“Laurus Labs Ltd. 1QFY22 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Laurus Labs Limited 1QFY22 Earnings Conference Call hosted by Ambit Capital Private Limited. 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 1QFY22 Earnings Call. Today, on the call we have Dr. Satyanarayana Chava -- Founder and CEO; Mr. V V Ravi Kumar -- ED and CFO and Mr. Vivek Kumar – Senior GM, Investor Relations. I now hand over the call to Dr. Satya for his opening remarks. Over to you sir.

Dr. Satyanarayana Chava: Thank you for joining us on our 1QFY22 Results Conference Call. We are pleased to have this opportunity to update on our progress and answer your queries. I hope everyone and their family members, colleagues and friends are safe during this second wave of COVID-19 pandemic. The second wave of COVID pandemic was more severe, impactful when compared to the first wave in terms of infections and fatality across regions. The regional lockdowns during the Q1 had some temporary impact. But with the agility and resilience that our teams have shown in the face of this challenge helped us to maintain normal operations across all locations. We're very thankful to our colleagues for rising to this challenge and ensuring business continuity.

At Laurus, we are committed to protecting the health and wellbeing of our employees and their families. We continue to implement rigorous safety and hygiene practices across all locations without any complacency. We'll continue to conduct regular testing for all the employees and provide flexibility to work from home for employees wherever possible.

Coming to the Results of 1QFY22, these results reflect a very healthy start to the financial year. We increased our focus on having a better product mix and focusing on margin sustainability. We achieved these results despite pandemic induced operation challenges. And we stand reaffirm on our aspirational revenue target of a billion dollar by FY23. And this was supported by health demand outlook and capacity expansion plans lined up across all our business segments.

We achieved Rs.1,279 crores revenue in 1QFY22 with a 31% growth year-on-year. Our Antiviral segment shown a growth of 23% and Oncology 16% whereas non-ARV, non-oncology product sales de grew by over 40% whereas overall generic APIs have shown around 5% growth.

The Synthesis division have shown robust growth with over 95% growth from Rs.100 crores to Rs.195 crores. This is the first time we are also reporting numbers for our Bio division with 14 crores coming from 1QFY22.

To begin, I would like to share key updates on our Formulations business. Formulations division reported highest ever revenue of Rs.521 crores, strong growth of 48% year-on-year. The contribution from formulations segment has improved during the quarter to 41% to our revenues compared to 35% for the financial year '21.

We have seen good growth in regions supported by ramp up in global funds and PEPFAR supplies in the LMIC markets. And we are also in the process of obtaining in-country approvals for our Tenofovir, Alafenamide based fixed dose combination, and we are on track to launch this product in the current quarter.

Apart from LMIC, ARV business, we have also seen growth in developed markets in North America and EU. To leverage our front end in the US, we commenced marketing of in-license products. We have done six products in-license. And out of those three were launched, and we are in the process of launching remaining three during the current financial year.

We filed two ANDAs during the 1QFY22. With those, we have a total of 28 ANDAs with US FDA, nine final approvals and nine tentative approvals.

In Canada, we have 10 product approvals and we have launched five of those already and we intend to launch two more in the Q2 and Q3.

In EU we have validated two additional products as part of our contract manufacturing partnership, and we expect a significant upside in FY'23 from these products.

Out of five approved products, we have launched two products, and we are in the process of launching one more product across other countries in Europe.

With the robust outlook and order book, we continue to invest in our FDF infrastructure. We have commercialized the debottlenecking project during the Q1. This is expected to add a billion units' capacity to the current, with that we have 6 billion units capacity operational right now. Further, our Brownfield expansion at the same site, which is expected to add another 4 billion units' capacity. With that, we will have by end of this financial year 10 billion units' solid oral capacity.

On the R&D front, we continue to allocate critical resources to our research initiatives and investing in portfolio based on complexity and scale. Our overall R&D spends to the sales for the quarter was at 4%. We have a total of 66 products in R&D pipeline, either under development or pending for approval with the overall addressable market size of over 37 billion dollars.

As we also mentioned in our investor presentation, the current basket what we're looking at only 20% is ARV and 80% is non-ARV. This is in line with our expectation to diversify our revenue base by FY'25. So we are investing into non-ARV product development both in APIs as well as in the formulations. Of the 28 ANDAs filed in US, we believe that seven Para-IVs and two FTFs opportunities having a big addressable market size.

As you have seen, our approach always remain product-specific, not market-specific. That is clearly visible in our dossier filing. We have 11 dossiers in Europe, 15 in Canada, eight with WHO, two in South Africa, and four in India, and 15 products filed in various rest of the world markets.

When it comes to the generic API, our ARV API recorded healthy growth when compared to the YoY. This was led by higher volumes of first line APIs. On sequential basis, sales were moderately impacted, partly due to demand normalization, which is in line with our expectations. Second line ARV APIs continues to see healthy sales during the Q1. We continue to maintain leadership in our key products, while we expect to increase our supplies to developed markets in Europe and US.

Revenues from Onco APIs were Rs.59 crores for the Q1. This segment recorded a growth of over 16% YoY.

Laurus Labs, as you're aware, we are the one of the largest high potent API capacities in the world, and we are adding more capacity to augment our offerings and also meet the customer demand.

We have high potent capabilities now in Unit-I, Unit-III, Unit-IV, Unit-V, and we're adding more capacities in Unit-IV.

When it comes to non-oncology, non-ARV APIs, we have seen a decline of sales. This will be back on track from Q2. During the first quarter, we have filed five DMFs in non-ARV category, taking the total number of DMFs filed to 66. We also initiated the validations for a few other APIs and expect to see significant growth from Q4 FY'22 onwards.

We have very good order book visibility in non-Onco, non-ARV APIs and we are investing into capacity enhancement to meet our demand in these APIs.

When it comes to Synthesis business, this division delivered robust growth for the quarter, and grew over 95% to Rs.195 crores. This strong growth was led by sustained new client addition and increased business from existing customers and commercial supplies of existing products.

We are pursuing several interesting active projects in the late stage clinical programs. We are also doing capacity expansion to support this division's growth plans. We commercialized the (LSPL), Laurus Synthesis Private Limited Unit-I during the 1QFY22.

Also, our proposed Greenfield investment to set up a dedicated R&D center for Synthesis division at Genome Valley, Hyderabad and two manufacturing units in Vizag, our LSPL is progressing as per our plan. All these units are expected to be operational by FY23. The site will have the capabilities to handle steroids hormones, high potent molecules apart from other large volume products.

Laurus Bio recorded sales of Rs.14 crores for the quarter. As you are aware, that Richcore was renamed as Laurus Bio and transaction was closed during the month of February 2021, and sequential numbers reported for this quarter are not comparable.

On a normalized basis, quarter-on-quarter run rate was very stable. During the quarter we commissioned two of the four fermentation vessels and all the four fermenters will be operational from Q2 onwards. So we expect full benefit of ramp up of the new capacity from Q3 onwards.

We're also in the process of acquiring additional land to further expand our manufacturing capabilities in the fermenters.

With that, I would like to hand it over to Mr. Ravi Kumar to share Financial Highlights.

V V Ravi Kumar: Thank you, Dr. Satya, and very warm welcome to everyone on our Q1 earning call. Total income from operations for the quarter is at Rs.1,279 crores against Rs.974 crores with the growth of 31% year-on-year. With a better product mix, gross margin, we could able to improve almost by 2%. Our EBITDA for the quarter came at around Rs.400 crores and EBITDA margin is 30%. And diluted EPS is at Rs.4.5 on a not annualized basis, which grew over 41% growth over the corresponding quarter. Our ROCE improved to 32.6% on annualized basis on the back of sustained operating leverage across units. So, as you're aware that we have embarked on our CAPEX plan of 1,500 to 1,700 crores for the two years, FY'22 and FY'23. All the projects are on track, except some of the projects may be in four to eight weeks delay and we have invested around Rs.213 crores in the Q1 for the CAPEX. With this I would request moderator to open the lines for the QA.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Krish Mehta from ENAM Holdings. Please go ahead.

Krish Mehta: I had two questions. The first is on Richcore. So we have incremental capacity addition of 1 mt as we spoke about. So could you tell us what the revenue contribution would be from this incremental capacity?

Dr. Satyanarayana Chava: In the Q1, we commissioned two fermenters, 45,000 each and in the Q2 we complete the rest of the two fermenters of 45,000 liters again. So with those four fermenters coming online by the end of September, R2 where the four new fermenters are located, we're able to deliver about 20 crores revenue per quarter.

Krish Mehta: The other question I had was on the breakup of non-ARV revenue as a whole for Q1, ARV as a whole including FDF API that we did?

Dr. Satyanarayana Chava: Two-thirds of revenue came from both APIs and formulations.

Krish Mehta: I just wanted to know, in the CDMO business, as we've seen tremendous growth this quarter, are there any one-off impacts in terms of orders that you've got in this quarter, or is this a sustainable run rate going forward?

Dr. Satyanarayana Chava: We don't have any one-offs in the Q1 for our CDMO division. We expect that this division will positively surprise us as well as all of you.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: A couple of questions from my side. So, first, the doubling of FDF revenue post our expansion. So, the sales would double from FY'21 days?

Dr. Satyanarayana Chava: The sales for the unit of tablets varies. You can't do automatic way. We are increasing capacity, so the revenue will increase. All depends on what product you make. So, currently, we have 6 billion tablet capacities which is operational and additional 4 billion will be operational in a phased manner from November to March current financial year. And the significant revenue upside from the expanded capacity will come in FY'23. And the expanded capacity will be primarily used for non-ARV.

Dhaval Shah: Sir, our finance cost is higher quarter-on-quarter. So, what is the increase in the debt and what is our current gross debt as on today. And also, in last con call, we had given a range for the CAPEX for 22 to 23, because we were finalizing certain projects. So, have we finalized the exact CAPEX number?

Dr. Satyanarayana Chava: CAPEX, as we mentioned just now, we believe we will invest anywhere between Rs.1,500 and Rs.1,700 crores during FY'22 and '23. In Q1 FY'22 we already have done Rs.213 crores CAPEX.

V V Ravi Kumar: But that's a CAPEX is a range only at this juncture, because it's a very little. And finance cost is concerned actually, there is an exchange rate adjustment that is a one contributor for the additional finance cost. And second is, we have also borrowed additional loans in the first quarter.

Dhaval Shah: What is the gross debt as on today?

V V Ravi Kumar: It's a couple of hundred crores higher debt in the first quarter.

Dhaval Shah: On page #25, the presentation you mentioned about renewed market share gains in the ARV portfolio and LMIC. So can you elaborate on this line, what does it mean, so we've gained market share or what is it?

Dr. Satyanarayana Chava: So gain market share in the first line, we have significant presence in the TLE-based first line, and we are expanding our registration footprint in various countries for TLE-400 and our triple combination products. So thereby we will strengthen our position in the first line. As you're aware, we don't have any product in the second line right now. So we will start getting registrations for second line products also. With those, we will increase our share of market in the both first line and second line.

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

Amish Kanani: Sir, if you can elaborate on the mention that we have made about business there. You said multiple partnership proposals in collaborative space. What are the plans or what are the discussions, is it part of the CAPEX that we're planning?

Dr. Satyanarayana Chava: We are investing into two new locations as part of our growth plan and business negotiations, what we are having with our current partners. The new Greenfield units which will come up in Vizag will be to service our offerings, service what partner is needing, and that is the reason we're investing heavily into CDMO. We can't give you more details of what products and what customers right now.

Amish Kanani: Also, if you can give us some color and sense on the first-to-file and those seven products that we have done with that, I think two were more exclusive opportunities, if you can give us some flavor there in terms of market size or the timing of those potential launch position? And what is the status of FDA approval for those set of products -- is it getting delayed because of FDA not being able to approach and come for site inspection?

Dr. Satyanarayana Chava: Out of two first-to-files and 7 Para IVs opportunities, we got tentative approvals for three of those already, and we expect to get tentative approval for two more ANDAs during the current financial year. For the tentative approvals, what we got which is three, we are well positioned in two of those, because there the number of FDF companies are limited. So those products, current brand value is about $5 billion.

Amish Kanani: Sir, any tentative timeline for any of launches from these, if not quarter say, first half, second half

Dr. Satyanarayana Chava: These launches will happen after 2025.

Amish Kanani: In that context, the $11 billion, of with 85% ARV opportunities, of the 33 approved products, is this market addressable opportunity for us for say next two to three years, and is that the way we can think?

Dr. Satyanarayana Chava: These products, which are in development where we mentioned 37 billion opportunities. These will be long-term, I don't say, these will have benefit in FY'22 or '23. So, for a product which we have to get revenue in FY'23, we might have filed already might have got approval or about to get approval. So…

Amish Kanani: That's the clarification I was asking, sir. So that is 37 billion is for the long-term, which is 66 projects under development and pending. I was asking, there was an 11 billion opportunity that we are showing in our presentation where 33 products are being approved. So at least those are the ones where we can get the benefits of market share, and approval and in medium term which is two to three years, is that the way to look at?

Dr. Satyanarayana Chava: Only one product where we expect to launch in '23 out of the opportunity what we have mentioned?

Moderator: The next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: Picking up from the previous participant, we've seen the generic FDF on ARV growth sequentially much better than API, sequentially the API ARV is down. You mentioned that Dolutegravir will pick up probably is one of the reasons. So why is it not also translating into API, so what is the disconnect I am trying to understand that?

Dr. Satyanarayana Chava: A very interesting question. So our API sale depends on how much of our partners are getting market share and their inventory level, their order book. You can't sell more than what our customer needs, whereas in the case of formulations, we know what orders we won and when to supply to which region we need to supply. But we do expect this API supplies to our third-party ARV customers. It will resume to normal level soon.

Nimish Mehta: I'm assuming that the products are overlapping when it comes to API ARV and the generic FDF ARV. In that case, because we have cost leadership in most of the ARV products, is it not fair to assume that we will always have higher growth in ARV formulations than we are in API because we will get bulk of the market share than what other competitor, that's what I'm essentially trying to understand?

Dr. Satyanarayana Chava: In most of the ARV formulations business, the tender split is very even. So, tenders are not awarded to the lowest bidder, 100%. Winner doesn't take all. So, there will be distribution

between L1, L2, L3 and L4, and there are certain capacities allocated for the new entrants. So even somebody wants to crash price, doesn't mean he will get 100% of the tender, at the best he will get 40%. So, it is not easy to assume we will be able to garner all the market. There will be opportunity for us to get a good share while we continue to supply APIs to our partners.

Nimish Mehta: The next question actually probably partially would have answered. The other thing I wanted to know is that while we are expanding into other products, second line treatment in terms of capacities, because there is enough competition already there in those products, how do we see ourselves gaining more market share because, like, what is the uniqueness, again, it's the cost leadership or what is it which will help us gain market share?

Dr. Satyanarayana Chava: Our focus in other therapy areas, especially is on anti-diabetes segment and cardiovascular. The anti-diabetes segment, the new class of drugs, especially the DPP-IV inhibitors, Vildagliptin, Sitagliptin and other Gliptins will go off patent from next year onwards. So, we have a full basket of products in the diabetic segment. So there we have created capacity for both APIs and formulations. And when it comes to the cardiovascular segment, these nitrosamine impurities disrupted the market share in the cardiovascular for the sartans. So we invested during this crisis to enhance capacity and the best quality product, and we do see the opportunities for a fully integrated player in both cardiovascular as well as a diabetic segment, because these are large volume products, and the capacity demands are also high, quality demands are also equally high. There, we believe, we can play a role, we have capacity, and we have right quality material to get to the market.

Nimish Mehta: Actually I was asking more about the ARV product where we are expanding into second line treatment especially?

Dr. Satyanarayana Chava: I'll answer that question as well. The second line, the product basket is limited, and competition is also limited, not all the ARV place are being integrated second line therapy offering. So, we are developing ANDAs to capture market not only in the LMIC region, but also in Europe and US.

Nimish Mehta: That is on the base of again, we being the least cost, because we are integrated, is that the right way to understand.

Dr. Satyanarayana Chava: Yes.

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

Nitin Agarwal: Sir, you mentioned in FY'25, you're looking to diversify away from the ARV business. Right now, as you mentioned, we are about 65% ARV business in the overall revenue mix. How do you see this proportion changing by FY'25?

Dr. Satyanarayana Chava: We can only guide you, but we cannot give you the exact number. We do believe by FY'25, both APIs and Formulations business should come down from two-thirds to one-third.

Nitin Agarwal: We are right at about $500 million of revenues on the ARV business on annualized basis give or take. In your assessment, how big is this business really get over a period of time given the size of the market, and the way there are some challenges in terms of some maybe competitors are not very aggressive in this business, how big can this piece get for us from $500 million where it is today?

Dr. Satyanarayana Chava: Maybe one could grow single digit, I would say, it's not easy to grow, teens or higher growth, because the number of patients coming on treatment is not increasing like in the previous years. So there will be a shift from the weaker players to stronger players. But otherwise, if you look at the entire ARV formulations business is between 1.5 billion to 1.8 billion and 500 million is almost 33% of revenues coming to us. We do believe we have the ability to gain market share, but it will not be significant. That is the reason we are investing our resources both in R&D as well as in CAPEX to non-ARV, non-oncology.

Nitin Agarwal: Lastly, on that point, so on the non-ARV business since you've talked about obviously a very large significant growth in this business, because this business as you say has almost become two thirds from one-third where it is today over the next say four years, apart from diabetes and CVS which you mentioned were the integrated play for us will come in handy, these will be the primary drivers or are there any other drivers of business which will drive this non-ARV piece of business for us?

Dr. Satyanarayana Chava: We have reasonably developed portfolio apart from anti-diabetes and cardiovascular. We have few other APIs being developed and ANDAs being developed. Those are complex and scale projects. Maybe we'll let you know at an appropriate time.

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

Tushar Manudhane: Sir, on this Bio business, at the time of acquisition, first half FY'20 had sales of about Rs.30 crores which was without commercialization of two fermenters. And now for the first quarter with commercialization, we are at 14 crores. Just to understand this disconnect?

V V Ravi Kumar: I think the two fermenters which came into operational were in the zone. So, there is not significant revenue generated in the first quarter from the new fermenters. You will see the full-fledged revenue out of second unit probably from third quarter

Tushar Manudhane: Secondly, on the formulations side, if you could share how much is in-licensed product would have contributed for the quarter, similar profitability we make in the products?

Dr. Satyanarayana Chava: Revenue from in-license products in US is not that significant in Q1.

Tushar Manudhane: And just lastly, debottlenecking also benefit is there in 1Q or even that would come from 2Q onwards from a formulations side?

Dr. Satyanarayana Chava: Formulations side, the debottlenecking was done by end of June and put into operation only in July.

Tushar Manudhane: So that revenue would also get reflected in 2Q?

Dr. Satyanarayana Chava: In Q2, yes.

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

Harith Ahamed: My first question is on the CDMO business. How much of this business will be coming from supplies to Aspen and what exactly is the nature of the supplies? And similarly what is the contribution from what we previously used to call ingredients supplies in the overall CDMO pie?

Dr. Satyanarayana Chava: The custom ingredients and supplies to Aspen steroid intermediates, about 40% of our CDMO revenues in Q1,

Harith Ahamed: The nutraceuticals part of CDMO, how much that be?

Dr. Satyanarayana Chava: Put together, both Aspen CDMO and then custom ingredients put together is 40%.

Harith Ahamed: On the formulations side, what is our TLD market share in LMIC currently and for the quarter, what would be the breakup of sales between LMIC, ARV and US, Europe, is the split the same as what we've seen in recent quarters around 75:25?

Dr. Satyanarayana Chava: Yes, around that, 70:30 ratios.

Harith Ahamed: And then our market share for TLD and LMIC?

Dr. Satyanarayana Chava: TLD, LMIC is in higher teens.

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

Naresh Sutar: My question you have answered party already. So, just wanted to get clear, from here on majority of your non-ARV CAPEX and benefit of that is coming more towards end of this year and more

in FY'23, so, next nine months, can I say that our EBITDA revenue will be broadly in a range till the non-ARV picks up significantly from next year, is it right understanding?

Dr. Satyanarayana Chava: We have added API capacity became operational in Q4, and we are expecting one more API block will be operational by end of December. So, we are putting capacity into commercialization on a regular basis. So, when we are saying our formulations capacity will be ready by March, that means the revenues from that expanded capacity will come in FY'23, you are right. But as we mentioned our debottlenecking activity also gave a 20% more capacity which became operational by end of Q1.

Naresh Sutar: But for that you said the ARV formulations market is now will be growing at maybe some single digit. So, there will not be significant growth but there will be some growth, that's what I should infer?

Dr. Satyanarayana Chava: There will be growth. We can ramp up production depending on opportunity. So our 6 billion current capacity is not utilized 100% even in this month. So there is a scope for us to take more orders and service.

Naresh Sutar: On CDMO side, can you help us for the amount which we are investing in terms of CAPEX particularly for that segment?

Dr. Satyanarayana Chava: In the formulations, we're investing around Rs.400 crores CAPEX for this new capacity expansion.

Naresh Sutar: In CDMO formulations?

Dr. Satyanarayana Chava: In CDMO, we will be investing in FY'22 and '23 put together may be around Rs.500 crores.

Moderator: The next question is from Foram Parekh from Choice Investments. Please go ahead.

Foram Parekh: My question is on Laurus Bio. I understand that the contribution to the EBITDA would be niche in this quarter. But going forward, just wanted to understand how much would Laurus Bio contribute to the EBITDA? And second question is on the CDMO side. I see that we have commercialized four projects as on Q1. So going forward, how many projects do we intend to commercialize out of these 50 clients?

Dr. Satyanarayana Chava: We will continue to supply these four commercialized products in FY'23 and thereafter as well. New commercial launches will happen in FY'23. We don't expect anything in FY'22.

Foram Parekh: Laurus Bio contribution to the EBITDA?

Dr. Satyanarayana Chava: We are not giving division wise EBITDA contributions, but when we are in a position to give, we will provide.

Foram Parekh: FDF capacity utilization, if you can just give us idea?

Dr. Satyanarayana Chava: We are at about 80% capacity utilization of FDF right now.

Foram Parekh: And we have any scope for expansion in that?

Dr. Satyanarayana Chava: We can take more orders and service with the current capacity itself.

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

Tushar Manudhane: Just on the CDMO piece on the investment of 500 crores, what kind of asset turn can be expected?

Dr. Satyanarayana Chava: These are Greenfield projects, these are not Brownfield. The groundbreaking will happen next quarter. These investments will give revenues probably in last quarter of FY'23 onwards, not before.

Tushar Manudhane: What is the kind of an asset turn which we can expect from this?

Dr. Satyanarayana Chava: Difficult to predict right now, but this will be in line with the industry or better than industry. As you'll see, our current asset turn ratio is closer to 1.4, so, it will be in that range.

Moderator: The next question is from line of Omkar from Sri Consultancy. Please go ahead.

Omkar: One of my questions has been answered. The second question is do you have any plans for debt reduction given the cash you're generating from the profits?

Dr. Satyanarayana Chava: No immediate plans. We see the business opportunities in front of us and we're investing. And our cost of debt is not that huge where we will stop CAPEX and retire debt.

Omkar: What's your debt to equity currently?

V V Ravi Kumar: Debt-to-equity is 0.58.

Moderator: The next question is from Samir Palod from AUM Fund Advisors. Please go ahead.

Samir Palod: Sir, one clarification. You mentioned that you are looking to flip this contribution of ARV. Just want to recheck sir, by which year you expect to do that?

Dr. Satyanarayana Chava: 2025 we're saying.

Samir Palod: How do you see the ARV business growing for the next four years?

Dr. Satyanarayana Chava: It will grow single digit, we don't expect it to grow significantly. See, as you've seen, ARV contribution, both APIs and formulations was very significant in FY'20, FY'21 and FY'22. So this growth will moderate FY'23 onwards. And the new investments what we're making in non-ARV will start giving revenues from FY'23 itself.

Samir Palod: Other question is that in the CDMO business, do you expect to have ARV contribution?

Dr. Satyanarayana Chava: In CDMO, no.

Samir Palod: And biologics, sir?

Dr. Satyanarayana Chava: No-no-no. See, contract manufacturing I wanted to clarify, we do contract manufacturing in generic APIs, we do contract manufacturing in generic formulations, we do contract manufacturing in NCE. See, when we are talking about CDMO business, it is primarily in the NCEs, so our generic formulations contract manufacturing is not added here. So that way today revenue contribution from contract manufacturing as a whole is little more than 25% when we add APIs, formulations and NCEs. So when we are talking about this CDMO business, this is primarily meant for NCE, custom ingredients one product to one customer in the NCE space.

Samir Palod: And NCEs, formulations, both in the non-ARV space?

Dr. Satyanarayana Chava: Yeah.

Moderator: The next question is from the line of Navin from Kotak. Please go ahead.

Navin: My first question is around the capacity that you have for formulations with the six billion tablets. Can you give a split of how much of this is going for your ARV formulations and how much is going for your generic contract manufacturing of formulations?

Dr. Satyanarayana Chava: I will give a broad number, about 20% of capacity is utilized for contract manufacturing, and 40% is utilized for ARVs and 40% for other products.

Navin: So out of that 6 billion, 40% is for ARVs, 20% is for generic formulations contract manufacturing CMO, and the other 40% goes to…?

Dr. Satyanarayana Chava: The non-ARV formulations.

Navin: Whereas from a value perspective, the ARV formulations…?

Dr. Satyanarayana Chava: ARV is significant. I wanted to clarify here, when we're talking about ARV, we do three APIs into one pill. So, our 40% units may consume more equipment than our 40% where we use one API only. I gave the 20:40:40 in number of units, but the number of equipments used to get this are much larger for this ARV. So in other formulations, we use either one API or two APIs put together, whereas in the ARVs, we have used three APIs. So the number of equipments used is much more than the other tablets or capsules.

Navin: I get your point sir. For the additional 4 billion tablets capacity, could you just give us a ballpark split because you said enlarge this unit for generic CMO, if I understood it correctly, maybe you could give some idea, a numerical sort of clue to us as to how much of this 4 billion goes for generics?

Dr. Satyanarayana Chava: In the new expanded capacity, about a billion will be used for CMO, and then remaining 3 billion will be used for non-ARVs.

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

Devvrat Mohta: Just two questions from me. So firstly, on the CDMO, was there any one-off in the quarter or this is just kind of business as usual, clients ramping up, projects commercializing?

Dr. Satyanarayana Chava: As we clarified, there is no one-off in CDMO revenues in Q1. This is business as usual.

Devvrat Mohta: Secondly, can you just talk also what happened on the other API, is it just timing mismatch or is there something else too because the other API segment kind of declined quite a bit, so just curious to know what happened there?

Dr. Satyanarayana Chava: There is no mismatch, there is only shift in supply schedules.

Devvrat Mohta: So if I look at the margins sequentially, gross margins have gone up, but the EBITDA margin has gone down. Can you just talk through what's caused the gross margin to go up and what caused the EBITDA margin to go down sequentially?

Dr. Satyanarayana Chava: Because of our preoperative expenditure or increased R&D expenditure, we were down by about a percent on the EBITDA. But at the same time, we were almost Rs.100 crores less revenue from Q4 to Q1.

V V Ravi Kumar: That's for EBITDA. The gross margin is in mix, like more Synthesis revenue we have so that contributed in a better gross margin.

Devvrat Mohta: So if I understand correctly, your gross margin is because of mix, the EBITDA margin is primarily negative operating leverage and pre-operative expenses. So basically, FY'23 onwards, a lot of the pre-operative expenses will go away because as you're transforming this year, there

will be some cost this year, but next year you won't have that same pre-operative expense drag on EBITDA?

V V Ravi Kumar: That's correct.

Moderator: The next question is from the line of Tarang from Old Bridge Capital. Please go ahead.

Tarang: Just wanted to check what would be your conversion cost per million tablets in case of formulations and maybe per kilo litre in case of APIs?

Dr. Satyanarayana Chava: Those details, I'm afraid we can't give you.

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

Nitin Agarwal: On the CDMO business, obviously, we've come a long way from where we started largely with respect to where the plans that we have for this business. So, if you can probably give us a little qualitative sense on how have you seen the business evolving, what kind of opportunities are you beginning to see now, and what is the USP that you are bringing to the table which is getting clients attracted to us for this business?

Dr. Satyanarayana Chava: So, if some company is looking to outsource their activity, if they write five names in India, with technical capabilities and scale, I'm sure Laurus Labs will figure out there. So that is one way we are attracting customers. We have 4.6 million liters reactor volume right now and we're adding almost a million liters more in the next 18-months. So, we are one of the top five companies with reactor volume. And we have demonstrated our expertise in certain type of chemistries especially the chiral chemistry, large scale manufacturing, large scale chromatography capabilities, high potent capabilities. So there we have earned a lot of reputation with our customers. So that is helping us to bring more new projects into CDMO.

Nitin Agarwal: Most of these projects that we're talking about like also the two Greenfield projects that we talked about, these are products which are already commercialized or they are in late phase of development and will get commercialized, what is the typical nature of the business that we are looking to get incrementally?

Dr. Satyanarayana Chava: We have commercialized four products, three APIs and one advanced intermediate. Those supplies going on as planned. And we have two projects in phase-2 which are oncology and we have one in phase-3 right now. So, we have a mix of high potent molecules in various clinical phases. And we have a few where we have to use our large scale manufacturing expertise.

Nitin Agarwal: And this is you are talking about the Greenfield projects?

Dr. Satyanarayana Chava: These are in clinical phase.

Nitin Agarwal: Sir, you mentioned about you are putting up two new Greenfield projects, where you are in consultation with the clients, what would be the typical nature of these, these would be again large scale volume manufacturing contracts that you are getting for which you need…?

Dr. Satyanarayana Chava: We will give more details at an appropriate time on those. It is premature for us to give more details.

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

Krish Mehta: I wanted to ask on the net debt as of 30th June '21.

V V Ravi Kumar: Net debt is Rs.170 crores increase.

Krish Mehta: CAPEX for this quarter I think you said was Rs.213 crores. So what's the guidance for the remaining nine months going forward for FY'22 as well as FY'23 if you could share that CAPEX?

V V Ravi Kumar: For CAPEX actually for two years we gave a guidance of 1,500 to 1,700 crores.

Krish Mehta: But can we use this Rs.213 crores as a run rate for the rest of the year?

V V Ravi Kumar: On an average maybe around that, actually we can't say exactly 200 crores, but when I say Rs.1,500 to Rs.1,700 crores it is similar.

Moderator: Next question is from the line of Bharat Kumar Siripurapu from Quest for Value. Please go ahead.

Bharat K Siripurapu: My question is for Dr. Chava. I guess the approvals for global tenders in FDA formulation is valid for three years. And I think approval you got in 2018 for this global tenders would be expiring this year. Can you please let us know if this approval is getting renewed now?

Dr. Satyanarayana Chava: So the global fund tender was for three years, you are right. And due to this pandemic, they extended the tender period from three to four years.

Bharat K Siripurapu: So still next year 2022?

Dr. Satyanarayana Chava: Yeah, these tenders are valid until end of next year.

Bharat K Siripurapu: My second question is regarding ARV API revenue. May I know whether you anticipate any growth in FY'22 compared to FY'21? I'm asking because in last concall, you guided for a single digit growth for FY'22 for ARV API. Is this guidance still valid?

Dr. Satyanarayana Chava: We do expect so.

Bharat K Siripurapu: In the recent interview with one of the international media channels, when you are asked one question on what excites you in future in Laurus, you said that you expect there would be an oral drug for COVID, and if it comes it will be a big opportunity for Laurus. May I know if there is any COVID oral drug in pipeline like Molnupiravir with Laurus?

Dr. Satyanarayana Chava: As you are aware, we in-licensed the two DEOXY-D- Glucose from DRDO, for which we are gearing up for launch in the next few weeks. We're in the regulatory approval process. And other than that, we are working on other drugs, but we don't know when the approvals come. It's too early to predict.

Moderator: Next question is from the line of Jeewan Patwa from Candyfloss. Please go ahead.

Jeewan Patwa: In your presentation, you basically said, we are basically going for 1 million fermentation capacity in phase-1. So are you thinking of any phase-2 as well?

Dr. Satyanarayana Chava: Currently, the R2 will give 180,000 liters new fermentation capacity, and we're looking for a land. We can't go to a new site for every million liters. So the new land what we're looking at is fairly big, about 25, 30 acre land bank. And there we can go to three to four million litres fermentation capacity, but we'll start with one million liter.

Moderator: Thank you very much. Ladies and gentlemen, I now hand the conference over to the management for closing comments.

Dr. Satyanarayana Chava: Thank you, everyone for participating in this conference call and also for your very insightful questions and please do stay safe. Thanks.

V V Ravi Kumar: Thank you.

Moderator: Thank you very much. On behalf of Ambit Capital Private Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.