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LAURUS Labs
Knowledge . Innovation . Excellence

October 25, 2023

To	To
The Corporate Relations Department BSE Limited Phiroz Jeejeebhoy Towers, 25th Floor, Dalal Street Mumbai – 400001 **Code: 540222**	The Listing Department National Stock Exchange of India Limited Exchange Plaza, Bandra Kurla Complex, Bandra (East) Mumbai – 400 051 **Code: LAURUSLABS**

Dear Sirs,

Sub: Transcript of the Q2 FY24 Results conference call hosted on October 20, 2023

Pursuant to Regulation 30 & 46 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and with reference to our Results conference call intimation dated October 13, 2023, please be informed that the Results conference call for Q2 FY24 was hosted on October 20, 2023 and the Transcript of the conference call is **enclosed** for information and record.

Thanking you,

Yours sincerely,
For Laurus Labs Limited

VENKATESWAR REDDY GOGIREDDY
Digitally signed by VENKATESWAR REDDY GOGIREDDY
Date: 2023.10.25 14:46:08 +05'30'

G. Venkateswar Reddy
Company Secretary &
Compliance Officer

Encl: As above

“Laurus Labs Q2 FY'24 Earnings Conference Call”

October 20, 2023

MANAGEMENT: **DR. SATYANARAYANA CHAVA – FOUNDER & CHIEF EXECUTIVE OFFICER, LAURUS LABS LIMITED**
MR. V V RAVI KUMAR – EXECUTIVE DIRECTOR & CHIEF FINANCIAL OFFICER, LAURUS LABS LIMITED
MR. VIVEK, INVESTOR RELATIONS TEAM, LAURUS LABS LIMITED
MODERATOR: **MR. MONISH SHAH – ANTIQUE STOCK BROKING**

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY24 Earnings Conference Call of Laurus Labs Limited hosted by Antique Stock Broking.

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. Monish Shah from Antique Stock Broking. Thank you and over to you, Mr. Shah.

Monish Shah: Thank you, Michelle. Good evening, everyone, and welcome to Laurus Labs 2Q & H1 Results Conference Call. On behalf of Antique Stock Broking, I thank the management for giving us the opportunity to host the call.

Today, we have with us Dr. Satyanarayana Chava -- Founder and CEO; Mr. V V Ravi Kumar -- Executive Director and CFO, and Vivek from the IR team.

I will hand the call over to Dr. Satya for his opening remarks. Thank you and over to you sir.

Dr. Satyanarayana Chava: Thank you, Monish for hosting this conference call. Thank you for joining us for our Q2 & H1 FY24 Results Conference Call. We're pleased to have this opportunity to update you on our progress and answer your questions.

Our performance from Q2 started to see improvement and our priorities remain consistent. By focusing on R&D-led commercial strategy and customer-centric business orientation, we're advancing and augmenting our operational excellence to offer cutting-edge technology platforms in the manufacturing of small molecules, deliver the best external and internal opportunities as well as bringing innovative manufacturing solutions to companies and patients.

We've executed on several important business development transactions last quarter and we are further accelerating our strategic manufacturing partnerships.

We're also pleased to report that our investment into disruptive technology is progressing well. The first one is our investment in ImmunoACT CAR-T lead compound. NexCAR-19, which completed Phase-II trial for lymphoma and leukemia indication, has been granted marketing approval from CDSCO, Government of India. We feel it is a significant breakthrough and will be the India's first indigenous developed and manufactured cell therapy product for treating certain blood cancers.

The second one is initiation of GLP Lab Construction for the manufacture of viral vectors and gene therapy products at IIT, Kanpur.

The third one is increase in our stake in Laurus Bio, now 88%. This is a reflection to our confidence on great potential for future developments in enzyme technology platform.

Currently, it's an exciting time at Laurus labs and we are determined to build on our R&D-driven commercial excellence to deliver best quality and affordable healthcare solutions as we seek to create a long-term value for both patients and our all stakeholders.

Our Q2 results is in line and improved over Q1 due to recovery in customer supplies, which is driving higher revenues. While gross margins were maintained at very healthy level, our EBITDA margins have clocked a modest recovery as higher upfront expenses and growth projects have weighed on our overall operating cost. It is important to keep in mind as well as that our year-on-year growth was subdued due to particularly strong quarter we had in FY23.

As a result of these factors, our revenues were declined by 22% to Rs.1,224 crores and EBITDA came at Rs.188 crores with a margin of 15.4%. Our quarter-on-quarter growth is rebounding in both our API and formulations business, supported by strong underlying demand in other segments.

Our CDMO business project pipeline have continued to scale up along with the expansion of our new partnerships. Our cost improvement programs are also progressing as expected. Following the recovery, we saw in Q2, we remain optimistic for a better H2 resulting from both healthy order book and strong commercialization capabilities.

To begin, I would like to share key updates on our formulations business. Our formulations division reported overall revenues of Rs.332 crores for Q2, increasing over 120%. That was because of low base last year. On sequential basis revenues have also improved by 16%. Moreover, if you look at our H1, revenues increased by 24%. This was primarily driven by recovery in every business along with growth in our developed market share.

Coming to LMIC business, overall market volumes have largely remained stable, partly supported from stable prices. We remain fully committed to stabilize our ARV franchise business throughout the FY24 and beyond while navigating the pricing headwinds.

We awarded with 20% recent NACO tender for a supply of key products and this is our maiden successful bid in the Government of India tender for the supplies of HIV products in India. This was achieved primarily because of our fully backward integrated offering in ARV model.

We have successfully implemented several cost improvement measures and we believe these measures will sufficiently ensure our market readiness and confidence of sustaining leadership position in first line ARV treatment both in APIs and formulations.

Coming to the developed markets, demand for our broader portfolio remain healthy. In US, we continue to get good market share on several products and also increasing volumes.

During H1, we filed one ANDA. Cumulatively, we have filed total 38 ANDAs to-date. Of this, we have 15 final approvals and 13 tentative approvals so far.

We continue to have diverse portfolio and pipeline including novel 505(b)2 products comprising of ARV, cardiovascular, diabetes, CNS, and gastrointestinal.

In Canada, we have 21 filings with 13 product approvals, of which we have launched nine products and we are intending to launch at least two more products during the second-half of FY24.

For EU markets, we have 18 filings with 14 product approvals, of which we already launched six products. We have continued to strengthen our CMO relationships and anticipate further volume increases in the coming quarters.

Our FDF division continue to operate most of the total commission capacity of 10 billion, in which we anticipate that the remaining Brownfield capacities that we added in the last year should start to get optimally utilized by end of this year.

On R&D front, overall R&D spending to sales for H1 FY24 was at 4.5%. We have incurred little higher R&D expenditure in this quarter as we acquired intellectual rights for few gene therapy products from IIT, Kanpur.

We continue to make good progress and invest in portfolio with product-specific approach based on complexity and scale economics.

We have total 62 products in R&D pipeline with market size of over US$ 49 billion.

I would like to share the status of our filings as of now; 38 ANDAs in the US, 18 dossiers in Europe, 21 products in Canada, nine dossiers with WSO, eight dossiers in South Africa, one in. Australia, while 20 dossiers filed in India, while several products were filed in various ROW markets.

Overall R&D to sales of the full year is expected to be around 4.5%.

While coming to generic APIs, revenue from generic APIs during the Q2 declined by 8% year-on-year to Rs.629 crores. However, sequentially, it has improved by 5%. For H1, overall growth was flattish.

ARV retained its volume-led steady momentum through Q2 and revenues moderated a bit, attributing to an element of cyclicality in the ordering.

We continue to maintain a leading market share in the first line HIV treatment-related APIs.

In the onco API space, the sales for the quarter rebounded and delivered a strong revenue increase over 100% year-on-year to Rs.117 crores. In H1, the growth is over 50%. This is reflective of strong demand across our portfolio and favorable industry dynamics. We are augmenting the new capacity for oncology products to accommodate the increased demand.

More importantly, Laurus Labs, one of the largest high potent API capacities in the country. And our aim to strengthen global leadership in some of the existing products by focusing on higher volumes and adding new potent molecules.

In the other API segment, which includes cardiovascular, diabetes, asthma has slightly recovered, tracking only 2% growth quarter-on-quarter to Rs.139 crores. Recovery is muted on account of temporary market dynamics and scheduling patterns from our partners. On the year-on-year basis, revenues declined by 37%. We are confident that underlying demand for our products remain strong and our CMO order book has continued to look very healthy.

In first half this financial year, we have filed three DMF, out of those two are in non-ARV category. With this company has a total of 83 DMF.

While coming to synthesis business during the Q2, the company CDMO business recorded revenues of Rs.224 crores, decline of almost 70% year-on-year. The revenues declined due to a weak year-on-year comparison given large CDMO projects executed last year. Otherwise, the baseline business tracking healthy and project pipeline continues to scale up very well with our existing and new customers added in the last six months.

We continue to execute on our scientific-led approach to customer acquisition and retention. We are further strengthening and expanding our relationship with several big pharma.

We remain focused on improving our integrated CDMO enabling technology platform to achieve diversified revenue stream, ensuring stability and resilience.

We are working on over 60 projects, out of this, there are 10 products, commercial, few APIs and several intermediates.

We made good progress on new science for CDMO division, both R&D Center and manufacturing facilities under LSPL.

Our animal health unit initiated commercial validations from this month and should gradually scale up. R&D center is likely to get commissioned by the end of FY24. Our new animal health site will have all the capabilities to handle steroids, hormones and high potent molecules apart from other large volume products.

In Laurus Bio, we recorded strong growth for Q2 and H1; Q2 we grew the revenues by 44% and H1 by 56%. The growth was led by attraction in CDMO services along with the expansion in

our customer base. We're also optimizing our capacities with the large scale CDMO partners and expect increased downstream capacity to come on line by December '23. This unit will achieve its peak revenues during FY25.

Our enhanced technical expertise and biocatalysis is expanding its application in several small molecule manufacturing where Laurus is utilizing this expertise to service big pharma.

Progress on our new Greenfield site at R3 is on track and we have completed the design phase. We expect the expansion to happen in a phased manner. This site should further strengthen Laurus capabilities in offering CDMO services in animal origin free proteins and growth factors apart from large scale permutation.

Let me share brief on quality and EHS initiatives. We have continued to implement and operate best-in-class R&D, manufacturing and quality control systems in line with the highest global standards along with a comprehensive EHS management. This is enabled by our profound scientific team of over 2,300 people embracing commitment to evolve to address new opportunities.

During Q2, we implemented the project called “Sankalp” in association with DuPont Sustainability Solutions to further enhance organizational safety excellence.

During the H1 FY24, a total of 51 quality audits were undertaken, including several customer audits. To-date since inception we have successfully passed 91 regulatory audits, including 40 audits from major global regulatory agencies like USFDA, WHO, PMDA, TGA, EMA and MHRA.

With that, I would like to hand it over to Ravi to share some of the financial highlights.

V V Ravi Kumar: Thank you, Dr. Satya and a very warm welcome to everyone for Q2 and H1 FY24 earnings call. Total income from operations for the H1 was Rs.2,406 crores as against Rs.3,115 crores. Excluding large PO, you're all aware that we have executed a large PO last year. The underlying business delivered growth of 14% for H1, whereas for the Q2 it was 18%.

As you would notice that our quarter performance has recovered and we showed an improving momentum for majority of our business, also as Dr. Satya highlighted about the strong underlying demand across our growth pillars, we believe it will continue to support our outlook for the rest of the current fiscal.

Gross margin for Q2 have improved at 52.5%. And if you look at EBITDA for Q2 FY24, is at Rs.188 crores with a margin of 15.4%, whereas for the first half it was Rs.356 crores with an EBITDA margin of 14.8%. The impact is primarily due to operational deleverage, lower CDMO business, and some of the new initiatives’ expenditure being incurred like CGT, etc., I think overall, we spent about Rs.16 crores on the new initiatives.

Our diluted EPS for Q2 was 0.6 and for H1 it is 1.1 without any annualization. And our ROCE is at 11.4% due to operating deleverage and the strong capital deployments for the future growth. On the CAPEX front, we invested close to Rs.182 crores for the quarter and Rs.385 crores for the first H1.

The board of directors recommended a dividend of 40 paise per share.

As you are aware for FY24, the majority of CAPEX is for the synthesis and bio divisions and most of the expansion projects are on track to support our future growth...you can refer to our IR presentation for more details.

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

Moderator: We will now begin the question-and-answer session. We'll take the first question from the line of Jeevan Patwa from Sahasrar Capital. Please go ahead.

Jeevan Patwa: Firstly, congratulations for market authorization for CAR-T technology. Just wanted to understand, now we have the authorization for India, what is our plan for other markets or other geography, is there any other geographies where we are conducting the clinical trials?

Dr. Satyanarayana Chava: Currently, our associate company ImmunoACT has partnered with Mexican Minister of Health and trials will be done in Mexico and We are in the process of finalizing some licensing deal with a European company. So, next year we expect clinical trials will start in Mexico for this product, and in year 2025, clinical trials will also start in Europe. In Europe since the licensing deal is under negotiation, I can't give you more details, but there are some licensing deals being pursued by the company. Going back to your question, since the approval is obtained, we expect to launch in the next few months in India, we are gearing up to do commercial manufacturing while getting all the necessary licenses needed for India launch.

Jeevan Patwa: Is there any other type of cancer that you are working on… any solid tumor cancer?

Dr. Satyanarayana Chava: There is one Clinical candidate is in pipeline which is in preclinical, will go to Phase-II in the next six months, that is BCMA. There is another asset which is in the early stage of research for the solid tumors.

Jeevan Patwa: Just wanted to understand on this API and FDF side. So, we are talking about new CMO orders. Last quarter we said we have tied up with few clients. This quarter, we are saying we have CMO order, a healthy pipeline. So, can you elaborate more on this when will they are going to start… so is it going to be in the second-half and how big they are? Because our API revenue has been constant since last many quarters now despite having expanded our capacities by more than 50%. So, when can we actually see this number ramping up on the API side actually, and then on the FDF side as well? So, on this CMO order basically can you elaborate more?

Dr. Satyanarayana Chava: The CMO order we got from our partners for integrated manufacturing of API and formulations. If you recollect, we were talking about billion tablets CMO. That will increase to 1.5, 1.6 billion. We are qualifying the packaging lines also. Earlier, we used to do bulk packaging, now we are doing the secondary packaging as well. And then your question of our 50% capacity addition, majority addition, we have done for CDMO. So, as you're aware, in CDMO business, we have to have patience because we have to deliver Phase-II, Phase-III and wait for the commercial launch. So, I can assure you your company is in a good position to offer CDMO differentiation when compared to other CDMO companies in India.

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

Tushar Manudhane: So just on the gross margin firstly on sequential basis, when the synthesis business has in fact there has been slight decline and formulations business has also been quite stable. So, if you could just explain the reason for better gross margin this quarter compared to previous quarter?

Dr. Satyanarayana Chava: The better gross margin in this quarter is primarily because of improvements we have done earlier were commercialized and also, we are operating our ARV facilities at full scale, that is also helping us to leverage.

Tushar Manudhane: Considering the FY24 sales outlook and presumably significant chunk of the business coming from CMO, CDMO side, as you have indicated in just the earlier commentary that the ARV-led API and formulations could be stable, so does it mean that there should be a significant improvement further in the gross margin in the coming quarters?

Dr. Satyanarayana Chava: The gross margin improvement, if you look at our second quarter FY23 was at 55% where our revenue was primarily driven by large CDMO orders. Yes, if the CDMO revenues pick up, the margins will slightly improve better.

Tushar Manudhane: Means we can go back to 55%?

Dr. Satyanarayana Chava: I'm not commenting, but with the revenue growth primarily driven by CDMO business, the chances of increasing beyond the 52% what we have reported will certainly go up.

Moderator: The next question is from the line of Bharat from Quest Value Capitals. Please go ahead.

Bharat: Recently, Andhra Pradesh Chief Minister has said groundbreaking for unit-7 in Vizag. May I know what is this unit-7?

Dr. Satyanarayana Chava: New groundbreaking ceremony was done last week is primarily to add more capacity for CDMO. We are making that common infrastructure for new CDMO sites.

Bharat: This unit-7 for a specific customer or is it for generic -?

Dr. Satyanarayana Chava: There are two sites. We are creating common infrastructure and building one block in each of those to get the necessary regulatory approval so that that site also can be audited by big pharma and we can able to service from that site as well.

Bharat: May I know what is the CAPEX for FY25?

Dr. Satyanarayana Chava: We will give you more details in the next quarter conference call about the new CAPEX in those new sites.

Bharat: If you see in the presentation you said like this year would be a year of consolidation and the two quarters back you said that a year of consolidation means you don't expect any degrowth. May I know what do you mean now with this a year of consolidation, do you expect any degrowth now?

Dr. Satyanarayana Chava: When we are saying this year will be a year of consolidation, that means we are adding a lot of capacity. If you look at in the last three years, we have added 3 million liters capacity and 5 billion tablets capacity. So, all those will be utilized in the next financial year onwards. There, a lot of leverage will come. Currently, negative leverage is happening. We have capacities, we have people and we are only doing trial quantities. So, we are spending more than what we are earning from those sites. So, once we do commercial manufacturing from those sites, you will see very healthy EBITDA margins and then return ratios.

Moderator: The next question is from the line of Vivek Agrawal from Citigroup. Please go ahead.

Vivek Agrawal: In API segment actually, we have seen a decent rebound and it is largely led by oncology. So, can you please call out what has driven this rebound and is it a broad-based or any product-specific contribution, any milestone income in oncology, etc., that would be helpful?

Dr. Satyanarayana Chava: Thanks, Vivek. The growth in oncology business is also a pleasant surprise for us as well. Maybe the regulatory setbacks for some of the companies is helping us to gain market share, and as I mentioned, we have the largest capacity in oncology, so we're able to capture that opportunity. And if you look at our oncology API sale in H1, we have done Rs.171 crores and we have very, very good order book for H2. So, looks like we'll do very well in our oncology segment.

Vivek Agrawal: So, do you expect the current run rate can sustain in the coming quarters or in the next year as well?

Dr. Satyanarayana Chava: We certainly believe so because we have order books well beyond Q4 this year.

Vivek Agrawal: One question on FDF. How much of the business coming from US now, if you can help us understand?

Dr. Satyanarayana Chava: I can give you a number for North America. This year all put together, it could be $35-40 million

Vivek Agrawal: Just last question on synthesis business, right. So next few projects that we have in the segments are largely in the animal health region or agchem, right. So, can you also talk a bit on human health project, that's a bigger market, so is there any progress out there, has the company received any mid or large-scale project of late

Dr. Satyanarayana Chava: In the synthesis, there are several projects in the clinical phase right now. We believe we are well positioned for several reasons. The one reason is we have capacity and our regulatory track record is very good and we have scale and we have technical capabilities. See, nowadays we have capabilities from biocatalysis to continuous flow chemistry to very large-scale hydrogenation, very low temperature reactions, very high temperature reactions. We are capable of delivering wide variety of chemistries, that is also well appreciated by our partners. So, we believe we are well positioned to get that opportunity.

Moderator: The next question is from the line of Madhav from Fidelity. Please go ahead.

Madhav: I just wanted to understand on the approval for the CAR-T therapy which we have received for India. How big is the addressable market, like do we know how many patients there are in India which can be addressed by this drug? And I was just reading some article online. They said that treatment cost is about 30 lakhs per patient per year. Is that like broadly a right number that we should understand?

Dr. Satyanarayana Chava: We cannot give you the exact cost to the patient. We can only give you what is the product cost we are going to supply to the hospitals. It is between 30 to 40 lakhs. So, we don't have any control or estimation on how much it will cost to the patient. Our associate companies plan to sell between 30 to 40 lakhs per treatment.

Madhav: What's the patient population in India, do we have any broad estimation for that?

Dr. Satyanarayana Chava: I don't have the right number with us, but currently, ImmunoACT geared up to deliver about 500 treatments per year from the current facility and also creating facility which will be ready by March 2025 where we can deliver additional 2,500 treatments per year.

Madhav: Then just on the CDMO business, I think you have mentioned we have 62 active projects in the pipeline. Could you please help us understand like how many of these are Phase-II, Phase-III and commercialized molecules, if you could share some split it will be very helpful.

Dr. Satyanarayana Chava: As I mentioned in our presentation, we have about 10 commercial products, four APIs and other advanced intermediates and we have an additional 60 projects in various clinical stages.

Madhav: My question is like if we have 10 commercialized projects, that should mean like good potential as we go into next year, right, because we are building the capacity and if 10 of them are commercial, is that the right understanding?

Dr. Satyanarayana Chava: We have built capacity for commercial products already. The additional capacity, for example, in animal health, we just started commercial validation from this month. Our crop science facility is still under construction. While other human health projects where we are creating capacity, we are doing either Phase-II or Phase-III quantities. So, once we do those, we have to wait for certain time until we get the commercial orders. So, what we are envisaging, what we're also telling all our stakeholders, the company is well positioned because of the Greenfield infrastructure, our quality and our chemistry capabilities, the company is well positioned to take those opportunities.

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

Krish Mehta: My first question is if you could provide the split between your ARV and non-ARV revenue for this quarter on a consolidated basis?

Dr. Satyanarayana Chava: ARV is 49%.

Krish Mehta: Could you provide the split between your ARV FDF and non-ARV FDF for this quarter?

Dr. Satyanarayana Chava: We have done about Rs.110 crores of non-ARV formulations. If you look at our split there, it is slightly moving towards non-ARV products, that's what we are mentioning. The growth in formulations also in the future quarters will only come from non-ARV.

Moderator: The next question is from the line of Ranvir Singh from Nuvama. Please go ahead.

Ranvir Singh: My question is related to ImmunoACT. When we are expecting it to roll out in India?

Dr. Satyanarayana Chava: We expect the rollout will happen in the next two months.

Ranvir Singh: Do we have a plan to increase your stake there from 34%?

Dr. Satyanarayana Chava: It's too early to say anything because they have enough capital to deploy and if they get approval and that will also give some additional cash flow for them, we don't expect.

Ranvir Singh: In last quarter, we indicated that EBITDA margin may come back to around 25%-plus kind of a number going forward. Because in first half that doesn't that seems a distant roll. So, any comment over here?

Dr. Satyanarayana Chava: Based on the current trend of growth in all segments, we expect the margins will be better when compared to the first half and we are very optimistic about second half of this financial year.

Ranvir Singh: So overall for a full year, the margin can we expect in the range of 20% at least?

Dr. Satyanarayana Chava: I can still say we'll improve beyond this 15% right now, yes.

Ranvir Singh: Third on bio side, have you added any more products other than Trypsin in this division?

Dr. Satyanarayana Chava: In bio, the majority revenue is driven by our CDMO partners. So, our revenue coming from Trypsin and animal origin free ingredients is also growing, but major growth is coming from our CDMO offerings there.

Ranvir Singh: So, on a full year basis, what kind of potential we can see from this division?

Dr. Satyanarayana Chava: The H1 bio is Rs.89 crores and the second half will also will be very similar to that, yes. We expect some more decrease in Q3 because of we are shutting down some of the facility for debottlenecking and where Q4 will rebound. So, that that division is doing very good as you have seen from our previous quarters. That is the reason we increase our stake in the company. We have lot of confidence on that business segment.

Moderator: The next question is from the line of Sajal Kapoor, an individual investor. Please go ahead.

Sajal Kapoor: My first question is, there is a quote from Henry Ford and I quote him, he said, “The only real mistake is the one from which we learn nothing.” Do you believe Dr. Satya that failures can sometimes lead to new opportunities or landing strips and provided the lessons are learned and internalized, and if yes, what examples from your own experience over the past year or so might you be able to share?

Dr. Satyanarayana Chava: We have several examples. Our conviction put us into a very leadership position. For some products where we failed to validate, some products we failed to get the right costing, but we continue to invest on those products and we enjoyed the success, there are several examples for that. We cannot fail every time. So, we fail once, twice, but we eliminate the opportunities for failure significantly at every failure.

Sajal Kapoor: My second question, Dr. Satya is, at a recent innovation conference in Cambridge, I heard a quote from a member of pharmaceutical life sciences company that kind of keeps coming back to me. The person asserted that possibility always produces uncertainty and fear of uncertainty is a competitive advantage or mode that keeps their business safe from rivals or competition. And they claim that if something is too simple to discover or develop, then anybody and everybody will eventually get involved in the field of delivering or developing new drugs. So, the uncertainty is kind of a mode that protects their business, that was their hypothesis. I mean, what's your sense on this, if you can please?

Dr. Satyanarayana Chava: We can give you on our recent success. Our investment in cell therapy is a lot of uncertainties around that discovery and development. So many people don't go into that. That's one way we had enjoyed success. The second is not many people are investing in gene therapy because of lack of talent, lack of understanding of that segment, we invested there. But it will take some time for us to enjoy success in gene therapy. When it comes to the CDMO, what you said is absolutely right. How many companies in India have created three million liters of new capacity

in the last three years? Not many. How many companies have scale at which we are operating? How many companies are having fully integrated development, that means from enzyme design, enzyme manufacturing to biocatalysis to large scale hydrogenations, flow chemistry and all. So, we are creating competitive advantage by investing ahead of the time, that is our success mantra, that's we are saying many a time and you pointed out very well. So, the fear of failure will prevent many people to invest, yes.

Sajal Kapoor: Dr. Satya, one question on regulatory uncertainty. What else could potentially harm or disappoint shareholders in the medium term, let's say next two to three years when it comes to the uncertainty that we have on the regulatory front, it could be USFDA audit, it could be some unexpected development, anything on your horizon that we have to be guarded against?

Dr. Satyanarayana Chava: We have derisked significantly, but we can't say 100%. We have multiple facilities now. We are operating in multiple regions. So, we have our bio division in Bangalore, Tumkur and Mysore. We have our R&D in Hyderabad, Telangana. We have API facilities in Vizag, Andhra Pradesh. We have our associate company in Mumbai. And we have our cell and gene therapy facility being created at Kanpur. So, we have diversified significantly regional wise also. And second when it comes to regulatory inspections, you have seen our impeccable track record there and we expect to maintain that.

Moderator: We will take the next question from the line of Saurabh Kapadia from Sundaram Mutual Fund. Please go ahead.

Saurabh Kapadia: The outlook for second-half and '25 looks positive. So, will it be driven by more of the animal health project or the current commercialized molecule has the scope to drive it further, is there any large molecule or the molecule where there's a large opportunity in the current commercialized molecule as well?

Dr. Satyanarayana Chava: Our optimism in second-half is primarily driven by increased sales in API, ARV, increased sales in oncology, increased sales in formulations, and also increased sales in CDMO, it is driven by all segments.

Saurabh Kapadia: On synthesis side, will it be the animal health project only or the current commercial molecules also should the ARV growth as well?

Dr. Satyanarayana Chava: We are not expecting any new commercial sales during the second-half. We're only anticipating a supply of Phase-II, Phase-III quantities in the second-half.

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

Nitin Agarwal: Just following up, sir, on the synthesis question, after the second-half, you mentioned the animal health business begins to scale up. When is the agrichem business contract largely to scale up for us

Dr. Satyanarayana Chava: That will be in the second-half of FY25.

Nitin Agarwal: Sir, beyond these two contracts, are there any major milestones for the segment that we can we can sort of look forward to?

Dr. Satyanarayana Chava: We are working on some R&D projects with partner, but we don't expect commercial sales in the next 12 to 18 months, yes. As you are aware, we are working with one of the top leading crop science companies. So, we have lot of potential to grow, but we are also cautious not to overcommit and underdeliver. We are taking projects what we can deliver. So, our current challenge is also lot of CAPEX projects going on. So, we are also cautious on where to invest, how much to invest.

Nitin Agarwal: So, sir, is the understanding right that animal health will contribute this second-half of this year, agrochemicals product will contribute in second-half of next year, and I guess there is not much of incremental large contract is likely to contribute in the human health over the next at least 18 months?

Dr. Satyanarayana Chava: I said next six months.

Nitin Agarwal: So, do you expect some commercialization of human health business also in FY25?

Dr. Satyanarayana Chava: I can't give more specific, but there are products which will go from Phase-II to Phase-III next year.

Nitin Agarwal: Sir, this $100 million ongoing CAPEX in synthesis, by when do you see it is reasonably utilized?

Dr. Satyanarayana Chava: Mid of next financial year onwards.

Nitin Agarwal: Sir, lastly on the FDF business this quarter, what was the component of non-ARV business in that?

Dr. Satyanarayana Chava: Rs.105 crores are non-ARV business from formulations.

Nitin Agarwal: And sir, lastly, on the other APIs, how should we think about this business growth from a 12 to 18 months perspective?

Dr. Satyanarayana Chava: Non-ARV formulations potential is very high. In ARV, API as well as formulations, we will have a threshold, we will not go beyond that because the number of patients is also plateauing in the African region. We anticipate both ARVs APIs and formulations will also attain its peak revenues soon maybe. So, the growth in both APIs growth, in formulations will come from non-API, non-ARV formulations.

Nitin Agarwal: What will be the drivers for this growth, any specific molecules or therapies or it could be broad-based growth over here?

Dr. Satyanarayana Chava: Our new approvals in US, our new contract manufacturing deals in APIs and formulations, our onco sales are growing, our non-ARV, non-onco API sales are growing. So, there are a lot of avenues for us to grow there.

Nitin Agarwal: On this ImmunoACT business, apart from the financial stake that we have, what other role do we have in this partnership?

Dr. Satyanarayana Chava: We have two board membership there and we help them in thinking at about scale, some strategic inputs. Beyond that we are not involved in the. day-to-day operations there.

Nitin Agarwal: Any role in the manufacturing?

Dr. Satyanarayana Chava: No. But in IIT, Kanpur we are operating our own facility there. So, just on the contrary to ImmunoACT, In gene therapy, we are going to operate our own facilities.

Moderator: The next question is from the line of Rohit Jain from Tara Capital Partners. Please go ahead.

Rohit Jain: So, on the last call, you said that you expect improvement in the synthesis business from the next quarter onwards and this quarter that we have seen that that particular division has degrown by 10% sequentially. So, can you help us understand what changed within three months and what is the outlook for this particular division going forward?

Dr. Satyanarayana Chava: See, CDMO, supplies, timelines all depends on what our partner is requesting. Sometimes if the partner asks deliveries in the next quarter, we have to deliver when he needs. So those kinds of uncertainties will be at CDMO. But, our customer list is increasing, our project list is increasing. That is the reason we are also very confident on this segment.

Rohit Jain: No, I understand. The reason I ask that is on the last call you said that there was some deferment and that's why the first quarter number was lower and you expect improvement sequentially. So, should we understand that there was some further deferral?

Dr. Satyanarayana Chava: Yes, that's the reason we didn't have any sequential growth.

Rohit Jain: This was asked earlier on the call. Just wanted to confirm that. So, you said that this is the year of consolidation which earlier sort of indicated that you expected flat EPS YoY given the performance in 1H that seems like a difficult task. So, how should we think of that qualitative guidance of this year of consolidation in terms of financial?

Dr. Satyanarayana Chava: We're not giving guidance, but as we mentioned, this is exciting times for us in the company, that means we have many prospects, many exciting projects and things are in a good shape. So,

that is the reason we are investing into the future. That's my answer for this, yes. We can't give you guidance right now.

Rohit Jain: For the CDMO CAPEX and for the size that you're preparing, what sort of asset turns should we think of, the broad range like the high and the low?

Dr. Satyanarayana Chava: I will give you a very broad number. It varies between one and two asset turn, all depends on the project, yes.

Moderator: The next question is from the line of Abhijeet K from PCL. Please go ahead.

Abhijeet K: First, I'd like to ask a question with regards to the revenue base. I'm looking at the presentation, I see that there is a sequential increase in the revenue removing the r CDMO base of the previous contract which is Paxlovid . How do you see the revenues growing over the next two quarters and also in the next one year?

Dr. Satyanarayana Chava: In the synthesis, if you look at the overall year, last year was lot of commercial supplies happened. This year, we don't have any commercial supplies, but we hope next year will be again a good year for a CDMO, some of the projects are moving into the late clinical phase or commercial. So, things will be in a good shape next year.

Abhijeet K: Next part is with regards to the CDMO. You've mentioned that one is going to be the animal API business that is going to come into place and the other is the agrochemical. Do you see that this is going to be a structural change in the company where you're going to be diversifying not only from a pharma-based thing and diversify into other revenue streams like agri and also alternative sectors?

Dr. Satyanarayana Chava: The animal health is a contract signed with one customer for good chunk of products. And in crop sciences, we have signed one development agreement and we'll also sign a second commercial agreement soon. So, our CDMO comprises of human health, animal health, some cosmetic ingredients we are doing. So that way, our CDMO division is well diversified when compared to many other CDMOs, yes.

Moderator: We'll take the next question from the line of Aditya Sen from RoboCapital. Please go ahead.

Aditya Sen: Once we start utilizing our new facilities, let's say by late FY25 or even FY26, then will we be able to get back to the previous high range that is plus 25% range of EBITDA?

Dr. Satyanarayana Chava: This is a very interesting question, but we can promise you we will get closer to 30%, but I will not tell you which year. Our growth, our revenue contribution significantly tilts towards CDMO, I'm sure we have an opportunity to take our EBITDA back to around 30% level.

Moderator: Ladies and gentlemen, we'll take that as the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you.

Dr. Satyanarayana Chava: Thank you, Monish for organizing this call and thank you our stakeholders who have a lot of confidence on us and I'm sure we will meet your expectations as we continue to commit ourselves to bring cutting edge technologies and servicing customers with our wide range of chemistry offerings.

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