LAURUS Labs
Chemistry for Better Living

October 29, 2024

To	To
The Corporate Relations Department **BSE Limited** Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001 **Code: 540222**	**The Listing Department** **National Stock Exchange of India Ltd.,** Exchange Plaza, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051 **Code: LAURUSLABS**

Dear Sir / Madam,

Sub: Transcript of the Q2 FY25 results conference call hosted on October 24, 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 October 24, 2024, please be informed that the results conference call for Q2 FY25 was hosted on October 24, 2024 and the transcript of the conference call is enclosed herewith.

This is for your information and records.

Yours faithfully,

For **Laurus Labs Limited**

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“Laurus Labs Limited

Q2 FY '25 Earnings Conference Call”

October 24, 2024

MANAGEMENT: **DR. SATYANARAYANA CHAVA – FOUNDER AND CHIEF EXECUTIVE OFFICER – LAURUS LABS**
MR. V. V. RAVI KUMAR – EXECUTIVE DIRECTOR AND CHIEF FINANCIAL OFFICER – LAURUS LABS
MR. VIVEK KUMAR –INVESTOR RELATIONS – LAURUS LABS

MODERATOR: **MR. MONISH SHAH – ANTIQUE STOCK BROKING**

Moderator: Ladies and gentlemen, good day, and welcome to Laurus Labs Limited Q2 FY '25 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 star then zero 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: Yes. Thank you, Del. Good evening, everyone, and welcome to Laurus Labs 2Q and 1H FY '25 results conference call. Today, we have with us Dr. Satyanarayana Chava, Founder and CEO; Mr. V.V. Ravi Kumar, Executive Director and CFO; and Vivek from the IR team. On behalf of Antique Stock Broking, I would like to 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.

Satyanarayana Chava: Thank you, Monish, for the introduction. We welcome you all to the Q2 FY '25 and first half of FY '25 results conference call. We are pleased to see sustained demand in our CDMO services, supported by operational excellence initiatives and expanding platform capabilities at both development and manufacturing scale. Our pipeline momentum across business network has remained healthy, and we are demonstrating steady progress in application of specialized technologies like continuous flow, biocatalysis across multiple projects.

Our ambitious and dedicated teams are working diligently to expand portfolio offering and advanced pipeline projects with a goal to solve our customer complex needs and deliver long-term stakeholder value. We recently announced opening of the new small molecule R&D center at IKP, Hyderabad, which significantly elevates our one-stop development and manufacturing service capability, enabling innovators to accelerate their clinical and commercial phase projects using cutting-edge technology.

I would say the new center is seeing good interest from our several existing biopharma customers for early-stage process development work, and we believe it will play an important role in driving our future growth. As communicated earlier, Laurus is on track to evolve into a well-respected and diversified CDMO company, meeting complex needs of our customers. And we are reinforcing it by executing on our long-term investment strategy in advancing both our development expertise and building integrated large-scale manufacturing capabilities.

Moving on to our financial results. Our Q2 results demonstrated continued resilience in financial health, reflecting robust business quality despite pricing pressure in generic APIs. For the quarter, we delivered a revenue of INR1,224 crores. The growth is flat over last year. Although there is a strong growth in CDMO division, which was substantially offset by lower offtake in ARV and oncology APIs. Gross margins were very healthy and maintained at 55%, while EBITDA margins remained subdued at 15%. This is due to lower asset utilization and dilution

from growth projects initiatives in cell and gene therapy as well as both Human Health and Crop Sciences.

Our performance is well on track to deliver full-year growth outlook, which will be driven by facility ramp-up and scheduled CDMO project deliveries in the second half of this financial year. To begin, I would like to share key updates on various business segments. In CDMO, we continued operational and commercial improvements and recorded a sales of INR299 crores. On H1 basis, the division recorded 8% growth. The soft growth is on expected lines, driven by a significant resource allocation toward delivering multiple high-value complex programs at various clinical phases.

If you look at CDMO business environment, the outlook within small molecule service industry is positive. And then specific, there is good demand for specialized expertise with rising number of complex compounds in the clinical phases. Against the industry backdrop, we expect healthy growth in FY '25, supported by scheduled project deliveries for late-phase clinical programs in Q4.

As highlighted in my initial remarks, we have commenced operations at our new small molecule R&D center in October 2024. The facility will leverage advanced capabilities like flow chemistry, biocatalysis, high potent chemistry. This will enable us to secure early-stage projects to widen the project funnel and meet the expanded global partner needs.

We are working on over 90 active projects in total, over 70 in Human Health and about 20 in the Animal Health and Crop Production. In the generic API, revenues from this division during Q2 reported a decline of 11%, and we achieved INR557 crores sales. This was mainly due to lower demand in Oncology portfolio and temporary impact from a planned facility shutdown for modifications, while other APIs reported in line sales. For H1, the overall growth was very flattish.

ARV APIs reported revenues of INR368 crores. This was lower compared to last quarter, as we had to undertake certain modifications in the manufacturing facilities, which created capacity shortages for a few products, affecting dispatches in the Q2. We expect operation to resume from this week onwards. Having said that, that Laurus will fulfil all confirmed orders and contractual obligations, we don't expect this will have any impact for the overall financial year. The current order book for product basked looks encouraging, and we continue to maintain a leading share in the first-line HIV treatment.

Oncology APIs, sales have declined, and we reported a Q2 sales of INR51 crores. In the other API segment, which includes various therapies like cardiovascular, diabetes and Asthma , we have reported sales of INR138 crores. For the year, it is only 3% growth. We're actively working with few customers to expand our CDMO engagements as part of our strategic growth initiatives, and we remain committed to long-term growth with clear focus on cost leadership and select high-value APIs.

During H1, we filed 4 DMFs. Out of these, 3 are in non-ARV category. With this, total number of DMFs filed so far is 87. Our Formulation division reported overall revenues of INR328 crores for Q2. Our H1 revenues decreased marginally by 2%. Performance was subdued due to lower volume offtake in ARV business, offsetting good growth in the developed market portfolio. We expect to see sustained benefit of a few recent ANDA approvals in the coming quarters. In addition, we also increased BD efforts to service new market opportunities with continued focus on strengthening portfolio offerings and increasing market share.

Cumulatively, we have a total of 42 ANDAs filled to date. Of these, we have a total of 21 final approvals and 14 tentative approvals so far. I'm also pleased to report that our collaboration with our partner, KRKA, is progressing smoothly, and the capacity expansion remains on track to meet their strategic capacity needs. We have already initiated tech transfer for multiple products under this arrangement. And in the medium term, the focus will continue on delivering synergies and enhancing product portfolio and also enter into India market through the joint venture. On R&D front, our overall spending to sales for the first half of this financial year was at 5.4%, which was increased by 25% year-on-year. The higher R&D spends is in line to enhance our pipeline, which includes additional spend toward fermentation, biocatalysis and gene therapy programs.

We continue to invest in portfolio with product-specific approach based on complexity and scale economies. We have a total of 62 products in the R&D pipeline, either under review or under development, having a significant addressable market size. We also expanded our capabilities at our fermentation site, R2, by adding a new pilot plant. This enhancement will not only allow us to further optimize R2 capacity, but also helps us to debottleneck and optimize R1 capacity for our in-house projects. The plan to build larger fermentation capacity is on track to capitalize on GMP manufacturing opportunity. In H1, the company underwent close to 76 quality audits by multiple regulatory agencies and several customers. The company has successfully passed audit inspections without any critical findings.

During the quarter 2, we have concluded successful U.S. FDA inspection of API manufacturing facility in Hyderabad without any observations. Together, we have made significant progress across building diverse portfolio with an exciting project pipeline. As a company, we are committed to ensuring our actions remain aligned with our strategy. And I'm confident that we are all well positioned to deliver value to stakeholders in the coming years.

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

V. V. Ravi Kumar: Thank you, Dr. Satya. A very warm welcome to everyone on our quarter 2 and H1 FY '25 earnings call. Total income from operations for H1 around INR2,419 crores against INR2,406 crores previous year. For the quarter, we have reported a revenue of INR1,224 crores, which is almost similar. Performance is largely on expected lines, and it's slated to improve in H2, driven by order book and expected project deliveries.

Gross margin maintained at a healthy level for Q2 at 55%, and for H1, it is at, same, 55%. This is partly for a better product mix and also process improvements done in some of the key large

volume APIs. Our EBITDA for quarter 2 stands at INR182 crores and margin at around 15%. For H1, INR353 crores with a margin of around 15%. The margin was suppressed due to continued operational deliveries.

Our profit after tax for H1 is INR33 crores. Our ROCE was around 5.6%. This is because of lower profitability and the capex and continued capex investment for the growth projects. On the capex front, we invested close to INR137 crores for the quarter and INR262 crores for first half. Our net debt stood at INR2,679 crores, and debt to EBITDA is around 3.4x. This we expect to improve based on H2 performance.

We will continue to prioritize investment into higher-value business segments to drive sustainable medium- to long-term growth. The Board of Directors recommended dividend of -- interim dividend of INR0.40 per share. You can refer for further details our IR presentation. With this, I would request the moderator to open the lines for Q&A. Thank you.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Tushar Manudhane from Motilal Oswal Financial Services.

Tushar Manudhane: Sir, with respect to this Onco API, given that this is to do with the increased competition, so how do we -- how are we thinking to cope up almost INR50 crores quarterly sales dip which has happened in the Onco API?

Satyanarayana Chava: Tushar, we don't have competition severe in this. The lower sales is only based on the delivery schedules to our partners. Overall, we don't see any challenge in achieving some growth over the last year.

Tushar Manudhane: That is for the Onco portfolio you're referring to, right?

Satyanarayana Chava: Yes, yes.

Tushar Manudhane: On the FDF side also, we have not seen major accruals or maybe even this quarter, we've seen only 1 ANDA approval. So how are we able to sort of grow in the FDF segment going at least for next, say, 12, 15 months?

Satyanarayana Chava: For the ANDAs, which were approved in the last 2-3 quarters, we are only building up stocks to garner the market share. That is the reason we are very confident to increase our sales in the North American market.

Tushar Manudhane: And just lastly, if you could just refresh in terms of the guidance, which we are talking for FY '25, is that, that the sales would be stable as compared to FY '24? Or how to read this?

Satyanarayana Chava: See in the FY '24-'25, if you compare, the biggest growth will come in the Synthesis CDMO division. In the year FY '24, CDMO did INR922 crores. If you look at in H1 this year, we've already done INR530 crores. And we expect this number will go up significantly in H2. So that's

where we've been investing in the last 2 years. Our efforts toward securing customers' projects and execution is going smoothly.

From the beginning of this year, we were clear in our message to our all stakeholders. The H1 is going to be softer and whereas H2 is going to go as per our expectations. Currently, we believe we are on track to deliver what we committed for growth in H2.

Moderator: The next question is from the line of Jeevan Patwa from Sahasrar Capital.

Jeevan Patwa: Yes, sir. So the first question is obviously last time, we said that for the full year, we will achieve 25% kind of EBITDA margin. So first half, we are at 15% EBITDA margin. So do you think second half we will be able to compensate for this?

Satyanarayana Chava: Jeevan if you remember well, we committed to achieve around 20% EBITDA for the entire financial year, yes. Maybe you are referring until we achieve 25% in the H2 we will not be averaging 20%. So we are committed to show 20% EBITDA for the entire financial year.

Jeevan Patwa: Okay. And secondly, this operating deleverage is actually haunting us since last few quarters now. So I would say almost 8, 10, 12 quarters now. So by when you actually think that this operating deleverage will start actually in the reverse, right, so operating leverage will start kicking. So this has been haunting since almost 12 quarters.

Satyanarayana Chava: You are absolutely right.

Jeevan Patwa: So gross margin has been good this time because of the Synthesis contribution. But again, we are at the 15% EBITDA margin because of operating deleverage. So how long we are going to have this kind of operating deleverage still?

Satyanarayana Chava: See, this operating deleverage came because we only plan investments into new areas, we planned capex to meet the future demand. I think this operational deleverage is not surprising, not unexpected. And going back to the question how long this will continue. Maybe we are at the end of the deleverage. If you ask me, when we will leverage, maybe we have to wait a few quarters, but we at the end of the deleverage right now. Yes.

Jeevan Patwa: So basically, I understand there are some large deliveries maybe Q4 on the CDMO part. But again, next half next year i.e first half is again going to be the similar because these are lumpy deliveries, right? Or do you think that it will continue to be consistent, we will have the CDMO business growing even for the next year and next half as well?

Satyanarayana Chava: We will, it's a very interesting question, But as we maintained, we are not giving guidance, but we'll give you more clarity as we go toward the end of Q4. Maybe Q4 commentary will give you how the forecast will look for Q1 FY '26. Yes.

Jeevan Patwa: Because typically, it is like Q4, we have those large deliveries. But again, the question comes whether H1 next year is going to be soft

Satyanarayana Chava: No, we'll definitely answer your question closer to each quarter. We are not giving any guidance right now. Yes.

Jeevan Patwa: And the CDMO contracts on the formulation side, have we started those contracts, where we had the tertiary packaging. So are those contracts started in this quarter, Q3?

Satyanarayana Chava: No. We will start Q1 FY '26. We are investing more into manufacturing lines and packaging lines. The CMO for integrated generic contract manufacturing, the results will come in Q1 FY '26.

Jeevan Patwa: Okay. So the formulation sale will still be in the similar lines, so that will pick up only in next year. That's what you're saying, right?

Satyanarayana Chava: Our ARV sales will pick up. Our non-ARV sales in North America will also pick up. When I said Q1 FY '26, when you asked a specific question about the contract manufacturing. That expanded capacity will come in only in Q1 FY '26.

Jeevan Patwa: Correct. But a meaningful pickup, will happen only after we have the CMO contract starts.

Satyanarayana Chava: It is a combination of both. Our growth in FDF will come from our own sales in North America and contract manufacturing in Europe. It is a combination of both, not the only one.

Moderator: The next question is from the line of Sriraam from MLB.

Sriraam: Just 1 question on the debt, like debt has increased to INR2,700 crores now. And looking at first half, operating cash flow is negligible. We are definitely looking to improve the debt-to-EBITDA ratio, but in terms of absolute amount of debt, I mean, are we looking for some kind of reduction or it can increase further?

V. V. Ravi Kumar: As we indicated last time, we'll be in the similar range. It will be below INR3,000 crores.

Sriraam: And I believe we also have aggressive capex plan, right? I mean, around INR2,000 crores.

V. V. Ravi Kumar: Yes. capex plan is on.

Sriraam: And that can be funded from internal accruals or some kind of fundraise

V. V. Ravi Kumar: See, if you look at our depreciation itself, it's INR400 crores, right, on an annual basis.

Sriraam: Right. Yes. But I mean operating cash flow has been quite depressed. So that's why I was wondering...

V. V. Ravi Kumar: Yes. Operating cash flow also we'll support.

Sriraam: So actually internal accruals will be sufficient for the capex, which we have?

V. V. Ravi Kumar: Yes.

Sriraam: I mean, the capex plan, which we have. Okay. Got it.

Moderator: The next question is from the line of Madhav from Fidelity.

Madhav: I had a couple of questions. The first one was, in the presentation, you have mentioned that CDMO performance was soft due to long manufacturing time cycles. Could you explain what that means exactly? And typically, for these complex projects, which we do, how long are these manufacturing cycles, if you could help us understand?

Satyanarayana Chava: When we mentioned complex and long manufacturing lead times, some of the projects we're doing anywhere between 10 to 20 chemical steps linear. See, these are not yet commercial, so we cannot do on a regular manufacturing. So we have to be very careful in executing these batches. And sometimes our partners also will help us in scaling it up.

What we meant long lead times is executing those complex multi-step synthesis is taking a long time. So when we mentioned at the early of this financial year, the deliveries will happen in Q4, some of the high-value projects. We know that much long lead time is needed, yes, to procure raw material and execute those complex multistep synthesis projects.

Madhav: In a way for the quarter 4 delivery, which we are planning, in some sense production is already happening in batches at our production site even as of right now and then all of those gets sold in quarter 4, something like that. Is that how we should think?

Satyanarayana Chava: No. For some projects, we started production in the month of February itself.

Madhav: And sales for that will be booked in quarter 4, so like after 1 year.

Satyanarayana Chava: No, no. We started in February-March of calendar year, and we are going to bill in January-February next year.

Madhav: Yes, That's what I'm saying. So it's almost like a 1-year cycle to complete the project.

Satyanarayana Chava: Yes. So as Ravi mentioned, you can't do 10 batches at a time like a regular production. So you consume capacity, but utilization is in teens. And once you have inventory for a year, mostly it is paid inventory. So these are the kind of leverage -- deleverages happening in the system right now. But this is what we expected. This is not surprising. When we handle such complex projects, we can't deliver in 1 month from PO. So we need long time. One way it is good. So we're handling complex projects. That means it's good for the organization. We are not doing a very simple chemistry.

Madhav: No, sir, I think it's positive. I mean at least it clarifies why they're going through this period of investment, right, that they're kind of doing these long lead time projects, sir, at least explain some of the financials which you are reporting. And the second question I had was on the margins. Did you mention 20% for the full-year FY '25

Satyanarayana Chava: Yes, yes. That's what 20%.

Madhav: 20% for full-year FY '25.

V. V. Ravi Kumar: That's what doctor indicated before. He has clarified on that.

Madhav: Which means second half, we expect it to be significantly better, right? Because we're at 14%, 15% in first half.

Satyanarayana Chava: Madhav, as you have seen, our margins are healthy. If you do higher sales, I think most of the gross margin will flow into EBITDA, isn't it?

Moderator: The next question is from the line of Bharath Kumar from Quest for Value.

Bharath Kumar: Yes. Sir, in investor presentation, it is mentioned that there are several breakthrough molecules in pipeline for CDMO. Can you please throw some light on these molecules like number of breakthrough molecules, what phase they are in, are they in late phase or not?

Satyanarayana Chava: Actually, our intention is not to give any more details on the clinical phase or therapy category of those projects, I think, until those molecules go into commercial phase, which everybody can monitor from the exports. So until such time, we don't want to give more clarity on that.

Bharath Kumar: And may I know, what is your opinion on BIOSECURE Act? I know that in short term, there would not be much material impact, but do you see any early positive signs like increase in RFQs or increase in pilot projects? And more importantly, how your customers are seeing it? Are they diversifying away from China?

Satyanarayana Chava: So I can give our perspective, but I can't give you the overall industry perspective. What we have seen, there is a lot of customer interest in visiting, engaging with us on the capability, understanding for the large volume projects. But early-stage preclinical and Phase I, we aren't seeing much rush. So there were no increased flow of inquiries for preclinical and Phase I. But there are discussions for Phase II, III molecules, where they want to add a new vendor. Many customers are talking. Existing customers are increasing their pipeline toward us. That's the positive what we are seeing.

Bharath Kumar: Yes. And I see that this FDF revenue is very low in the last 2 quarters. There is a lower offtake in ARV FDF. May I know the reason for this

Satyanarayana Chava: No, it's quite normal. May be we have more deliveries planned in Q3, Q4, but nothing unusual. As I mentioned in my opening remarks, so one of the block went for maintenance and modifications, EHS modifications. So some delay in deliveries in Q2. But we have enough capacity to service the existing orders. Nothing unusual is happening in the ARV, both APIs or formulations.

Bharath Kumar: And my last question is to Ravi. Ravi sir, you guided that net debt to EBITDA would be around 2.5x by end of this year. Do you still maintain the same guidance?

V. V. Ravi Kumar: Yes. Today, we are at INR2,600 crores, so maybe in that range. But actually, as I said little while back, so we will not breach the INR3,000 crores range.

Bharath Kumar: I mean I'm talking about the net debt-to-EBITDA.

V. V. Ravi Kumar: Net debt is between INR2,500 crores to INR3,000 crores.

Satyanarayana Chava: 2.5x, you said. Yes, around that number.

V. V. Ravi Kumar: Net debt-to-EBITDA, we are not committing. I know you will calculate if I tell that EBITDA also, right

Moderator: The next question is from the line of Gagan Thareja from ASK Investment Managers.

Gagan Thareja: Sir, Gilead has issued voluntary licenses for manufacturing of Lenacapavir. You did saw one huge transition from TLD a few years ago. We might possibly see another huge transition in the coming year or so. And you are not one of the licensees of Lenacapavir. Do you see another disruption in the ARV markets in the offering in the coming year or 2 because of this?

Satyanarayana Chava: In the Lenacapavir, currently it is approved as a prep. It is not approved as a treatment yet. So typically, the delta between approval in Europe, U.S. versus bringing that regimen to access markets is 3 years. So no therapy regimen disruptions will happen in the next 5 years. Will Lenacapavir disrupt? And will we be left behind? We don't think so. If you look at the current licensees, some of them have API capabilities, some of them have no API capabilities, some of them have no ARV API experience. So at some point of time, either we will get licensed from Gilead or we will get sublicensed from these manufacturers to make their API. So we are still very hopeful in that front.

Gagan Thareja: No, I get the point that you might be there for the APIs, but for being able to supply the finished injectable formulations, you may not be there unless you have a license. And if the license has been issued, and this is already a marketed brand in the regulated markets with comprehensive trial data available, do you still think that it will take as much time? I would have thought generally issuance of licenses are done only when market formation is on the horizon.

Satyanarayana Chava: We are pursuing our efforts. So today, we don't have a sterile manufacturing facility, and we can't convince anyone to give a license without having manufacturing capabilities. That's the one. So as and when we have sterile manufacturing capabilities, we will approach them because they know that we are a strong player in this ARV space.

When we have capabilities, we'll approach them again. And then there is time for us to do this. We are -- nobody has an API. It is still everybody has to develop. So it is very early stage. There were instances the number of licenses were increased closer to the market formation. So we are pursuing that.

Gagan Thareja: Sure. And on GLP-1, would Laurus be involved in any way in the future? Or is it that, being a peptide, you may not be participating there?

Satyanarayana Chava: I will not comment on that right now.

Gagan Thareja: Are you attempting to develop it in-house?

Satyanarayana Chava: As I mentioned, I will refrain from commenting on that right now. Yes.

Gagan Thareja: Just a final one, what should we consider a sustainable working capital in days terms for Laurus? I understand currently, you're going through a phase where you're taking exhibit batches for your CDMO products and that is toxic, but what should be a sustainable number?

V. V. Ravi Kumar: As you rightly said -- your question has an answer. H1, actually, we have a higher number as an NWC, but March, definitely, it will come down. It all depends in the next few months' time, what kind of orders we are going to have and then what kind of revenue we will be having. But definitely, it will reduce than current number.

Moderator: The next question is from the line of Keshav Shriram Mundra from Guardian Capital.

Keshav Mundra: So I have couple of questions, please. What would be the revenue guidance you would give for the company as a whole for the next year, right? And what would be the revenue guidance you would give for the individual segments? This is my first question. And my second question is regarding the API segment. Like as we have seen a decline in the overall sales, right, what would be the major reason for this? Was this a drop in volumes? Or are we seeing a drop in the pricing -- price for our API products as well?

Satyanarayana Chava: Going back to your first question, except speaking the quality of business for the previous quarters, we are not giving any quantitative guidance. We are only giving very qualitative. So I think we expect to deliver better results in the H2 and also better next financial year. We are only giving qualitative.

Going back to the second question of APIs, API sale coming down because of less API deliveries in the ARV segment and also less sales in the Onco segment. And by the end of Q2, Q3, Q4, I think Oncology sales will go back to growth when compared to last year. And ARV sales will be flattish. We don't expect the ARV sales will grow. It will be very flattish by the end of the Q4.

And we are developing some portfolio of products to grow in API segment. We are not defocusing our efforts gaining market share or putting new products in the generic space. We have almost about 50, 60 products in the pipeline in various stages of development. And right now, we have seen good filings. We have done only 4 DMFs in the last 6 months, out of those 3 non-ARVs. So most of the DMFs what we are developing are in the non-ARV segment. So we expect growth will also come from generic APIs and also maybe integrated offering of doing formulations to our partners. So our generic segment will also grow but may not be as fast as

synthesis because generic itself has its long -- large base right now, whereas synthesis has a low base.

The percentagewise, you will see more growth in synthesis, but quantum-wise, generics will also grow beginning next year.

Moderator: The next question is from the line of Foram Parekh from BOB Capital.

Foram Parekh: My first question is, our EBITDA margin for H1 has been around 14%, 15%. And with the deleveraging being on the cards for the next couple of quarters, so are we sure we would be able to achieve 20% EBITDA margin for FY '25?

Satyanarayana Chava: Yes. That's what we broadly guided, Ms. Parekh. Our current forecast internally is Q3, Q4 looks better. And we expect overall for the financial year, the EBITDA margins will be closer to 20%.

Foram Parekh: With the deleveraging being on cards...

Satyanarayana Chava: As I mentioned, deleverage will be behind us soon. So we don't expect the deleverage will haunt us forever.

Foram Parekh: And my second question is, I see our tax rate has been quite low for this quarter. So is this the same tax rate we should assume for the rest of the quarter.

V. V. Ravi Kumar: You can assume historical one, around 28% is the effective tax rate for H1.

Moderator: The next question is from the line of Yasser Lakdawala from M3.

Yasser Lakdawala: My first question is, since CDMO can be a lumpy business, where late-stage molecules may or may not flow through commercial. So what are the opportunities you are exploring in, say, the generic API space to improve our capacity utilization? And if you could highlight any potential large molecules in the pipeline in the event that we do have large spare capacity

Moderator: Sorry to interrupt sir, please come a bit close to your handset. You sound a bit distant.

Yasser Lakdawala: Sure.

Satyanarayana Chava: So there are a couple of therapy areas, which we believe Indian companies can gain advantage. We started working on those for the last 1.5 years. I will not give you the therapy areas right now until we do a couple of products. We will start gaining some business maybe at the end of FY '26 onwards. One DMF we are going to file maybe in the next quarter, not this quarter, next quarter, for which we have already started seeding.

That's the first indigenously developed large volume API in the therapy segment. Maybe we will give more clarity maybe in Q4 this year. So we have identified the few therapy areas for us to grow. See, we can grow by selling more, but we want to grow by identifying some niche large volume products where India hasn't played a big role so far.

Moderator: The next question is from the line of Sachin from Tara Capital.

Sachin: Sir, last year, also, if I remember, you mentioned that the second half will be significantly better than the first half on the margin side, but we closed at 15% last year.

V. V. Ravi Kumar: Your voice is not clear.

Sachin: So I was just asking that last year also, I think, if I remember correctly, you mentioned second half will be much better than the first half on margins front, but we closed at 15% EBITDA margins. So what gives you confidence that this time we will be able to clock that 20% margin guidance?

Satyanarayana Chava: I think the business mix is going to change. The FY '24 versus FY '25 H2, if you look at our not only business mix, but the quantum of business also will be better from FY '24 to FY '25. So see, if we are saying that our H2 is better, we are already almost a month is over in our H2, so we have reasonable visibility of what products, what quantities we're going to sell and how our margin profile will look like. Yes.

Sachin: And any broader business mix like between CDMO and API and the FDF?

Satyanarayana Chava: I think we expect growth in all segments, not only in CDMO.

Moderator: The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services.

Tushar Manudhane: Sir, just these formulation sales if you could break down into ARV formulation and non-ARV.

Satyanarayana Chava: So we are not adding any capacity to expand our ARV formulations. We are not. And neither API.

Tushar Manudhane: No, no, I mean for the quarter, how much of the FDF sales is ARV and non-ARV?

Satyanarayana Chava: ARV is INR369 crores and non-ARV is INR233 crores.

Moderator: The next question is from the line of Abhishek from Padmaja Investments.

Abhishek: Sir, did you ever think of doing a QIP to resolve the debt issue, like many companies are doing it, like have you given it a thought?

Satyanarayana Chava: No.

V. V. Ravi Kumar: No, we are not thinking in that direction at this juncture.

Satyanarayana Chava: So we are having some stress, but we know that is not going to last long, so we believe we'll be able to weather that situation very easily. Yes.

Moderator: The next question is from the line of Rohit Jain from Tara Capital Partners.

Rohit Jain: In the first quarter presentation, you had mentioned that there was a sequential decline in API because of timing of shipments. And I guess, this time also, you mentioned somewhere that the fall is because of timing of shipments. So how should we think about it? Because I think about 2, 3 quarters back, again, you had mentioned that there was an issue of timing of shipment. So this particular reason seems to be a recurring reason. So how should we think about this?

V. V. Ravi Kumar: Can you repeat your question, please?

Rohit Jain: Yes. I'm saying in the last quarter's presentation, for API growth being down sequentially, you had mentioned that overall sequential decline was due to timing of shipments. And in this call also, you mentioned that some of the fall is because of timing of shipments. About 3, 4 quarters back, you had once again mentioned that some of the fall because of timing of shipments. Sir, my question is that this timing of shipment issue seems to have occurred over the last 2, 3 quarters continuously. So just wanted to understand how should we think about it.

Satyanarayana Chava: See, for non-ARV APIs, the timing changes depending on what customer is, whereas ARV API is not the timing issue, we have taken one manufacturing block for modifications, that disturbed some supplies. We are on track already. This week already the facilities came on track. So we don't expect entire year to have any disruptions in that.

Rohit Jain: No, no. My question was that if last quarter was lower because of timing of shipment issue, then logically benefited from those supplies getting shipped in this quarter, right? But we haven't seen that benefit in this quarter. So I'm just trying to understand how should we think about that dynamic.

Satyanarayana Chava: Maybe we have to take offline.

V. V. Ravi Kumar: You're asking like in the last quarter, we said that there is some timing issue hence there is a lower sale, what happened to this quarter, it's not recovered, right? So there are some like unrecognized revenue even in the second quarter. Actually, second quarter, those sales have been made actually because of the revenue recognition at end of September; the number is much higher than what it was in June, frankly. But your observation is right.

Rohit Jain: So that's what I'm asking, sir. Is this a regular business feature then? Like is this something that happens every quarter?

V. V. Ravi Kumar: No, it depends. Sometimes, if there is more sea shipments, then this problem may arise.

Rohit Jain: And just one more question I had. So I was asking that, as one of the earlier participants asked, the seasonality of our business is such that fourth quarter, we see lumpy sales, and hence, our working capital improves and our debt-to-EBITDA improves. But let's say, if we go back again to the next year, first quarter, second quarter, would it be fair to assume that there would be a deterioration in debt-to-EBITDA and working capital given the basic seasonality of our business that you explained?

V. V. Ravi Kumar: As indicated by Dr. Satya in the previous question, so we are not giving a guidance there, but at the same time, on a yearly basis, we expect a growth. So because whatever investments we've made so far, those going to be turned into returns. So again, I'm just trying to give next quarter 1, quarter 2 how it will be, whether there will be a decline. I don't want to give a comment at this juncture, but maybe in April, we will give a guidance of how the next year will be.

Moderator: The next question is from the line of Samay, who is an Individual Investor.

Samay: So my first question to doctor sir. Sir, it's mentioned in the investor presentation on Slide Number 25, we are following high standard for all our plants. I just want to ask about December 2023, where we are receiving U.S. FDA 5 observations for LSPL plant. I know we acquired this plant, but we did in May 2020, it's a 4-year, and still I don't understand why we are not following same high standard for this plant even it is very small in revenue for us.

Satyanarayana Chava: Thanks for asking this question. So as you are aware, when we acquired that site, that site has an Import Alert. And FDA inspected, and they gave 5 observations. We responded. And today, that site, they have lifted the Import Alert. We have no Import Alert on that site. That is a good sign. So we are working with the agency. We have submitted our responses, and we are very hopeful to resolve that.

Samay: And the second question for Ravi sir. What is our current gross block for FY '25? At the end of FY '25, what would be there?

V. V. Ravi Kumar: From now, actually, if we add at least INR500 crores for the gross block, so it will be around -- it will be INR6,700 crores or so.

Samay: So if I add INR2,000 crores another by next 2 years, so by end of FY '27, we would be around INR8,500 crores.

V. V. Ravi Kumar: No, I was just talking about next year, March '26.

Samay: Yes, By FY '25, we would be around INR6,700 crores, and by end of FY '27, we would be around INR8,500 crores to INR9,000 crores, correct?

V. V. Ravi Kumar: No, I don't know. We have not given any guidance March '27.

Samay: No. last call, I mean, you have said that we will do around INR2,000 crores capex. That's why I said.

V. V. Ravi Kumar: That's correct. That is March '26, right, then and not '27.

Samay: And last question for doctor sir. Sir, I mean, is there any future that we can see any money or profit from ImmunoACT by next by FY '26 or FY '27?

Satyanarayana Chava: See, that company is at the very formative stage. We will do actions at appropriate time. We believe this is not the right time.

Moderator: The next question is from the line of Gagan Thareja: from ASK Investment Managers.

Gagan Thareja: Sir, the capex of INR2,000 crores that you've indicated, can you elaborate specifically how much will go into APIs, how much in CDMO, how much in bio -- in your biocatalysis venture?

V. V. Ravi Kumar: Bio, around INR225 crores, and CDMO will be the major, and then probably FDF another INR200 crores. This is for the CMO. And of course, the rest all will be the CDMO, and API will be lower.

Gagan Thareja: So predominantly, it's going into the CDMO piece.

V. V. Ravi Kumar: Yes. That's correct.

Gagan Thareja: And for the CDMO contracts in agrochemicals, when do you foresee commercial contribution starting?

Satyanarayana Chava: Maybe Q1. Yes, Q1.

Gagan Thareja: And the Animal Health will be starting in second half?

Satyanarayana Chava: Animal will start this year itself for some revenues. Yes.

Gagan Thareja: So I thought last call, we mentioned Animal Health, we should see contributions coming from second half of this year. Are you saying that there will be contributions, but scale will be suboptimal

Satyanarayana Chava: This year, we'll see revenues coming from Animal Health. But next year, also, the projections look good for Animal Health.

Gagan Thareja: So basically, 2 new revenue streams get added up next year, which should, therefore, have a substantial addition to topline for you. And on the formulations business also you have a contract with KRKA. I think you indicated you were doing a joint venture also. How should we think of that business scaling up from where it is today?

Satyanarayana Chava: The JV will have its own facilities in the next 2, 2.5 years. In the meantime, we're adding capacity that will come handy from Q1 FY '26 onwards. We expect some meaningful revenues coming from Animal Health, but not that significant from Crop Sciences right now. Right now, we have 1 contract, we are negotiating other products, other contracts. Validations will go on. So next year, meaningful revenues will come from Animal Health. Some revenues will come from Crop Sciences, but Crop Sciences meaningful revenues will only come in FY '27. And by FY '27, Animal Health will go to an optimum capacity.

Gagan Thareja: Sir, final one, you indicated the formulation sales from ARVs, I think the figure was around INR300 crores -- if I got it correctly around INR300 crores for the quarter?

Satyanarayana Chava: Yes.

Gagan Thareja: Yes. So that's on an annualized basis, almost INR1,200-odd crores.

Satyanarayana Chava: Probably, the H1 is INR369 crores ARV.

Gagan Thareja: So sir, eventually, whenever Lenacapavir comes in, while you participate in the API and you cover for a shift to whatever degree the shift happens to cover for it by supplying the API. But on the formulation piece, you possibly stand to lose out unless you build out a fill-finish facility or a fill-finish line. Is that the correct way to understand it? That in ARVs, while overall sales, I do not know how much will be impacted, my personal perception is that it's going to be a big shift just as TLE to TLD happened. But for you, you can compensate on the API side, but not on the formulation side. Is that a correct way of understanding this?

Satyanarayana Chava: Yes, it's very good question you asked. So currently, our API sale is about INR1,500 crores, INR1,600 crores and INR900 crores is the formulations. It is two-third, one-third roughly in ARV. Will we lose an opportunity if we don't get fully integrated in Lenacapavir by sterile manufacturing. See, Lenacapavir, also a lot of clinical phases happening on the treatment side. The subcutaneous one is the prevention, a prep, whereas the treatment they're coming with the oral versions, not every day, maybe weekly once or monthly twice treatment coming.

And for that, we don't need sterile basically. So I think we are not at a disadvantage right now because we may lose out in the prep space, but the prep is very prominent in the advanced market, not in the access to markets. So we are not at a disadvantage right now. But we are pursuing. We have time to catch up. So it's we don't think shift will happen. Even it happens, we have another 5 years' time to get ready and then take the opportunity.

Moderator: Ladies and gentlemen, that was the last question for today. We have reached the end of our Q&A session. I would now like to hand the conference over to the management for closing comments.

Satyanarayana Chava: Thank you, everyone, for your insightful questions. Thank you, Monish, for hosting this call. Thank you.

V. V. Ravi Kumar: Thank you.

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