“Laurus Labs Limited Q3 FY'21 Earnings Conference Call”

January 29, 2021

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY'21 Earnings Conference Call of Laurus Labs Limited hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nikhil Mathur from Ambit Capital. Thank you and over to you, sir.

Nikhil Mathur: Hi, good morning, everyone. On behalf of Ambit Capital, I thank the Laurus management for giving us the opportunity to host their Q3 FY'21 Earnings Call. Today, on the call, we have Dr. Satyanarayana Chava -- Founder and CEO; Mr. V V Ravi Kumar – ED and CFO and Mr. Monish Shah from Investor Relations. I now hand over the call to Dr. Satya for his opening remarks. Over to you, sir.

Dr. Satyanarayana Chava: Thank you, Nikhil. Thank you, everyone, and a very warm welcome to our Results Conference Call for Q3 & 9 Months of FY'21. I hope and wish everyone and their family members and their colleagues are safe during this pandemic.

During this pandemic, our manufacturing units, R&D center and corporate office have functioned normally and during this quarter. At Laurus, we are committed to protecting the health of our employees and their families. We continue to implement rigorous safety and hygiene measures across all functions without any complacency. I'm very thankful to our colleagues for rising to this challenge and ensuring business continuity successfully. Our Q3 revenues stood at Rs.1,288 crores, showcasing a robust growth of 76% year-on-year for the quarter and 71% for nine months of FY'21 year-on-year. We're also glad to mention that our revenue growth was driven by robust demand for several key products and not driven by COVID-19 related stocking. EBITDA margin was robust at 34% despite withdrawal of export incentives by the government and high logistics cost during this crisis.

To begin with, I would like to share the key updates on our growing formulations business. Formulations division achieved Rs.430 crores sales in the quarter, showcasing a growth of almost 50% year-on-year. During the nine months of FY'21, this division achieved sale of Rs.1,234 crores. The revenue contribution from Formulations segment is about 36% for nine months, as against 28% in FY'20.

During the quarter, we got approved for a triple combination product containing Tenofovir Alafenamide, and we are in the process of obtaining in-country approvals, and we expect to launch this product in the first half of next financial year.

Apart from the LMIC business, we have also seen growth in developed markets of North America and EU. To leverage our marketing front end in the US business, we commenced the marketing of in-licensed products, products developed and manufactured by our business

partners. Out of five in-licensed products, two are launched, and we will launch the remaining three products during the Q1 FY'22. We added a total of nine final approvals and nine months tentative approvals out of 26 ANDAs filed so far. In Canada, we have six product approvals, of which, four were launched, and we intend to launch the remaining two very soon.

As far as the EU business is concerned, we have validated an additional two products as part of our Contract Manufacturing Partnership. We expect a significant upside from these products from FY'23 onwards. We also obtained approvals for five products in the EU region, of which we launched two products and we will be launching the others very shortly.

We continue to invest in our FDF infrastructure. Our debottlenecking exercise of existing capacities is on course and this capacity will be available for commercial manufacturing by end of the Q4, although with a delay of a few months. Our Brownfield expansion project in FDF on the same site with similar capacities will be operational in a phased manner from August 2021 and will be fully operational by end of FY'22.

On the R&D front, we continue to invest in our FDF business. Overall R&D expenditure across all divisions as a percentage of revenue stood at 4% for the nine months of FY'21. So far we have filed 26 ANDAs in US, nine dossiers in Europe, 12 in Canada, eight with WHO, two dossiers in South Africa and two in India, while we have filed several products across rest of the world. Out of the 26 ANDAs filed in US, we believe two are P4s and seven are potential first-to-file and P4s. And we would like to reiterate that our approach remains product-specific rather than market-specific.

When come to our Generic API business, our Antiviral API business recorded a very healthy growth of more than 160% for the Q3 FY'20 with Rs.568 crores sales. And in the first nine months of this financial year, we almost surpassed the total ARV sales of the entire financial year '20. The growth led by higher volumes of all key first line APIs. Second line ARV APIs continue to see healthy sales in Q3 FY'21. Due to the demand increases from third-party API sales, we are expanding capacities for key APIs in the coming 12 months time. We expect to maintain sales at this level in the coming quarters.

When it comes to oncology APIs, the segment recorded growth of 36% quarter-over-quarter. Onco sales declined by 25% from Q2 to Q3 due to higher offtake of few APIs based on approvals by a few customers.

I would also like to mention that we are one of the largest high potent API capacities in the country, and have plans to expand high potent API manufacturing capabilities in unit-IV as well. We expect reasonable growth in Onco business in the coming quarters as well.

In the other APIs, our sales remain flat from Q3 FY'20 to Q3 FY'21. But for nine months, we achieved a sales growth of over 45%. The sluggishness in the segment in Q3 was due to changes

in delivery schedule from some customers. We have initiated discussions with one of our key generic partner for contract manufacturing opportunities where we have several APIs, and we expect to build a dedicated block to accommodate these generic API contract manufacturing. We are also creating a lot of capacity for non-ARV APIs.

When it comes to Synthesis business, we recorded a growth of 60% from Q3 FY'20 to Q3 FY'21. In the nine months, we have achieved Rs.343 crores sales.

As you're aware, we have incorporated another step down wholly-owned subsidiary Laurus Ingredients Private Limited during the Q3 FY'21. As we're expanding the manufacturing infrastructure for this division, this new subsidiary will focus on few core areas under consideration.

Construction activity initiated at the proposed dedicated synthesis R&D at Genome Valley, close to our current R&D center. A new manufacturing site for this division will also be a Greenfield project at Vizag, which will cater to the manufacturing needs of the division for the next four to five years. We are in the process of acquiring land for this division, and this site will have capabilities to handle steroids and hormones, high potent molecules apart from large volume commercial products.

We're also happy to share that we acquired majority equity in Richcore and the company will be renamed as Laurus Bio. Laurus Bio is on course to commission large scale fermentation capability during the Q4 FY'21, and we are confident of achieving growth as outlined earlier during the acquisition. We're also acquiring additional land for further expanding manufacturing capacities and capabilities for Laurus Bio.

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 everyone on our Q3 & Nine Months FY'21 Earnings Call. Total income from operations for the quarter was Rs.1,288 crores against Rs.730 crores, showing 76% year-on-year; Rs.3,400 crores Rs.1,993 crores for nine months with a growth of 71% with a better product mix, gross margin improved from 51% to 55% on Y-o-Y basis for the quarter. Our EBITDA is 34%. Diluted EPS per quarter is at 5.1, not annualized basis, showcasing more than 250% growth over Q3 FY'20. Diluted EPS for nine months is Rs.12.8, not annualized. Our ROCE improved to 40% on an annualized basis due to operational leverage. On the CAPEX front, we invested around Rs.433 crores during nine months of current fiscal. We have incorporated fully-owned sub step down subsidiary for our Laurus Synthesis Private Limited named Laurus Ingredients to take care of certain special projects in CDMO business.

To strengthen our position as a cost-effective integrated player, we have invested in backward integration for one of our ARV products and which was operational in January '21. We acquired

a land for FDF site in Hyderabad. We are in the process of acquiring an additional site for our API and Synthesis division.

Based on the performance of the company, the Board of Directors declared a dividend of 40 paise per share of Rs.2 face value, that is around 20%.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Tarang from Old Bridge Capital. Please go ahead.

Tarang: Three questions from my side. One, sir, just wanted to get your bits on, how's the TLE to the TLD transition happening in the ARV market? And how are you hedging your business against this transition? That's one. The second is, we look at your ARV API business revenues, and even in Q2, we saw a significant gain in market share, and we see a significant gain in Q3 as well. The sense that we got in Q2 was because of you being a tier-one supplier, customers preferred you over the others. So is that the same reason which is driving your market share gain or there's something more to it? And the third, if you could give us a sense on the geographical split of your nine month FY'21 FDF revenue between LMIC and non-LMIC.

Dr. Satyanarayana Chava: The shift in therapy from Efavirenz to Dolutegravir came in to our benefit. While we continue to increase our market share in Efavirenz and its intermediate, we also continue to sell significant volumes of Dolutegravir as part of third-party API, and also, majority of our formulations sales are coming from TLD and some sales are coming from TLE. As you are aware, there are only three approvals for TLE whereas there are nine approvals for TLD. So we continue to have advantage in TLE, while we capture more market share, and we continue to retain the market share what we have achieved in TLD. And when it comes to the revenue split from LMIC versus North America and EU, as we explained earlier, the split is three-fourth and one-fourth, about one-fourth of revenue came from advanced markets and three-fourth came from LMIC. ARV APIs, we are adding more capacities to meet our demand. Surprisingly, our order book for ARV API was much bigger than at the beginning of Q2FY21 to beginning of Q4FY21. So we see a lot of uptick in the demand for APIs. That could be because of our scale, because of our quality compliance and sustainability, we are getting a lot of traction and high demand for our key first line APIs. If you look at our Q3, we have done Rs.568 crores ARV API sale. We are confident to maintain that in the coming quarters.

Moderator: Thank you. The next question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

S Padmanabhan: My question is to understand the correlation between mix and gross margin. Again, despite of MEIS and if you look at it on QoQ basis, ARVs being higher this quarter, our gross margins

have kind of improved, does that mean the frontline combination in terms of ARV to come in with a higher margin, I am just unable to kind of reconcile this mix versus gross margin?

Dr. Satyanarayana Chava: Our gross margin was little less in Q3 because of withdrawal of export incentives, and also higher logistics cost due to the COVID crisis. But we are confident that we'll be able to maintain the gross margin levels, that also clearly indicates the quality of revenue we are achieving. We are not compromising on the quality of business for growth in top line. And also, our operational leverage by increasing asset utilization is clearly visible by showcasing a consistent increase in our EBITDA margins as well.

S Padmanabhan: Typically, in this quarter, which is the business that has contributed to the margin, sir, because I would assume that formulations and synthesis would be higher margin as compared to API, but I think in this quarter, we have higher API versus formulations and synthesis. So that is why I'm trying to understand.

Dr. Satyanarayana Chava: We also had some high gross margin APIs. We supplied significant volumes of APIs, including our ARV APIs for launch in Europe and US. So that also contributed to higher margins in API division.

S Padmanabhan: And we have enough on contracts and visibility in terms of volume offtake that, as you mentioned, that this Rs.560, 570 crores to sustain, at least in the next two to three quarters for the time being?

Dr. Satyanarayana Chava: We do hope so.

S Padmanabhan: One final question is on the finished dosage side. I think with the triple combination for us, almost coming through, I mean, do we have the capacities in place to kind of capitalize on the kind of launch and take up the market share?

Dr. Satyanarayana Chava: Currently, we are using our capacities at the optimum level and our debottlenecking exercise will also be finished during Q4. And new capacities will be available from August onwards. So we are gearing up to meet higher demands. See, as I mentioned, we are looking at healthy top line growth. So we are cautious to get market share while we maintain our third-party API sale. So if you look at our ARV, we have done more API sale to third parties in ARVs rather than our formulations division. So we would like to maintain that strategy. Not to cannibalize our business by going aggressively into formulations as well.

Moderator: Thank you. Next question is from the line of Ritesh Rathod from Nippon India Mutual Fund. Please go ahead.

Ritesh Rathod: Can you help us understand Efavirenz versus Dolutegravir, is either of the product high volume, low value versus or low volume, high value kind of API?

Dr. Satyanarayana Chava: Efavirenz and its intermediates, we continue to have leadership position where we are making about 700, 800 tons in a year, if we look at, Efavirenz is 600 milligrams dose or 400 milligrams versus 50 milligrams of Dolutegravir. So the dosage is significantly low, but pricing is high. If you look at the franchisee of Efavirenz plus Dolutegravir in FY'20 and FY'21, we have done more sales in the franchisee than the last year.

Ritesh Rathod: So you said 400, 600 grams versus 50 milligram. So at a market level, the API consumption comes down very dramatically in a tonnage?

Dr. Satyanarayana Chava: Yes.

Ritesh Rathod: In the API market for ARV, even though many players who would have got approval from the global tender in the global fund, how many players are active in terms of supplying APIs?

Dr. Satyanarayana Chava: I think there are not many APIs which are pre-qualified by WHO but when it comes to formulations, there are about eight approvals right now for Dolutegravir-based combinations. And we believe we have reasonable market share in the formulations and largest market share in the APIs Dolutegravir.

Ritesh Rathod: So in case of formulations, assuming WHO approved eight players, are all eight to 10 players active in the market, or there are players who have withdrawn and they may come in coming years or so?

Dr. Satyanarayana Chava: No one withdrawn from the market, but the market share varies significantly from player-to-player. There's a eight player market doesn't mean it is 12.5% for everyone. We are probably number three in the market share, I will not give you the percentage wise, we are number three when it comes to the overall market share in the formulations.

Ritesh Rathod: And in the API, you would be number one?

Dr. Satyanarayana Chava: Yeah.

Ritesh Rathod: You said it's a low volume API. Is there any risk of competition coming in given the strong profit or strong revenues you're making any ARV API in two, three years on a medium term basis?

Dr. Satyanarayana Chava: If you evaluate these three, in the last five years, there is no new API player came into ARV. And if competition comes, we will face it. So we are not worried about competition. We have largest capacities installed and we have one of the cost-effective process, and we have regulatory approvals in place by WHO, by FDA. So we believe we will maintain our leadership position.

Ritesh Rathod: In last time, you mentioned on the ground level, the dispensing for the ARV was increased from one month to three months because of the COVID pandemic. Is that the change or is the status quo anything over there, now things are stabilizing in most of the geographies?

Dr. Satyanarayana Chava: Orders for ARVs are in the multi-month dispensing only. So same question was asked by someone, is there any stocking happened because of that sales increased in Q1. Assuming Q1 stocking, q2 stocking, Q3 stocking, people will not stock for years. So, people moved from one month dispensing to three months dispensing and majority of our formulations not only us, most of the people are supplying in multi-month dispensing packs. So that became a quite normal nowadays for most of the ARV products.

Ritesh Rathod: So we don't see any risk of that reversing in next six months is what my question was?

Dr. Satyanarayana Chava: Even it reverses, the people will buy three packets instead of one packet.

Moderator: Thank you. The next question is from the line of Sandeep from East Lane Capital. Please go ahead.

Sandeep: Three questions. First question is, if you could give a bit of a perspective on the HIV market. You would reach a turnover of about $350 million in HIV, API plus formulations approximately. How big is the opportunity you see over the medium term? Can you double this over three to four or five years? The largest player is a billion dollar player. So what is the potential for HIV market for Laurus with its lowest cost production, large capacities?

Dr. Satyanarayana Chava: I think doubling is impossible. The reason is, the number of patients who are eligible for the treatment is not increasing significantly. So there are more number of people being added into the treatment, that is 6%, 7% of patient additions we are seeing based on the data. So the growth could be 5%, 6% in offtake. We do believe that increase will be offset by price decline over a period of time. So our growth in ARV APIs will primarily come from demand moving from weak players to strong players.

Sandeep: And as the HIV market saturates for Laurus, which are the other therapies where you could have a similar dominant position over the next three to five years, will it be diabetes, does it offer that kind of an opportunity or which therapies could offer and it's going to be a combination of a lot of therapies?

Dr. Satyanarayana Chava: There are two therapies which we have very strong focus and also building pipelines. The one is diabetes. The second one is cardiovascular. And we have a very good basket of products in diabetes right now. And we are building our strong basket in cardiovascular products as well. So these two will drive our growth in the coming years. See, if you look at the evolution from 80% to ARV APIs, in the five years we moved to 38% of ARV APIs. Similarly, our revenue dependency on ARV formulations currently is very high. But in the next five years, we will also diversify our revenues coming from non-ARV formulations significantly and the dependence on ARV will come down. Because there are no new formulations to be developed in the ARVs, we are almost done with developments. So, development focus is shifting from ARV to non-ARV. And also, we are adding very large capacity in Vizag and we have taken land for formulations

expansion in Hyderabad as well. So if you want to look at where we will be in say, three, four years down the line, I am sure we will be discussing on non-ARV in five years from now. If you look at the calls one and a half year back, half of the times people were asking questions on Efavirenz. Now nobody asks questions on Efavirenz. Two years from now people will not ask questions on ARV APIs. And maybe another two years from then people will not ask about ARV formulations, people may talk about what is we are doing in our Laurus Bio?, what growth we have in Laurus Bio?, what other therapy areas we will be focusing?, what kind of delivery dosage forms we are doing?. So, company s in the transformation phase, so we need time and we are very confident to expand our portfolio beyond just ARV.

Sandeep: Next question was on Laurus Bio. I know it's just been a month, month and a half since the acquisition has been done. A lot is happening, whether it is therapies, whether it is food, nutraceuticals, what's your vision, how should we think about Laurus Bio over three to five years?

Dr. Satyanarayana Chava: Laurus Bio will be a CDMO for recombinant proteins, it could be food, or for therapeutics. Currently, the expansion going on at Laurus Bio to meet customer demand for recombinant protein-based foods. And we are looking at acquiring land, as I mentioned in my opening remarks, to expand that recombinant protein manufacturing capabilities, not only for food, but also for therapeutics. We are also identifying a lot of areas where the synergies could be built between our chemistry and fermentation capabilities of bio. So, the synergies are also looking very attractive. So, a lot will happen. And we will give you more details as and when we expand into new areas. That is very exciting for us.

Sandeep: And last question, if I may, is on the Synthesis business, the fourth pillar for Laurus. In the new emerging scenario where small molecules are sort of not that many would may come out of the pipeline of the big pharma pipeline, how do you see the synthesis business, what is the opportunity you see over the next again, medium to long term?

Dr. Satyanarayana Chava: In our CDMO business, we have evolved very significantly in the last decade. In 2010, we need to explain about company first 15 minutes in the meeting. Now, we don't need to explain our capabilities. And we need not explain about our scale, we need not explain our sustainability. So we are recognized as a strong player in CDMO for high potent molecules, and in very large volume molecules. So people look at us on the two extremes, like our API also, we're doing high potent oncology molecules, and we're doing very large volume, diabetic and ARV molecules. CDMO, our efforts are also culminating in the same trend. People are looking at us for high potent molecules, which we have several molecules in pipeline. And we're also doing several tons of opportunity in commercial molecules. So although the number of small molecules in the development by big pharma is constant, I don't want to say going down, constant, and we have great opportunities there.

Moderator: Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Just taking forward from the previous participant. So maybe two years down the line, we would be talking more about non-ARVs and Laurus Bio. Will we be talking about ANDAs as well?

Dr. Satyanarayana Chava: Yes, absolutely, we'll be talking about ANDAs in diabetes, ANDAs in cardiovascular and P4 launches, and may be new dosage forms, currently we are doing only solid oral, maybe situation will change, we may enter into other delivery forms as well. So a lot of things are at the drawing board stage, and we're very comfortable to de-risk our dependence in ARV without compromising our growth in ARV. If you look at 80% ARV APIs company to 38% ARV companies, but our ARV API sales went up by Rs.500 crores from when we were 80% dependent to when we're 38% dependent. So you could understand how much of diversification is happening in the organization.

Tushar Manudhane: Just on the Laurus Bio side. With this acquisition of additional line, how much do we plan to invest over the next few years in this venture?

Dr. Satyanarayana Chava: It's not that significant investment. We do believe our subsidiary, Laurus Bio, will be able to generate its own cash to invest or raise its own debt to invest, because their margins are very attractive, sustainable, so we don't see any challenges to invest there. We do believe they're capable of raising money and if necessary, we can assist them.

Tushar Manudhane: Secondly, particularly on the API side, what is the capacity utilization? Is it that Brownfield expansion is getting delayed because of COVID, that will be operational from August '21?

Dr. Satyanarayana Chava: Only formulation expansion was delayed during the crisis. But our API expansions are on track. Earlier, we used to say we are one of the top five API companies with respect to reactor volume. Now we can say we are number four with respect to ARV volume. Currently, we have 4.5 million liters of reactor volume and we are adding close to a million liters in the next expansion phase. So that will take us to 5.5 million liters reactor volume. That is a significant addition, almost 20% what we have, we're adding in next 12-months.

Tushar Manudhane: Lastly, on overall CAPEX guidance for next year?

Dr. Satyanarayana Chava: As we mentioned in the last quarter conference call, we envisage about Rs. 1200 crores investment over the next 24-months. We believe that is enough for our growth. We don't see any additional CAPEX required to meet our growth.

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

Krish Mehta: I wanted to ask what is the percentage of revenue this quarter which is non-ARV, all divisions put together?

Dr. Satyanarayana Chava: Maybe closer to 35%.

Krish Mehta: And another question I wanted to ask is about capital allocation going forward after the Richcore acquisition. So if you can give a sense of the split between how much CAPEX might be thinking of allocating between Richcore versus like our core ARV business?

Dr. Satyanarayana Chava: In the capital allocation, what number we just gave Rs.1200 crores is not inclusive of CAPEX envisaged to Laurus Bio. I think that is not going to be very significant, and they will be able to raise or interest from their own cash.

Moderator: Thank you. The next question is from the line of Sameer Shah from Value Quest. Please go ahead.

Sameer Shah: First question is in the opening remarks, you said that significant upside is expected from EU partnerships from FY'23. If you can just elaborate on that?

Dr. Satyanarayana Chava: We have done validations for two products in the diabetic space. And we expect significant volume uptick in FY'23. And also, as we wanted to expand and diversify into non-ARV, that is the year where we expect significant diversification happens out of non-ARV.

Sameer Shah: Secondly, on the Custom Synthesis business, if you can give some idea of the funnel, in the last phone call, you mentioned that business will be on its own from next year onwards, so are there any significant orders under discussion?

Dr. Satyanarayana Chava: We have a lot of opportunities there. As we are not giving any guidance, we do expect to create dedicated R&D as I mentioned, we are creating dedicated site for the division. They will grow from FY'23 onwards significantly, and we are very excited about that growth in the division.

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

Jeevan Patwa: I have two questions. One is about our FTF opportunities. If you can explain which therapeutic area those opportunities are, and what are the timelines for those launches, the first-to-file opportunities, the formulation?

Dr. Satyanarayana Chava: Out of seven potential first-to-file, the earliest opportunities will be in 2025.

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

Tushar Bohra: Sir, just quickly to start with, taking forward from Jeevan's question, and linking back to your earlier answer, you mentioned that 2025 is when we see the FTF, and 2023 we expect significant diversification in the business on the non-ARV side as well as presumably, a lot of this diversification will be from regulated markets. So should we look at this as that we have a very clear growth visibility for the next two, three years even before the FTF start kicking in?

Dr. Satyanarayana Chava: Yes, see, the non-ARV growth coming from first time generic launches, which are not P4-related, and also launching very large volume, fully integrated formulations, which some of them are fine, some of them are under development. Our growth in formulations division is not dependent on launching our first-to-file products.

Tushar Bohra: And we had plans for injectables, I believe, it was highlighted in one of the earlier con-calls. Any updates on that front?

Dr. Satyanarayana Chava: We'll update you probably in the next couple of quarters as and when we have concrete timelines and ideas.

Tushar Bohra: On the capacity expansion side, so, we did almost Rs.1,300 crores revenue this quarter. Is it fair to assume that the current capacity is able to support this on an annualized basis, so, the 1,200 crores expansion that you see, none of it is in the numbers right now, so, that is a further growth possibility for us?

Dr. Satyanarayana Chava: We don’t give guidance, and wouldn’t want to comment on that.

Tushar Bohra: No-no, sir, I am not trying to reveal my hand here, I am just trying to understand that a) it is fair to assume that this 1,300x4 is the bare minimum, right. And then I would like to understand, how much of the CAPEX is already done and exactly from this point forward, how much CAPEX still needs to be done, which will fuel the growth for next two years? And if you can segregate that by division?

Dr. Satyanarayana Chava: We don't want to reveal division wise CAPEX, but we can tell you, every quarter we have capacity additions ever in the form of backward integration of intermediates, additional API capacities for existing products, additional API capacity for new products, formulation debottlenecking lines coming commercialization for formulation. These are coming at a regular pace and not coming in bunch, every quarter we have something coming handy for our growth.

Tushar Bohra: So in Q2, we mentioned that we will have capacity constraints that will obviously affect some of the profitability in Q3 and Q4 we should see the full effect of new capacity coming in. Now that we've said that there is a slight delay on the formulations side, we should expect that maybe Q1 will probably see the ramp up far better than Q4?

Dr. Satyanarayana Chava: Q4 also will be good.

Tushar Bohra: If you can help us understand the long-term vision for your nutraceuticals, cosmaceuticals business, is there a potential to scale that part of the business into a much larger meaningful segment for us?

Dr. Satyanarayana Chava: See, nutraceuticals, cosmeceuticals business were added into our CDMO business because we are not in doing a commodity product, we are doing one product to one customer kind of business. So, we are doing a lot of business with very big companies. We don't want to name those because of confidentiality. We are working with who's who in nutraceuticals and cosmeceuticals.

Tushar Bohra: A clarification on the number you mentioned. So this Rs.1200 crores CAPEX does not include the Richcore acquisition and possibly anything on the sterile side. Is it a fair assumption to make?

Dr. Satyanarayana Chava: Yes.

Moderator: Thank you. Next question is from the line of Sangeeta Purushottam from Cognito. Please go ahead.

Andre: Hi, this is Andre, Sangeeta's partner. One is, as far as the EBITDA margins are concerned, is it good for us to expect these to increase with time with the effect of operating leverage? And my second question was that in the FTF business, it was marginal QoQ line. Should we read anything into this or is this another variation?

Dr. Satyanarayana Chava: I think the slight decline in FDF revenues from Q2 to Q3 is only order execution, and nothing significant there. And when it comes to EBITDA margins, as we mentioned, we can't give you a specific number, but we will keep on mentioning, we are confident to maintain 30% or more EBITDA despite our continued growth in our top line.

Sangeeta Purushottam: I had a follow up question, that when we're looking at the composition of business, in FDF, it's been sort of flattish like you mentioned in synthesis, and bulk of our growth has really come from the antiviral API, even within the generic API division we've seen onco fallen and other APIs stabilize. Now, what is outlook on Onco if other API and this is in Generics? These are the divisions which are really going to lead to a mix for you going forward.

Dr. Satyanarayana Chava: The Onco APIs will have revenues around Rs. 300, because we are not adding the oncology sales related to a CDMO business. This is a generic oncology APIs. And in other APIs, because significant revenue in other APIs is coming from contract manufacturing, so the sales will be bulky. So you might have seen in Q1, we have done Rs. 135 crores, in Q3, we've done Rs.100 crores, but in Q4, the sales will be bigger than Q3. So it is a timing of deliveries in other APIs. The products what we're validating in other APIs, will see commercial sale in FY'22 and there are a good number of APIs commercial suppliers in FY'23. The growth in other APIs is also very good attractive rate right now.

Sangeeta Purushottam: In the Generic Synthesis, I don't see any concerns in terms of growth. This is something where the numbers are picking up forward?

Dr. Satyanarayana Chava: In Synthesis, yes. Because of some delivery commitments to be done in Q4… Q4 was bulky last year and we expect Q4 will be bulky this year as well in the synthesis division. But if you look at our last three quarters, we have done Rs.100 crores in Q1, Rs.116 crores in Q2, Rs.127 in Q3, so it is growing, and we're very happy with that growth.

Moderator: Thank you. The next question is from the line of Dipan Mehta from Elexir Equities. Please go ahead.

Dipan Mehta: Can you give us an overview on the pricing scenario for tenders as well as the open market sales, are you witnessing any pricing pressure from year-on-year ago, quarter to now and even quarter-on-quarter?

Dr. Satyanarayana Chava: I think we indirectly answered this question. As we mentioned, despite of our growth in top line, we're able to maintain the EBITDA margin. That clearly gives an indication that quality of business is very good, and we are not compromising profitability for just top line growth. So we are comfortable right now and we expect we'll be able to manage the slight decline in prices by effective cost control measures by the way of procurement or operations improvement. We do expect the numbers will be good.

Dipan Mehta: But the margin can be maintained also because of change of product mix. So, my specific question is that for the same product, quarter-on-quarter can you give us some idea as to what the price declines have been in the range of 3% to 5% or in the range of 8% to 10% something give us an idea that what is the kind of pricing impact which may be there on the top line which has of course been covered by better cost management and improving on the product mix? My question is around for the same type of products, molecules on an average basis what would be the price decline, I am not asking product wise, overall for the company on an aggregate basis, something to give us an idea as to what we are dealing with in terms of price erosions?

Dr. Satyanarayana Chava: Our sales in US and Europe is a quarter of our formulations sales and we are not seeing any price decline significantly there. And when it comes to the LMIC, ARV segment because these tenders are not weekly tender or monthly tender, pricing are reasonably stable over a period of a few quarters. So there is no pricing decline for every tender.

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

Ranvir Singh: Can you give me a break up of finished doses between ARV and non-ARV?

Dr. Satyanarayana Chava: As I mentioned, it is 75% and 25%.

Ranvir Singh: Now this is for advanced countries and…?

Dr. Satyanarayana Chava: Yeah, yeah, our LMIC sales are predominantly ARVs and then Europe and North America are non-ARVs.

Ranvir Singh: Okay, but TLE 600 we had rollout in US as well, right?

Dr. Satyanarayana Chava: That's not a very significant sale.

Ranvir Singh: I think previous participant has already asked this, but just in general, because the selling price of TLD is $75 and people were selling it at a discount, so, this discount has increasingly been higher, the tender price is much-much lower than what the selling price is versus last year or how is the trend there, in general for industry for all players I wanted to understand?

Dr. Satyanarayana Chava: You have to look at how much of backward integration people are doing. If somebody buys APIs and participation in tenders, somebody buys intermediates and make APIs and participate in tenders. Somebody makes starting materials and make intermediates and APIs and participate in tender. So the profitability margins depend on where they stand. So for integrated players like ours, we have biggest advantage of maintaining profitability versus people who are non-integrated by APIs, and do formulations. Some people even don't do formulations, some people outsource formulations manufacturing by buying APIs and giving it to somebody else for formulations. For those companies, the profits will be even less. So you have to look at how integrated the offering in ARV is more important to maintain profitability, just not the top line.

Ranvir Singh: Just a clarity about Richcore revenue is built in this quarter. Any amount or it's not at all?

Dr. Satyanarayana Chava: No revenue or profitability included in Q3, probably we will do it from Q4 onwards.

Moderator: Thank you. Next question is from the line of C Srihari from PCS Securities. Please go ahead.

C Srihari: Recently, one month injectable has been approved by the USFDA. I would like to know what kind of impact that could have on the ARV portfolio? And on the FDF front, could you give some kind of just outlook?

Dr. Satyanarayana Chava: Maybe I'll answer your long acting injectables business. So, we are in ARV business since last two decades and we are watching the developments very carefully. And if there is a disruption, we want to be part of the disruption rather than follow it. As you could see, the transition from Efavirenz, Dolutegravir, we took benefit out of that disruption. And even if Tenofovir will move to another low dose Tenofovir Alafenamide, we have approvals in place and we have another combination products under development, which we are filing probably next week. And if there is a long acting injectable will enter market. When and how will be depending on the WHO guidelines which are not yet released. And even if it is as part of the treatment guidelines, it will be not before 2025 and we have the APIs developed already and depending on the guidelines,

we will develop formulations and if there is a disruption because of this, I am sure we will be part of that. So you can be rest assured on that.

C Srihari: You mentioned that the quarterly run rate is sustainable. So, what is the kind of growth guidance you will give for FY'22 for the ARV business?

Dr. Satyanarayana Chava: We're not giving specific growth, but we are comfortable to say we will continue to grow in API business not only FY'21 but also in FY'22.

C Srihari: On the FDF front, would it be possible to give the volume share? You said 25% of the revenue comes from the developed markets.

Dr. Satyanarayana Chava: I can't give you those details. If there are very specific questions, please write to us and we are happy to share you the details.

C Srihari: The 25%, how do you see moving over the long-term next two to three years?

Dr. Satyanarayana Chava: We will increase that share of revenue coming from Europe or North America than what we have today significantly because of products launch planned which are non-ARV. So that revenue share will go up.

Moderator: Thank you. Ladies and gentlemen, this will be the last question which is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: If you could give by product, the traction in ARV API?

Dr. Satyanarayana Chava: The majority growth in ARV APIs sales came from our three core products – Tenofovir, Lamivudine, Efavirenz and Dolutegravir. All four products sales have increased significantly.

Charulata Gaidhani: Second question pertains to the Europe partnership. Have you filed for marketing authorization?

Dr. Satyanarayana Chava: It is a very interesting question. Our partner had marketing authorizations. We are becoming their contract manufacturer as an additional site. So the approval will be much easier. So our growth in those products in FY'23 has nothing to do with approvals. So our facility was approved by European authorities and products are approved by the authorities and we are becoming a contract manufacturer to them, where we make API and also formulations for them.

Charulata Gaidhani: Can you name the partner?

Dr. Satyanarayana Chava: No.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question for today. I would now like to hand the conference over to Dr. Satya for closing comments.

Dr. Satyanarayana Chava: Thank you, everyone, for your very valuable questions and we always learn a lot from very interesting questions from the community. Thank you and take care.

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