“Laurus Labs Limited's Q3 FY'22 Earnings Conference Call”

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

MANAGEMENT: **DR. SATYANARAYANA CHAVA – FOUNDER & CHIEF EXECUTIVE OFFICER, LAURUS LABS LIMITED**
MR. V V RAVIKUMAR – EXECUTIVE DIRECTOR & CHIEF FINANCIAL OFFICER, LAURUS LABS LIMITED
MR. VIVEK KUMAR – SENIOR GENERAL MANAGER, INVESTOR RELATIONS, LAURUS LABS LIMITED

Moderator: Good morning ladies and gentlemen. Welcome to the Laurus Labs Limited Q3 FY 2022 Earnings Conference Call hosted by Antique Stock Broking. As a reminder all participant lines will be in 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 the operator by pressing "*"then "0" on your touchtone phone. Please note that this conference is being recorded. I'll now hand the conference over to Mr. Monish Shah from Antique Stock Broking. Thank you and over to you sir.

Monish Shah: Thank you Lizzan. Good morning and a warm welcome to everyone to Laurus's 3Q FY '22 results conference call. We thank the management for giving us the opportunity to host the call. Today we have with Dr. Satyanarayana Chava, Founder and CEO; Mr. V.V. Ravi Kumar, Executive Director and CFO and Mr. Vivek Kumar, Senior General Manager, Investor Relations. I would now like to hand the call over to Dr. Satya for his opening comments. Thank you and over to you, sir.

Dr. S. Chava: Thank you Monish. Thank you for joining us for our Q3 and nine months FY '22 results conference call. We hope everyone attending this call, and their family members, colleagues and their friends are keeping safe and healthy during these challenging times.

We are pleased to have this opportunity to update you on our progress and answer your questions. Since our last earnings call, the world has continued to face unprecedented challenges, both on health and economic fronts. At Laurus we committed to protecting the health and well-being of our employees and their families. We have continued to implement rigorous safety and hygiene practices across all locations, and this without any compromise.

I'm very thankful to our colleagues for rising up to this challenge and deliver on commitments and ensuring business continuity. During the last quarter, our industry has faced some interim challenges due to logistics, raw material availability and higher prices, especially for solvents. Most of the solvent prices were at all-time high. We are seeing some -- of these including the cost of API's and solvents and availability of raw materials. However, supply chain and logistics cost situation continue to remain challenging. ARV market seen continued sluggishness during the third quarter due to inventory at various channels. However, as we indicated before, we are expecting demand increasing from Q4 onwards.

Coming to results over nine months, revenue has a marginal growth of 3% despite lower sales in the ARV API's, and formulations, which resulted in our Q3 de-growth in sales and profits. All our businesses other than ARV API's have grown for the quarter and nine months. Increased demand for ARV business witnessing from our API customers and formulation sales from global multilateral agencies from Q4 onwards, and we believe that this sluggishness is only transcending nature and should be normal from now onwards.

Our sustained traction CDMO is doing very good. And we are on course to expand and intensify diversification plan, as we look to prioritize building sustainable growth drivers in the coming years. We are also affirmative on our aspirational $1 billion in sales in FY 2023 and this will be supported with several approvals anticipated and good progress what we're seeing in multisite capacity expansion across API, formulations and CDMO division.

Moving on to revenue. During the nine months we achieved INR 3,511 crores as against INR 3,401 crores. Whereas in the Q3 we achieved INR 1,029 crores as against INR 1,288 crores in the corresponding quarters.

I'm not going to into details of each division but I will like to give the overview of each division.

The formulation division reported revenues of INR 1,389 crores for nine months with 13% growth. Whereas INR 373 crores for the quarter with a decline of 13%. The contribution from the formulation segment has improved during the nine months to 30% from 36% in the previous year.

Coming to the ARV business overall demand declined due to inventory stocking at various channels, and we are witnessing a normal trend from Q4 onwards. Dolutegravir (DTG)-based regimens continue to remain preferred and believe its use will also increase rapidly the second line, and also in the pediatric treatments as a new standard of care.

Happy to share that Laurus has signed up and will be part of medicine patent to license molnupiravir, which is an investigational COVID-19 drug. This will help us to increase the broad access in the LMIC market.

Coming to the developed market we have broadly observed a stable market share for our existing portfolio. We continue to leverage our front end presence in the U.S. with new launches. We have filed a total of three ANDAs during the nine months. During the quarter we made a supplementary ANDA filing and expect to file around six to seven ANDAs for the full year. Cumulatively, we are filed 30 ANDAs, of this we have a total of 10 final approvals and 8 tentative approvals so far. In Canada, we continue to have 11 product approvals, as we indicated in Q2, of which we are launching five and in the process for launching a few more.

In the EU market, we have completed validation of two products as part of the contract manufacturing. And we expect a significant upside in the coming financial year from these products. And we also have successfully completed audit from EU last month for these products.

Based on our healthy product pipeline progress, we continue to invest in FDF infrastructure and our Brown Field expansion at Unit 2 is progressing as per our expectations. And it is expected to add significant capacity which will take the total FDF capacity close to 10 billion units per year. The capacity will be operational from early next quarter onwards.

On R&D front we continue to allocate resources to our initiatives and invest in portfolio based on now-- our portfolio now more non-ARV than ARVs. So we identified several products in the portfolio, which are complex and also need scale. When it comes to API, our antiviral business during the quarter was weaker than expected and declined almost 65% year-on-year to INR 202 crores. The steep decline is due to the higher base effect from forwarding purchase made by global agencies during the last financial year. For nine months of FY 2022 the business reported negative growth of 26%, we continue to believe that the current demand weakness is transient and we believe Q4 onwards things are looking bright.

In oncology API's current quarter, we did INR 85 crores sale, reflecting the growth of 33% year-on-year. For nine months, there was a growth of 8%. As you're aware, Laurus Labs has one of the largest high potent API capabilities in the country. And we are adding more capacities into the high potent areas and located at unit four. And our aim is to strengthen further our leadership in some of these oncology and high potent molecules.

In our API's which includes CV, diabetes and asthma reported quite normal sales during Q3 and revenues have grown sequentially at INR 137 crores. The segment recorded 38% growth quarter on-quarter and there was a slight decline when it comes to nine months, the 3% decline.

During the quarter we have filed four DMFs. Interestingly, two DMFs are in non-ARVs, taking the total number of DMFs to 71 till date. We also initiated validation of several new API's and expect to see good DMF filings next financial year.

In the synthesis business, very strong quarter for us and delivered robust growth of 63% year-on-year at INR 207 crores. For nine months FY '22 CDMO business also grew over 60%. As you're aware, we indicated in the last quarter we started constructing a dedicated facility for global life science company, multi-product, multi-year supply contract. And we're also investing in one more Greenfield facility for synthesis division. And also building an R&D center right at Hyderabad. All these are progressing as we planned earlier.

When it comes to Laurus Bio, the segment achieved a sale of INR 25 crores, taking to INR 65 crores from the nine months FY '22. During the quarter, Laurus Bio commissioned two more fermenters of 45KL each taking to total capacity of 180KL. There was a few months' delay in qualifying the fermenters. Now we can say all the fermenters are running and doing CMO activity for global companies. We are also in process of expanding the research block and also debottlenecking up thereby adding more downstream equipment to better utilize the fermenters.

Our focus on ESG quality and regulatory compliance to drive sustainable growth and further accelerate our pipeline opportunity is one of our top priority. This will aid our journey towards our vision and strengthen our core values. We are in the process of creating the manufacturing infrastructure both in APIs and formulations to achieve our aspiration target of $1 billion sales mark by end of FY '23. If we received the required approvals on time, and we are confident we will achieve this target.

With that I'd like to hand it over to Ravi to share some financial highlights.

V V Ravi Kumar: Thank you, Dr. Satya and very warm welcome to everyone on our quarter three and nine months earning call. Total income from operation for nine months is INR 3,511 crores as against INR 3,401 crores within 3% growth year-on-year. But whereas the quarter, we ended up at INR 1,029 crores against INR 1,288 crores reporting a de-growth of 20%. Gross margin for the quarter three is very healthy and at 58.8%. vis-a-vis 54.7% for the corresponding quarter. Our EBITDA came at INR 290 crores with a margin of 28.2%. Our EBITDA for nine months is INR 1,038 crores with an EBITDA margin of 29.6%. Though this reflected through better product mix and compensated for negative operating leverage. So, despite of the ARV lower sales, we could able to achieve these numbers in the first nine months' time. And we remain confident of achieving about 30% EBITDA on a full year basis for FY '22. On diluted EPS for the quarter at INR 2.90 on a not annualized and INR 11.10 for nine months not annualized. Our ROCE at 25.5% on an annualized basis.

On the capex front, we invested close to INR 246 crores during the quarter and cumulatively about INR 770 crores in the nine months' time. We remain on course, to strengthen our position as a cost effective integrated pharma player. We are investing in backward integration efforts, making intermediates, creating further API and FDF capacities.

As you are aware that we have embarked upon significant growth capex of INR 1,500 to INR 1,700 crore in two years FY '22 and FY '23. We wanted to update most of the investment across key projects is on track. You can refer to our IR presentation for more details in this.

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

Moderator: Thank you. Ladies and gentlemen, we will now begin with a question and answer session. Anyone wishing to ask a question may please press "*" and "1" on your touch tone telephone. If you wish to remove yourself from the question queue, you may press "*" and "2". Participants are requested to use handset while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line Mr. Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Thanks for the opportunity. Sir, on the other API, there has been a good traction, just would like to understand is this to do with your new molecule addition or you are seeing the market share gain in the existing molecule?

Dr. S. Chava: The other API we have added only one molecule this year and the growth came from your contract manufacturing API's to our customers in Europe.

Tushar Manudhane: Okay, is this to do with restrictions in China or you think this is more sustainable and no need to go back.

Dr. S. Chava: This has nothing to do with the disturbances because of China. So, this is normal growth and these molecules we are doing earlier and we were able to get more orders because our partner got more market share in this region.

Tushar Manudhane: Got it. Got it. And just lastly on this dedicated facility for a global license company, could you share some more color in terms of what kind of investments on this particular project or what is the size of the contracts and spread over what year?

Dr. S. Chava: We can't give you the size of the contract, but it is a multi-product, multi-year contract and part of the CAPEX is also funded through commercial advance. And we just started building facilities for that client. And we as an interim we also added a manufacturing block in our existing unit four to complete the validation of products as part of the contract. Once the new manufacturing unit is up and running, we will transfer this to the new site. So that our partner will gain a year in the regulatory approval process. So, this is a very significant for us and a dedicated team is working on the development of those projects, technology adoption of those projects, and things are moving as we anticipated earlier.

Tushar Manudhane: Got you sir. And just lastly on molnupiravir where you know there is a lot of talks on the efficacy of this and then comparing to the Pfizer drug, but at the same time we go ahead and have a license from MPP. So, are you seeing a good amount of traction on the business prospects on this product or given the efficacy this is, this is not so great a product to look forward for.

Dr. S. Chava: There are sales but is not meaningful. There were many approvals. Many got licenses from MPP and ICMR did not include this in the treatment guidelines. So the uptake is not as expected. So the business is not going to be a meaningful one for us.

Tushar Manudhane: Thank you sir. That's really helpful. Thank you.

Moderator: Thank you. The next question is from the line of Sudarshan Padmanabhan from JM financial PMS. Please go ahead.

S Padmanabhan: Thank you for taking my question.

Moderator: Sorry, to interrupt Mr. Padmanabhan. Sir we are not able to hear you clearly.

S. Padmanabhan: Yes, can you hear me now?

Moderator: Much better. Thank you. Yes.

S. Padmanabhan: My question is to you know, understand a little bit more on the ARV business. Both if I look at the API side and the formulation side, there has been a drop. Drop wasn't expected. I mean, you know, when you talk about the inventory and things getting back to normal, we are basically paint the numbers coming right from over INR 550 crores a quarter in the fourth quarter of the previous year to about INR 200 crores. Do we see a gradual ramp up back to where it was or are we going to see pretty faster kind of ramp up. Do you see that in fourth quarter things can normalize completely?

Dr. S Chava: Fourth quarter, we see majority normalization will happen. We are not anticipating our ARV API, sales will go back to INR 500 crores. Maybe Q1 next year will be quite normal. But even though there is a little bit normalization pending for ARV APIs in Q4, but other divisions are doing extremely well. So we don't see any challenge for us to get back to normal tracks, and normal growth trajectory for us from Q4 onwards.

Moderator: I'm sorry to interrupt Sir, we are not able to hear you.

S. Padmanabhan: Yes. So my next question is on the synthesis business. I mean, you have done a phenomenal job in terms of the you know, ramp up you know, almost going from INR 50 crores, you know, in FY 2020, almost a quarter to about INR 200 crores now, can you give some color with respect to where do you see the business, say in the next three years? Given the opportunity, given that we have a dedicated plant for new customers, what is the kind of scale that we can see? I mean, and what are you doing, you know, at this scale, to get, you know, give that kind of importance to this business.

Dr. S. Chava: This business is very important to us. And we're giving required focus to strengthen this. We are creating dedicated R&D, we are creating dedicated manufacturing sites, and we believe at INR 200 crore per quarter is not a big number for CDMO. If you look at the global CDMO companies that do extremely well. And we believe we have all qualities to become a very large player in CDMO, our regulatory track record, our EHS compliance, our manufacturing, quality infrastructure, our team in quality, so we have our qualities to become a much bigger player in CDMO place. We can't give you the quantity -- quantitative numbers, how we will do in the next 2-3 years. But we have so many avenues to grow. As we're investing in a new manufacturing site for a customer, we haven't got any revenue from that plant right now. So this business, we believe were at a very infancy stage, as of INR 200 crore per quarter is very, very small for our aspiration.

S. Padmanabhan: I thought with request for this call, we had a plan that we could be able to kind of.

Moderator: Sorry to interrupt Mr. Padmanabhan we are not able to hear you. We requested to you to…

S. Padmanabhan: Hello?

Moderator: Yes sir, please proceed.

S. Padmanabhan: Yes. So final question from my side is, you know, when we bought Richcore, we wanted to extend the bio capabilities wherever possible in the current business as well. Is that happening? Are we starting to look at extending the bio capabilities in the current business and seeing some kind of an operating leverage of synergies going through that?

Dr. S. Chava: It is happening as we expected. They gave several enzymes for our chemical synthesis. And we are optimizing those enzymes to improve

the yields. They're also working on classical fermentation of APIs, especially for steroids, so it is going on very well. So what interestingly purchase significant equity is working very well.

S. Padmanabhan: Sure sir. Thanks a lot. I will join back the queue.

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

Ritesh Rathore: Yes. Hi sir. Can you explain what are the risk and the upsides with a regimen change from TDF to TAF, Like Tenofovir Alafenamide.

Dr. S. Chava: The regimen change from TDF to TAF is not happening, which we also captured in our investor presentation, so that our investors can also better informed. We don't see any change. So based on the CHAI projections, the tapped market share gain by end of 2025 is not significant.

Ritesh Rathore: Okay, okay. And Sir for this quarter since you provided your standalone numbers as well as consolidated numbers, your subsidiary revenue has gone up sharply to INR 96 crores versus historical average of INR 25 crores. Anything particularly because there is not a proportionate increase in costs or anything in the subsidiary financials but a sharp jump in revenue. Is it linked to some one-time income?

Dr. S Chava: Ravi do want to answer this question?

V Ravi Kumar: There is no one-time income but our new one of the subsidiaries started generating revenue.

Ritesh Rathore: Yes, but there was no proportionate increase in the cost or anything. When you see historical three quarterly numbers, which you provide every quarter.

V V Ravi Kumar: But there is no one off kind of income.

Ritesh Rathore: Because your historical evidence for last 5-6 quarters is INR 25 crores and this quarter subsidiary number is INR 96 crores. The number is a huge jump of INR 50 crores INR60 crores increments.

V V Ravi Kumar: That, that's correct. That's correct. You're right.

Ritesh Rathore: Because your cost basis remains flat, or no change in the cost. Anyways, maybe if you can explain it later would be helpful

V V Ravi Kumar: Okay.

Ritesh Rathore: That's it. Thank you. Thanks so much.

V V Ravi Kumar: Thank you.

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

Krish Mehta: Yes. Hi, thank you for taking my question. I just wanted to know the ARV versus non ARV splits for the company as a whole for this quarter.

V V Ravi Kumar: What is the question? Can you repeat?

Krish Mehta: ARV versus non-ARV split as a whole for the company for this quarter?

Dr. S Chava: About 50%

Krish Mehta: Okay, thank you.

Dr. S Chava: Both APIs and formulations put together.

Krish Mehta: Yes. Thank you. Thank you so much.

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

Bharat Kumar: Hello, Hi, thanks for the opportunity. My question is for Dr. Chava. Regarding the new formulation capacity of 4 billion tablets, which is coming up this year. You said that in the last concall that it would be used by our, for our European partner and five transfers are already done. And our site is also included in the dossier. And you said that the regulator's have scheduled for the site inspection. May I know if the inspection is complete and did we get the approval for commercial production.

Dr. S Chava: One inspection was concluded two weeks back, it was successful. And one more inspection for packing lines is expected in May this year. And which is on track. See nowadays inspections are happening online. So we don't see any challenge there.

Bharat Kumar: So we can expect revenue coming from June of this year.

Dr. S. Chava: You're right, you're right.

Bharat Kumar: Okay, thank you. And my second question is regarding the global tender, the global tender for ARV formulation, which we got in 2018, I think it is supposed to end last year but because of COVID I think it is extended by one year and I think this year end it is going to end. Can you please let me know like if you have applied for the new global tender for the next few years?

Dr. S Chava: It is extended by year so we'll be part of that. See we are a significant player in not just in APIs but also in formulations. So we will be there.

Bharat Kumar: So you are applying for the tender…

Dr. S Chava: This is a regular phenomenon. So I'm sure we will be there.

Bharat Kumar: Okay, so did you get the tender for the next year? or is it like it is in process already?

Dr. S Chava: It will come.

Bharat Kumar: Thank you.

Moderator: Thank you. The next question is from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.

Pranav Tendulkar: Hi sir. Thanks a lot. So when you say that the business will be at a normal margins and normal growth rates what exactly is normal because just five quarters ago 46%-47% of or six-seven quarters ago 46%-47% of gross margins and sub 20% of EBITDA margin was normal. And clearly the pandemic had a supply chain issues and they are getting resolved now. So can you just highlight how the margin can be drastically different from, say, five-six quarters ago going forward. I'm not asking on a quarterly basis, but on a sustainable yearly basis. Thanks a lot.

Dr. S Chava: So we invested in R&D much ahead of the business. We invested in capacities much ahead of the business. And if you look at our R&D expenditure remained constant as a number. But as a percentage was pegged on by almost 3.5%-4%. And our manpower cost used to be 12% or 13% now it is about 9%. So if you look at 4% came from R&D expenditure, 4% came from manpower, so this is the operational leverage that led us to EBITDA margin expansion. EBITDA margin expansion has nothing to do with COVID because we are not in the COVID related products. We don't have remdesivir, we don't have other biological products. So our growth in EBITDA margins came because of the expansions plan and the commercialization of those facilities, commercialization of those products.

Pranav Tendulkar: Perfect, perfect, but on gross margin levels from the increase of 5 percentage points.

Dr. S Chava: Yes, it is also a very interesting question. The gross margin improvement is because of expansion of non-ARV business.

Pranav Tendulkar: No, I'm asking about 5 percentage points over the last 7-8 quarters. Clearly pre- COVID.

Dr. S Chava: Clearly pre-Covid.

Pranav Tendulkar: Okay. Okay.

Dr. S Chava: That is because of our Non ARV business is growing much faster than ARV business. So non ARV business, synthesis business, formulation business, other API business are more profitable, more gross margin business than ARV business. That is the reason EBITDA expanded and also gross margin expanded. So the multiple things which led to EBITDA expansion, operational leverage, and then gross margin improvement.

Pranav Tendulkar: Right, right. Perfect. So that makes sense. So just two supporting data or view if you can give. So what is the price correction on ARV and other products or formulations that have happened from say, during COVID? And what is the difference in the two gross margins, ARV and non-ARV, if you can actually provide some comfort to investors about that.

Dr. S Chava: That's, difficult to give number. so we want to give a sneak, how much we're making in the formulation, how much in other formulations, because that is a very sensitive information which we don't want to speak.

Pranav Tendulkar: Okay. Thanks a lot for the opportunity Sir.

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

Jeevan Patwa: Congratulations, Sir, for a very good set of numbers. So there are a few things that I liked about the number one is obviously the CDMO sales has been INR 207 crores this quarter, which is a very good run rate. So the question is, is this sustainable run rate for the next few years or next year you think this run rate will be even higher from here?

Dr. S Chava: Our synthesis business as explained the INR 200 crore is very small for our capabilities. So we do expect it will be growth in this business.

Jeevan Patwa: And secondly, you said it's too little for our aspiration. So what is your aspiration for synthesis business sir? How much you basically see your synthesis business in next three years or four years?

Dr. S Chava: By FY '25 we want this business to be at least 25% of our overall revenue.

Jeevan Patwa: 25%, so you're including biologics as well in the CDMO?

Dr. S Chava: All, all.

Jeevan Patwa: All, okay. Okay. Second question is, in the biologics side, we have INR 25 crore run rate quarterly and we have commissioned two more fermenters. So, can we assume it's going to be INR 50 crores from here onwards, can we assume that?

Dr. S Chava: It will be around INR 40 crores probably until we expand capacity further.

Jeevan Patwa: Okay. And in one of the interview, Mr. Rajesh Krishnamurthy of Richcore has actually said that they are planning for 2 million liter fermentation by early 2023.

Dr. S Chava: Yes, they have taken land. Okay. 30 acre land, and in the process of finalizing the design and also talking to the customers who intend to use

that capacity. So, 2 million liter will not be put in one go. They will put in a phased manner of 1 million plus 1 million plus one. In fact, the land can accommodate up to 3 million litre fermentation capacity.

Jeevan Patwa: Wonderful Sir. Wonderful Sir. Thanks a lot, Sir next is so if I look at nine months numbers, our sales has actually gone up 3%, But our profit, so gross profit has actually gone up by INR 130 crores. But our PBT is down because of -- obviously the operating leverage. So we have got depreciation interest, other expense and other costs basically going up. So that a eaten up our PBT but our inventory actually went up from INR 185 crores to INR 325 crores, so almost INR 140 crore increase in our inventory. So the question is, do you see the, some part of that inventory getting liquidated in Q4?

Dr. S Chava: Yes, see our ability to ramp up production and then the ARV demand will come all of a sudden. So we are prepared to tackle, take that opportunity. So we are not having any concerns on this inventory levels.

Jeevan Patwa: Perfect, Thanks a lot Sir.

Dr. S Chava: 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. Good morning. So my first question was with regards to formulations. So if I get it correctly, 65% to 70% of our formulations is ARV. So I just wanted to know that since we are seeing a decline in the ARV API side of it. So is there any case of this being shown or similar decline being visible in the formulation side, probably with a lag effect. So that is my first question.

Dr. S Chava: There was decline in the ARV formulation, but not to the tune of ARV API decline. ARV API quarter-on-quarter we saw 65% decline. But we didn't see that much decline in formulation, there was a 20% decline in formulations but not to the tune of API decline.

Hussain Kagzi: Alright, alright, and so any update on the approval that we were seeking to get on the formulation side of it. So by when do we expect to get those approvals non-ARV?

Dr. S Chava: One we are expecting this quarter and one maybe in the month of April. So we are having a lot of approvals pending with various agencies and we are on track to get those. There was a delay for three quarters, not because of our facilities or, so everything is on track now.

Hussain Kagzi: Alright, alright. Got it. And lastly, so there's no doubt that ex ARV we have done exceptionally well, if I see growing at 45% CAGR for two years. And if I go by your numbers, so I think as of Q3, I think it's still up 50% of our revenue. So you know, the remaining 50% of our business is ARV so basically, if I just wanted to get a sense that you did mention that there will be a little bit of volatility in the ARV API side of it. And I understand that's the nature of the business. But on a steady state, what would be say your view or your assumption or where do you see a steady state run rate for that business in the future, say FY '24, or FY '25? Because we'll finish the year I think at around INR 1,300 crores to INR 1,400 crores in ARV. So can you, is that a stable run rate which can be seen a future barring the quarterly volatility. So I just wanted to understand that part. If you can help me.

Dr. S Chava: INR 1,500 crores – INR 1,600 Crore could be the base what we think is sustainable in the ARV API.

Hussain Kagzi: Right, right. And that would be for the next two to three years.

Dr. S Chava: Yes, Yes.

Hussain Kagzi: Alright. Thank you. Thank you so much for taking my question. Wish you the best thing and I will get back in the line.

Moderator: Thank you. We'll move on to the next question that from the line of the Tushar Bohra from MK Ventures, please go ahead.

Tushar Bohra: Yes, thank you for the opportunity and good morning to everyone. Just one point on your one of the slides I saw that the gross margin expansion YoY I think slide number five, your gross margin expansion YoY is significantly higher and or rather I'm referring to slide number eight. So we have a 410 bps YoY gross margin expansion and a 540 bps EBITDA compression YoY. So that's almost 900 BPS swing between gross margin to EBITDA. So while some of this could be possibly because of operating deleverage because of lower sales, I am sure there would also be some costs associated with new capacity, which is still not contributing. Can you just help us with the breakdown of where this slippage has happened?

Dr. S Chava: As you rightly mentioned, the operational deleverage, reduced the EBITDA margins, because we have the facilities, we have the teams, we have the investments into R&D, all those are happening, without revenues. That was the reason for EBITDA de-growth. Whereas the gross margin improvement is because of the product mix. All of you are aware the ARV API's are not high gross margins, when compared to the rest of the business. So ARV API's for 25% or less than 25% of our sales these quarters, the Q3. Our EBITDA margin improved because of that, sorry gross margin improved because of that.

Tushar Bohra: Sir how much of the capacity is not revenue generating today? Or, let's say, so how much of the cost can be attributed to capacities that will start contributing, meaningfully going forward? New capacities?

Dr. S Chava: Ravi do you want to answer this question.

V V Ravi Kumar: Yes, whatever be the new additions, we have done capitalization this year, that is not generating any revenue Tushar.

Tushar Bohra: So how much as a gross block or the cost of these facilities in operating costs, some metrics there.

Dr. S Chava: I'll give it gross block wise, 25% of our CAPEX is not yielding revenues right now.

Tushar Bohra: 25% of your CAPEX done over FY 2022?

Dr. S Chava: No, no, 25%, our gross block.

Tushar Bohra: 25% of your gross block.

Dr. S Chava: Yes.

Tushar Bohra: So it would be fair to assume said that at least 300 to 400 bps slippage would be only because of this new capacity, which is not yielding revenue, and not necessarily operating leverage.

Dr. S Chava: Yes, you're broadly in that direction sir.

Tushar Bohra: Different question. Now, we see a significant contribution from synthesis this quarter. And, and below normal contribution in that sense from the ARV API. Is it fair to assume that there would have also been some gross margin compression on the API side, and therefore, the overall addition from synthesis in margin is much higher than the 200 bps suggest?

Dr. S. Chava: We can't give the margins that granular.

Tushar Bohra: Okay, I won't ask for specifics. But is it fair to assume, sir, that our synthesis margins would be significantly higher than the corporate average?

Dr. S. Chava: Yes, it's yes,

V V Ravi Kumar: Yes.

Tushar Bohra: And likewise, formulation margins would be reasonably higher than the corporate average.

Dr. S. Chava: Maybe synthesis, formulations and other ARVs and ARVs. That's the order.

Tushar Bohra: Sure. So finally, one last question, if you can help understand qualitatively, what are the things happening on synthesis side, I mean, we are talking about INR 800 crore run rate annualized today, and if I do the math correctly, 25% of your revenue in three years, could be about INR 2,500 crores to INR 3,000 crores. So you're talking almost a 3x to 4x jump in synthesis over a three-year period. Just help us understand the demand side break down to this? Do we have specific contracts in place or what kind of discussions we having something that would help us understand this pull up, sharp pull up.

Dr. S. Chava: We can give you a very broad view. So we're building a dedicated facility for the contract which we have signed. As of now the contract is not giving any revenues. So that's one significant we have contracts in place multi-product multi-year. And two products which may go from phase two to phase three and commercial in next two to three years. Those are also very significant. We have the only one source for those projects. And we have a lot of projects, lot of customers that were added into CDMO. I'm not saying every product will be successful with every

customer. So that risk is there in CDMO about but we have a lot of projects. And we are building capacities to take on those opportunities.

Tushar Bohra: So this new project that we are referring to, for which you are building up a dedicated capacity, it would be fair to assume that it is sizable in context of current synthesis revenues.

Dr. S. Chava: Very sizeable.

Tushar Bohra: Okay, fair enough. Thank you so much and wish you all the best for the coming quarters.

Moderator: Thank you. We'll move on to the next question that is from the line of Nitin Agarwal from DAM Capital. Please go ahead.

Nitin Agarwal: Hi, thanks for taking my question. Dr. Chava on the other API business. So rather, let me go top down first, you have talked about the fact that FY '23 you're still holding the belief that you can achieve a $1 billion top line, now that's almost a INR 7,400 crore - INR 7,500 crore top line, you know, versus what's the top INR 4,000 crore run rate we had for the quarter, very large jump that we are talking about from a very short period of time, and you said that this is subject to some of the approvals coming through on time. Sir, in which segments are these approval this guidance contingent on, which segment these approvals would be in our business.

Dr. S. Chava: Diabetes and cardiovascular, they are the two where we are expecting approvals. And at the same time, you are seeing the run rate of Q3. So this year, if you look at nine months, we have done INR 3,500 crores. So your run rate of INR 4,000 crores for this year is on the lower side. Okay.

Nitin Agarwal: Fair enough Sir. And on diabetes and cardiac that you mentioned. So these are approvals on the formulations on the API side and any specific market that we're looking at where the approvals are contingent?

Dr. S. Chava: Well, Europe as well as the North American markets.

Nitin Agarwal: Okay, and this would be the primary driver for our other API business?

Dr. S. Chava: Other API and formulations growth.

Nitin Agarwal: Okay. And what would be our currently assuming once the API or the ARV formulation business normalizes at the current 6 billion capacity, what is the capacity utilization of a formulation plant right now?

Dr. S. Chava: Right now, it is very good, actually. So not much of spare capacity available now. That is a reason we are building in a phased manner, from in fact next month onwards.

Nitin Agarwal: Sir when do you see this capacity of 10 billion getting completely utilized? You know, in your assessment?

Dr. S. Chava: By maybe the early first quarter of 2024.

Nitin Agarwal: Okay, and lastly, on the oncology business, oncology API business, how should we look at that business are there newer molecules that we are looking to add in the segment? Or do you see opportunities for significant volume growth in the existing products?

Dr. S. Chava: It's both sir. Both.

Nitin Agarwal: Okay, thank you sir.

Moderator: Thank you. We move on to the next question better from the line of Ranvir Singh from Sunidhi Securities. Please go ahead.

Ranvir Singh: Thanks for taking my question. So my question relates to our aspirational goal to have $1 billion revenue by FY 2023. So just wanted to understand if you could explain in little detail, because going by the API revenue, you're saying we will not be able to reach the historical peak on ARV segment, and that 25% upside in next two years, the next three years in CMO. So just wanted to you know, understand that how much because even nine months figure annualized or even better gaps $650 million kind of -- $650 million kind of revenue. So $350 million remains a gap for FY '23. So that I wanted to understand.

Dr. S. Chava: In the API space from November onwards, until April this year, we are adding 25% more capacity than what we had earlier. That's very significant. And as we are discussing, our formulation capacity is almost doubled. Going to be doubled from the current capacity to the expanded capacity. So, what we need to have first one is capacity second one is products approval and then customers. So, we have capacity, we are in the process of getting approval and the customers are happy to buy. So, why we are saying aspiration at billion for that we need to have capacity first which we have done. And then approvals are going on. And our customers are happy to buy from us because we are not adding new customers, we are increasing sales to our existing customers. So, that is the reason we are still comfortable with that number.

Ranvir Singh: Okay, and that mix on ARV API side, I think one of the participants asked that average the kind of normal revenue where we see the normal revenue on quarterly basis coming to, because if I factor the restocking cycle and de-stocking cycles, the average should be some INR 350 crore - INR 400 Crore kind of revenue. So, are we reaching there?

Dr. S. Chava: Yes, we expect Q4 onwards we will reach that level, closer to INR 400 crores ARV APIs.

Ranvir Singh: Okay. And in your commentary, you said that three elements actually was challenging, availability of raw material, logistics and prices of certain products. So availability of raw material did you mean related to ARV API or some other API.

Dr. S. Chava: Other APIs. Not specifically ARVs.

Ranvir Singh: What is your status now?

Dr. S. Chava: It has improved. See the availability is there, but we had to pay a higher price.

Ranvir Singh: Okay. Okay fine. And last one, what is your current debt? After this expansion, we believe that debt would go up. So what is status right now?

Dr. S. Chava: Ravi?

V V Ravi Kumar: Around INR 1,750 Crore debt. As we indicated before, by March our debt is going to increase but from next year onwards, we are expecting debt to be reduced.

Ranvir Singh: Okay. Okay, that's it for my side. Thanks a lot, and all the best.

Moderator: Thank you. The next question is from the line of Tarang from Old Bridge Capital, please go ahead.

Tarang: Hello, Sir good morning four questions from me. First on the synthesis business. Sir this business largely entails manufacturing of intermediates or API's or both?

Dr. S. Chava: Both.

Tarang: Okay. So as you move forward with this business and we ramped it up, what proportion of your revenues here are likely to be from new molecules either commercialized or in the process of commercializing?

Dr. S. Chava: As I mentioned by FY '25. So we have a strategy to take synthesis division revenue contributing a quarter of our total revenues.

Tarang: All of it would be from new molecules, right under commercialization, trials or getting commercials.

Dr. S. Chava: From new clients or existing contracts, new products.

Tarang: But NCE largely.

Dr. S. Chava: NCE yes, you're right. See this division, our approach is we don't add the CMO of generic API synthesis. CMO of generic APIs will go into generic division only. So, these are one product one customer business comes here.

Tarang: Got it. Amongst the plans that we have here are these FDA approved capacities.

Dr. S. Chava: Currently, capacities are all FDA approved. The one we are building will also go through approval when, when we validate products.

Tarang: Got it. And last, how much of the CAPEX for nine month FY provision?

Dr. S. Chava: About INR 700 crores we did CAPEX first past nine months.

Tarang: Plan for the next three months would be?

Dr. S. Chava: FY 2022 and FY 2023 our CAPEX will be in the range of INR 1,500 crores to INR 1,700 crores. So that number is still valid.

Tarang: Got it. Thank you, sir. Thank you so much.

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

Krish Mehta: Thank you for taking my follow up. So basically, as you mentioned, the future possibility of this 25% of your gross block being utilized, could you actually throw some light on what this future revenue possibility might be of this 25% that's not being utilized.

Dr. S. Chava: As we explained, we have built this facility to meet our product demand and our customer demand. So we can't give you a specific number, but see, is the asset turnover ratios if you look at is about between 1.25 and 1.5. So it'd be in that level.

Krish Mehta: Okay. Thank you.

Moderator: Thank you. We'll move on to the next question that is on the line of Aejas Lakhani from Unifi Capital, please go ahead.

Aejas Lakhani: Hello, Yes, thanks, Dr. Chava. My questions are answered. But since I have the opportunity, just wanted to understand that from a gross margin perspective, and EBITDA perspective, can you give some guidance for or how you are thinking about FY 2023 and FY 2024.

Dr. S. Chava: For the last several quarters, we were saying, although we had a much higher than 30% EBITDA, but we were talking to our investors, saying that we are confident to maintain 30% EBITDA for FY 2022 and beyond. If you look at our nine months, we were very close, we are more than 29% and I think 29.5% EBITDA for nine months. And then Q4 we are also confident to achieve the 30% EBITDA. So we are comfortable to say again, that our business now is capable of generating EBITDA margins of 30%, around 30%.

Aejas Lakhani: Got it. Thanks a ton, Sir. I am done.

Dr. S. Chava: Thanks

Moderator: Thank you. The next question is on the line for the Ritesh Rathore from Nippon India. Please go ahead.

Ritesh Rathore: Yes, thanks for giving opportunity again. In ARV API, how has price movement happened from the peak? How much would have been the correction from the peak?

Dr. S. Chava: It is 2% to 3% lower than the earlier.

Ritesh Rathore: Okay, okay.

Dr. S. Chava: It is not big. See it is a highly matured products. So none of them are newly launched products. So products are matured. So, price fluctuation is not significant.

Ritesh Rathore: And sir in terms of both API, ARV API and formulation, are there any new players which have got impaneled by the global tenders of PEPFAR and all the old players who are impaneled are they becoming more active? What's the competitive scenario you're sensing for next 6 to 12 months?

Dr. S. Chava: In the formulation space, we can expect one or two new players coming in. But then the API space, at least in the next 12 to 24 months, we haven't seen anyone investing big infrastructure to get into the ARV API space.

Ritesh Rathore: Okay. That's it sir. Thank you.

Moderator: Thank you. The next question is from the line of Prashant Nair from Ambit Capital, please go ahead.

Prashant Nair: Yes, hi, Ravi, just one clarification on your margin comment which you made earlier. So when you said that you're confident of maintaining 30%

EBITDA margin. Was that for the fourth quarter or was that for the full year as a whole?

V V Ravi Kumar: Full year.

Prashant Nair: Okay, so you believe you can make up some of those over the nine months, I think you're at 29.2% or 29.3%. So that you can make up in the fourth quarter?

V V Ravi Kumar: Yes, that we can make up Yes, yes.

Prashant Nair: Okay, fine. And secondly, just a follow up question to what the earlier participant asked on pricing. So, on ARV formulation, while volumes have been lower in the tenders has pricing also corrected to the last say 3-4 quarter?

Dr Satya: Pricing corrected in the ARV formulations. See here when we are saying pricing is not like 5%-10% reduction, like what we are here in other regions, it is the 1%-2% reduction in the pricing.

Prashant Nair: Okay, fair enough. Thanks a lot. That's it for me.

Moderator: Thank you ladies and gentlemen due to time constraint we will be taking the last question that is from the line of Dhaval Shah from Svan Investments. Please go ahead.

Dhaval Shah: Hello, Hello Dr Chava. Just I am not understanding, on the ARV side like when we'd be discussing about ARV business in the past couple of quarters and years, we always had a good visibility of our volumes. So, in last three quarters what happened in terms of the procurement by the agency is that we saw this dip in our volumes. Just for from my understanding if we could please explain.

Dr. S. Chava: See if this decline is only for Laurus Labs, then it is a concern that means we are losing market share and somebody is gaining. This you might have seen from our listed companies, how much the ARV revenue decline they have shown. Then we have done better when compared to them. So this decline in ARV APIs is only transient. Our ARV APIs depends on how our customers are successful in tenders. Whereas our formulation sales follows the general trend of the other formulation company. So if you look at our decline in ARV formulations sale is less when compared to the ARV API sale.

Dhaval Shah: Yes okay. So, I mean, you mentioned you may maintain around INR 1,500 crores- INR 1,600 crores of aggregate on the ARV API which will be on a quarterly basis will be much lower than what pace we had around INR 550 crores odd. Why is less number? So what is changing in the end market?

Dr. S. Chava: Maybe we're cautious in saying that numbers.

Dhaval Shah: Okay. Okay, fair enough. So thank you.

Moderator: Thank you. Ladies and gentlemen. That was the last question. I'll now have the conference over the management so the closing comments.

Dr. S. Chava: Thank you, everyone, for your interest and patience and asking some very insightful questions which will help us to reshape, realign any of our priorities. Thanks to Monish and Mr. Vivek. And Ravi Kumar.

VV Ravi Kumar: Thank you, everyone. Thank you.

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