Management Discussion and Analysis

Global economic review

The year under review posed a number of challenges as we saw geopolitical volatility intertwined with economic uncertainty even as the world was coming out of the pandemic-imposed restrictions. The war in Europe was a key driver of the uncertainty which was significantly felt during the first half of the year even as turbulence continues to be the prime macro environment. These factors impacted the economic growth trajectory in 2022 and are expected to play an important role in the global economy in 2023 as well. The global growth in 2022 is estimated to have slowed down to 3.4% in 2022 compared to 6.2% in 2021. However, there were early indications of a global economic recovery in the latter half of the year. The emerging markets and developing economies are estimated to have grown their gross domestic product (GDP) at an average of 4.0% in 2022 compared to 6.9% in 2021. On the other hand, the advanced economies are estimated to have grown at an average of 2.7% in 2022 compared to 5.4% in 2021.

With the escalation of Russia-Ukraine war, there was a disruption in the global trade quantum. Further, prices of gas, fuel and food increased, translating into rising inflation. The global consumer prices went up to 8.7% in 2022. Of this, the inflation for emerging economies and advanced economies are estimated at 7.3% and 9.8% in 2022, compared 3.1% and 5.9% respectively. However, with the focus of Governments across the world on securing global disinflation, containing the resurgence of COVID-19, ensuring financial stability and restoring debt stability, the global economy is expected to stabilise in 2023-24.

(Source: IMF WEO Outlook April 2023)

Indian economic review

The global inflationary pressure has had an influence on the Indian economy as well. As per its First Advance Estimates, the Government has estimated the Indian economy to have grown at 7% in 2022-23 compared to 8.7% in 2021-22. The year saw rising power, fuel and food cost. The Consumer Price Index (CPI) of India was estimated at 6.8% in 2022-23, compared to 5.5% in 2021-22. The target range for inflation was fixed at 4% with an upper tolerance of 6%. However, between April and October 2022, the CPI was outside the target range set by the Centre. RBI raised the policy repo rate under the liquidity adjustment facility (LAF) by 250 basis points from 4.0% to 6.50% during 2022-23, as a measure to manage inflation. Additionally, the Government cut down import duty on major inputs such as ferronickel, coking coal, among others, to zero; rolled out phase-wise reduction in excise duty of petrol and diesel; waived off customer duties on cotton; and prohibited export of wheat.

With the increasing thrust of Government on infrastructure and capital expansion, the country is poised for a sustained growth in the foreseeable future. The Union Budget 2023-24 speaks volumes of the Government's increasing focus on infrastructure, financing new businesses, and making India more self-reliant and self-employed. The GDP growth of the country in 2023-24 is projected between 6-6.8%.

(Source: Economic Survey, NSO First Advance Estimates)

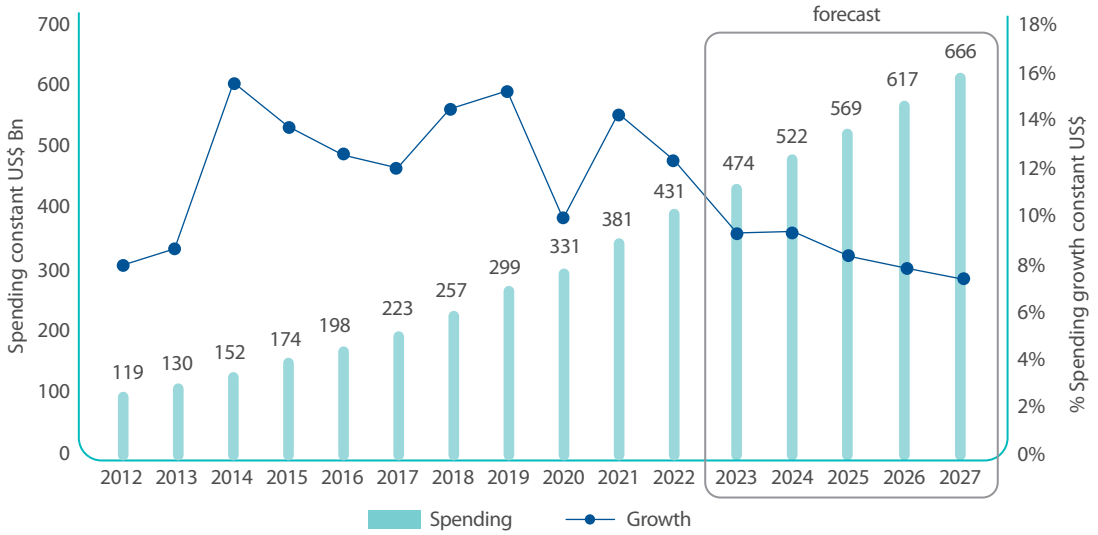
Global pharmaceutical industry

Since the onset of the COVID-19 pandemic in 2020, the global pharmaceutical market has seen a significant uptick in spending which has, in turn, fed into the increase in the global pharmaceutical market by invoice price levels as well. The latter is projected to reach US$ 1.9 trillion by 2027, growing at a CAGR of about 6% between 2023 and 2027. Of this, the biggest share of spending is carved by North America, which is projected to reach between US$ 790 billion and US$ 820 billion by 2027, growing at a CAGR of about 5.5% between 2023 and 2027. However, on a net price basis, the U.S. market is projected to grow at a CAGR ranging between -1 and 2% between 2023 and 2027, compared to a CAGR of 4% between 2018 and 2022, thereby pointing towards slower growth trajectory over the next few years.

With an incremental focus on generics and biosimilars, the spending in Europe is also expected to clock speedy growth in the next five years. The Western Europe medicine spending by invoice price levels is projected to reach nearly US$ 385 billion in 2027, growing at a CAGR of about 6.5% between 2023 and 2027. Additionally, the medicine spending by invoice price levels in Eastern Europe is projected to reach US$ 120 billion, growing at a CAGR of about 9% between 2023 and 2027. Due to the increasing spends on generics, the Indian medicine spending by invoice price levels is projected to grow at the fastest rate between 2023 and 2027, at about 10.5%.

The global biotech spending growth has slowed down from the peak of 2021. However, it was pegged at US$ 431 billion in 2022, and is projected to reach US$ 666 billion by 2027, growing at a CAGR of 9.09% between 2023 and 2027.

Global biotech spending and growth



Key metrics for 2023-2027

+54% total spending growth (7.5-10.5% CAGR)

+US$ 235 Bn

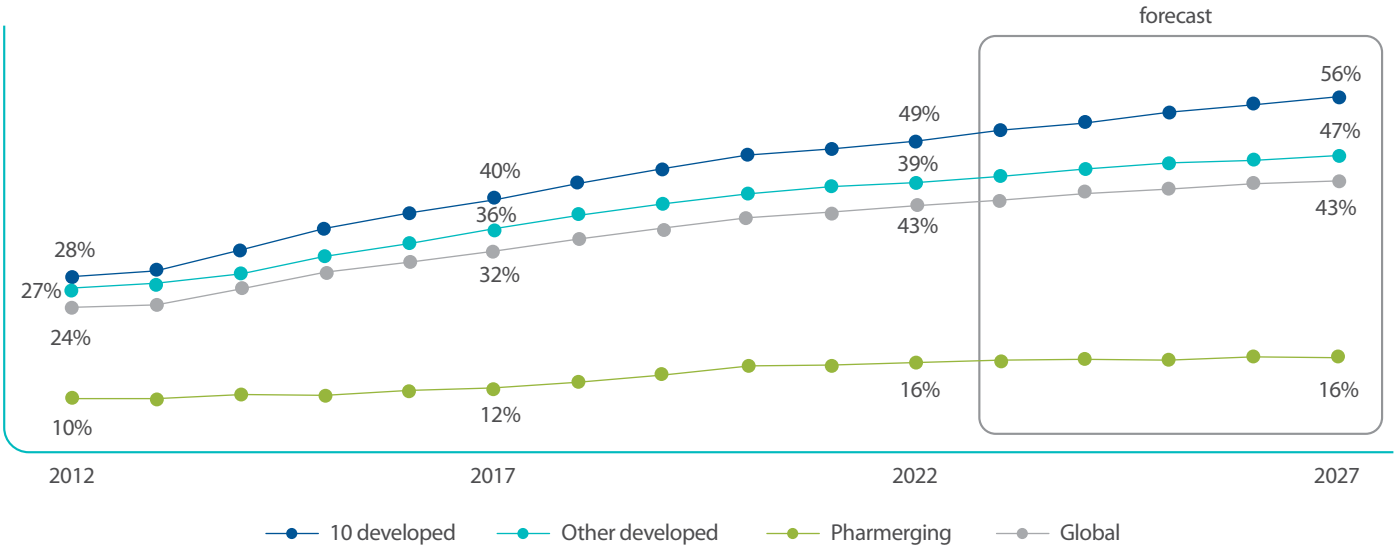
US$ 65 Bn impact on brands from biosimilars

Specialty medicine

Drugs to treat long-term complex and chronic disorders, as well as rare diseases such as multiple sclerosis, rheumatoid arthritis, hepatitis C, and cancer are considered as Specialty medicines. Specialty medicines are normally expensive compared to other common medicines and might need special handling or refrigerated storage. The global specialty pharmaceuticals sector size in 2022 was estimated at US$ 68.34 billion, and is further projected to reach US$ 331.75 billion by 2027, growing at a CAGR of 37.16% between 2023 and 2027.

Specialty medicines have gained traction in high-income countries, and their share in total spending has also seen sharp rise over the years, especially in developed economies. In 2022, 10 largest developed countries and other high and upper-middle income countries saw share of spending in specialty medicine standing at 49% and 39% respectively, compared to 28% and 27% in 2012. Additionally, in pharmerging countries, specialty medicine spending share stood at 16% in 2022, compared to 10% in 2012. Predominantly, the spending and usage of specialty medicines in pharmerging and lower income countries is on the lower side owing to the inability to afford such medicines and the focus on traditional therapies.

Specialty medicines share of spending



(Source: IQVIA, Businesswire)

Indian pharmaceutical industry

India is the 3rd largest pharmaceutical producer in the world by volume and 12th largest market by value. The Indian pharmaceutical industry comprises generic drugs, OTC medicines, bulk drugs, vaccines, contract research & manufacturing, biosimilars and biologics, among others. The Indian pharmaceutical industry, which was valued at US$ 50 billion in 2022, is anticipated to grow to US$ 130 billion by 2030 due to the enormous potential of the generics market, improvements in the country's medical infrastructure, the gradual introduction of patented drugs, and increased public awareness of health and hygiene, particularly in light of the COVID-19.

The Indian pharmaceutical sector grew at a 6.6% CAGR between 2016 and 2019, and it is expected to grow at a 12.3% CAGR between 2020 and 2030. The growth of the pharmaceutical industry in India is on the back of the low cost of production coupled with the ability to meet regulatory and quality requirements. Further, the Indian pharmaceutical sector growth is also anticipated on account of huge export potential, largely arising from the generics market. The country's export of generics carves a share of 20% in the global market by volume. During 2021-22, the total export value of pharmaceuticals from India was pegged at US$ 24.6 billion compared to US$ 22.44 billion in 2020-21, registering a y-o-y growth of 9.63%.

(Source: IBEF, FICCI, Frost & Sullivan)

Growth drivers

- **Increasing exports:** India is the 12th largest exporter of medical goods in the world, with the pharmaceutical sector carving a share of 6.6% of total exports of the country. Further, on the back of the strong position of the country in the generics market coupled with the projection of India's vaccines industry growing from US$ 2 billion to US$ 5 billion in the next decade exports of pharmaceutical products from India are expected to increase

- **Increasing investment in R&D:** With the focus of India on climbing the global pharmaceutical value chain, the country has been seeing incremental investments and policies in favour of drug development, drug repurposing, process improvements and digital manufacturing, thereby, driving the growth of the pharmaceutical industry of India
- **Government support:** Introduction of incentives, including expenditures on PLI 1.0 and PLI 2.0, in addition to establishment of 3 bulk drug parks in major cities, is expected to ensure steady supply of bulk drug active components, thereby, driving India's pharmaceutical self-reliance

(Source: Worldometers, RBI, IBEF, Netscribes, Invest India)

Active pharmaceutical ingredients

Global API sector

With the ever-increasing demand of pharmaceutical drugs across the world, the global active pharmaceutical ingredients (API) market has been on the rise. As stated in the Grand View Research Analysis, the global innovative API market was estimated at US$ 143.3 billion in 2022, and is projected to reach US$ 208.8 billion by 2028, growing at a CAGR of 6.5% between 2023 and 2028.

The key factors driving the demand of APIs in the global market include the rising incidence of chronic diseases, increasing ANDA approvals, higher adoption of synthetic APIs, and surging demand of highly potent APIs, among others.

Key type segments

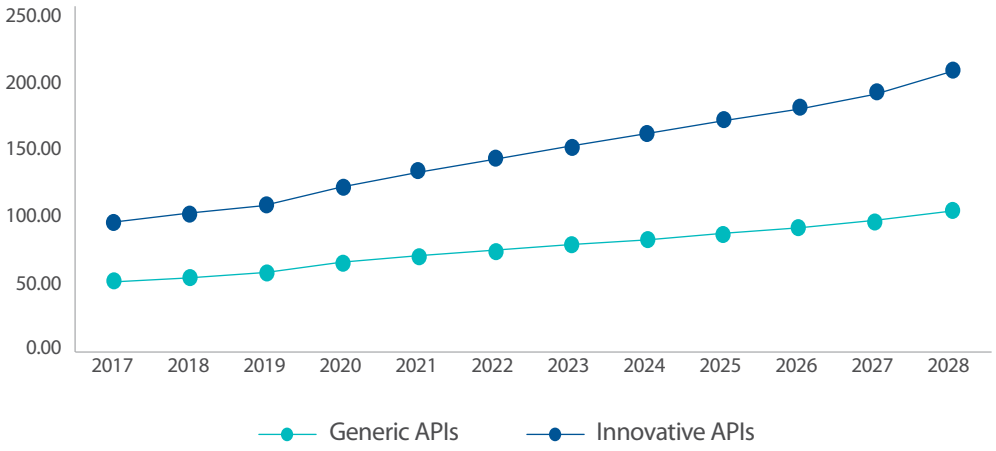
Generic APIs

- Market growth from US$ 65.66 Bn in 2020 to US$ 103.75 Bn in 2028
- CAGR 5.9% from 2020-2028

Innovative APIs

- Largest market Revenue estimates at US$ 122.10 Bn in 2020

Key type trends



(Source: Industry Journals, Annual Reports, Investor Presentations, Primry interviews, Grand View Research)

Indian API sector

India is the third largest producer of APIs in the world, carving a share of 8% in the global API market and manufacturing more than 500 different generic APIs. The Indian API industry stood at ₹79,800 crores in 2020 and is projected to reach ₹1,30,700 crores by 2026, growing at a CAGR of 8.57% between 2021 and 2026. This growth is projected on the back of increasing investments from several investors and venture capitalists. The advanced chemical industry, experienced labour, adherence to strict quality and production standards, and low costs (approximately 40% less than those in the West) that India offers have all contributed to the growth of the API business in the nation. India's pharmaceutical industry underwent a significant transformation in 2022, transitioning from a volume producer to a preferred supplier, particularly in the wake of geopolitical uncertainties and the COVID-19 induced lockdown. The nation's API supply is expected to treble over the next three years owing to these favourable factors. These tailwinds entail an increase in capex investments in captive API manufacturing in India.

The Indian API market has seen a significant amount of consolidation, aiding companies to pursue an aggressive inorganic development strategy and build massive API platforms to cater to international clients. Further, the Government's strong focus through the PLI schemes and other policy commitments will support the growth of the sector. The present PLI schemes of the Government are focussed on reducing import dependency through local production.

Long-term actions such as creating two to three sizeable clusters, providing plug-and-play infrastructure support in zones specifically designated for manufacturing APIs, and facilitating alternative import sources by offering additional incentives will in turn balance the pressure on prices around the world. Aided by focus and policies, India is in a great position to take the lead as a global API hub.

Contract Development and Manufacturing Organizations (CDMO)

Global CDMO market

A pharmaceutical CDMO offers clients end-to-end services from drug discovery through manufacturing of commercial quantities. The global pharmaceutical CDMO market was valued US$ 183.62 billion in 2021, and is projected to reach US$ 289.64 billion by 2027, growing at a CAGR of 7.29% between 2022 and 2027. CDMOs serve the pharmaceutical sector by assisting their customers in the discovery of new drugs through their expertise in production capabilities.

Over the years, the customer base of CDMOs have broad-based and expanded beyond the big pharmaceutical companies and shifted to smaller biotech firms as well. Further, many smaller biotech firms focus heavily on developing their drug pipelines despite having no manufacturing experience.

(Source – Mordor Intelligence Report)

Key trends

- An EY survey found that the rise in mergers, acquisitions, and consolidations over the previous ten years has resulted in an increase in the number of CDMOs. The survey further uncovered that well-equipped CDMOs tailored their production line flexibly to accommodate the rising demand for smaller and more varied projects. New alliances also developed, allowing CDMO participants to accelerate capacity growth even further and support the industry's success in fields like vaccine production. CDMOs can further strengthen their position as indispensable partners and create strategic, integrated partnerships with their clients as pharmaceutical corporations move their attention to scientific research and pharmaceutical marketing. As the number of intricate and potent substances rises, CDMOs can distinguish themselves through cutting-edge technology and specific knowledge.

The Asia-Pacific region is anticipated to witness the highest growth in the CDMO market over the next few years owing to the low cost of manufacturing in this market compared to the US and other developed economies. Further, it is anticipated that the CDMO market will continue to be driven by rising incidence of chronic and lifestyle diseases like diabetes and heart disease.

Business operations

Established in 1984, Neuland Laboratories Limited (hereafter referred to as 'Neuland' or 'the Company') has been at the forefront of API manufacturing and is a one-stop solution for the chemistry needs of the global pharmaceutical industry. The Company's operations are underpinned by its regulatory-compliant manufacturing facilities and deep expertise in synthetic chemistry and process development. This has enabled it to become a trusted generic and New Chemical Entity (NCE) API manufacturing partner and supplier to some of the world's most respected pharmaceutical companies.

The primary business verticals of the Company are Generic Drug Substances (GDS) and Custom Manufacturing Solutions (CMS). Additionally, Neuland provides peptide synthesis services, which include the production of peptides from milligrams to multi-kilogram scale by standard sequential chemical peptide synthesis and segment condensation strategies.

The Company has a strong global presence, with its customers spread across 80+ countries, with exports to 67 countries during the financial year. During the last year, exports contributed to around 73% of the revenue. The major export markets are the US and Europe, which account for 83% of total export revenues. In terms of end-market, the regulated markets account for over 90% of the revenues. Over 950+ Drug Master Files (DMFs) have been filed worldwide.

The Company has three state-of-the-art US FDA and EU GMP-compliant manufacturing facilities in Hyderabad, India. The collective capacity of these facilities stands at around 907 KL. The facilities have successfully cleared 15+ US FDA audits till date and comply with all regulatory guidelines and requirements of Current Good Manufacturing Practices (cGMP). The Company also has a technologically advanced 3,400 square metres R&D centre in Hyderabad. On the back of its constant strive to empower employees and ensure their goals are aligned with business goals, the Company has laid the foundation for a strong team of more than 1,500 people.

Financial performance

Statement of profit & loss

Income for the Company stood at ₹1,200.9 crores in FY 2023 as compared to ₹953.2 crores in FY 2022, clocking a y-o-y growth of 26%. The growth was led by growth in Specialty and CMS segment.

Further, the fiscal saw the EBIDTA of the Company growing at 94.8% y-o-y to reach ₹281.1 crores in FY 2023 compared to ₹144.3 crores in FY 2022. Profit after tax for Neuland grew by 156.8% y-o-y, to reach ₹163.1 crores in FY 2023 compared to ₹63.5 crores in FY 2022.

Interest coverage ratio

During the fiscal, interest coverage ratio increased to 36.9x in FY 2023 from 16.0x in FY 2022 on account of due to increase in EBIDTA margin.

EBITDA margin (%)

The EBITDA margin for the Company grew by 830 bps to reach 23.4% in FY 2023 (₹281.1 crores) from 15.1% in FY 2022 (₹144.3 crores). This growth was largely on account of an improved business mix achieved by the Company during the fiscal.

Net profit margin (%)

Net profit margin grew 700 bps to 13.7% in FY 2023 from 6.7% in FY 2022 due to the due to slower increase in depreciation compared to increase in EBITDA.

Net debt to tangible net worth ratio

Net debt to tangible net worth ratio improved by 77% in FY 2023 from 0.38 in FY 2022 on account of decrease in net debt.

Current ratio

Current ratio increased from 1.57 in FY 2022 to 1.71 FY 2023.

Cash conversion cycle

The cash conversion cycle (number of days of sale) stood at 144 days in FY 2023 compared to 147 days in FY 2022. The decrease is attributable to increase in inventories, receivable and payables.

Return on capital employed & return on invested capital

Return on capital employed increased by 1,160 bps to reach 21.3% in FY 2023 compared to 9.7% in FY 2022. Further, the return on invested capital was pegged at 16.1% in FY 2023 compared to 6.7% in FY 2022.

Fixed assets turnover

The fixed assets turnover ratio stood at 2.7 in FY 2023 compared to 2.1 in FY 2022. During the fiscal, the Company made capex investments of ₹66.1 crores.

R&D investment

In FY 2023, the total R&D spend stood at ₹30.1 crores compared to ₹36.4 crores in FY 2022. The Company has further strengthened R&D capabilities by adding scientific personnel, technological equipment, and debottlenecking of operations.

Business vertical review

Generic Drug Substances

Manufacturing Generic Drug Substances (GDS) since its inception, Neuland has established itself as a reliable supplier to generic formulators globally. The product suite comprises 65+ APIs in 10 diverse therapeutic segments. The GDS vertical is the core business of the Company and contributes the highest share of the overall revenue.

The GDS business is segregated into two segments for effective and efficient management, namely Prime APIs and Specialty APIs. The first segment, Prime APIs comprises large volume, mature products while the second segment, Specialty APIs, comprises lower volume, complex APIs with less competition.

Prime APIs

The Company has a strong suite of 11 APIs under its Prime segment, which drive overall business volume. The key molecules include Mirtazapine, an anti-depressant and Levetiracetam, an anti-epileptic agent. Other important molecules include Levofloxacin, Ciprofloxacin, Enalapril, Sotalol and Labetalol.

Despite being a highly competitive segment, the Company has carved a leadership position in many of these strategic molecules. This has been achieved through sustained supplies while ensuring strict adherence to quality standards. The Company continues to maintain a strong focus on process optimisation as part of product lifecycle management. This enables it to improve yields, productivity and margins for its products and also deliver better value to customers.

Specialty APIs

Comprising complex and niche products, Specialty APIs are the profit-driving segment of the business. The Company has to its credit a strong portfolio of 50+ value-added APIs. Certain molecules enjoy patent protection and are supplied for validation batches and regulatory filings. Some of the key molecules include Brinzolamide, Dorzolamide, Deferasirox, Donepezil, Entacapone and Salmeterol. The Company leverages its core competencies in process chemistry involving chiral chemistry, hydrogenation and inhalation products for developing specialty products. The overarching aim is to serve customers with differentiated molecules and file IP for non-infringing processes.

Highlights of 2022-23

- Revenues generated by the GDS business during the fiscal stood at ₹701 crores, of which, ₹382 crores was generated from the prime APIs and ₹319 crores from specialty APIs
- Continuous focus on high-margin specialty and niche products enabled margin improvement
- Growth of the specialty business during the fiscal was driven by Apixaban, Ezetimibe, Paliperidone, and Donepezil
- The prime segment revenues were driven by Mirtazapine, Ciprofloxacin, and Labetalol

The Company would focus on maximising the current portfolio while simultaneously growing the pipeline. It will aim for more first sourcing and NCE-1 opportunities, invest in new technologies and would be likely to file 6 US DMFs annually. This will further strengthen the Company's portfolio and enable it to unlock new opportunities for growth.

Prospects

Given the historical base, the Company has been sharpening its focus on the GDS vertical. A strategic priority is to build a GDS business that is focussed on quality-conscious customers and a portfolio differentiated on technology. This will enable the Company to serve the customers with a differentiated portfolio and also command a higher premium for these molecules. During the year, several steps were taken in alignment with this strategy. These efforts are expected to yield results over the coming years.

For sustaining its leadership position in generic API molecules, the Company will continue to make investments in areas such as capacity, cost optimisation, procurement and technology.

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Custom Manufacturing Solutions

Under Custom Manufacturing Solutions (CMS), the Company provides customised small molecule API development and manufacturing support to help customers bring their product innovations to the market. The customer profile comprises innovator pharmaceutical and biotech companies. While being a high-margin vertical, CMS is also characterised by variances in performance in the short term due to the inherent nature of the business.

The Company's fast-growing CMS vertical is supported by its robust infrastructure that meets leading regulatory, environmental and safety requirements and its strong domain expertise in complex chemical processes and manufacturing. It offers a range of chemistry services from pre-IND (Investigational New Drug) through to the manufacturing of small-scale clinical trial batches and commercial supplies with minimal technology transfer timelines.

The Company is emerging as an important player in the small molecule CDMO industry on the back of its reliable solutions for drug substance development and manufacturing. The services encompass designing and developing manufacturing processes; process optimisation for competitiveness; cGMP manufacturing of APIs and intermediates; filing of CMC (Chemistry, Manufacturing and Controls) documentation/DMF for the API; and solid-state and pre-formulation technologies, thereby enabling the Company to serve as a complete partner to its customers.

The Company leverages its rich experience of handling complex reactions to transfer the processes from small-scale through validation to commercial manufacturing. Additionally, the Company follows a consultative approach for maintaining longstanding and enduring customer relationships. The presence of dedicated local teams at India, US, Europe and Japan, along with the support rendered by technical and commercial employees, helps the Company to expedite the development-to-market timelines for its customers.

Going forward, the Company is focussed on enriching its technical capabilities coupled with consistent investments in Quality-by-Design (QBD) labs and process engineering to ensure cost and process efficiencies. The Company aims at building a quality portfolio and foraying into new and futuristic therapeutic areas.

R&D and manufacturing of products in the pipeline

Under this segment, the Company generates revenues by undertaking process chemistry, analytical R&D and lab-scale work and manufacturing operations for molecules that are in the clinical pipeline. These projects are usually high on margins but have a lower probability of repeat business. The highly collaborative manner of working with customers and the strong trust build during the development stage strengthens the Company's proposition as a commercial partner when the drug receives regulatory approval.

Commercial manufacturing

Under this segment, the Company manufactures intermediates and APIs for commercial novel molecules, covered under patent protection. Commercial manufacturing is a recurring revenue driver for the Company as it is among the few approved suppliers for products that have attained commercialisation status. Scale in such projects is, however, dependent upon the success of the commercialised drugs. The Company has a healthy portfolio of late-stage development projects that are likely to transition to commercial manufacturing contracts in the near future. This will further enhance long-term revenue visibility and predictability.

Highlights of 2022-23

- The year saw significant jump in revenues from commercial products over the past fiscal, thereby, driving the margins for the Company
- During the fiscal, the Company generated revenues of ₹448 crores from the CMS vertical, of which, commercial manufacturing contributed revenue share of ₹262 crores

Prospects

The Company's endeavour to strengthen its CMS business on the back of technology R&D capabilities, and enduring customer relationships is reflected by the rising revenues in the CMS vertical. The Company strives to maintain a healthy mix of Phase III and early development projects to ensure sustained and de-risked revenue generation. The current pipeline includes 87 active projects, of which, 21 projects are in Phase-III and development stages.

Going forward, the Company is focussed on enriching its technical capabilities coupled with consistent investments in Quality-by-Design (QbD) labs and process engineering to ensure cost and process efficiencies. The Company aims at building a quality portfolio and foraying into new and futuristic therapeutic areas. It is also deepening its footprint in the later stages of clinical cycle to ensure sustained margins. The Company is expecting incremental rate of commercialisation in its CMS business, in the medium to long-term future.

The ability of the Company to deliver complex late-stage projects for biotech companies has helped it to emerge as an established name in the CMS vertical. Neuland has been working continuously to improve its project delivery timelines, improve customer relationships and create a very collaborative project management interface.

Human Resources

The Company is cognizant of the crucial role played by its employees in its day-to-day operations, and treats them as the biggest asset of Neuland. The Company believes in providing equitable opportunities and ensuring inclusive growth of its employees on one hand, and providing safe and conducive workplaces which nurture talent on the other. In its strive to imbibe employee-centricity at its very core, the Company recruits, trains and retains the best talent, supported by employee-friendly people policies.

During the fiscal year, the Company focussed on the following priorities for strengthening its human capital:

- Leadership development and succession pipelining
- Enhancing employee experience
- Focus on emotional wellness
- Gender and regional diversity
- Employer branding
- Strengthening performance management system

Talent acquisition and retention

Operating in a knowledge-intensive sector, the Company understands the importance of recruiting the best talent. Over the years, the Company has made several changes to the HR policies to make it more employee-friendly such as the introduction of flexible working hours, work from home and compassionate leaves, among others. The year also saw the Company launching special sick leaves for its women employees once every month. Such measures not only improved talent retention but also help attract better talent towards the organization.

The Company's constant focus on enriching gender diversity was validated by the fact that 15% of all new hires were women employees moving the overall women employee ratio of the Company from 8.6% in April 2022 to 9.6% in March 2023. Additionally, to ensure overall growth of the employees, the Company conducts cross-functional trainings, thereby, strengthening its internal team. This leads to internal increased hiring at senior positions from internal talent pool. The Company has in place a structured framework to identify and develop the key talent to continuously improve succession pipelining across various levels in the organization.

Further, in order to continually keep the team engaged various celebrations and engagement initiatives are organised with various cohorts. During the fiscal, the Company also embarked on recognising top performers by enhancing the rewards program to further motivate the workforce. The Company has also partnered with an external agency to conduct exit interviews and analyse the primary causes of exits, enabling the Company to improve the overall employee experience. Additionally, the Company also conducts employee engagement surveys, the outcome of which helps in drawing up action plans to address the concerns raised by the employees.

Talent management

The fiscal saw the Company initiating development of leadership, behavioural and functional competencies across all levels in the organization. The Company has also introduced a talent review process using the '9 Box' and 'Risk Heat' matrix. Using this process, the Company has identified 50+ critical positions across the organization for which succession pipelining is being drawn up. This, coupled with cross-functional trainings would help create a strong internal talent pool, thereby reducing dependency on external hires. Further, the fiscal saw the Company conduct several programmes and nominating managers to IIM (Indore), IIM (Kozhikode), INSEAD (Singapore), among others to enhance people and leadership capabilities across different levels of the organizational hierarchy. The behavioural-based safety training programs conducted by the Company helped in reducing human errors and creating safety awareness.

Learning and development

Operating in a sector which needs deep understanding of critical and complex chemistry, the Company understands the importance of learning and development measures to ensure the Company is ahead of the curve. In achieving so, Neuland has been undertaking several measures to improve the skills of its employees and enhance their functional and leadership capabilities. Such measures comprise project management training, lean six sigma, scientific report writing and reviewing, experiential learning for cross-functional team members, project managers and leaders, competencies of managers in VUCA world, external technical and behavioural summits, and SCM certification, among others.

To assist the new recruits, the Company also has buddy orientation program in place, under the purview of which, Neuland has identified 78 buddies across the organization. To empower its employees, the Company embarked on a skill upgradation policy, wherein Neuland would provide financial assistance to selected employee to upgrade and acquire new skillsets. During the fiscal, the Company has conducted training workshops touching more than 1,200 employees equivalent to more than 10,400 training hours which covered ~85% of the on-roll employees with an average feedback of 8.6 out of 10 in 2022-23.

Employee experience

The Company strives to provide a one-of-a-kind employee experience with seamless boarding, active engagement and trainings, and an empathetic approach towards understanding employee needs and concerns. The Company has introduced the e-platform, namely 'Your Dost' to cater to the emotional wellness of employees. Various monthly webinars were also organised to create awareness about mental health. The year also saw a cohort of young talent, namely the 'Colors Team' conducting various employee engagement activities across locations throughout the year. Employees participated in such employee engagement activities with huge enthusiasm and celebrated festivals, birthdays and critical milestones, thereby, also inculcating the spirit of teamwork and collaboration amongst them.

During the fiscal, more than 100 employees and their families participated in the tree plantation event conducted in partnership with Rotary Club Elite, Hyderabad.

Research and Development

Research and development is the elixir of success for any company operating in a knowledge-intensive sector which deals with critical and complex chemistry. Against the backdrop of this operating context, the Company takes pride in its research and development capabilities. Over the year, the Company has made significant strides in process efficiencies of existing products. The Company's world-class R&D centre is based in Hyderabad and is approved by the Department of Scientific and Industrial Research (DSIR). The R&D centre is not only equipped with modern equipment and technologies but also a very capable and strong R&D team of 343 employees. The R&D centre is the helm of innovation for the Company, wherein once technology is developed for a product, is tested in a pilot plant and thereafter moved to commercial production. The key focus areas of the Company during the fiscal for R&D comprised cost reduction, working on new products which can be positioned as second suppliers, and custom manufacturing for Biotech companies to meet their NCE's development, validation and material supplies with required specifications. The fiscal was marked with continuous interaction with scientific advisory board for ongoing projects and future technologies; focussed trainings for enhancement of technical skills; and adoption of phase appropriate approach to ensure a continuous learning process for the team.

Priorities

Going forward, the priorities of the Company remain on not only maximising revenues but also profitability. In doing so, the Company retains its focus on high value molecules involving complicated and complex chemistry & technologies, automation, upgradation of testing equipment, and complementary new technologies.

Highlights of 2022-23

- This fiscal saw the R&D team of the Company establishing new polymorph process for NCEs in the CMS and as well as for molecules identified for the GDS portfolio
- The R&D team not only helped the Company file 12 new patents during the fiscal, but also enable substantial savings from process improvements
- During the fiscal, the Company undertook debottlenecking of its R&D equipment and also added a vast range of equipment in its R&D centre such as stability chambers, DAC column for separations, PSD lab, and GC-MS, radleys parallel synthesizers, Rapid screening device (RSD) for process safety lab, and single fluid heating cooling system, among others

Supply Chain Management

Being a manufacturer of complex APIs, the Company leverages its enduring relationships with the supply chain partners and has created a robust distribution network across the globe.

Highlights of 2022-23

- The year saw Neuland closely monitoring commodity prices, contract tenors, right inventory strategy and input-linked pricing contracts with the suppliers to ensure cost efficiencies against the backdrop of a global inflation
- To reduce the dependency on China and de-risk its supply chain, the Company qualified an indigenous supplier for a critical high volume intermediate. Similarly, the Company also onboarded additional suppliers for other critical APIs
- Against the backdrop of the geopolitical tensions across the world which has caused a supply chain disruption, the Company not only ensured the availability of materials but also kept the prices of the materials under control, which helped Neuland sustain margins. The Company has evolved a benchmarking methodology using inputs from commodity trackers, Global trade data, market intelligence sources and other formal and informal channels to validate the procurement prices, identify gaps and remain well benchmarked for all the high value materials. The Company also leveraged digital platforms, entered forward contracts, and undertook strategic inventory management for price-critical materials to ensure material availability at the right price
- The fiscal saw a significant increase in the quantum of CMS projects. Owing to the time-sensitivity of these projects, the Company adopted an agile working methodology, wherein it involved the suppliers from the development phase itself The Company leveraged its existing GDS supply base to expedite deliveries, enable quick scaling of complex input molecules, and ensure just-in-time deliveries of short shelf-life materials
- The Company completely integrated its Procure-to-Pay (P2P) cloud platform, in turn, enabling the Company to digitalise its procurement process. A digitalised procurement process has not only helped us to secure the best pricing but also collaborate with a wider range of suppliers, positioning Neuland at an advantage over its peers. With such a process in place, not only has the transaction become swift and transparent but has also enabled the Company to take informed decisions
- The Company held a 'Supplier Partner Meet' in February 2023 with a theme of 'Growing towards a sustainable tomorrow'. Over 130 key vendors including raw materials, engineering, and logistics participated in this conference, wherein environmental, social, and governance (ESG) took centre stage. The conference saw the Company recognising the performance of suppliers in the areas of cost, quality, delivery, service and sustainability. The conference ended with the Company sharing insights and an action plan from the supplier satisfaction survey with more than 800 respondents

Priorities

With the continuation of the global geopolitical tension and post-COVID readjustments, the Company understands the need of ensuring cost efficiencies and ensuring material availability to ensure business sustenance. In achieving so, the Company's prime focus remains on ensuring supply continuity to factories by addressing potential supply chain risks on the upstream and also ensuring on-time deliveries to customers on the downstream. The cost optimisation of supply chain using digital and technological interventions will continue, going forward.

With the entire world moving towards geographically derisked supply chains, the Company is also focussed on ensuring alternate supplies of materials across regions in a sustainable manner. To further the digitalisation path of the Company, Neuland has plans of automating the sales and operations planning process, which, in turn will increase the efficiency of production and inventory management.

Quality Assurance and Quality Control

Operating in a highly regulated sector, the Company has benchmarked its products and services to international standards. In doing so, the Company has in place a comprehensive quality management framework to ensure compliance with various international norms and regulations, thereby, constantly serving customers with superior quality products and services. Over the years, the Company has made significant strides towards enriching its quality-centricity by focussing on constant product and process improvement. The Company strives to remain ahead of regulators, and ensures prompt policy implementation ahead of time, thereby, validating its focus on quality assurance and control. In the course of its operations, the Company has cleared over 37 regulatory authority inspections, including 15 FDA audits. The Company faced about 150 customer audits during the financial year without any concerns, which speaks volumes about Neuland's focus on quality operations.

Priorities

- To stay any-time inspection-ready by ensuring 24x7 compliance
- Verification of current GMP trends, industrial regulatory audit findings and implementation of CAPA, wherever applicable
- Training/awareness sessions on current regulatory guidelines and expectations to be imparted across the organization
- Continued focus on precision and accuracy during all stages of laboratory analysis

Certifications received during the financial year 2022-23 across all the three units, comprise:

Unit-1 certifications

- GMP certification by DCA
- WHO GMP certification by CDSCO
- EU written confirmation by CDSCO
- ISO 9001:2015 surveillance audit certification
- ISO 14001:2015 certification
- ISO 45001:2018 certification

Unit-2 certifications

- GMP certification by DCA
- WHO GMP certification by CDSCO
- EU written confirmation by CDSCO
- ISO 9001:2015 surveillance audit certification
- ISO 14001:2015 certification
- ISO 45001:2018 certification

Unit-3 certifications

- GMP certification by DCA
- WHO GMP certification by CDSCO
- ISO 9001:2015 surveillance audit certification
- ISO 14001:2015 certification
- ISO 45001:2018 certification

Highlights for 2022-23

- The Investigations conducted by the Company were strengthened with scientific rationale and support of negative experiments
- The Company focussed on increased investments in technology. Technology transfer helps in achieving first time right for the products and services
- Customer-wise tracker was implemented for document reviews, thereby, ensuring error free documentation
- Workshops were conducted on technical report writing skills to improve the quality of reports
- A new state-of-the-art quality control laboratory was constructed for Unit-3
- Automation of quality control laboratories through LIMS implemented across the organization
- A fireproof Document storage/archival was constructed at Unit-3, for storing of GMP documents

Information Technology

Ever since the COVID-conundrum, IT has gained centre stage and became a business enabler for the Company. The Company has a robust IT framework, which has not only enabled seamless, cohesive, and efficient workflow across the organization but has also made the organization better connected. The Company is cognisant of the instrumental role played by IT in data protection and confidentiality and has made significant progress over the years.

IT infrastructure

Post the COVID-conundrum, the Company has embedded face recognition and temperature control system in its IT infrastructure across all locations. Additionally, the Company had also implemented Virtual Desktop Infrastructure (VDI) across most of the organization, thereby, improving hybrid working and security. Such an infrastructure not only enabled the Company to store data safely in one central location, but also helped users remotely access it.

Enterprise application

The digital strategy of Neuland is focussed upon building solutions that runs across people, process and technology. The fiscal not only saw Neuland focussing on extending and enhancing existing platforms and applications with respect to compliances and regulations, but also saw the implementation of Serialisation tool, a Quick Response (QR) code for all commercial dispatches providing an online compliance system across the organization. The QR would integrate the processes with common workflow, thereby, providing on-the-spot labels and audit trail facilities.

The Company has embarked upon strategic Single source of truth - a MDM tool for improved master data management core process used to manage, centralize, and organize master data according to the business rules of the sales, marketing, and operational strategies of the Company.

The fiscal also saw the Company working on improving its resource management which includes planning, scheduling, and allocating the resources to the right project at the right time to maximise profitability. The Company undertook IFC automation to improve the governance process. Further, during the year the Company also implemented contract workforce management for contractors across all locations to efficiently manage attendance and payroll of the contract workforce.

Data security

Riding on the back of continued focus on strengthening IT security, the Company implemented immutable backup solutions that cannot be encrypted or corrupted by ransomware and are always available for recovery (object lock). This is currently the highest level of backup protection possible, and protects the Company from ransomware, unattended access, and human factors.
The Company continued its investments towards its world-class cybersecurity systems, which helped Neuland successfully renew its ISMS recertification as per ISO 27001:2013 standards.

The year saw the Company conducting Vulnerability Assessment and Penetration Test (VAPT), under the purview of which critical devices were tested for the resilience of IT infrastructure of the Company. This enabled the Company to identify the possible route which attackers could use to break into Neuland's network. Security Information and Event Management (SIEM) was implemented for the early detection and identification of potential threats.

Priorities

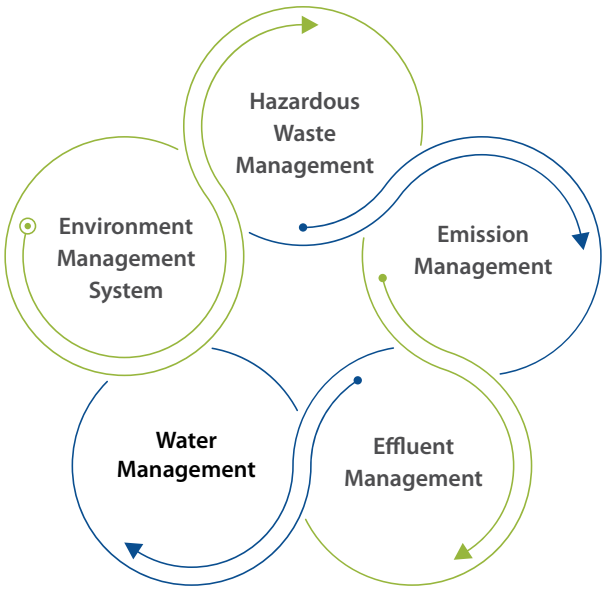
- Committing to the hybrid multi-cloud adoption
- SAP BPR, upgrades, and Customer Relationship Management (CRM) systems
- Data-driven digital enterprise with the adoption of AI and Bigdata technologies
- Digitisation and intelligent automation initiatives to drive business growth
- Strengthening cyber security posture:
  - Advancing XDR (Enhanced Detection and Response) implementation
  - SIEM and NSX (VMware's Network Virtualisation and Security Platform) implementations
  - Adoption of zero trust framework - PIM (Privileged Identity Management) / PAM (Privileged Access Management)
- Reinforcing privacy to protect customers, clients, partners, and employees
- Building resilient IT operations with robust business continuity plans
- Enabling remote quality audits with wearables and technology

Environment, Health and Safety

At Neuland, compliance with all EHS regulations is a business imperative. The Company strives to achieve continuous improvement in performance to follow the best practices in global pharma industry. Under the purview of EHS, the Company strives to ensure workplace safety, ensure employee well-being and promote environment protection. Neuland has been awarded Silver in EcoVadis Sustainability rating during the fiscal. Neuland was rated 48 out of 100 by S&P Global ESG Score in DRG Pharmaceuticals category placing the Company in the top 8%.

Environmental management

Environmental management entails the measures taken by the Company to reduce the adverse impact on the environment. Under the purview of environment management, the Company is implementing behaviours that will benefit the environment. The focus areas under environment management are as follows:



Hazardous waste management

- Implemented and handled through collection, storage, transportation, and disposal as per the Hazardous Waste Management Rules 2016
- Disposal of e-waste and batteries to the authorised traders or recyclers

Emissions management

- Emissions control is being handled through regularly operated air pollution control system such as double stage scrubbers with online pH meter and ensuring emissions well below the presided standards
- Our coal fire boiler consists of cyclone separators followed by bag filters as APCE (Air Pollution Control Equipment) to control the boiler stack emissions
- Vent condenser has been provided for solvent storage tanks to control the fugitive emissions
- The evaporation losses in solvents are being controlled by taking preventive measures such as circulation of chilled brine, transfer of solvents by using pumps in place of manual handling, and OCP for centrifuges, among others

Effluent management

- Effluent treatment is done through zero liquid discharge system facility across all three units, and 100% recycling treated effluents to utilities makeup. Treated effluents R&D is provided with sewage treatment plant and the entire treated water is being used for utility make up
- Above ground effluent transferring system is implemented from production blocks to effluent treatment facility to protect environment
- Dedicated environment lab facility is available at all units, wherein effluent samples are analysed on a periodic basis

Water management

- Reduction of water consumption is the primary focus
- 100% recycling of effluent reverse osmosis water for utility's make up and rejected water for multiple effective evaporators
- High pressure pumps have been installed for steam condensate, resulting in improvement in recycling
- Applying principles of reuse, recycle and recovery for manufacturing activities wherever applicable

Environment management system

- Complying with the ambient air quality monitoring standards of PM10, PM2.5, SO2, NOx and noise levels
- Online monitoring connectivity analysers including 3 digital flowmeters, VOC, online TDS meter and IP Cameras to monitor the pollution values and connected to TSPCB server
- Developing storm water drains for avoiding mixing of effluent with run-off rainwater. These water drains also help in collecting run-off rainwater across all sites
- Conducting Leak Detection and Repair (LDAR) study to access solvent losses and reduce VOCs into the atmosphere
- Providing and maintaining energy meters for recording energy consumption to effluent treatment equipment and air pollution equipment
- Storage of liquid chemicals in warehouse on concrete floor with spillage collection pit

Process safety

The Company has in place stringent standards for process safety assessment at all levels across its R&D, pilot plants and operational plants to ensure the safe transit of molecules from R&D to commercial manufacturing. The following interventions fall under the purview of process safety.

- Reviewing and ensuring that the technology transfer document for the project is adequate (thermal stability, powder safety studies and occupational exposure limits (OEL) reports)
- Evaluating the management of stage-wise changes and recommending the action items for specific changes
- Advising the R&D and technology transfer teams to define the basis of safety for generating the thermal stability studies and powder safety data
- Conducting risk assessments for the projects with Cross Functional Teams (CFTs) and prioritising the risk using the risk matrix, based on suggestions from the team
- Preparation of the risk mitigation plan and verification of risk assessment recommendations
- Monitoring the critical operations for EHS compliance including high toxic chemicals at the shop floor

Occupational hygiene

Occupational hygiene is defined as the science of anticipation, recognition, evaluation, and control of hazards in the workplace. To control both acute and chronic health risks from hazardous materials, physical agents and microbiological hazards, the Company adheres to the stringent guidelines of occupational hygiene diligently. The following interventions fall under the scope of occupational hygiene:

- Studying existing equipment, materials, products, production processes and general working conditions to identify hazards present in the workplace which may impact the health and wellbeing of the workforce and advising on how to eliminate them
- Monitoring the potential exposure to harmful substances in the workplace and interpreting and communicating these results to the relevant people
- Conducting the assessment of occupational exposure banding and defining the basis of safety for control containment strategy for handling high potential molecules and other molecules such as sensitizers and irritants, among others
- Recommending control measures to minimise exposure and developing strategies to control the hazards at the workplace
- Conducting respiratory fitness test for the personnel

Internal Control and Audit

The Company has devised comprehensive internal control systems commensurate with the size and nature of business and industry in which it operates. The internal control systems are built in compliance with applicable laws and statutes. The systems ensure adequate assets safeguard and efficient productivity at all levels. The control systems are crucial for securing sensitive data, easing out audit process, maintaining proper accounting controls, monitoring operations, conservation of assets, preventing frauds and errors, executing authorised transactions, safeguarding assets from unauthorised use and ensuring compliance with corporate policies. The empowered authority is allowed to approve contracts and expenditure as per defined limits. Processes to articulate annual and long-term business plans are clearly defined in the systems along with periodic review. The effectiveness of the internal control over financial reporting (as defined in Regulation 17 of SEBI Listing Regulations, 2015) was assessed by the management as of March 31, 2023. The Audit Committee evaluated internal financial controls (as defined in Section 177 of Companies Act, 2013 and Regulation 18 of SEBI Listing Regulations, 2015) as on March 31, 2023, and concluded the systems to be appropriate and operating effectively.

The financial statements included in this annual report have been audited by M S K A & Associates, the statutory auditors of the Company who have issued an attestation report on the internal control over financial reporting (as defined in Section 143 of Companies Act 2013). The internal auditors, Ernst & Young LLP, are responsible to oversee and carry out internal audit of the Company's activities. The Audit plan along with the audit process is defined on an annual basis, in consultation with the Auditors, and post approval by the Audit committee. The internal audit is directed towards the review of internal controls and risks in the Company's operations such as manufacturing, R&D, supply chain management, accounting and finance, IT processes, EHS following international practice rules. Business specific compliances such as quality management, production management, and information security, among others are periodically reviewed and audited by specialised third party consultants and professionals. The Audit Committee reviews the reports from the management and audit reports submitted by internal auditors and statutory auditors. Improvements and corrective actions as required are also suggested by the Audit Committee. The Audit Committee and the statutory auditors discuss and review the adequacy of internal control systems. Major observations from this meeting are discussed with the Board of Directors on a periodic basis. The Audit Committee concluded that the Company's internal financial controls were adequate and operating effectively, based on its evaluation (as defined in Section 177 of Companies Act, 2013 and Regulation18 of SEBI Listing Regulations, 2015) as on March 31, 2023.

Risk Management

The Company is cognizant of the importance of having a robust risk management process in place. Risk management plays an instrumental role in achieving strategic and operational goals, operating against all risks. There are a few intrinsic risks associated with the business, and the Company is on a constant endeavour to stay ahead of these risks and make the most of opportunities. The Company has a strong ERM process in place for identifying risks and monitoring mitigation strategies. Additionally, the Company also organises ERM trainings and workshops. The ERM process rates the identified risks on the basis of severity and likelihood of occurrence along with velocity of impact. The digitised nature of the program has helped the Company scale the ERM process across all its units (R&D, Manufacturing, Sales Offices).

Various risks in the Company are handled by different risk owners who in conjunction with the Company's Risk team report to the Risk and Sustainability Committee which operates under the Board's oversight. Post initial assessment, risks are delegated to risk owners while mitigation steps have different owners based on the actions needs to reduce the risk levels of a particular risk. The risks are monitored on a regular basis by risk owners, functional heads, the risk team as well as the board level committee.

Some important risks are enlisted below along with steps for mitigation. The list is strictly indicative and not exhaustive.

Risk	Relevance	Mitigation
Competition risk	Competition risk can lead to price erosion, loss of exclusivity, decay in margins and regulatory delays.	• We undertake process improvement and cost reduction measures to get better handle on products and markets • Incremental focus on molecules having significant patient base to ensure sustained revenues and a strong market position
Commodity risk	The high commodity prices coupled with the volatility in raw material prices can impact operational costs, which in conjunction with the lower international prices from peers can impact profitability.	• Diversifying our presence across geographies and improving market penetration can help us get more control on commodity prices and combat international price competition better • Maintaining optimal inventory to counter challenges from raw material price fluctuations • Ensuring we have in place multiple sources of raw material across geographies to reduce dependency on specific materials from specific geographies • Actively monitoring procurement to stay ahead of price volatility

Risk	Relevance	Mitigation
 **Supply chain risk**	Owing to suppliers' constraints and the disruption caused in the supply chain by factors such as the COVID-19 pandemic and the Ukraine-Russia crisis, there has been pent up demand across the world with limited supply, thereby, impacting the supply and demand gap. Further, dependency on a specific geography can also impact revenue generation.	• Proactively working on improved processes for supply & demand planning, to be able to bridge the gap between demand and supply • Active monitoring of geographical exposure • Establishing second and third manufacturing cycle-supply availability
 **Currency risk**	Constant inflation and geopolitical issues can adversely impact forex rates. The high volatility of forex rates can impact our profitability.	• Natural hedge via foreign currency liabilities to the extent possible • May hedge up to 75% of the net foreign exposure (book exposure and forecasted exposure) on a 6 months rolling basis after considering the market situation on a periodic basis • We have disciplined treasury management • Constant focus on geographic expansion of our portfolio

Some emerging risks identified by the Company during the year under review are as follows:

Risk	Potential Impact	Mitigation
 **Macroeconomic and geopolitical risk**	Challenges in US, Europe and East Asia may permanently impact input costs, supply chains and customers adversely. Political tensions in Eastern Europe and Asia have increased energy, input and transportation costs for the Company in the short run. The conditions are like to remain or escalate in the near term.	The Company continued investing in supply chain de-risking program, while pro-actively monitoring the situation.
 **Environmental and societal risk**	Climate change actions may not be adequate, and ESG priorities may not be collectively met, thereby, leading to unforeseen risk events. In the next 3-5 years, our ESG priorities may require us to make planned investments to transition to lower emission technologies.	The Company has been undertaking continuous proactive ESG programmes, along with various ESG Ratings to benchmark the relevance and gaps in the programs.

From a climate change perspective, the Company is working on analysing two scenarios from a physical risk perspective and one transition risk scenario.