“Laurus Labs Q4 FY2020 Earnings Conference Call”

April 30, 2020

Moderator: Ladies and gentlemen, good day and welcome to Laurus Labs Q4 FY2020 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chirag Talati from Kotak Securities. Thank you and over to you Sir!

Chirag Talati: Good afternoon everyone. On behalf of Kotak, I thank the Laurus management team for giving us opportunity to host this call. From Laurus, we have with us today, Dr. Satyanarayana Chava, CEO, Mr. V.V. Ravi Kumar CFO and Mr. Monish Shah from Investor Relations. I now hand over the call to Satyanarayana for their opening remarks. Over to you Sir!

Dr. Satyanarayana Chava: Thanks Chirag. Thank you everyone and a very warm welcome to results conference call and business highlights for Q4 FY2020. Our Q4 FY2020 revenues stood at Rs.840 Crores showcasing a robust growth of 32% year-on-year and Rs.2,832 Crores revenue for FY2020 with a growth of 24%.

To begin I would like to share key updates on our formulation business. The formulation division reported annual of Rs.825 Crores and a quarterly revenue of Rs.267 Crores. The revenue is contribution from FDA segment has improved to 32% for the quarter and 30% for the financial year FY2020.

From low single digits in the corresponding three years this was remarkable achievement and this was also a significant shift in business model and also adds tends to a philosophy of investing ahead of time. With the healthy outlook and order book, we continue to invest in our FDF infrastructure. We have undertaken a debottlenecking project as well as adding capacity expansion in the existing building. This will be done and the expanded capacity available during the current financial year FY2021. We have also undertaken a Brownfield expansion project on the same site with similar capacities which we expect it will become operational by mid of the FY2022.

The growth driver for formulation business remains LMIC business in partnership with global fund and various In-Country tenders. We continue to have good visibility for our order book in FY2021 and beyond. We also expect the approvals for two of our key filings TLE400 and TLE600 in the coming quarters. Apart from the LMIC business we have also seen healthy growth in North America and US business as well. The sales growth in US was mainly driven by higher sales of Pregabalin where we have lower teens market share. We also launched Hydroxychloroquine in US in the last quarter that is Q4 FY 2020. We expect to get a good market share in the coming quarters.

During the quarter we have received one final and two tentative approvals taking the total to 6 final approvals and 5 Tentative approvals from the USFDA. We also expect more approvals and expect to launch at least two more products in the FY21. In Canada we have five approvals and we launched three products and we intent to launch two more soon. As far as EU is concerned I am happy to share the contract manufacturing opportunity for certain non-ARV formulation products are performing very well. We have a robust order book for FY2021. Besides we are also in the process of launching new products in various markets under our own label. We have obtained approval for five products out of which we launched two products and we will be launching two more products in the near future.

On R&D front we continue to invest in our FDA business by aiming to file around 8 to 10 ANDAs per year. This we have maintained from the beginning. We also spent about 5.7% of the revenue in FY2020 on R&D. So far we have filed 26 ANDAs a year, 6 dossiers in Europe, 10 in Canada, 8 with WHO, 2 dossiers from South Africa, 2 dossiers in India and 11 products filed in various Rest of the World markets. Of the 26 ANDAs filed in US, we believe that two are Para 4 and seven first to file opportunities. Our approach still remains products specific rather than market specific.

We would like to give some growth performance of our various divisions. Our generic APIs division, year-on-year had a drop of Rs. 73 Crores revenue when compared to Q4 FY2019 versus Q4 FY 2020 and falling short of Rs. 321 Crores in our overall API business on a full year basis, while rest of the business did exceedingly well**.** In Synthesis business quarter-on-quarter we did about Rs. 40 Crores more sales whereas for full year FY2019 to FY2021 we added Rs. 55 Crores more sales in Synthesis Division. Our generic formulation we added Rs. 771 Crores additional sales when compared to full year FY2019 to FY2020. When compared Q4 FY2020 versus Q4 FY2019, we added Rs. 239 Crores sales in Formulation Business.

Overall for the quarter Q4 FY2019 and FY2020, we Added Rs. 204 Crores sales. And when compared on full year basis FY2019-FY2020, we Added Rs. 540 Crores additional sales, with growth of 24%. Before we move to other segments I would like to inform you that we have merged our HEP-C revenue reporting with ARV under the subheading Anti-Viral. We also merged majority of Ingredients business with the Custom Synthesis business barring two commodity products that are merged into our Generic API business. We have merged these divisions in order to have clear demarcation on our products and strategy. The breakup of merged revenues is given in the presentation. Going forward this will be the new divisional classification in our reporting.

When it comes to Generic API, our Anti-Viral business recorded healthy growth on a sequential basis for the quarter; however, it continues to witness a slowdown. The fall in growth for FY2020 was mainly led by change in the treatment regimen and uncertainty in South African market. We have large capacities for two first line APIs Lamivudine & Dolutegravir and both are mainly catering to internal requirements and only initial validation orders to third parties have been undertaken. The commercial supplies will be started based on the regular approvals by our partners.

ARV APIs have seen good traction in the recent times and we expect healthy revenues from H2 FY2021 onwards. We expect this segment to return to the growth trajectory in FY 2021 on the back of higher sale of first line treatment and we have a good visibility on how much Efavirenz and intermediates we are going to sell.

When it comes to Onco APIs, we did Rs. 59 Crores sale in Q4FY20 and Rs. 211 Crores in the entire financial year. The segment recorded a sequential growth over the Q3FY20 whereas revenues for the entire year were very similar. In the first half of this year we have faced supply shortage of intermediates for which we successfully did backward integration and we expect the revenue should be normal in H1 FY2021 onwards.

When it comes to Other APIs we have seen robust sales of Rs. 92 Crores in Q4FY20 and Rs. 325 Crores in FY2020 with a growth of 33% and 54% respectively. The growth in the segment was given by contract manufacturing of existing products. We also have a certain amount of dedicated capacities created for select opportunities which will enable us to maintain growth rate in the coming quarters. This business is growing with global partners and we are in a very sweet spot because of global supply chain disruptions. We have very healthy order book for contract manufacturing of several generic APIs. We are very optimistic about the growth prospects of APIs other than Onco and ARVs.

When it comes to Synthesis business, it had its best quarters recording a sale of Rs. 148 Crores for Q4FY20 and Rs. 385 Crores for FY2020 which is about 31% more than the previous year. The growth was led by healthy performance from CDMO business and also we supplied increased commercial volumes of an advanced intermediate. We also added several new customers with programs in various clinical stages. As we discussed, we merged majority of the custom ingredient business and going forward ingredients segments reporting will not be there. The breakup of revenues is provided in the Investor Presentation. We are in the process of Incorporating Wholly Owned Subsidiary Laurus Synthesis Private Limited. This was done in order to give the business an increased focus and eventually dedicated R&D and manufacturing sites for its operations.

With that I would like to hand over to Ravi to share the financial highlights.

V.V. Ravi Kumar: Thank you Dr. Satya and very warm welcome to everyone on our Q4 and FY2020 year ending call. Total income from operations for the quarter is Rs.840 Crores against Rs.636 Crores in the corresponding quarter with a robust growth of 32% and for the full year total income of operations Rs.2,832 Crores against Rs.2,292 Crores a growth of 25%.

Our gross margin continued to show an improvement with around 50%. Our EBITDA margin is around 23% for a quarter which is mainly on account of FDF and Customs Synthesis business. Our diluted EPS stood at Rs.10.30 for the quarter and 23.9 for the year with a growth of 151% and 172%. We have declared a final dividend of Rs.1 per share this is apart from Rs.1.50 per share as an interim dividend in March 2020.

On a capex spend we invested about Rs.230 Crores in the year. We have an opportunity to invest in FDF and API infrastructure hence we will be incurring slightly higher capex than earlier indicated. All the capex opportunities are Brownfield in nature and we have a shorter payback period. We expect our capex programs to be a ROCE accretive.

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

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question is from the line of Jeevan Patwa from CandyFloss Advisors. Please go ahead.

Jeevan Patwa: Congratulations for great set of numbers Dr. Satya. I just want to understand two things. One was there any contribution from the HCQ supply in this particular quarter? Secondly, how much was the currency benefit that we got this quarter and if you can share some guidance from the next FY2021 and FY2022 on the topline? Thanks a lot.

Dr. Satyanarayana Chava: Thanks. The revenues from Hydroxychloroquine in Q4 were very small. It was very insignificant.

Jeevan Patwa: How is going to be for current quarter then? Have we supplied to US or are we supplying to US?

Dr. Satyanarayana Chava: We are supplying to US. We got permission from Government of India, Minister of External Affairs to supply to US, South Africa currently and we are supplying.

Jeevan Patwa: Okay because we have I think marketing partner in pharma in US?

Dr. Satyanarayana Chava: For Hydroxychloroquine our marketing partner in US is Rising Pharma and in the rest of the countries we do not have any marketing partner.

Jeevan Patwa: Okay and how about the currency impact?

V.V. Ravi Kumar: Currency impact will be positive for us because most of our revenues are in exports.

Jeevan Patwa: Can you quantify in the last quarter how much was it?

V.V. Ravi Kumar: Last quarter it was about an around Rs. 10 Crores forex loss. This is notional loss. This is not a realized loss.

Jeevan Patwa: Any guidance on the next year FY2021and FY2022 on the topline side because you are increasing the guidance on the capex, so I presume the momentum is going to continue?

V.V. Ravi Kumar: We are not giving any quantitative guidance. Qualitatively all the divisions are looking good to generate more revenue.

Jeevan Patwa: Okay and how much capex you are incurring for this year and next year?

V.V. Ravi Kumar: For next year the capex definitely it will be higher than that but we are still finalizing it. It will be more than Rs. 300 Crores.

Jeevan Patwa: Thanks a lot.

Moderator: Thank you. The next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: Thanks for taking my question and congrats on a great set of numbers. I could not really understand the potential opportunities are looking at from HCQS. Do you think, this is going to be meaningful opportunities from now on for us or it does not seem like?

Dr. Satyanarayana Chava: In the HCQ, we are one of the several companies selling in US but currently the clinical trial results are awaited, using HCQ as a prophylactic. So it is too early to predict what could be the quantum of revenue coming from HCQ. I will not quantify that.

Nimish Mehta: I understand it is difficult to quantify but you do not seem that it could be a great opportunity as of now, is that right understanding?

Dr. Satyanarayana Chava: In Q4, we have not seen any meaningful revenue coming out from HCQ but we have created significant capacity for HCQ API and formulations. If the opportunity is good, we can participate in that opportunity. We have increased our capacities multifold in APIs and formulations.

Nimish Mehta: Second thing I want to understand, we are an antiviral company focusing on antiviral products, in other products such as Remdesivir approved and do you think, I know it is patented now, but is there an opportunity for our company to find this, it may be a remote opportunity but do you think that could be an opportunity at all for our company?

Dr. Satyanarayana Chava: The drug is not approved yet and as you are aware, Gilead may actively give voluntary licenses. We have the voluntary licensees of several Gilead products**.** If they give licenses on Remdesivir, we will be also requesting them for a license.

Nimish Mehta: Do we have the necessary capacity to manufacture the formulation as well or only the API, what do you think?

Dr. Satyanarayana Chava: We have capabilities to do only APIs because of this formulation is in injection form, so we work with our partner like we have worked in Hep-C with Natco**,** if there is an opportunity then this will work it out.

Nimish Mehta: Okay. In general do you think this COVID can be an opportunity for Laurus, what is your thought, no quantified comment, just your thoughts?

Dr. Satyanarayana Chava: If Hydroxychloroquine is approved as a prophylactic, then the answer is Yes. Otherwise, we will see some sales but that is not going to be significant.

Nimish Mehta: Okay understood. Thank you very much.

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

Sudarshan P: Sir, I would like to understand given that we are talking about capex and combinations in APIs, what is the kind of visibility that we have in terms of growth and second is if you are comparing how the US business or even the formulation businesses locally what we understand their seems to be a kind of shortage for good quality company, so we have seen some price improvements happening across the OSDs etc., especially of course on lower base, so do we think as an entity Laurus and as a country India stand to benefit in terms of volume growth as well as relatively better prices for at least the foreseeable future?

Dr. Satyanarayana Chava: Definitely as the company Laurus as well as the country will stand benefit from these disruptions because most of the countries depend on imports of high quality APIs and formulations from India so it is a good opportunity for pharma companies for sure.

Sudarshan P: Sir with respect to like we are looking at this year as phenomenal year as far as formulation is concerned, I do not want specific number into it but as we move to the next year again we have been putting up capacities in formulations, if you can give us some kind of idea with respect to what can be the growth on this base and formulation, of course you talked a bit about APIs from the second half second line of treatment coming in, what is the utilization now whether we have legroom for driving growth and whether this kind of margins will also be sustainable going forward?

Dr. Satyanarayana Chava: In the ARV space we are one of the fully backward integrated company and formulations we are adding capacities in the existing building which will be operational by September this year and new large capacities will be operational in the mid of next financial year. So significant volumes will be coming into operations by September and very large capacity will also come in the operation by mid of next financial year. As we speak we are running at full capacity of formulations.

Sudarshan P: Which means that in volumes we cannot do much of this thing it will be pricing that will drive the growth?

Dr. Satyanarayana Chava: You can change product mix and that is one option we have and second is we are debottlenecking also while we are adding capacity. which will come in Q1FY21**,** and in Q2FY21 we will get some more capacity addition. So we are constantly trying to optimize our capacity allocation to the existing products.

Sudarshan P: Thanks a lot as on that.

Moderator: Thank you. The next question is from the line of Nikhil Mathur from Ambit Capital. Please go ahead.

Nikhil Mathur: Thanks for the opportunity. Sir I just wanted a bit of clarity on the capex front, my understanding is that till now in formulations, roughly Rs. 400 Crores to Rs. 430 Crores of capex has been undertaken till now and another Rs. 60 Crores would be by debottlenecking that will be coming through either in this quarters or in the next quarters so that takes the number up to Rs. 470 Crores to Rs. 480 Crores and in the presentation there is a talk about capacity in the formulation side doubling by FY2022, so would that mean that because most of the capex would be Brownfield overall capex becomes double this capacity would be somewhere in the range Rs. 350 Crores and not more than that?

Dr. Satyanarayana Chava: The capacity addition with the new building where the work has already started will double our Capacity.

Nikhil Mathur: I am just trying to understand the exact number, why would there be need of such high capex when most of the work would have been done I am talking this is Brownfield expansion, why does capex had to be to the tune of Rs. 350 Crores to double the capacity I am just trying to understand that?

Dr. Satyanarayana Chava: We are adding more equipment and filling some empty flask in the existing building for that we are doing Rs. 60 Crores capex and the new building probably will cost anywhere between Rs. 200 Crores and Rs. 250 Crores capex.

Nikhil Mathur: Just into capex again. What about the capacities in other segment non-formulation segments. How the utilization is looking like in other APIs in Oncology APIs, in ARV APIs all set of matter even the CRAMs business as well, how are the capacities the current utilization looking in those segments if you can guess color on that?

Dr. Satyanarayana Chava: Sure. I will not be able to give you capacity additions product wise but what I can give you is that currently we have roughly 4 million liters of reactor volumes and we are increasing that reactor volume to 5 million liters in the next 12 months. We are adding about 25% more capacity reactor volume wise.

Nikhil Mathur: This would be the part of initial capex comment made in your prepared remarks which is between more than 300 Crores capex can be expanded in FY2021 and this reactor addition would be part of that, is that right way to look at it?

Dr. Satyanarayana Chava: Actually the reactor volume is coming two phases. About half a million liters reactor volume will come into operation by October-November this year and the other half million will come into operation by February-March next year. We are going to have one million liter reactor volume addition coming in the current financial year itself.

Nikhil Mathur: Another question is what is the backup plan, it says the closing but subsequently Efavirenz from South Africa they do not turn up the way you are correctly expecting them to be I mean what I understand is South Africa is still would be on Efavirenz regime, what if they make a sudden U-

turn and they move towards DTG regime then what will happen to the current coverage capacity that you will be having on the API side?

Dr. Satyanarayana Chava: I think the impact of South Africa moving into DTG or Efavirenz it is not that very significant. As we see from the presentation, our entire ARV sale to the total sales is 38% in FY20 and majority of revenue is coming from non-Efavirenz., So, Efavirenz we sell to South Africa or not is not that significant anymore. However, South Africa is not moving with a DTG as everybody expected. So our Efavirenz sales continue to go up than in the previous year.

Nikhil Mathur: Sure Sir. Thanks a lot. I will get back into the queue.

Moderator: Thank you. The next question is from the line of Anuj Momaya from Value Quest. Please go ahead.

Anuj Momaya: Just wanted a clarification on capex that you said you will be doing more than 300 Crores growth of formulation and what is other thing that you are doing this?

Dr. Satyanarayana Chava: We are doing capex both in formulations as well as APIs.

Anuj Momaya: Okay and this is Onco API or other APIs is what you are focusing?

Dr. Satyanarayana Chava: We are not adding much capex in the Onco API. We have the largest Onco API capacities in the country. So we are more capacities in Onco right now.

Anuj Momaya: 300 Crores is FY2021 and in FY2022 will be similar kind of lines of capex are you planning or only one year dispensation then it is going to come down to a maintenance level, what is your sense?

Dr. Satyanarayana Chava: I would not expect that it will be coming down but as we mentioned earlier we were guiding our Rs. 250 Crores capex per year now that number has gone up. We do not know what level for next year. In this year we will be differently spending more than Rs. 300 Crores capex but next year we do not know right now.

Anuj Momaya: How is your Synthesis business doing? Are we seeing any contracts or something or any update on the synthesis space?

Dr. Satyanarayana Chava: Synthesis we had very fantastic quarter Q4FY20 and we have very good visibility. Synthesis division is having very good growth close to 30% compared to the previous year and we expect that division we continue to grow even FY2021 as well.

Anuj Momaya: In the presentation you have mentioned that we have a strong order from European business, can you say something more on year-on-year what is the visibility that you are having in the European business?

Dr. Satyanarayana Chava: Here I want to bring some clarity on contract manufacturing. A contract manufacturing is generic APIs is not clubbed into CDMO business. When our CDMO business is exclusively meant for NCE programs where as contract manufacturing generic APIs is classified under API business itself. So we have a very good order book for contract manufacturing with generic APIs from European customer whereas they have placed order for the entire year with us.

Anuj Momaya: Thank you. For the question I will come back on time.

Moderator: Thank you. The next question is from the line of Ashwini Agarwal from Ashmore. Please go ahead.

Ashwini Agarwal: Good afternoon Sir. Congratulations on wonderful set of numbers. Sir two questions when you are looking at this capex of 300 Crores to 325 Crores what is the revenue potential that this capex will be achieved, would it be higher than what the historical captains have been consisting this is Brownfield any number would you like to put on this 3x or something?

Dr. Satyanarayana Chava: Last year we informed that most of our capacities in the new units were not fully utilized but as we speak the capacities are optimally utilized and what capacity we are putting in APIs only half of that capacity will be used for half of the financial year and the formulation debottlenecking will come handy for half of the year. So what capex we are spending, half of that will be used in this financial year and the rest we will use fully in the next financial year.

Ashwini Agarwal: I got that but I was wondering what is the revenue potential of this 300 Crores of capex? Would you be able to put a number on that on an annualize basis once everything is up and running?

V.V. Ravi Kumar: 1.5 or the two times you can generate at least.

Ashwini Agarwal: One and half or two times and the fourth quarter margins that EBITDA margins is 23% obviously much ahead of what any of us were expecting, any one of there or is this something that it is sustainable given how the business mix is changing in favor of finished dosage forms and customs synthesis?

Dr. Satyanarayana Chava: There is a significant order of an intermediate supply to an NCE partner but there is no one off.

Ashwini Agarwal: Thank you Sir. All the best.

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

Tushar Manudhane: Just extending that on the synthesis business with that of quarterly Rs. 100 Crores or Rs. 147 Crores is some amount of it going to from this entry partners so is it kind of lumpy nature or this is going to sustain for some new quarters now?

Dr. Satyanarayana Chava: You cannot multiply the Q4 by 4 in Synthesis business, because there is one order executed in Q4 and we will execute the similar order in the Q4 of FY2021 also. The order book is like that. We make that intermediate for about six months and supply in one go so same thing happened in FY2019 also.

Tushar Manudhane: Sir just on the gross margins if I look at sequentially with increased share of synthesis segment which I presume we are relatively better gross margin product but on an overall basis the gross margin is kind of 40 BPS down, so any colour on that?

V.V. Ravi Kumar: Basically it is a product mix change, if you look at the mix, ARV API also increased when compared to Q3 versus Q4 and Hep-C declined further, so the overall mix has been changed and resulted in the drop.

Tushar Manudhane: No, I mean share of synthesis has increased significantly compared to Q3?

V.V. Ravi Kumar: Because of the product mix.

Tushar Manudhane: Just lastly the formulation broad breakdown into the tender based and the ANDA led and the Europe customer?

Dr. Satyanarayana Chava: The European contract manufacturing of formulations what we are doing. There we also budget for APIs and we estimate we will do about a billion units contract manufacturing per year.

Tushar Manudhane: Value wise this would be how much?

Dr. Satyanarayana Chava: Probably it will be $20 million to $25 million revenue somewhere in between.

Tushar Manudhane: For full year.

Dr. Satyanarayana Chava: Per year.

Tushar Manudhane: On this formulation again the ANDA led business maybe for this particular quarter out of 267 Crores?

Dr. Satyanarayana Chava: You are talking about ARV?

Tushar Manudhane: No, ANDA led within the formulation?

Dr. Satyanarayana Chava: 10% US and 10% Europe roughly.

Tushar Manudhane: Thanks a lot.

Moderator: Thank you. The next question is from the line of Vaibhav Doshi from Creador. Please go ahead.

Vaibhav Doshi: Thanks a lot for giving me this opportunity. Congratulations on good set of numbers. Just wanted to get some idea on how the supply chains are coming back in India and in US, are you seeing any difficulties on that and just a broader outlook if you can provide on the US formulation market, you know how other customers or the top three distributors are, is there a view change at all in terms of sourcing from India versus China, are you hearing anything, a broad colour?

Dr. Satyanarayana Chava: Every company has some challenges in logistics. One good thing is most of the Chinese factories came back to normal capacity but the freight by sea or by air is becoming challenging, the air freight rates went up significantly other than that there are no challenges in sourcing raw materials that is one and second we have not seen any decrease in projections from our partners either in Europe or in US for our formulations so we have either got the order or indication for the entire year but we have not seen any decline.

Vaibhav Doshi: Okay and when the country is shut like in India or in US the one worry for everyone is that the prescriptions are not getting written, so you could survive with some inventory in the supply chain they will get destocked but do you kind of see that impacting demand as of now of course this is very fluid situation but are you seeing anything like that?

Dr. Satyanarayana Chava: As of now we have not seen any disruptions, as of now we do not know how long the lockdown will continue and how difficult to predict but as we speak we have not seen any change in our dispatch plan or production plan.

Vaibhav Doshi: So the formulation in that sense will continue to be a fast grower for the company?

Dr. Satyanarayana Chava: Formulations and Synthesis business these two are growth drivers while we are putting a best efforts to bring our API sales back to levels of FY2019 so we continue to increase our focus on margin improvements, capacity enhancements, while supporting our formulation division with backward integration of APIs.

Vaibhav Doshi: Right and just the last one, you do not see any working capital challenges I mean not challenges from our balance sheet perspective but a stress in any of the countries so to say?

V.V. Ravi Kumar: Right now we are not seeing any challenges.

Vaibhav Doshi: Okay. Thanks a lot.

Moderator: Thank you. The next question is from the line of Gagan Thareja from Kotak. Please go ahead.

Gagan Thareja: My first question is for the TLE400 and TLE600 formulations that you have filed, what would be the approval timeline for them and if I refer that, you indicated that towards the end of this financial year these would materialize, could you get some idea about the status?

Dr. Satyanarayana Chava: We expect to TLE600 and TLE400 approval may come in next few months.

Gagan Thareja: Sir would it be fair to say in next three to four months is reasonable?

Dr. Satyanarayana Chava: Next few months either in this quarter or next quarter.

Gagan Thareja: Okay, also there has been this issue between US government and the WHO on the one hand and obviously the US is also financially in a difficult situation, do you see this impacting both the PEPFAR funding and the global funding for ARV formulations in LMIC and the WHO issue also playing some impact there?

Dr. Satyanarayana Chava: WHO never funds any procurement so whether WHO gets funding or not has no immediate bearing, it does have bearing on policy decisions but nothing on procurement front.

Gagan Thareja: Yes but PEPFAR and the Bill Gates Foundation and the Global Fund are directly funded by the American government to certain degree, is it?

Dr. Satyanarayana Chava: See the Global Fund, PEPFAR and South African Government, Thai Government, Brazil so these are the biggest countries where they spend so we have not seen any impact.

Gagan Thareja: When are the tenders due for the LMIC ARV formulations in a coming year, when do the tenders get announced and executed?

Dr. Satyanarayana Chava: It happens on a regular basis but we have order book for next six months I can give you that.

Gagan Thareja: I understand that it would help if you could give us some idea of the timeline of the tenders?

V.V. Ravi Kumar: It continues so we cannot tell specific timeline.

Dr. Satyanarayana Chava: Some In-Country tenders happen regularly, some tenders are floated by global funds PEPFAR it has very continues mode.

Gagan Thareja: Okay and your formulations sales in Q4, was slightly lower than your formulations phase in Q3, any reasons there?

Dr. Satyanarayana Chava: It is only just delivering orders. We have a very large order which we are going to deliver for example somebody place order for million packs until you make millions pack you cannot ship.

Gagan Thareja: ARV APIs do you see the Q4 levels stabilizing going into the next year or do you feel there is further pressure downwards in ARV API for you?

Dr. Satyanarayana Chava: There is no pricing part for ARV APIs right now, actually pricing has stabilized I would say.

Gagan Thareja: No, not from a pricing perspective I am saying that the sales this year for ARV API were down 28% you attributed it to the shift towards Dolutegravir next year again do you see the Efavirenz API getting impacted still further?

Dr. Satyanarayana Chava: Efavirenz API will be impacted for sure based on the Dolutegravir penetration but as I mentioned a few percentage points fall in sales wont make any difference as we have lot of other APIs to cover up for that loss so our Efavirenz API sales going down as not much significant in the current context.

Gagan Thareja: Okay, final question Sir, Cabotegravir and Rilpivirine data has been disclosed so once a month, twice a month injectable ARV formulation with better compliance, sooner or later the way Dolutegravir came in this so lots to come in, would you be there to participate in this as well and what timelines do you see for this?

Dr. Satyanarayana Chava: You are talking about Remdesivir?

Gagan Thareja: No I am talking about Cabotegravir and Rilpivirine combination?

Dr. Satyanarayana Chava: That Cabotegravir and Rilpivirine combination is very hard to administer and it is a depot formulations and the first line therapy is not that attractive it could be a good for prophylactic. We are not foreseeing any competition with Cabotegravir and Rilpivirine in combination in the first line and WHO has not recommended and we do not see that coming into the African market.

Gagan Thareja: Okay. Thank you Sir.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: Thank you. This TLD tender for non-South African market that last year we had got the ad hoc supply tender right? There was the fixed tender we were supposed to know the status by March 2020, what has happened to that tender can you just explain on that Sir?

Dr. Satyanarayana Chava: We got allocations but we cannot give you the numbers. We have got reasonably good allocations.

Dheeresh Pathak: So we have got fixed allocations instead of the ad hoc that we were part of?

Dr. Satyanarayana Chava: There will be a fixed allocation and ad hoc allocations as well but we have got reasonably good fixed allocations while we expect there will be some ad hoc allocations on top of the fixed allocations.

Dheeresh Pathak: On Remdesivir can you just explain that even though it will get license from Gilead in terms of manufacturing process it takes approximately six months to eight months as we are reading from articles, so what is the complexity here because it is not a king of biological compound is not that so why is that it will take so much time. Can you just explain little bit?

Dr. Satyanarayana Chava: It is a complex synthetic process, multiple segments have to be prepared. It takes long time and it is also a lyophilized injection so it is complex both API as well as formulations. It is complex.

Dheeresh Pathak: Lyophilized capacity in India would have some estimates that how many vials does India have in some broad estimate can you share?

Dr. Satyanarayana Chava: I do not have any idea but I can tell you the Remdesivir dose varies between six and eleven vials per patient. It is not that big.

Dheeresh Pathak: No, I wanted like in India lyophilized capacity is so many million vials something like that if you have in mind?

Dr. Satyanarayana Chava: I do not see lyophilized capacity will be a challenge for Remdesivir.

Dheeresh Pathak: Okay and one last question this TLE-400/600 this we were supposed to get by December 2019 which again was stretched from mid 2019, so what is stopping the approval like where it has been struck?

Dr. Satyanarayana Chava: No, see we got approval from WHO under ERP programme already and we have a goal date for approval Q4 that was moved by three months, and now we have a goal date in this quarter.

Dheeresh Pathak: So, is the issue in filing or they asking for?

Dr. Satyanarayana Chava: It is not filing, it is the queries.

Dheeresh Pathak: These are the queries from WHO?

Dr. Satyanarayana Chava: That is from USFDA.

Dheeresh Pathak: Thank you.

Moderator: Thank you. The next question is from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.

Aditya Khemka: Thanks for the opportunity and hope you and your family members are fine in this tough times. My question is on the margins, so I understand there has been price inflation from China in terms of raw materials and as you mentioned in your call the freight rates have also gone up because we are doing more air and less of ship, beside that if I look at our margins we are doing fairly well so would you attribute the margin expansion purely to volumes or is there has been some price inflations also in certain products or API?

Dr. Satyanarayana Chava: It is mainly increased volumes and change in product mix.

Aditya Khemka: Could we read it as that our ability to pass on cost as in the cost inflation from API from China or cost inflation from freight rate or ability to pass that on to a customer is limited?

Dr. Satyanarayana Chava: Our ability to pass on cost is not limited. But see whatever orders we already have already we never wanted to negotiate on small or short term changes in cost and that is a kind of credibility

we have created. But if there is a significant change in our cost of raw materials or any business change we will pass it on over a period of time but not on a month to month basis.

Aditya Khemka: These are essentially contracts between you and your customer and what is the average duration of typical contract for you Sir?

Dr. Satyanarayana Chava: Some customer's place orders for year, some customers place for few quarters so it depends on customer.

Aditya Khemka: One last question from my side on the logistic issue, so now how is that placed, has it improved in the last three quarters what it was a month back or is it severely constraint?

Dr. Satyanarayana Chava: Logistics is a big challenge even now but there is a definite improvement week after week so when it comes to the air shipments from out of India we are able to ship but at very high price, when it comes to sea shipments earlier we used to get raw materials from China in three weeks and now we are getting in four weeks to five weeks. So there is a slight change in the timings and also some increased cost, when it comes to the Indian logistics it is marginally increased but still okay.

Aditya Khemka: Thank you.

Moderator: Thank you. The next question is from the line of Dr. Harith Ahmed from Spark Capital. Please go ahead.

Dr. Harith Ahmed: When I am looking at the ARV API sales per quarter we have seen a sequential improvement with a growth of close to 35%, so is there a contribution from some of the second line ARVs that has been tested for COVID like Lopinavir or Ritonavir that is contributing to this growth or is it that this entire growth is coming from the first line ARV API since we have been consistently over the years, is there a mix change is what I am trying to understand with ARV API business?

Dr. Satyanarayana Chava: ARV APIs growth is primarily led the first line APIs. We have not sold any quantities of Lopinavir or Ritonavir because of COVID crisis. And in Q1 this quarter also we do not expect we will sell Lopinavir or Ritonavir with volumes. We expect to second line ARV API sale will reasonably begin from second half of this financial year FY 2021.

Dr. Harith Ahmed: That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Rahul Veera from Abacus Asset Management. Please go ahead.

Rahul Veera: Just wanted to understand in terms of the outlook for our synthesis business we have been pretty optimistic around it, can you just throw some more light are we getting more enquiries or in terms of capex also we are doing largely on the API formulation side so synthesis is there any dedicated block that we are going to put up?

Dr. Satyanarayana Chava: We have an idea to create dedicated capacity for synthesis division to bring more focus. With that context in mind we are about to create a subsidiary Laurus Synthesis Private Limited probably in this quarter and over a period of time we will create a dedicated R&D and capacity for that division.

Rahul Veera: Thank you.

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

Sachin Shah: Good evening Sir and congratulations for a very good set of numbers. Dr. Chava in your press release you have mentioned that in the formulations business you see a lot of new opportunities in the North American market and the Europe market, can you elaborate a bit more on what kind of new opportunities and size of these opportunities that you are seeing in the next 12 months to 24 months?

Dr. Satyanarayana Chava: In Canada we have got five uploads but we have only launched in three products so very soon we will launch two products in Canada and we expect three more approvals in US which we expect to launch in FY2021 and in Europe we foresee increased volume offtake from our partner through contract manufacturing which will take up extra volume once we complete our debottlenecking exercise and add capacity by September this year.

Sachin Shah: Of course, these launches I understand but when you say new opportunities there are anything more than these things or this is what you are looking for the next 24 months?

Dr. Satyanarayana Chava: This is for next 12 months. We have not spelled out for next 24 months.

Sachin Shah: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Thanks for the opportunity. I joined the call late apologies but if you could just throw some light on our capability or readiness for Remdesivir as well as Strides also talked about a product called Favipiravir which we have the capabilities and readiness and if yes then what are the timelines?

Dr. Satyanarayana Chava: We are also working on the products and currently we are at completion of laboratory work. We are in the process of obtaining the licenses to commercially manufacture.

Prakash Agarwal: Which product Sir?

Dr. Satyanarayana Chava: Favipiravir.

Prakash Agarwal: Okay so this is we are doing it individually?

Dr. Satyanarayana Chava: We are doing from very basic stages in API and we will sell API and also work through a partner for formulations.

Prakash Agarwal: Any rough timelines Sir when can we be ready?

Dr. Satyanarayana Chava: No, we are not giving any timelines but we will let you know when we get into partnership mode.

Prakash Agarwal: Okay and Sir the other products Remdesivir?

Dr. Satyanarayana Chava: Remdesivir, still not yet approved and if Gilead gives voluntary license we will definitely opt for it.

Prakash Agarwal: Thank you so much.

Moderator: Thank you. The next question is from the line of Ravi Sundaram from Sundaram Family Investments. Please go ahead.

Ravi Sundaram: Thank you for the opportunity. I have a couple of questions. The first question is on the synthesis business I understand this quarter had a bit of seasonality in terms of lumpiness of revenue booked but broadly we have done I think Rs. 385 Crores for FY2020, how does the run rate looks like I mean this is about good 30% to 34% growth compared to the last financial year but is this a number that we can use as base when we work out the numbers for next year and how do you see growth from these levels?

Dr. Satyanarayana Chava: We will continuously grow but we cannot give a specific number. We have very good visibility but we are concerned that we cannot give you any specific number as to what percentage we will grow. If you see our track record in synthesis business how it is growing and we have good visibility.

Ravi Sundaram: Okay and my second question is on the generic API segment, I think here we have had a good run rate in terms of I think you just started this couple of years back in terms of firmly doing this and my question here is around again what is going to drive growth here in the upcoming quarters? I am not looking at a number here I am looking at business drivers?

Dr. Satyanarayana Chava: The biggest growth driver is the formulations and the second growth driver will be synthesis business and third actually is a growth from FY2020 to FY2021 but we have lost lot of revenue API revenue from FY2019 to FY2020 so we are trying to bring more focus and increase our API sales so all these three divisions will contribute to our growth.

Ravi Sundaram: Last question, we are running about Rs. 840 Crores Q4 but this had some kind of lumpiness from the synthesis business but can this be ballpark base for subsequent quarters?

Dr. Satyanarayana Chava: No, we cannot multiply Q4 by 4 but if you look at year wise we have done say Rs. 385 Crores in FY2020 but you could definitely see significant growth coming to the Rs. 385 Crores.

Ravi Sundaram: Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Tushar Bohra from MK Ventures. Please go ahead.

Tushar Bohra: Good afternoon. Thanks so much for the opportunity. Congratulations on the excellent set of numbers. Couple of points right now if I look at we end at about Rs. 2800 Crores revenue, which ARV is about Rs. 1100 Crores and formulation is about Rs. 800 odd Crores, this formulations also has bit of tender related formulations for the emerging markets. My first question is what would be the total percentage of tender business for us on a revenue scale of 100, how much would be tender driven business for us today and how are we looking to move this over the next say couple of years?

Dr. Satyanarayana Chava: If you look at we are selling Rs.100 sale for the company the tender driven business could be 10% to 15%.

Tushar Bohra: I said that total tender business for us is only about 15% of the revenue now?

Dr. Satyanarayana Chava: Yes, 20% of total revenues comes from tender driven LMIC market.

Tushar Bohra: We should expect this to come down further over the next two years?

Dr. Satyanarayana Chava: I do not think so it will not come down. It will continue in that range because we will also grow in ARV in coming quarters so while our revenue will grow our ARV revenue will also grow so we will be in that range.

Tushar Bohra: Sir my second question is related to the overall synthesis opportunity and the formulations growth, a lot of our peers have indicated that CRAMs and custom synthesis is a big business and they continue to see good tractions our numbers are also likewise grown so can you just throw bit of colour on the overall opportunity and especially whether it is increasing the number of queries from customers, how is the traction overall in the segment?

Dr. Satyanarayana Chava: The segment has a very long gestation lead time for customer attraction, project execution and all so we have good number of projects and this division will continuously grow it is not like generic API, you get a bulk order and execute, so acquiring customers is very time consuming process and for the customer to be successful to move projects from phase 1 to 2, phase 2 to 3 and on so it is time consuming process but we have good visibility in synthesis business.

Tushar Bohra: Sir my last question on the overall COVID related opportunity. If you could just throw some light on whether it is in terms of new enquiries from customers or whether it is in terms of regulatory actions, which are the areas in which you perceive there will be some benefits to the

company I mean general to the Indian pharma space, specific opportunities from a COVID perspective and maybe in that context is our capex plan related to opportunity that we are seeing now or was it already decided earlier?

Dr. Satyanarayana Chava: Our capex plan has nothing to do with the COVID crisis and it was planned much earlier and second the COVID opportunities are definitely going to be short lived so our company's growth in the future does not depend on how we do well on Hydroxychloroquine or Favipiravir or Remdesivir. Those are additional benefits but our growth does not depend on these spikes.

Tushar Bohra: Sir I did not mean that way, what I meant was that because of the entire talk about shift from China to say India is there or maybe even to US saying we want to do more local sourcing and more CRAMs, are you seeing queries regarding to that for the company?

Dr. Satyanarayana Chava: Probably yes but to realize it will take long time so you want to work on a new product which will take two years, we want to build a new building it will take nine months so there are positives not only for our company but for overall Indian pharmaceutical industry but the benefits will come over a period of time so it cannot come tomorrow.

Tushar Bohra: Thank you so much. I will join back the queue.

Moderator: Thank you. The next question is from the line of Yash Gupta from Angel Broking. Please go ahead.

Yash Gupta: Thank you for the opportunity. I have one question on our margin part. Our margin has increased from 18% to 23% what leads to this jump?

Dr. Satyanarayana Chava: It is increased volume and product mix. Our fixed expenses are not growing on par with our revenue so that is one reason for margin expansion which is the biggest contributor and second biggest contributor is our change in product mix.

Yash Gupta: What is your trajectory can you give any broad idea for FY2021?

Dr. Satyanarayana Chava: We are not giving any guidance but you have to understand our EBITDA margin has continuously kept going up from the last three quarters so that is a good indication that company has started doing well.

Yash Gupta: Thank you.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Dr. Satyanarayana Chava: Thanks everyone for very interesting questions and your continued support and all the best and please do keep yourself and your families safe during this time of crisis. Thank you.

Moderator: Thank you very much. On behalf of Kotak Securities that concludes this conference. Thank you for joining us. Ladies and gentlemen you may now disconnect your lines.