanted to know you're planning to get into that again.

- Harita Vasireddi:** Clinical research is an existing service for us. So there's nothing like entering into it again, but we are expanding our capabilities in that service segment. We are also now targeting large population studies and studies that are for large molecules.
- Pooja Doshi:** And could you give us some idea on the order book that you have in that particular segment?
- Harita Vasireddi:** Order book specifics is competitor sensitive information, so I will refrain from sharing that.
- Moderator:** Thank you. The next question is from the line of VP Rajesh from Banyan Capital Advisors. Please go ahead.
- VP Rajesh:** Congratulations on a good set of numbers. Just on the target for fiscal '25 of INR 500 crores. If we assume that the diagnostic business will continue to have the kind of market challenges that everyone is facing, do you still think that you will reach INR 500 crores target by fiscal 25? Just wanted to clarify that.
- Harita Vasireddi:** This question, I think is similar to one asked earlier. Diagnostics is a part of our entire pie. So when we are targeting INR 500 crores, this is definitely a part of that target pie. But if this is going to not ramp up as per our expectation, we will have to push harder other services where there are good opportunities.
- VP Rajesh:** Okay. And then with respect to JNPT business, would it become more than 10% of our revenue by fiscal year '24 or fiscal year '25? Just if you can give us some directional some idea as to how big that business can be for us?
- Harita Vasireddi:** No, that is information that is proprietary to FSSAI because that's their lab. So I will not be able to share that information, I'm sorry.
- VP Rajesh:** And lastly on the EBITDA margin, do you see there is more a move for moving up higher on the margin side from where we are in currently? As well our revenue ramps up from almost getting double over the next couple of years?
- Narahai Naidu:** So to answer your question, we have been improving our margins quarter-on-quarter sequentially so far. But now we can expect it to be maintained for the future quarters.
- VP Rajesh:** So majority of the growth in your earnings will come from the revenue growth, not necessarily from the margin expansion is what I should think of?
- Narahai Naidu:** So, can you please come again?
- VP Rajesh:** So what I'm saying is that, see, you are growing very fast. So majority of the earnings growth, the EPS growth that one will see in the business will come from the revenue growth and not necessarily from any operating leverage, but generally one would expect given how quickly the business is going to grow.

Narahai Naidu: Yes. It can be a combination of both, but the margins are dependent on the kind of projects we choose and the kind of operational efficiencies which we bring in to the specific projects. So we'll not be able to comment on exact margin estimates at this point of time. What we are trying to say is that, we'll be able to maintain the margins what we have achieved so far.

Moderator: Thank you. The next question is from the line of Pratik Kothari from Unique PMS. Please go ahead.

Pratik Kothari: Hi, thank you again. Ma'am, so when a pharma company or an electronics manufacturers or trader has to get the products, etcetera, tested. -- usually, what is the thought process there? And how do they decide whether we should get this thing inspected internally or we should also take months and to decide to outsource it, when there are 100 players available.

So can you just help us run through this thought process of; one, how has this changed over the last few years? Has there been more outsourcing now? Or is the focus still more on doing things internal and where do we fit into the picture?

Harita Vasireddi: Globally, the outsourcing trends are increasing. And the key reasons for outsourcing typically are because they want to have or bring in advanced technology or bring in a knowledge that they would not typically have. The other reason is, testing a product requires various technologies. And larger companies may be able to afford having all those technologies in-house. But if there are smaller or medium-sized companies it probably makes better sense for them to outsource rather than put all that capital themselves.

Third thing is compliance. Some testing, you've got to do it by a third party. You have to show compliance to the specifications of the product or the regulatory requirements that govern that product. That's also one reason why they will have to use a third-party lab for testing their product. And testing happens typically at a product development stage. They are continuously trying to understand that kind of products they're building, the quality of the product that they're discovering.

And it also happens during the product life cycle maintenance. So these are typically the reasons why it is outsourced. Food is typically outsourced. Globally also the food testing is increasing. Pharmaceuticals, their increase is more on the large molecules. Preclinical testing and clinical research is also typically outsourced by all pharma companies.

Pratik Kothari: Even as a business that will do, I mean what share of it will be because it's mandatory and they have to do it from a third party?

Harita Vasireddi: Like food in our country, every food business operator, whether he is a manufacturer or a trader or a retailer, they have to test the food products, including the water that they use at least once in six months with a third-party lab. So that's the requirement on the food side. Pharmaceutical side, like I said, there are various components of pharmaceutical outsourcing. One is your analytical, the other one is preclinical, third one is clinical research.

Our clinical research and preclinical, typically these capabilities are not available within the pharma company, but large companies could be an exception. So these are also given out to third parties. Analytical testing depends, on development requirements which can be wide and varied depending on the products that they're getting into. So they are also outsourced. I will not be able to comment on the percentage of these two ends of testing. It will be different for each company because their strategies are different.

Pratik Kothari: No. That -- but this trend seems to be included, as a new smaller or medium-sized companies come into the picture and their focus might be on maybe designing R&D, manufacturing whatever. Some part of it that on the quality side or maintenance part of it, whatever, there will be more outsourcing that comes out. So the pie of outsourcing is increasing with that type.

Harita Vasireddi: In India, yes, the pie is increasing, but there is potential for much more. Overseas, the concept of outsourcing, the concept of having strategic partners, strategic laboratory partners, strategic contract research partners is quite a mature model than in India.

Pratik Kothari: Fair enough. And the fact that it's a INR 20,000 crore market, but we being the largest player at INR 300 crore. I mean that kind of also signifies that a lot of it still happens internally, and there's a lot of scope to outsource further.

Harita Vasireddi: Yes, I agree.

Moderator: Thank you. The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Ma'am, on the pharma side, if you can talk about which segments are doing well for us, analytical, clinical, preclinical. So which segments are growth driver for us in this current financial year and then last year results?

Satya Sreenivas: Hi. Good afternoon. This is Sreenivas. So coming to Pharma. If you look at our mix of business, we are more inclined towards the Indian market, and we have around 25%, 30% of the global markets. Now the mix changes with each of this market because the market which is there in Europe and US is more towards the innovation -- pharma, innovator pharma companies. And India is more towards generic pharma companies that includes our market space. On the generic space, it is the support which we provide is mainly on the R&D work for their new product development.

And then at a later stage when they want to get into the markets, where in there is a need to help them with clinical studies, some preclinical studies to help them get their products to the market. So that's the service mix which is growing in India because the number of pharma companies getting into formulation development, the virtual small companies, midsized companies entering into formulations is increasing, because of which the outsourcing market is also increasing, and that's a good sign for us.

Externally, for us, the service mix is more towards serving the innovator companies on the preclinical side. Clinical, we are gearing up to sell them, mainly the biopharma companies, but essentially it is more on the preclinical service for the international market.

Ankit Gupta: Sure. Ma'am, has been talking about large molecules being a big growth driver for us. So if you can talk about the opportunity there and this segment will we be focusing on large molecules?

Satya Sreenivas: Yes. So if you look at -- I mean, large molecules, has been there and well, I mean, a well-growing therapeutic, well-growing, what you call segment globally. It's been around now for more than 15 years that the US and Europe have been approving a lot of biologic products of the large molecules and then we very successfully used for to help with a lot of unmet medical needs and also move towards oncology and abandoned diseases, right?

Now with the COVID trend coming in, now with the COVID the last two years, this development has taken a fast track with a lot of venture capital fund and even the investor funds coming to small and mid-sized companies, which are abundant in Europe and US.

So the opportunities which arise because of this growth in the bio segment or the large molecule segment is the small and mid-sized companies still need a lot of support to help them with product development. They are good at their R&D areas, but they need support in their product development areas. So the market is exciting for large molecules, both domestic market as well as global markets. And the areas for us to associate with these companies would be mainly in our preclinical, in our analytical sciences and our clinical research capabilities.

Ankit Gupta: Sure, sir. And we already have significant revenues coming from large molecules in our pharma division currently or we expect this to increase going forward?

Satya Sreenivas: We have just started this journey 5 years back, and we -- I won't say significant, but we have good revenue flowing in, and this is an area of focus for us and has the potential to grow exponentially in the coming years.

Pratik Kothari: Sure, sir, sure. And then on the Electrical and Electronics division, if you can talk about how has been the ramp-up for us now, how many customers have approved us and how are we seeing the ramp-up in this division?

Satya Sreenivas: So as Harita just mentioned to you, our response from the market -- early response from the market is very good. We have our order books bringing in new customers. I think currently the customer base is around 60% for us and we are also planning on increasing the capacity by adding additional shifts. Lot of again, money or investor money is coming -- helping with -- helping a lot of start-ups which are coming in these areas, mainly in the IT hubs of India. So this is a good area to be, and I think it's going to grow further.

- Ankit Gupta:** Sure. We've invested almost INR 20 crores, INR 25 crores of CapEx for this segment and we were expecting the acceptance for this business can be 1 to 1.2x. So when do you expect that you might have to go in for another round of CapEx in this?
- Satya Sreenivas:** As on now Phase I, we have invested around INR 30 crores. That is the business which has now started. And overall plan is there to invest more. And as the time comes in when we exhaust these capacities, I think that's when we'll start thinking on increasing this – or investing more into one or two or more centers.
- Ankit Gupta:** And beyond the current run rate, when do you expect that we will be able to absorb this capacity now which year?
- Satya Sreenivas:** The current capacity would still help us for at least a year, year and half, and that's when we will add on more.
- Ankit Gupta:** And tender cost will not be that much, If I understand correctly from your earlier calls? It will not be as big as what -- it will not be a substantial cost for us that tender valuation.
- Satya Sreenivas:** You're right.
- Moderator:** Thank you. The next question is from the line of Amit Shah, an Individual Investor. Please go ahead.
- Amit Shah:** Hello. Yes. Congratulations to the team and thanks for the opportunity. So the last conference call, you had given a number for the capacity utilization of the Kolkata and the Delhi labs, which was around 30% to 40%. And as ma'am already said, Delhi has seen some good business, Kolkata has not. So can I get a number roughly for the capacity utilization for both the labs?
- Harita Vasireddi:** Delhi would have gone up slightly, maybe by a few percentage points. Kolkata, we don't have much capacity utilization.
- Amit Shah:** So can you comment the run up for Kolkata is going down?
- Harita Vasireddi:** Business has not gone down, but it could not ramp up from the initial seeding business that we could generate when we put the lab up.
- Amit Shah:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Dinesh Kumar Jain from Kawad Investments. Please go ahead.
- Dinesh Kumar:** Good afternoon, madam. I wanted to know any new discovery from our side or we are working on some new discoveries or molecule or something like that which will have a very good impact in future so the growth of the company will be exponentiation. Any idea is there

or we are working on that idea, or in future we are going to work on that idea? So I want to now present, future in all those things. Let me now madam? Thank you.

Harita Vasireddi: We are not in the line of discovering anything but we support companies that are in discovery activities.

Dinesh Kumar: Okay. So right now, we are not into the discovery side too, okay. So maybe upward or maybe future you have a vision that may work out on the angle madam? Because that will be a bigger growth and very big impact on the company.

Harita Vasireddi: We don't intend to come out with our own product. That's not our business model. We are basically a contract research and testing laboratory, where we support our customers in their discovery and development programs.

Moderator: Thank you. The next question is from the line of Kapil Jain, an Individual Investor. Please go ahead.

Kapil Jain: Good afternoon, and thanks for the opportunity. I think you have touched upon electronic testing business. So I have a follow-up question on that. So with make in India push and electronics and electronics manufacturing and defense, is Vimta already seeing revenue growth in the business coming up from defense as well? That's question number one. Number two is, are you planning to expand this electronic testing business in other cities as well, apart from Hyderabad to, say, Bangalore or Delhi where some of the manufacturing is happening for laptop or other telecom equipment. And third is, can electronic testing business be significant percentage of your revenue target of INR 500 crores in FY '25, what is your thought on that?

Harita Vasireddi: Good question. Hyderabad is a defense hub. A lot of defense component manufacturers are here. So a good number of business comes to us from these companies. We do have plans to go into other cities. But first, I think in our current expansion itself we have created space to add another chamber here in Hyderabad itself. That's when we would get a better ROI on the CapEx that we have invested for E&E testing.

So we'll first expand here only in Hyderabad with an additional chamber, and then venture into other cities. Pune and Bangalore are definitely attractive options and that could be the next phase of divisional growth for us. Would the E&E be a significant part of our INR 500 crores?, we very much want it to be. But I wouldn't be able to put a number around that. It all depends on, again, the speed at which we are able to move in the market, speed at which we are able to ramp up our manpower resources and things like that.

Kapil Jain: Just a follow-up question. So do you see any testing or any business coming up from electric battery manufacturer as well as that is also a big business in electronics going on these days?

Harita Vasireddi: Currently, we do not have battery testing facilities, but we do test components of electrical vehicles.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for the closing comments.

Harita Vasireddi: Thank you everybody, for joining us on this call. We appreciate all the questions that were asked. We look forward to connecting with you again after six months. I thank Nirmal Bang also for hosting this conference call. Thank you and good day.

Moderator: Thank you. Ladies and gentlemen, on behalf of Nirmal Bang Equities, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.