“Piramal Pharma Limited Q1 FY’26 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Piramal Pharma Limited Q1 FY'26 Earnings Conference Call.

As a reminder, all participants' 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 call, please signal an operator by pressing '*,' then '0' on your touchtone phone.

I now hand the conference over to Mr. Gagan Borana. Thank you, and over to you, sir.

Gagan Borana: Thank you, Rio. Good morning, everyone. I welcome you all to our post results earnings conference call to discuss our Q1 FY'26 Results.

Our result materials have been uploaded on our website, and you may like to download them and refer during the 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 CEO of Global Pharma – Mr. Peter DeYoung, and our CFO – Mr. Vivek Valsaraj.

With that, I would like to hand over the call to Ms. Nandini Piramal to share her thoughts.

Nandini Piramal: Good day, everyone. And thank you for joining us today for our post results earnings call.

The quarter was broadly in line with the guidance we shared for FY'26 in our last quarterly call in the month of May. While there may be some lumpiness in our sales between the quarters due to the nature of the CDMO contracts and timing of institutional orders in the CHG business, we believe we are largely on track for meeting our full-year FY'26 guidance of mid-single-digit revenue growth with mid-teen EBITDA margin and Y-o-Y growth in net profit.

During the quarter where we reported a Y-o-Y revenue decline adjusting for the impact of destocking in one of our large on-patent commercial CDMO products, the Y-o-Y revenue growth was in early double digit.

Our CDMO business base business adjusting for inventory destocking delivered mid-teen revenue growth during the quarter accompanied by improvement in EBITDA margins, mainly driven by our overseas sites.

In our CHG business, while we reported a muted growth in Q1, we expect growth rate to pick up significantly, more specifically in H2, given the timing of shipments and phasing of institutional orders.

Our consumer business delivered a healthy growth of 15% during the quarter, driven by healthy growth in our Power Brands and e-commerce sales. Lower interest cost due to reduction in interest rates and lower effective tax rate helped us deliver 8% Y-o-Y growth in our net profits for the quarter.

On 'Quality and Compliance':

We successfully maintained our best-in-class track record of 0 OEI since 2011. This quarter, we successfully closed the USFDA inspections at our Aurora facility in Canada without any observations. We also got USFDA approval for our Digwal facility as Sevoflurane API and finished product manufacturing site for both human and veterinary use.

On the 'Sustainability' front:

We continue to make steady progress in multiple areas, including water and waste management, afforestation, renewable energy adoption, diversity inclusion, human rights and occupational health and safety. These initiatives are beginning to show tangible results and reflecting meaningful improvements in our ESG scores by external agencies.

Moving on to "Business-Specific Highlights':

Starting with our 'CDMO' business:

Our CDMO business reported a revenue around Rs. 997 crores, which was a Y-o-Y decline of 6%. However, adjusting for the impact of inventory destocking one of the large on-patent commercial manufacturing products, the business delivered mid-teen growth. The growth was primarily led by our overseas facilities coupled with a Y-o-Y improvement in profitability. Our nutritional supplement business and generic API business also delivered encouraging growth during the quarter.

On the profitability front, we continue our efforts towards cost optimization through better procurement strategies and operational excellence initiatives. This, along with the scaling up of our overseas revenues should help generate operating leverage to help improve our EBITDA margin towards 25% by FY '30.

In terms of order inflows, we have had a mixed experience during the quarter with some of the overseas sites experiencing good order inflows, whereas the early-stage discovery and development orders continue to see slow pickup due to an inconsistent and incomplete recovery of biotech funding coupled with geopolitical issues and uncertainty over trade policies.

During the quarter, we broke ground in our capacity expansion product at the sterile fill/finish in Lexington, U.S., which is expected to be completed by 2027. This expansion should lend

impetus to an integrated ADC development and manufacturing program over the medium to long term.

Moving to our 'Complex Hospital Generics':

Complex Hospital Generics during the start of the quarter, we commercialized new Sevoflurane manufacturing lines at our Digwal facility to complement the existing Sevoflurane manufacturing at our Bethlehem facility in the U.S.

These new Sevoflurane manufacturing lines at our Digwal facility should be catering to the emerging markets as U.S. We have already started seeing a good pickup in our Inhalation Anesthesia sales in some of the emerging markets and expect this momentum to continue going forward as well. We did see some slower revenue booking in our key markets in Q1 that is largely due to phasing that is more skewed to the later part of the year.

In Injectable Anesthesia and Pain Management segment, our strategic initiatives aimed at mitigating supply limitations are advancing as scheduled with benefits expected from FY2027 onwards.

On the Specialty and Differentiated Products portfolio front, during the quarter, we launched Neoatricon in select EU markets. We expect to launch in more markets during the rest of the year. The initial response has been good.

Moving on to our 'Consumer Healthcare business':

Our PCH business delivered a healthy growth of 15% during the quarter. This was primarily led by an 18% growth in our Power Brands and a 41% growth in our e-commerce business.

We launched 7 new products and SKUs during the quarter. We continue to invest in media and trade spend to boost the growth of our Power Brands, along with improvements in profitability metrics.

Our Power Brands grew 18% during the quarter and contributed 49% of the total Consumer Healthcare sales. Brands such as Little's, CIR and i-range were amongst the key drivers of growth. The i-range experienced muted growth last year following the recovery regulatory price control in i-pill. With this impact already in the base, it is witnessing a healthy recovery in the current financial year.

Product sales and e-commerce platforms continue to demonstrate strong traction, coupled with an improvement in profitability. It grew 41% during the quarter, contributing to 23% of PCH sales versus 19% in Quarter 1 FY '25.

'Summarizing the quarter':

CDMO business, excluding the impact of destocking, delivered good mid-teen growth with Y-o-Y improvement in our EBITDA margin, primarily led by better performance in our overseas sites. Our CHG business is also tracking well with healthy demand in inhalation anesthesia complemented by on-time capacity expansion. This should start reflect in coming quarters, especially H2 given the timing of shipments and the phasing of institutional orders. Our consumer business continues to grow in line with our expectations led by the Power Brands and e-commerce sales. We remain on track to deliver FY'26 and FY '27 guidance that further meet our FY '30 aspiration to become a $2 billion revenue company with a 25% EBITDA margin and a high teen ROCE.

With this, I would like to open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from Amey Chalke from JM Financial. Please go ahead.

Amey Chalke: First question I have is on the CDMO order book. How is this looking for FY'26? Is there any change over last one quarter in CDMO order book and if you can quantify?

Peter DeYoung: So, there has been no material change in the order booking since we spoke last quarter when we gave guidance for the year. And so, the 1st Quarter, we have had order booking that has progressed within the quarter. There has been no notable uptick versus where we were at or expecting at the beginning of the quarter or no notable downtick.

It has been consistently performing, but at a modest level, as described by Nandini in her comments. The situation with respect to our clients' ability to raise money and once raised to spend money remains where it has been mostly since the middle of January.

Amey Chalke: The second question I have, are there any project wins during the quarter, which you would like to highlight? Or you can give some color on is there any new launches which could happen during the year or maybe over 2 years?

Peter DeYoung: We appreciate the detailed question. We would like to reaffirm that the outlook for the year remains the outlook for the year and that the revenue growth outside the destocking event is in the mid-teens, which we described, and the order booking is consistent with that expectation.

We don't typically give specific customer order booking comments because, first, our customers ask us not to communicate that level of information. And second, we think the ups and downs of individual customers in the ordinary course don't particularly give useful information. And we suggest you look at the aggregate numbers we have given for the full year guidance.

Amey Chalke: The last question I have on the margin front, despite the flattish growth for last quarter, margins have dropped a bit. Does that mean that our core business margins have come down?

Vivek Valsaraj: So, Amey, if you refer back to the annual guidance that we gave, we did indicate that there will be some moderation in margin given the fact that we will be growing in mid-single digits. So, it is largely the impact of the destocking of the order, the CDMO space, which is leading to some moderation in the margin. And this is in line with what we had guided for.

Moderator: Next question is from Abdulkader Puranwala from ICICI Securities. Please go ahead.

Abdulkader Puranwala: My first question is with regard to the impact of the large innovative product. Could you help us understand that is there any particular quarter where the sales of this product would be higher during the last year or it was kind of evenly spread? Because the reason why I ask you is that your quarterly numbers kind of fluctuate every time. So, any color on the maintenance along with some indication on the large product would be helpful.

Peter DeYoung: So, I will comment, and Vivek can add anything further. The first is that last year, we had the benefit of that large product reasonably evenly spread throughout the year. This year, as we guided when we laid out our expectations for the year ahead which we are currently in, we do not get that benefit.

I think the only additional point I would mention is that Q1 for us in the fiscal year is typically a softer quarter. And so when you take away a large profitable base business across all months in a traditionally soft quarter, you can see a more profound impact on operating leverage, which would be showing up in the numbers.

Vivek Valsaraj: And also, to reiterate, Abdul, that H2 continues to be bigger than H1 for us as it has been in the past, probably more prominently this year given the fact that even CHG business, we did see some slowdown in Quarter 1, but we do expect the growth to recover more specifically in H2.

Abdulkader Puranwala: And sir, my next question is with regard to your investment in ADC. So, I understand you are investing $90 million to your existing in Riverview facility, but in terms of the revenue trajectory or the order outflow to happen, when exactly do you see this opportunity kind of playing out for you?

Peter DeYoung: So, the ADC opportunity, the largest contributor to the revenue and that is our conjugation facility in Grangemouth, UK, is supported through the Lexington fill/finish, the Riverview linker payload and the Hyderabad/Yapan mAb.

So, from the overall growth projected, this is a rapidly growing business for us, and it's contributing a lot to what we show in our, it is one of the big contributors in what we call the

differentiated offerings bucket. So, if you look at our full package we shared with our annual report, you can see the multi-year trend in differentiated products is a demonstration of growth.

Now, just one clarification. With the expansion that we announced at Lexington Riverview, the linker payload at Riverview is entirely and only dedicated to ADC. However, the expansion of Lexington has multiple benefits. The first is its onshore containment origin fill/finish for any purpose and we see a significant and strong demand for that.

The second is its onshore capacity in an environment where people are looking for US-based production for drug products, and we are benefiting from that.

The third is exactly what you mentioned, which is the linkages with ADCs in the integrated offering, which we will also benefit from. And so, we actually see 3 reasons behind the overall growth in terms of Lexington and ADC is only, let's say, 1 of those 3 in that example, and we are expecting and should see growth in the Lexington business for that purpose. And I just want to reiterate another point that was covered in none of these comments, which is a lot of our growth so far this year has been in our overseas facilities.

Abdulkader Puranwala: Fair enough. Thanks for that detailed explanation. But just, Peter, to understand, I mean, when you are calling out our 2030 guidance of achieving close to $2 billion of revenue, is ADC also factored into that guidance?

Peter DeYoung: Absolutely. If you want a longer answer, we can give it, but the short answer is yes.

Abdulkader Puranwala: And just lastly, on the margin outlook. So, we are maintaining the low-teen margin guidance, what we have given previously?

Nandini Piramal: Yes, we are sticking by our FY’26 guidance, and we are on track for that.

Moderator: Next question is from Shyam Srinivasan from Goldman Sachs.

Shyam Srinivasan: Just on the commentary around the overseas sites, if you could help us quantify or give some direct qualitative sense on the utilization improvement, which of the sites where we have seen additional demand come through. So, just some qualitative color or even quantitative color on those overseas sites, please?

Peter DeYoung: What's nice is that it is actually, we have seen strength in our UK sites, both of them in terms of, I guess, you could call revenue as a proxy for utilization and also in, I guess, a significant number of our North American sites. And so what's nice is that it is not a single site and it is not a single country.

It is actually across 3 countries, we are seeing the growth, Canada, the U.S., and the UK, and it is across a number of our overseas sites. And so it is nice to see this year. Obviously, we have some of the challenges we described earlier, but it is nice to see some growth in our overseas offerings as demonstrated through revenue.

Shyam Srinivasan: And is this, Peter, the biggest driver for our CDMO margins improving, like ex of whatever the destocking? Is that the key driver of improvement in margins?

Peter DeYoung: Yes.

Nandini Piramal: Yes. And the balance growth, I think, again, helps us overall.

Peter DeYoung: So, just to give further color is we have described the benefits or detriments of higher or lower revenue in our overseas sites, which are, many of them are on the smaller side. And so the operating leverage impact is significant. And so, when we have these improvements, that helps.

And I think, the second one, which you may notice is EBITDA, the PAT conversion ratio. So, when we get this benefit, we also because of past actions, we don't have a lot of tax outflow. So, this is another positive output when we see this go in this direction.

Shyam Srinivasan: Second question, just trying to decode the mid-teen growth in the CDMO business, excluding the one-off, right? So, did we have any sales of this #1 product for us in the quarter? Or it was like nothing?

Peter DeYoung: We did not expect, anticipate, or communicate an expectation around any sales in the quarter, and we did not have any.

Shyam Srinivasan: So, we can say base had that number and nothing this quarter. So, when I do a simple math of assuming 15%, so that product comes close to 20% of your CDMO revenues. Is that how we should look at it?

Vivek Valsaraj: We would avoid getting into specific product-related revenues here, Shyam. But yes, you are doing your math. We would avoid speaking about specific revenue contribution.

Shyam Srinivasan: And my last follow-up on this one is anything, I know these are lumpy, and we have guided for fiscal '26, but is there any early indications, Peter and team to see that this should come back '27? There are some competitors as well which are, we can see through export data, some of them are shipping it. So, if you could help us understand the landscape, I don't want a quantitative number from you, more from a qualitative or a comfort that this product probably comes back.

Peter DeYoung: We don't give specific level guidance and our customers request us not to do that. I would just give one qualitative comment, which we remain the primary supplier for the U.S. market. And

we expect that when the destocking has completed, that order has resumed, but it remains the choice of our customer, not ourselves, and we look forward to their future decisions.

Shyam Srinivasan: And last question is on the CHG business. So, the growth starting from Quarter 2 which you have telegraphed, what is driving it? Is it more emerging market? Has there been any issues in our U.S. market in terms of market share or something that has also led to slow down this quarter, which could correct? So, any directions here on CHG?

Peter DeYoung: We would anticipate a lot of the growth coming from the existing inhalation injectable pain and intrathecal business franchises. We do have some additional sales expected in the second half, and we would see a meaningful part of that being in our ex-U.S. markets for the growth as we look at the difference between, let's say, the last year and this year. That does not change from what we communicated when we discussed the guidance for the full year. It is just that it is not all happening in the beginning. It will happen more back ended.

Moderator: Next question is from Maitri Sheth from Choice Institutional Equities. Please go ahead.

Maitri Sheth: Just one question on the gross margin side. Our gross margins have largely remained in the 62% to 64% range, 65% range for the last 2, 3 years. So, can we expect to see some improvement there if you could quantify that?

Vivek Valsaraj: So, at the current level, gross margins are expected to remain in the range of 64% to 65%. But as the quantum of on-patent commercial products and our innovation work goes up, we will expect some improvement in the years ahead. At this stage in the midterm, it would remain at this range.

Moderator: The next question is from Matangi from Motilal Oswal. Please go ahead.

Matangi: I understand that there are many new SKUs that have been launched. I would just like to understand what is the breakeven timeline for this and if we expect any execution risk?

Nandini Piramal: And this is for this PCH business, the Consumer Healthcare business?

Matangi: Yes, all of them, across.

Nandini Piramal: No. So, the SKUs were launched in the Consumer Healthcare business. The business itself is actually making an EBITDA profit. And that's what we continue to expect that we will profitability as we get to scale. But I can't give you on a brand-by-brand or SKU level breakeven, but the business as a whole is EBITDA profitable.

Matangi: My next question is about the customer concentration risk here. So, are we taking any steps to reduce customer concentration in the CDMO segment? Or do we not expect this destocking issue to resurface?

Peter DeYoung: So, I will give you 2 parts to this. The first is that in the innovator CDMO business, when new launches happen, and I think we discussed this when we did communicate the guidance last year is that a typical move after a launch happens from an innovator customer is to evaluate stock position versus the amount of inventory they bought for the best-case scenario. And so you do see from time to time in us and our competitors, these events do happen. And so with any given new launch, you can expect at some point in time, there could be such an event.

This one was more pronounced because it was our largest customer product relationship. And so obviously, it had a big impact. As a group, we decided when the orders came to take them because it was better to have them than to not have them, but we also identified in our risk committee for obvious reasons, as you described, that there is customer concentration risk.

There are significant efforts underway before and also now to add new business to the site and to the business so that we can reduce that reliance. And that is part of what's driving with Nandini's comments, the 15% growth that we are seeing across all of the business aside from this specific customer, product combination. And so yes, we recognized the risk. Yes, we took the business. And yes, we are taking efforts and seeing some benefits from, but not yet enough of our efforts to diversify.

Matangi: I just have one last question. I understand that operations are quite dependent on the USFDA inspections. I would like to know if you expect any new trade and regulatory policies and tariff risks in the U.S.

Nandini Piramal: I think we have maintained a successful zero OAI status since 2011. I think we are pretty confident of our quality standards and audit facing inspections. However, I think on trade and tariffs, I think there is uncertainty, and I wouldn't want to comment on that.

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

Madhav: Just wanted to understand that for the large on-patent supply, which is going through a destocking, how is that product doing in the end market? Does it continue to grow in the double digits? So, the end market sales for that product, like if you could share some color, so we can have a sense in terms of the ability of our supplies to recover once the destocking is over?

Peter DeYoung: I would encourage you to look at equity analyst coverage of that company or public filings from the company, both of which could answer your question or even newspaper articles about that company, all of which would show it is a growing product. But you can do that.

Madhav: So, that actually indicates it is growing at 15%, 20%. So, I just wanted to confirm with you that once the destocking is over, this should come back for us in a good way, right? I mean, that is what we wanted.

Peter DeYoung: I would encourage you to do another pass at that. You may see a higher number. And so, even some of the analysts on this call, their firms cover this. So, you can pull it down, but I think it would be better than that number. But I would suggest you look at your own primary sources.

Madhav: And how is the conversation with this client. How much time do they expect the supplies to come back? Or is it something which is more wait and watch at this point?

Peter DeYoung: We talk to them nearly every day, and we will wait for their decision once the stocking levels have come down to their target level.

Madhav: And just a second question on the CHG business. I think we had added a fair bit of capacity, and we were quite sort of positive on scale-up here. So, should we take the softer growth in Q1, more as just like you have flagged some timing of shipment issues? So, on a full-year basis, can this business grow in double digits for us?

Nandini Piramal: Yes, I think we stand by our guidance overall as the CHG business, its sort of in linearly, it's on track for achieving the FY '30 goal. So, yes.

Madhav: No, I understand. But I am saying that in the CHG business with all the new capacity and the ex-U.S. markets we are targeting, can it grow in double digit this year despite the softer Q1?

Nandini Piramal: Yes.

Peter DeYoung: If you remember last year, we did a stronger Q1 than what some of you all thought we would do, and you asked us if we would raise the guidance, and we encourage you to look at the full-year numbers. This year, we have it in the other direction, and we again encourage you to look at our full-year numbers.

Moderator: Next question is from Neha from Abakkus. Please go ahead.

Neha: So, two questions from my side. One is on the high other income for the standalone business for this quarter. And secondly, on the overseas subsidiary business, just wanted to understand that do we expect the growth momentum to pick up further from here in the rest of the year and probably leading to higher leverage on the EBITDA margin per se from that particular business?

Vivek Valsaraj: Neha, firstly, the higher quantum of other income is largely driven by forex gains in stand-alone. And secondly, we have guided for our overseas facilities to pick up growth momentum for the

full year. And yes, we have seen that in Quarter 1, and we do expect that momentum to continue in the second quarter as well.

Moderator: Next question is from Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Sir, firstly, on the other expenses, it's been a decent decrease from almost Rs. 620 crores in 4Q to Rs. 500 crores. So, how to think about this maybe for a full year '26 and '27 in terms of operational efficiencies sort of reducing the cost or rational the cost?

Vivek Valsaraj: So, firstly, let's look at the outcome, right? The guidance that we gave is there will be some moderation in margin that will happen for the year. So, that and we are standing by that level guidance.

And having said that, we continue to look at optimizing cost efficiencies through a program that we run within the organization, which is looking at all levers, whether it is sourcing costs, yields, efficiencies, and general optics as well.

So, yes, we will continue to see how we can keep the cost tight to the extent possible and focus on improving efficiencies thereafter.

Tushar Manudhane: Because, let's say, the on-patent product would have got a good gross margins. So, probably your guidance for FY'26 EBITDA margin is to do with the reduction in the business of that on-patent molecule, but I was more trying to understand on the operational cost below gross margin.

Vivek Valsaraj: Yes, and that is why you see that the operational cost is actually growing in single digits. In fact, if you exclude the impact of the FOREX, the growth is even much more reasonable in terms of growth vis-a-vis the previous year or Quarter 1 if you see. So, yes, we are keeping the cost under control.

Tushar Manudhane: And the shipment timing, is it more to do with the geopolitical tension or more about the customer facing some temporary issue of taking the product?

Vivek Valsaraj: It is more phasing, and we do expect this to pick up in the later part of the year, more specifically in H2.

Tushar Manudhane: Any other product or contract where you envisage such event happening over, say, next 3 to 4 months because typically, the contracts are such that we have a lead time of at least 3 to 4 months to supply the product. So, any other contracts where you have seen sort of moderating?

Nandini Piramal: I think nothing at the moment that we can.

Moderator: Next question is from Sohan Mittal from MFC. Please go ahead.

Sohan Mittal: I have 2 questions kind of, firstly being for our Sevoflurane business in CHG for anesthesia, we have done a sizable CAPEX for rest of the world markets. So, do we expect any double-digit growth this financial year? And if yes, do we expect a sizable contribution because of the rest of world business, RoW?

Nandini Piramal: I think, yes, we do expect double-digit growth for the CHG business overall. And yes, some part of it will come from the rest of the world business as the site continues to scale up. Yes, it won't all be in one quarter.

Peter DeYoung: And just for further clarity, while we had the, it is a do and tell for India and that portion of the supply from India to India can happen. A lot of the ROW do require a certain amount of stability data and a certain filing time frame. And so as those individual markets complete their steps, we can start serving them from this site. But that will be an over-the-year time frame, not a light switch. But yes, correct. We are able to do that out of India for India, and we expect RoW come in line country by country as an additional supply source over the year.

Sohan Mittal: And the second question being, in the last FY, we had maintained an EBITDA margin upwards of 20% for 3 quarters at least. So, if you could just reconfirm, was it because of the large customer we were having?

Vivek Valsaraj: Sorry. When you say EBITDA margin excess of 20%, which segment are you referring to?

Sohan Mittal: On an overall basis, if I am not wrong, for 2 quarters, we had maintained an EBITDA margin between 18% to 23% in the last FY for Q3 and Q4.

Vivek Valsaraj: No. So, if you look at even our annual full-year margins, we were at 17%.

Sohan Mittal: Not annual, on a quarterly basis.

Vivek Valsaraj: On a quarterly basis, we never had EBITDA margins. Only in Quarter 4, we had EBITDA margins of close to 22%. Otherwise, our margins have always been less than 20%. Are you referring to the standalone?

Sohan Mittal: Yes, standalone.

Vivek Valsaraj: Standalone, margins have been in the range of 20%. Yes.

Sohan Mittal: For standalone basis, you could confirm, is it because of the large customer we were having in the CDMO business?

Vivek Valsaraj: The standalone margins, yes. It is because of the impact of the large customers. That's right.

Moderator: The next question is from Chidananda Mohanty from Green Portfolio. Please go ahead.

Chidananda Mohanty: So, my first question is, what is the estimated total addressable market for Neoatricon? And the next part is that as you have mentioned that the commercial agreement, which is due, that means are you going to cover from end-to-end from manufacturing to distribution or only distribution? I am talking about only Neoatricon.

Peter DeYoung: Yes. So, we haven't, I don't know we disclosed the TAM for this. And part of the reason is that it is a market we will be creating because it is essentially displacing a generic product with a differentiated product for pediatric purposes. And so, there is no historical market to refer to. And so we will create that. And then as that sales happen, we will enjoy that benefit.

In terms of the arrangement with our partner BrePco, they are responsible for the manufacturing of the product, and we are responsible for the sales and distribution of the product. And so that is the product partnership we have. And in that context, they would be providing us with the product to sell, and we would be selling it.

Chidananda Mohanty: The next question is, today, you told that some of your products in Consumer Healthcare business has faced some price challenges and some government side. Am I following it right?

Nandini Piramal: Yes. So, last year, the i-pill product came under NPPA, and there was a price cut.

Chidananda Mohanty: Came under?

Nandini Piramal: The Pricing Authority, NPPA.

Gagan Borana: Price control.

Nandini Piramal: Price control.

Chidananda Mohanty: So, if I am not wrong, then are you referring to the National List of Essential Medicine or anything else?

Nandini Piramal: Yes, that is.

Vivek Valsaraj: It was last year, not in the current year.

Nandini Piramal: Yes.

Chidananda Mohanty: What percentage of total ICE business comes under this list?

Nandini Piramal: Not very much. I think that is only the one or two products, not many.

Chidananda Mohanty: The next question, is that the JV with AbbVie, that is you are targeting the ophthalmology market of India only, correct?

Nandini Piramal: Yes.

Vivek Valsaraj: Yes.

Chidananda Mohanty: So, can you specify any quantitative number around the approximate market size? And in the JV, are you developing new drugs or will only commercializing the existing drugs from both the companies?

Vivek Valsaraj: So, firstly, our JV partner and us together are responsible for manufacturing and distributing products for the India market. They are market leaders in several segments, which includes the anti-infectives and the glaucoma market and the dry eyes as well. And currently, we are in the process of discussing what additional products can be added to this portfolio, and you will see this in the next few years.

Moderator: Next question is from Abdulkader Puranwala from ICICI Securities. Please go ahead.

Abdulkader Puranwala: Thanks for the follow up. Just a couple of bookkeeping questions. So, for the quarter per se, the interest cost has come down significantly. If you would like to highlight what is creating this kind of a cost saving then? And for the full year, any color on how should we model the tax rate for this year?

Vivek Valsaraj: So, firstly, on the interest cost, there are 2 factors at play. One, of course, is the fact that we have fair maintained our gross debt levels. And the second is that the interest rates have seen a trend of softening. So, all our loans are linked to benchmark rates, whether it is SOFR overseas or the MCLR treasury bills in India. And we are seeing a general trend of interest rate softening. So, as long as this continues, you would see a reduction in the overall interest cost.

As far as the tax is concerned, we had guided for a lower effective tax rate versus what we had previously. Three factors driving that. First is the fact that we forecasted turnaround in some of our overseas facilities, which essentially means that you will have higher profits with no tax outflow given that you have got certain taxes created.

The second part is that you will have benefits from the big beautiful bill, which was signed in the U.S., which gives you an upfront deduction for your R&D investments. And of course, we continue to enjoy the benefit of R&D tax credit at our Canadian facility. So, those are some of the reasons we will see a lower effective tax rate.

Having said that, I am not giving a specific number because it depends upon the mix between India and overseas. So, you will definitely have it lower. And it depends upon the overall mix that the effective tax rate will pan out.

Moderator: Next question is from Vibha Ravi from Citeline. Please go ahead.

Vibha Ravi: Hi, this is Ribha from Citeline. I just had 2 broad level questions. One is that you have called out prolonged decision making by emerging biotechs in your presentation. So, would you have some idea if this is in part driven by the uncertainty as to where the U.S. tariffs will land? And is there since you have a year to the ground, in your conversations do you find that China is more and more out of the reckoning due to geopolitical concern?

Nandini Piramal: So, I think, Vibha, the first thing I would say is that funding for biotech overall has been inconsistent over the year. And it is not necessarily only related to tariffs. It would be things like the approval timelines. It would be things like fundraising. And it would be things like interest rates and venture capital funding overall. So, I think, those would be the biggest reasons rather than tariffs. And two, I don't think I really want to comment on China.

Vibha Ravi: Just one more question which is, is there any sort of your own recalibration away from the U.S. given the uncertainty and the geopolitical environment over there? Or is it too short term a blip and it is perhaps too early to see a call there in terms of recalibration towards the domestic side towards India business?

Nandini Piramal: So, I think, overall, I will say that in the CDMO business, a lot of people are rethinking supply chains, and there is some thought towards reshoring or onshoring. So, I think our network is actually well placed to capitalize on that, right? But just as a company, I don't think we will go back to the domestic India business at the moment.

Moderator: Next question is from Chintan Shah from JM Financial Family Office. Please go ahead.

Chintan Shah: So, two questions. So, one is wanted a detailed explanation on the EBITDA margins for this quarter. I know quarter is not very relevant. But on the one side, there is a decline in this innovative volumes. On the other side, we are saying that we have seen better utilization and better margins for other part of the CDMO business.

But if you see on an overall basis, margins if I exclude the other income, that's gone from 10.5% to 5.5%. So, just wanted to better understand, is it purely the impact because of that innovator CDMO or in other segments also, say, for in CHG we have seen pressure?

Vivek Valsaraj: Firstly, Chintan, as you know, Quarter 1 is the smallest quarter. This one has been lower. When you are looking at the overall margins, it is an aggregate mix of both the CDMO and the CHG

business. So, you will notice that CHG, which is the highest margin business within the 3 verticals that we have, also has not grown this quarter.

So, while what you say in terms of impact of the on-patent product not being there this quarter is true, the other fact is the CHG business has also not grown, which is also contributing to a depressed margin. And as the growth restores in the CHG business in the second quarter, we should see this gap narrowing.

Chintan Shah: And second question is, apart from this CAPEX that we announced of around $90 million, any other sort of CAPEX that we are looking at? And broadly, the idea that I am trying to get us that in order to meet our FY '30 guidance basically, what sort of CAPEX we will have to do beyond this? Or do we have enough capacities to reach there? That's one.

And secondly, in terms of capabilities, ADC is the one that we have been actively investing. But apart from that, anything to call out that we are kind of investing in or focusing on our BC that could be multi-year growth drivers for us over the next 4, 5 years?

Vivek Valsaraj: So, in terms of the CAPEX guidance that we gave for the year, we said we will do anywhere between $100 million to $125 million. Sizable chunk of that indeed is for the announcement that we did for our North American facility, which is largely in our Lexington and Riverview.

We also are investing in product development for our Complex Hospital Generics business, which is part of the basket of CAPEX that we spoke about. So, those will be the primary ones and of course, besides other maintenance CAPEX that we would normally do across our sites.

At this stage, we do expect the momentum to be in the range of about, whatever, $80 million, $90 million on an average to be the kind of CAPEX that we will need to kind of create or debottleneck capacities across our facilities, which is part of what we have highlighted in our 5-year plan.

Chintan Shah: And the second part on capabilities?

Peter DeYoung: On the overall capabilities point, we have looked at what we have and what we think the market requires. And at least our guidance from the particularly in the area of the CDMO was that we are looking to add capacities at our existing facilities as opposed to adding new facilities with new capabilities as our primary area of investment for the CDMO.

As we look at the story that we discussed even in the beginning of this call, the operating leverage and the benefits come from getting our current site larger. And in many cases, it is getting them larger with existing capabilities at current locations. And we believe that that is a more effective deployment of capital strategy, especially in the short and medium term.

We will obviously look opportunistically in the medium to long term for other capabilities geographies for existing capabilities, but at the moment, it is primarily brownfield organic.

Moderator: The next question is from Harith Ahmad from Avendus Spark. Please go ahead.

Harith Ahmad: My first question is on the Consumer Healthcare business where we have an arrangement to distribute brands from there. Is this a material part of the segment? And what is the outlook for this particular piece within Consumer Healthcare? And when you give the $200 million guidance for FY '30, is this particular revenue stream a part of it or we will do $200 million excluding this?

Nandini Piramal: I think it is 35% of the business currently. I think 40% part of the business currently. But overall, it is doing well. It grew in double digits. This year, we fully expect this arrangement to continue.

Harith Ahmad: Thanks for that. My second question is around the profitability at some of our overseas facilities. So, when I look at the subsidiary financials for FY '25, some of these units have seen a decline in margins or our absolute EBITDA, while we were expecting some improvement last year. So, can you give some color on what led to the decline in profitability at some of these facilities like Riverview, Sellersville, Lexington? And what is the outlook for this year?

Vivek Valsaraj: So, firstly, Harith, as you rightly mentioned, it was a mixed performance. So, you did see improvement in the performance of some of the sites like Lexington, as you alluded to. And yes, some sites did see a slightly lower margin or a decline in margin. This is a mix of both, some clinical attrition, or lower orders as a result of the ongoing biotech funding inconsistencies that we have been seeing.

Having said that, I think it is important that we have spoken about seeing an improvement of this in FY'26. And several of the sites we are working towards ensuring that their execution and deliveries are improving and thereafter, the order book is also moving in the right direction.

So, yes, we did have a mixed year last year. And we are working towards improving performance of some of the overseas sites, the traction of which we have seen in Quarter 1. And hopefully, we should continue that in the quarters ahead.

Harith Ahmad: Last one. Given the slightly muted overall margins that we are expecting for the year and the CAPEX feasibility that we have, is there any guidance that you can give on the debt levels what we are expecting towards the end of FY'26?

Vivek Valsaraj: So, currently, we are at 2.6 net debt to EBITDA levels. And given the fact that we have announced a CAPEX of close to $100 million to $125 million, that is the plan for the year, we will see some increase in these levels. But eventually, we stand by the long-term guidance of

bringing it down to 1, net debt to EBITDA of 1 level by FY '30. So, you will see some temporary spike that may happen in FY'26.

Moderator: Thank you very much. That was the last question in queue. I would now like to hand the conference over to Mr. Gagan Borana for closing comments.

Gagan Borana: Thank you very much. We hope 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 will be happy to respond. Thank you and have a good day.

Moderator: Thank you very much. On behalf of Piramal Pharma Limited, that concludes the conference. Thank you for joining us, ladies, and gentlemen. You may now disconnect your lines.