“Laurus Labs
Q4 FY 22 Earnings Conference Call”

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

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY 22 earnings Conference Call of Laurus Labs, 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 "*", then "0" on your touch tone 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, Steven. Good morning and a warm welcome to everyone to Laurus' Q4 FY 22 results Conference Call. We thank the management for giving us the opportunity to host this call. Today, we have with us Dr. Satyanarayana Chava, Founder and CEO, Mr. V. V. Ravi Kumar, Executive Director and CFO, and Mr. Vivek Kumar from the Investor Relations Team. I would like to hand the call over to Dr. Satya for his opening comment. Thank you and over to you, sir.

Dr. Satyanarayana Chava: Thank you for joining us for our Q4 and full year FY 22 results Conference Call. I hope and wish everyone and their family members, colleagues, and friends are keeping safe and healthy during these challenging times. We're pleased to have this opportunity to update you on our progress and answer your questions. During the last quarter, the industry faced some interim turbulence on the raw materials front and also availability and cost of solvents. Now with the recent geopolitical conflicts and reemergence of COVID cases in China and elsewhere are posing new challenges. The disruptions in the supply chain and logistics has further increased. We are trying to minimize any disruption to our commitments to customers by expanding our critical supplier base. We're also tracking all of this and would stay agile and force course correction as we execute our commitments. Overall, FY 22 operationally has been fairly resilient where we are stabilized on our sales and profitability was maintained closer to 30% despite headwinds in our ARV API business.

We also believe that it was an important year where we Invested significantly in capacity creation, strengthen our R&D capabilities, built new partnerships in CDMO and steadily delivered on diversification of revenues along with minimal supply chain impact. This was despite lot of uncertainty and disruption in the business environment. During the year, we also successfully forayed into disruptive CAR-T technology by way of investing in Immuno act for a substantial minority stake. This investment should significantly help in bringing innovative and more affordable medicines in this region. We continue to fortify our core to bring more resilience in our business operations to deliver long term sustainable growth and enhance strategic customer value proposition in the coming years. We remain affirmative on our aspirational sales target of a billion in FY 23 and this will be supported by several approvals anticipated and good progress we made in our multi-site capacity expansion across all divisions, including CDMO. Moving on to our financial results for full year FY 22, we achieved INR 4,036 crore with a growth of 3%, whereas Q4 we achieved in 1,420 crore against INR 1412 crore in the corresponding quarter.

Sequentially, we have substantially improved on our revenue numbers across major business verticals as guided in our Q3 call. To begin, I would like to share key updates on our formulation business. The formulation division reported revenues of INR 1,880 crore in FY 22 with 13% growth, whereas INR 491 crore for the quarter with an increase of 14%. The contribution from this division has improved during FY 22 to 38% when compared to 35% in the previous financial year. Coming to LMIC business, we started witnessing gradual stabilization in the demand from various multilateral agencies versus our previous quarter performance, which was impacted due to stocking at various channels, DTG based regimen continues to remain preferred, antiretroviral treatment and believe its use will also increase rapidly in second line, as well as pediatric treatments as the new standard of care. During Q4, we received final approval for lopinavir-ritonavir combination from the US FDA and we have launched that product recently. Additionally, we're awaiting few more products approvals, which should drive growth in the coming quarters.

Laurus is fully integrated player in ARV formulations and we do believe we have fair ability to weather any pricing challenges in the coming quarter. Happy to share that Laurus has signed and will be part of MPP license for Pfizer's oral COVID vaccine, this will increase the

broad access in LMIC markets. Coming to the developed markets, we're observing stable market share for our products. We are not seeing any pricing pressure here. We continue to leverage our frontline presence in the US market with the new product launches. We have filed one product during the quarter and a total of four were filed during FY 22. Our overall filing number improved versus FY 21 and we expect filing pace to pick up during the current financial year. We have received three approvals during the quarter and total five approvals in FY 22. Cumulatively, we have a total of 31 ANDA filed to date. Of this, we have a total of 11 final approvals and 11 tentative approvals so far. In Canada we have 11 products approvals, of which we have launched five products and we intend to launch two more products in the next few quarters. For the European markets we have validated two products as part of our contract manufacturing partnership. We expect a significant upside in FY 23 from these products. In Europe, we have a basket of eight approved products of which we have already launched three products and we'll be launching more products based on the market opportunity. Based on our healthy product pipeline progress we continue to invest in our FDF infrastructure, our brownfield expansion at unit 2 is progressing as per our expectations and is expected to add significant capacity to our FDF operations taking the capacity to 10 billion units. Currently the brownfield expansion is under qualification and will be ready for commercial use before June 22.

On R&D front, we continue to allocate critical resources and invest in portfolio with product specific approach, not the market specific approach based on the complexity and scale economies. Additionally, we are implementing steps to bring more robustness in our overall product development processes. Besides this, we are happy to share that we should be ready to commercialize our sterile R&D unit during this quarter, this is being set up at IKP at Shamirpet. Overall R&D spending to sales for this quarter and full year was at 4% of our revenues, we have a total of 62 products in R&D pipeline, either under development or under validation with an addressable market size of $40bn brand sales.

I would like to share the status of our filings, 31 ANDAs in US ,11 dossier filed in Europe, 17 in Canada, 9 with WHO, 4 dossiers in South Africa and 7 in India apart from 19 products filed in various ROW markets. Of the 31 filed in US we have 15 para 4 filings and 10 plus FTFs opportunities having a sizable market opportunity. As mentioned our approach remains product specific, not market specific. During the quarter, we have successfully completed EMA inspections for our unit two and brownfield expansion also was inspected by the European agency. When we move to give you updates on the generic API, we want to update you on the antiviral ARV front. ARV during the quarter, saw improvement in procurement and sales to other generic companies have grown sequentially, by 47% to almost INR 300 crore, for the full year FY 22, the business reported negative growth of one third, almost 33% due to high base effect while overall demand environment stays softer we remain optimistic about further recovery in the coming quarters, we continue to maintain a leading market share in the current product line, what we sell and also expect to increase our developed market API supplies.

We're also happy to share the onco API reported INR 72 crore sales during the quarter reflecting growth of 16%, Laurus Labs have one of the largest high potent API capacities in India, and we are partly adding new capacities during the next 12 months. We also added a lot of capacity in the previous 12 months as well. Our aim is to strengthen global leadership in some of the existing products by focusing on high potent molecules and increase our market share. In other APIs other than ARVs and onco we have achieved INR 171 crore sales during the quarter, this was supported by new contract supplies. For FY 22 while our growth was muted we believe the segments should return to healthy growth trajectory in FY 23. During the quarter four, we have filed two DMFs, both non-ARV taking the total number of DMF filings to 73 to date and we filed 12 DMFs in FY 22, which is maximum DMFs filed during a financial year in company's history. We also initiated validation of few APIs and expect to see good growth in FY 23 and 24.

We continue to have higher order book visibility in the segment and accordingly we're adding manufacturing capacities to capture this opportunity. When it comes to CDMO business, this business has maintained a solid growth momentum and delivered robust growth and we doubled our revenues by almost 100% to INR 360 crore in the Q4. For FY 22 CDMO business grew very strong over 75% year on year. We continue to pursue several active

projects in the late stage clinical programs and commercial supplies ongoing for core products. On our multiyear supply contract, we executed in quarter two FY 22 the Capex work is on fast track. Additionally, our proposed Greenfield investment to set up a dedicated R&D center for our CDMO division at Hyderabad and three manufacturing units in Vizag under Laurus Synthesis is progressing as per our expectations. New sites for this division will have the capabilities to handle steroids, hormones, high potent molecules apart from large scale products.

The last division on the Bio Segment, the revenues have improved over 40% quarter on quarter to INR 35 crore mainly led by new capacities getting operational. For the full year FY 22 the sales was INR 100 crore, which is a very significant growth, almost 70% compared to preacquisition annualized data of INR 58 crore as we brought more operational synergies and added more capacities to this division. We're also gradually ramping up on the 180,000 L fermentation capacity with our large scale manufacturers. Scheduled expansion at R1 including new R&D block and installing balancing equipment to enhance capacity at R2, this expansion will be completed before September 2022. We're also in the process of acquiring additional land to further expand our manufacturing capabilities to offer CMO services for recombinant food proteins. Our focus on ESG, quality and regulatory compliance to drive sustainable growth and further accelerate on efficiency and pipeline opportunity remains our top priority. This will aid our journey towards our vision and strengthen our core values. 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 on our quarter four and full year FY 22 earning call. The total income from operations was INR 4936 crore a 3% growth and the quarter is about INR 1425 crore against INR 1412 crore reporting a similar number for both corresponding quarters. But of course sequentially, we have grown as we indicated in the Q3. Gross margin improved to full year at around 56%, but of course the quarter four gross margin is slightly lower side, that's because of the solvent price increase substantially in the quarter three that has got affected or consumed in quarter four and the selling price decreased from the ARV supplies and, of course, the product mix also will matter. Our EBITDA for the quarter four at INR 398 crore, it is around 28% margin, for the full year INR 1436 crore with 29%, we have indicated that 30% is our expected margin, it is close to what we have guided.

Our diluted EPS for the quarter is at 4.3 and 15.4 per the full year basis. Our RoCE is at 26.3 and CapEx front for a cash flow we have done about INR 950 crore CapEx in the full year, this is well within the 2-year guidance, rest of the CapEx will be incurred in this current fiscal FY 23. We also want like to update that most of the investment across key projects are on track and of course, if you need, we have provided more details in our investor presentation, you can refer to that. We remain on course to strengthen our position as a cost effective integrated pharma player and we are investing in backward integration efforts in making intermediates creating further API and FDF capacities in the non-ARV infrastructure. Of course, you are aware that we are in a most difficult challenging times, not only on the war side, but also from the COVID front in the China side, we are trying to gear up by using all the techniques to not to have any production losses. With this I would request the moderator to open the lines for Q&A. Thank you.

Moderator: Thank you very much, sir. We will now begin the question and answer session. The first question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Thanks for the opportunity, so just on these selling prices of ARV, if you could just throw some light in terms of on a relative basis over past six months, how much the prices have fallen and what has triggered this price?

Dr. Satyanarayana Chava: The FY 22 sales for most companies which were in the ARV space were significantly lower and everybody has significant inventory, that led to the price decrease both in APIs as well as in the formulations. I can't give you a specific number, but the API prices and ARV prices both were down, around 10%, I would say, I can't give you a specific number, but around 10%.

Tushar Manudhane: Sure, that helps, but with this inventory now getting normalizing business or rather limited scope of these prices recovering, so whatever 10% fall, that is how we probably continue in the going forward basis as well?

Dr. Satyanarayana Chava: Some improvement will come from softening of the raw material prices and solvent prices, but we don't foresee the API prices and formulary prices going up, I think this could be the new base. So we haven't seen any significant price drops from FY 2021 remain constant, FY 22 was the year where we saw a drop, but I don't think FY 23 will have further drop, I think this is going to the new phase and we have seen from Q3 to Q4 and also Q1 we have order books and the prices are at a new base right now, we don't expect prices will go down further.

Tushar Manudhane: And just on your 1 billion target for FY 23 so broadly, will it be like spread out across four quarters or you see more in second half of FY 23, will you throw some color on it?

Dr. Satyanarayana Chava: I think it has to be spread out. I can't give you very specific number, but it'll be evenly spread out, Yes.

Tushar Manudhane: And just lastly with this 1 billion in FY 23, how much of it build up on FY 24 as well or is there any business which will be only restricted to FY 23 out of this $1 billion?

Dr. Satyanarayana Chava: We see a lot of opportunities not just in FY 23, but FY 24 as well. As we build capacities, we are adding lot of customers, lot of approvals are expected. I don't see there will be any one FY 23 for us to reach our target.

Tushar Manudhane: Okay sir, thanks a lot for addressing these questions.

Moderator: Thank you. The next question is from the line of Harith Ahmed from Spark Capital Advisors. Please go ahead.

Harith Ahmed: Good morning, thank you for the opportunity. My first question is on Laurus Bio, so the INR 35 crore revenue for the quarter, so very impressive ramp up there, trying to understand how much of the 180 kiloliter capacities are being used now, so what is the utilization of the new capacities that we have added as of the fourth quarter and then slightly from a long term perspective, from biotech ingredients that we are making now and as we aspire to do fermentation based drugs and maybe therapeutic proteins in the future, the current capacities that we have at Laurus Bio, can we use those capacities for these future products that we would be manufacturing at Laurus Bio and how long will that journey be as we transition from the current set of products, which are largely enzymes to drugs and therapeutic proteins?

Dr. Satyanarayana Chava: I'll answer your question in maybe three parts. One is our 180,000 L capacity is fully operational in Q4 and we are taking up some debottlenecking exercise to add more downstream capacity so that we can utilize our fermentation much better than what we are doing today. So new fermentation capacity will only come by end of FY 24, so significant growth in revenues at Bio can come only in FY 25, despite probably some growth will come because of the debottlenecking of R1 and R2, that is one and second, in the current plan, with the medium term until FY 25, we have no plans to go into therapeutic protein, so most of our capacity utilization currently and until FY 25 will be only in the recombinant food proteins. So we are still having a strategy internal discussions, when and how we will enter into therapeutic proteins.

Harith Ahmed: Okay and then the same fermenters, including the 1 million capacity that we are adding can the same fermenters be used for drugs like statins or therapeutic proteins when we enter those businesses or those are totally different types of reactors that's needed for those kind of products?

Dr. Satyanarayana Chava: The 1 million litre large fermentation capacity what we are creating is for CMO of food proteins.

Harith Ahmed: Okay.

Dr. Satyanarayana Chava: The fermenters for other pharmaceutical intermediates is under discussion with our bio team at Bangalore and that capacity has to be created separately to this food protein capacity.

Harith Ahmed: Thanks, that's helpful, understood that point. Second question is on the CDMO segment and we have talked about three new facilities, which can potentially start supplies from FY 25, so how much of an increase we are seeing in our CDMO capacity, what kind of an increase from the current capacities will happen for the CDMO business when these three new facilities come on stream?

Dr. Satyanarayana Chava: Currently the capacity is shared between the CDMO and general API space. So, as we are seeing lot of opportunities, we are creating dedicated capacities for CDMO, the reactor volume what we're creating for CDMO will be close to start with 500 cubic meter and maybe 600 cubic meters, right and then we have the ability to add more capacity brownfield because the land what we're using for these new greenfield facilities is big.

Harith Ahmed: Okay, so the current 7,000 kiloliter capacity that you're talking about is overlapping between APIs and CDMO, that's the way to think about it?

Dr. Satyanarayana Chava: Yes, you're right, the 7000 cubic meter capacity is shared between the divisions and whatever new capacity we are creating is exclusive to the CDMO division.

Harith Ahmed: Okay, and last one with your permission. When I look at the balance sheet, there's a sharp increase in other current liabilities and I am trying to understand what has led to this and the operating cash flow appear to have benefited from this, so is there something that you can call out here?

V. V. Ravi Kumar: I think the other current liability is because of the higher purchases in the quarter four, so we need to gear up for the higher revenues end of FY 23.

Harith Ahmed: Okay, Yes, I'll maybe take it offline, that's all from my side, thanks.

V. V. Ravi Kumar: Okay, thank you.

Moderator: Thank you. Before we take the next question, a reminder to the participants, please limit your questions to two per participant for any follow-up, may be requested to rejoin the queue. The next question is from the line of Tarang from Old Bridge Capital. Please go ahead.

Tarang: Hello, sir, good afternoon, just a couple of questions from me, one so the $1 billion target in the current financial year, what is driving the confidence for this, I mean, are there some products that are maybe approaching expiry or some one off opportunities in the US, that's number one and number two, it's just a book-keeping question on contract, manufacturing revenues in the formulations business, and how much was ARV as a percentage of total business for FY 22.

Dr. Satyanarayana Chava: As you've seen in FY 22, our ARV/API business is 25% and synthesis business is close to 20%. In FY 23 we expect our divisions will grow, but percentages broadly will remain similar, what it means, that means we have opportunities to grow API business back to healthy growth, formulations, in US, we have a few big launches ahead of us and we are expecting approvals for two products in Europe where our partner, we already signed big contract manufacturing. So the growth is even spread between APIs, formulations and CDMO and bio will also grow, but, that is not going to be a significant portion in overall revenue base.

Tarang: Okay, and how much do you say ARV, formulations plus API as a percentage of FY 22 revenues?

Dr. Satyanarayana Chava: ARV, APIs and formulations are close to 55% of our revenues came fromARVs.

Tarang: Thank you.

Moderator: Thank you, the next question is from the line of Krish Mehta from Enam Holdings, please go ahead.

Krish Mehta: Hi, thank you for taking my questions. So the first one was just the clarification on the previous question on the ARV versus non-ARV business, 55% share of ARV business is the total ARV share in the entire revenue stream, or is it just for API FDF?

Dr. Satyanarayana Chava: ARV, API contributed only 25% in FY 22. See, in FY 16, the year before we went to public, the ARV, APIs contributed 82% of revenue and it was down to 25%. The ARV revenues and API revenues in FY 16 were INR 1,450 crore. In FY 22 ARV, API revenues were INR 1250 crore. So while we remain almost constant on the revenue terms, but the percentage terms went down from 82 to 25, that is the kind of diversification the company went through the last 6 years, whereas our revenues from formulation are zero in FY 16, but in FY 22 we had 38% revenue coming from formulations. So our formulation revenues in FY 16 was INR 20 crore and we did almost INR 1800 crore in FY 22. CDMO revenues were about INR 100 crore and we went up to INR 917 crore in FY 22. That's the kind of diversification what we were talking earlier, and we'll continue to put efforts to diversify the business further by FY 25, as we mentioned by FY 25, our ARV sales, both the APIs and formulations put together should be maybe one third of our revenues, not 55 as in FY 22.

Krish Mehta: Okay. Thank you and my next question was on the synthesis business. So given the billion dollar target on your previous statement, you see the mix remaining broadly similar, so do you see the change in margins with the billion dollar target coming through like a CDMO business or would you guide your margins towards being similar to what we've seen in the last 2 to 3 years?

Dr. Satyanarayana Chava: I think we will be very similar. We don't want to give more precise details, but it'll be very similar.

Krish Mehta: Okay, thank you so much.

Dr. Satyanarayana Chava: Thank you.

Moderator: Thank you. The next question is from the line of Pratik Gupta from Guardian AMC, please go ahead.

Pratik Gupta: Yes, thank you and congratulations for the numbers. I just wanted to know how are we seeing on the forecasting proportion mix for API in the next upcoming year toward API, ARV and other onco.

Dr. Satyanarayana Chava: Our onco APIs, when our revenue base was small, it used to be about 8%, now also it is about 6% of revenues in FY 22 despite the big base. The ARV non-onco were very low in FY 16, our 4% of revenues came from non-ARV non-onco but went up to 10% in FY 22, so that also shows our diversification. We have validated about 12 DMFs filed in FY 22, that was highest in our history and except one all of those were non-ARVs. So we see opportunities for us to do more non-ARV, non-onco revenues from FY 24 onwards. So, we believe we have reached significant optimum level in both the APIs and formulations and ARVs and our growth predominant will come from non-ARVs, both in APIs, as well as in the formulation space.

Pratik Gupta: So it's fair to say that it'll be equally proportioned in the coming quarters or year?

Dr. Satyanarayana Chava: I couldn’t get your question, sir, can you repeat?

Pratik Gupta: Is it fair to say that the proportion will be almost equally, I mean, focus will be more towards the non-onco and non-ARV.

Dr. Satyanarayana Chava: Yes. In the coming quarters and the years we expect the revenue contribution as a percentage wise will come down from ARVs while we maintain the same quantum of business, both in APIs and formulations for ARVs, Yes.

Pratik Gupta: Okay. And my second question is in the presentation, I saw that we are trying to maintain the leadership pipeline in the API segment, so what could be the market share as a whole in US, Europe as such?

Dr. Satyanarayana Chava: Maybe we can take this question offline, we can't give you the specific product share in US, we haven't lost any market share, and we haven't seen any types of pressure in our products what we are selling in Europe and US.

Pratik Gupta: Okay, a small question, sir, an add-on on that. We are seeing the revenue growth to be seasonal in the Q4 for like for three years. so do we say that the business has seasonality or is it just because the growth of businesses is higher in this quarter?

Dr. Satyanarayana Chava: Typically for last several years, our Q4 synthesis revenues were higher because of the bulk shipments happened in the Q4 to suit the production demand of partners, but they are not significant other than that.

Pratik Gupta: Okay, that's it from my side, thank you and congratulations.

Moderator: Thank you. The next question is from the line of Jeevan Patwa from Sahasrar PMS, please go ahead.

Jeevan Patwa: Congratulations, sir on this wonderful set of numbers. I just want to understand, like earlier we were saying that we have $1 billion aspirational target, and then we receive a large order from Global Life Sciences company and then basically in one of the interview you said, $1 billion is not an aspirational target anymore, we will achieve it. So, just want to understand was this order part of your aspirational target or this order has come over and above the target that we were basically thinking of?

Dr. Satyanarayana Chava: See this relationship with the new partner is already there. We got additional orders from the partner. It's not that we have added a new customer during the last financial year. We were talking about this aspirational number almost a year back, maybe 2 years back, not a year. So this is the goal we kept and we are adding products, we are adding capacities. Ultimately we need two things to achieve any targets. One is, do we have capacities, the answer is yes. Do we have products, answer is yes. Do we have the market? I think yes, because of these three things and we are prepared well, so now we are confident to reach our target.

Jeevan Patwa: Okay, and second is this quarter the CDMO sales has been very, very good and I think this included only one month of supply for the new order. So, looks like next year can be pretty big in fact for CDMO so how much you are expecting to close FY 23 for CDMO?

Dr. Satyanarayana Chava: Unfortunately, we can't give you both details, but we can assure you that our focus and commitment, conviction on the CDMO business is giving results and that's the reason we have created a separate entity, we are creating separate facilities for the division because of some long term contracts that we have signed, some opportunities in front of us. So this division is worth watching for everyone including us. So we are investing because of opportunities ahead of us.

Jeevan Patwa: Perfect. The last question, sir, is there any update on the ImmunoACT, I think started human trials, some 6 months back. So any timelines when the results will be out or something?

Dr. Satyanarayana Chava: We expect some results read out during this financial, Yes.

Jeevan Patwa: Okay, thanks a lot, sir, that's it.

Moderator: Thank you. The next question is from the line of Rahul Veera from Abakkus. Please go ahead.

Rahul Veera: Hi, sir, congratulations for the large order from the Global Life Sciences company. I just wanted to understand like what is the potential from this particular molecule, it could be a one off, right? Like, on start of the call you mentioned that after $1 billion it is not going to be any one off in the $1 billion in FY 23, but it seems like something like this could be a one-off. What could be the potential for this molecule in it itself?

Dr. Satyanarayana Chava: Just, I want reiterate, our aspirational target there is no one off revenues considered, just I want to reiterate.

Rahul Veera: Okay.

Dr. Satyanarayana Chava: We can't give you any specific details about the product quantities right now because of the confidentiality issues, we can't give you more details.

Rahul Veera: But also potentially like if I see, like Pfizer has mentioned that they have gone to $22 billion of sales [inaudible]

Moderator: Sorry to interrupt, but your voice is not good, sir, if you can speak closer to the handset.

Rahul Veera: Sure, so I was just thinking that Pfizer has mentioned in its presentation that they're going to do $22 billion Paxlovid sales in CY22. Consider 3% to 4% of our total opportunity size for us, can throw some direction on that, like is it is $100 million opportunity or is it much bigger?

Dr. Satyanarayana Chava: Unfortunately, we can't give any details on our contract product, our pricing, and the quantum of the order also, see we gave what we can give and what we are supposed to give.

Rahul Veera: Okay, fair point, sir, thank you.

Moderator: Thank you. The next question is from the line of Hussain Kagzi from Ambit Asset Management. Please go ahead.

Hussain Kagzi: Hi, am I audible?

Moderator: Yes, sir, you are, please proceed.

Hussain Kagzi: So, so my first question was with regards to CapEx. So I wanted to understand that with huge cost inflation going on right now, so are we seeing that our cost of CapEx what we had guided for is, are we seeing any inflation on that side. So that was my first question.

Dr. Satyanarayana Chava: See, if you look at our several quarter investor calls, the one where we are increasing is our CapEx number. So we were giving lower guidance and increasing it because of the opportunities. So in the last year we were saying for 2 years, our CapEx will be between INR 1500 to 1700 crore and now for next 2 years, we say it is between INR 2000 to 2500 crore. That is the kind of CapEx is there in front of us, but for next FY 23 and FY 24 we may stand anywhere between INR 2000 to 2500 crore CapEx.

Hussain Kagzi: Okay, understood, and, sir on the CDMO side I just wanted one clarification is that as far as my limited understanding goes, the innovator contract so our revenue is dependent on how the molecule progresses from one stage to the another and on the success of the molecule at the innovator's end. So referring to the large contract that we announced at the end of Q2, so how is that structured as in, does it include a manufacturing component as well for which

we'll be supplying or has the molecule already been commercialized? This is with regards to what we announced in Q2.

Dr. Satyanarayana Chava: The molecule is commercialized and we are supplying so there is no uncertainty in that.

Hussain Kagzi: Okay, alright, got it, thank you.

Moderator: Thank you. The next question is from the line of Ritesh Rathod from Nippon India Mutual Fund, please go ahead.

Ritesh Rathod: Yes. Hi, sir, the CDMO contract, would we start contributing from 1Q FY 23 in a normalized way or it would slowly ramp up over FY 23?

Dr. Satyanarayana Chava: It's already supply started and we supply as per the partner demand. We can't give you any more details on that.

Ritesh Rathod: But it won't be like initial stage it would be very low and then eventually second or third stage you'll supply the full quantity, it would be evenly spread out, right?

Dr. Satyanarayana Chava: It'll be spread out, Yes.

Ritesh Rathod: Okay, and on the CapEx side, have you increased the guidance from what you were talking of last quarter?

Dr. Satyanarayana Chava: Yes. We have increased our CapEx guidance by almost about INR 500 to 600 crore than what we were saying earlier because of the opportunities what we are seeing and we want to be ready with capacities to take on those opportunities.

Ritesh Rathod: Okay, thanks, that's all from my side.

Dr. Satyanarayana Chava: Thanks.

Moderator: Thank you. The next question is from the line of Naresh Suthar from SBI Life Insurance. Please go ahead.

Naresh Suthar: Yes, hi, thank you for taking my question, my question is again on margins. If I look at the gross margins, this will be a new base for FY 23 open for quarter four margins?

Dr. Satyanarayana Chava: Quarter four margins were down when compared to the previous quarter or the corresponding quarter for multiple reasons. One is the challenges in solvent pricing, raw material pricing, logistics cost, product mix changes, energy and fuel cost. All those contributed to lower gross margins there.

Naresh Suthar: Like you said ARV the price pressure, which is new base, even solvent prices, I don't know whether it is coming down, so that way this should be the new base for our gross margin?

Dr. Satyanarayana Chava: See the ARV, API sale and formulation sale ARV, we expect little growth, but mostly flattish, so as we increase our revenues from non-ARV, both APIs and formulations, we expect these gross margins to slightly go up from the current base.

Naresh Suthar: Okay, one more question. Can I say quarter to quarter the CDMO business the margins were similar to quarter 3, not asking for actual numbers, but was the margin index segment same versus last quarter, quarter three?

Dr. Satyanarayana Chava: We can't give you segment wise gross margins, but as I mentioned from 52% gross margin in FY quarter four, we'll put efforts to increase it further, but we can't give you more details beyond that, so we don't expect margins to go down.

Naresh Suthar: I asked this question because I just wanted to understand whether the raw material pressure was seen in CDMO business as well?

Dr. Satyanarayana Chava: No.

Naresh Suthar: Okay, thank you, sir.

Moderator: Thank you. The next question is from the line of Tushar Bohra from MK Ventures, please go ahead.

Tushar Bohra: Yes, thanks for the opportunity and congratulations to the management for a much improved set of numbers. First, quick clarification first, so our aspiration in addition to the revenue aspiration is the margin aspiration closer to 30%, is that what was mentioned earlier in the call for FY 23?

Dr. Satyanarayana Chava: We remain confident to achieve that kind of margins, Yes.

Tushar Bohra: Okay, second, the solvent pricing, have we been able to take on some price hikes to compensate or has the pricing started to stabilize or even moderate a bit, any color on the overall raw material pricing as a whole, for this quarter and the coming trend?

Dr. Satyanarayana Chava: We expect the solvent prices and raw material prices will soften further, but currently the weaker gross margin what we reported in Q4 is because of several factors including solvent prices and raw material prices and we expect that will soften further and we will improve our margins from the 52% higher.

Tushar Bohra: So you also mentioned specifically energy cost and logistics cost, any color incrementally on those, and also if anything on the disruption from China, if you can share views on that.

Dr. Satyanarayana Chava: The energy cost is only transient. We don't expect that cost to be there for several quarters. So we may see that challenge for only Q1, then onwards we don't see any energy cost escalation and the other factors, freight costs are higher for not just pharma business for any other business as well and we have no visibility on how and when the logistics will be improved.

Tushar Bohra: Okay, but it would be fair to say that specifically energy cost would have impacted maybe by at least 100 bps, maybe slightly more on the margin front?

Dr. Satyanarayana Chava: We can’t quantify, Tushar.

Tushar Bohra: Okay.

V. V. Ravi Kumar: What Dr. Satya is talking about is quarter one of FY 23 on the energy cost, except the coal cost increase, which got impacted last year.

Tushar Bohra: Okay, sure.

Dr. Satyanarayana Chava: The energy cost is not going into the gross margin, below that, so our gross margin is sale price minus raw material cost. So our energy cost will impact our EBITDA, but not our gross margin, yes.

Tushar Bohra: Right, so actually sir, the overall gross margin if we see, year on year the gross margin has actually been flattish only, but our overall EBITDA margins have come down, so certainly these line items have got impacted, right?

Dr. Satyanarayana Chava: Because of the scale effect.

V. V. Ravi Kumar: Operational deleverage, if you look at what happened, our revenue numbers are similar numbers of last year, but you have an escalation of the costs, those costs that have to be absorbed into the EBITDA, that is the reason you will find the difference on a yearly basis, Tushar.

Tushar Bohra: Sure, sir. Second on the strategy side, so if you could share more color on the sterile R&D and also when we had done this minority acquisition in the ImmunoACT startup, at that time we had mentioned this as being only sort of an investment, but our commentary in this Con Call has been that this is a significant foray for us. So is there a plan to consolidate the stakes further in ImmunoACT or maybe develop this line of business further?

Dr. Satyanarayana Chava: I'll answer first question in the sterile R&D space. So we wanted to be in the sterile space, ours is R&D first approach, so we're putting R&D center for our sterile, and then we have land to set up a manufacturing facility for sterile products. Coming back to ImmunoACT, this is an investment and we have no plans to consolidate and certain part of our profits we wanted to invest in technologies where we don't have expertise like this and we continue to identify such opportunities, but that's not our core strength. So, you know, our core strength is manufacturing and ImmunoACT's core strength is drug discovery, so they will do their portion and we have no ideas to consolidate them or invest in similar lines.

Moderator: Mr. Bohra, sorry to interrupt, but for any follow up may we request to rejoin the queue, please. Thank you. The next question is from the line of Dipen Sheth from Buoyant Capital, please go ahead.

Dipen Sheth: Yes. Thanks for the opportunity, sir I want to kind of raise this question about gross margin change over 3Q to 4Q, in an effort to understand how much of that happened because of business mix change, how much of that was happening because of price erosions and how much of that happened because of maybe a pull up from the higher mix of the synthesis business in the fourth quarter, because I think the outstanding feature of the fourth quarter is that you have delivered more than INR 150 crore incremental quarterly revenues on the synthesis business. Now, normally I would expect that that's a very high gross margin business. I don't know the specifics of your business, but with this kind of a boost, if sequentially gross margins fell from 59 or 58.8 to 52%, despite a huge boost from the synthesis business, there's something about the relative movement of your margins across the four segments that we are missing here. So, I think Naresh did ask this question, but I'm not sure whether I could understand your response. How would you interpret this for us? That synthesis goes up by, you know, from INR 207 crore to INR 360 crore sequentially and there is a reasonably higher contribution from APIs as well, another INR 100 crore of incremental contribution, so was it that margins fell sharply in the API segment, the gross margins again. So how do you reconcile this for us?

Dr. Satyanarayana Chava: In the generic you have to consider both the API, ARV APIs and ARV formulations, both we have been to a new base. So there's the price reduction in both APIs and formulations happen. In non-ARVs we haven't seen pricing pressure, as we increase our non-ARV revenues, not just synthesis, but also non-ARV APIs, non-ARV formulation sales goes up so our margins level will improve further, so we are at a new base in ARVs and ARV price reduction is the major contributor to drop in gross margins and then solvent prices, these are the two major reasons for dropping gross margins.

Dipen Sheth: And, would it not be fair on my part to expect a pull up, countervailing effect as it was from synthesis business ramp up? Is that a fair assumption to make that synthesis is a very good gross margin business and should have pulled up a little bit, the overall cross margins for that matter?

Dr. Satyanarayana Chava: As we mentioned, the margins will move up because the revenue contribution from non-ARV business will go up, that is the reason we expect from 52%, we expect improvement. We can't give you how much we will improve, but there will be improvement.

Dipen Sheth: Alright, sir, thank you.

Moderator: Thank you. The next question is from the line of Surjit Bal from BOB Capital Markets, please go ahead.

Surjit Bal: Thank you for the opportunity, I have just one question about that CDMO business where you have started supplying product which has been commercialized as stated in the presentation. If you could throw some light about your client's product in terms of therapeutic area, the market where it has been launched and how much sales we could expect in say the next 2 to 3 years, and how many suppliers will be there along with you initial, you know, 2 to 3.

Dr. Satyanarayana Chava: See, unfortunately we can't give you any more details on that, pricing our product, our quantities, we can't give you because they are confidential. See that's one reason why people like us, we maintain confidentiality with our partners' products. So generic, we have given enough details because we're able to give, in the CDMO we can't give you any details. It is not our product, it is their product, so we are bound to confidentiality agreement, we are giving gross margins, price reductions, all possible facts in our generic business. We can't give you in our CDMO business.

Surjit Bal: I'm not asking you tell the name of the product or the company or the things, but I need to understand the kind of therapeutic area or the number of people who are supplying these API currently to them.

Dr. Satyanarayana Chava: Unfortunately, we don't know how many suppliers are there.

Surjit Bal: Generally, two to three suppliers will be there in the initial 3 years.

Dr. Satyanarayana Chava: We don't know.

Surjit Bal: Okay, thank you.

Moderator: Thank you. Next question is from the line of Ranvir Singh from Sunidhi Securities, please go ahead.

Ranvir Singh: Yes, thanks for the opportunity and congrats on the good set of numbers, just on revenue aspirations on $1 billion, just I wanted to understand in better perspective. So the growth in FY 23 we are talking about is more than over 50% on YoY, so that would be built mostly on synthesis business, API, or formulation. Can you give some indication?

Dr. Satyanarayana Chava: See one thing all of us need to understand, did this company ever achieve 50% growth in revenues earlier, we have done that couple of times. So even if you look at FY 20 to 21, we have grown more than 50%, actually we have grown in FY 12, FY 13, FY 14 our growth is more than 50%. That means we have the ability to create a base and then grow significantly and if you believe that we have delivered multiple times earlier and we will also deliver this time because of our capacity, what we created, because of the products what we have, because of the order book what we have. So you are right we have to grow more than 50% to achieve our target of $1 billion and we are fairly confident on achieving that.

Ranvir Singh: So it is more towards formulation business?

Dr. Satyanarayana Chava: All segments will grow, formulation will grow, except ARV, APIs and some formulations, all rest of the divisions will have significant growth.

Ranvir Singh: Okay, so for FY 24, can we see a growth over FY 23?

Dr. Satyanarayana Chava: We can't comment right now, so maybe we can ask this question in Q4 FY 23, we'll able to give you some answer.

Ranvir Singh: Okay and just on formulation side, what is our level of integration? How much business is integrated with our own API?

Dr. Satyanarayana Chava: Except one where we have filed by using third party API, all other commercialized, development are based on API. In fact, the one which we use third party API, we don't have any market share.

Ranvir Singh: Okay.

Moderator: Sir, sorry to interrupt, but for any follow up may we request you to rejoin the queue, please.

Ranvir Singh: Sure, thanks.

Moderator: The next question is from the line of Alisha Mahawla from Envision Capital, please go ahead.

Alisha Mahawla: Hi, sir, good afternoon, and thank you for taking my question, just with respect to what the earlier participant was asking with respect to $1 billion revenue target. So, I do believe that we're expecting the two formulations that were to be launched in Europe to contribute. Is it possible to say, are we expecting that in H2 or will we start seeing some of the contribution from H1? And what is the opportunity size that we are targeting?

Dr. Satyanarayana Chava: I can't give you the size of opportunity, but those products will be commercially launched in Q3

Alisha Mahawla: In Q3?

Dr. Satyanarayana Chava: Yes.

Alisha Mahawla: And apart from that on the CDMO side also, apart from the one contract that did start some marginal contribution in Q4, the other one for which we're doing the fast track CapEx, is that also expected to start contributing from FY23?

Dr. Satyanarayana Chava: The capacity what we're adding currently is also about 15% of API capacity we're adding, but that will not contribute to revenue in FY 23, see, we have to grow in FY 24 as well for which we need to create capacity. See, unless we create capacity, how the pharma company will grow, either we have to do acquisitions or create capacity. You know, most of our growth is coming organically by creating capacities in house, so we are putting capacities for our future growth.

Alisha Mahawla: I'm referring to the multiyear contract that was signed in Q2.

Dr. Satyanarayana Chava: Sorry, that we are creating capacity greenfield new site being created, that will be qualified, made up next year, that is, sometime Q2/Q3 next year, we will go commercial, Yes.

Alisha Mahawla: So we are saying mid of 24.

Dr. Satyanarayana Chava: Yes.

Alisha Mahawla: Sorry?

Dr. Satyanarayana Chava: Mid of calendar year 23, that's what I mean.

Alisha Mahawla: Okay, understood and on the onco API side or rather on the non-ARV API side, do we have capacity to continue to grow in that space also?

Dr. Satyanarayana Chava: Yes. We have capacities. We are creating more capacities in high potent.

Alisha Mahawla: But that will come towards the end of 23? The new capacity in API?

Dr. Satyanarayana Chava: Yes.

Alisha Mahawla: Okay. So maybe you can just tell me what is the current utilization level in the API segment?

Dr. Satyanarayana Chava: Full, actually we're running at optimum capacity.

Alisha Mahawla: Okay. So maybe on the non-ARV side growth will come towards the end of the year once the new capacity comes?

Dr. Satyanarayana Chava: Yes.

Alisha Mahawla: Okay, thank you so much.

Moderator: Thank you, ladies and gentlemen, due to time constraint, that was the last question. I now hand the conference over to the management for their closing comments, over to you, sir.

Dr. Satyanarayana Chava: Thank you all of you for giving outside view on what we are doing and these questions will certainly improve our thinking and our strategy to create long term stakeholders value, thank you.

Moderator: Thank you, ladies and gentlemen, on behalf of Antique Stock Broking that concludes this conference, we thank you all for joining us and you may now disconnect your lines.