LAURUS Labs
Chemistry for Better Living

July 29, 2025

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Dear Sir / Madam,

**Sub: Transcript of the Q1 FY '26 Results Conference Call hosted on July 25, 2025**

Pursuant to Regulation 30 & 46 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and with reference to our results conference call intimation dated July 09, 2025, please be informed that the results conference call for Q1 FY26 was hosted on July 25, 2025 and the transcript of the conference call is enclosed herewith.

This is for your information and records.

Yours faithfully,

For **Laurus Labs Limited**

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# “Laurus Labs Limited

# Q1 FY‘26 Earnings Conference Call”

# July 25, 2025

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

**MODERATOR:** **MR. NITIN AGARWAL -- DAM CAPITAL**

**Moderator:** Ladies and gentlemen, good day, and welcome to the Q1 FY '26 Earnings Conference Call of Laurus Labs hosted by DAM 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nitin Agarwal from DAM Capital. Thank you, and over to you, sir.

**Nitin Agarwal:** Thanks, Steve. Hi, good afternoon, everyone, and a very good evening and welcome to Laurus Labs Q1 FY'26 earnings call, hosted by DAM Capital Advisors Limited. On the call today, we have representing Laurus Labs management Dr. Satyanarayana Chava, Founder and CEO; Mr. V.V. Ravi Kumar, Executive Director and CFO; and Mr. Vivek Kumar, AVP, Investor Relations. I hand over the call to Dr. Chava to make the opening comments, and then we'll open the floor for questions. Please go ahead, sir.

**Satyanarayana Chava:** Good afternoon to all our stakeholders. The company made healthy progress to start the financial year with increasing contributions from CDMO business and continued advancement of our pipeline with Big Pharma. We're moving ahead with strong focus on commercial execution, realizing the full potential from mid and late-stage pipeline programs and rapidly enhancing our service capabilities to meet complex needs of our customers and drive future value creation for all stakeholders.

We announced three major capacity expansions during the quarter First one, microbial fermentation Phase 1 Greenfield project at Vizag; the second one, gene therapy and antibody-drug conjugate GMP facility at Shameerpet. The third one, finished formulation facility in Hyderabad under the Krka joint venture.

These investments will create more opportunities for growth and further strengthen our ongoing commitment of being a strong manufacturing partner on some of the new technology platforms at scale.

Moving on to our financial results. Our Q1 performance was in line with our expectations with the revenues of INR1,570 crores, reflecting robust demand for our CDMO offerings and continued growth in the formulation business.

Gross margins further expanded and are at 59% range. And EBITDA margins expanded by 10.5 percentage points to close to 25%, following better operating leverage, product and segment mix. As we look forward, we remain confident in our outlook for improved growth in the rest of the year.

To begin, I'd like to share key updates on our CDMO business. We are seeing a very good progress in this division with sustained demand in our high-value integrated offerings. We achieved very strong growth for the Q1, registering a sales of INR493 crores. This growth was

mainly driven by several mid- to late-stage NCE deliveries and the increase in sales from new manufacturing assets.

Pipeline momentum was healthy across clinical commercial phase with the mix shifting towards increased Big Pharma projects. In specific, a lot of customer interest seen around biocatalysis, flow chemistry, high-energy chemistry, continuous manufacturing, peptide manufacturing, etc. As on date, we have a pipeline of over 110 active projects, over 90 in Human Health and about 20 in Animal Health and Crop Sciences.

We continue to invest in our capabilities and commercial offerings in line with what market needs. Accordingly, additional capacity buildup is in progress, particularly in relation to complex molecules, including peptides. When it comes to Laurus Bio, our large molecule CDMO division. This division reported subdued Q1 sales of INR29 crores, which was flat year-on-year. The sales impacted from customer specific scale-up challenges.

However, we remain focused on building strong diversified pipeline across segments and customers. We have a few potential long-term partnerships under discussion with the new and existing CDMO partners, utilizing enzyme engineering platform. As we discussed, construction work for the commercial scale fermentation facility in Vizag commenced in this quarter. The plan is to create over 400 kiloliter capacity in Phase 1, which is expected to go online by the end of 2026.

We believe the new site will further accelerate on high-quality CDMO service capability and growing our industry position. In Generics, the division reported a growth of 12% and achieved sales of INR1,048 crores. This was mainly supported by volume expansion in both ARV and developed market sales. Quarter also seeing execution of contracts signed last year, which helped the improvements in our capacity utilization.

On filings, we filed over 90 DMFs till date and also 1 dossier filed in formulations and 3 approvals received in Q1. Cumulatively, we have filed 88 products. Overall, demand outlook largely stable in generics business. Our focus continued on rebalancing the generic R&D and manufacturing resources, mainly to enhance product pipeline and meeting the delivery commitments.

On R&D front, overall R&D spending to sales in Q1 was at 4.3%, which is about INR68 crores for the Q1, which was increased by about 6% year-on-year. The expenditure, including our spend on cell and gene therapy. The R&D spend is in line with our full year target, and we continue to invest in portfolio with product-specific approach based on complexity and scale economies besides accelerating the adoption of sustainable technologies.

Let me share brief on quality. In Q1, the company underwent close to 39 quality audits by multiple regulatory as well as key customers. Company has successfully passed audit inspections without any critical findings. In summary, our technology platform commercial performance today continues to enable meaningful advancement of pipeline projects as well as business development opportunities.

We remain confident in our strategic direction and commitment as the source of value creation now and well into the future. With that, I would like to hand it over to Ravi to share some financial highlights.

**V.V. Ravi Kumar:** Thank you, doctor, and a very warm welcome to everyone for this quarter 1 FY '26 earnings call. Total income from operations is INR1,570 crores with a growth of 31% year-on-year. And the momentum has come from the CDMO and the Generic division business. Gross margin maintained very healthy, 59%, which is more than 4% due to the better product mix and process improvement efforts apart from that raw material price improvement also.

EBITDA for quarter 1 stands at INR389 crores with a margin of 25%, progressively improved versus full year for FY '25. Profit after tax for quarter 1 is INR163 crores. ROCE stands at 13%. But of course, the continued capex investment, which has not improved, though it has improved by 3% versus FY '25. On the capex front, we invested close to INR265 crores for the quarter. Our net debt stood at INR2,388 crores with a debt to EBITDA of 1.8 versus 2.3 for the last quarter.

On the capital allocation front, our strategy remains unchanged, and we will continue to prioritize investments into high-value business segments to drive near- and long-term growth and returns for our shareholders. You can refer our IR presentation for more details. With this, I would request the moderator to open the lines for Q&A. Thank you.

**Moderator:** The first question is from the line of Bharat Sheth from Quest for Value.

**Bharat Sheth:** Yes. Firstly, I'd like to congratulate Dr. Satya and Ravi ji, for delivering a good set of numbers. And I would also like to especially congratulate Krishna Chaitanya for delivering exceptional CDMO numbers consistently from past few quarters.

And coming to my questions, so there is a significant jump of gross margin in this quarter. It increased by around 500 basis points. We are now at 59.5%. Can we expect this kind of high gross margin will be maintained in future too as the share of CDMO increases? Or do you see it as a one-off and it's too early to expect this kind of high gross margin?

**Satyanarayana Chava:** If you look at our gross margins over several quarters, we're always informing and also maintaining around 52%. Now you can say as the contribution from CDMO business increases, we expect the gross margins will remain between 55% to 60%. That's what we expect in the coming quarters.

**Bharat Sheth:** And if you see the past trend, sir, CDMO in Q1 is generally weaker. And as the year passes by, Q2 will be better, and Q3 will be much better and Q4 would be the top. And generally, H2 will be much better than H1. But this time, surprisingly, if you see CDMO in Q1 is very, very strong. It is even better than last year's Q4. So on this base, do you still think H2 will be better than H1 for CDMO in FY '26 too?

**Satyanarayana Chava:** The CDMO business, you can't count quarter-on-quarter. But we expect good growth over last year for sure. Our manufacturing and delivery depends on their clinical programs. So it will be bumpy, but we see we are in a good shape right now on our CDMO segment.

**Bharat Sheth:** Okay. Good. And my last question is that currently, if you see the current cycle of Global Fund tender, which is generally for 3 years, it is going to end, I think, if I'm not wrong, it will be going to end by end of December. May I know if Laurus has won the next tender cycle?

**Satyanarayana Chava:** Generally, they will run the tender a little later, end of maybe September, October. See, if you see our trend, we are very successful in getting good share of that tender, and we don't see any challenges there.

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

**Jeevan Patwa:** Sir, firstly, congratulations to the entire team for whatever hard work we have put in the last few years, I think that has started showing the results. I'm very happy for it. Only question I have is on the bio side. So on the food protein side. So we are basically about to set up a facility for 2 million liter and then 4 million liters. So on the food protein side, what is the progress, sir? Are we now started putting any work there? If orders have been placed for the reactor? Where are we in that?

**Satyanarayana Chava:** As I mentioned, Jeevan, we are installing 400 kiloliters of fermentation capacity in Vizag greenfield project that's the Phase 1. As you mentioned, overall capacity at that site will go to 2 million liters in 2 more phases. In Phase II, Phase III put together, it will go to 2 million liters. And we have very good visibility about the utilization of that fermentation site, which product, which customer and all. Like we are gaining confidence and gaining visibility in our small molecule CDMO segment. We're also seeing a lot of visibility now what customer, what project, what price, what time lines on our large molecule CDMO. As you were talking about our focus on food proteins, we are focusing also on other proteins, cosmetic proteins, some polymers produced by fermentation. So the offerings are becoming very interesting, which are also at scale.

**Jeevan Patwa:** Wonderful, sir. And second question I have is on the ImmunoACT. So how do you see the ramp-up in number of capacity, I understand it will come on stream by September. But in terms of the response from the market, I just wanted to understand your feedback on that. How is the response from the market? Are we also seeing foreign national travelling to India to get this treatment done in India since the cost is much lower?

**Satyanarayana Chava:** There are some more treatments offered to foreigners. That was based on the hospitals choice. What is also happening, we are also trying to build overseas presence by entering partnership with some Big Pharma in those regions. Maybe in the near future, we'll give you more details on our global expansion of CAR-T therapy using ImmunoACT.

**Jeevan Patwa:** Okay. Great, sir. And third, last is on the gene therapy, sir. So we are setting up a viral vector facility in Kanpur, right? So any update there, sir?

**Satyanarayana Chava:** So there is a change in our approach because our thought process changed from 2,500 square meter facility to 6,000 square meter facility. So there is no space available at Technopark in Kanpur. So we have moved idea of that facility to Hyderabad, Genome Valley, where we have broke the ground for a 6,000 square meter facility. And whatever gene therapy, viral vector and also that building houses antibody drug conjugate GMP facility as well. So because we have added another therapy ADCs, we thought to move to Hyderabad.

**Moderator:** The next question is from the line of Rahul, an individual investor.

**Rahul:** Congratulations on the great set of numbers. Dr. Chava, if you can possibly paint a picture for us. Over the last 5 years, we've kind of come a long way and the product mix has changed and now we see the CDMO revenue contributing to 30-plus percent. Last probably 5 years ago, it was less than 10%. At this point, we see the contributions from Bio division to be less than 5%. How do you see this product mix changing 5 years out? What is the vision of the company over there? If you can share a bit on that? I'd be interested in listening.

**Satyanarayana Chava:** While we continue to focus on our core, which is APIs and integrated offerings in generics, we are also increasing our investments, capex, resources and technology platforms to offer a wide variety of services for late clinical and commercial Human health, Animal health and Crop science programs. As we've mentioned, currently, the CDMO contributes over 30% of our revenue. We expect it will continue to grow. In the near to medium term future, we expect it has the potential to touch 50%. That's our guesstimate.

**Rahul:** Like just a hypothetical question. At any point in time, do you see these divisions becoming big to the extent that there may be a possibility of listing these as separate entities and business?

**Satyanarayana Chava:** We don't have any plans for that.

**Moderator:** The next question is from the line of Chirag Shah from White Pine Investment.

**Chirag Shah:** Congratulations on a good set of numbers. So my first question is on gross margins that we have seen. Would it be right to assume that the gross margin improvement is driven by non-CDMO business significantly or largely because CDMO gross margins would largely be static in a range, right, maybe 5% deviation here and there.

So would it be a right statement to make that the sharp improvement in gross margin over the last 6, 7 quarters that we are seeing is driven by the non-CDMO business, and it would be now almost closer to what we were 3 years back?

**Satyanarayana Chava:** If you look at our quarter-on-quarter performance, our revenue decline came from ARVs and other generics, whereas there was a growth from CDMO. So I think these 2 contributed to the gross margin expansion.

**Chirag Shah:** But sir, would it be a right statement that in gross margin -- in CDMO, your gross margin would reasonably be stable irrespective of the stage of project, whether it's an early stage or late stage? Or it materially varies gross margins on the stage of the project that you are?

**Satyanarayana Chava:** You are right. Generally, the gross margins remain similar irrespective of stage and scale of the project.

**Chirag Shah:** Maybe that answers my question. And sir, then in that case, which part of the non-CDMO business has been contributing to margins? Because if I do some mathematics, there is a significant improvement of almost 700 bps to 1,000 bps in non-CDMO gross margin. So is it the ARV part or FDF part which is driving? Or if you can just share some light?

**Satyanarayana Chava:** It's majority came from non-ARV.

**Chirag Shah:** Major came from non-ARV. And is there further scope of improvement growth there? Or rather what is driving that non-ARV performance?

**Satyanarayana Chava:** It's based on some shipments. As I mentioned, we expect the gross margins remain between 55% to 60%. Earlier we used to say around 55%. Now we are saying it will be between 55% to 60%. So that's very healthy, and we expect we'll be able to maintain that.

**Chirag Shah:** Sir, one last question. Any prebuying that you have witnessed or any indication of prebuying given the perpetual risk of some tariff that could come across? Sir is there any prebuying that you are witnessed from your customers?

**Satyanarayana Chava:** I think it's a very difficult question to guess an answer because we have to wait. And as you have seen from our results. See our dependency on formulation sales to U.S. are not that significant. So yes.

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

**Tushar Manudhane:** Sir, just on CDMO business, now that the animal health facility is commissioned, even agrochemical. So has this contributed meaningfully for the CDMO business for the quarter? Or the other way to ask is if you could break the CDMO business into Human health, Animal health and the Agrochemical and Ingredients?

**Satyanarayana Chava:** The contributions from Human health and Animal health were there in this quarter. Nothing significant from crop sciences in this quarter.

**Tushar Manudhane:** So will that come up in the coming quarters? Is that the fair assumption or it would take some more time

**Satyanarayana Chava:** We expect meaningful revenues from crop sciences will only come next financial year.

**Tushar Manudhane:** Sir, just more on this aspect. From a return on investment perspective, like the KL facilities whether to utilize for the ingredients, for Human health or Animal health or Crop sciences. Now

sort of is it the similar chemistry and hence, it's just a different application or how to think about it strategically for next 5 to 6 years?

**Satyanarayana Chava:** So the facilities for animal health are segregated and dedicated. We can't use that for Human health or Crop sciences. Similarly, the Crop science facilities are also segregated and dedicated. So those can be used for only Crop sciences. So interchangeability of these 2 facilities are not possible. Whereas Human health, we have large capacity where we can do these projects in multiple sites at multiple scales.

**Tushar Manudhane:** Understood, sir. And just lastly on Bio side, where there has been certain issues with the customer. So probably if that customer comes back or if we have new customers, like tentative time line approximately for this business to sort of revive

**Satyanarayana Chava:** There is no challenge. It's only delay. The project now the bottleneck was resolved. Things are back to normal. And we don't see any big challenge achieving what numbers we thought at the beginning of the year.

**Moderator:** The next question is from the line of Sajal Kapoor from Antifragile Thinking.

**Sajal Kapoor:** Yes. Dr. Satya, any progress update you can share regarding the Willow Bio and AI-driven bioengineering platform partnership we are progressing with? I mean what advantages does bioengineering provided over conventional chemical synthesis in terms of efficiency, cost and sustainability, please?

**Satyanarayana Chava:** Sajal what programs we are working with Willow using their AI-driven enzyme engineering platform, primarily hydroxylation platform. Adding hydroxy groups on steroidal backbones. That's the one we are working. There are multiple programs. Maybe in this financial year, one program will go from lab to pilot mode. And we expect 2 more programs in the next financial year.

**Sajal Kapoor:** And do we expect the learnings out of this program to be kind of integrated into some of our future ventures? I mean because Bio is a very emerging promising area and we are just exploring the unhealthy tip of the iceberg.

**Satyanarayana Chava:** Our partnership with Willow is primarily meant for steroids and hormones. Our Bengaluru team is doing development, whereas Willow is doing research. I think they identify the enzyme and then they give it to Bengaluru team for optimization. So that partnership is working well. And currently, we are not intending to use that technology on any other program right now.

**Sajal Kapoor:** Okay. Understood. Ravi ji, this new capex investment of over INR5,000 crores that you have announced in Andhra Pradesh, I guess will be executed over multiple phases and years. So if my assumption is correct, can we, therefore, anticipate maintaining a healthy net debt-to-EBITDA ratio despite this massive growth capex?

**V.V. Ravi Kumar:** Yes. As we indicated before, we are going to invest INR5,000 crores in the next 5-year time. I think internal cash flows will be sufficient to take care of it. As we indicate, we don't want to make our net debt more than 50% of our revenue at any point of time.

**Sajal Kapoor:** Sure. And finally, in the context of Trump's make in America, Big Pharma is investing heavily in biologics, gene therapies, weight loss drugs, even diagnostics and more to expand capacity and strengthen their supply chain. So many of them from Roche to AstraZeneca to Eli Lilly, almost all of them have announced multibillion dollar capex in the U.S. So how will these investments by innovators in the U.S. affect the outsourcing and CDMO industry?

**Satyanarayana Chava:** These Big Pharmas have a very large pipeline. Maybe part of the supply chain will be located in U.S., part of the supply chain located outside. We have to see how it evolves. Everybody is announcing a lot of investments in U.S. But we don't see beginning of impact. So as you mentioned, they will not move core chemistry to U.S. They may move cell and gene therapy, finishing steps. So the demand for intermediates will remain constant or increasing maybe.

**Sajal Kapoor:** And maybe small molecule APIs as well, that's not going to move to U.S.

**Satyanarayana Chava:** Yes. That's what we believe, yes.

**Moderator:** The next question is from the line of Vivek, an individual investor.

**Vivek:** I have a question regarding the Laurus Bio, sir. You have mentioned that there is a pricing challenge in that particular slide for the Laurus Bio. Could you please share the details on the pricing challenge? And the second question is that how big it can become in the next 5 to 10 years at Laurus Bio itself?

**Satyanarayana Chava:** See, the pricing challenge at Bio pertains to hiring reactor months to product billing. So that was the one shift happened because in the trials since we don't know how many days fermentation will take, how many days the downstream processing happens. So customer used to pay per month or per batch. Once the product stabilizes, then the billing will go to per kg. So that's the pricing shift happening for them when the product mature.

And the question regarding the opportunities in the next 5 years, we see significant potential. That is the reason we are investing a lot of money in greenfield projects. As we mentioned, the Phase I itself, we are creating 400 kiloliters capacity and eventually, it will go to 2 million liters fermentation capacity.

**Moderator:** Next question is from the line of Abhijit, an individual investor.

**Abhijit:** Yes. Great set of numbers. I have a question with regards to the FDF. If you can see on a quarterly basis, there has been a reduction. The volatility in these numbers have been there for the last 4 quarters as in the presentation. So is this going to continue? Is there any stability that is going to be there in the generic FDF and generic portfolio? That's one question.

**Satyanarayana Chava:** The majority delta in our sales in FDF is coming from how many millions of packs of antiretroviral we are shipping in the quarter. So overall, we are shipping the same numbers, but depending on the approvals from various countries to ship logistics and all, revenue recognition because most of them are sea shipments. So those are the factors contributing to the variation in the generic formulation sales.

**Abhijit:** Okay. My next question is with regards to this crazy move that everybody is making in India and globally about peptides and the opportunity for GLP-1 and weight loss drugs basically and also other peptide products. Is there any opportunity that is available for Laurus also in this space?

**Satyanarayana Chava:** We believe so.

**Abhijit:** Okay. You don't want to go more further about it? I mean you don't want to disclose, I guess. Is that correct?

**Satyanarayana Chava:** Yes.

**Moderator:** The next question is from the line of Ankush Mahajan from Santam Wealth.

**Ankush Mahajan:** Congrats for a good set of number. Sir, can I get a breakup of this INR5,000 crore capex, how much is going for the CDMO over the next 5 years?

**V.V. Ravi Kumar:** No, we have not disclosed that. It will interchange based on the business opportunities.

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

**Tushar Manudhane:** Just a bookkeeping question on the ARV business, if you could give break up of formulation and API please?

**Satyanarayana Chava:** Yes. Just give me 1 minute, we'll give you the ARV APIs is INR363 crores and formulations is INR284 crores. About INR640 crores both put together.

**Tushar Manudhane:** The non-ARV formulation we've seen a bit moderate run rate over the past maybe few quarters, if you could share how we sort of think of growing business in this segment?

**Satyanarayana Chava:** We are expanding our capacity for non-ARV formulations and which will be qualified by end of this year. So we can expect non-ARV formulations should grow from Q4 onwards.

**Tushar Manudhane:** But on the product approval side also, there has been bit slow, correct me if I'm wrong.

**Satyanarayana Chava:** Revenue growth primarily comes from contract manufacturing of integrated formulations, both the API and FDF. We are doing tech transfers. Once the capacity is qualified, we don't see lag in revenues.

**Moderator:** The next question is from the line of Chirag Shah from White Pine Investment.

**Chirag Shah:** And sir, apologies on going back to the gross margin point. So on the non-ARV side, would it be a right statement that we are almost at the peak gross margins that we had in the past, say, around 2021? On the non-CDMO aggregate gross margin, which could be a function of which I'm not going into those details. But non-CDMO gross margin would be closer to the peak maybe of FY'21 or '22 that we had?

**V.V. Ravi Kumar:** Yes, it's a difficult, but maybe closer.

**Satyanarayana Chava:** You are right we had a very good gross margin. I'll put it that way.

**Chirag Shah:** Yes. Sir, my actual question is, so what are we doing from here on to improve that part, that piece of gross margin further?

**Satyanarayana Chava:** As we grow our CDMO business, today, we haven't achieved operational efficiency, still a lot of unutilized capacities and all. As we grow our revenues, we are not going to grow our R&D and quality staff proportionately. We are going to increase other expenditure proportionately. If you look at when our revenue was less, our cost of employees went up to 16%, 17%. Sometimes it was around 10%. So we are at the beginning of that benefit to operational efficiency.

Yes. Once we improve revenues, our percentage of expenditure will come down. So that is another metric, which will help us to improve our numbers, EBITDA as well as return on capital.

**Chirag Shah:** Sir, my question was more on the non-CDMO gross margins, is our business mix changing that it can see a significant uptick from what was the historical peak on the gross margin because that will directly flow through EBITDA and PAT also in that sense. So is the business model changing where we can see a higher peak gross margin in non-CDMO piece?

**Satyanarayana Chava:** I think there is no business mix change. There's only product change. In some products, we get more margins, maybe we might shift in this quarter. So it is fundamentally the business is not changing significantly.

**Moderator:** The next question is from the line of Nitin Agarwal from DAM Capital.

**Nitin Agarwal:** Doctor, on the CMO business, which we have in both API and formulations, can you give us some color on when do you see momentum picking up on those pieces? Because we've seen sudden flattening out of the API business in the formulation business ex of ARVs also, we've not seem to have picked up much over the last few quarters.

**Satyanarayana Chava:** It will pick up from Q4 onwards, Nitin, yes.

**Nitin Agarwal:** This is driven by certain specific contracts? Or what will drive the timing from Q4 onwards on these businesses?

**Satyanarayana Chava:** Right now, the tech transfer batches are going on in formulations. And the capacity enhancement is also going on parallelly. So both we expect will be handy to get higher supplies and higher revenue from Q4 onwards.

**Nitin Agarwal:** And for the APIs?

**Satyanarayana Chava:** API, what is happening with that contract, we are doing more integrated. So we're making API and converting that into formulations. So we don't expect the contract manufacturing or API revenues will grow. It will not grow to the extent formulations are growing.

**Nitin Agarwal:** Got it. And sir, on the API business, ex of the ARVs, last year, we had a bit of a slump in the oncology part. I mean, till the time you were disclosing that. I mean, how do we see the non-ARV API piece going forward? Are we seeing momentum coming in that business at some point in time?

**Satyanarayana Chava:** Not in the next few quarters.

**Nitin Agarwal:** And sir, what is the reason because of which there has been some challenge on this piece over the last?

**Satyanarayana Chava:** It's not a challenge is by choice, actually. The reason is we have allocated more resources to take up more CDMO projects instead of allocating to a significant number to generic API development. So we took that as a decision made by internal people.

I think we are also expanding our R&D strength. Once that is done, we will put resources back in development, validation of generic APIs. We also need capacity to do that. So there are multiple things. So right now, we made an informed decision internally to allocate resources to CDMO projects.

**Nitin Agarwal:** Okay. That makes sense. And sir, on the CDMO business, I think the question was asked earlier also, sir, because we've had 3 very strong consecutive quarters on the business. The growth has come through sequentially for the last few quarters on a Q-O-Q basis. Now on this base, sir how should we think about quarterly growth for this business? Is it going to be linear? Or we expect some lumpiness as we go forward?

**Satyanarayana Chava:** Overall year, we can comment it's going to be a healthy growth.

**Nitin Agarwal:** Okay. And probably some volatility on a Q-o-Q basis as we go through the quarters?

**Satyanarayana Chava:** We are not expanding that because of ARVs some business, we know very clear. See, it's not that we will get an order for CDMO in July and we deliver in September. It's not that. So this is a long lead time, we know very clear what molecule we're making, how much we are making, which is the customer, what price and all pretty well for this year. So we see comfortable and we expect good growth in CDMO revenues overall for the year.

**Nitin Agarwal:** And sir, if you can on the CDMO part, how many products are we supplying against which you're doing commercial supplies at this point of time. And typically, how should we think about typically given your pipeline, how many new products can get commercial typically on an annual basis given the pipeline over the next couple of years?

**Satyanarayana Chava:** It's difficult. We don't want to guess that number and confuse all the investors. So I think as you have mentioned, we have grown significantly in CDMO quarter-on-quarter for the last 5 quarters. And the numbers only will speak. That's what we don't want to forecast our partner products, yes. So when it comes to ARV, we are telling we'll be around INR2,500 crores plus or minus INR200 crores. We have visibility there. In CMO in generic, we have visibility. In CDMO, we don't want to guess and give a number.

**Nitin Agarwal:** Got it. And sir, in your opening comments, you made a few references to the fact that a lot of Big Pharma contracts supplies have started or are scaling up for our CDMO business. I mean, sir, if you can just probably on the studies, when you highlight the Big Pharma part, how should one read it? Is it essentially leading to larger contracts or these are more strategic partnerships?

**V.V. Ravi Kumar:** And Nitin, I think we are going beyond on the CDMO.

**Satyanarayana Chava:** I think we cannot disclose more than what we have done.

**Moderator:** The next question is from the line of Foram Parekh from Bank of Baroda.

**Foram Parekh:** Congratulations on a very good set of numbers. There was one comment made on the CDMO side, which was very big, that the contribution is now 30% of the sales, and we expect it to touch 50%. So can you give some more clarity? I mean, by when can we expect this kind of contribution to come in from CDMO?

**Satyanarayana Chava:** We mentioned it has a potential to go there. And we are not attaching any year to that. Okay.

**Foram Parekh:** Yes. But like somewhere in 5 years down the line, can we expect this kind of potential run rate?

**Satyanarayana Chava:** We are not giving any forecast there.

**Foram Parekh:** Okay. And secondly, on the ADC front, we have mentioned a couple of times that we endeavor to go into the ADC side also. So may I ask which part of the ADC are we looking at? Is it the payloads, linkers, bioconjugation? Any color on that?

**Satyanarayana Chava:** See, we already make payloads and linkers. And we don't want to make mabs. We'll do conjugation, purification and fill finish. That's the infrastructure resources we are building. Internally, we make payloads, linkers and then do bioconjugation, purification and fill finish. We will not make Mabs.

**Foram Parekh:** Okay. Got it. And out of this INR5,000 crore capex that we have announced, would it be possible to give some color there, like how much capex would go towards the ADC side?

**Satyanarayana Chava:** This new INR5,000 crores capex is in Vizag, none of that capex will go to ADC.

**Moderator:** The next question is from the line of Gaurav from Antique Stockbroking.

**Gaurav:** This quarter, we've seen a significant jump in your employee expenses, almost 21% quarter-on-quarter, year-on-year. Any nonrecurring expenses here? Or this is the new base?

**V.V. Ravi Kumar:** The part is nonrecurring in the sense, once in a year, actually, we are giving a long-term service awards for the people who stayed us for a longer period. And of course, there is an increment over the last year, last quarter. That's also reflected apart from the additional manpower.

**Gaurav:** So quarter-on-quarter, we may see some decline in Q2, right, from this?

**V.V. Ravi Kumar:** I don't say decline, but it will not have that kind of an increase.

**Satyanarayana Chava:** We're also expanding our team strength. So we keep on recruiting more and more to our expanded facilities. So it will maybe you can consider that as a new norm maybe.

**Gaurav:** Got it. On the ARV side, we've seen year-on-year growth in this quarter, but you're still maintaining your guidance of no growth for an overall full year basis. Any particular reason why still you're not seeing growth in this segment for the full year? Is it just uncertainty on the global tender?

**Satyanarayana Chava:** We kept some margin. We have seen significant price drops in ARVs. If there is no price drop, we may go a little better. If there is a price drop, our incremental volumes will compensate the price drop. So we are keeping that cushion when we are committing INR2,500 crores ARV plus or minus INR200 crores.

**Moderator:** Mr. Gaurav, does that answer your question?

**Satyanarayana Chava:** He must be dropped off.

**Moderator:** Yes, sir. We'll move on to the next question, it's from the line of Yasser.

**Yasser:** Congrats on a great performance. I like some qualitative inputs in terms of CDMO business. Is it large volume sort of chronic drugs? Are they in the rare or orphan space? Secondly, also what could be our mix between, say, Big Pharma and small biotech on the CDMO business?

**Satyanarayana Chava:** We can't give you therapeutic mix of our CDMO revenue. But the majority of revenues are coming from medium and Big Pharma, very less from small and virtual biotechs.

**Yasser:** Are we the primary source in these cases? Are these projects where Big Pharma customers want to diversify the supply, and we are probably a second source. Any sort of insights on that would be helpful.

**Satyanarayana Chava:** I think those insights are very difficult to divulge. I'm sorry.

**Moderator:** The next question is from the line of Abhijeet, an individual investor.

**Abhijeet:** I have a question with regards to the debt. So the net debt for EBITDA right now is 1.8. Obviously, it's come down because your EBITDA has gone up. What is the management's guidance for the debt over the next 2 years or next 3 years?

**V.V. Ravi Kumar:** We are not expecting a significant increase in the debt. So as we have said We will try to manage with 50% of our revenue levels, the annual revenue levels. That means debt by EBITDA, maybe 2, 2.5 is max.

**Abhijeet:** Okay. So 2, 2.5 is the maximum net debt to EBITDA levels. But the INR5,000 crores that you're going to plan to do in the next, I presume, next 3 to 4 years, right? We will not do it overnight. It will be 3 to 4 years.

**Satyanarayana Chava:** That's 4 to 5 years.

**Abhijeet:** Okay, 4 to 5 years, you are going. what is the breakup? Like are you going to do internal accruals or you are planning to do more JVs with other companies? Or you want to do mostly everything yourself?

**V.V. Ravi Kumar:** Mostly from the Laurus Labs side and majority of funding will be through internal accruals.

**Abhijeet:** Okay. And another question is with regards to the business strategy. Are you looking at more opportunity because of this tariff tantrum that is happening around in the U.S.? I know that Laurus does not have a large amount of exposure to the U.S. market directly apart from the generics. In the other space more complex drug products, is there any opportunity that is coming about? Are there any meetings going on with the large companies?

**V.V. Ravi Kumar:** No.

**Satyanarayana Chava:** No.

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

**Gagan Thareja:** Sir, the first question is on the CDMO piece. Is it possible to understand within CDMO revenue breakdown in terms of what is coming from commercial supplies and what is coming from Phase I, Phase II, Phase III and how that will evolve over the next 2, 3 years?

**Satyanarayana Chava:** We are not dissecting those numbers into commercial Phase III, Phase II, Phase I and customer. That's we can't divulge customer and products. So I'm afraid, we can't give you that breakup.

**Gagan Thareja:** Okay. The second question is, as the percentage of CDMO in your total sales rises and since CDMO is a higher gross margin business for you, is it reasonable to assume that it will take the aggregate or average margin -- overall margin trajectory of the company upward?

**Satyanarayana Chava:** Yes. As the contribution and percentage from CDMO growth, we expect both gross margin and EBITDA margins should continue to go up.

**Gagan Thareja:** All right. And sir, final one is on the ARVs, lenacapavir and cabotegravir, both have issued voluntary licenses. Even WHO today now seems to stand very strongly behind bringing in lenacapavir advocating for lenacapavir as probably the preferred treatment and bringing it in the emerging markets as well via the voluntary license route. So first question is, would Laurus have an opportunity in lenacapavir?

**Satyanarayana Chava:** We are not part of the licensee of lenacapavir. And the Lenacapavir will be part of the guidelines for prevention rather than the treatment. That's one. And the cabotegravir, rilpivirine we have developed API. And we have a few partners using our APIs. Lenacapavir, we are not part of the licensee.

**Nitin Agarwal:** Ladies and gentlemen, that was the last question for today's conference call. I now hand the conference over to the management for their closing comments.

**Satyanarayana Chava:** Thank you, Nitin and DAM team for hosting this Q1 investor conference call. And thanks for asking very pertinent questions, all the stakeholders. Thank you.

**V.V. Ravi Kumar:** Thank you.

**Nitin Agarwal:** On behalf of DAM Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.