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LAURUS Labs
Knowledge . Innovation . Excellence

May 03, 2023

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

Dear Sirs,

Sub: Transcript of the Full Year and Q4 FY23 Results conference call hosted on April 27, 2023

Pursuant to Regulation 30 & 46 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and with reference to our Results conference call intimation dated April 21, 2023, please be informed that the Results conference call for Full year and Q4 FY23 was hosted on April 27, 2023 and the Transcript of the conference call is enclosed for information and record.

Thanking you,

Yours sincerely,
For Laurus Labs Limited
VENKATESWAR REDDY GOGIREDDY
Digitally signed by VENKATESWAR REDDY GOGIREDDY
Date: 2023.05.03 13:17:23 +05'30'
G. Venkateswar Reddy
Company Secretary &
Compliance Officer

“Laurus Labs Limited

Q4 & Full Year FY '23 Earnings Conference Call”

April 27, 2023

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

MODERATOR: **MR. MONISH SHAH – ANTIQUE STOCK BROKING LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Laurus Labs Limited Q4 and Full Year FY '23 Earnings Conference Call, hosted by Antique Stock Broking Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference has being recorded.

I now hand the conference over to Mr. Monish Shah from Antique Stockbroking. Thank you and over to you sir.

Monish Shah: Thank you, Darwin. Good evening, everyone, and welcome to Laurus Lab's 4Q FY '23 Results Conference Call. We thank the management for giving us the opportunity to host this call. Today, we have with us Dr. Satyanarayana Chava, Founder and CEO, and Mr. V V Ravi Kumar, Executive Director and CFO.

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

Satyanarayana Chava: Thank you, Monish. Thank you all of investors joining us for our Q4 and full year FY '23 Results Conference Call. We are pleased to have this opportunity to update you on our progress and answer your questions. FY '23 has been a year of significant achievements and meaningful progress for Laurus Labs in light of a challenging environment globally. Our R&D driven manufacturing strategy across our key growth pillars did very well. And I'm glad that our team has delivered on several scientific and operational milestones. We are on track with our diversification roadmap and executing on opportunities ahead of us today and at the same time focusing on what matters for the long term.

Some of these initiatives have started giving results, especially in our CMO and CDMO business. We made significant progress in FY '23, advancing our scientific capability in offering several key technologies to global customers, including access to technologies like continuous flow chemistry at lab and commercial scale, bio-catalysis, continuous chromatography, Enzymes development and manufacturing, precision fermentation, just to name a few.

We secured an important breakthrough with a major big pharma, with record delivery of a large purchase order. We have several pipeline projects from big and medium-sized discovery companies. Revenue from animal health products expected from second half of FY '24. We also made important internal success with broadening pipeline products, collaborations, process efficiencies, innovative drug product platforms, new sterile lab and qualified new capacities for commercial APIs and intermediate production. We are confident in the underlying demand for our portfolio and making efficient use of strongly linked technology platforms, customer centricity and manufacturing excellence to seize new business opportunities and widening our target markets across human health, animal health, agrochemicals and consumer health.

We wanted to provide you an update on our strategy collaboration with cell and gene therapy platform company, ImmunoACT. They're making very good progress and our investment has

supported establishing a state-of-the-art GMP CAR-T cell therapy facility in Mumbai. They also initiated a Phase 2 for HCAR-19 in lymphoma and Leukemia post, positive Phase 1 data. We'll continue following our disciplined approach to investments in disruptive technologies and we will act when scientific opportunity and value align together.

We have remained focused on the long-term growth and success by delivering on existing capex projects. Throughout FY '23, we invested heavily into strategic growth objectives. We have increased our API/Drug substance capacities by 30% during FY '23. And these capacities are in various stages of ramp-up for commercial production. Our CDMO investment to capture high value opportunity is also progressing very well. We're entering FY '24 with greater confidence that we're creating a sustainable engine that will bring greater business resilience and generate long-term sustainable value to our stakeholders.

Moving on to our financial results, despite the challenges in the business environment, the company achieved strong growth in revenues by 22% to INR6,041 crores and an EBITDA of close to INR1600 crores, INR1,594 crores precisely, delivering a margin of 26%. The growth we experienced in FY '23 reflects fundamental strength of our key growth pillars, CDMO, generics, other than anti-retroviral. The strong growth was after taking into account unexpected and severe pricing-led impact in ARV formulations as well as APIs. We believe these began to stabilize. Our Q4 results was challenging driven by completion of material purchase order supplies last quarter and higher upfront cost on growth projects.

We reported INR1,381 crores in revenues, representing a 4% revenue decline. If you look at from FY '18 to FY '23 overall, we had a strong cumulative performance. We delivered diversified business growth, strong double-digit sales growth of 25% CAGR and EBITDA margin improved by over 500 basis points. In the period FY '18 to FY '23, share of non-ARV business improved from 27% to 60%. That was a big achievement for us.

Going into detailed performance update, I would like to share key updates on our formulation business. In line with the expectation, our formulation division continued to recover sequentially and reported overall revenues of INR1,140 crores for full year. But it declined almost 40% versus FY '22. The year-on-year sales was impacted mainly due to severe price fall and soft demand of ARV formulations. We remain intensely focused to stabilize ARV business throughout FY '24 and beyond while navigating pricing headwinds created by the competition. We have successfully implemented several measures around expansive portfolio and cost improvements. We believe these measures will sufficiently ensure our market readiness and confidence of sustaining our leadership in first-line ARV treatment, both in APIs as well as formulations.

Coming to the developed market, we continue to perform well across our portfolio, despite higher competitive intensity. During FY '23, we filed 13 dossiers in the developed markets, six in US, four in Europe and three in Canada. In US, we continue to get good market share on select products and also increasing volumes for our recently launched products. During Q4, we filed one ANDA, taking the total filing to six for FY '23. Cumulative, we have 37 ANDAs, of which we have a total of 14 final approvals and 12 tentative approvals. We continue to have a diverse

portfolio of products, including 505b(2) products and ARVs, cardiovascular, CNS and GI products.

In Canada, we filed one product during Q4, taking the total of 20 filings. Of those, we got 13 approvals and nine were launched. We expect to launch three more during FY '24. In the EU, we have a basket of 12 approved products, out of which six were launched. We continue to deepen our contract-manufacturing relationship throughout FY '24 and anticipate more volumes in the coming quarters.

During the year, we invested significantly into expanding our non-ARV formulation infrastructure with a total commission capacity of 10 billion units. We anticipate that some of these brownfield capacities that we added during this year should start to get better utilized during FY '24, as we begin to see better demand visibility in ARV business, CMO portfolio and key product approvals across US, Europe and Canada.

On the R&D front, our overall R&D spend to sales was about 3.5%. We continue to make good progress and invest in portfolio with product-specific approach based on complexity and economies of scale. During FY '23, we filed our first NDA for novel HIV-pediatric product using oral dissolving films technology. We intend to maximize the opportunity by leveraging this platform to create innovative pipeline in our other therapeutic areas. Our sterile R&D labs, which got commissioned during mid-2022, is already working on several priority projects. We have a total of over 60 products in R&D pipeline, either under review or under development, having addressable market size of over $40 billion.

We have filed so far 37 ANDAs in US, 15 dossiers in Europe, 20 in Canada, nine with WHO, seven dossiers in South Africa, one dossier in Australia, 20 dossiers in India and 23 products filed in various ROW markets. As we explained multiple times, our approach remains product-specific, not market-specific.

Going to generic API, our generic API division during FY '23 reported strong and all-round growth of 28% to INR2,609 crores, supported by continued CMO opportunities in API as well as healthy growth in non-ARVs, as well as Onco APIs. Our antiviral API business delivered 21% growth and we achieved INR1,513 crores. This growth was partially due to low base effect, which was impacted by channel destocking. We continue to maintain a leading market share in the current product line. ONCO API business reported a growth of 10% during FY '23 at INR318 crores. Q4 saw strong recovery following uptake in one of the key products.

As all our stakeholders are aware, Laurus Labs has one of the largest high-potent API capacities in India and our aim is to strengthen this further by partnering with global companies. Non-ARV, non-ONCO business also did very well, which includes cardiovascular, diabetes and asthma products. We have seen steady ramp-up of these products for the quarter and full year of FY '23. During Q4, this segment reported INR230 crores sales, growing about 38% year-on-year. While FY '23, the growth is robust at more than 50%, supported by continued ramp-up in new contract supplies. In Q4, we filed two DMFs. In the full year, we filed six DMFs, all are in non-ARV category. With this total number of DMFs filed today is 79. We are also working with

a few more generic customers for CMO opportunities and some of them are in very advanced stage of implementation.

During the year, Synthesis Business recorded a sales of INR2,167 crores, representing an increase of over 136% year-on-year. This growth was driven by high-quality delivery of a large order on time and accelerated demand from existing and few projects from new customers. We have further strengthened our partnership and signed several new clinical-stage projects with a few big pharma customers. We continue to work on over 60 active projects and ongoing commercial supplies for about 10 products, including few APIs as well as several advanced intermediates. As indicated earlier, we are making good progress on new sites for CDMO division, both R&D center as well as manufacturing facility for animal health. New sites will have capabilities to handle steroids, hormones and high-potent molecules apart from large-volume products. Commercial GMP manufacturing of animal health products will begin during the second half of FY '24.

Going on to Laurus Bio, Bio generated a full year reported strong growth of 25% at INR125 crores for the entire year. The growth was driven by substantial increase in the uptake of CDMO business. During FY '23, we have enhanced technical expertise on biocatalysis to promote application of these in small molecule manufacturing, which will strengthen our offering in APIs and CDMO segment. We have completed scheduled expansion at R1, including new R&D block along with balancing downstream equipment. And our new capacity implemented in R2 is in the ramp-up phase with large-scale CDMO partners.

New greenfield site at R3 is in design finalization phase. We expect expansion to happen in a phased manner. This site should further strengthen Laurus Bio capabilities in offering CDMO services in animal-origin-free proteins, growth factors, apart from large-scale precision fermentation. We believe global opportunity in alternate food proteins is an exciting phase and our focus is to have the right scale, cost and functionality. This will drive our technology differentiation.

Now let me turn on to our FY’24 outlook. While we continue to focus on operational excellence and evolving R&D platform, we anticipate FY’24 to be a consolidation year of sales growth. As mentioned before, we are working on several new projects from Big Pharma and a meaningful contribution from these products likely to happen in the medium term. Also new capacities invested during FY’23 is expected to get optimally utilized towards second half of this year.

With that I will hand over this to Ravi to share some financial highlights.

V V Ravi Kumar: Thank you Dr. Satya and a warm welcome to all the participants for our FY’23 and Q4 earnings call. Total income from operations for the full year is at INR6,041 crores against INR4,936 crores with a growth of 22%. During the quarter INR1,381 crores registered as revenue against INR1,425 crores with a decline of 3% year on year. The gross margin for the full year was moderately down to 54.1%. This is largely due to significant price fall in ARV portfolio and change in product mix.

Our EBITDA for FY'23 is at INR1,594 crores with margins at 26% whereas for the Q4 it was 21% with INR287 crores. For FY'23, the business mix had positively contributed as margin pressure in ARV business got materially offset by increase in CMDO/CMO business but the negative operating leverage on new capacity commission and higher inflation impact led to the margin fall compared to the last year.

We are working on several initiatives around productivity and cost improvement to manage its impact in FY'24. We are using three prone strategy. One is on the raw material price improvements. Second is on the process improvements. Third is on the in-house manufacturing of some of the intermediate for ARV. These three we expect the impact will be minimized in FY'24. Our diluted EPS for FY'23 is INR14.6 with a decline of 5%. Our return on capital employed is at 23.1% versus the 26.3%. We have been able to manage it well due to better net working capital management when compared to the March 22 numbers.

On the capex front, we are in line with INR2,000 crores guidance for the two years, FY'23 and FY'24. INR990 crores was spent on the capex side in FY'23. In FY'24, our majority of our capex is on synthesis and bio. And almost INR800 crores, we are trying to invest into the synthesis business. And the capex investment made in FY'23 will start generating revenue from the second half of FY'24.

With this, I would request the moderators to open lines for the Q&A. Thank you.

Moderator: Thank you very much. The first question is from the line of Ravi Agarwal from Agarwal Investment. Please go ahead.

Ravi Agarwal: Yes, sir. Namaste. Sir, my question is, what type of growth do you see India as a key supplier of API or intermediates when we consider energy crisis in Europe due to war situation or any other region? Whether due to energy crisis in Europe, many plants are cutting for API and it will be create an opportunity for companies like Laurus in India?

Satyanarayana Chava: The energy crisis in Europe will definitely make cost of manufacturing higher. And if you look at the opportunities for companies like Laurus Labs, it will be in intermediates and APIs, not in the large volume products like specialty chemicals and other performance chemicals. For that opportunity to be captured, people need to have capacity. If you look at, Laurus Labs invested almost INR1,000 crores in the last year to see such kind of opportunities.

If you go to companies who wanted to look for contract manufacturing, if some company says please give me contract and I will put up capacities and it will take 15 to 18 months to set up capacities. So Laurus is well positioned to take such advantage and we are seeing some opportunities like that what you have mentioned, Ravi.

Ravi Agarwal: Okay, sir. Sir, one more question. What type of competency in CDMO we have when we compare our company with Lonza or Samsung Biologics or Syngene? Because we have heard from Samsung Biologics that they are opening the fifth plant for bio manufacturing. So, what type of competency we have as we compare to other companies?

Satyanarayana Chava: We are not into recombinant or bio CMO right now. So, our Laurus Bio is not into therapeutic proteins. Our Laurus Bio is into enzyme manufacturing, food protein manufacturing, not into therapeutic protein manufacturing asyet. So, we are not offering recombinant Mabs for therapeutic use as of now.

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

Madhav Marda: Good evening. Thank you so much for your time. I just wanted to understand a couple of things. Firstly, you have been mentioning about, we are front-loading some costs because we are adding new capacity. Could you quantify broadly how much is the upfront cost which is not a generating big revenue at this point?

V V Ravi Kumar: We can give you how much capacity is not utilized but we will not give you how much cost we are front-loading. But One standard principle what we followed since inception, the pre-operative cost of any capacity which is coming online until commercialization is expensed, not even a single dollar is capitalized. Currently, for example, Q4, we have utilized our capacities between 55 and 60 percent. So, lot of spare capacity is available right now for us to seize any opportunities.

Madhav Marda: Okay. And our plants can potentially run at 100% or is the peak utilization like 85%? How does it work in our industry?

Satyanarayana Chava: It is about 85%.

Madhav Marda: 85%. Okay. And then just the second question which I had was if you could just talk about the opportunities that we are seeing from like you mentioned just in the previous question about opportunities coming from Europe, we won the animal health contract which starts in second half. Is there any more such contracts which could potentially win in the next one year? Just wanted to understand your thought process if you could give us an idea.

Satyanarayana Chava: We have several programs in Phase 2, Phase 3 but we do not know how many of those will advance into commercial. So, we have no control and typically we do not get a contract for future supplies until the molecule moves into commercial phase. There are several programs we have and good thing is we have capacities to capture those opportunities if they move into commercial phase.

Madhav Marda: Okay. Thank you so much.

Moderator: Thank you. The next question is from the line of Nishant Shah from Emkay Global. Please go ahead.

Nishant Shah: Yes. Hi, sir. Thanks for the opportunity. So basically, my question is, is there any one-off in the revenue?

Satyanarayana Chava: One of the large contracts we executed with Big Pharma, we have not considered any sales in FY'24. Okay.

Nishant Shah: And what was the quantum?

Satyanarayana Chava: We cannot give you a number. We have not disclosed. Thank you.

Nishant Shah: Okay. Another question is on the outlook. What is your outlook on the near term and the long term? And you are talking of the cost improvement and the technology improvement, ongoing projects and pipeline and the new growth launches. Will you be able to maintain the 25% CAGR growth that you are saying and any new addition of the geographies?

Satyanarayana Chava: Our growth will come from capturing more opportunities with the existing partners. We are not anticipating growth coming from new geographies.

Nishant Shah: Okay. And is there any line item in the revenues which have occurred in this year or in this quarter that will not be a part of the next year or the future revenues?

V V Ravi Kumar: No, Nothing

Nishant Shah: Yes. Okay. And the last question is if we are seeing the slowdown in the US and there are news of US may go into a recession, what kind of incremental impact that can be seen on the company?

Satyanarayana Chava: Our generic sales in US is not significant for us to get impacted.

Nishant Shah: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Harith Ahamed from Avendus Spark. Please go ahead.

Harith Ahamed: Good evening. Thanks for the opportunity. The 60% quarter on quarter growth that we've seen in the FDF business, trying to understand how much of that has come from ARV formulations versus the exports to US and Europe. So, if you could share the ARV formulations number for the quarter and the exports?

Satyanarayana Chava: In the Q4, we did INR393 crores sales in formulations. Out of that, the ARVs is, I would say 60% is ARVs and the rest is non-ARVs.

Harith Ahamed: Okay. And going forward for the overall ARV business, in the past year, there's been guidance of around INR2,500 crores of revenues for the API plus the FDF ARV combined. Are we maintaining that number for FY'24 and beyond?

Satyanarayana Chava: Yes. We will definitely maintain that number in FY'24 and beyond.

Harith Ahamed: Okay. And in the presentation, you mentioned that you completed supplies under the last purchase order in December 22. While Pfizer has talked about continuing or are guided for fairly large revenues from the product in CY23 as well. So, can we expect further orders under this partnership in future?

Satyanarayana Chava: We don't know and we have no knowledge on that, how things will move.

Harith Ahamed: Okay. Last one, with your permission. LSPL unit-3 and unit-4, how should we think about the timeline for commissioning of those two capacities?

Satyanarayana Chava: See, LSPL-Unit 2 will be for animal health that will go into commercial production second half of FY24. And LSPL Unit 4 is for agrochemical where we already have a pilot plant for registration batches. And commercial production will happen maybe by second half of FY25.

Harith Ahamed: Okay. And we've have had a couple of years of close to INR1000 crores of capex and we are guiding for the number in FY24. How should we think about capex beyond FY24? Will there be a reduction in the capex intensity in the business?

V V Ravi Kumar: I think we'll take another quarter to give a guidance on FY25. We are working on that. Probably, maybe lesser than what we are spending in the current year and the next year. It all depends on what opportunities will come for us. See, if opportunities are there, we are happy to invest. See, two years back we never thought we will invest INR2000 crores in capex. But we are investing because there is a visibility for us what to make, how much to make, to whom to sell.

Harith Ahamed: Yes. All right, sir. That's all from my side. Thank you for taking my question.

Moderator: Thank you. The next question is from the line of Bino Pathiparampil from InCred Capital. Please go ahead.

Bino Pathiparampil: Hi. Thanks for taking my question. Just a couple of clarifications. So, when you say FY24 is a consolidation year, can we assume that it is like broadly a flat year for the revenue level?

Satyanarayana Chava: I think you can think that way because we were saying flat year, despite not having that large contract in FY24, we still maintain or grow slightly over FY23. It's a big achievement. So, we are not giving any quantitative guidance. We can only assume it will be flattish despite not having that large contract. We will still grow over previous year. It is a good achievement.

Bino Pathiparampil: Understood. And the 4Q EBITDA margin level, is that a good base to work with? I'm not looking for any specific number for FY24, but generally is that a good reference point for us to work forward?

Satyanarayana Chava: I think we will get back to you in appropriate time. Maybe our Q1 and Q2 results will give you some guidance on which direction we are going in the margin, but we can assure you our EBITDA margin will not go below 20-21%.

Bino Pathiparampil: And sir, I see that you have adopted the new policy for tax. So, what would be your reported tax rate for FY24?

V V Ravi Kumar: 25.17%. We are moving to new regime.

Bino Pathiparampil: So, it will be 25% Great. Thank you. I'll join back in the queue.

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

Jeevan Patwa: I have a long question. This time…

Moderator: Sorry to interrupt the line for you is a little muffled.

Jeevan Patwa: So, I'm basically saying this quarter formulation and API has picked up very well, but CDMO is actually much below expectations. So, is there any kind of deferment of shipment or anything?

Satyanarayana Chava: No, no, there is no deferment of shipment, Jeevanji. We delivered what orders we were supposed to deliver in Q4. Nothing was deferred.

Jeevan Patwa: Okay. Because even if I look at the whole year and if I just remove large product delivery, one time delivery, then the CDMO still year-on-year doesn't look any growth.

Satyanarayana Chava: CDMO, you can't have a flat straight line, so it will be depending on what customer needs what to deliver. So, it will be a little bit bumpy sales you can expect in CDMO, not just for us, but any customer.

Jeevan Patwa: Sure. And secondly, the gross margin has actually dipped below 50% this time. So, I'm asking this since last two, three quarters, I think. But I'm still not able to understand the gross margin trajectory has been down since last few quarters. So, earlier, there was a large CDMO, the gross margins were almost 57-58%. Then CDMO percentage was same, but still gross margin actually came to almost 54% and 53%, and now it is below 50%. So, this kind of gross margin you think we can assume actually going forward? Is it 50% to 53% is a good, consistent, sustainable gross margin we can assume?

Satyanarayana Chava: You see, the gross margin impact was mainly due to depressed pricing in ARV APIs and formulation. As we implement some measures in process improvements, manufacturing cost improvement, purchase pricing improvement, these margins will improve. I will not give a quantitative number how much will improve, but definitely margins will improve.

Jeevan Patwa: Okay, perfect. And the last question is on the formulation side, any guesstimate on how much will be our utilization on a billion-tablet basis? So, how much will it be right now and how much you think it will be at the end of the year?

Satyanarayana Chava: Currently we are around 50% capacity utilization out of 10 billion. We expect that will go to 70% by end of FY24.

Jeevan Patwa: Okay, perfect sir. Thanks a lot.

Satyanarayana Chava: Thank you.

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

Tushar Manudhane: Sir, just on your guidance of FY24 remaining stable compared to FY23 in terms of the overall financial performance. So will that be spread across four quarters hence we are considering that fourth quarter FY23 we had INR100 crores PAT. So, should one expect rebound in Q4 FY24 onwards or that will be more back ended as the animal health contract picks up second half of FY24? That's my first question.

V V Ravi Kumar: Tushar, actually we don't want to give a guidance on the quarterly basis. Actually, on the annual basis whatever Dr. Satya had indicated that is based on annual.

Tushar Manudhane: Okay. Secondly on this formulation capacity, while we had good number of ANDAs filed over past couple of years but not seen good traction at least on the US generic side. So, this new non-ARV formulation, where do we see the business prospects from. Is it more from ANDAs or is it more from the customer specific contracts?

Satyanarayana Chava: Significant growth in formulations in non-ARV will come from contract manufacturing. And also increased sales in US and Canada.

Tushar Manudhane: Okay. Thank you. That's it from us. Thanks

Satyanarayana Chava: Thank you.

Moderator: Thank you. We have the next question from the line of Gaurav Singhal from Aspex Management Hong Kong Limited. Please go ahead.

Gaurav Singhal: Hi. Thanks for taking my question. So one is, can you share how many projects you have in phase 3 for the CDMO project or for the CDMO segment or any other color on phase 3 that you are working on?

Satyanarayana Chava: We are only giving the total number of active projects over 60. We are not giving the detailed breakup of how many in phase 1, phase 2, phase 3.

Gaurav Singhal: Okay. No worries. And then secondly, on the slide that you have for FY24 outlook, you mentioned that one of the negative factors is lower prices for ARV, API and FDF. So, are you suggesting that the prices in FY24 can be lower from Q4? Because my impression was that ARV, API prices, for example, are already stabilized and also on the FDF we got this global contract, which the price is kind of known. So, maybe if you can share some thoughts on why you feel prices can be lower at the end of FY24?

Satyanarayana Chava: We don't expect the prices will be lower when compared to Q4 to Q1 FY24. We are not expecting that. We believe the ARV prices were bottomed out.

Gaurav Singhal: I see, so it's more for full year FY24. Got it. And just one last thing. On this global fund project for the ARV formulation, when do we expect to start the shipment and what can be the guidance on the ramp-up?

Satyanarayana Chava: That shipment is started already.

Gaurav Singhal: And sorry, just one more if I may. On the large project in CDMO, did we have any contribution of that in Q4 or did we have no contribution in Q4?

Satyanarayana Chava: No. The large order what we delivered has no contribution in Q4.

Gaurav Singhal: Got it. That's very helpful. Thank you.

Moderator: Thank you. The next question is from the line of Bharath from Quest for Value Capitals. Please go ahead.

Bharath: In the presentation, I see there is a new Greenfield Unit 9 in Hyderabad. May I know how much Billion Tablet capacity is that?

Satyanarayana Chava: So that capacity we purchased land, but we haven't started construction of formulation facility in Hyderabad. The first facility will come up in that site will be sterile commercial manufacturing and then followed by oral solid manufacturing.

Bharath: Okay. Thank you. Because in Vizag, I think we have, we have all the civil structures ready and then if we just add the lines, I think we could increase the capacity from 10 billion to 15 billion, I guess.

Satyanarayana Chava: 15 billion, you're absolutely right. So that is the reason the new formation capacity will come up in Hyderabad will be for sterile commercial manufacturing, not for oral solids.

Bharath: Okay. Yes. Thank you. Thank you very much. And my second question is like this is more on the long term. I want to know your vision, like five years down the line, may I know like how you see the product mix changing? May know how much could be the share of CDMO and bio together combined five years down the line?

Satyanarayana Chava: Very interesting question. Yes. So, this year, which is on discussion FY23, our CDMO revenue was 36%.

Bharath: CDMO and bio in five years should be 50% maybe?

Satyanarayana Chava: 50% okay. That's only a broad number.

Bharath: Yes. Got it. Yes. That comes to my next question. Like we have many divisions now, if you see we have human health CDMO, we have animal health CDMO, we have agro CDMO, we have bio, we have generic FDF, we have ARV as well. So, I just want to know like, do you think you have enough management bandwidth to manage all these divisions?

Satyanarayana Chava: Here in the CDMO, how we define is part of CDMO or not. We are selling any product where technology comes from the partner and sell it to only one, that's CDMO for us. So, there is no technology risk, there is no market risk, there is no pricing risk because all those are predetermined. So, our management bandwidth is only in the manufacturing space, not in the business development space or procurement space. That's easy business to handle for us.

V V Ravi Kumar: We have enough management bandwidth at this juncture, we have been reviewing on a periodical basis and as, and when necessary, we induct more people into the system.

Bharath: Okay. And when you say that you want to expect for 50% of share from CDMO and bio in five years from now, so it means I understand that the management focus is more towards CDMO than generic.

Satyanarayana Chava: It's not focus. See, if you look at the investor presentation, what we posted, the revenues coming from non-ARV has gone up significantly.

V V Ravi Kumar: I'll just add one point. Yes. Here in your question, there is an answer. So, when you say 50% to the CDMO and bio, the 50% is generic. It is not that we have an equal focus.

Bharat Sheth: Okay. Thank you. Thank you very much. Yes. That's it from my side. Thank you. Thank you.

Moderator: Thank you. The next question is from the line of Monish Shah from Antique Stock Broking. Please go ahead.

Monish Shah: Actually, my questions are answered. Thank you.

Moderator: Thank you. The next question is from the line of Neha Agarwal from SageOne Investment Managers. Please go ahead.

Neha Agarwal: Thank you so much for taking my question. Dr. Satya, you guided for FY24 revenue growth and the large base of FY23. Just want to understand the growth guidance is also in terms of profitability or is it more of top line growth that you are more confident about?

Satyanarayana Chava: We'll give you more guidance as we declare results in Q1 FY24 and Q2 FY24. So, we can't give you more granular details right now.

Neha Agarwal: Not only looking at numbers here but if you could just suggest whether this is in terms of top line or bottom line.

V V Ravi Kumar: Gave guidance on the top line.

Neha Agarwal: Okay. Okay. Thank you. And another question from my side would be the capex that we did in the last two years FY22, 23 and then the plan that we have for FY24 all put together close to say INR2,500 crores to INR3,000 crores. In how many years subsequently do you think we could achieve full utilization of those capex?

Satyanarayana Chava: I think the current capacities will be fully utilized by FY25. And I'm sure FY25 will put more capex to increase the capacities. See if you don't increase the capacities the growth opportunities are also limited. So, we need to continue to invest. See if you look at we added 30% API capacity in the last 12 months and we added 50% more capacity in formulation in the last 24 months. So that's a significant improvement in capacity.

Neha Agarwal: So, you're suggesting the capacity put up so far at least for that we are expecting to be utilized.

Satyanarayana Chava: Yes.

Neha Agarwal: And just one last question if I may from my side, sir out of the 60 plus active projects that we have currently in the synthesis side, any new projects that we are expecting to go commercial in FY24 just on the expectations side?

Satyanarayana Chava: I'm sorry we can't give you those kinds of details but see if we broadly mentioned we are putting capacities what to make, how much to make, whom to sell at least there is clarity. Yes.

Sneha Agarwal: Sure. Thank you.

Moderator: Thank you. The next question is from the line of Arun from Nuvama. Please go ahead.

Arun: Hi, sir. My question related to two parts. One is that your CDMO business. I'm in your CDMO page in your PPT which you have released. If you look at your CDMO business is doing INR200 crores on an average if you exclude whatever the number are. So just trying to understand that if you look at even five quarters your CDMO business remain in same level like INR200 crores per quarter. And what is the guidance you are giving for this business because it has a very high base and to matching that high base it will be very difficult even to achieve the same kind of number in FY25. Am I correct or you have some different view?

Satyanarayana Chava: I can't comment on your views. Your views we appreciate. But we feel since we are investing to capture opportunity of CDMO we see opportunities to grow. If we remain at INR200 crores, INR250 crores per quarter and there is no need for us to invest.

V V Ravi Kumar: But you need to look at how the year on year it has grown. So, it was INR500 crores couple of years back. It moved from INR500 crores to INR900 crores. The only one I can say one point of view is you always say that one-off but the kind of mileage we get from the execution of the contract we will not give any credit. So, as we are indicating repeatedly for last four to six quarters, we are bullish on CDMO. We still bullish on CDMO. We can't give more specifics to this but maybe over a period of time you can see the numbers.

Arun: So, sir you said that we are investing and therefore we are very confident that this what I can get from your words right we are investing if the number will be remain INR200 crores then we should not have been investing. But if you look at your investment in last two years you have almost invested like INR3,000 crores, INR2,500 crores and I presume that most of the business has gone to CDMO. If I do any kind of calculation and if you are utilizing in 50 60 percent, it is not even matching your one-time asset to turn over. If I exclude your one-off number. We can discuss it offline.

V V Ravi Kumar: But I just give a glance and then we can discuss offline any point of time Arun. If you look at the INR2,000 crores investment we never said it was invested for CDMO business. What we are saying is we are going to invest INR800 crores into the CDMO business in FY24 and those kinds

of results you will see in the next FY25 onward. So, we can discuss further on this if you have any clarification or offline. Thank you.

Arun: My question is related to guidance sir, if you look at your 5-quarter guidance just last 2-3 quarters you tone down your guidance that you will not be able to achieve 1 billion dollar. I can understand that there are lot of uncertainties in business. But this is humble suggestion that when you guide something you should have some kind of margin of safety for that. Even if you look at this year, whatever I can infer from your word, you are saying that in FY24 you will be probably a flat. If you do any kind of calculation, even you said that your FDF business which is that fixed, I mean your generic business in US will not see any kind of competitive pressure.

You answer for certain very specific question which was that recession related. I can understand that recession may or may not. But in India or anywhere in the world, no generic company can guide that our business will not see any kind of pricing pressure. And you have done extremely well in last 12 to 15 months. So, this is my humble suggestion that when you are speaking with lot of investors, at least 1,000 people are listening to you. At least have some kind of margin of safety when we speak as far as the guidance is concerned.

Satyanarayana Chava: Arun, thanks for your suggestion. What I mentioned, our formulation revenue coming from US is not that large to get impacted. That is the comment I made. I think Ravi wants to make some comment.

V V Ravi Kumar: Arun, here we never gave any quantitative guidance till we gave a billion dollar. Of course, our investor friends also make some kind of provocative approach, in the sense not in negative way, positive way, what you will do, how you will do. Then one of the point actually we said billion dollar. In the next quarter when we came to know that the billion dollar is not going to happen, we gave a revised guidance and we are on par with our revised guidance. In our investor presentation also we mentioned that. So, we are cognizant of what we speak. It is not that we know, we are well aware, many people are watching us and we are also aware that how the performance has been improved for several quarters, not one quarter or two quarters and we also know that how we have been built the organization. So, in a 16 year time we have invested INR5,500 crores into capex. We have 6500 families have been working for us. So, we are very cognizant of it. We also know the margin of safety.

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

Saurabh Kapadia: Thank you for the opportunity. Sir, what is the one-off in Q4 that affected our EBITDA margins?

Satyanarayana Chava: There is nothing in Q4, no one-off.

Saurabh Kapadia: Okay, so how can we look at the margins for 2024? You mentioned about the top line to be maintained at FY23 level. How we should look at the margins for 2024?

Satyanarayana Chava: As we mentioned, I think you will get more clarity and color when we give results for Q1 and Q2 for FY24. I think we will leave at that stage.

Saurabh Kapadia: Okay, thank you.

Moderator: Thank you. The next question is from the line of Yasser Lakdawala from M3 Investment Pvt. Ltd. Please go ahead.

Yasser Lakdawala: Good evening, I have a question on a non-ARV API side. Probably the oncology API business is a low volume, high value API business. But what about the other APIs? What is our right to win in the other APIs? Are they large volume products, do we have some cost advantage there to give some qualitative insight? Are these older or newer molecules, basically things that have lost IP protection in the recent past, if you could give some color on that, that would be very helpful.

Satyanarayana Chava: Sure. If you slice the API revenues of around INR2,600 crores, we mentioned INR1,513 crores coming from ARV APIs and INR318 crores is coming from oncology. And about INR780 crores is coming from non-ARV, non-oncology. I think that's INR780 crores, half of that revenue coming from contract manufacturing of generic APIs to generic customers. So, we are offering manufacturing as a service to our generic companies where they include our site into their DMF. So, technology is theirs, DMF is theirs. And we make with a defined margin.

At least it's a good business because we know the raw material cost, our partner also knows the raw material cost, we are not changing process. Most likely we are not changing the batch sizes also. We create capacities for them, so we are giving our manufacturing facility, kind of a total manufacturing for them. That's about half of the business. Rest is again medium to large volume products. We are not doing small volume products there. Most of those products are well-established generic molecules. We are not trying to get into day 181 or P4 markets there, well-established markets.

Yasser Lakdawala: Thank you, Also on the formulation side, I saw that we have a few para IV and FTFs. So just to understand this better, we have a CDMO business which is dealing with Big Pharma, biotech. On the one side, we are doing IP protected work for them and on the other side, we are having these para IV and FTFs. So how does, do you feel that you can run these two businesses independently? Is there any sort of case of conflict of interest or if you can just help us understand what is the thought process here and how do you see your customers reacting to this.

Satyanarayana Chava: Thank you. It's a very pertinent question you have asked. It all depends on the customer and how we are approaching customer and IP. Typically for the class of compounds we work, we don't want to work in generics. And more often right now we are not working on any P4 opportunities with the partners which we are working. So, we don't want to have a conflict in business. So, we are also very clear on our approach right now to the CDMO business.

Yasser Lakdawala: And last question here, we've had this one opportunity during COVID. Just to understand from a company level margin, how do you see or give us some color on the EBITDA level profitability

of our API and FDF business as compared to CDMO? Are they higher, lower than, what would be our normalized margin?

Satyanarayana Chava: We gave a quantitative, qualitative guidance that in the order of increasing profitability, APIs, formulations and CDMO. That is the only guidance we gave and we stick to that. We don't want to give any absolute numbers there.

Yasser Lakdawala: No worries. Thanks a lot, Dr. Chava.

Satyanarayana Chava: Thank you.

Moderator: Thank you. The next question is from the line of Gaurav Singhal from Aspex Management Limited. Please go ahead.

Gaurav Singhal: Hi. Thank you for taking my question again. Just one follow-up. On the CDMO side, can you share some thoughts on the competitive landscape and the supply of capacity that is coming up in India? And also, specifically for Laurus Labs, some of the advantages I can see obviously is we're working on 60 active projects. So, as they get commercialized, you can be the vendor of choice and you also completed this large project on time. Are there any other advantages that can help us stand versus the competition when we look at the new supply of CDMO in India?

Satyanarayana Chava: The Indian CDMO companies are well positioned to capture the opportunities because of supplier diversification initiatives by big pharma. I think it is a good opportunity not just for Laurus. There are many other CDMO companies that will do very well. That's what we feel. The advantages are the ability to create capacities, the ability to recruit people to support the capacities and the current global scenario is also helping India to get more projects. I'll put it that way.

Gaurav Singhal: Got it. Thank you.

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

Ratish Varier: Yes. Thanks for the opportunity, sir. Congrats. Over the last two years, our execution has been excellent. I would like to place that on board that it has been an excellent execution. There's just one clarity only I wanted. One of my colleagues also asked this on margins. No guidance. But if you see in the previous five, six quarters, because of one-off opportunities or specific contracts etc, we had certain margins. I just wanted to understand as you move forward over the next one or two years, are those margins aspirational or those are one-offs which went by and it will go by what current Q4 exit run rate is there. From that, slowly improvement is what we have to see? Just wanted some colors around that. You can give us some thoughts there? Thanks.

Satyanarayana Chava: When the business was very prosperous, even before this large contract, we were inching towards 30% EBITDA even before this large contract from Global Pharma Company. I think we'll put our efforts to improve our margins. And the change in business mix and improvement

in margins of ARV business and our dependence on ARV business goes down, our margin profile should also increase. If you look at our FY '18 to FY '23, the numbers, we grew our ARV business by INR500 crores, but non-ARV business by INR4,000 crores. So, but the other challenge what we're having is, since we're adding a lot of capacity, a lot of de-leverage is happening. So, as we move away from de-leverage to leverage of our capacities and teams, I think our margins will improve.

Ratish Varier: Okay. Just one more follow-up, sir. Regarding the revenue guidance. I'm not asking for any numbers. Here when we are saying consolidation, etc, this is we are saying based on still we are left to sign certain contracts as you're saying they're in pipeline. Because of that, we are not that confident from a guidance perspective, or we want to be more cautious this time? Thanks.

Satyanarayana Chava: We want to be more cautious.

Ratish Varier: Okay, I understand that. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, we will take the last question from the line of Madhav Marda from Fidelity International. Please go ahead.

Madhav Marda: In the PPT in the beginning you mentioned about you want to invest up to 10% of profits on disruptive technologies. Has it already started in the previous quarters or this is something we will be starting FY '24?

Satyanarayana Chava: When we mentioned disruptive technologies, the investment we made in ImmunoACT is part of that. And we're evaluating a few more opportunities. And we are also very conscious not to invest more than 10% of our profits in such kind of initiatives. So, we did one and we are evaluating one more and probably when it is materialized, we will let you know. Yes.

Madhav Marda: Has this already happened? Was it FY '23 or is it starting? I'm assuming it's already happened in the last few months.

Satyanarayana Chava: This will happen in FY '24. The new investment will happen in '24, not in FY '23. Our investment in ImmunoACT happened in FY '22 actually. FY '23 we haven't done any such investments. We evaluated but we are moving forward and we will let you know if there is something.

Madhav Marda: And this is 10% of PBT or EBITDA, what is the profit stream?

Satyanarayana Chava: It's a very qualitative number. It's 10% of our profits. Yes. PAT.

Madhav Marda: Of PAT. Okay. Thank you.

Satyanarayana Chava: Thank you.

Moderator: Thank you. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Satyanarayana Chava: Thank you all stakeholders for engaging discussions and whatever steps we do, whatever investment we do, whatever initiatives we do is for the benefit of all the stakeholders and we wish you all the best. Yes. Thank you.

Moderator: Thank you. On behalf of Antique Stock Broking, that concludes this conference. Thank you for joining us. You may now disconnect your lines.