"Conference Call of Laurus Labs Ltd's Acquisition of Richcore Lifesciences Pvt. Ltd."

November 26, 2020

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

Nikhil Mathur: Good morning, everyone. On behalf of Ambit Capital, I thank the Laurus management for giving us opportunity to host this call. From Laurus, we have with us Dr. Satyanarayana Chava -- Founder and CEO, Mr. VV Ravikumar -- ED & CFO and Mr. Monish Shah from Investor Relations.

I now hand over the call to Dr. Satya for his opening comments. Thank you. And over to you, sir.

Dr. Satyanarayana Chava: Good morning. And thank you, everyone. I hope you, your family members and your colleagues are doing well and keeping safe during this pandemic. I welcome all of you to our Conference Call on our First Ever Strategic Acquisition.

We are happy to announce that we have signed a Definitive Agreement to acquire a majority stake in Richcore Lifesciences Pvt. Ltd., a Bangalore-based biology company.

On the onset, I would like to highlight some of the important aspects of this transaction. We have valued equity of Richcore at Rs.340 crores and the cost of acquisition of 72.5% stake will be around Rs.246 crores. The acquisition will be funded through internal accruals and Laurus will be acquiring entire holding stake from two private funds, Eight Roads and VenturEast. The current promoters led by Mr. Subramani will continue to be on the executive board and will continue to run the day-to-day management of the company.

Name of the new entity will be changed post closure of the transaction to Laurus Bio Pvt. Ltd. The transaction is likely to be closed within the next 90-days depending on certain approvals and conditions.

Our rationale for this transaction is based on various important factors, mainly the diversification in the key area and the entry into high growth areas of recombinant animal origin free products, enzymes as well as building biologics to CDMO at scale.

With this transaction, Laurus can gain advantage in becoming a vertically integrated biotech company along with our ability to utilize fermentation-based capacities and scale further.

While we continue to drive scale to Richcore operations, thereby adding a new division for us, where we will generate the fourth stream of revenue apart from our Generic API, Generic Formulations and Custom Synthesis.

In the short to medium term, we believe we can align the strength in enzyme chemistry where you can do Biocatalysis, make our processes clean and green, and also do certain fermentation products.

And in the long-term we believe we can become a vertically integrated biotech company in the various fields of Monoclonal Antibodies, Biosimilars, Enzymes for Health and Nutrition and Industrial Applications apart from creating a large scale CDMO organization.

I would like to give a Brief Overview of Richcore. It is a fast-growing research-driven biology company having large scale fermentation capabilities and ability in animal origin free recombinant products. These products help vaccine, insulin, stem cell-based regenerative medicine and other biopharma customers, eliminate dependency on animal and human blood derived products and in turn produce safer medicines. Richcore is currently in its growth phase and its second manufacturing plant near Bengaluru is expected to be completed by end of March 2021.

I would like to mention the total current capacity for fermentation at the current plant is 10,750 liters whereas the new plant which will be coming up by end of March will have 180,000 liters fermentation capacity.

With this I would like to request the moderator to open forum for questions-and-answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rahul Veera from Abakkus Asset Management. Please go ahead.

Rahul Veera: I just wanted to understand on the current capacity. What is the average yields per litre basis we are producing from this plant?

Dr. Satyanarayana Chava: In the current capacity there are two 5,000 litres fermenters and three 250 litres fermenters. 5,000 litres fermenters are used to produce cell culture ingredients as well as some recombinant proteins for a customer as a contract manufacturing. On yield, I do not have exact number. Maybe we can give you later.

Rahul Veera: What will be the current gross block and what will be the total gross block in March once the bigger capacity commences?

Dr. Satyanarayana Chava: Current gross block is Rs.38 crores. And by March 2021 end, it will be close to Rs.90. .

Rahul Veera: So we will be requiring any investment from our side to make for the plant?

Dr. Satyanarayana Chava: We are not doing any fresh investments in the new plant. Interestingly, part of the capital expenditure is funded by the customer for the new plant.

V V Ravikumar: And partly by debt.

Moderator: Thank you. The next question is from the line of Mitesh Shah from ICICI Securities. Please go ahead.

Mitesh Shah: This current acquisition, we are funding from internal accrual. So that is a part of the guided CAPEX or it is over and above the guided CAPEX?

V V Ravikumar: This is over and above CAPEX disclosed around Rs.1,200 crores.

Mitesh Shah: Can you explain about the revenue and the EBITDA because FY'20 we had a loss and suddenly there were a sharp jump in the EBITDA and PBT, can you guide about that future growth and the margins from this business?

Dr. Satyanarayana Chava: These products are very high margin business I could see from the gross margins of about 70%. The main reason for the sharp rise in gross margin from the previous year to current year is the change in the product mix. And you could see from the numbers what we have provided in the first half, they have done close to Rs.30 crores and they expect it to better than the first half and the real revenue growth jump will come from FY'22 onwards where the new facility will come on line by end of March 2021. So that is where the fillip in revenues will come.

Mitesh Shah: Any of this acquired capacity can be used as backward integration for our product?

Dr. Satyanarayana Chava: We have some synergistic benefits in the area of for biocatalysis where Richcore has the capability to identify, modify enzymes and also produce enzymes for biocatalysis. That is one area where there will be a synergy. And the second synergy will also come from development of fermentation processes for some of the intermediates, especially steroid and hormones intermediates, where currently most companies depend on imports, so whereby we will become a self-reliant on our steroid intermediates as well as our future steroidal molecules where we intend to manufacture at large scale. So this will help one in biocatalysis, making process clean and green, and second is on the fermentation. These are the two synergistic benefits whereas the other benefits is we will have diversification of revenues from few delivery cases in formulation into recombinant biological protein CDMO.

Moderator: Thank you. The next question is from the line of Sachin Shah from Emkay Investment Managers. Please go ahead.

Sachin Shah: Biosimilar is supposed to be a high CAPEX or high investment business. So, now that we will be entering this business, have you envisage what kind of investment that we will have to do for this particular business over a period of next two, three years?

Dr. Satyanarayana Chava: In the next two to three years, we are not intending to develop and manufacture any biosimilars. So what we are gearing up to do is create a large scale recombinant capacity to do proteins for food industry and proteins for therapeutics. So initially, our focus from short to medium term will be offering manufacturing as part of our CDMO rather than developing our own biosimilars. That plan is not envisaged right now which could be a very long-term plan for us. So, we are not envisaging new capital expenditure in this front. The company has very little debt. And we do expect whatever capital required to build new capacity will be through internal accruals and if necessary the company can avail debt.

Sachin Shah: The second thing is as earlier participant also mentioned that if we look at the first half FY'21 profit, I do not know much, but I am just guessing that if that is the sustainable number, then the valuations that we have acquired the company is like not cheap?

Dr. Satyanarayana Chava: If you look at from the historical numbers, this looks expensive, but if you look at the H1 and then do the same math for H2, this company will have Rs.24, 25 crores EBITDA and Rs.350 crores will be the valuation, roughly 14x EBITDA.

Sachin Shah: So you got at a very reasonable valuation is what I would like to say. But what was the consideration of the seller, why would they sell it out when the opportunities were good?

V V Ravikumar: I think the PE guys are there for a long time. They are looking for an earliest exit. For example, VenturEast has been invested almost like in 2007 or so. Its more than 12 -year-old investment.

Sachin Shah: So they had their own other considerations which they had too?

V V Ravikumar: Sure.

Sachin Shah: But the original promoter, they will continue right?

V V Ravikumar: Yes, they will continue and then they will run the show.

Sachin Shah: And is there any agreement that they will also sell the stake at some point in time to Laurus?

V V Ravikumar: No. So, they will continue because they are experts in that business and they are running the company for more than 15-years, so they will continue.

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

Jeevan Patwa: So Richcore mentions that they have developed recombinant human albumin which is going to replace human serum albumin. So, just wanted to understand what stage we are in, approval stage I am asking, so, do we have the approval for any market or how is it that?

Dr. Satyanarayana Chava: Current recombinant albumin what Richcore is producing is used in the cell culture, but not for human use as yet. So they have not started any clinical trials for human use. And we do expect to invest a little bit in the clinical trials to start in India for recombinant albumin. We see significant opportunities for recombinant albumin because of the challenges in sourcing purification of albumin. So we see opportunities, we will invest into clinical trials. They have done preclinical studies so far, but no human trials, which we expect to start sometime in the near future.

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

Sandeep Kothari: Dr. Satya, a couple of questions. First is that Laurus is a very strong chemistry-based company and you are venturing into biology, wherein fermentation, India does not have large scale China, Korea, much ahead of us. And we as a team do not have much experience with biology if I understand correctly because you are a very strong chemistry based company so far. So how to think about how you can scale this business, what would be required, is it the existing team of that company which will drive this business forward or Laurus would have the capability, what is the right to win for you in this fermentation or biotechnology business?

Dr. Satyanarayana Chava: We have the expertise in biocatalysis and fermentation but we do not have any expertise in recombinant. The idea for us to acquire this capability is to shorten our gestation period, if we start Greenfield, it will take six to seven years. By this acquisition, we will cut out the gestation period significantly and what we have done, we have not acquired the company without the management, we acquired only the stake from two private equity partners while the founders and the current management will continue to hold the same equity and they will continue to run. There will be synergies biocatalysis fermentation but we will help them to invest in scale, and we will also enable them to reach out to more customers, we have more geography presence than what they have right now. So the Synergies are at least strategic synergies to build CDMO in biology. Currently, we have CDMO small molecules, we wanted to build CDMO in large molecules - recombinant CDMO where the proteins are used in animal origin free foods as well as recombinant therapeutic protein.

Sandeep Kothari: The second question is that you have highlighted three areas where the scale is possible; one is backward integration into green technologies; second is enzymes for food industry, nutraceuticals, etc.; third is the MABs and the recombinant sort of proteins. If we look at next three to four years, how to think about this opportunity size in realistic terms? These are very large growing areas, a lot of it would be import substitution in the CDMO. Would you be working with international players to sort of start supplying to them, just broadly how to think about the opportunities which you are going after?

Dr. Satyanarayana Chava: We mentioned three areas; one is biotech ingredients used in cell culture, that is a very high gross margin business, but we cannot achieve scale there, the opportunities are limited, but that business helps the company to understand the nuances of that technology. So biotech ingredients will be a small part of revenue in the long run. And our business where enzymes for health and nutrition and industrial enzymes will be a very large business where currently they make some health and nutrition enzymes, but they are also in discussion with international companies to offer contract manufacturing for enzymes for global markets. The area where we see significant growth will come is from CDMO. And currently, the new plant one is being built and will be operational by March 2021 is already sold, the capacity sold to one customer as part of the CDMO. And we do believe they need more capacity, and they have acquired another land and we will start building additional capacity once the second plant comes on stream by end of March. So, if you look at the revenue stream, the biggest revenue in the long run will be from CDMO for global customers and then enzyme and then biotech ingredients. What is worthwhile to know, this is a fully integrated biotech company, they will make their own ingredients, they will make their own enzymes, if necessary, they do recombinant. So it is a full scale biotech company.

Sandeep Kothari: And last question, what can go wrong according to you, what are the risks, basically, India, power costs are high, can you get the cost leadership required, is the technology there to get the cost leadership to a large scale successful CDMO, what would be required, and what are the risks to achieve what you are trying to achieve in this?

Dr. Satyanarayana Chava: Thanks, Sandeep, for this interesting question. The risk is not there in biotech ingredients and CDMO. As we mentioned, the cost is very critical for enzymes where the health and nutrition and industrial enzymes, that is where the cost will be very critical, whereas the ingredients and CDMO are technology-driven rather than cost-driven. So we do not foresee major growth challenges for mainly CDMO, so that is insulated from majority of the risks. So enzymes we have to be large scale and cost-driven.

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

S Padmanabhan: My question is with this second plant coming in the fourth quarter, and it looks like the second plant has got capacity of close to 15x of that of the first plant, I understand that you had given the second half should be better than the first half, how do we see the utilization that will happen in the second plant, what is the kind of revenues that one can expect from the second plant?

Dr. Satyanarayana Chava: Second plant when it comes live in end of March 2021 will be utilized to produce recombinant protein to one customer. Currently, the R&D and pilot plant is utilized to produce. So that will give them opportunity to develop more products to other customers who are waiting for the scale up of the technology. Once the new plant comes up, where the capacity is 180,000 liters, the current capacity will be freed up to do more trial batches for other customers.

S Padmanabhan: Any idea what could be the revenues, I mean, when the capacity is fully utilized by that one customer that you are talking about?

V V Ravikumar: I think what is going to happen is Rs.50 crores CAPEX we are investing in the second plant and it will give some similar revenue multiples of the R1, it is like currently about Rs.38 crores is the CAPEX invested as a gross block, similar we can expect in the second unit also.

S Padmanabhan: Rs.50 crores investment should give you about Rs.100 crores in that case, is that right?

V V Ravikumar: Not exactly, but around that.

S Padmanabhan: And as you said the customer when he comes, he will use the entire 180,000 tons or is it going to be more gradual in nature?

Dr. Satyanarayana Chava: We have commitments from the customer for that plant.

S Padmanabhan: My second question is on leveraging this benefit to your existing portfolio. One as I see from the presentation that you can also leverage it to insulin portfolio, the recombinant, and we are also looking at diabetes, specifically in the other APIs and as a segment together. Do you think that there can be a synergy between using recombinant to your diabetes and oncology portfolio specifically?

Dr. Satyanarayana Chava: That is a long-term plan if we do biosimilars, but not in the short and medium term.

Moderator: Thank you. The next question is from the line of Krishna Prasad from Franklin Templeton. Please go ahead.

Krishna Prasad: If I look at your current business segment, there itself we would still have long runway for growth. So any thoughts around why you want to get into this new segment and that too through acquisition because we are generally not being such an acquisitive company, so, I am just trying to understand kind of capital allocation logic here, maybe you can help me with that?

Dr. Satyanarayana Chava: The reason for us to diversify into the biology space. Half of the new approvals are coming from large molecules. And second, there is a tremendous need for the animal origin free proteins, whether it could be used for cell culture ingredients or for recombinant, people are preferring to have animal origin free. The core strength of Richcore is to produce animal origin free protein. And we see there is a great opportunity. The second, why we went into this diversification? So far Laurus's growth depends on Greenfield investments, and backward integration of formulations because of our API strength. We saw there is a great opportunity for CDMO in recombinant space, where there are no significant scale players in India and we wanted to fill the gap. That is the main reason for us to enter into this relationship. And as I mentioned, we want to reduce the gestation period from six, seven years to a very short period, for us to learn and scale these operations.

Krishna Prasad: Are you looking to do more acquisitions, and which are those areas that you are thinking about if yes?

Dr. Satyanarayana Chava: If you have seen us, we are not doing much acquisitions in APIs and formulations space where we have capabilities to build a scale and cost effective and also with speed. We do not have expertise in biology. So this acquisition helps us into fill the gap in biology, and we do not foresee any acquisitions in this space.

Krishna Prasad: One question on bookkeeping. So from a sales mix perspective, for Richcore, how much is exports and how much is domestic?

Dr. Satyanarayana Chava: Majorities are exports.

Krishna Prasad: And new customer also would be export customer?

Dr. Satyanarayana Chava: The new customer where the new plant will be utilized, that is all exports.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: What is the debt of Richcore?

V V Ravikumar: They have a small debt of about Rs.9 crores at the end of September, but they have an intent to take around Rs.12-15 crores debt for the further expansion in the unit-II which will be operational by end of March '21.

Dheeresh Pathak: So, of the Rs.50 crores CAPEX for unit-II, only Rs.10-12 crores is pending?

V V Ravikumar: Yes, Rs.12-15 crores.

Dheeresh Pathak: Sir, of the current revenue, roughly Rs.60 crores annualized, so what is the split between the three revenue streams Biotech Ingredients, Enzymes and CDMO?

Dr. Satyanarayana Chava: In this financial year I would say it is equally split between ingredients, enzymes and the CDMO. But next year the majority of the growth will come from CDMO.

Dheeresh Pathak: This client concentration in the current revenue stream and once you utilize the new capacity, what would be the client concentration?

Dr. Satyanarayana Chava: There are two customers who will utilize their new plant, otherwise the current customer concentration in ingredients and enzymes is very diversified. Whereas in CDMO which will be split with these two customers right now.

Dheeresh Pathak: And the second unit which is 10x capacity, that is existing customers or new customers?

Dr. Satyanarayana Chava: Existing customers.

Dheeresh Pathak: So then large part of a revenue would come from this one customer once that new capacity is exclusively used for that client, right?

Dr. Satyanarayana Chava: That client is already for existing customers and they will produce the same products what they are currently producing which are on a small scale.

Dheeresh Pathak: So, these recombinant proteins that we would be supplying to these clients, this will go into as a biosimilar by the client or it will be used as innovator product, so if you just explain that?

Dr. Satyanarayana Chava: The current CDMO is recombinant proteins used for food industry.

Dheeresh Pathak: So, the company that we are selling to, is a generic company in this category or is the innovator of that recombinant protein?

Dr. Satyanarayana Chava: It is a very innovative product used by global companies.

Dheeresh Pathak: And the new capacity that we will put to use that we will supply a new recombinant protein which will also be unique to that company, not a generic recombinant?

Dr. Satyanarayana Chava: This is not generic; this is a novel recombinant protein.

Dheeresh Pathak: And that will also have usage in the food industry?

Dr. Satyanarayana Chava: Yes.

Dheeresh Pathak: Sir, this recombinant albumin, is there globally anybody selling at a large scale?

Dr. Satyanarayana Chava: There are companies who have also done clinical trials for human use, and we will also invest money into doing clinical studies starting in India for human use. But otherwise, currently company produces albumin as part of their offerings in the cell culture ingredients.

Dheeresh Pathak: Sir, after this new plant, our total gross block would be Rs.90 crores and the plant-I is fully utilized, plant-II can generate Rs.100 crores of revenue, right, so on a gross block of Rs.90 crores, on a full utilization we can generate Rs.100 plus 60, Rs.160 crores of revenue, right?

Dr. Satyanarayana Chava: Yes, at the same time, they also have taken land for the additional expansion which are at the drawing board stage right now, but land was taken already.

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

Tushar Bohra: First, quickly a hygiene question. Our existing capacity is about 17,500 litres and we are adding capacity which is 1.8 lakh litres, right. The current turnover is completely supported by the existing capacity only, right?

Dr. Satyanarayana Chava: The existing capacity is in fact 10,750 litres and capacity addition is 180,000 litres. The current capacity is in the research facility where they are using these fermenters for research purpose, scale up studies because they do not have large facility, they are used for producing commercial batches for the one customer where we funded partly in creating the new capacity. So once the new capacity is ready, they will free up the research fermenters for doing scale up of other products which are in the pipeline. So, you cannot assume they are adding 10x for fermenter capacity ready, will go up by 10x.

Tushar Bohra: Secondly, when we mentioned the intention to go into the MABs and even biosimilars at some point, definitely biologic CDMO, are we also looking at next generation in terms of CAPEX over a medium term horizon, let us say like single use reactors for example? What is the three to five year strategic plan for this asset from an investment perspective, and not just the quantum of investment, but qualitatively, like where do we see this segment going from an investment perspective?

Dr. Satyanarayana Chava: If you look at the current debt of the company is very small, and they are raising another Rs.12-15crore to fund Rs. 50 crores additional CAPEX. So there is a need for future CAPEX and we do believe the internal accruals coupled with some debt will be enough to fund their future requirement. We do not foresee any new investments to be funded by us, but our long-term plan when we build very large scale recombinant capacity, which will happen maybe in calendar year 2022, and we do believe their cash generation is enough to meet even that increase in capital expenditure as well.

Tushar Bohra: But qualitatively sir, what kind of investments can be looked at? I am not saying the number, but I am saying what kind of areas you would look to invest in like specifically let us say are you looking at advanced single use reactors for MABs, mammalian cultures, etc.,?

Dr. Satyanarayana Chava: These are dizziest controlled fermenters which are very modern, well articulated fermenters. And I think the amount of investment required for any fermenter, whether using for ingredients or enzymes or CDMO, will be similar cost. I do not foresee big difference in the quality of fermenter except if we go into therapeutic proteins, we need to invest into GMP environment, we need to invest in quality control, we need to invest in other parameters, but otherwise non-therapeutic equipment cost is very similar irrespective of whether enzymes, ingredients or CDMO. But we need to put very good quality systems and the time we do therapeutic proteins.

Tushar Bohra: Sir, recombinant proteins you already are doing CDMO effectively manufacturing as you said, we have the new capacity also already pre-sold. But beyond this, when you say proper CDMO for biologics, even for therapeutic, what is the horizon on which we should start to see that happening?

Dr. Satyanarayana Chava: Probably sometime in 2022.

Tushar Bohra: One question very quickly, we have mentioned green chemistry enzymatic route for maybe manufacturing some of the APIs, we already have some product in development or a very clear pathway for some of our existing or planned products?

Dr. Satyanarayana Chava: We do have a lot of opportunities where we could utilize their expertise in biocatalysis. We already have several products, we completed development and we need to switch the enzymes source. We did not have plan to do fermentation of our key starting materials for our steroids.

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

Nimish Mehta: The essential reason why we bought this basically, there is a non-overlapping technology benefit that we are getting, they are into biotech recombinant products and we are more into chemistry. So would a partnership not be a better option than a complete buyout? We could have very well done some product-related partnerships, technology platform partnerships or something like that. How do you see that vis-à-vis complete buyout?

Dr. Satyanarayana Chava: You are right, we tried to do partnerships for biocatalysis, it did not work out, we did this exercise for last two years and no significant positives came up. Second, for us to do the development, is not a significant investment, we are doing a small investment where we have majority ownership. And if you look at our core strength, we are a research-driven manufacturing company, we never said that we are a research-driven chemical manufacturing company. So it perfectly fits into our strategy. We are doing good research in chemistry. Now we acquired the capabilities to do research in biology. So the overlap between these two will make us much stronger than what we are today, both through chemistry, biology, the bigger the overlap the bigger the chances of making good success in the future.

Nimish Mehta: So the kind of customers that we might be looking at after once we fully integrated, would be largely biosimilar company or biotech company, is that a right understanding?

Dr. Satyanarayana Chava: For biotech ingredients, the cell culture ingredients, their current customers are all biosimilar companies. For enzymes, they do have a mixture of both biotech and animal food and supplement companies. With CDMO, the current customers are in the food, whereas we will add the GMP capability in the next few years so that we will be able to offer CDMO for their therapeutic proteins as well.

Nimish Mehta: But in CDMO, we should be also able to add biosimilar or biotech companies, right, once we integrate, is that kind of a vision or I am missing something there?

Dr. Satyanarayana Chava: That is the long-term vision for us to offer manufacturing of MABs as part of the CDMO.

Nimish Mehta: If you can let us know besides the CAPEX that you mentioned, any cash burn for the company for the next three years that will be helpful?

Dr. Satyanarayana Chava: As I mentioned will be funded through internal accrual and partly by debt.

V V Ravikumar: We are generating free cash now but the same is invested into the CAPEX. So out of Rs.50 crores new project what they are taking, the additional loan is only taking about Rs.15 crores, the rest is being managed through internal accrual and advance from the customers.

Nimish Mehta: So no cash burn is expected for regular operation?

V V Ravikumar: No cash from Laurus side.

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

Tushar: Just from the Laurus perspective, how much of the debt would be raised to fund this acquisition, any ballpark number?

V V Ravikumar: From Laurus side, we are not raising debt for this acquisition, we are using internal accruals.

Tushar: So safe to assume that whatever the current cash flow from operations plus whatever the CAPEX which we have already guided and plus funding for this will be more or less from the internal accruals?

V V Ravikumar: Yes.

Tushar: Secondly, now that capacity is already sold to one customer, but given it being a fermentation and more link to the microorganisms, so, the scaling up, is it like safe to assume that the normalized business can start immediately in say, 1Q or 2Q of next financial year or that scale up will take some time for that particular customer itself?

V V Ravikumar: Scale up of the second facility will happen in the next financial year. It will generate most of the revenue in the next financial year from Unit-II.

Tushar: Lastly, any new customer where the products are at such a stage that Richcore would be in a position to further build on the capacity, other than this one particular 1,80,000 liters?

Dr. Satyanarayana Chava: Yes, there are other customers at the development stage right now. The new investment other than in plant-II will happen for other customers, where the discussions are at very early stage right now.

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

Krish Mehta: I wanted to know what the existing customer set is for Richcore like in the sense if there are potentially any overlaps between Laurus customers and Richcore customers?

Dr. Satyanarayana Chava: There is no overlap.

Krish Mehta: Could you throw some color on the sales cycle in terms of like the lead time it takes to onboard a new customer for Richcore?

Dr. Satyanarayana Chava: Actually, it is the development of a product for a customer is one. If it is enzymes, it is short. If it is CDMO, all that work is done by the partner. So Richcore is offering only manufacturing side. So it is a matter of biotech ingredients is 12 to 24 months. Because they are not producing new enzymes, they are producing the existing enzymes at scale, so the gestation period for a customer is a shorter and CDMO is even shorter, the partner develops the product, and puts into market and comes for the capacity.

Moderator: Thank you. The next question is from the line of Kunal Mehta from Vallum Capital. Please go ahead.

Kunal Mehta: Just wanted to understand, I was glancing through a presentation, and I think the current pipeline for which you are betting on in this company is basically of recombinant products. So could you give us an understanding of the landscape and the value and the potential which you see in this product for the next five years, because I am sure a lot of these products will now have to go through clinical trials in India and multiple geographies and then we will be able to substitute the animal origin products which are there, so any perspective on the value of these recombinant products or this pipeline would be very helpful?

Dr. Satyanarayana Chava: Opportunity is very large. I cannot give you a number. The question is how quickly market absorbs these recombinant proteins. Since we are not currently developing or offering any CMO services for therapeutic protein, so we cannot give a number, we will be able to give the day we invest into GMP facility for therapeutic protein.

Kunal Mehta: Actually I was looking at it more from a qualitative perspective, because there are certain peers of ours in the listed space who have also invested in similar assets and similar portfolios on the recombinant side. So, just wanted to understand because the challenges here in terms of gaining an entry into these products seem to be fairly high because of the level of technological skill set that is required, for example, if my memory serves me right, in the last decade, there have been practically a handful of companies who have been able to get a patent for some product like say, recombinant albumin and maybe even make a commercial launch, I mean, there will not be more than even four or five companies. So, what is giving you the confidence that the value which we have? I am sure we got this for a very good price. So, what is giving the confidence that the recombinant products, at least some of these you will be able to get on stream in the next five years? And I expect the choice of going for CDMO model for the next few years, by which the asset would fund itself. So any view would be very helpful?

Dr. Satyanarayana Chava: As I mentioned, our focus currently in non-therapeutic recombinant proteins, that is our current goal, to scale up. The current plant-II which will come live by end of March, we will produce recombinant non-therapeutic protein. But even the further investments will also happen for proteins for non-therapeutic use. But our next phase of investments will happen for protein for therapeutic use, that will be somewhere middle of 2022 where we are going to serious money into that. Then what therapeutic proteins we are targeting, what will be the opportunity and all? Right now, the company's focus will be prominently in cell culture ingredients, health and nutrition enzyme and proteins for non-therapeutic use.

Kunal Mehta: The trials for these products for good start anywhere you mentioned that they would start after '22, right, is that the way to put it, are the trials in India, if you are wanting to launch these products?

Dr. Satyanarayana Chava: Only one product where we invest in clinical trial will be recombinant albumin where it will be offered for human use. That will also take some time. So we will start investing from next year.

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

Charulata Gaidhani: I wanted to know this non-animal recombinant protein, what is the value of that in the current market and how much would be the market size roughly?

Dr. Satyanarayana Chava: The unique opportunity by Richcore is producing animal albumin free proteins. The current revenue stream, as I mentioned, is equally between ingredients, enzymes and CDMO. But the growth will come from CDMO from next year onwards and the opportunity for the biotech ingredients is deep, but there are many companies in the ingredients space. And enzymes, as we know, there are very large companies who are doing for the health and nutrition as well as industrial enzymes. Well, we do feel we will create a unique space for CDMO, for recombinant proteins.

Charulata Gaidhani: How large is the current customer base and what are the geographies that they are serving?

Dr. Satyanarayana Chava: CDMO customers are in US right now, and there are a few of the customers are in Europe as well.

Charulata Gaidhani: Could you give the number of customers?

Dr. Satyanarayana Chava: No, we cannot give.

Charulata Gaidhani: So exports are going through US and Europe?

Dr. Satyanarayana Chava: Yes.

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

Tushar Bohra: I wanted to understand maybe a guide for structuring the business aspect, the synthesis business could be looked at, in a complete different vertical. Now that we have entered the biologic space, and we are looking at CDMO in a big way, how does the company's structure look like over the next three to five years?

Dr. Satyanarayana Chava: As of now, the current founders and promoters will continue to run the operations and while Laurus will hold 72.55% of equity. And we do not expect any changes in medium to long term because the current promoters are knowledgeable, and they are there from the inception and it is their passion to grow this business. We will only help them to achieve scale and realize their potential. We do not expect any structural change in the medium to long term. And once they achieve scale, there are many options for us to look at, whether we could go public, or bring a strategic partners, there are many opportunities, but question for us is make it big. We will do that together with the current founders and promoters, we will make that entity big by investing more and bringing more customers and then we will evaluate various options how to maximize stakeholders value.

Tushar Bohra: So, we should look at the synthesis business has been separated and the entire biotech business probably in the listed entity for now and maybe over a three to five year period you probably have more clarity as to how that is developed. But from overall size of the opportunity perspective sir, do we see the entire biotech business substantially contributed to Laurus in a five year period from today?

Dr. Satyanarayana Chava: The size of the opportunity is very big. And as you also mentioned, like we have converted synthesis into 100% subsidiary, Richcore is ~73% subsidiary for us. So, we will continue to run and make it big and then we evaluate various strategic options. And going back to the question, how big this could be, this will be very big and that is the reason we have done this deal and we have the current team to bring scale at the earliest.

Tushar Bohra: And sir, you mentioned sterile and some of the products that this biotech capabilities will be helpful. On that note, if you can just help us understand the vision for the sterile part of business like where exactly are we, what do we intend to do over the next couple of years in sterile injectables?

Dr. Satyanarayana Chava: One idea we have to get into sterile manufacturing. And when we do CDMO therapeutic proteins, we can also evaluate doing a fill finish also, doing a fully integrated service, not only producing these monoclonal antibodies but also finish dosage formulations. That could be a different opportunity what we will evaluate.

Tushar Bohra: So hopefully we should get more clarity on that in the next couple of quarters on the regular concall?

Dr. Satyanarayana Chava: Maybe not in the next couple of quarters, but maybe in the next financial year, we will bring more details where we are heading in. So, we have a desire to get into sterile manufacturing, but we are evaluating right time. We do not want to do too many things at the same time. So we invested in formulations in 2014, we started investing in biology right now. So we will evaluate at the appropriate time for us to get into sterile manufacturing, which we are already thinking for several quarters now.

Tushar Bohra: We mentioned recombinant proteins like Trypsin for insulin, vaccine, etc., Given that there is a lot of demand for vaccines coming up, any conversations that the company was originally having as in Richcore or where Laurus was involved in any conversations where we feel it can be a significant opportunity coming up in the next couple of years for vaccines and insulin side specifically?

Dr. Satyanarayana Chava: Current opportunities are not in the therapeutic stage, but we will evaluate getting into therapeutic protein at the earliest but we will do once the deal is closed in the next 90-days and then we we will put more detail to all of you.

Tushar Bohra: But sir, Trypsin when we use for vaccines, is their emergency use authorization or something that would allow us to fast track the use of Trypsin in say vaccines and therefore open up a market for us, just thinking alone?

Dr. Satyanarayana Chava: The current expansion what is being done is not for the therapeutic proteins. The next expansion will also be for non-therapeutic proteins. So we will evaluate in the early next financial year because it requires serious investment into that.

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

Tarang Agrawal: What is the regulatory over site on the current facility and the facility which is going to come onstream considering that these recombinant proteins are going to a food company in the developed markets?

Dr. Satyanarayana Chava: These will be approved by Food Safety Authorities globally and they have all the required approvals for the current facility and they will also get approval for the new facility.

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

Dr. Satyanarayana Chava: Thank you, everyone for your interest and for your very intriguing questions. We are happy to share that in the coming quarters we will give you more insights on the way forward for our acquisition and when we get into the therapeutic protein. Thank you.

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