“Piramal Pharma Limited

Q2 FY27 Earnings Conference Call”

October 28, 2026

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Moderator: Ladies and gentlemen, good day and welcome to Piramal Pharma Limited Q2 FY27 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Gagan Borana, Associate Vice President, Investor Relations and Enterprise Risk Management. Thank you and over to you, sir.

Gagan Borana: Thank you, Shreya. Good morning, everyone. I welcome you all to our post-results Earnings Conference Call to discuss our Q2 and H1 FY27 results. Our results material have been uploaded on our website and you may like to download and refer them during our discussion.

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

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

Nandini Piramal: Good morning, everyone and thank you for joining us on our post-results earnings call. We delivered a strong performance in Q2 and H1 FY27 with a broad-based contribution from all three businesses with a significant improvement in profitability. In Q2, revenue grew by 28% year-on-year to INR2,617 crores, while EBITDA increased 72% to INR385 crores.

For H1, revenue grew 23% to INR4,887 crores with EBITDA increasing 72% to INR669 crores. In our CDMO business, performance was supported by demand across India and overseas sites, improved execution and a sustained buildup in RFPs and orders. Our complex hospital generics business continued to perform well, supported by growth in inhalation anesthesia in the rest of the world markets and the initial contribution from Kenalog.

In consumer healthcare, power brands and e-commerce continued to perform well, supported by portfolio premiumization and expansion across channels. More importantly, the strong topline growth translated into significant improvement in profitability. Better capacity utilization and operating leverage, supported by disciplined execution and a continued focus on productivity and cost management, enabled us to expand EBITDA margins by more than 350 basis points in both Q2 and H1 FY27.

We achieved this performance while maintaining our rigorous focus on quality and regulatory compliance. On H1 FY27, we successfully completed 12 regulatory inspections and 110 customer audits. Since FY2012, we have successfully cleared 427 regulatory inspections, including 51 USFDA inspections with no official action indicated classifications across our USFDA inspections.

Moving on to business-specific highlights. Starting with our CDMO business, revenue grew 36% year-on-year to INR1,424 crores in quarter 2 FY27. For H1, revenue also increased 28%

to INR2,611 crores, reflecting robust growth across the network sites. Profitability in the CDMO business also improved meaningfully during the period, driven by robust revenue growth, better capacity utilization and operating leverage, particularly across our India and North America sites, along with disciplined execution and cost management.

We continue to see an increase in RFP activities and order flows across the network sites, helped by sustained recovery in biopharma funding and an enhanced commercial team. The sustained buildup in RFPs and orders provides greater visibility going forward. Supported by this order momentum and with H2 typically stronger than H1, we expect this growth momentum to continue throughout the year.

During H1, we added 22 new customers and successfully cleared 110 customer audits. Further, during H1, we witnessed meaningful progress across multiple key metrics, which included over 50% year-on-year growth from ADC revenues, 39% year-on-year growth in revenues from on-patent commercial manufacturing, contribution from innovation-related work moving to 49% compared to 46% in H1 FY26 and an increase in Phase 3 molecules from 25 as of March 2026 to 28 as of September 2026.

We are also strengthening our differentiated capabilities across the CDMO network. We acquired a controlling stake in the Yapan Biotech to expand our biologics platform, while capacity and capability expansions at Riverview for high-potency APIs completed and at Lexington for sterile fill-finish progressing as per the plan.

Contribution from differentiated revenues to our CDMO business increased to 43% compared to 40% at the end of the last financial year.

Moving on to our complex hospital generics business, revenue grew 32% year-on-year to INR849 crores in quarter 2 FY27. For H1, revenue increased 24% to INR1,592 crores, reflecting good traction across existing portfolio and an initial contribution from Kenalog.

In inhalation anesthesia, we maintained our leadership position in the US sevoflurane market with a 48% value share. We also witnessed a healthy pickup in sevoflurane sales across the rest of the world markets. In intrathecal therapy, we retained our number one position in the intrathecal baclofen market.

In injectable pain management, we are ensuring availability of our products to focus supplier collaboration. Kenalog sales contributed to CHG revenues during the quarter. Kenalog is a good fit for our complex hospital generics portfolio and will be an important growth catalyst for FY27.

We are currently working towards transitioning the Kenalog manufacturing to a new CMO and are accordingly actively advancing the associated regulatory approvals. Looking ahead, continued expansion in market share in inhalation anesthesia segment in the rest of the world markets and contributions from Kenalog are expected to support the business throughout the second half.

We continue to invest in building a portfolio of differentiated and specialty products through

505 (b) (2) opportunities, complex generics, branded products and licensing and co-development. These investments are aimed at strengthening the long-term growth profile of the business.

Moving on to our consumer healthcare business, revenue grew 13% year-on-year to INR359 crores for Q2 FY27. For H1 FY27, revenue increased 14% to INR706 crores, led by continued traction in our power brands and e-commerce channel. Our power brands grew 21% during H1 and contributed to 53% of consumer healthcare sales.

E-commerce delivered a 32% growth and accounted for 28% of sales, reflecting the increased importance of digital channels in our portfolio. We are sharpening our innovation strategy by prioritizing fewer, larger and higher potential launches. Portfolio premiumization also remains a key focus with a richer mix of higher margin products.

During the period, we introduced the visible range under Lacto Calamine to address the growing demand for premium skincare products. We continue to support our brands with focused investments in media and trade promotion across digital and traditional channels. During H1, these investments represented approximately 11% of consumer healthcare sales.

We are also strengthening our multi-channel distribution network with a presence across 180,000 chemists and cosmetic outlets, over 13,000 modern trade outlets and more than 20 e-commerce platforms. Our focus remains increasing reach across smaller towns, modern trade and non-chemist channels.

The sales and distribution agreement with Bayer will expire naturally at the end of its term in December 2026. We are working jointly to ensure an orderly transition with minimal disruption. Given the low margin nature of the arrangement and the continued growth of our brands, we do not expect it to aspire to have a material impact on our FY27 outlook.

Going forward, the continued scaling of our power brands and e-commerce, together with portfolio premiumization and channel expansion is expected to support growth and margin improvement. Overall, our first half performance and the progress across all three businesses has strengthened our confidence in the full-year trajectory.

As has been the trend in prior years, we expect H2 to be stronger than H1. In CDMO, the sustained buildup in RFPs and orders provides greater visibility going forward. In complex hospital generics, existing portfolio, continued expansion in rest of the world markets and contribution from Kenalog are expected to support performance.

In consumer healthcare, power brands, e-commerce, portfolio premiumization and channel expansion remain key growth drivers. Given this broad-based performance and outlook for the second half, we are upgrading our FY27 annual guidance. We are earlier guided early to mid-teens revenue growth with EBITDA to grow faster than revenue. We now expect an annual revenue growth of approximately 19% to 20% with a meaningful higher growth in profitability.

We remain focused on executing against the opportunities across our businesses, improving

capacity utilization and maintaining discipline around productivity, cost, investments and quality. With this, I would like to open the floor for Q&A. Thank you.

Moderator: Thank you very much. The first question is from the line of Sajal Kapoor from Antifragile Thinking Limited. Please go ahead.

Sajal Kapoor: Yes, hi. Thank you for the opportunity and better set of numbers team, so congratulations for that. A couple of questions. Peter, in Q1 earnings call last time around, you said big pharma isn't really showing a preference for nearshoring and that the RFP pickup was kind of broad-based. Add to that, we know that select India-centric CDMOs are actually winning and growing US customer relationships without a comparable Western manufacturing footprint.

So, what does the Western manufacturing footprint, whether it's UK or US, that many Indian companies haven't got, what it gives us today? And if we were to sort of redeploy all of that capital fresh without any baggage of hindsight, will we be repeating the exact footprint that we have today or we would rather do something different? Thank you.

Peter DeYoung: So, I think thank you for your question and your positive remarks about our near-term performance and outlook. I think the perhaps the comment may have been miscommunicated or it may have been misinterpreted. We were trying to say that we have a broad-based demand for our services across our network and I was trying to give the fact that it was not a one-off in terms of one geography or one capability.

And so, the intention behind the comment was to say that we are getting interest in the North America, but and also our UK and also our India, and we are getting interest across our differentiated offerings in addition to ADC. So, it was an attempt to kind of say that it's not a single piston or engine firing, it's multiple pistons or engines to use the analogy. So, I think that's the first point.

The second point I would say is that the North America region in this period, so far this year, has been performing ahead of prior years and ahead of plan for us across all of the sites. And so, we are seeing an uptick in that demand. And again, I want to make the additional comment that it's not at the expense of the India region where we also have strengths, for example.

And so, what we are trying to give is a concept of balanced growth and we are seeing significant client interest in considering North America offerings and that's showing up through a few dimensions. The first would be RFP inflow, which is up. The second would be order booking, which is up. And the third would be on our revenue realization from those orders, which is also up.

And so, we think that actually this is a period where the multi-geography strategy is being validated because we have the assets in place with the track record so that when customers are considering whether they be large or biotech onshore offerings, we can provide them a credible alternative.

And so I think, in fact, I would say that the onshore offering is being validated by the current

macroeconomic environment and if we were to do it again, the only thing I would say our lesson is that fewer larger sites in the US would have been a hindsight strategy that we are now applying to all future M&A where we're going to try and look carefully about any site addition that it needs to be above a minimum size because when you do acquire smaller sites, you have a certain runway to get to the minimum scale and if there's a macro downturn in that period, you can end up with a protracted time frame.

And so, our big lesson would be not US, it would be fewer larger, if we were to do it. And I'm not saying we're committing to more M&A, I'm just saying that the lessons we've learned from that experience.

Sajal Kapoor: That's encouraging to hear Peter and thank you for that clarification. And second question is setting aside what's already been invested, if you were deciding today whether to own Morpeth**,** given the UK losses and USFDA September observations and of course the exit costs there, I mean pension liabilities and whatnot. What considering the cost of capital and return on capital from that perspective, what is the future for Morpeth here on?

Peter DeYoung: So, we see in this increasingly global-local, I'm trying to use the right phrase, environment where people do want global capabilities, but they also want local capabilities and in particular for a drug product facility to be near the end market and the end market in this case being defined as UK and EU, you can provide supply chain solutions that sites in other continents cannot simply compete with.

And so, we see meaningful benefit to having a European drug product facility and while obviously we did have FDA observations, we've responded to the FDA in due course and we expect a timely resolution of that through our monthly updates has happened with all of our prior audits across our different sites. And so, we anticipate that being resolved in due course and for us having a UK facility that can do that DP and some cases.

DS capability for the region is an important component. From a capital allocation perspective, when we're investing primarily in maintenance and compliance capex at that site, we're not investing significantly in growth capex and so in terms of the overall capex capital allocation perspective, most of the capital other than maintenance and compliance will be going into the growth areas that we described while this site has potential to soak up demand region in the region.

Sajal Kapoor: Right. So, Peter, just to clarify, of course, there will be some remediation capital or work or effort, resources, etcetera. that would be required to bring it up to the standard that USFDA demands. In addition to that remediation-related capex work, if any, there is no immediate need for any growth capex or fresh capital allocation for Morpeth site. Is that fair assumption?

Peter DeYoung: We think that most of the remediation for the FDA is around people and processes. In fact, our prior capex has had been around the infrastructure and there will be continued site-appropriate and size-appropriate capex in maintenance, but there is no -- at this time, based on what we know as of today, there's no large capex specifically related to the remediation. It's much more around people and processes, which is something that we have capability in and teams that can

support and so we don't see any major capex trajectory change in light of the audit.

Sajal Kapoor: Okay. Many thanks, Peter. Thank you so much. Thank you. That's all.

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

Tushar Manudhane: Yes, thanks for the opportunity. So, first on the ADC revenue, if you could share how much now it contributes and what capacity utilization we have reached for the facility?

Peter DeYoung: We give out the ADC figures on an annual basis, Tushar, and we'll continue to maintain that. The capacity utilization is improving at the site as we've called out before that the capacity utilization for ADCs is improving because of an improved order book and flow at the site. In H1 roughly the total of all ADC services revenues that we have across all sites is about 40 million and it's growing meaningfully.

Tushar Manudhane: Got it, sir. And secondly, this increase in on-patent commercial manufacturing, which is almost 39%. So, if you could share if it is to do with a certain customer or certain product which is driving and what is the sustainability of this?

Vivek Valsaraj: I think it's fairly broad-based and it's across multiple products, so it's not just a single product.

Tushar Manudhane: Okay.

Peter DeYoung: And just to build on that, I think we don't have at the current moment very high single customer concentration. I think we shared our numbers at the end of last fiscal and we haven't seen any major change in that. We will update that from time to time, but if the concern is about customer concentration risk, we don't see that at this moment.

Tushar Manudhane: Got it, sir. And lastly, in terms of net debt increasing over past 6 months, is it more to do with the currency impact or is there any?

Vivek Valsaraj: I think there was the Lexington expansion, there's the Kenalog acquisition and the currency impact. All of those.

Peter DeYoung: And the Yapan.

Vivek Valsaraj: And the Yapan. Just to add to that the net debt to EBITDA is at 3.4, so it's lower than the 3.7 that we had in March.

Tushar Manudhane: Got it, sir. Thanks.

Moderator: Thank you. The next question is from the line of Shubh Mehta from ICICI Securities Limited. Please go ahead.

Shubh Mehta: Yes. Thank you for the opportunity. Sir, if we can dissect the growth in CDMO, the growth is from commercialization of Phase 3 molecules or is it the addition of Phase 1, Phase 2 or Phase

3 molecules over there? If you can give some qualitative comments over there and if it is mixed, then can you quantify?

Peter DeYoung: So, I'll give a first pass and then Vivek can add anything he wants to after that. You can kind of see the on-patent percentage innovation that we're growing as a from an increased share. So, what that means is that we've had a disproportionate amount of our growth coming from the innovation-related work, which is what we would broadly characterize as development services and on-patent commercial. We've obviously also shared with you the on-patent commercial separately, the ADC separately, and you can see that those are even growing faster.

So, you'll see the -- and obviously the differentiated services. So, we're trying to give you different lenses, but if you look at our LRP guidance, we said we're going to grow our on-patent innovation work faster, which this first half demonstrates. We said we were going to grow our differentiated services including ADC faster and we've shown that in this first half. And that also we're going to continue to invest in those late-stage clinical assets and you'll see that with our net increase in Phase 3 programs.

So, I think a lot of the -- what I would call leading indicators of future financial performance and alignment of our capex to our revenue growth are showing up in this first half and we're expecting this sort of trend to continue in terms of that disproportionate growth in these areas because essentially what we're trying to say is we put our capex into certain places and that's what we think the opportunities are and we think that those are then translating into these leading metrics of future performance.

Shubh Mehta: All right. Second, sir, on Kenalog, since we have integrated it in our CHG portfolio, how is our current turn rate over there? And I believe we were -- like where we are contract manufacturing it from other player, where does our CMO facility is? And how does opportunity for Kenalog looks like?

Peter DeYoung: So, with Kenalog, we've started to get some of the revenue post the acquisition. So, there was a period where there was no revenue, but now we are in the period of getting revenue. The revenue is coming from the current CMO. There was a CMO transition underway at the time of the transaction and we've continued to make good progress with that new CMO and we're expecting that to be the future supply for this product.

In the interim period, while we do have revenue from the current CMO, it is tight and we expect that supply to remain tight. Nevertheless, we are on the market and we are getting benefits and revenue from the acquisition.

Shubh Mehta: So, validation from the new CMO is done or like when it is expected?

Peter DeYoung: We haven't communicated specific time frame with the new CMO, but they're proceeding through the normal steps you would expect in tech transfer, which involve, you know, the whole range of, you have validation, well you have you have engineering batches, you have validation batches, then you wait for stability, then you do filing. So, we're in that overall cycle and so far the CMO has met all of their timelines as they've committed to the original owner and then later

to us.

Shubh Mehta: All right. Last one if I can just squeeze in is for Vivek. So, you know, during the quarter we had a stable GPMs. While I understand the growth for the CDMO was across India and North America sites both. So, can you throw some light that is the -- is it because of the balanced growth from both the facilities or why is that the stable GPMs? My understanding should be that there should be some increase over there. How should I look over there?

Vivek Valsaraj: So, Shubh, as you rightly said, it is more a balanced growth across facilities. It's a little bit more complex because it also depends upon what's the quantum of pass-through revenues that get built in during a particular period and what's the quantum of fixed cost overhead movement in inventory. So, all those factors do come into play. As we have historically said, typically 64%-65% is the kind of average gross margin and that is what we will move towards even on a full-year basis.

Shubh Mehta: All right. Yes. Thank you so much. I'll join back the queue for a few more questions. Yes.

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

Shyam Srinivasan: Yes, good morning. Thank you for taking my question. Just some qualitative colour on the 22 new customers in H1, right? So, you know, what are the typical profiles, biotech versus big pharma? If you could kind of give us some, you know, qualitative splits, what are they coming and asking us for in terms of is it our differentiated offerings, is it ADCs, innovation?

So just some qualitative colour and you know, are these first time customers to us in the I would presume so in new customers but just want to understand what's helping us win these new customers.

Peter DeYoung: So, when we say new logo, it means that we haven't done business with that company before. So, this is the outcome of kind of a hunting strategy and so we're quite excited. I think we discussed our commercial transformation earlier and how it's got multiple components. And so, by definition, if you want new logos, you will have a little bit more of a biotech heavy angle to it, but there are also some nice big pharma components to this.

It's but if you look at the sheer numbers, you would have a more biotech heavy nature that due to the simple nature of that's where more logos exist. But we it's not only that and so we are seeing the both aspects. In terms of the qualitative components, obviously, if our Phase 3 went up, that's a net basis, which means that you know, additions, subtractions, the outcome is up.

That would imply that some of these are in that Phase 3 category and I think the other one we already covered some of the uh geographic and the differentiated capability mix. This all linked into this. So, I would say the new logos are somewhat aligned with the overall other KPIs we share. They're not in contrast with or in opposition to.

Shyam Srinivasan: Helpful Peter. And if I were to look at you know, how are utilization that are at our overseas

plant as versus India. India, I know has been pretty okay. And I think earlier participant also asked about onshoring. So just want to understand you know, if you could share maybe quantitatively what our utilization levels are? Are we seeing is some of these customers actually coming for the continent of US, for example? I'm just trying to get that that angle as well.

Peter DeYoung: So, I'll just repeat maybe in a trying to use some different words, the same concept is that if you look at our North America region, we would say that the inflow is up, the order booking is up, the revenue is up. Our fixed costs are largely not up. And so, the outcome is that the EBITDA contribution from the region is improved.

And so, I think that's from a financial metric perspective, the more important component, which is getting that fixed cost coverage and then getting that EBITDA margin improving. And so obviously the first half is a lower revenue half than the second half generally. And so, we wouldn't really look at or normally communicate utilization site or region or even partial year-wise, but I think it shows up in the financials and that again, we've discussed this on many calls and you've been on many of them.

This there's a certain fixed cost element to this business at both the site level and the business level and so when we can grow, it has disproportionate benefit on margin, which is why when we always discuss with you all, our LRP ambitions are reasonable is that the top line doesn't always proportionally increase the cost and that's why we get these swings up when we get the revenue growth.

Shyam Srinivasan: Got it. My last just housekeeping question. Any word on the large PO order we had from last year? Is there any update or we are still waiting to hear back?

Peter DeYoung: We're no longer really talking about individual customers. I think that one became an outcome of certain analysts covering EXIM exports at certain frequencies. But I think our customers really don't want us to talk about these elements.

And all I'd say is that you can see our growth numbers would suggest that the business is healthy, the customer concentration numbers would suggest that we aren't highly concentrated and we're continuing to win new business. So, I think that's the way we'd like to frame the discussion going forward.

Shyam Srinivasan: Got it. Thank you, Peter. All the best.

Moderator: Thank you. The next question is from the line of Parikshit Gupta from Fair Value Capital Limited. Please go ahead.

Parikshit Gupta: Thank you very much for the opportunity and many congratulations on a great set of results. My first question on the CDMO segment, while it is very appreciated that the ADC segment grew by over 50%, I just wanted to understand in our $2 billion top-line aspiration, in which I guess the CDMO share is expected to be around 60% of the revenue, how much of revenue contribution have we anticipated from the ADCs business specifically?

Peter DeYoung: It's a fair question. We haven't broken it out separately. However, I would give a qualitative guidance that we would expect our ADC share to be growing disproportionately better than the overall revenue guidance along with our differentiated services of which it is a part. And so we have invested in this capability across four sites. We have available capacity. If we were to need to, we would enhance that capacity.

We see ADCs as one of the sunrise sectors or bioconjugation is another phrase to use around it. And so we would expect it to grow higher than, and probably meaningfully higher than our overall growth rate.

Parikshit Gupta: I understand. Now, in terms of the on-patent manufacturing, again, the 39% growth is appreciated. I just wanted to understand if you could share what is the contribution from the GLP-1 injections. And while I know that the market leaders' patent expiry extends well into the mid or the late 2030s with demand still strong, however, if there are alternatives developed or possible reduction in demand given certain side effects, have we anticipated any risks from that?

Nandini Piramal: I think we're not really participating in the GLP-1 kind of opportunity. I think our focus is on more niche peptides, and also our contract manufacturing for other people in terms of peptides. So, I would say, I think we're not suited for the GLP-1 opportunity.

Peter DeYoung: And to further clarify, the on-patent commercial manufacturing numbers are as described and so a generic product offering, even if for third parties, would not be in this metric.

Parikshit Gupta: I understand. Thank you for the clarification. Now, in terms of the complex health generics business, what has been the growth rate ex of Kenalog for this quarter?

Peter DeYoung: We haven't broken it out separately. I would mention that we've had a few prior earning calls where there were questions about our ROW-based business growth and we're quite pleased with the first half performance in that area.

And so I think the message you could take away is that the Kenalog obviously provided relevant growth in the period, but we also had good performance with the base business and especially in an area of prior discussion of ex-U.S. if you will, inhaled anesthesia.

Parikshit Gupta: Yes. I was just about to ask on that part. In the previous con call, we discussed about the Sevoflurane growth was a mix from existing and new markets. But I was really hoping to understand how the ROW contract wins were progressing so far.

Peter DeYoung: So, we had a couple of nice wins in the period which contributed to the, what we call, base business growth. And so then that's been a nice addition and that's been substantial in terms of the driver of incremental growth year-on-year for the, what we call, base business.

Parikshit Gupta: I understand. Just my final question on the consumer health business, please. I understand that many products in the portfolio have been through acquisitions that Piramal Pharma made and hence enjoy the sole discretion on the product strategy. However, I still want to understand how much of the portfolio ex of Bayer products is outside of discretion of Piramal Pharma. I just

want to understand what happened with Bayer. Is there some part of the revenue also at risk of the similar risk, please?

Nandini Piramal: No, I think now with the exit of Bayer, everything is owned and managed by Piramal Pharma. We can do I guess whatever, I mean, we can do whatever we like with those brands in terms of extensions, in terms of -- kind of distribution, selling price, etcetera. So, it's all our products now.

Parikshit Gupta: There are very helpful. Thank you very much for your answers. Good luck for the current quarter.

Moderator: Thank you. The next question is from the line of Abdulkader Puranwala from ICICI Securities Limited. Please go ahead.

Abdulkader Puranwala: Hi. Thank you for the opportunity. And thanks for making these disclosures on a first-half basis. My first question is with regards to the ADC revenue and the uptick whatever we have seen. So if you could highlight how much of this growth has been driven by our partnership with Ajinomoto and what is the actual growth in the base business of say the 26 million what you had last year?

Peter DeYoung: We don't obviously disclose individual collaboration related revenues. I would say that the collaboration that we had marketed would be a modest contributor to our overall revenues. It's more marketed towards potential customers than to investors, but we can't segment our communication strategy and the intention of both us and our partner with that communication is to say their technology works in our manufacturing and development and vice versa and to give customer or potential customer confidence.

But from an investor perspective, this is based off of the bread and butter conjugation, linker payload, the MAB. and then finally the fill-finish, of which that would be a modest contributor.

Abdulkader Puranwala: Sure, got it. And second question is with regards to the Bayer distribution agreement which expires in December. So I mean, on the manufacturing side, how are we looking at it? And know, while we are called out for a 5% contribution from that to the overall top line, are we also looking to divest any manufacturing assets which would be associated with this venture that we have?

Nandini Piramal: So, I think the Bayer manufacturing agreement I think still continues and I think we see they arranged good partners going forward.

Abdulkader Puranwala: Okay, understood. Thank you and I'll get back in the queue.

Moderator: Thank you. The next question is from the line of Alankar Garude from Kotak Institutional Equities Limited, please go ahead.

Alankar Garude: Hi, good morning, everyone. Peter, can you talk a bit about the nature of your recent conversations with CDMO clients? Clearly, you've seen an improvement in the client engagement level. I just wanted to understand how the discussions have evolved over the past

few quarters?

Peter DeYoung: So, I think we discussed this maybe in some prior calls and maybe we were able to try and signal to you all that it was going in a positive direction, but I'll just maybe repeat some of the themes. The first is obviously it helps if clients have money. And if you look from October of last year to today, there's been a meaningful improvement in funding available for our current and potential clients. And that shows up in their floating of RFPs.

The thing is that then the RFP inflow numbers are significantly up and especially so maybe not last calendar year, year-on-year, but much more starting this calendar year, January, they've been up meaningfully. And so that's showing up to be in kind of overall inquiries for potential business. And then that's then translated into decisions. And we've started to see that uptick of decisions, I would say Q4 last year and then through this year.

And I think what's notable is historically H1 has been soft in terms of order booking given the normal seasonal patterns, but maybe due to our actions and also the external environment, we've seen more order booking in H1 than we have historically in the past. Maybe some other indicators, if we look at major conferences or engagements we have with our customer advisory board, I would say the discussions have more of an action-oriented feel. There is a more general volume of interaction.

I don't think that's unique to us from the industry perspective. I think overall If you look at, let's say, the Endpoints survey that just got released, you know, the sector sentiment is significantly improved versus 1 or 2 quarters ago. And so we're doing our best to take advantage of the external environment.

And I'll wrap it up with just 2 other comments. As mentioned in prior calls, we did a pretty substantial transformation of our go-to-market organization, which is still underway, but we're starting to see some benefits of that. New approach, and along with that approach, we increased the total number of people out in the market interacting with customers.

Now, to be candid, the transformation will show benefits in this time period, but the new additions of staff, they would probably only really start to bear fruit or show results in coming quarters. And so given the time from when you bring someone on board to when they can meet a customer to the whole RFP cycle. But overall, it's the macro -- the transformation on our go-to-market and then our increased feet on the street, if you will.

Alankar Garude: That's helpful, Peter. Just to follow up there, how big a factor do you think has been the funding environment in driving this uptick? I mean, the question is, if you assume a scenario where the funding environment slows a bit versus the current levels, does it have a meaningful impact on your CDMO outlook?

Peter DeYoung: I think if you were to look at a 10-year horizon and you were to look at CDMO as a sector, the CDMO sector does well when funding is available and when FDA is approving drugs and when M&A takeouts occur, because that all allows recycling of money. We -- one of the elements of our strategy with the commercial transformation was to significantly enhance our approach to

key accounts and large pharma, and we have started to see some nice early results from that strategy.

And the benefit, if we can continue to show progress in that strategy, is that large pharma R&D and development spending is more resilient than biotech, and we've been historically more prone to volatility there. And so we are expecting one of the benefits of our commercial transformation should be a better weighting towards large pharma, which will take some time to achieve, but it won't change the overall sector linkage to volatile funding.

And biotech funding is a cyclical situation, and it is linked to CDMO performance. So, I'm giving you a bit of a roundabout answer to saying It's true to everyone. We've historically been more exposed. Our commercial strategy is aimed at making us less exposed, but the cycle remains.

Alankar Garude: Got it. That's helpful. The second question is, you had a target to improve margins substantially to double digits in the OTC segment by FY30, and you had spoken about operating leverage, lower marketing spends. Just wanted to understand qualitatively, where are you in this journey?

Nandini Piramal: I think we're, as we said, we're single-digit profitable at the moment. We're continuing to focus on profitable growth, which is kind of, you know, between premiumization, price and volume to kind of look at how do we improve margins.

Alankar Garude: So, Nandini, can we say that you are on track to get to that double-digit number?

Nandini Piramal: Yes, we'll be close to it.

Alankar Garude: Yes, got it. That's it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Gourav Bhama from JM Financial Limited. Please go ahead.

Gourav Bhama: Hi. My question has been answered already. Thank you for the opportunity.

Moderator: Thank you. The next question is from the line of Sudarshan Padmanabhan from Ashika Investment Managers. Please go ahead.

Sudarshan Padmanabhan: Yes, thank you for taking my question and congrats on great set of numbers. So, my question is related...

Nandini Piramal: Sorry, can you speak a bit louder? We can't hear you clearly.

Sudarshan Padmanabhan: Am I audible now?

Nandini Piramal: Yes. Much better. Thank you.

Sudarshan Padmanabhan: Yes, so my question is we have seen the on-patent commercial manufacturing pie improving and overall the innovation-related work improving as a percentage of the business. And given

that we are seeing a fair amount of interest from clients and also the fact that the Phase 3 molecules are also increasing. From a directional perspective, where do we see both the innovation and the on-patent commercial manufacturing as a pie to increase, say, in the next 2 to 3 years as we achieve our directional target in 2030?

Nandini Piramal: I think we expect them to grow faster than the rest of the business, and in the next couple of years they should easily take over 50% of the business.

Sudarshan Padmanabhan: Okay. And incrementally, when we are talking about addition of new customers, how many customers would primarily be into the value chain of unpatented and say innovation-related work?

Peter DeYoung: It's more, more are in that category than not, because if you think about it, the generic industry is consolidating to some degree and we would probably already be working with many of them. So, if you want to get new logo, it's largely innovation-oriented, not fully but largely.

Sudarshan Padmanabhan: Sure, sure. So, we should be able to see consistent increase in the pie probably as some of these clients start getting converted into business.

Nandini Piramal: Yes, that is the expectation.

Sudarshan Padmanabhan: Sure. Yes. And apart from ADC, where we have seen a significant growth, I mean, we do have a fair amount of offerings in other complexities like peptide. I mean, you mentioned that we are largely not in GLP, sterile injectables and various other things including hormonal.

I mean, in the overall pie, how do we see this composition of, if I put it as in complex products where the capabilities is being built as compared to the utilization of capabilities that we have built currently, and how do we see this pie improving, say, in the next 2 to 3 years?

Peter DeYoung: We would expect to see growth in peptides, if that's the question. From a relative capital allocation, we have put more money more recently into the US, specifically in the area of the fill finish, and we've also put in money into the high-potent API, and we put money into the bioconjugation areas.

And so those did receive some amount of capex, and we've been more modest in our investment in the peptides, but nonetheless, we have put some money into that area, and we are expecting to see nice growth there, and it remains to be an attractive area.

And I just add one further clarification that while we do certain peptide-related activities in our Turbhe facility near Mumbai. We also can do some more earlier-stage peptide activities in our traditional small molecule facilities at Digwal and Ennore, and we are seeing orders in that area as well because they can work in traditional reactors. And so, we're going to be just participating in peptides both at different stages in the value chain, and not only at our Turbhe facility.

Sudarshan Padmanabhan: And one final question before I join the queue is, with the distribution agreement with Bayer coming to a close by the end of the year, while you had highlighted about the revenue impact, largely this business I would assume would have lower margins primarily because this is largely

distribution, right?

So as far as the margins and profitability is concerned, the impact should be much lesser. And probably, it would be better from a margin perspective given that when the business goes up, the absolute margins would actually look much better. Would that be right?

Nandini Piramal: Yes.

Sudarshan Padmanabhan: Okay. Thanks a lot. I'll join back to queue.

Moderator: Thank you. The next question is from the line of Dhawal Khut from Jefferies. Please go ahead.

Dhawal Khut: Hi, thank you for taking my question. Can you inform us about what is the current business mix at Lexington? Is it more clinical or commercial, small molecule versus biologics and ADC? And secondly, at Lexington, what is the quantum of capacity expansion in terms of the number of units that we have, that we are currently undertaking, and the key inflection timeline we should watch out for?

Peter DeYoung: So again, we don't give all of those details, but I would say broadly speaking, it does have commercial, but the commercial is more modest and it's predominantly from a mix perspective, it's a much heavier mix towards development, .and part of the reason why we went under the expansion is that we could attract tech transfers at the commercial level, but also certain development customers that would not want to have to leave if they were to graduate to commercial. And so, we would anticipate one of the benefits of the expansion is that we could get more larger late-phase clinical and also commercial and shift the mix to be more commercial, which we think will be beneficial from a margin profile as well.

From the scale perspective, Vivek will, or we will, get back with the exact percentage increase, but it's a massive increase in overall capacity for both vials but also even more importantly lyophilization capability and capacity. In terms of timing, it's the end of calendar year next year we would be going live. We're expecting 3 separate go-lives.

We have to be in the business of marketing as well, and so the first go-live already happened. It's our micro expansion, which went live, I believe, earlier this month around CPHI. This is the lab that is used for the legacy facility but also the new facility block. The second go-live will be most likely early next year, which will be an improvement in background grade that would reduce any ambiguity around Annex 1 compliance.

And that would be the second go-live, and then the -- for the legacy facility, and then the third go-live would be the full expansion, and that would be at the end of the calendar year. And we're particularly excited to mention that we already have the anchor customers for first, second, and third customer that would be using the expansion signed up for their specific batches. So now anyone else who were to agree to the expansion, would not have to worry about it on my first, second, or third.

Dhawal Khut: So, for these customers, do we have any data readouts that will be important to watch out for, which will determine the quantum of business that we can get from these customers?

Peter DeYoung: That's the nature of the business. It's a -- the site has a wide range of development clients at different clinical stages, and every one of them is going through their own clinical journey, and they each have their own binary events for their upcoming clinical readouts.

And so that's the name of the game in this business, and all I can say is that, it's a part of what we have to live with, and it's also the opportunity, because when they get the good news, it means that the growth goes up. So, I'd say that yes, but that's true of all of our sites serving innovation customers and most of what we do in North America would be in that bucket.

Dhawal Khut: Thank you. Just one last question if I can squeeze in. For Sellersville 0:52:50 very high level, when do you think we can break even at EBITDA level? We already have informed about one contract. But is it more like an 18-month sort of a timeline wherein we can break even, or it's much more long-term and tougher task to turn around that side? It's more like a 3, 4, 5-year journey from here on?

Peter DeYoung: From an EBITDA perspective, I think I alluded to it in the earlier remarks. Obviously, we only produce our subsidiary accounts at certain intervals, but from an EBITDA perspective, we're seeing nice translation of the improved revenue in this current year itself across our 4 North American sites. And so, if this trend continues, we would expect our dialogue to change around some of our North American sites.

Dhawal Khut: Okay, thank you.

Moderator: Thank you. The next question is from the line of Vinod Jain from WF Advisors Limited. Please go ahead.

Vinod Jain: Yes, congratulations on the improved working and return to profitability, sir. The higher tax incidence of the company remains a quagmire to understand. While in the past you have explained this higher profit -- higher taxation as profits from taxpaying jurisdictions, and that the benefit of carryforward losses, though not high in the current year, would accrue in the future. If that is the case, I would like to know in which year or years the benefit of the substantial carryforward losses is likely to accrue in time.

Vivek Valsaraj: So, Mr. Vinod, as you rightly mentioned, that the tax outflows currently are in taxpaying jurisdictions. We do have almost 580 million of carryforward tax losses at our overseas entities. This utilization of this will be very specific to each and every site depending upon how the turnaround at the site happens. As Peter mentioned that each of our North American sites is currently seeing good improvement in the profitability. As per our long-range plans, we were expecting that we should be able to start utilizing this over the next two to three-year period.

But it it's very entity-specific and will depend upon which of the entities start turning positive. As you can imagine that from an accounting standpoint, the moment they turn positive, we should be in a position to recognize the deferred tax asset in the books. So that's how it will

work and one by one as each entity starts moving towards profitability, we will start accounting for that.

Vinod Jain: Sir, and the tax incidence is so high that almost the entire profit for the quarter is wiped out. Is there a possibility of taking an active step in managing the tax liability in terms of sharing the business between various facilities you have so that facilities become more tax efficient?

Peter DeYoung: So, Mr. Vinod, from a transfer pricing perspective, you obviously do what is best possible within the realms of what the law permits. If you have looked at the standalone accounts, you must have noticed that 70% of the tax is actually paid in India where the profitability portion is relatively higher. And trust me that whatever is best possible within the realms of what the tax laws permit, we optimize on all of that.

Vinod Jain: Okay. One last question. The deferred tax asset net of INR494 crores in the balance sheet, is it indicative of the future tax benefits entirely?

Peter DeYoung: So, as I said, we have carry-forward losses of about 580 million, which means the potential deferred tax asset that we could create is about 120 million.

Vinod Jain: Okay. All right. Thank you.

Moderator: Thank you. The next question is from the line of Vidhi Shah, an individual investor. Please go ahead. Ms. Shah, kindly unmute your line.

Vidhi Shah: Hello, am I audible?

Moderator: Yes, you are audible.

Vidhi Shah: Yes, sir. So, I just wanted to understand what led to the margin ramp-up and are these kind of margins sustainable in the next few?

Peter DeYoung: Yes, the margins are sustainable if the as we mentioned that their fixed costs have been largely controlled. So, if the revenues go up, a lot of that extra goes down to EBITDA.

Vidhi Shah: Okay. And do we see further margin increment from here onwards?

Peter DeYoung: I think we will see some if as if revenues continue at the pace that they're meant to.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Gagan Borana for closing comments.

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

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