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LAURUS Labs
Knowledge . Innovation . Excellence

August 01, 2023

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

Dear Sirs,

Sub: Transcript of the Q1 FY24 Results conference call hosted on July 27, 2023

Pursuant to Regulation 30 & 46 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and with reference to our Results conference call intimation dated July 21, 2023, please be informed that the Results conference call for Q1 FY24 was hosted on July 27, 2023 and the Transcript of the conference call is enclosed for information and record.

Thanking you,

Yours sincerely,
For Laurus Labs Limited

VENKATESWAR REDDY GOGIREDDY
Digitally signed by VENKATESWAR REDDY GOGIREDDY
Date: 2023.08.01 14:11:37 +05'30'

G. Venkateswar Reddy
Company Secretary &
Compliance Officer

Encl: As above

“Laurus Labs Limited Q1 FY'24 Earnings Conference Call”

July 27, 2023

MANAGEMENT: **DR. SATYANARAYANA CHAVA – FOUNDER AND CHIEF EXECUTIVE OFFICER**
MR. V. V. RAVI KUMAR – EXECUTIVE DIRECTOR AND CHIEF FINANCIAL OFFICER
MR. VIVEK KUMAR – INVESTOR RELATIONS
MODERATOR: **MR. MONISH SHAH – ANTIQUE STOCK BROKING LIMITED.**

Moderator: Ladies and gentlemen, good day and welcome to the Laurus Labs Limited Q1 FY'24 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, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference has being recorded.

I would now like to hand the conference over to Mr. Monish Shah from Antique Stockbroking. Thank you and over to you sir.

Monish Shah: Good evening, everyone and welcome to Laurus Lab's for 1Q FY'24 Results Conference Call. We thank the management for giving us the opportunity to host the call. Today, we have with us Dr. Satyanarayana Chava - Founder and CEO; Mr. Ravi Kumar - Executive Director and CFO, and Vivek Kumar from the IR Team.

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

Satyanarayana Chava: Thank you everyone for joining us for Q1 FY'24 Results Conference Call.

We are pleased to have this opportunity to update you on our results and answer your queries. During our last call we emphasized on our growing commercial and scientific capabilities along with our customer centricity, which will position us to achieve a sustained future growth.

During the current quarter we have continued to build on it and further advanced our operational excellence as we stepped up application of cutting-edge technologies like Continuous Flow Chemistry, Synthetic Biology and Precision Fermentation. We also executed several value enhancing business development work including our first multiyear commercial contract with a leading Crop science company and deepening our collaboration in cell and gene therapy.

We increased our stake in ImmunoACT close to 34% which will support ImmunoACT with Phase-III trials for their lead candidate HCAR-19 along with expansion of the multi-location GMP facility and scale-up manufacturing of CAR-T. Besides, we also collaborated with IIT Kanpur in in-licensing four patents for three gene therapy programs. And we will also support the clinical activity there. we are also planning to set up a cGMP and vector manufacturing facility at IIT Kanpur. Therefore our team remain fully committed in driving scientific capabilities and delivering on long-term growth of business and efficiency and also allocating resources very efficiently to forward on our transformative opportunities.

During this quarter, our formulation unit, unit-2 received EIR from USFDA.

Financial Results

Moving onto our Financial Results, our Q1 results were very challenging driven by lower revenues and higher upfront cost and also rescheduling of some of the supplies by customers and global ARV agencies.

It is also important to keep in mind that our year-on-year growth was subdued due to particularly strong quarter last year where we had executed a large PO for a big pharma.

As a result of these factors our revenues have declined to Rs. 1,182 crore and EBITDA at Rs. 168 crore with the EBITDA margin of 14.2%. We believe this is a transient and underlying demand for our key growth portfolio remains strong. We believe both our API business and FDF business will return to normal levels from Q2 itself. Our CDMO business improvement is on track along with execution on some very interesting projects and new partnerships.

ARV revenues on an overall basis have incrementally stabilized during the quarter and expect continued strength given our leadership position in many of the First Line Therapy products.

Our cost improvement programs are also progressing as expected. Therefore we are optimistic about our Q2 and future quarters in the current financial year.

Key Updates

To begin with I would like to share key updates on our formulation business. We did Rs. 285 crore of formulation sales in Q1 with the decline of around 18% over last year and sequential basis revenues have dropped by 27%. Mainly impacted by lower demand particularly in the ARVs, this should rebound from the current quarter itself.

While the overall market volumes largely remain stable in the LMIC business. A shift in the procurement timing from global agencies along with continued lower prices led to a fall in Q1 revenues. This is transitionary in nature and expected to be back on track very soon. We remain intensely focused to stabilize ARV business through FY'24 and beyond while navigating pricing headwinds created by the competition.

We have successfully implemented several measures around an expansive portfolio with cost improvement initiatives. And we believe these measures will ensure our market leadership and confidence of sustaining our leadership position in the first-line products both in APIs as well as in formulations.

Coming to the developed market demand for our broader product portfolio remains healthy. In U.S. we continued to get good market share on products and also increasing volumes from the marketed products. During the quarter we filed one ANDA with that cumulatively we have filed 38 ANDAs to date. Of this we have received 15 final approvals and 13 tentative approvals. We

continue to have diverse portfolio and pipeline including Novel 505b(2) products across ARV, cardiovascular, CNS and GI franchise.

In Canada we have 20 filings of those we got 13 approvals which we have launched in nine products. And we intend to launch three more products during the current financial year.

In EU markets we have 15 filings and we got 12 approvals. Out of those we have launched six products. We have continued to deepen our CMO relationship and anticipate more volumes in the current financial year.

Our FDF division continue to operate a total commission capacity of 10 billion units. We anticipate that some of the Brownfield capacities will fully utilize over the rest of the financial year.

On the R&D front the overall spending to sales for Q1 FY'24 was at 4%. We continue to make good progress and invest in portfolio with product specific approach based on complexity and scale.

During the quarter we got approval for an NDA for HIV pediatric oral dissolving film by USFDA. And we are working towards maximizing opportunity by leveraging this ODF platform in other therapeutic areas including HIV.

We have total 55 products in the R&D pipeline right now with an addressable market size of over $40bn.

Status of Filings across Globe

38 ANDAs in U.S;15 dossiers filed in Europe, 20 in Canada and 9 with WHO, and eight dossiers filed in South Africa, one dossier in Australia, and we filed 21 dossiers in India. And 23 products filed in various ROW markets.

Of the 38 ANDAs filed in U.S. we have 16 PARA IV filings and out of those 11 First to File opportunities having a sizable market opportunity.

In the generic API division during Quarter 1, 2024 we achieved a Rs. 597 crore revenue increased by 2% year-on-year but sequential decline by about 16%.

Our antiviral business during Q1 continuous it’s steady momentum and witnessed volume led improvement growing 6% year-on-year and 17% sequentially with the revenues out Rs. 407 crore.

The impact of ARV pricing have slowed down and we continue to maintain a leading market share in the first-line HIV treatment.

Onco API business for the quarter was lower and declined by 13% year-on-year with the revenues of Rs. 54 crore. Sequentially there was a drop of about 60%. This was because we executed a large contract in Q4 FY'23.

As you are aware your company has one of the largest High Potent API capacities in the country. And we continued to strengthen our global leadership in some of the molecules.

In other API segment, which includes cardiovascular diabetes and asthma products, the revenue decreased by 1% year-on-year with the revenues of Rs. 136 crore, the decline was on account of temporary market dynamics and scheduling pattern from our partner.

We are very confident that our underlying demand for our products under CMO order book continue to look better.

In Q1 we filed three DMFs out of those two are in the non-ARV category. With this the total number of DMFs filed to date is 83.

In the synthesis business, company recorded revenues of Rs. 250 crores during Q1 FY24, the revenues declined due to year-on-year comparison given PO executed last year. Otherwise, the baseless business is seeing healthy momentum overall and the project pipeline continues to scale up, with our existing as well as new customers.

We continue to work on over 60 active projects, ongoing commercial supplies for about 10 products, out of those 4 APIs. We continue to execute well on our scientific led approach to customer acquisition and retention. During Quarter 1 we signed a multiyear commercial supply agreement to global leader in Crop Sciences Company. We believe this agreement is a big milestone and the beginning of our journey towards leadership position in Crop Science chemicals as well. With this we have added a new global partner in our CDMO growth strategy.

We are making good progress on new sites for CDMO division, both R&D as well as manufacturing. Our animal health unit was inaugurated during June '23 and commercial validations will begin from October '23. Our animal health site will have capabilities to handle steroids, hormones, high potent molecules apart from large volume products.

Laurus Bio reported Rs. 50 crore revenue in the Quarter 1 with a growth of 70%. The growth was driven by increased uptick in CDMO business and partially booking of certain delayed shipments in the previous quarter. We continue to expand our customer base with a strong pipeline. We are also optimizing our capabilities at R2 with the large-scale CDMO partners. And further expect to complete the downstream debottlenecking during Q3 FY'24. This unit will achieve its peak revenues during FY'25.

Our enhanced technical expertise on biocatalysis is expanding its application in small molecule manufacturing, which is helping the parent company significantly. Progress on our new

Greenfield site R3 is on track and expect expansion happening in a phased manner. This site should further strengthen Laurus Bio capabilities in offering CDMO services in animal origin free proteins and growth factors apart from large-scale biotransformations and fermentation.

With a profound scientific team of over 2400 people, one-third of a total talent works in R&D and quality. We are continuously evolving our R&D platform towards more sustainable technologies to be used in the development and production of small molecules. We continue to implement and operate best-in-class R&D manufacturing quality systems in line with the highest global standards along with comprehensive EHS management.

During Q1 FY'24 the total of 31 quality audits were undertaken including several customer audits. To date since inception, we have successfully passed 89 regulatory audits since 2007 including 44 audits from major global regulatory agencies.

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

V. V. Ravi Kumar: A very welcome to everyone for our Quarter 1 FY'24 earning call.

Total income from operations is Rs. 1,182 crore against Rs. 1,539 crore with a decline of 23%. As Dr. Satya explained the underlying reasons for that and we have more visibility from the second quarter onwards. Gross margin for Q1 came at 50.6%. This is largely due to the product mix change and partly the fall in ARV prices over last year. But whatever savings we are expecting from raw material prices will affect from Q2.

Our EBITDA for Quarter 1 is at Rs. 168 crore with the EBITDA margin of 14.2% because of operational deleverage and the raw material selling price decrease etc. And we are expecting to improve from Quarter 2 onwards based on the order book, RM price stabilization.

Our diluted EPS for Quarter 1 was Rs. 0.5 reporting a decline of 89%. Our ROCE declined to 16% against 21% due to weak operating results and stronger capital deployments.

On the CAPEX front we invested around Rs. 200 crore for the quarter as I referred that for FY'24 majority of the CAPEX is in synthesis and bio divisions. Most of the expansion projects are on track to support our future growth. You can refer our Slide #7 of our IR presentation for more details.

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

Moderator: Thank you very much. Ladies and gentlemen 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: So, firstly on the formulation revenue how much is ARV and how much is non-ARV for the quarter?

Satyanarayana Chava: Rs. 188 crore is ARV and Rs. 97 crore is non-ARV, two-third, one-third, yes.

Tushar Manudhane: And given that the facility being started in November '22 so how do we see the ramp up for non-ARV formulation business?

Satyanarayana Chava: The majority growth in formulations in FY'25 onwards will only come from non-ARV. See we expect a similar trend in the diversification of revenues from formulations similar to APIs, if you look at APIs around Rs. 1,500 crore to Rs. 1,600 crore of API sale is in ARVs, but our oncology, non-oncology and CMO revenue increased in API. Similarly, our formulation also we believe the ARV contribution will stabilize around Rs. 1,200 crore and the rest will only come from non-ARV formulations.

Tushar Manudhane: But the visibility for that would be based on the contracts we receive from the customer or product like ANDA product approvals?

Satyanarayana Chava: We have enhanced our CMO for European customers significantly this year when compared to last year. The volumes have gone up significantly. And we also got a few approvals from U.S. and in Canada, so those volumes are also adding up. So, currently our nominal capacity of FDF is 10 billion. But we are operating at 5 billion right now. It will go up to may be 7 billion by the end of the financial year.

Tushar Manudhane: While we have highlighted consolidation year for FY'24 but given that there has been shift in the procurement by the global agencies and CDMO orders picking up second half. So, just would like to sort of have a reiteration about the sales guidance in terms of whether we will be able to match or there could be some dip in the sales compared to FY'23?

Secondly, given the kind of profitability, which we had from the purchase orders in FY'23, and considering 1Q FY'24 EBITDA margin, how do you look at the full year EBITDA margin for '24?

Satyanarayana Chava: The shift in procurement from the global agencies (ARV overall year they will procure what they committed), is that they shifted from Q1 to Q2, so we will have more sales of ARV formulations in Q2, so that's what we mentioned is that the shift is only transitionary in nature, okay. When it comes to the revenue so we mentioned we will be very close to what we indicated earlier so we are not giving any guidance right now on our revenue numbers.

V. V. Ravi Kumar: Tushar whatever we have indicated as consolidation year there is no change in that statement. In fact, we are at par with our internal targets or maybe we are better than our internal targets for Quarter 1.

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

Jeevan Patwa: I have a question on ImmunoACT. So, we are also starting trials in Dubai and Mexico, right for ImmunoACT Phase-III trials?

Satyanarayana Chava: It's not Phase-III trial Jeevan; the Mexican authorities will do trial in Mexico using the product made in Mumbai. Yes, it is, you can call Phase-II only not Phase-III, not in Dubai; it is only in Mexico, that's the current agreement. But they are working with many other countries to have the similar opportunity, but nothing finalized as yet.

Jeevan Patwa: Okay, because we will be launching as per our timelines we may be launching it in end of '24 and start of '25 in India, right. So, are we going to launch it in other countries as well at the same time line or it could be a little later?

Satyanarayana Chava: No, it is only India.

Jeevan Patwa: And secondly on the Richcore side, so have we order from the R3 capacity, have you ordered for the reactors and fermenters?

Satyanarayana Chava: We are in the process of finalizing, yes.

Jeevan Patwa: But we haven't yet ordered it?

Satyanarayana Chava: No not yet, we will order during this quarter.

V. V. Ravi Kumar: The land was acquired, the registration formality is completed, the other groundwork just began.

Jeevan Patwa: Okay, so once we order I think nine to twelve months will be taken right after we order?

Satyanarayana Chava: I think the facility qualification will start in 18 months from now.

Moderator: Thank you. The next question is from the line of Bharath from Quest for Value Capital. Please go ahead.

Bharath: What is the CAPEX for FY'25?

V. V. Ravi Kumar: Especially the animal health whatever we have capitalized during FY'24 it starts generating revenue even in FY'24 in the second half of FY'24, but in FY'25 it will generate a fully year revenue.

Bharath: I mean my question is about the CAPEX, what is the CAPEX for FY'25, how much of CAPEX

V. V. Ravi Kumar: FY'25 CAPEX we have yet to crystallize actually without crystallization it's not fair on our part to comment, probably September we will, September result we will come back definitely.

Bharath: And my other question is to Dr. Chava, so I think this animal health would be one of the big growth trigger in FY'25. Apart from animal health may I know what else are the growth triggers in FY'25?

Satyanarayana Chava: FY'25, we will start supplying the Crop Science product, later part of FY'25. And some of the projects in the CDMO will move into higher clinical phases so we will get more volumes. And some of the large volume APIs in the generic also will be commercialized in FY'25. So, the growth will come from generic APIs, generic formulations, and AgChem, animal health and also CDMO so we expect as Ravi mentioned FY'24 is consolidation year, we see these investments will start giving good returns next financial year onwards.

Moderator: Thank you. The next question is from the line of Balaji Boina from JM Financial. Please go ahead.

Balaji Boina: And as an investor, from last two years we are dragging in terms of results and that is reflecting in our stock prices. So, any improvements can we expect in the next financial, next two quarter or after six months?

Satyanarayana Chava: See the biggest CAPEX is going on into commitments what we made to do manufacturing at the commercial scale for several CDMO projects. That was the biggest commitment in capital of what we do. And when it comes to improvement as we mentioned we are very sure the improvement will be visible from Q2 FY'24 itself.

Balaji Boina: As a promoter, from the market perspective you are holding very low equity as a promoter. Is there any probability to buyback or acquiring from your end to make it more than 30%, because actually we have a good name in the market saying that Mr. Satyanarayana Chava is maintaining ethical values for the company and as well as employees, that there is a proud of our state. And if you are increasing the stake for the investors point of view it will help to the investor confidence more. Is there any, can we expect anything?

Satyanarayana Chava: We don't have any plans for that right now. See whatever money the company is generating is going into deployment which will benefit every shareholder of the organization rather than few ones, so we have no plans of buyback in the near future.

Moderator: Thank you. The next question is from the line of Madhav Marda from Fidelity International. Please go ahead.

Madhav Marda: My question was on the Crop Science business, the contract which we won so if you could give us some more details in terms of duration of the contract, price of the contract if you can give us some more details that will be very helpful.

Satyanarayana Chava: As we mentioned this is a multiyear contract long-term, it's not one, two years it's a long-term contract. And volumes are reasonable, I would say. And that partner has a lot of portfolio so we have the ability and interest from both sides to work on more projects we can give that much details right now.

Madhav Marda: And basically, this product was being made by the partner in-house which they are now outsourcing or it is being shifted from a different vendor that they were buying from earlier?

Satyanarayana Chava: We can't give you those details right now.

Madhav Marda: Is it a patented product or is it off-patent?

Satyanarayana Chava: Still under patent.

Madhav Marda: And on the CDMO projects, which we are, doing $100 million plus CAPEX this year typically what are the asset turns for the CAPEX

Satyanarayana Chava: See CDMO assets are not utilized fully around the year. So, if CDMO assets are utilized fully round the year the asset turn is very high. But this you can consider may be, I think similar to our API business I would say.

Madhav Marda: I was just asking that you said it's similar to the API but typically what is that, is it 1, 1.5x asset turn we can expect typically in a year from the CDMO CAPEX?

Satyanarayana Chava: See what is happening right now as I mentioned earlier, the CDMO partners are asking us to deliver commercial scale batches for Phase-II, Phase-III onwards, especially Phase-III onwards. So, your facility will be ideal for a reasonable time once you deliver Phase-III molecules, Phase-III volume and wait for significant amount of time. If the block is fully utilized asset turn ratios are over 2 in some cases. In some cases, it is around 1.5 but it is safe to assume at a fully utilized basis for a mix of products we can assume 1.5 asset turn ratio.

Madhav Marda: In CDMO business what is the total gross block that we have invested now excluding what we will be doing this year, like end of FY'23 what was our gross block?

V. V. Ravi Kumar: FY'23 gross block is we don't have any it is a common facilities, the exclusive gross block is Rs. 250 crore, exclusive gross block Rs. 250 crore to Rs. 300 crore, but it is common facilities.

Moderator: Thank you. The next question is from the line of Ranvir Singh from Nuvama. Please go ahead.

Ranvir Singh: On ARV side of business, two queries I have, in formulation side the price erosion what we witnessed has stabilized now or we feel that further scope of price erosion is there looking at kind of competition?

Second question that in ARV API we saw a good uptick in this quarter. Therefore, again we see that is going to sustain or this will remain volatile quarter-on-quarter?

Satyanarayana Chava: The ARV API business we have very good order book and visibility. So, we expect ARV, API sale to continue like that. And your first question of price erosion of ARV formulations, it was very drastic in the last financial year, but now we believe it is very close to stable, yes.

Ranvir Singh: So, my question was in a context that because the new tender cycle has started for formulations. And we expected that gradually we would see the overall revenue moving up. Then two elements here, so price erosion is one, and I believe that volume has also not been witnessing any uptick. So, am I right that volume is also stable and then price erosion that is impacting or it is volume, we are seeing the improvement but it's a severe price erosion which has impacted the revenue there?

Satyanarayana Chava: In the Q4 to Q1 the price erosion is not much. And volume only went up. And we expect similar pricing in Q2, both API as well as formulations in ARV, but Q2 volumes looking much better than Q1 in formulations.

Ranvir Singh: And on margin side, I think I see three elements here, so operating deleverage is one, secondly the price erosion in formulation would have impacted. But on the other hand, we see the raw material prices has also softened that is visible in your gross margin profile also. So, there also I wanted to understand next quarter when we see that most of business vertical we will see a better QonQ growth. Then, regarding raw material prices, do you see that this will also help going forward. So, if any kind of on an annual basis if you could guide the margins that what kind of EBITDA margin we ballpark number we can expect.

Satyanarayana Chava: The raw material price has definitely softened. And we don't expect and we don't wish the prices to go down to unsustainable levels. So, if prices go much below unsustainable levels, some of them will stop manufacturing and then it will have a very bad impact on the prices, they will go up. So, we believe the prices have softened and I think it will maintain at that level.

Moderator: Thank you. The next question is from the line of Harshal Patil from the Mirae Asset. Please go ahead.

Harshal Patil: Just one clarification I need for the oncology and the other API segments where we have got a transient issue in this quarter. So, is it possible to quantify the impact?

Satyanarayana Chava: No.

Harshal Patil: But we are quite confident of it getting rebounced into Q2 onwards?

Satyanarayana Chava: That is based on order book and visible demands we have.

Moderator: Thank you. The next question is from the line of Devvrat Mohta from Capital International. Please go ahead.

Devvrat Mohta: Can you just walk us through, you know you called out the reasons for why margins fell so much this quarter, can you I mean without specific numbers can you just walk us to whatever levers for margin can improve Q2 onwards?

V. V. Ravi Kumar: Devvrat one is, ARV FDF uptick is lower that is one reason and then because of that operating deleverage took place. And the CDMO business is of course when we compare to the last year Quarter 1 this is much lower, these are the two reasons and then selling price is also whatever it impacted in the first quarter, especially one or two APIs, the selling price benefit has not been there, sorry raw material prices decreases not been affected in the quarter 1, that will be affected in the second quarter. These are the three reasons for the decline in the EBITDA margins.

Devvrat Mohta: And what drives the improvement as we go forward, because I mean again next quarter if you look at next quarter if ARV formulation revenues pick up and CDMO I mean you are saying improvement is really second half onwards. So, I mean the mix is again adverse right, there has been more ARV versus CDMO in the next quarter, so what is the confidence that margin will improve from where we are today. So, what gives you confidence that margins will improve from where we are today?

V. V. Ravi Kumar: ARV FDF we have an order book actually for the entire second quarter and we will be doing better in the ARV FDF #1. #2, Oncology also it is going to go up. #3 The overall volume we are expecting to go in the second quarter. These are the three reasons; #4 is whatever be the raw material prices softened all these raw materials will be utilized in majority of the second quarter, I don't say entire second quarter, but majority of the second quarter. These are the reasons we are expecting the margins will improve in the second quarter onwards.

Devvrat Mohta: One more question with regard to the animal healthcare, when does that contract starts contributing from a meaningful revenue contribution perspective?

Satyanarayana Chava: From the second half of FY25. So, with the second half of FY24 commercial validations will start Devvrat and then supplies will start from second half of FY25.

V. V. Ravi Kumar: But FY25 you will have a more meaningful, full year revenue, Devvrat.

Devvrat Mohta: But do you think second half FY24 itself revenue starts coming though but the full blown impact is FY25?

V. V. Ravi Kumar: Yes correct.

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

Nitin Agarwal: Two things, one is on the CDMO business now we have three verticals in CDMO, we have human health, animal health and Crop Protection. Typically crop protection margins are much lower as we have seen in some of the peers group as well. So, is that the right understanding that our margin mix is going to change in CDMO once we have a larger share of Crop protection coming through?

Satyanarayana Chava: See we are not in the Crop protection B2C, it's B2B our margins are similar to other CDMO projects.

Nitin Agarwal: So, I guess whatever margins you are making right, you used to make in human health you are saying the same margins are applicable even for the larger volume contract which are there in CAR production?

Satyanarayana Chava: See current contract what we have signed is mid volume, we have to experience if we have sign a very large volume how the margins look like. But the current product which we have signed is a complex chemistry so margins are good. It is not a one step or two step but it's a multi-step synthesis so complex chemistry so margins are good.

Nitin Agarwal: If you were to look at maybe two to three years down the line when all of these three streams are, firing is there a broad sense you have in terms of the mix that could be there for us in terms of verticals in the CDMO business.

Satyanarayana Chava: Definitely in the order of revenues we can say human health, animal health and Ag-Chem.

Nitin Agarwal: And last bit on this, we are currently about Rs. 250 crores thereabouts for quarter on the human health CDMO business, and I guess. Where you see that this piece of the business scaling up over the next two to three years? What kind of projects or any color if you can give us, the possibilities which are there in this part of the business?

Satyanarayana Chava: Just I want to correct one statement, here in the CDMO our Rs. 250 crores I want to mention that the entire thing came from human health. It is the combination of many other, many segments. You see we are not giving segment-wise revenues in our CDMO, it will confuse everyone. So, maybe at some point in time, when all the things become very big, we will give, but otherwise we are not fragmenting our synthesis revenues segment wise.

Nitin Agarwal: So, just coming back to the human health opportunity as you see in your pipeline right now how should one think about this opportunity over two-to-three-year time period?

Satyanarayana Chava: Which one in that?

Nitin Agarwal: Human health.

Satyanarayana Chava: Very good, we are very bullish on that, yes.

Nitin Agarwal: And is it possible if you can give us a sense how many molecules do you possible see getting commercial in the space over the next two to three years?

Satyanarayana Chava: No, we would like to differ answering that question actually.

Nitin Agarwal: And lastly on the other API segments again taking a two-to-three-year view of the business, what would be the driver, we have done very well in the business over the four to five years in terms of the way we have scaled it up. I mean is it getting to a side where incremental growth is going to be a little more tepid or do you see opportunities to grow this business at the rate you have grown the business in the past and what will drive it?

Satyanarayana Chava: I think it all depends on how many new partners we will bring into that CMO space. See currently we have done very well with one partner and we have added another one. Portfolio is increasing and we are talking to third one to add. So, we expect it will grow, but it is very difficult to quantify what could be the growth.

Nitin Agarwal: And apart from the CMO partners any other drivers for this business? Earlier you talked about entry into diabetes, cardiac and those products scale up that will drive up the business?

Satyanarayana Chava: I think our CMO approach in generic APIs and formulations is okay, we are not doing Potent formulations but when it comes to APIs we are doing Potent and non-Potent all. So, there is no therapy preference for us.

Moderator: Thank you. The next question is from the line of Kunal Shah from Carnelian Asset Management. Please go ahead.

Kunal Shah: I had two questions; one question was on borrowings so as on 31st March 2023 we had about Rs. 600 odd crores of borrowing and we plan to do another Rs. 1000 crores of CAPEX in the current year. So, how should we look at this borrowings figure in the current year?

The second question was on the expenses part, so you did articulate when explaining on the margin front that since our revenues have kind of went down, the EBITDA margins have kind of compressed due to the operating leverage part. So, just wanted to understand now we will have animal health CAPEX of the CDMO front to start in the second half, so how should we look at the employee expenses and other expense which is about Rs. 160 odd crores quarterly right now employee and other expenses at about Rs. 270 odd crores right. So, how do we see this moving ahead?

V. V. Ravi Kumar: First question see we already indicated even in the last call; our net-debt is going to increase by March 2024 maybe by Rs. 300 to Rs. 400 crores, but again start declining from FY25, that is one.

Second on the expenses part, some of the likes of animal health is already some of the employees or maybe most of the employees required for the completed production block is already been engaged. But we will recruit more people in the second half. So, you are right the expenditure on account of manpower will increase in the second half. But most of this manufacture are at the ground team maybe in the bottom three layers so we are not expecting too much of an increase there.

Kunal Shah: But you would want to guide some amount to have a better understanding for the whole year that would come up in the second half on account of employee addition?

V. V. Ravi Kumar: No we have not disclosed, but if you are particular be in touch with Vivek, he will provide you.

Moderator: Thank you. The next question is from the line of Aditya Khetan from SMIFS Institutions. Please go ahead.

Aditya Khetan: The FDF business is witnessing de-growth from the last five quarters. So, what gives you confidence that it will improve from the next quarter?

Satyanarayana Chava: So, we have order book, so that's the reason that it will improve, yes, your observation is right. In FDF the growth is bumpy, but we expect some stability will come.

Aditya Khetan: So, weakness in numbers in first quarter so we have given a guidance of consolidation for the full fiscal so can we assume that on top-line basis we would be almost flattish for FY24?

V. V. Ravi Kumar: Yes, that's what we are expecting.

Moderator: Thank you. The next question is from the line of Anirudh Shetty from Solidarity Investment. Please go ahead.

Anirudh Shetty: I had two questions around our CDMO business, the last two years has been a bit of a topsy-turvy period wherein it is also given as an opportunity to do projects that really push us to the next level. So, can you just share some of the strengths around our CDMO business, what makes us a unique player compared to the other CDMO players? Where do our strengths lie?

My second question is there are other players in the CDMO business that don't do formulations, because they believe that it can either create conflict of interest or a perception of conflict of interest with the innovator, customers. So, how do we manage that given that we do both formulations and CDMO?

Satyanarayana Chava: The conflict we are managing very well, because we are not filing any more Paragraph IV filings with the partners with whom we are working, that is one conflict management we did. And second, with whom we are working they haven't expressed the concern so far. So, with the partners with whom we are working they never talk to us expressing their dissatisfaction that we

are in formulation. With some we are doing some of their formulations work also now. Actually we are expanding our offering from API intermediate to API, API to some formulation work. So, we are moving up in the value chain because of having formulations capabilities.

Anirudh Shetty: And my first question around what makes our CDMO business a differentiated business

Satyanarayana Chava: The differentiator is our R&D strength where we have well over 1000 people and our ability to do biocatalysis at scale we have one of the largest hydrogenation capabilities in the country. And the ability to deploy large reactor volume at a short notice, ability to allocate technical resource at a short notice, these are our differentiators.

Anirudh Shetty: And if you are comfortable sharing in our CDMO business today how much would be business from commercial molecules and how much would be more early stage?

Satyanarayana Chava: We gave number, we have over 10 commercial projects, out of those four APIs, that's we are giving but we are not giving break up of revenue coming from those commercials.

Moderator: Thank you. The next question is from the line of Sajal Kapoor an individual investor. Please go ahead.

Sajal Kapoor: I have just two questions, 1) Once a novel molecule during the clinical phase becomes commercially successful, the same team of scientist can support a new project right. So, to grow five times on the current CDMO base we need not double our scientists?

Second question is on Laurus Bio, the design and construction of R3 will take all the learning our R2 downstream debottlenecking that's my understanding. So, we should expect a relatively smoother/faster ramp-up when R3 goes commercial.

Satyanarayana Chava: I think you have put a very valid point, our learning from R2 debottlenecking will certainly help R3 design which we have done keeping those in mind. The one challenge at R2 was availability of land; so we have overcome that by taking an adjacent piece of land for debottlenecking, that problem was not there in R3, R3 is a 27 acre site so we are designing it very well keeping the challenges what we faced at R2.

Sajal Kapoor: And on the CDMO side Dr. Satya to grow five times current days we need not hire or we need not double the scientific days because once a project is either failed supposed commercial the same set of scientists can pick up the next available project right?

Satyanarayana Chava: You are absolutely right. So, to grow our CDMO we need to add capacity, not scientific staff more. We need to add some, but not in the same arithmetic proportion, yes.

Sajal Kapoor: And finally on this CDMO Slide #13 you mentioned solid outsourcing trend, please can you shed some light on the indicators that lead to such bullishness, is this on the expectation of supply

chain risk mitigation coming from innovators where they are shying away from staying overly committed to a single country or a single organization for their entire basket of CDMO projects or is this bullishness backed by innovator commitments and contract?

Satyanarayana Chava: It is on the visibility on the number of projects we are talking. See earlier our growth in CDMO came from, we started with Phase-I went with the program Phase-II, commercial and all now off late we are getting opportunities when the molecule is in Phase-III sometimes even when they filed NDA they are coming and trying to add us as additional source. So, that is because of derisking definitely.

Sajal Kapoor: And finally, this new ARV synthesis filings they kick off in second half so is that the reason we are stopped using the old synthesis process, because it wasn't cost effective and the new filing or the new synthesis route is cost effective and that will kick in from second half of this fiscal?

Satyanarayana Chava: It is not new synthesis routes; it is only process scale optimization, solvent recovery optimizations and lower RMC prices. We are not changing processes, that will be very lengthy approval timelines.

Moderator: Thank you. The next question is from the line of Darshil Zaveri from Crown Capital. Please go ahead.

Darshil Zaveri: I just wanted to ask about, now we see better results going forward with Q2, so would we say the margins that we have done last year in Q2/Q3 or how would the margins progression be, will it be an easier growth or would we be able to just jump back to the margin that we have?

Satyanarayana Chava: Going back to healthy margins of 28% to 29% we will need not just this year maybe we will achieve during the next financial year.

Darshil Zaveri: Not 27% or 28% but maybe from 14% could we see a movement towards 24% and then maybe next year 28% of how would it workout?

Satyanarayana Chava: It will gradually go up, yes. See if you look at why we are saying that, our margin is not impacted, our sales were impacted, our gross margins are around 50%. Our sales was impacted that has impact on every key metrics.

Darshil Zaveri: So, with better volumes you will be able to see better margins.

Satyanarayana Chava: Yes.

Darshil Zaveri: Do we see any threat or risk other than the normal business risk or something specific that we might be on the lookout?

Satyanarayana Chava: See all our facilities are regulatory inspected, there is no regulatory risk. So, we have good visibility of orders in ARV, APIs and formulations. So, we believe the risks are minimal, so we can't say risk is zero, the risks are minimal.

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

Tushar Bohra: Starting with your introduction we see a lot more emphasis on gene therapy and immunoACT, there is also this crop protection contract we have signed. So, increasingly we are seeing efforts now starting to become intense on the need to diversify from ARV and the traditional areas you were working on.

Can you just throw some qualitative light and maybe some milestones to look out for over the next say three years. On the different areas that you are working on including maybe immunoACT and gene therapy itself maybe on flow chemistry, fermentation-based products. There was in one of the calls talk about your efforts on injectables or you are looking out for injectables, just to understand the bridge from where Laurus is today in say three years' time where we would be from a therapy and area of work perspectives.

Satyanarayana Chava: If you look at our Investor Presentation Page 15, we clearly put transformation what we have done in the last 5 years. In FY18 73% of revenues came from ARV both APIs and formulations. In FY23 37% of revenue only came from ARV, APIs and formulations. So, that's a big transformation. So, when we initiate any transformation activity we also need a lot of gestation period. And going back to your question, what are the areas which will drive our future growth will definitely come from our CMO, generic API and formations, CDMO and Laurus Bio, these will drive our growth.

Tushar Bohra: This is like something that's already understood. What I am trying to understand is let's say within Laurus Bio what are the initiatives being taken today qualitatively what areas you are focusing flow chemistry you have mentioned, so what exactly are you looking at, something on those lines, maybe a bit more granular and not speaking to generic API and CDMO kind of things?

Satyanarayana Chava: In the CDMO space as we mentioned and few of our investors also asked questions our animal health, Ag chem space and human health advance clinical programs will give lot of benefit, in the Laurus Bio we are expanding capacity to cater to precision fermentation, we are also getting into terpene space, we are also planning to get into media space there. So, there are several initiatives in CDMO, yes.

Tushar Bohra: And in flow chemistry?

Satyanarayana Chava: Flow chemistry we had two flow chemistry commercial machines installed at Vizag. I think that will continue to help. See what is happening in overall reaction schemes right now, we have a

one flow chemistry in out of 10 reactions. So, unless we have flow chemistry capabilities we cannot take up the entire project. Similarly, biocatalysis, if you are doing 10 chemical steps for a program one biocatalysis, one continuous flow or two biocatalysis, two continuous flow. So, those are the capabilities helping us to get customers attracted towards us in providing manufacturing.

Tushar Bohra: And on immunoACT though we are now at about 34%, the idea is to consolidate this eventually? And does this also mean that you are looking at CDMO projects in this space maybe, what is the ambition for this segment?

V. V. Ravi Kumar: Right now no plans Tushar.

Tushar Bohra: You mentioned on the CMO activity on combinations that you are moving up from APIs to formulations. If we could understand what kind of projects are we picking up and what is the potential and is this also, is this maybe to sort of scale up the large capacities or is there an element of specific capabilities at play, that are helping us get high margin CMO activity?

Satyanarayana Chava: You are asking, CMO generic formulations?

Tushar Bohra: Yes.

Satyanarayana Chava: Last year we did close to a billion units, this year that number may inch closer towards 1.5 or 1.6 billion.

V. V. Ravi Kumar: If you have any questions let's take it offline.

Moderator: Thank you. The next question is from the line of Rishabh Shah from Dalal & Broacha. Please go ahead.

Rishabh Shah: My concern would be that in the ARV business, which declined last quarter. So, one of the reason for the dip in ARV business is because we did not have procurement of ARV intermediates by global agencies. So, this quarter where do we stand now? And over the course of time in FY24 how do we expect the business coming from global agencies regarding the ARV intermediates?

Satyanarayana Chava: It's looking very healthy right now, so both API front and formulation front looking very healthy. The only challenge what we had last year was the pricing erosions, so this year we expect price erosion will not happen.

Rishabh Shah: Can you share any ballpark numbers regarding this?

Satyanarayana Chava: We shared the API sales around Rs. 400 crores ARV and about close to Rs. 190 crores formulations and about Rs. 600 crores of Q1 sales came from ARV, APIs and formulation put together.

Rishabh Shah: Other than pricing improvement, there is no specific improvement for getting orders from global agencies?

Satyanarayana Chava: See we have more supplies planned in Q2 than in Q1 we can give that much guidance.

Moderator: Thank you. Ladies and gentlemen that was the last question for today, I would now like to hand the conference back to the management for their closing comments.

Satyanarayana Chava: Thank you investors for asking very insightful questions. And want to thank Monish for hosting this. And want to thank everyone for your active participation. Thank you.

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