“Piramal Pharma Limited

Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to Piramal Pharma Limited Earnings Conference Call. 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Gagan Borana from Investor Relations. Thank you, and over to you, Mr. Borana.

Gagan Borana: Thank you, Renju. Good morning, everyone. I welcome you all to our post results earnings conference call to discuss our Q4 and full year FY '25 results. Our results were declared last evening, and the results materials have already been uploaded on our website. You may like to download and refer them during our discussion.

The discussion today may include some forward-looking statements, and these must be viewed in conjunction with the risk that our business faces. On the call today, we have with us our Chairperson, Ms. Nandini Piramal; our Global Pharma CEO, Mr. Peter DeYoung; and Mr. Vivek Valsaraj, CFO of the company.

With that, I would like to hand it over to Ms. Nandini Piramal to share her thoughts on the year gone by and the outlook going forward.

Nandini Piramal: Good day, everyone, and thank you for joining us today in our post results earnings call. FY '25 has been a steady year for the company as we surpassed an important revenue milestone of USD1 billion with a Y-o-Y growth of 12%. This growth was primarily driven by our CDMO business, which delivered a revenue growth of 15% with over half our revenues coming from innovation-related work.

Our complex hospital generics business also crossed a $300 million top line as we maintained our number one rank in Sevoflurane and intrathecal Baclofen in the U.S. market with a 44% and 75% market share, respectively. Our Consumer Healthcare business also exceeded INR1,000 crores milestone in annual revenue on the back of healthy 20% plus growth in our Power Brands, supported by new product launches and an expansion in our distribution network.

In terms of profitability, we reported an EBITDA margin of 17%, which translates into an EBITDA growth of 15% over the last year despite having to incur some one-off nonrecurring spend in our CHG business. Our net profit after tax also increased 5x to INR91 crores compared with INR18 crores last year. To ensure future growth, we invested about $80 million in capex during the year while maintaining our net debt-to-EBITDA ratio under 3x to 2.7x.

All of this performance was achieved in a year that was marked by an uncertain business environment with inadequate and uneven improvement in funding for emerging biopharma companies, geopolitical disturbances, high interest rates, slow consumer demand in India and uncertainty around the BIOSECURE Act and trade tariff policies.

Talking about our performance for the quarter, Q4 continues to be the biggest quarter for the company with the highest share of full year sales and profits coming in Q4. During Q4 FY '25, we reported 8% revenue growth with a 22% EBITDA margin. Our net profit after tax grew by 52% as we crossed INR150 crores during the quarter. We witnessed a strong traction in new order inflows during the quarter, particularly for our overseas sites such as Grangemouth, Riverview, Sellersville and Lexington.

On quality and compliance, we continue to maintain our best-in-class track record of zero OAIs from the US FDA since 2011. This year as well, we successfully cleared 36 regulatory inspections, 165 customer orders without any major observations. We remain committed to quality as a culture rather than quality as compliance.

On the sustainability front, we made significant progress during the year with the SBTi approval of our decarbonization plan. We've taken up targets to reduce our Scope 1, 2 and 3 greenhouse gas emissions by 30% to 42% by FY 2030. As a significant step in this direction, we converted our coal-fired boiler at Digwal to operate on biomass briquettes, which are expected to eliminate about 24,000 tons of CO2 greenhouse gas emissions which is about 17% of our total emissions.

We also conducted comprehensive energy audits across our sites to identify energy efficiency opportunities and increase the share of renewable energy at various locations. Additionally, we conducted water use assessments across multiple sites led to the implementation of micro projects, resulting in savings of approximately 100 kiloliters per day. We also maintained our zero fatalities and zero hazardous waste to landfill status, reinforcing our commitment to safety and environmental stewardship.

Women now represent about 20% of our total workforce, reflecting our ongoing efforts to foster merit-based gender diversity. Piramal Foundation, philanthropic arms continues to work towards community wealth and upliftment of our society. As a result, we've seen a significant improvement in our ESG scores by S&P Global and EcoVadis.

Moving on to business-specific highlights. Starting with the CDMO business. Our CDMO business has delivered a strong financial performance over the last 2 financial years with a revenue growth of 19% in FY24, followed by 15% in FY25, coupled with a significant improvement in our EBITDA margin.

This performance has been mainly driven by increased traction in our innovation-related work, especially the on-patent commercial manufacturing, which grew from $52 million in FY23 to $179 million in FY25. As a result, the contribution of the innovation-related revenue in our CDMO business has increased from 45% in FY '23 to 54% in FY '25. Over the years, we have consistently invested in our differentiated capabilities such as ADC, HPAPI, Peptide, Sterile injectables, Hormones and On-patent API development, which continue to witness strong demand. These strategic investments have translated into a growing share of revenue from differentiated offerings within our CDMO business, rising to 49% in FY '25 compared to 37% in FY '23.

We've also recently announced a $90 million expansion investment at 2 of our sites, which includes the addition of commercial scale sterile injectable capabilities in Lexington and additional development and commercial scale capabilities in payload linkers for bioconjugates in Riverview. Both of these site expansions together play a vital role in our integrated ADC development and manufacturing program.

Talking about the order inflows, customer inquiries and RFPs remain strong, particularly at our overseas sites such as Grangemouth, Riverview, Lexington and Sellersville driven by the customers' needs to derisk and diversify their supply chains. There is a high demand for integrated service offerings and a geographically diversified facility network on account of ongoing geopolitical uncertainties.

However, customer decision-making time lines are prolonged, particularly for early-stage projects due to an inconsistent recovery in the funding for emerging biopharma companies and uncertainties over tariffs and trade. As we tide over these near-term uncertainties, we believe that we are well placed to capitalize on the CDMO opportunity over the medium to long terms with our globally diversified network of facilities and differentiated capabilities.

Our stellar quality track record and continuous focus on customer delight through superior execution puts us in good stead to win repeat orders and add new customers. We stand committed to grow our CDMO revenues to $1.2 billion by FY 2030 with an EBITDA margin of 25%.

Moving to our complex hospital generics. FY '25 was a mixed year for the CHG business. In the U.S. Inhalation Anesthesia segment, while we had lower price realizations during the first half of the year, we largely offset that through new order wins and some major contract renewals, thereby maintaining our market leadership position with 44% market share.

In the non-U.S. markets such as U.K., France, India, Vietnam, et cetera, we're seeing an increased traction for inhalation anesthesia products. As per secondary sales data by IQVIA, RoW market, which is ex-U.S. and ex-China size of the Sevo market is about $400 million. To capitalize on this market opportunity, we have invested in setting up a new Sevo manufacturing lines at Digwal facility and increasing the KSM manufacturing in our Dahej facility to ensure vertical integration.

We're happy to share that these capacity inspection projects tracked well on our time lines, and we have started commercial production of Sevoflurane at our Digwal facility from last month. This should be an important driver for our CHG business over the next 3 to 5 years as we look to penetrate deeper into the RoW markets and build our market share.

In the intrathecal therapy segment, we continue to hold our leading market positions in the U.S. Our flagship brand, Gablofen remains a top brand, Baclofen prefilled syringe and vial product in the U.S. market with a 75% market share. MITIGO, a morphine sulfate brand also registered a healthy growth during the year.

Talking about the progress in our specialty and differentiated pipeline, our partner, BrePco Pharma received approval for Neoatricon for multiple markets such as the U.K., Germany,

France, Italy, Spain, Netherlands and a few more. We have the marketing and distribution rights for these markets. Neoatricon is the only pre-diluted age-appropriate formulation for dopamine approved for treating children and infants with hypertension.

Moving on to our India Consumer Healthcare business. Our India Consumer Healthcare business delivered steady double-digit revenue growth, crossing a strategic revenue milestone of INR1,000 crores, anchored by strong growth of over 20% in our power brands. The performance was delivered despite slow consumer demand in India and one of our power brands i-pill seeing a regulator mandated price cut.

We continue to invest in media and trade promotions to support the growth in our power brands. Our new product launches have also played an important role in driving growth in recent times. During the year, we launched over 50 new products and SKUs. In terms of trade channels, e-commerce continues to be a major driver of growth with 30% growth during the year.

In general trade, we are increasing our penetration in smaller towns and transitioning from a pharmacy dominant network to an omnichannel consumer healthcare network. We're continuously working on increasing our reach by new trade channels such as quick commerce, supermarkets, hypermarkets and stand-alone modern trade outlets.

Summarizing our performance, I'd like to say FY '24 and '25 have been 2 good years for the company with mid-teen revenue growth accompanied by 500 bps improvement in our EBITDA margin. This has been significantly driven by CDMO business, which has delivered 16% revenue growth CAGR during this period with a significant improvement in EBITDA margin on account of operating leverage and improved revenue mix.

In the last 2 years, we have also seen a very good increase in increase of CDMO revenues from differentiated offerings and innovation-related works, especially revenues from on-patent commercial manufacturing. While these on-patent commercial manufacturings are long-duration contracts with good growth potential and superior EBITDA margins, their contribution does vary across time periods.

Especially in new product launches, it is normal to see a phase of inventory buildup at the start, followed by a brief period of inventory normalization and then steady growth over a longer period of time.

In one such case, a recently launched blockbuster on-patent commercial products by customer, we benefited in FY '24 and '25 as the customer built inventories to gain market share. In FY '26, we expect a brief period of inventory normalization. Post this inventory normalization, we expect the orders to pick up from FY '27 onwards.

The near-term order fluctuation due to customers' inventory adjustment will have a temporary bearing on our FY '26 financial, which should reverse in FY '27. Barring this, our underlying CDMO performance is expected to grow at a mid-teen rate, reflecting a healthy demand for differentiated capabilities and integrated service offerings. We are seeing good demand at our overseas sites, especially Grangemouth, Lexington, Sellersville and Riverview, which

should help improve their capacity utilization and their profitability.

In terms of the broader outlook for CDMO industry as well, we're positive on the growth prospects over the medium to long term, given the growth in the global pharmaceutical market and increased preference for outsourcing to CDMO companies and supply chain diversification by pharma companies.

Withstanding the current short-term volatility in the macro environment, caused by uneven improvement in funding for emerging biopharma companies and uncertainty of trade tariffs leading to prolonged decision-making by the customers, we believe that our network of globally diversified facilities and investments in differentiated capabilities, we are well placed in the industry to succeed with the widest possible range of outcomes when these uncertainties resolve.

Also, our late-stage pipeline, which is where the clients' funding remain directed in scenarios of restricted funding remains exciting, and we're tracking well to grow this. Talking about the outlook for the other 2 businesses, Complex Hospital Generics business and Consumer Healthcare business, we expect them to grow well with an improvement in EBITDA margins tracking in line with our FY '30 aspirations.

Hence, on an overall basis for FY '26, we expect a mid-single-digit consolidated revenue for the company, followed by a significant recovery in FY '27 with mid- to high-teen revenue growth. Accordingly, in FY '26, we expect our reported EBITDA margins to moderate at mid-teen level, followed by a material improvement about 19% to 20% in FY '27.

On the PAT front, if the geography mix of revenue remains aligned to our forecast, we expect a modest Y-o-Y growth in FY '26, which should increase multifold in FY '27. Thus, on a 2-year basis, we should continue to deliver revenue growth and EBITDA margin in line with our FY '30 aspirations to become a $2 billion revenue company with a 25% EBITDA margins and a high teens ROCE.

With this, I'd like to hand over back to Gagan Borana.

Gagan Borana: Yes. Moderator, can we start the Q&A session, please?

Moderator: Thank you. First question comes from the line of Amey Chalke with JM Financial. Please go ahead.

Amey Chalke: Congrats to the management on a good quarter. So first question I have is on the $180 million -- $179 million revenues we have generated from the patent protected commercial sales in FY '25. As I understand during the -- like while finishing your remarks, you mentioned that the FY '26 could be kind of a muted year on account of lowering the sales of the commercial. So where do you see this $180 million number to be in FY '26?

Peter DeYoung: So we're not giving a specific quantified target for that carve-out. However, I think in Nandini's remarks, she mentioned that we have a single customer, which is a large customer, which is -- as part of their launch program, they built a significant amount of stock to plan

for success and we benefited from that over the last 2 years. But we don't anticipate much ordering from that customer in the upcoming year, which is what's driving the more muted growth in the FY '26 time horizon.

Although we're not giving a specific carve-out for that guidance, I think what we are giving is that in that one customer for that product, we would anticipate the inventory issue. But what we are trying to signal is that everything else in the business is healthy, and we also expect that customer to resume ordering once they've addressed their onetime inventory issue in the future.

Amey Chalke: So is it fair to say at present, we don't have orders for the customer for at least for the next few months?

Peter DeYoung: We would anticipate that the customer will need to pause deliveries for a period of time while they adjust their inventory.

Amey Chalke: So second question I have, you have 31 projects in Phase III. How many of these projects do you expect to get commercial in FY '26 and '27?

Nandini Piramal: I think that will be up to our customers. I don't think we can generally comment on regulatory time lines.

Peter DeYoung: But what we would want to comment is that back to the comment Nandini made in her earlier remarks, which is, one, that we would anticipate ex the issue of the one customer restocking event, we are expecting mid-teens revenue growth for the remainder of the business.

And the second point is that when you factor in the resumption of orders at the expected levels given the underlying product that we're supplying is performing well in the market for our customer that FY '27 would be back on track for our LRP plans. And so what we're trying to signal is that, one, the overall health of the business in the next year is strong. And also the overall health is on track for FY '27 performance, looking at all in, including that customer.

Amey Chalke: Sure. Second question -- third question I have is on the setting up of these new blocks in U.S. where we are expanding the injectable units. So is it on any customer order we are doing this? Or you expect the orders to kick in after the expansion?

Peter DeYoung: We already have customers at those facilities that place the work at actually both facilities and really to both expansions anticipating or counting on us making these expansions. And so for example, in the case of the lexington expansion, which was previously announced late last year, we did that decision when we had clarity based on customers that had already decided to place work with us at those facilities.

And so continuing that expansion that we announced last year, and we kind of reaffirm that commitment earlier this week, it's really about us making sure the capacity is available for our customers that are already there so that when they succeed, we can succeed with them. And in the case of the Riverview facility, that is a new announcement. And actually, we

already have place work that would take advantage of that expansion. And so it's largely booked out what we've already started the expansion there.

Moderator: Next question comes from the line of Abdulkader Puranwala with ICICI Securities.

Abdulkader Puranwala: My first question is with regards to your commercial on-patent products. So typically, in terms of the contracts what you would have, I mean, could you help us understand what is the tenure of this kind of a contract, whether it spans over a couple of years or it's quite short term in nature?

Peter DeYoung: So we don't comment on specific contracts, but what we would say is that typically, when we sign up to work with clients in the commercial phase, we have multi-year contracts, and that is the case here also. And we would typically expect the customers to have continuing work with us, and they wouldn't typically invest all the time in the tech transfer project to our location and stay with their --- they weren't planning to stay in.

So I would just say that for the customers that are currently in our commercial on-patent category, we are delivering on promises for them. We're meeting their expectations. And we believe that we are performing well per their expectation. And therefore, as they require more product, they will continue to make more orders.

Abdulkader Puranwala: Sure. Sir, second question is on your discovery on-patent CDMO business. If I look at the revenue contribution from this particular segment, that has come down significantly in the last 2 years. So any color you would like to provide on how the funding environment is and in terms of your new project wins what you would have?

Nandini Piramal: I think overall, I think we've seen an uneven recovery in biotech funding, and that is especially targeted at the early phase discovery work. So I think overall, I think it's still -- yes, I would say it's early days yet for recovery of biotech funding.

Abdulkader Puranwala: Understood. And one more on your Inhalation Anesthetics business. So you added 2 new facilities. I believe this would be for the RoW markets. So in terms of your growth, I mean, how do we look at this from the next 2 to 3 years' perspective? Any color if you could like to provide?

Nandini Piramal: I think we're tracking well on our FY '30 kind of aspirations for the CHG business. So I think we should see growth overall.

Gagan Borana: We have already called out the market opportunity in our presentation. It's about $400 million opportunity. And we have already put up those 2 lines in Dahej – in Digwal, and we've also done the backward integration by increasing our KSM capacity. As we have given a press release that we have commercialized this production in the month of April.

So I think for the next 2, 3 years, a large part of the growth would be coming from the sales in the RoW markets. Our current market share is about 9%, and we look to grow that.

Abdulkader Puranwala: So would it be fair to assume that the kind of market share what you have in U.S. is what

would be on the target here?

Peter DeYoung: I think that would be spectacular. I think we don't need to achieve that market share to achieve our LRP. I think the overall LRP plan requires growth in our Inhalation business, our Injectable Pain business and then our new pipeline. In the current year, we would expect a meaningful part of our growth to come from the Inhalation expansion, which is driven by the points that Nandini and Gagan mentioned.

And just to further elaborate, the first commercial supplies did happen in March for the markets that require light regulatory or limited regulatory filings. We're going to do filings over the course of the year that will allow us to bring this location in line to serve those RoW markets, which will contribute meaningfully to the growth in the current fiscal.

Abdulkader Puranwala: Understood. And final on the debt. So I see in this year, there is a small increase in our debt as compared to last year. But going ahead in the next 2, 3 years, what is the kind of debt levels we should be looking forward?

Vivek Valsaraj: Yes, Abdul. So the overall debt level is currently at 2.7 in line with what we guided for, which is to be less than 3. For FY '26, we shall see some increase in debt quantum because of the reasons that we spoke about while guiding for next year. But as we have mentioned that our intent is to bring this down by FY '30 to 1:1, the net debt-to-EBITDA ratio.

So while we will see a temporary spike in FY '26, the long-term intent to move towards 1 remains, and that's how we'll be headed for.

Moderator: Next question comes from the line of Kunal Randeria with Axis Capital.

Kunal Randeria: So I'm not sure if you mentioned, but while I do understand the inventory correction or normalization for FY '26, you would expect a very sharp growth in '27. So has the customer communicated this to you? Or is it your assumption that things should normalize in FY '27?

Peter DeYoung: So we don't want to get into too many confidential details, but I would point to the fact that the underlying product is doing well in the market, and it's typical for a large pharma when they plan for a launch to build inventory so that there is very limited risk of not selling due to lack of inventory.

And then once the sales settle and the growth rate is more known, they didn't do a pause while they adjust inventory, they match the trajectory. But if you look at the underlying growth and performance of the brand, it looks and shows that it's growing very nicely. And so we would fully expect being their lead supplier and with the strong OTIF and good cost position and good quality and safety track record that this would continue in line with our expectations and discussions, but it's ultimately the customer's decision.

Kunal Randeria: Sure. That's helpful. Secondly, just again, Sevoflurane. So it seems you may have a ceiling in the US now. So just wondering how easy it is to ramp up RoW because I assume there'll be a lot of countries, there will be registrations and then just to kind of get the market share might, is it a slow process or you already are kind of registered, just need to improve

execution?

Peter DeYoung: So a little bit more color on this. We already sell our products across the globe and they're already registered across the globe. At the prior years, we were actually limited in our capacity. And so we were having to prioritize the higher value more contracted markets or regulated markets so that we could ration our available capacity to meet the areas of greatest value and benefit and also medical parameters.

Now that we have the excess capacity, we can tackle the next tier of growth opportunities that we had to deprioritize. But just to further clarify, we are already selling into these markets. We are already registered. What's going on is an additional site registration for those markets, which will happen at different time frames based on the amount of stability data required and the regulatory processing for site addition, of which as Gagan mentioned, one already happened in the last month of the last fiscal.

And so we would anticipate with this new capacity coming online that we no longer have to prioritize in ration the way we were, and we can now tackle the marginal incremental opportunities as the individual markets come online with our registrations.

Kunal Randeria: Got it. And just one more, if I can. See, it's a slightly broad level question. The current U.S. government is trying to in-source development and manufacturing in the U.S. So just wondering how this could -- how the U.S. companies are looking at CDMOs? Do they kind of -- because while you are an important part of their overall supply chain, but a small part nonetheless. Just wondering how you see this panning out?

Nandini Piramal: I think overall, I think we're one of the best positioned CDMOs to actually benefit from people wanting to onshore manufacturing in the U.S. But I will say that given the uncertainty, I'd say people are taking time to decide because they're honestly not sure what will happen in 90 days or 180 days, etcetera. So I'd say when people do decide, I think we're best positioned to actually onshore manufacturing. But for the rest of it, it's a bit early to say.

Kunal Randeria: Sure. And in case you do have to, let's say, do onshore manufacturing, you'll have to, I think change the registration sites and everything. So that also will take a bit of time?

Nandini Piramal: It will, yes.

Kunal Randeria: Got it. Thank you.

Peter DeYoung: But just to add on the point, if there is an uptick in confirmed customer demand for onshore production, we have capacity at our recently expanded Riverview site. We have capacity at our Sellersville site and we discussed the expansion at our Lexington site. And so for those three different and distinct capabilities, while there would be time for the customer to make a decision, which would require certainty, which Nandini mentioned and then there would be a tech transfer time for them to move it from whatever site it's currently at to that site and then to register.

And then we would obviously then get the benefit of the revenue. We don't have to wait for

significant Brownfield expansions to capitalize on this in that the -- we do have capacity available at all three sites and an expansion going underway at one of them. And so we would be -- that's why Nandini is saying that we are very well positioned because of our already existing site network and available capacities, once customers make decisions to reshore onshore in line with policy guidance.

Moderator: Thank you. Next question comes from the line of Madhav with Fidelity. Please go ahead.

Madhav: Hi, good morning. Thank you very much for your time. I had one question on the P&L. If I look at the gross margins for the company in quarter 4, they've expanded by 500 basis points. But some of the cost seems to have gone up quite a lot. If I look at the employee cost or the other expenses, both Q-o-Q, Y-o-Y, especially other expenses moved up quite sharply. Could you give us some sense in terms of what's happening there? And I think the PPT did mention certain one-offs. So if you could just quantify that as well?

Vivek Valsaraj: Yes. So Madhav, firstly, to address the question on gross margin. So as we have maintained the full year gross margin is more representative of what the GC for the business stands. In quarter 4, particularly last year in quarter 4, we had higher inventory depletion causing a higher overhead charge to the P&L last year. So on a normalized basis, the 64%, 65% is a correct representation of the gross margin.

Coming to expenses, again, a full year look at expenses of how we have delivered is more representative. Our business, as you are aware tends to get very lumpy. So when it comes to employee expenses specifically, last year we had a case where certain performance incentive provisions had to be reversed because we did not meet our internal targets.

This year, we've actually delivered or outperformed internal targets due to which there is a performance pay provision which has been made, because we tend to have a more lumpier quarter 4, where a large quantum of sales gets delivered in quarter 4, the true-up for some of these provisions actually happened during quarter 4 causing this kind of a lumpiness.

Similarly, in case of the other expenses as well, things like sales promotion expenses, logistics, freight, distribution, a lot of these variable elements of cost tend to be more prone towards quarter 4 versus the other quarters. And as I said, true-ups happen towards quarter 4. So therefore, going by the full year number is a more reasonable way to look at how the expenses stack up.

And you also referred to certain one-off expenses, that's in the depreciation line item towards a provision for an intangible asset that is considered financially unviable.

Madhav: Even for the CHG business, we have been flagging certain costs related to, I guess, the new site. So is there any sort of cost sitting there in FY25, which was for a new site or new registrations, which probably doesn't recur?

Vivek Valsaraj: Correct. There is about 4 million to 5 million of that cost, which is sitting in the expenses, the one-off expenses that we alluded to, that is there in the FY '25 P&L.

Madhav: Okay. Got it. Thanks.

Moderator: Thank you. Next question comes from the line of Shyam Srinivasan with Goldman Sachs. Please go ahead.

Shyam Srinivasan: Just the first on the margin guidance for fiscal '26 and the margin walk, right? So I'm just trying to see there are multiple moving parts. So if you could help us, so 17% fiscal '25, I think it was said going to mid-teen. So if you could just reconfirm that. And I'm just trying to see the moving parts, right? One, we obviously have a recovery in the CHG business. It's one-off expenses, some of this goes away.

So there should be some improvement going back to its -- closer to historical level. CDMO business going by the revenue guidance seems to be no growth. I'm just implying. And the other two, I'm just assuming that they're growing at whatever 10%, 12%, right? So just want to understand what is -- how is the margin walk for us to go from 17% to mid-teens? What are the push and pulls here?

Vivek Valsaraj: So firstly, let me begin by saying that both the complex hospital generics and the consumer products business is growing in line with and will grow in line with our aspirations of whatever we have said we would move towards FY '30. So whatever is the impact on the margin is largely coming in the CDMO business, which happens to be 60% of what our total business is.

And that's where the correction in the margin is happening. But what is important to note that this is a onetime impact that's happening for FY '26 to come back to what we believe will be close to 19% to 20% margin overall for the company. So the push which is coming right now is largely coming from the CDMO part of the business, but to get corrected back in FY '27.

Shyam Srinivasan: Sorry, Vivek. So we are just looking at consol margin, 17%. So clearly, CDMO is lower than that. You have said it's significantly improved. So I don't know where it is -- where it was before. Maybe it was like low double digit, I don't know. So now we are saying this, whatever, 15%, 16%, 17%, whatever the number is going back again. And what is driving that? Because we still are having -- okay, there's no growth. So is it negative operating leverage in the CDMO business that's the drag?

Vivek Valsaraj: That's right.

Shyam Srinivasan: Understood. Okay. And so when we go back to 19% to 20% next year, which is '27, you are expecting like a huge uptick in CDMO for fiscal '27?

Vivek Valsaraj: Correct. You're spot on.

Gagan Borana: So there would be an uptick in that one large customer business in FY '27, followed by our base business, it continues to do well. And then we said the other 2 business continues to be more consistent growth driver over FY '26 and FY '27. So 17% EBITDA margin in FY '25 will eventually become closer to 19%, 20% EBITDA margin in FY '27.

Shyam Srinivasan: Helpful, Gagan. Just my second question is just on the $90 million, and I may have missed you mentioning the $90 million at Lexington and the additional capex for bioconjugates at Riverview. Just want to understand what is the current utilization for both Lexington and Riverview?

And what is driving this capex? Is it that the current facilities in the -- I thought utilization was low. It's not very high. So is it that we need new capacities for cater to demand, the existing capacities are probably legacy? If you could kind of give us a qualitative color on the additional capex.

Peter DeYoung: So the qualitative cover is that we have a number of customers at Lexington that place to work with us that are not currently in commercial production or recurring production that are in the, let's say, development/registration phase that when they succeed, and we believe that there's a high chance that a number of them would succeed that if we didn't have the expansion, they wouldn't have the capacity to meet their like midrange forecast.

And so in order to meet the customer expectation that if they tech transfer to our site and they succeed with the regulator that we can meet their production volume requirements. So that would be what's driving the Lexington expansion decision, which was really a re-communication of what was communicated late last year.

The Riverview is a little bit more different, where what we've seen is with the overall uptick in antibody drug conjugates and the really excitement in that sector, we've seen now a lot of demand for the full package. And so as you know, our history is in conjugation where we began. And then we did a lot of, let's say, fill/finish as our first experiment into integration.

And then as you know, we've now demonstrated with the antibodies in Yapan in Hyderabad and the linker payloads in Riverview. But what we realized was that, that requires a particular set of dedicated kit and a particular dedicated suite, and we had pretty much sold out our existing suite and kit for linker payloads.

And what we realized is that there was a lot of demand out there, and we were going to be losing projects if we didn't increase that capacity. And so we have -- it's a very small modest capex. It's fitting out a room that's already built to add the kit needed to do additional linker payload volume. And frankly, we've already sold it, not all of it, but a lot of it.

Moderator: Next question comes from the line of Tushar Manudhane with Motilal Oswal Financial Services Limited.

Tushar Manudhane: Sir, just on -- in terms of the order book for the CDMO side, if you could give some more color in terms of these incremental orders coming on which specific segment for us? Is it peptides? Is it ADCs? If you could share your thoughts on that?

Peter DeYoung: So we had a strong quarter ending March with order booking. We largely booked what we had expected or hoped to book in that quarter within the quarter, which is what we're using to base our revenue growth guidance for the year, excluding the one-off discussion that we already had. If you look at some sites that have had some particularly strong results, we've

had a significant number of new program additions in ADCs. It's been a very hot area for us and some have been conjugation only, whereas others have been integrated programs involving multiple capabilities.

And just to touch on that because it's one of the stronger areas for us, significant new large pharma and emerging biopharma wins at Grangemouth, but then also we've had integrated projects touching and also Lexington, Riverview linker payload. We discussed the expansions going on at those 2 sites. And obviously, we had the prior wins at Yapan in the mAb area.

But what's also not mentioned is that we're doing a lot of interesting bioconjugates that are more novel. And so we actually had a case where a client worked with us first at PDS in Ahmedabad, and we could do some very difficult chemistry with them for a less traditional ADC bioconjugates and we won a multisite project there.

And then another case where we were doing some work with peptides at our Turbhe facility. And in those 2 cases, these are very prominent, I guess, ADC or bioconjugate start-ups. And our secret sauce was the other capabilities that then get got us the whole integrated project.

So I'd say ADCs would be one big wave. I think the second area is that our Digwal site and our Pithampur site continue to get very strong order inflows, and that's great because it's our India advantage, and we have a good track record there and really good growth prospects coming in from new project additions.

And then if we flip it over to the Americas, we've had a significant number of new program additions at Riverview. Now they are in the earlier stages, and they are not all going to be late stage, but it's a significant -- we have a few late-stage additions there.

And then the last bit I'd say is from a drug product facility perspective, when we give the subsidiary financials, you'll see it later, but we had significant growth in Lexington revenue year-on-year in the LTM basis, and we see strong order flows there. And in Sellersville, with all of the onshoring discussion, we're getting a lot of RFP inflow and a significant number of conversions and a lot of interesting RFPs out there.

So it's a bit of a long answer, but I'd say if you look at it, it really aligns to our differentiated capabilities. And I want to give a significant shout out to both the offshore large-sized sites and the onshore differentiated sites and ADCs.

Tushar Manudhane: Sure, sir. That's helpful. Just on ADC, one more, if I may, that typically, the success rate for the molecule from clinical to commercial is relatively much less compared to the other segments. And then given that scenario, still we are sort of investing considerably as far as the manufacturing sites are concerned.

So that confidence is coming because of the certain products of innovators sort of moving towards the commercial phase? Or this is more to do for already commercialized products where the customer has asked for additional volume from us?

Peter DeYoung; I'd say most of the new additions have been in the clinical phase. And what gives us excitement is not that we have one very large anchor customer that's providing all of the revenue or revenue projection. It's that we have a really broad base of both large pharma and emerging biopharma customers that are looking at a range of our capabilities.

And so while we'd love for all of them to succeed in the clinic, as you mentioned, that's rarely the case. And we would anticipate there would be attrition, but we do see it's one of the areas with the highest number of clients with -- I'd say, of all of our areas, this differentiated area of ADCs would be one of the hottest.

I think the onshore drug product and then the offshore API would be also right up there. But I'd say it's not like we're all depending on one particular Phase III to make the numbers work. We have a handful of meaningful large pharma and a handful of meaningful emerging biopharma that are collectively needle moving and interesting and compelling.

Moderator: Next question comes from the line of Bino Pathiparampil with Elara Capital.

Bino Pathiparampil: A couple of questions from my side. When do you expect your tax rate to normalize at the consolidated level?

Vivek Valsaraj: So Bino, the -- as you're aware, the overall tax rate depends upon the mix of geographies from where our revenues and profitabilities arise. The more the revenues coming from the overseas facilities, the more reduction in the effective tax rate because we've already got some carryforward tax losses available, which we can offset. This will take over a period of time.

As we have guided to over -- by FY '30, we definitely see it moving towards 24%, 25%, which should be the ideal effective tax rate. You will see a gradual reduction in the tax rate happening across this period as this mix changes with higher utilization of our overseas facilities.

Bino Pathiparampil: But in the entities where you are making losses, you would be also taking some tax credit on the P&L, right?

Vivek Valsaraj: Well, not yet because many of these are still at the nascent stage. So we haven't started creating deferred tax asset, if that's what you are referring to. Once they turn around and demonstrate consistency of performance, we'll start creating those deferred tax assets. So currently, we are not.

Bino Pathiparampil: Understood. What's the capex expected for FY '26?

Vivek Valsaraj: We expect it to be in the range of about $100 million to $125 million. This includes the $90 million expansion in the U.S. that we have talked about. Part of that would also get spent in FY '26.

Bino Pathiparampil: Okay. And last, just to reconfirm the guidance. So this year, you said from 17%, the margin could come down -- EBITDA margin could come down a bit to mid-teens. So does that also

mean that the overall consolidated revenue growth also would be a bit muted because of the issue we discussed?

Vivek Valsaraj: That's right. So we have guided to a mid-single-digit revenue growth for FY '26.

Moderator: Next question comes from the line of Vinod Jain with WF Advisors.

Vinod Jain: The incidence of taxation has been high for the years '23-'24 and '24-'25. Now my question is largely answered that the incidence would go down over the years to more normalized 24%, 25% tax incidence up to in the financial year 2030. But what is the specific guidance you can give for the year '25-'26? Will the tax incidence be lower significantly from the earlier 2 years?

Vivek Valsaraj: So it's like this that, as I mentioned, it depends upon the mix. Based on what we see currently for FY '26, we do see better utilization and better sales from our overseas facilities, which means that you would see some reduction in the tax rate versus what you have delivered in FY '25.

So there will be a reduction in the effective tax rate. It's just that right now, we are not giving a specific guidance because we have to see how this mix pans out. The more the utilization at overseas, the more sharper the reduction.

Vinod Jain: Very well. That answers my question.

Gagan Borana: Vinod, we also made a point that in FY '26, while our EBITDA margin goes down slightly over FY '25, but there would be a Y-o-Y growth in our PAT in FY '26. And that also indicates towards a lower tax rate in FY '26 over FY '25.

Moderator: Next question comes from the line of Madhav with Fidelity.

Madhav: Yes. Just one follow-up. The brownfield expansion, which you announced of the $90 million at the U.S. sites, just wanted to get clarity that typically, it is my understanding that when we do a greenfield expansion in this industry, generally, it's 1x, 1.5x, something like that is the fixed asset turn.

When we do brownfield like at these 2 sites, typically, what could be the revenue potential given, I guess, some of the infra is already in place. And I would assume if you could give some color in terms of how different the margins could be given some of the fixed cost is probably already sitting at these sites?

Vivek Valsaraj: So as you rightly mentioned, first, I'll talk about the margin point. Yes, the margin tends to be more better because, obviously, a certain component of the fixed cost is already taken care of. And therefore, the incremental gross margins flow into the EBITDA. So yes, margin profile tends to be better. In terms of asset turn, honestly, whether it's a greenfield or brownfield, the asset turns would tend to remain in the range of 1.5 going up to 2.

Madhav: But would there not be some common infra like utilities, et cetera, which is already in place at the site, so we don't need to spend on them?

Vivek Valsaraj: Correct. But a large portion of the capacity spends happen on creating the core infrastructure. So it doesn't very significantly change. These capacity expansions will come online in FY '27.

Peter DeYoung: Riverview will be this year.

Vivek Valsaraj: Yes. With Riverview happening this year and Lexington happening in FY '27.

Moderator: Next question comes from the line of Chintan Shah with JM Financial Family Office.

Chintan Shah: So I had two questions. So one is we have commented about the commercial part of the CDMO business. But just wanted to check on the other aspect, that is the generic side. Basically, what's happening there? I mean, is that business growing next year? What's the outlook over there? Or even that's going to be a muted one?

That is my first question. And second, over slightly longer term, basically, how should we see the mix of this on-patent commercial manufacturing to increase to over the next, say, 3, 4-odd years? Those are my two questions.

Peter DeYoung: So API generics and our CDMO side had a good year last year of growth. It was returned to healthy growth after a period where it had not. And based on all of the seedings and customer conversations and customer filings that happened over the last year, we anticipate the year upcoming that we're in currently to also be a year of healthy growth.

So that's looking good. If you look at the question about the LRP, if you go back to what we're focusing on in terms of on-patent work, differentiated offerings, integrated projects, those themes remain. And if you look at the underlying growth that we're seeing that Nandini and Gagan described, excluding the customer one-off, it's quite strong, and a lot of it is related to these same themes.

So the outcome is that we would anticipate once the onetime issue resolves in FY '27, combined with all of our other actions with all of our other customers that, that number should continue to grow at a faster rate than our overall business.

Chintan Shah: Got it. Understood. So just one follow-up on the generics side. I mean, do we see -- continue to see some pricing pressure here or that is largely stabilized? And the guidance that you have on the CDMO is despite that even though we'll be growing at a healthy pace in generics side, the decline on this side is much more to offset that growth. Is that a fair understanding?

Peter DeYoung: I would say the price always remains important in generics. We've done a lot of work on our back integration, our process and our procurement components, and we've actually taken more steps in-house, and we've changed how we do the steps. So that we can maintain and frankly, improve our profitability in that segment while growing even though we're not taking price up in the generics segment.

So I think we've changed how we go about it, and we've also got some new product introductions that are planned. They're modest, but we've done a lot of work on the back end

to make sure that we can meet our margin expectations with the target prices needed to succeed in our molecules.

Moderator: Next question comes from the line of Alankar Garude with Kotak Institutional Equities.

Alankar Garude: You spoke about the uncertain funding environment, especially at the early stage and also prolonged client decision-making. On the other hand, you also spoke about strong demand across the key product categories. So the question is, if there is further improvement on the macro front and the underlying CDMO growth picks up beyond mid-teens, do we have sufficient capacity, including the expansion already announced to meet this demand over the next 3, 4 years?

Nandini Piramal: I think if there is an improvement in the macro, yes, we do have capacity and capabilities available to take advantage of it.

Peter DeYoung: And just to add, in the medium to long term, our LRP does have capex investments planned. But if we were to have an uptick in demand in the near term in the, let's say, 12-month horizon, we could absorb much of that immediately. But obviously, to achieve our long-range plan ambitions that we've described, there is investment required in the medium to long term.

Alankar Garude: Understood. The second one, given the strong U.S. presence for the company, are you starting to have any incremental discussions with clients regarding shifting to your U.S. facilities in the context of tariffs? And yes, if you can bifurcate that response across on-patent and generics would be helpful.

Peter DeYoung: I think the single most important factor for the future performance of CDMOs, including ours, is the macro environment allowing clients to raise money and if they have money to spend money. That is the most important thing that will drive how we or other CDMOs perform.

And at the moment, it has been uncertain, uneven or insufficient, which is what Nandini described in her remarks. So that's the thing we need to track first. The second is in terms of clients shifting to onshoring or reshoring, I would say that the incremental choices, we have a lot of bids out. So people are kicking tires. They're evaluating choices.

But if they don't have to make a decision to progress a program because of certain clinical requirements or otherwise, they're probably going to delay until they know what the tariff outlook is. If they do have to make a decision, they are making decisions, and that's what's driving our current order book trends. But in the absence of clarity on that one limited point, they will probably defer those certain choices.

If I look at the sites, I would say Riverview would be getting primarily on-patent RFPs. I would say Lexington is primarily getting on-patent and perhaps some 505(b)(2)s. And then I would say Sellersville is getting a mix of both on-patent and, let's say, off-patent work.

And it's a mix where, let's say, an off-patent may be someone looking at a large volume shift onshore because of certain federal contracting requirements, whereas the on-patent would be

taking advantage of our development or late-stage clinical capabilities. So we're seeing a mix, but that's the breakdown across the three sites and the types of RFPs in general. There's always an exception to every rule, but that would be the general trend.

Moderator: Ladies and gentlemen, we have reached the end of question-and-answer session. I would now like to hand the conference over to Gagan Borana for closing comments.

Gagan Borana: Thank you very much. We hope that we were able to answer most of your questions. In case you have any follow-up questions or any clarification, please feel free to reach out to me, and I'll be happy to respond. Thank you, and have a good day.

Moderator: Thank you. On behalf of Piramal Pharma Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.