LAURUS Labs
Chemistry for Better Living

July 29, 2024

To	To
The Corporate Relations Department BSE Limited Phiroz Jeejeebhoy Towers, 25th Floor, Dalal Street, Mumbai – 400001 **Code: 540222**	The Listing Department National Stock Exchange of India Limited Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051 **Code: LAURUSLABS**

Dear Sir / Madam,

Sub: Transcript of the Q1 FY25 results conference call hosted on July 25, 2024

Pursuant to Regulation 30 & 46 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and with reference to our results conference call intimation dated July 19, 2024, please be informed that the Results conference call for Q1 FY25 was hosted on July 25, 2024 and the transcript of the conference call is **enclosed** for your information and record.

Thanking you,

Yours sincerely,

For Laurus Labs Limited

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“Laurus Labs Limited Q1 FY25 Earnings Conference Call”

July 25, 2024

MANAGEMENT: **DR. SATYANARAYANA CHAVA – FOUNDER & CEO, LAURUS LABS LIMITED**
MR. V. V. RAVI KUMAR – EXECUTIVE DIRECTOR & CFO, LAURUS LABS LIMITED
MR. VIVEK KUMAR – INVESTOR RELATIONS, LAURUS LABS LIMITED
MODERATORS: **MR. MONISH SHAH – ANTIQUE STOCK BROKING**

Moderator: Ladies and gentlemen, good day and welcome to Laurus Labs Limited Q1 FY25 Earnings Conference Call hosted by Antique Stock Broking.

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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Monish Shah from Antique Stock Broking. Thank you, and over to you, sir.

Monish Shah: Thank you, Seema. Good evening, everyone, and welcome to Laurus Labs Q1 FY25 Earnings Conference Call.

Today we have with us Dr. Satyanarayana Chava – Founder & CEO, Mr. V. V. Ravi Kumar – Executive Director & CFO, and Vivek from the IR team. On behalf of Antique Stock Broking, I thank the Laurus management for giving us the opportunity to host this call.

I would now like to hand the call over to Dr. Satya for his opening remarks. Thank you and over to you, sir.

Dr. Satyanarayana Chava: Thank you, Monish, for your introduction. Thank you all for joining us on our Q1 FY25 Results Conference Call. We are pleased to have this opportunity to update you on our progress and answer your questions.

As we continue to grow and innovate, we are embarking on Laurus most significant rebrand initiative in a decade, making the start of our new journey towards expanded horizon. Our new tagline, Chemistry for Better Living, reflects our dedication and purpose in leveraging scientific innovation and chemistry to enhance the quality of life for people around the globe. And I am confident that the new identity will reinforce our global positioning as a provider of manufacturing as a service in the pharmaceutical and biotechnology landscape. We have begun our FY25 on a positive note, sustaining momentum in our key CDMO clinical projects and demonstrating resilience in our financial health. We are leveraging power of our wider and sustainable technology platforms and commercial excellence to advance our partners pipeline projects and maximizing the impact of our robust integrated model in delivering long-term stakeholder value. We are currently engaged in delivering multiple RFPs involving multi-step complex chemistry, large scale biocatalysts using inhouse manufactured enzymes for our partners clinical programs. I would say we have important large opportunities ahead of us. And we are highly focused on realizing them starting second half of this financial year.

We have invested significantly towards expanding our development and manufacturing capabilities over the last few years and this has been painful because of significant deleverage, but we believe this will be very rewarding and will significantly support another transition at Laurus of converting from highly generic focused into a well-respected and diversified CMO

focused company. Our commitment to disruptive technology in cell and gene therapy space continued to do well, especially enabling broader access to innovative cell therapy product, NexCAR 19 for patients in needs. In gene therapy, we are actively progressing on the construction of GMP lab, with focus on manufacturing GMP viral vectors and gene therapy products.

Moving on to our financial results:

Our Q1 results demonstrated continued strong resilience in financial health, reflecting robust business quality across divisions despite pricing pressure in generic APIs. I would also say that Q1 has been largely on expected lines as we prioritized a lot of resources towards delivering several clinical-phase complex projects. The performance is expected to pick up through second half. For the quarter, we delivered a flattish revenue growth of 1% and achieved revenues of Rs. 1,195 crores. Strong growth in oncology APIs and firm demand in ARV portfolio was offset by slightly sluggish performance in CDMO division. Gross margins were strong and maintained above 50% range, while EBITDA margins remained subdued at 14% due to lower asset utilization and dilution from investments in growth projects and new initiatives.

I would like to share key updates on various business divisions:

In the CDMO division, we continued operational commercial improvements and recorded sales of Rs. 214 crores. Revenue is on expected lines driven by significant resource allocation to various clinical phase deliveries. This also reflects growing customer confidence in our wider technology platform and capabilities like hydrogenation, flow chemistry, biocatalysis, and large commercial capacity. For the full year, we remain committed to a healthy growth outlook, which is supported by scheduled project deliveries for key late phase NCE projects in the Q4 of this financial year. Momentum in RFP continued from big pharma and large Biotechs, and we are also increasing our business development efforts towards securing early stage projects to widen the project pipeline. As mentioned earlier, we are working on over 70 active projects, ongoing commercial supplies for about 10 products, including APIs as well as several advanced intermediates.

Key CDMO focused growth projects is progressing in line with plan. Animal health facility under early ramp-up phase, commercial validations are going on. Crop Protection Ingredients Facility qualification targeted by end of FY25. R&D center commission in the next month, which will further expand our R&D capabilities to support new business opportunities. Our focus continues on leveraging significant scientific overlaps and build diversified revenue stream from customers.

In the generic API division:

Revenues from this division are at Rs. 664 crores with a 10% growth, supported from strong oncology delivery and firm demand in the ARV volumes and growth in other APIs. ARV APIs has retained its volume-led steady momentum and reported revenues of Rs. 400 crores. The

current order book for our product basket looks encouraging, supported by additional supply contracts secured through successful tender wins by our customers. We continue to maintain a leading market share in the first line HIV treatment.

Oncology APIs reported Q1 sales of Rs. 120 crores, 120% growth year-on-year. We have completed validation of new oncology products at our Vizag site with increased batch sizes and currently waiting for regulatory approval for our customers. We believe our portfolio breadth and capacities along with ongoing positive market dynamics would continue to support additional volumes in this division on annual basis.

Other API segments, which includes cardiovascular, diabetes and asthma, were reported sales of Rs. 144 crores, growing 6% year-on-year. Sequentially, sales declined by 24% mainly due to timing of some CMO contract delivery schedules. We are working towards expanding CMO engagements and remain committed to long-term growth with a clear focus on cost leadership in select high-value APIs. During the Quarter 1, we filed 3 DMFs all in non-ARV category. With this, a total number of DMFs filed to date is 86.

In the generic formulation space:

We reported overall revenues of Rs. 274 crores for Q1, decreasing 4% over last year. On sequential basis, revenues decreased by one-third, mainly impacted by global agencies buying pattern in ARV formulations. Strategic JV with KrKa has been incorporated and progressing well. Over the medium term, JV focus will continue on delivering synergies and enhancing product portfolio. Meanwhile to meet the near term needs of our partner, we have extended our existing CMO collaboration to include additional oral solid dosage manufacturing lines at our existing Vizag site. These expanded lines to go on stream in the next 18 months.

Coming to LMIC business:

Overall market volumes have largely remained stable, partly supported from stable pricing trend over the last 2-3 quarters. We continue to pursue optimization program to counter any pricing impact. We believe the impact in ARV franchisee are broadly stabilized and expected to stay in this range. Coming to the developed market, we continue to perform well across our broader portfolio despite higher competitive intensity. During the Q1, we filed one dossier in US and obtained 4 final approvals, 3 in US, one in Europe. In US, while the price pressure had continued, we are working towards increasing the volume share on selected products. Also, we expect to see the benefit from recent ANDA approvals in the next couple of quarters supporting our anticipated full year utilization pickup. Cumulatively, we have a total of 41 ANDAs filed till date. Of this, we obtained 21 final approvals and 14 tentative approvals so far. We continue to have diverse portfolio in pipeline including franchisee, comprising of ARV, cardiovascular, diabetes, CNS and gastro. We have a total of 62 products in the R&D pipeline either under review or under development, having a significant addressable market value.

On R&D front:

Overall R&D spending to sales for Q1 FY25 was at 5.4% increased by 35% year-on-year. Higher R&D spend is in line to enhance our pipeline and includes spends towards additional initiatives in cell and gene therapy assets. We continue to invest in portfolio with product specific approach based on complexity and scale economics.

In the Bio division:

We reported sales of Rs. 43 crores. Sequentially, sales have recovered strongly due to customer orders. The growth was led by diversifying application of our CDMO services. We've initiated discussion with several strategic customers for long-term collaborations. We continue to grow our enzyme engineering and production for small molecule, clinical and commercial projects, which will augment our pipeline using green chemistry for sustainable manufacturing. Our plan to build larger fermentation capacity in Vizag has broken ground. And we are accelerating efforts based on availability of support services like ETP and other services. And we also wanted to utilize this facility for GMP pharmaceutical manufacturing. We expect this facility to be commissioned by June 2026.

Let me share brief on our quality side as well:

In Q1, the company underwent 32 quality audits by multiple drug regulatory agencies and several customers. Company has successfully passed audit inspections without any critical findings. This includes successful US FDA inspection of our two large API manufacturing facilities, unit one and unit three in Parawada, Vizag, which has recently received EIR.

In summary:

Our R&D led commercial strategy is delivering on compelling growth projects. The confidence is strong and also growing that we are taking right steps to best position the company for value creation this year and take the company well into the future.

With that, I would like to hand it over to Ravi to share financial highlights.

V. V. Ravi Kumar: Thank you, Dr. Satya, and very warm welcome to everyone for our 1st Quarter of FY25 Earnings.

Total income from operations Rs. 1,195 crores against Rs. 1192 crores year-on-year remained flattish. As Dr. Satya explained, Quarter 1 is largely on expected lines as lot of resources are prioritized towards delivering several clinical phase projects and the performance is expected to pick up mostly from H2. This was already indicated in our previous calls supported by on hand orders for the project deliveries. Gross margin maintained at healthy level at 55%. This is due to product mix and some of the cost savings what we achieved in the raw material price negotiation. Our EBITDA of Quarter 1 is at Rs. 171 crores, 14.3% is in line with the previous quarter-on-quarter, but we expect improvement in the second half. Our diluted EPS for Quarter 1 is at 0.23.

Our ROCE was at 6%. Of course, because of the lower revenue and lower profitability may not looks comparable.

On the CAPEX front, we invested close to Rs. 125 crores in this quarter. And our net debt stood at Rs. 2,633 crores. And going ahead, we remain committed to delivering on our FY25 growth outlook and we will prioritize investment into high-value business segment to drive medium and long-term growth. Besides, the focus will also continue to improve on our working capital efficiencies**.** You can refer our IR presentation for more details. If anything, additional information you need, please contact our IR, we will provide.

With this, I would request moderator to open the lines for Q&A.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. We take the first question from the line of Sajal Kapoor, an individual investor. Please go ahead.

Sajal Kapoor: In one of the slides, I mean, there was no slide number, so I can't refer to the slide number because there wasn't any, but in one of those slides, it was mentioned that out of the 28 customer audits conducted in Q1, how many were CDMO client audits out of these 28 that happened in Q1? What are these customers looking for? I mean, what draws them to Laurus when there are so many other CDMO companies in India? Thank you.

Dr. Satyanarayana Chava: Thanks, Sajal for asking that question. I would say at least half of the audits are done by CDMO customers. Some of them are periodic audits because they have to do audits in a stipulated timeframe and some of them from new customers which we are onboarding.

Sajal Kapoor: And is the intensity increasing? So, what was the number, let's say, 2 years ago versus today? I mean, do you see an increase in customer visits, customer audits, above and beyond the RFQ? So, I know you mentioned RFQs are coming. But are customers actually traveling to India and physically seeing the facilities and the infrastructure?

Dr. Satyanarayana Chava: I think there is a significant increase in visits followed by the quality audits followed by safety audits and then they roll out the RFQs. So, to get an RFQ we have to go through a long process. See no big pharma, no NCE customers would like to give an RFQ and project without their commercial team visiting, without their quality team visiting, without their EHS team visiting. They can give pre-clinical projects, but when we are talking about late stage clinical programs, I think their audits are sometimes multiple days, sometimes involving multiple facilities also.

Sajal Kapoor: Understood. And on the Lauras Bio slide, it's mentioned that initiated discussions with several strategic customers for longer term CDMO collaboration. And question really is why are customers interested in Laurus Bio given that R2 is fully booked and new capacity will only come online when R3 goes commercial. So, when there is no capacity available, how can we engage in discussions 3 years in advance because R3 going commercial, I think, is give or take three years away, right?

Dr. Satyanarayana Chava: It's 24 months away. We are also building fermentation capacity at Vizag also, which will come a little earlier to R3. And the long-term customers who are willing to sign long-term contracts are visiting right now because they are running their projects currently at R2. It's not that we are bringing a new customer for R3. Actually, the customers who are using R2 for pilot scale of their programs are talking to us for the large-scale manufacturing in R3.

Sajal Kapoor: Right, you mentioned Vizag fermentation, but that's the GMP fermentation and that's under Laurus Generics, if I am not mistaken. That's not under Laurus Bio, correct?

Dr. Satyanarayana Chava: No, it is not Laurus Bio. So, there are two programs initiated when compared to the last 2 quarters and right now. Because of the higher demand of GMP intermediate manufacturing in our generic products and also some enzymes which needs GMP manufacturing will be anything related to GMP manufacturing and which involves organic solvents usage after fermentation, those will be done at Vizag and the fermentation which doesn't involve any GMP steps, doesn't involve any use of organic solvents will be done at R3. I think that is a very easy answer why we are keeping R3 under Bio umbrella and another facility under Laurus umbrella. So, we want to segregate GMP manufacturing and non-GMP manufacturing.

Sajal Kapoor: And lastly, very quickly, on the OPEX side, during the AGM that was conducted a few weeks back, you mentioned that today 80% of the scientists are on the CDMO side as compared to only 20% few years ago. If I look at our scientific count, so 2019 we had about 200 scientists in the synthesis division or the CDMO division versus today we have no less than 800 give or take. And so that's a four-fold jump in 5 years. And now we have got this new Genome Valley Center coming up, which will add to our OPEX fixed cost further. So, it's kind of nearly five-fold jump in our scientists on the CDMO side, which is giving a significant high OPEX fixed cost, right? You mentioned H2 is when we see the benefits emerging. How confident are we that we are not misallocating capital or we are overestimating the demand coming on these CDMO services? I mean, is the customer giving us enough assurance that gives us the confidence to increase 5-fold increase in the scientists on the CDMO side?

Dr. Satyanarayana Chava: This is a very great question, Sajalji. So, as you mentioned, a lot of resources are being allocated currently for the late-stage projects for big pharma. So, if you are putting resources on a phase one molecule with 30 steps, and it will take 100 scientists, the outcome may be questionable. But currently, we are taking very minimum early stage projects so that we don't put resources on a project with uncertainty associated with that. So, most of the resources are happening in projects with big pharma, with oncology, some of the projects in oncology, some of the projects in rare diseases, with high dosages. Our expanded R&D capabilities will augment our ability to take early clinical projects as we mentioned in our investor presentation. We don’t want to neglect increasing the funnel by taking more early stage projects.

V. V. Ravi Kumar: But, Sajalji, actually we have not increased 5x resources. So, the resources I think if I am not wrong, may be 25% to 30%, but what Dr. Satya said is, reallocating from generic to API. Additional OPEX because of the new R&D, yes it will be done but your productivity also will improve.

Moderator: Thank you. We'll take the next question from the line of Mr. Tushar from Motilal Oswal Financial Services. Please go ahead, sir.

Tushar: Sir firstly, how much will be ARV sales for the quarter?

Dr. Satyanarayana Chava: APIs around Rs. 400 crores and including formulations was Rs. 552 crores.

Tushar: Overall Rs. 552 crores?

Dr. Satyanarayana Chava: Yes.

Tushar: So, basically trying to understand the jump in the gross margin when the custom synthesis sales has been lower and even the formulation sales has been lower on an overall basis. If you could explain the sharp jump in the gross margin and sustainable gross margin?

Dr. Satyanarayana Chava: Sure. See the gross margin improvement is based on one is the product mix. We have a significant increase in our oncology sales and also the gross margin in APIs also increased because of the favorable pricing mechanism from ARV API RMs and also the process improvements done in some of the key large volume APIs. These three factors led to the improvement in the gross margins.

Tushar: Oncology proportion has been largely stable as a percentage of sales may be in fourth quarter or even in earlier quarters as well?

Dr. Satyanarayana Chava: Yes, this significant impact came from raw material cost, reduction in the overall large volume APIs supported by the process improvements what we have done in the previous quarters also came in the Q1.

Tushar: Got it. So, secondly on the long term CMO agreements which we signed in FDF, so two questions, how much CAPEX will be required while this would be funded by the customer and this is for a patented product or a generic product?

Dr. Satyanarayana Chava: This additional CMO contract we are signing is to give additional manufacturing lines in our oral solid dosage form facility in unit two for our partner. So, currently we do about 2 billion tablets contract manufacturing there. And our partner is asking for additional capacity. So, we are adding several lines. And eventually we will give additional three billion tablet capacity over a period of time. And most of the CAPEX will be funded in the sense they will give advance and we will install the capacity.

Tushar: But would this be for again the generic product or for a patented product?

Dr. Satyanarayana Chava: Mostly this CMO contract is generic formulations.

Tushar: And lastly on this fermentation facility at Vizag, how much investment would be there and over what period of time?

Dr. Satyanarayana Chava: We expect about Rs. 200 crores investment into Vizag and we expect it will be ready by mid of 2026.

Moderator: Thank you. We move on to the next question from the line of Krish Mehta from Enam Holdings. Please go ahead.

Krish Mehta: I just wanted to ask on the leverage ratio in terms of the net debt to EBITDA being elevated at 3.3x. So, as our capacity utilization increases gradually, how do you see this settling?

V. V. Ravi Kumar:: I think the net debt by EBITDA is because of the lower EBITDA. I think as we indicated like for a full year basis actually we will be definitely improving. As we indicated before, we are targeting to make it less than 2.5 by end of March 25.

Krish Mehta: Okay, that's helpful and I wanted to ask second question on the mix in terms of the ARV and non-ARV. So, given that in Q4 and Q3 of last year, we were around 50% and it gradually come off a bit. How do you see this mix if we look at say from a 1 to 3 year basis going forward?

Dr. Satyanarayana Chava: I think as we mentioned in previous calls, the overall ARV franchisee will remain give or take Rs. 100 crores, around Rs. 2400 crores - Rs. 2,500 crores. That's the range we expect, despite of how much effort we put. Because we don't want to invest more in ARVs and as most of the investment going in other areas. So, even in Q1, you might have seen our ARV contributed Rs. 550 crores out of Rs. 1200 crores. So, Rs. 650 crores came from other businesses. As we grow in other businesses, especially what we are saying, our Animal Health facility is going on stream, our Crops and Ingredients facility going on stream next year. Most of the clinical programs late stage, we deliver second half of this year, and the commercials kick in next financial year. So, gradually, we expect the revenue contribution coming from ARV, APIs, and formulations. The quantum will remain the same, but the percentage will significantly come down over a period of time. We don't want to comment the percentage, then you can gauge what is the topline. So, we want to leave that space open.

Moderator: Thank you. The next question is from the line of Jeevan Patwa from Sahasrar Capital. Please go ahead sir.

Jeevan Patwa: Yes, so first question is on the one of the slide where we mentioned that we have done some Rs. 2600 crore CAPEX. So, out of the 2600 crore CAPEX, how much is currently being utilized? How much is not being utilized?

Dr. Satyanarayana Chava: Mr. Jeevan Patwa, what is happening in the current capacity utilization which we have built for CDMO projects, We are not utilizing full capacity. Suppose we are doing 20 chemical steps in a project, we cannot do all 20 steps at a time because the project is not commercial. We do step 1, step 2, step 3, step 4. So, the facility where we do this complex chemistry, maybe if you see the reactor operation, it could be between 10%-20% no more. But the facility looks like fully occupied, but the actual utilization will be very, very marginal. So, going back to your question this Rs. 2,600 crores investment, about three-fourths of that is done for CDMO.

Jeevan Patwa: Got it, sir. And second part is, so we are actually seeing last two years that FY25 is the year one should be watching out for. But the 1st Quarter actually doesn't look like the quarter. So, even last quarter we said that all bad quarters are behind right. But Q1 is again, I don't think it's a good quarter again. So, any color on this, are we still thinking that FY25 will be the big year or you think 26 will be the big year now?

Dr. Satyanarayana Chava: Jeevanji, we said our H2 will be better actually. We have indicated H1 will not be that great and H2 will be definitely better. That's what we indicated. And frankly speaking, this Quarter 1 is in line with our internal guidance. So, we are in line with the thing and FY25 definitely will be a good year. But we indicated FY26 will be much better year because some of the assets which we invested like Animal Health etc. will start yielding results.

Jeevan Patwa: And we have done a lot of work on the CDMO side. So, we talked about a lot of processes that we have developed, biocatalysis, continuous flow chemistry, and all that. And we are talking to a lot of big clients since last few quarters. So, any color on any large contracts or anything which is under negotiation in the last stages or final stages, do you see any? So, how do you see that?

Dr. Satyanarayana Chava: What we can say, we have utilized our biocatalysis expertise, and we are making enzymes and using in the late stage chemical programs. That is one good thing. And second, when we are saying continuous flow chemistry, we have delivered registration batches for an API. I would say we have completed registration batches in API, deliveries will happen this quarter using continuous flow chemistry. So, we are demonstrating our capabilities which are going into the registration files of our partner products, large scale biocatalysis, large scale continuous chromatography, large scale continuous manufacturing. These are going into our partner products. And we are also adding continuous manufacturing in hydrogenation also. We are expanding our capabilities. These will go into the files once they get approval and then the commercials will kick in.

Moderator: Thank you. The next question is from the line of Bharat, some Quest for Value. Please go ahead, sir.

Bharat: In annual report, I see that there are 17 PARA IV and 11 FTF opportunities. When can we expect revenue from these PARA IV and FTF?

Dr. Satyanarayana Chava: The major will come in FY29, not before.

Bharat: And this question is more on the macro level. I want to know your opinion on this BIOSECURE Act in US. Do you see supply chains shifting away from China for the innovative CDMO? And may know which country will benefit most from this shift and do you see any supply chains shifting to India?

Dr. Satyanarayana Chava: I think because of the BIOSECURE Act, people will diversify their supplier base, that's for sure. And India is likely to get benefited from this. And it's not going to be a knee jerk reaction. Nobody is going to shift in 2 months. So, they will take their own time. They visit, they audit,

and they give a small project, and then increase the collaboration over a period of time. I think in the long run it will benefit, but in the short run, it is not going to happen in two quarters. It will take its own time. But in the long run, it is a definite step, good step towards the CDMO opportunities for Indian companies.

Bharat: Thank you. And sir, you guided that the ARVs in total would be around Rs. 2500 crores and for FY25 also the guided margin was around 20% EBITDA. Are you still confident of achieving these two guidance?

Dr. Satyanarayana Chava: Yes, broadly yes.

Bharat: And regarding the new CAPEX in FDF that is funded by customer, I just want some clarity on this one. So, are you going to expand Unit-2 from 10 to 15 billion or is it 10 billion itself, so you are giving some expansion to this new customer?

Dr. Satyanarayana Chava: We plan to expand. The current 10 billion is not enough for our products and the partner products. So, partners need certain type of equipment, certain type of technologies. So, we are buying partner specific equipment and installing. That is an expansion. So, in 18 months our capacity at Unit-2 is going to be 13 billion tablets, not 10.

Bharat: Okay, so 3 billion for this new customer and 3 billion for the joint venture with KRKA and then the rest would be used for ARVs and our general things, right?

Dr. Satyanarayana Chava: Yes.

Moderator: Thank you. We take the next question from the line of Rishabh Gang from Sancheti Family Office, please go ahead.

Rishabh Gang: My question is that in the annual report mentions that there will be pricing headwinds in some API portfolio, so need some light on the reasons for this and how long will this come? First question. Second, how much impact on margins this will cause? And how much of this pricing impact company expects to be moderated by cost improvement measures and increase in CDMO and Biotech business?

Dr. Satyanarayana Chava: As you have seen, our quality of business is very good as we demonstrated gross margins around 50% consistently. Despite price of APIs going down, we were able to maintain that gross margin because if you look at our last few quarters, the growth in CDMO revenue is not big, but we were able to maintain the margins at healthy 50% or above. That was primarily because of our sourcing benefits coming from the softer RM prices and higher process improvement benefits coming from our R&D efforts. These two are the main reasons we were able to offset the price headwinds in the APIs.

Rishabh Gang: All right, also I understand any guidance, over the 4 to 5 years?

Dr. Satyanarayana Chava: I am sorry we are not giving guidance but we are saying as we mentioned we are confident that the performance will certainly improve from H2 and we are very confident on delivering some interesting and large CDMO opportunities.

Rishabh Gang: Any outlook on agro side?

Dr. Satyanarayana Chava: Agro, no revenues will come this year. So, facility will be commissioned only by end of this financial year.

Moderator: Thank you. The next question is from the line of Mr. Smith from RDA. Please go ahead.

Smith: As I can see, we received a patent for (Inaudible). Are we pursuing opportunity in API market or formulation market?

Dr. Satyanarayana Chava: We have several patents, but that doesn't mean all patents will pursue for commercial opportunity.

Smith: What is the addressable market and something like that?

Dr. Satyanarayana Chava: No, we cannot give product specific guidances.

Moderator: Thank you, sir. We take the next question from the line of Madhav from Fidelity. Please go ahead.

Madhav: When you speak about the CDMO or the NCE commercial CDMO launches in quarter 4 of second half of this year, does that mean that the product sort of moves through the R&D pipeline for the customer via Laurus, and now it's kind of commercializing for the customer with the new launch? Is that how we should look at that opportunity?

Dr. Satyanarayana Chava: No, we are not delivering commercial quantities. We are delivering projects for their registration purposes.

Madhav: So, this is basically after Phase-3 but before...

Dr. Satyanarayana Chava: After Phase-3.

Madhav: So, if this basically, the registration batch succeeds, then FY26 we see commercial volumes coming in for that particular product. Is that how we should look at it?

Dr. Satyanarayana Chava: Hopefully. We also expect the same. So, the chances of success of these programs generally very high because these are in the registration pages. So, we expect for complex molecules, their supply chain also needs a lot of longer lead times. So, hopefully, once we deliver these registration batches, we expect some commercial quantities in the next financial year.

Moderator: We take the next question from the line of Harshal Patil from Mirae Asset Capital Market. Please go ahead, sir.

Harshal Patil: Sir, just had one clarification. For the PPTs, if I have to refer to the API PPT slide, there's a comment which says that overall sequential decline due to timing of shipments particularly. So, is there any problem that we faced, any logistical issue that we faced? And do you see this more as a transient thing or what?

Dr. Satyanarayana Chava: We can't give you a specific reason for that.

Harshal Patil: But is it at least transient in nature? So, we can expect the normalcy to be retained?

Dr. Satyanarayana Chava: Yes.

Harshal Patil: That was fair, sir. And secondly, with respect to the CDMO thing, definitely you clarified on the NCE scheduled deliveries, but with respect to the existing supplies, sir, if you could just talk a bit about the traction and what kind of improvement we could expect for FY25?

Dr. Satyanarayana Chava: I think our base of commercial deliveries is give or take Rs. 200 crores per quarter. That doesn't include any additional opportunities what we are delivering or what we are committed to deliver and where we have orders on hand. So, once we deliver new opportunities, the value will go beyond our regular supplies.

Harshal Patil: And lastly, if I can just squeeze one probably on the margins, where we are seeing that the API prices are getting a bit more softer. So, believe that our margin trajectory, as you've guided, would be maintained despite of that?

Dr. Satyanarayana Chava: I think at least gross margin front, all of you might have noticed, last several quarters we were able to maintain around 50% gross margin. So, I think that we are very confident to maintain at that level. So, if you look at in the presentation, Q2 FY23 to Q1 FY25, that means almost 8 quarters. Eight quarters were able to maintain around 50% gross margin.

Moderator: Thank you. We take the next question from the line of Nitin Agarwal from DAM Capital. Please go ahead.

Nitin Agarwal: So, on your CAPEX plans, given where your various expansion plans are, what kind of CAPEX do you envisage for the next 2 years?

V. V. Ravi Kumar: This year and next year, probably anywhere between Rs. 1800 to Rs. 2000 crores, maybe around that.

Nitin Agarwal: And Ravi, how would you break that up into broad segments if you can?

V. V. Ravi Kumar: I think majority goes to the CDMO and some part goes to the FDF because of this specific requirement from one of the customers.

Nitin Agarwal: Is this customer specific requirement where in presentation you mentioned that CMO contract should start from FY27. How should we think about the potential size or scale of the business?

Dr. Satyanarayana Chava: We know the volumes, we know the products, we know the price. So, there are no surprises on either side. So, we are putting the capacity because we know how much we are going to make on that. So, yes, it is a very stable business. We are building that with generic customers, we know the markets, we know what percentage of market share he is enjoying. So, I think that is going to be a very stable business for us.

Nitin Agarwal: So, on this account, now since you are putting up additional capacity in formulations, this quarter for example, over the last few quarters we have had extreme volatility in our ARV supplies to LMIC markets. So, the capacity that we have for finished formulations, are they fungible across ARVs and non-ARVs or we have to use certain amount of capacity only for ARVs only?

Dr. Satyanarayana Chava: Formulation capacity is very fungible. So, we can use it for ARV, non-ARV, diabetes, cardiovascular. There are no challenges. Only the size of the batch determines which line we use.

Nitin Agarwal: Is there any reason why, what portion of the capacity currently is utilized for ARVs or the formulation size?

Dr. Satyanarayana Chava: ARV, we are making about $100 million sales on average. So, why we will allocate capacity of ARV to something else. How much percentage of capacity we are using for ARV, formulation wise maybe 25% capacity is used for ARVs.

Nitin Agarwal: 25% of that?

Dr. Satyanarayana Chava: Yes.

Nitin Agarwal: Okay. And then lastly on the CDMO business, you obviously are into multiple negotiations. What is the nature of most of the business that comes in? It will be for early stage projects or do you have also opportunity for certain large supply starting because it's probably taking on some of the more commercialized products. So, do we have like the commercial supplies coming through immediately or you'll have contracts where you build up the relationships and then supplies happen over a period of time?

Dr. Satyanarayana Chava: Most of the supplies what we mentioned will happen in H2 of this financial year are for registration or Phase-3 projects. So, the certainty of those moving into the commercial is very high and we expect some commercial orders will come next financial year.

Moderator: Thank you. We'll take the next question from the line of Madhav from Fidelity. Please go ahead, sir.

Madhav: I was just asking that the one molecule which you spoke about, really supplying the registration batch. So, if I understood that from the presentation, currently we are supplying 10

commercialized products in the CDMO division. So, this one if it succeeds, it will be the 11th product for us, which is commercialized. Is that how we should understand the business currently?

Dr. Satyanarayana Chava: No. When we said 10 products commercial, those are already in our base sales. And what we mentioned the new projects, those are over and above what we are supplying commercially.

Madhav: Sir, basically commercial doesn't mean that it's a commercialized molecule for the customer. That's not what you are indicating?

Dr. Satyanarayana Chava: No. 10 products what we said commercial, those are products commercialized at our customer side also.

Madhav: Exactly, that's what I am saying. And just the other question was, in the CDMO business, currently how many of the supplies that we are expected to do over a certain time are for like these registrations, which is very close to commercialization like 2-3, if you could give some sense there, and how many are in late stages basically?

Dr. Satyanarayana Chava: Typically, when people file NDA, they expect to launch in 12 months. If there are no red flags raised by the FDA or agencies, they will launch in 12 months.

Madhav: And for particular project, is Laurus the sole supplier

Dr. Satyanarayana Chava: We are not talking of one project, we are talking multiple projects. And nowadays with the global supply chain challenges, nobody is going to use only one supplier for any project. I want to be very clear there.

Moderator: Thank you. Ladies and gentlemen, we take that as the last question for the day. I would now like to hand the conference over to the management for closing comments.

Dr. Satyanarayana Chava: Thank you for joining our conference call for Q1 FY25 and also asking very pertinent and interesting questions. Thank you.

Moderator: Thank you. On behalf of Antique Stock Broking, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.