April 28, 2025

To	To
The Corporate Relations Department **BSE Limited** Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001 **Code: 540222**	**The Listing Department** **National Stock Exchange of India Ltd.,** Exchange Plaza, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051 **Code: LAURUSLABS**

Dear Sir / Madam,

Sub: Transcript of the Q4 FY '25 Results Conference Call hosted on April 24, 2025

Pursuant to Regulation 30 & 46 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and with reference to our results conference call intimation dated April 10, 2025, please be informed that the results conference call for Q4 FY25 was hosted on April 24, 2025 and the transcript of the conference call is enclosed herewith.

This is for your information and records.

Yours faithfully,

For **Laurus Labs Limited**

VENKATESWAR REDDY GOGIREDDY
Digitally signed by VENKATESWAR REDDY GOGIREDDY
Date: 2025.04.28 19:07:08 +05'30'

G. Venkateswar Reddy
Company Secretary & Compliance Officer

Encl: A/a

Registered Office
Laurus Enclave, Plot Office 01, E. Bonangi Village,
Parawada Mandal, Anakapalli District - 531021, Andhra Pradesh, India.
T +91 891 682 1101, 1102, **E** info@lauruslabs.com
F +91 891 682 1103, **W** lauruslabs.com
CIN : L24239AP2005PLC047518,

Corporate Office
2nd Floor, SDE Serene Chambers, Road No. 7,
Banjara Hills, Hyderabad - 500034, Telangana, India.
T +91 40 6659 4333, 3980 4333, 2342 0500 / 501,
F +91 40 6659 4320 / 3980 4320

"Laurus Labs Limited

Q4 FY '25 Earnings Conference Call"

April 24, 2025

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

MODERATOR: **MR. NITIN AGARWAL – DAM CAPITAL ADVISORS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Laurus Labs Q4 FY25 Earnings Call hosted by DAM Capital Advisors. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Nitin Agarwal from DAM Capital Advisors. Thank you and over to you, sir.

Nitin Agarwal: Thank you. Hi everyone and a very warm welcome to Laurus Labs Q4 FY25 earnings call hosted by DAM Capital Advisors Ltd. On the call, today we are representing Laurus Labs management, Dr. Satyanarayana Chava, Founder and CEO, Mr. V. V. Ravi Kumar, Executive Director and CFO, and Mr. Vivek Kumar, AVP, Investor Relations. I'll hand over the call to the Laurus Labs management team to make the opening comments and we'll open the floor for questions. Please go ahead, sir.

Satyanarayana Chava: Thank you, Nitin, for the introduction. Good afternoon to all of our stakeholders. Financial Year '25 has been a year of significant acceleration and diversification across our company and I'm proud of continued transformative progress we are making in enhancing capabilities, enhancing capacities, meeting complex needs of our customers, thereby creating value for all stakeholders.

We continue to execute our strategy priorities with a strong focus on commercial execution. By leveraging our leading technology platforms, we advanced multiple clinical-stage projects and commercial-phase programs for big pharma that have significant patient benefits and also strong commercial potential for the company.

I would say the majority of these projects are utilizing cutting-edge technologies like biocatalysis, flow chemistry, continuous manufacturing, high-energy chemistry, cryogenic reactions, etc, which have been growing interest from our partners and also companies' focus currently.

While we continue to work towards realizing the potential of the late-stage pipeline, we are also strengthening our focus to broaden the project funnel and servicing early-stage clinical programs, especially after commissioning our new small-molecule R&D facility recently, which leverages advanced process development capabilities. These efforts are helping us deepening our cooperation with major clients and thus securing long-term growth for the organization. Our initiatives in cell and gene therapies have also reported significant updates for the year.

Our associated company, ImmunoACT, has supported about 300 patients with very good survival rate using NexCAR19. ImmunoACT also carried Phase I trials for pediatric purposes using NexCAR19, and also another product got permission for Phase I clinical trials for BCMA. This additional manufacturing capacity for NexCAR19 is progressing as per schedule and will be ready for operations by September 25.

We have got a new leadership recruited to lead our initiatives on gene therapy and also antibody drug conjugates. We plan to invest over $15 million to build a GMP facility, which will have capabilities to do plasmids, vectors, both adenovirus and lentiviral, and also ability to do antibody drug conjugation.

Moving to our financial results, FY25 demonstrated strong resilience in our core business and we reported healthy operating results. The growth reflects continued robust demand for our CDMO offerings and higher sales in the FDF business. The company achieved a revenue of INR5,554 crores, gross margins were healthy and maintained around 55% range, and EBITDA margins expanded by 4 percentage points to 20% following better operating leverage. When we look back at our last five years, Laurus has done successful expansion of the business and product portfolio.

Today, our share of ARV revenues have come down from 67% to 45% in the last five years, whereas our CDMO share has moved from 13% to 28% and we are expanding into multiple therapeutic areas within our generic portfolio. These results demonstrate the strength of our business and give us confidence in our outlook. Before we move to business performance, we have adopted and updated our division reporting structure to make it simplified and focused along two distinct business models, CDMO and generics.

In the CDMO, we are reporting results in small molecules and large molecules. In CDMO, small molecule division has continued to build on the high market momentum and saw robust demand for our integrated commercial offerings, recording Q4 sales of INR461 crores. For FY25, the division recorded about 49% growth.

The growth was mainly driven by several mid- to late-stage NCE deliveries and steady increase in sales from new manufacturing assets, which was bought online during the second half of this year. CDMO pipeline momentum has remained healthy across clinical and commercial phase, and over the full year, we have seen the mix shifting towards increased high-value projects from Big Pharma, which is providing good support for long-term growth. As of date, we have a pipeline of over 110 active projects, 90 in human health and over 20 in animal health and crop sciences. Over 15 commercial projects, including API and intermediates. We are also nurturing additional relationship in animal health and crop science ingredients. Key CDMO focused growth projects progressing in line with our plan. In 2025, small molecule API reactor volume enhanced by 15%, and we are further expanding our multi-site capacity for various modalities.

In the large molecule CDMO, our bio-division reported Q4 sales of 29 Crores. Sales is transitionally lower due to timing of shipments in certain international markets.

If you look at FY25, performance is muted due to timing and discontinued lower profitability business. However, we see strong demand continued in AOF portfolio. We are looking to break ground for the commercial scale fermentation facility in Vizag by June 25. We believe the new site will further accelerate on high-quality CDMO service capability and growing our industry position to offer CDMO projects utilizing our enzyme engineering platform. We propose to invest close to INR250 crores in the projects, which will more than double our fermentation capacity by end of 2026. In the generics, our revenue from generic division has continued strong quarter-on-quarter progress led by both ARV and developed market portfolio reporting a sales of INR1,230 crores.

Performance of the FDF division is in line growing 25% for the quarter and 12% for the full year. We have executed on multiple integrated CMO contract in the year and for some new contracts We expect increased sales to continue in future quarters, driving continued improvements in our utilization rates.

Krka JV collaboration is progressing well and land acquisition completed. We expect to break ground for GMP **manufacturing facility by June '25.** Moving forward, 2026 will be year of rebalancing the generic R&D and manufacturing resources mainly to enhance product pipeline and meet delivery commitment to our customers.

On our R&D front, we have spent about 4.5% of our sales, which is higher by 7% year-on-year. Let me share brief on our quality and ESG side. In 2025, the company underwent close to 160 quality audits by multiple regulatory agencies and several customers, which was over 20% more than the previous year. Company has successfully completed audits without any critical findings. The company received EIR for Unit 4. With this, no pending regulatory inspection outcomes for the company.

We remain committed to advancing quality systems, meeting highest compliance standards from clients and global regulators. We are also making good progress on ESG and EHS agenda for long term searches.

Now, turning into our broad FY '26 outlook, our business is well positioned and we are readily evolving towards our goal to become a more diversified CDMO-CMO company with promising pipeline, enabling technology platforms and coupled with commercial excellence. We will continue to increase and deepen our collaboration with major clients and execute on CDMO potential while improving resourcing in generic business. Operating margin is expected to improve from better asset utilization and also product mix. I acknowledge efforts of our dedicated team, which remain committed to the unified vision of providing high quality integrated solutions to global customers and creating value to our all stakeholders.

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

V.V. Ravi Kumar: Thank you, Dr. Satya and very warm welcome to everyone on our quarter 4 and full year FY '25 earnings call. Total income from operations is around 5554 crores, registering a growth of 10%. For a quarter we have reported INR1,720 crores with a growth of 19% year on year.

Despite the ongoing macroeconomic challenges, we have continued to see high level of demand for our offerings. Gross margin maintained at healthy level of quarter 4 at 54.5% and for 12 months it is at 55.4%, mainly due to better product mix as well as the process improvements carried in some of our key large volume APIs.

Our EBITDA for quarter 4 stand at INR477 crores and margins at 27.7%, whereas for the full year it is around 20.1%, which is in line with our outlook provided a couple of quarters back. On full year basis, we expect these margins to be higher as we continue on path to operational deliveries, especially execution of long-term long lead programs, new asset ramp up, driving better asset utilization.

Our profit after tax for quarter 4 is 234 crores and for 12 months has increased to 258 crores, so this is with a growth of 122%. Our ROCE improved from 6.4% to 9.7%, but of course still it is at a lower, close to double digit, but it will improve further based on the asset utilization. On the capex front, we invested close to INR211 crores in the quarter and INR659 crores for the full year. The majority of the expansion, the capex is being invested into the CDMO or CMO projects.

Our net debt stood at INR2,594 crores and net debt by EBITDA is 2.3 versus 3.1 in the last year. On the capital allocation front, our strategy remains unchanged and we will continue to prioritize investment into high value business segments to drive near and long-term growth. You can refer our IR presentation for more details. With this, I request the moderator to open the lines for the Q&A. Thank you.

Moderator: The first question comes from the line of Sajal Kapoor from Antifragile Thinking. Please go ahead.

Sajal Kapoor: Yes, Thanks for giving me this opportunity. Before I ask my question, I would like to acknowledge the fact. During difficult times, you assumed responsibility, Dr. Satya and Raviji, both of you. But now that you have made significant turnaround, you are fully acknowledging the team's contribution in your press release. I mean, this signals everything about the culture at Laurus Labs.

And I'm sure Soumya and Krishna will take this strong fabric of culture to the next level internally. Coming to my question, Slide 14 says 30% increase in continuous flow and 40% increase in biocatalysis. And then on Slide 26 and 25, you're saying 1.5x expansion in client-base YOY. And we can see that 20 new projects are being added to the human CDMO.

Can you add some color and help us link these very strong indicators together? So, we know that ex-China Laurus holds the leading position in the design and manufacturing of our enzymes, as well as large-scale continuous flow manufacturing. How can we leverage this unique advantage to secure partnerships for those projects where innovators are actively seeking for a credible option outside China? Thank you.

Satyanarayana Chava: Thanks, Sajalji, for your comment. The leveraging of our enzyme engineering and manufacturing capabilities in our integrated offering is quite visible now. We have many projects at different phases where we are doing multiple biocatalytic steps. And some of the enzymes are manufactured in our bio facilities in Bangalore. And the trend is increasing. We also started developing our own enzymes for our big pharma partners. And I think the overlap between chemistry and biology is a clear winner. And we have seen in some projects and the trend is increasing.

Sajal Kapoor: That's helpful. Dr. Satya, as many innovators are looking for a China-free supply chain all the way to KSM and intermediate today, what's our preparation at the moment and what are we doing to de-risk our indirect dependency on China?

So, by indirect, I mean our intermediate supplier may be dependent on China for KSM today, but innovators are actively seeking for 100% indigenous India supply chain. And is the recent INR5,000 crores capex announcement is a step in that direction?

Satyanarayana Chava: We have a team that focuses on backward integration. There are some projects where people, partners are very particular about avoiding certain sources. Some partners are okay. We have to balance it. Using all sorting materials from one country or avoiding one country is not a scenario where we can do currently. I think we have to balance it depending on what customer is looking at.

Sajal Kapoor: And finally, outlook on the animal and crop science CDMO, now that we are commercial across both capabilities, crop included this quarter, how can these two segments drive our CDMO segment in the near term?

Satyanarayana Chava: We have more clarity on our animal health business. By end of next year, we will complete all our validations and go into commercial. We see significant jump in our animal health revenues in FY26. Coming back to our crop sciences, we commercialized facility last quarter. And then we delivered material to a partner and this year also we will deliver some quantity. There are few projects which are at the negotiation stage.

One project where feasibility being done, another is at negotiation stage. We have encouraging discussions. But maybe we need another year to give more confident results about the partner programs and then future of our crop science business. We need one more year to nurture that division.

Sajal Kapoor: I have got many more questions, Dr. Satya, but I am cognizant of the fact that there are many waiting in the queue, so I will rejoin. Thank you for all your responses.

Moderator: Thank you. The next question comes from the line of Deepak Kumar from Verdure Growth Partners LLP. Please go ahead.

Deepak Kumar: Congratulations first of all on the fantastic results. In the presentation, you have mentioned that tariff uncertainty, all this noise around US tariffs, this won't create much impact on your business. Can you highlight a bit more on that, how you are seeing that play out in your case?

Satyanarayana Chava: We haven't commented any on tariffs, and it is too early to take any call on the tariffs.

Deepak Kumar: So what exactly, I mean, there will be some impact which you must be seeing on your business on all the things which are going on in the global order right now.

V.V. Ravi Kumar: I think, Deepak, we are not clear on your question. Can you please repeat?

Satyanarayana Chava: No. See, as of now, I think there is no clarity on the tariffs. People are monitoring the US tariff situation, that's what we mentioned. We haven't commented anything on the tariffs as such.

Deepak Kumar: Okay, okay. Thank you.

Moderator: The next question comes from the line of Ravi Agarwal from Agarwal Investments. Please go ahead.

Ravi Agarwal: Namaste, sir. Congratulations, first of all, for a wonderful result. My first question is on your CAR-T technology. What can be our exact source of revenue in CAR-T business, sir?

Satyanarayana Chava: ImmunoACT is our associate company. We only reported the full year revenue results from that. Profit is proportional, but results, we mentioned that overall results -- and also, they're scaling up manufacturing capacity to 2,500 treatments, and which will be ready by September this year.

Ravi Agarwal: Okay sir. So, whether it will be any royalty from hospital, or in what way we can be -- and what kind of opportunity or market we can have in future?

V.V. Ravi Kumar: It is a sales by our associate company, ImmunoACT to the hospitals. The product sales will be the revenue source.

Ravi Agarwal: Okay, sir. And, sir, one more thing I have to ask, that last financial year I have seen that many Chinese companies are forming joint venture for biotech supplies in China. Means US company and European company formed JV with a Chinese company. So, whether it affects Indian biotech and Laurus?

V.V. Ravi Kumar: We lost you, actually, Ravi, are you there?

Ravi Agarwal: Yes, My question is, last financial year, many Chinese companies have formed joint venture with US and European companies for biotech supplies. So, whether it affects Indian biotech company and our Laurus also?

Satyanarayana Chava: No, we are not planning any, Yes.

Ravi Agarwal: Okay, thank you for your answer.

Moderator: Thank you. The next question comes from the line of Bharath from Quest For Value. Please go ahead.

Bharath: Hello. Dr. Satya, can you please throw some light on CAR-T? And, like with this new Navi Mumbai facility coming up with 2500 patient capacity getting commenced this year. May I know how many patients are you expecting to be treated per year?

Satyanarayana Chava: See, when we mentioned 2500 treatments, that facility can produce enough CAR-T to treat 2500 patients.

Bharath: Yes, I think till now, I think 300 patients were treated, I guess.

Satyanarayana Chava: 300 patients. See, current facility can treat 300 patients per year, but the new facility is ready, it can treat up to 2500 patients per year.

Bharath: Okay, yes, thanks. And, due to this recent trade war between US and China, did you notice any pattern like increasing demand from innovators for current commercial molecules? Like, for example, if China is first source and Laurus is second source, then are innovators thinking like to reduce quantity from China and increase from Laurus? Do you see this trend?

Satyanarayana Chava: You know, adding a vendor, validating a product, getting approval is a 3-4 year process. So, I think a 2-3 year or a 6 month time may not change the prospect significantly. We haven't seen much change in our customer behavior in the last 3 months.

Bharath: And my last question is regarding this ARV FDF sales. I guess that for the current quarter, it is around INR450 crores. This is what my guess is, because we didn't report in the PPT. But I think it should be around INR450 crores, which is quite high compared to the normal run rate. Did you pre-pone the deliveries to global funds due to uncertainty in the US funding?

Satyanarayana Chava: No preponement was done. No sales were advanced because of this.

Bharat: May I know what is the ARV, FDF sales for the quarter?

Satyanarayana Chava: We have done about INR2,550 crores ARV sales.

Bharat: For the complete year, but for this quarter?

Satyanarayana Chava: Similar revenues to last year.

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

Jeevan Patwa: Congratulations, sir. Wonderful set of numbers, especially the CDMO has shown a very good, impressive growth. Just wanted to understand next year FY '26. So we have given a qualitative comment, but I just wanted to understand how do you see the growth coming on the formulation side specifically? One, I understand with the new CMO contract starting in December, that will add to the growth in the formulation. But apart from that, how do you see the growth coming in the formulation side, especially non-ARV formulation side?

Satyanarayana Chava: Non-ARV formulation sales increased. We are getting a few approvals in US and Canada. And also our expansion to our existing CMO partner will also be commissioned by last quarter of this calendar year. So non-ARV formulation revenue will go up from Q3 onwards.

Jeevan Patwa: For first 2 quarters, there may not be significant growth in the formulation. That's what you are saying?

Satyanarayana Chava: Yes.

Jeevan Patwa: Okay. And on the CDMO side, this second half of the FY '25 has been really impressive. But do you think the similar pattern will be for FY '26 that H1 will be a little weak and H2 will be strong?

V.V. Ravi Kumar: I think we should not look at quarter-on-quarter basis. So as we are indicating, you have to compare and analyze on yearly basis.

Jeevan Patwa: Yes. Typically, what happens in CDMO is so I have seen this pattern since last 2, 3 years. The first half is typically a little weaker and second half is stronger with more deliveries. So is it going to be similar for FY '26?

Satyanarayana Chava: Maybe we'll give more information during the next quarter conference call. But right now, we can say the FY '26 growth looks good, and then we will achieve significant growth in revenues and profits. That much we can tell you.

Moderator: The next question comes from the line of Tushar Manudhane from Motilal Oswal Finance Service Limited.

Tushar Manudhane: Sir, firstly, if you could just call out a bookkeeping question in terms of ARV, API and formulation sales for the quarter?

Satyanarayana Chava: ARV sales for the quarter was INR800 crores.

Tushar Manudhane: Sir, API and formulation separately, if you can share?

V.V. Ravi Kumar: INR803 crores, Tushar. So probably you can take the numbers from Vivek after call.

Satyanarayana Chava: I think more or less 50/50, INR400 crores from API and INR400 crores from formulations.

Tushar Manudhane: Sure. So while there has been quarter-on-quarter significant increase in the ARV sales as I could see. But at the same time, the gross margin reduction is relatively lesser. So is it that the gross margin for the ARV as well as non-ARV generic businesses similar to that of CDMO business. Is that the safe assumption?

Satyanarayana Chava: No. See, as we mentioned, our ARV sales, you look at it year-on-year, we increased only from INR2,500 crores to INR2,550 crores. So not much significant growth in ARV sales. And we expect FY '26 also even in the similar range. When it comes to our gross margins, always we maintained at around 55% level. That means our operations were running very efficiently. The processes were running efficiently and product gross margins are also very healthy. Maybe if our CDMO revenues grows significantly higher than current quarter, then our margins may improve further. I'll put it that way.

Tushar Manudhane: And so just extending that, the CDMO is like INR400 crores to be a sustainable base to look for given the kind of contracts we have at hand. Or does it have any sort of launch quantities, which might have some repercussion in the near to medium term?

Satyanarayana Chava: I think I can say that we have good projects on hand. And the opportunities looks interesting, and we expect growth of CDMO revenues from year FY '25 to FY '26. We are not going to quantify how much we are going to grow.

Tushar Manudhane: Just one more on the overall capex for FY '26 and if you could also further break down that into different areas?

Satyanarayana Chava: FY '26 capex will happen on multiple fronts. The capex, what we are doing to increase our formulation CMO, that will be capitalized in FY '26. And we're also planning to do some specific capex for another partner in our formulation. And our fermentation capacity, we're investing close to INR250 crores in Vizag. And we are adding more production blocks at Vizag for our API and CDMO business.

V.V. Ravi Kumar: And Bio INR250 crores.

Satyanarayana Chava: Yes, that's what. Fermentation is INR250 crores we are investing. So this year also maybe close to around INR1,000 crores capex.

Tushar Manudhane: And will there be any increase in debt to support the capex?

Satyanarayana Chava: No.

V.V. Ravi Kumar: We may not increase significantly.

Tushar Manudhane: And just lastly, with this sort of new facilities coming on board in FY '26, the absolute increase in the operational cost, if you could in terms of employee and other expenses, which currently may be at quarterly is about INR500 crores per quarter, with the new facilities coming up -- because this is something very certain, right, irrespective of what kind of revenue we do. If you could help us understand what kind of quarterly opex will be there for full year FY '26

Satyanarayana Chava: In FY '26, we don't as we are not expecting any new greenfield facilities come to operations. There will be more production blocks in our existing facilities only. So the manpower addition may not be very significant. So we don't expect significant operational deleverage in the financial year '26, because we are not adding new sites.

Moderator: The next question comes from the line of Balaji from Kotak Mahindra Bank.

Balaji: Congratulations, sir, for healthy results. I think last 3 years, these are the best results as of now. Sir, what was your projection on PE, which is uncomfortable as of now at 175 at this level. After these results, what is your stand, the PE might be around 100 or something like that, sir?

V.V. Ravi Kumar: How can we comment on PE. Sorry, we can't comment on...

Satyanarayana Chava: We can only comment on business prospects and products, facilities, regular inspections. We have no control on how much multiples and all. So we are not the right people to comment. And we don't have experience in that.

Balaji: Okay sir. Thank you sir. And actually your business and everything is going on very right way. So we are commenting on business. Only the fundamental side only, the number side only I have a doubt. That's the reason I attended the question.

Moderator: The next question comes from the line of Keshav Mundra from Guardian Capital Investment Advisors.

Keshav Mundra: So congratulations on the amazing set of numbers right. So two questions. So basically my question is on the share of API and CDMO segment right. So we see that the share of CDMO is gradually picking up and API segment is slowly reducing. So could you give us an idea about how do you see the margins and the revenue growth rate for these two segments over next year in FY26?

And on the same front can you give us an idea where you will be focusing upcoming capex move towards? These are my two questions sir.

Satyanarayana Chava: As our share of CDMO increases, we also expect the margin improvement should happen. The second, the majority of capex is happening to service CMO or CDMO products.

Keshav Mundra: And would it be possible to give an idea what revenue growth you are seeing in the CDMO segment over FY26 sir?

Satyanarayana Chava: We are not giving any forecast or guidance in terms of how much growth we are going to expect. Maybe as we mentioned, we expect growth in revenues and also profitability in FY26 when compared to FY25. I think we would like to stick to that statement rather than elaborating further.

Moderator: The next question comes from the line of Kunal Dhamesha from Macquarie.

Kunal Dhamesha: I wanted to understand on the ARV business. I know that US AID is not a big part of our ARV business. But after the announcement, what are you seeing on the ground and what are some of the latest developments on that front?

Satyanarayana Chava: Recently what we came to know, the US AID is supporting treatment but not willing to support PREP, that is prevention. So we haven't seen any significant decrease in orders or enquiries coming for treatment. And we don't see significant impact to our revenues going forward in FY26. So we will maintain revenues closer to that 2400, 2500, 2600, around that level.

Kunal Dhamesha: And sir let's say there is a risk mitigation plan because we would be deploying meaningful capacity towards this business. So I want to understand, is it possible to pause capex for us for now and utilize these capacities for the CDMO business rather than doing incremental capex? Because anyway, there are a lot of uncertainties, the margins are not that great. So is it a possibility that you would put, when you look at all business segments?

Satyanarayana Chava: ARV, we are a strong leader, catering to close to 40% of the emerging world HIV patients. And we expect we will maintain that leadership position. We don't see any impact coming from either product replacement or lack of funding will be a problem for us to lower or allocate our ARV capacity to something else. We don't expect so. We are running our ARV capacity fully and going back to your question, we are using maybe 10%-12% of our formulation capacity for HIV manufacturing, not more.

Kunal Dhamesha: But API would be higher, right sir?

Satyanarayana Chava: API is higher and we are running at full capacity. And we don't see that going down, not just FY26, even next 2-3 years, we don't see any challenge there.

Moderator: The next question comes from the line of Rajat from Tata Mutual Funds.

Rajat: Yes. Hi, sir. Kunal just asked my question. So, one more bit on it. Can you just quantify how much is the business dependent on all these agencies like Global Fund, PEPFAR, Bill and Melinda Gates? If you could just quantify, that would be really helpful.

Satyanarayana Chava: Based on reports, about 20% of HIV treatment is dependent on US aid, US government funding.

Rajat: And for us also, that number would be similar?

Satyanarayana Chava: See, if you divide our HIV sales, maybe 55% is API and 45% is formulations. So, for formulation business, maybe you can take, I think that 20% exposure for formulation business. That is maybe INR1000 crores, INR250 crores coming from US supported programs globally.

Rajat: So, in case there is this risk which comes in on the treatment as well. So, in that case, how do you think about the business? Like, do you renegotiate with countries for tenders? How does it happen? Are you thinking anything around this?

Satyanarayana Chava: We are not renegotiating. I think we will service what orders are placed. See, most of these orders are placed by global agencies except to South Africa. So, I think we will get allocations and we will service those orders.

Rajat: And lastly, sir.

Moderator: Sorry to interrupt, Rajat. Those were your two questions. I would request you to re-join the queue.

Rajat: Sure. Okay.

Moderator: Thank you. The next question comes from the line of Manoj Bahety from Carnelian Asset Management.

Manoj Bahety: First of all, congratulations, Dr. Chava and Ravi for a good set of numbers. So, my first question is, if I look at the operating cash flow and particularly working capital, can you help us understand the reason for slight deterioration there? And I believe that is the reason for a slight increase in our debt also. Is it temporary? Is it because of higher sales during the quarter? If you can help us understand on that side.

Satyanarayana Chava: Partly because we are handling very long, complex projects in CDMO. Our order to delivery is much longer when compared to generic programs. So, some of the working capital is stuck in our CDMO programs. That is one reason. And second reason is as our sales of formulations increases in US and Canada, our working capital is also going up because of longer lead times in logistics right now. So, these are the two reasons for our increased working capital.

Manoj Bahety: Particularly, receivables have gone up. Like so, receivables, I wanted to understand particularly why there is such a big increase on the receivable side?

V.V. Ravi Kumar: If you look at the fourth quarter revenue is in higher revenue, right? That is one of the things. But when you take a number of days as per the full year it looks higher, but if you look at INR1,750 crores is the sale in the fourth quarter, the receivables are INR2,000 crores. So, that is how you have to look at it.

Manoj Bahety: Got it. And sir my second question is like on slide number 25, you have highlighted that there has been a significant increase in RFPs and active pipeline projects, which is 110 now, 90 is on the human health side and 20 is on the animal health. So, can you help us understand that what this number was like two years back and how do you see as an investor, how do we see the revenue potential of this and at what stage these pipeline projects are?

Satyanarayana Chava: This number used to be about 60, around that number two, three years back.

Manoj Bahety: 60 to 110?

Satyanarayana Chava: Yes, around 60.

Manoj Bahety: And sir the second part is that some color on the quality of this pipeline project, how do we see the revenue potential out of this pipeline project? Particularly, I am asking whether a good amount of that are near to phase 3?

Satyanarayana Chava: We have mix of projects, but I would say the projects, majority in phase 2 and 3, not in phase 1, I would say that.

Manoj Bahety: Great, sir. Thank you for taking my question and wish you good luck.

Moderator: Thank you. The next question comes from the line of Harshit Dhoot from Dymon Asia. Please go ahead.

Harshit Dhoot: Thanks a lot for taking my question, sir. Sir, one question related to ARV only. Mr. President of the U.S. has said multiple times that they have stopped the USAID funding. So, as you have highlighted that it is impacting around 20% of our ARV sales. Is it right to understand that, sir?

Satyanarayana Chava: We have not said it is affecting the formulation business which we are catering, which is funded by U.S. funds. It is maybe around INR250 crores. That is what we said. It is not that we are going to lose INR250 crores sales.

Harshit Dhoot: Okay. Got it, sir. And the second thing we have been a trusted partner of a big innovator even during the COVID time also. We have given them the timely supply and all. And the partner has recently called us a molecule. So, will it have impact on us or not?

Satyanarayana Chava: Actually, we did not get your question very clear. Can you repeat?

Harshit Dhoot: Okay. Sir, let me speak again. The Laurus has been known as one of the trusted suppliers of the big innovator of the world. And Laurus has supplied them the medicines on the time and known as a trusted supplier with the smooth supply chain. And the big innovator has called us a big molecule in the development. So, will it have impact on Laurus? Just to give me that the Laurus is closely working with them. So, will it impact on Laurus or not?

Satyanarayana Chava: Maybe you have to write to Vivek. We can answer, but we have lot of difficulties in understanding your question. I am sorry for that.

Harshit Dhoot: Okay, sir. No problem.

Moderator: The next question comes from the line of Chandramouli an Individual Investor. Please go ahead.

Chandramouli: Thank you for giving me this opportunity. I am happy with the quarterly results that Laurus has posted. I wanted to know when will we reach a return of capital employed to the earlier now 21-22 year levels and also on the return on equity going back to those levels. If I compare with Divis or other competitors, they are already there. So, would I be as an investor right in expecting that Laurus is on the growth path for the next 2 years, 3 years, 4 years, we will be reaching those higher levels?

Satyanarayana Chava: I think your point and observation is very valid. If you look at the ROCE numbers, we were there earlier. It is not that we never had that number. It will take few years for us to get there again. I think we have a desire and putting our best efforts to get there. I don't want to attach an year when we will get there, but we are putting efforts to go there.

Chandramouli: Thank you, sir. The second question is, now that you are getting into multiple optionalities, cell therapy, hospital-related formulations, crop sciences. Now, would you be rewarding the long-term shareholders with optionalities of creating value by divesting such businesses as and when they reach scale and when do you think you expect them to reach such scale?

Satyanarayana Chava: If you look at, we have created well-diversified CDMO offerings, human health, animal health, crop sciences, dietary and cosmetic ingredients, small molecules in this and large molecules like enzymes and cosmetic proteins. Out of these, I would say we need some time to get to a scale. Our majority of CDMO revenues are coming from human health right now.

And that will continue to grow. Our animal health will peak in FY27 maybe, but we are also nurturing a new partnership in animal health then that partnership will give some additional revenues. In crop sciences, as I mentioned to one of the questions, we need one more year to give more granularity in the division, how growth looks like.

Chandramouli: Thank you, sir. I'll come back in the queue for more questions.

Moderator: The next question comes from the line of Amalan from Nomura. Please go ahead.

Amalan: Hi, sir. Can you hear me?

Satyanarayana Chava: We can hear you.

Amalan: Yes, sir. In the press release, you mentioned that the generics performance was softer with a lower uptake in the Oncology API side. So when do you see this Oncology API performance picking up and could you just quantify what is the Oncology API sales this quarter?

Satyanarayana Chava: As we mentioned, we modified our reporting system to a simplified version of giving generic APIs, formulations and we are also giving overall ARVs, revenues, combining APIs and formulations. I think if you look at Oncology APIs, I'm not going to define the growth path of Laurus Labs, previously, currently and in the future also. So if we grow by INR100 crores or sell less by INR100 crores, it's not going to impact significantly. That is the reason we modified our reporting pattern to make it simple.

Amalan: Okay, sir. Thank you. Sir my next question is on the CDMO market that you have presented in slide 7. You said that the market is impacted by the pricing pressure from the IRA. So have you seen these pressures in your customers, in your CDMO customers and what has been the impact of the IRA on your pricing or on your revenues in the last two to three years?

Satyanarayana Chava: I think that is a general commentary we made. It is not that broader commentary, but we made a lot of assumptions. So we gave a market scenario in a concise way, but it has nothing to do significantly with Laurus Labs offering in CDMO.

Amalan: Okay, sir. That helps. Thank you, sir. Thank you for answering my questions.

Moderator: Thank you. The next question comes from the line of Chirag from White Pine Investment Management. Please go ahead.

Chirag: Sir, my first question is with respect to the CDMO revenue that we reported this quarter and in Q3. First question, sir. Can you just comment a bit on the contribution coming from big pharma and late stage, because you have been mentioning that and can this sustain for a reasonable period of time, at least for 3, 4 quarters? Or there is an element of lumpiness which is there?

Satyanarayana Chava: One good thing in our CDMO revenue is coming from majority big pharma partnerships. So what we can expect, we have a partnership with big pharma. So there is a continuum of projects. We are not working on sectors of one project forever. So, our partners have a very strong pipeline. We keep on getting more and more projects. That is the reason our project pipeline is increasing.

Chirag: Ok. In the past, this was not the case, right? So the volatility that we used to see in CDMO revenue should subsidize significantly going ahead given more number of projects with the same customer and more number of big pharma in our CDMO revenue? And given that they are in a late stage also.

Satyanarayana Chava: Yes. Earlier we have a lot of revenue volatility, because we are handling several early stage clinical programs. Whether they go to late stage or not, there is a lot of volatility. Now, some volatility will be there. I am not saying there will be no volatility. But that is reduced significantly, because our number of active projects has gone up.

Chirag: And the late stage would include Phase I, right sir?

Satyanarayana Chava: Yes, you are right.

Chirag: In the second, sir, you made a comment that you want to invest in ADC. I think if I heard correctly, $15 million-odd, right? So can you talk a little bit about it? What exactly you are intending to do in ADC? What part you are trying to cover in ADC? And what is the thought process? Because your plate is already full in that sense given our balance sheet and the debt level. So if you can just talk more about it?

Satyanarayana Chava: So we already make payloads and linkers in Antibody-drug conjugate. We have a request from our partners to get into conjugation. We are not going to make mabs. We made it very clear earlier also. We only do conjugation, because we have good experience in making payloads and linkers.

Chirag: Sir, what would be the revenue of the ADC currently for us

Moderator: Sorry to interrupt, Chirag. Those were your two questions. I would request you to follow up

Chirag: Yes, just a clarification. What is the revenue of ADC currently for us? Because we are doing payloads and linkers?

Satyanarayana Chava: We're currently is a few $1 million, nothing more.

Chirag: Okay, thank you.

Satyanarayana Chava: Thank you.

Moderator: The next question comes from the line of Utsav Jaipuria from DAM Capital. Please go ahead.

Utsav Jaipuria: Congratulations on the strong performance. Sir, if I look at your revenue mix today, CDMO is close to 30% of revenues. So how do you see this mix evolving over the next 2, 3 years? Is there a number that you are targeting internally?

Satyanarayana Chava: We expect the revenues coming from CDMO segment will grow. And we are not giving a number for you to guess. So it will grow. As you have seen, our ARV revenues, we believe it is going to stay closer to INR2,500 crores in the medium term as well. And our efforts in increasing our product portfolio and adding more products in generics is also happening.

Our CMO in generics is also growing. So as we mentioned earlier, we expect significant growth will come from our CDMO division. So it will grow and we are not adding any percentage to that.

Utsav Jaipuria: Okay, sir. Thanks. So, sir, what could this mean for margins over the next 2, 3 years or EBITDA margins, perhaps?

Satyanarayana Chava: As the CDMO revenues contribution goes up, we expect margins should also improve.

Utsav Jaipuria: Okay, sir. And just lastly, on the Krka JV, what are your plans for this business in terms of the targeted products and therapies that you are planning to introduce?

Satyanarayana Chava: I think, it is at the early stage right now. And maybe our partner is more keen to divulge those details than us.

Utsav Jaipuria: Okay, sir. Thank you so much.

Moderator: Thank you. The next question comes from the line of Rupesh Tatiya from IntelSense Capital. Please go ahead.

Rupesh Tatiya: Yes, thank you, sir, for the opportunity. My first question for you is, with 15 commercial projects, how many are Human Health and how many are Animal Health? And then whatever projects are there in Human Health, are you like a single source supplier or a dominant or primary supplier in post? That is question number one.

Satyanarayana Chava: Thanks for raising that comment. So, by using that 15, I think those are Human Health only. We are not adding any Animal Health into that. Maybe next time, we'll add those, club everything into one and then show. That's like harmonizing. We'll also link those two together and then give one number. So, 15, what you mentioned is Human Health.

Rupesh Tatiya: Yes, sir, but are you like a single source supplier or a primary supplier in those 15?

Satyanarayana Chava: No, no. We don't want to reveal that information.

Rupesh Tatiya: But that gives some indication on quality of business, sir, right? I mean you have always talked business

Satyanarayana Chava: As I mentioned, about INR1,000 crores revenue is coming from commercial supplies. I'll put it that way.

Rupesh Tatiya: Okay. And, sir, I mean, next year, Animal Health, there is a very clear trajectory. I think we have some INR600 crores of assets, very clear trajectory. INR150 crores, INR200 crores of agrochemical assets, I think very clear trajectory in two figures. But the rest of the business, I mean, there is no kind of like a way for an investor to guess.

So, either you give a financial guidance or you give capacity utilization guidance or some way, either you give a financial outlook or you give some hints about operational outlook. Because otherwise, it becomes very difficult. So, that is my question. Non-animal, non-agrochemical CDMO business, how will the trajectory look in 2-3 years

Satyanarayana Chava: One thing I wanted to give information. When we have clubbed Animal Health, Crop Sciences, dietary supplements into our CDMO, because all those what we're doing have similar gross margins. So we don't want to club low gross margin business with high gross margin business. So we club that into one because all those, all that revenue coming from one product to one customer. Mostly, it is for branded companies.

So we don't need to segregate revenues coming from Animal Health, Crop Sciences, Dietary Supplements and then give you 5 headings. All those business lines have similar gross margins because of that we have clubbed together.

Rupesh Tatiya: So maybe what is the total gross block in the CDMO business as of today? And how much are we utilizing

V. V. Ravi Kumar: Gross block for these divisions, we don't have a specific.

Rupesh Tatiya: Some ballpark number will be fine

V. V. Ravi Kumar: No, we can't because you can utilize for both the generics as well as CDMO, how can we give a separate asset? It's very difficult.

Satyanarayana Chava: Animal Health and Crop Sciences, INR700 crores. That number we can give you.

Rupesh Tatiya: Rest of the business

Moderator: Sorry to interrupt Rupesh, you are done with your two questions. I would request you to fall back into the queue. Thank you.

The next question comes from the line of Sajal Kapoor from Antifragile Thinking. Please go ahead.

Sajal Kapoor: Thanks for the follow-up. Dr. Satya with close to 40% employee base in R&D and quality assuming a more industry level 15% attrition rate, how do you see the demand-supply dynamics given the fresh capex that we need to undertake, the recent agreement that we had with the Andhra government. I mean, do you see us getting into a challenging situation where we are not getting the right kind of talent for our requirement because our requirement for R&D and quality will be in a few thousands, right?

Satyanarayana Chava: I think attrition is in early teens, mid-teens. So even our quality and R&D, as you rightly mentioned, about 40% of our employees in both divisions put together. We have to recruit 400, 500 people every year to maintain at the same level. And we have a well-established mechanism internally, interns, fresh graduates from universities, people with 1 or 2 years experience. I think we're managing. And we believe we will continue to do that.

Sajal Kapoor: Okay. So you don't see that to be a challenge, including the fresh greenfield, brownfield capex that we have just announced, it should not be a problem?

Satyanarayana Chava: We believe it shouldn't be a problem.

Sajal Kapoor: Okay. Fair enough. Thank you. Thank you.

Satyanarayana Chava: Thank you.

Moderator: The next question comes from the line of Manoj Bahety from Carnelian Asset Management. Please go ahead.

Manoj Bahety: Hello. Thank you for taking follow-up again. So I was just looking at like from FY '22 to FY '25, total capex, which you have done is around INR3,200 crores. And in one of the slides, you mentioned that the slide just before that, that our current asset turnover is around 0.83 vis-a-vis average of 1.1x. And considering a large portion of this capex must be towards CDMO.

So I was just trying to understand that with this kind of capex, which is already done in 2, 3 years' time, is INR3,000 crores kind of top line from CDMO are possibility on the capex which we have already done and looking at the pipeline of Phase II and Phase III, which we are having.

Satyanarayana Chava: It's a mix of capex in the greenfield sites and brownfield investments. So our investment in Animal Health and Crop Sciences will take a lot of time to go beyond 1x asset turnover ratio because those are the new investments.

And our formulation investments are yielding good results. So what the idea we put that slide is to give, there is a possibility to go back to those levels. That's the confidence we want to give it to our investors. But we had 1.1x asset turnover earlier. Currently, it is under utilized. And once utilization goes up, we can get back to that number.

Manoj Bahety: And sir, the reason for asking this question because your ARV is not going to grow. And growth will come from CDMO only. So if this 0.83 to 1.1 happen, then CDMO has to contribute to that.

So it's INR 3,000 crore of possibility because if we have to reach that sort of ATR historically, we have done even 1.5x because of the onetime order. But if I take only 1.1x also, is that a possibility?

Satyanarayana Chava: See, your observation is very right. The asset turnover ratio for CDMO is higher. And it all depends on the projects, scale and the complexity of the projects. I think you have to watch. We can't give you a number right now when we'll go there.

V.V. Ravi Kumar: I think the CapEx, where it went or what is going to be in the CDMO. And apart from that, even a formulation, we are investing. So I think you will see the growth because we can't specify the numbers just looking at an asset turn. So we can't give more details. But yes, there is a potential to grow more in the CDMO and the formulation. These two are the growth drivers.

Manoj Bahety: Got it. And Ravi, just one last thing. You mentioned that next year, your capex will be INR1,000 crores. With this INR1,000 crore capex and the way our working capital has moved, how do you see the debt level, whether debt level will go up or you will be able to manage with the current debt level and INR1,000 crore capex will happen out of the internal cash flow?

V.V. Ravi Kumar: Debt level will not significantly grow. We were indicating before also like maybe 10% minus or plus. In that range, actually, we will move.

Manoj Bahety: Okay. 10% has happened this year only. So next year…

V.V. Ravi Kumar: If already a 10% at the current level, then it is maybe INR250 crore plus or minus.

Manoj Bahety: Okay. Got it. Thanks for taking my question.

V.V. Ravi Kumar: Thank you.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for the closing comments.

Satyanarayana Chava: Thanks Nitin and all the investors for their very insightful questions. Thank you.

V.V. Ravi Kumar: Thank you.

Moderator: Thank you, sir. Ladies and gentlemen, on behalf of DAM Capital Advisors, that concludes this conference. You may now disconnect your lines.