

Rubicon Research

14 August 2026

Operator: Ladies and gentlemen, good day and welcome to Rubicon Research Ltd. Q1 FY27 earnings conference call hosted by Motilal Oswal Financial Services Limited. As a reminder, all participant lines will be in 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 and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Tushar Manudhane from Motilal Oswal Financial Services Limited. Thank you, and over to you, sir.

Tushar Manudhane – Motilal Oswal Financial Services: Thank you, Sagar. On behalf of Motilal Oswal Financial Services, I welcome you all to the Q1 FY27 results earnings call of Rubicon Research Ltd. From the management side, we have Mr. Parag Sancheti, Chief Executive Officer; Mr. Nitin Shingadia, Chief Financial Officer; and Mr. Sagar Oak, Senior VP, Corporate Development and Strategy. Over to you, sir, for your opening comments.

Parag Sancheti – CEO: Thank you, Tushar, for hosting us for this earnings call, and thank you, everyone, for joining the Q1 FY27 earnings call. I will take you through the highlights of the financials. We have again had a very strong quarter. This is the first quarter we are reporting since the Arena acquisition. The Arena acquisition was closed in April, and the revenue impact is roughly around 12 crores. There is no material impact on EBITDA.

If you look at our Q1 numbers, our revenue from operations came out to 534 crores, EBITDA came out at 131 crores, and PAT came out at around 86 crores. In terms of percentage growth, year-on-year revenue has grown by 51%, EBITDA has grown by 65%, and PAT has grown by more than 100%. I will request Nitin to take us through the detailed income statement and balance sheet.

Nitin Shingadia – CFO: Thank you, Parag, and good evening, everyone. I am on slide number 6. All the numbers are in INR. Our revenue from operations for the quarter was 5,343 million, a growth of 52% versus the same quarter last year. Gross profit was 3,543 million versus 2,430 million in Q1 of the previous year, again reflecting strong growth of 46%.

Our pre-R&D EBITDA was 1,871 million, translating into a pre-R&D EBITDA margin of 35% versus 32.5% for Q1 of the previous year. Our R&D expense for the quarter was 580 million, translating into R&D expense of 10.9% as a percentage of revenue versus 355 million in Q1 of the previous year.

Our operating EBITDA for the quarter was 1,291 million versus 791 million in Q1 of the previous year, again reflecting strong growth of 63.2%, and operating EBITDA margin was 24.2% for Q1 this year versus 22.4% in the previous year. During the quarter, we had a one-off item in other income in the form of an insurance claim against goods lost in transit.

After that one-time other income, PAT was 848 million versus 433 million in the previous year, reflecting strong growth of 96%. Overall, it was a strong performance, and EPS was {? 5.88 paisa ?}.

Nitin Shingadia – CFO: Moving on to the next slide, slide number 7, on the balance sheet. As Parag mentioned, this balance sheet reflects the consolidation effect of Arena as of June 30, 2026. As of that day, our capital employed was 14,778 million, after excluding cash and cash equivalents of 2,408 million.

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Net working capital for the quarter, or as of June 30, 2026, was 114 days versus 126 days as of March 31, 2026. While there is an improvement in net working capital days, I think we should not read too much into it because it is also a function of quarterly fluctuations. We see working capital in the range of 125–130 days, as we had guided earlier as well.

Our ROCE for the quarter was a strong 36%, and I would like to highlight one point: this ROCE of 36% was despite close to one-fourth of our capital employed being in investments that are either pre-revenue or yet to materially contribute to revenue. Again, the point is that we delivered a strong ROCE.

Nitin Shingadia – CFO: Moving on to the next slide on the cash flow statement, our operating cash flow before working capital changes for the quarter was 1,390 million. Our net cash flow from operating activities was 285 million rupees.

In this quarter, cash flow was impacted by some delays in GST refunds. These refunds are getting normalized, and we should see the impact of this in Q2 in terms of healthy cash flow for the quarter. In this quarter, cash flow from investing activities was primarily driven by our acquisition of Arena Lifesciences and some capex.

That broadly covers the cash flow statement. With this, I will hand over to Parag, and he will take us through the business performance for the quarter.

Parag Sancheti – CEO: Thank you, Nitin. I will touch on some of the key highlights for the quarterly performance. We will start with revenue growth. As I mentioned, we again had strong revenue growth, and as we go ahead, we also see strong traction in revenue.

The growth has been broad-based, in line with our portfolio design. The top 5 products contributed 39% of revenue in Q1, and the top 10 products contributed 55% of revenue in Q1. This is broadly in line with our concentration over the last 4 quarters.

Pricing continues to remain stable for us because our portfolio is more focused on specialty and differentiated products. As mentioned, we continue to see very strong visibility for revenue in the coming quarters. Our USD revenues for Q1 were \$55 million, which was up 32% year-on-year from \$42 million.

There was a slight sequential drop owing to the tactical measures we have taken, which we had discussed in earlier quarters with respect to gross margins. I will explain that in detail when we come to gross margins. However, Q2 FY27 is tracking strongly for sequential USD revenue growth.

Coming to cash flow, cash flow from operations was 285 million. If you look at the footnote, this was impacted by certain GST refunds that were held up, but that should normalize in this quarter.

Coming to product approvals, we received 2 approvals in this quarter. The commercialization rate remains strong at 88%. Some of these products need to be commercialized in the coming 2 quarters. I would also like to highlight that the specialty portfolio's contribution to gross profit for the quarter was 36%.

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The specialty focus, underpinned by a very robust pipeline, is expected to continue growing, as we have mentioned in earlier analyst calls. Thank you.

Parag Sancheti – CEO: We can move to the next slide on gross margins and EBITDA. I wanted to highlight a few things. Again, this is in line with the commentary we provided earlier.

Our gross margin increased sequentially by around 140 bps to 67.7%. This was despite a sequential increase in key input costs and freight costs due to geopolitical conditions. In the Q3 FY26 update, we had flagged that stronger-than-anticipated revenue traction, coupled with our own manufacturing constraints, was leading to greater reliance on contract manufacturing, which was putting pressure on our gross margin. The company was looking at tactical measures to ensure that we could meet demand while also remaining focused on gross margins.

Since then, over the last few quarters, the company has taken those tactical measures. We have given up some of the lower-margin businesses. This has led to a marginal sequential drop in US revenues, but it has also led to an increase in gross margin.

These tactical measures allow us to prepare better with a mix of our own versus outsourced manufacturing reliance, in light of the strong demand generation and revenue traction expected over the coming quarters.

Parag Sancheti – CEO: Coming to EBITDA, operating EBITDA rose to 24.2% compared to 23.1% in the sequential quarter. This was despite a sharp increase in our input and freight costs due to the prevailing geopolitical conditions, as well as employee appraisals that were concluded in Q1.

For the remaining 3 quarters, I also want to point out that in FY27 we will have some specific costs that could impact EBITDA margins, such as ESOP costs arising from the new ESOP scheme, Arena costs related to kick-starting growth for Arena, and pre-revenue costs for the new facilities that will be required in New Jersey and Pithampur.

Despite all these cost impacts, we are revising our guidance upwards. Earlier, our guidance was 22%–23% on EBITDA, but we are now comfortable revising this upwards for the whole of FY27 to 23%.

Parag Sancheti – CEO: We can move to the next slide. Sagar, if you want to take over and take us through the acquisition updates and the capex update.

Sagar Oak – VP Corporate Development & Strategy: Thank you, Parag. Good evening, everyone. I am on slide 11 of our presentation, and I will take you through the updates with respect to our manufacturing facilities.

Starting with Pithampur, in early July we had informed you that the FDA conducted an unannounced inspection and issued a 483 with 2 observations.

Management: You had said that you were confident of concluding the evaluation in a timely manner and that the observations were procedural. We are happy to report that we filed the appropriate response and also received FDA approval on a regulatory filing after the inspection was concluded. We have pretty much delivered in line with what we had said in July.

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We are on track to ramp up commercial operations at this facility from Q1 of calendar year 2027, as we had previously guided.

The second update relates to our recent announcement of the acquisition of a manufacturing site in New Jersey, USA. We acquired this facility, which is in East Brunswick, through a court-supervised bankruptcy process. The total purchase price was \$2.9 million.

In terms of size and footprint, the site is similar to our manufacturing site at Satara in Maharashtra. However, we believe it adds a completely different dimension to our supply chain through an on-site or onshore manufacturing presence in the US.

This facility has a track record of more than a decade with the US FDA. In a way, I think the timing was quite good because the FDA carried out an inspection in May 2026, roughly 1 month before we closed the acquisition. This gives us a good, authentic, official assessment, evaluation, or due diligence, if you will.

I can also tell you that, as of today, the updated status on the FDA's website for the May 2026 inspection is VAI, or Voluntary Action Indicated classification. This is again in line with our commentary when we announced the acquisition.

You may recall that at that point in time, the FDA had issued a 483 with 6 observations, which we believed were largely procedural. We also announced that a response had been submitted within the prescribed time. I think the current outcome bears testimony to the fact that the inspection has been successfully concluded.

This facility offers us a number of benefits. It is located adjacent to our distribution operations, which are part of our subsidiary Amaryl CPL. If you look at a later slide in the deck, you will see that they actually share a wall.

It is also not very far from our US headquarters, which is also in New Jersey. Therefore, we believe the facility brings a fair amount of synergy from an operational efficiency standpoint.

Our intent is to focus on specialty and high-value products from this site, as well as demand from certain customers such as US government departments, where having an on-site or onshore manufacturing presence is an enabler.

We expect commercialization to start in calendar year 2027, once we have completed implementation of our quality management systems at this site.

Management: Parag, I would also like to add that, since we are talking about facilities, quality culture, and inspections, I want to emphasize how we have built the business over the last few years through inorganic acquisitions of capabilities.

Whether it is the Satara facility acquired from Cipla or this facility acquired from Alkem in Bhikampur, I am very happy with the way the team has executed to build the right culture before these sites were presented to the FDA. In record time, and within the first inspection, we have been able to resolve the issues or points that the auditors highlighted.

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As we continue to build the facility in the US, the important part we focus on is building the right culture and the right systems. These systems allow us to know that, once we commercialize these sites, we are moving in the right direction from a quality and compliance perspective.

Management: Absolutely, Parag. I fully agree. I will now move to the next slide, slide number 12, which covers our R&D spend and its impact on revenue growth.

For the quarter, our R&D expenses were 10.9% of consolidated operating revenue. As we have said in our previous calls, R&D spend is the lifeline or lifeblood of our business and the lead indicator of future revenue.

We measure R&D productivity by comparing incremental revenue with lagged total R&D spend, which you can see on that slide.

To quickly recap what is shown on the slide, if you consider a typical development timeline and FDA approval timeline, a product that you begin working on today will come to market about 2 years later.

When you consider that along with our measured approach to building market share, a product that we began developing in FY20 would typically register meaningfully in revenue by FY24.

Therefore, we look at incremental revenue over a 3-year timeframe and compare it with the total R&D spend for 9 quarters on a lagged basis. In this case, comparing FY21 with FY24, we are taking 2 full years of R&D spend, which are FY20 and FY21, and adding Q1 of FY22 to account for cases where development may have been largely completed but filing would have happened in the first quarter of the next year.

By comparing the 165 crores of R&D spend with roughly 539-540 crores of incremental revenue, we arrive at the 3.3x multiple, or R&D productivity, that we have pointed out.

We have shown this analysis on a rolling 3-year basis: FY25 versus FY22, FY26 versus FY23, and FY27 versus FY24. I just want to call out here that the FY24 and FY27 analysis is based on an arithmetic annualization of Q1 revenue. Simplistically, for the purposes of this analysis, we have multiplied Q1 revenue by 4.

As you can see, our current R&D productivity based on Q1 FY27 is about 5.5x.

This revenue does not include Inmed Life Sciences. We expect that the multiple will expand during the course of the year as revenue ramps up. We have already discussed how Q1 revenue compares year-on-year with Q1 of last year.

Coming to our guidance, we had guided for INR 5 billion, or 500 crores, of R&D spend over 9 quarters comprising FY26, FY27, and Q1 of FY28. We have completed spend of about 251 crores out of 500 crores in 5 quarters.

The current rate of spending is about 60 crores, or 600 million rupees, per quarter. Therefore, we believe we are on track to comfortably meet the 500 crore spending guidance by Q1 of next year.

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I also want to call out that, in our unlisted space, we invested significantly in R&D. In FY22, R&D spend relative to revenue was just under 40%, at 39.5%. Since then, it has normalized to what is still an industry-leading 10%–11%, which, as we have previously stated, we will continue to maintain.

FY27 is the last year of what you see on the screen as a cumulative 3-year, 9-quarter basis of reducing R&D spend. From FY28, you should see the impact of the increasing absolute spend as well, and I will clarify what I mean by that.

If you look at 9 quarters of R&D spend comprising FY24, FY25, and Q1 of FY26, these are all actual numbers, with a total of 278 crores. Moving forward 1 year, FY25, FY26, and Q1 of FY27, again based on actuals, the total is 380 crores.

Then there is the period for which we have guided 500 crores, comprising FY26, FY27, and Q1 of FY28, which is our current guidance.

I think at this point it is also useful to highlight our track record of market execution because, along with R&D, the second part of this slide is revenue.

If you look at how we have executed in the past on revenue generation, I will ask you to look at slide number 22 later in this deck. This shows the 6 products that we had showcased as part of the IPO process. We have updated the data and added FY26.

What you can see here is the rank number for all these products, despite the competitive scenario not having changed much. In fact, there is 1 product where market share is slightly down but the ranking has gone up. There is another where market share is marginally down but the ranking has been maintained.

The remaining 4 products have seen both ranking and market share increase. Market execution is a moat for us and should be viewed together with product selection and R&D execution.

With that, I will hand it back to Parag, and we will move to slide number 13.

Operator: Parag?

Operator: Parag sir, this is the operator. Can you hear me?

Management: Just a minute. Parag is joining this call from the US, so there may be some lag or other issues. Just a minute.

Operator: Ladies and gentlemen, please stay connected while we reconnect the line for Parag sir.

Operator: Ladies and gentlemen, thank you for patiently holding. We have the line for Rubicon Research Ltd. connected. Sir, please go ahead.

Parag: Hi. Sorry for this. I think there was a technical glitch. Coming to slide number 13, I think this is a very important slide and a very important organizational update.

As Rubicon continues to grow and become a global pharmaceutical company, we have been working in various areas. With the growing organization, it was also important to create

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management bandwidth, succession planning, and everything required to ensure that we are completely ready in terms of people for the next phase of growth.

I am very happy to state that Nitin, who is currently the CFO, is moving into the role of Chief Commercial Officer. Rohit, who will currently be the CFO designate, will move into the CFO role as Nitin transitions his CFO responsibilities to Rohit.

I wanted to share this important update because, as the company moves into newer areas, it is important that management bandwidth keeps pace. We are focusing on building that management bandwidth within the company, developing our own people through leadership opportunities, and also looking at the right talent from outside to ensure that we have the right people as we expand our business.

Nitin joined us in 2021. Beyond the CFO role, he has contributed immensely to building the business, whether in supply chain, IT, business transformation, or organizational development. Nitin has played an extremely critical role in building all these functions as we have grown.

When Nitin joined, we were at roughly 400 crores of revenue. Today, we closed last year at 1,700 crores of revenue. He has been an integral part of the journey and a pillar of the management team.

After 5 years, I think it was an opportune time to use Nitin's focus on the business functions where we see a tremendous amount of opportunity to grow our business. We completely appreciate Nitin's efforts as CFO, and we also welcome Rohit to the Rubicon family.

Thank you. We can open the floor for questions.

Operator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and then one on their touchtone phone. If you wish to remove yourself from the question queue, you may press star and then two. Participants are requested to use handsets while asking a question.

Ladies and gentlemen, we will wait for a moment while the question queue assembles. Participants, please press star and then one to ask a question. The first question comes from the line of Akshay with AK Investment. Please go ahead.

Akshay – AK Investment: Hello. Hi, Parag. Am I audible?

Parag: Akshay, your voice is not very clear to me.

Akshay – AK Investment: Can you hear me now?

Parag: Yes, much better.

Akshay – AK Investment: Thank you for the opportunity, and congratulations on the great set of numbers. My first question is about product contribution. Currently, the top 10 products contribute around 55% of revenue. Could you give us some color in terms of the therapeutic areas from which these products contribute, the stage these products are in, whether they are maturing or still growing, and, going forward, how many products we can expect to commercialize with a relatively large total addressable market? Thank you.

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Parag: Nitin, do you want to take that?

Nitin – CFO: If I were to talk about growth and maturity, we continue to see growth across the products that we launched a couple of years ago. If you look at slide 22, which Sagar discussed, these are products that we launched 8–10 years ago, and even for those products we continue to see strong growth and strong demand.

As we mentioned earlier, our portfolio is fairly broad-based. The concentration of the top 5 and top 10 products has continued to decline over the years. Even if you look at the last few quarters, it has remained range-bound. That is the point: it is a fairly broad-based portfolio that continues to grow.

Akshay – AK Investment: My second question is about the use of artificial intelligence. Does artificial intelligence increase our efficiency in terms of the product development cycle and R&D? From Rubicon's perspective, are we currently leveraging AI, and how does AI improve our efficiency and business processes, especially for CDMO and pharmaceutical companies?

Parag: I will take that. Sagar, do you want to?

Sagar: Go ahead, Parag.

Parag: I would classify AI, automation, and other processes as technology. We adopt technology wherever we see that it can add value to the work we are doing in terms of increasing efficiency, increasing compliance, and reducing errors.

That is one of our guiding principles, and we continue to invest in and identify use cases in the appropriate manner. I do not want to comment specifically only on AI because AI is a very evolving area. We are definitely looking at it, but in a pharmaceutical setting, regulatory considerations are very important.

Whenever we adopt technology, an important aspect we need to think through is that we have to give regulators confidence that whatever we are using has sufficient checks and balances to ensure that the technology provides consistent, predictable, and robust results.

We are definitely adopting it in the right processes, but again, it is a very large field, and we do not want to comment specifically only on the AI aspect.

Akshay – AK Investment: Lastly, regarding the product pipeline, how many products are in Phase 1, Phase 2, and Phase 3 of the development cycle, and how many molecules are commercial as of now?

Parag: We do not comment specifically on Phase 1, Phase 2, and Phase 3. However, there is a slide that Sagar can point out, which shows the number of approved products. We have also mentioned that our commercialization rate is strong at around 88%.

If you look at the DRHP, at the time we filed it, we had mentioned that more than 60 products were at advanced stages of development and had been qualified by the appropriate consultants after reviewing the data.

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Nitin – CFO: That number was 63 at the time of filing the RHP. To add to that, Akshay, we usually do not comment on product-level developments. The pipeline is something we prefer not to discuss in too much detail because it is commercially sensitive.

However, if you look at slide 28 of the current quarter's earnings presentation, it provides an overview of how the portfolio has evolved over time. In terms of how we expect the portfolio to impact the business, that is what we discussed as we went through slide number 12 on R&D productivity. At this point, we would not comment further on that.

Akshay – AK Investment: Fair enough. Thank you very much, and all the best.

Parag: Thank you, Akshay.

Operator: Thank you. The next question comes from the line of Siddharth Negandhi with CWC. Please go ahead.

Siddharth Negandhi – CWC: Hi, Parag, Sagar, Nitin, and the team. Congratulations again on a great set of numbers and on the consistency of your delivery.

I have a few questions. First, the rate of approvals seems to be slowing marginally, while revenue growth obviously continues at a very healthy pace. Is this purely a bigger strategy now, or how should one think about your pipeline in terms of the molecules you will pursue and the molecules that will get approved?

That was question 1. Question 2 is, in light of the New Jersey acquisition, how should one look at the manufacturing footprint playing out between the US and India? In that context, how should one think about gross margins? The third question is on the churn in your specialty portfolio, where you classify products as specialty only if they have 0 or 1 competitor.

What is the churn there, and could you give us an idea of how many products you currently have in the stash that you would classify as specialty products? One other clarification is on the capacity slide, where you mentioned that there is headroom for expansion. Could you clarify the capacity utilization and what you mean by headroom for expansion? Is more land available? How should one think about that expansion at the existing facilities? Those are my questions.

Parag: I will take the first question, {? Siddharth ?}, on the portfolio approvals or approvals slowing down. This is in line with the plan we have and with the approvals we were expecting.

More importantly, we are very conservative, {? Siddharth ?}, when we look at building revenue forecasts from those approvals. Therefore, I would not comment that approvals have slowed down. You also alluded to our taking fewer approvals, but I think you were referring to fewer approvals with bigger numbers. I do not think that is the right way of putting it.

We still follow a very clear portfolio strategy. The number of approvals and the products coming through are indicative, but I can assure you that we are on track with the approvals on which our forecasts and plan are based. Nitin, do you want to take the question on gross margin?

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Nitin: Siddharth, if I understood correctly, your question is around gross margin. Could you please repeat it once?

Siddharth Negandhi – CWC: In the context of the acquisition of the US manufacturing facility, how do you see the manufacturing footprint playing out between the US and India, and how should one think about gross margins in the context of the manufacturing split between India and the US?

Nitin: If we look at the acquisition of the US facility, it is a fairly strategic move for us because it gives us several avenues. It gives us the ability to enter government or VA business. It gives us the ability to be closer to our customers. It gives us visibility to manufacture certain strategic products in the United States.

We also mentioned that it gives us an advantage by being next door to our warehouse in the United States. From that perspective, this is a valuable addition, and we do not see margins getting diluted because of this. In the overall scheme of things, we definitely see it as being margin-accretive.

Parag: Siddharth, just to add to what Nitin summarized, it is a very strategic move. When we look at the financials, it is an extremely important move from a strategic perspective. We do not see an impact on gross margins, and our forecasts already incorporate some of these factors.

We are also focused on value-added, differentiated products that will create a business with the government. This will also create risk diversification for us, with customers receiving some of these important products from 2 sites, 1 in India and 1 in the US, thereby mitigating supply chain risks.

Therefore, although there may not be a financial impact, the move has a very high strategic impact. Customers can view it very positively, and it could give us a premium in the market when we do something like this.

Nitin: Siddharth, I think the other question you had was about the composition of the specialty pipeline. It is obviously sensitive from a competitive standpoint, so we try to strike a balance between providing thoughtful disclosures to help investors track the business over the long run and not jeopardizing the business itself.

We share on an ongoing basis the share of gross profit contributed by the specialty portfolio. Once a year, we also discuss the number of specialty products that we have. We want to be consistent with our disclosures in that sense, so at this time we would not expand the set of disclosures around specialty products.

Siddharth Negandhi – CWC: The last question was about the clarification on the headroom for expansion on the manufacturing facilities slide.

Nitin: Sure. Siddharth—Parag, please go ahead.

Parag: You are referring to headroom for expansion at Pithampur, Siddharth?

Siddharth Negandhi – CWC: Give me a second. I will tell you the slide number I am referring to. This is the slide that talks about all your manufacturing facilities, all 4 manufacturing facilities. It is slide number 30.

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Parag: Absolutely. If you look at the Pithampur site, it is a fairly large site of nearly 30 acres, of which we are currently using barely 5–6 acres. Therefore, we have significant room to expand at that site.

Just to give you an order of magnitude, that amount of space is—Nitin, correct me if I am wrong—greater than the footprint of all our sites put together.

Nitin: In addition, I think the slide mentions that we have a facility in CSM for niche dosage forms, which is modularly ready. Again, there is headroom to grow this business from a manufacturing standpoint. We have different areas where we have the ability to expand the facilities.

Siddharth Negandhi – CWC: Very clear and very helpful. Thank you very much. I will join the line queue again for more questions. Nitin, congratulations on your new role.

Nitin: Thank you, Siddharth.

Operator: Thank you. The next question comes from the line of Nishant Maheshwari with {? B&K Securities ?}. Please go ahead.

Nishant Maheshwari – {? B&K Securities ?}: Thank you for the opportunity, and congratulations to the management on the fantastic set of numbers.

My question relates to the year-on-year additional cost of materials consumed. I see that it is roughly 19.83 crores, and additional purchases are roughly 19 crores. While our additional sales are 181.9 crores, does this reflect substantial value addition on account of a transfer-pricing mechanism, with products transferred to the US entity and sold from there?

What I can see is that, on a standalone basis, closing stock has decreased by roughly 10 crores, while on a consolidated basis we have incremental closing stock of 7 crores. Further, how will we manage the situation if, in the worst-case scenario, US tariffs are imposed? How will we manage this when we are exporting 97% to the US?

Nitin: Nishant, I was not able to follow the math you explained. Your underlying question appears to have 2 parts. First, you asked how we are prepared to deal with the situation if there is a tariff in the future. The other point you raised relates to transfer pricing. Is that correct?

Nishant Maheshwari – {? B&K Securities ?}: Yes. What I can see is that, with additional expenditure of 38 crores in terms of purchases and the cost of materials consumed on a standalone basis, incremental sales are roughly 181 crores. In terms of volume, I do not see substantial growth unless we have increased product prices substantially.

That is what I was observing, but I feel management should address this and provide clarity.

Nitin: From a gross margin perspective, as we have mentioned earlier, if you compare on a year-on-year basis, we explained over the last few quarters that our reliance on outsourced manufacturing had increased over the last 3–4 quarters. This had some impact on the gross margin of the business compared with Q1 of last year.

As far as gross margin is concerned, I will say that, as an organization, we are very conscious of our margin profile. As Parag mentioned, we have taken tactical measures to let go of relatively

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lower-margin businesses. That is what I can say in terms of our focus on gross margin.

Regarding your math, perhaps we can connect offline to understand what you are trying to convey.

Nishant Maheshwari – {? B&K Securities ?}: I am just trying to convey that, with an additional increase of 38 crores, our revenue has increased by 181 crores year-on-year. If I look at it as a layperson, there must be a substantial increase in the price of the product due to transfer pricing.

The stock has decreased on a standalone basis by 10 crores, while on a consolidated basis I am seeing an increase in stock of 6 crores when I look at the changes in inventory. I am unable to understand whether this is a volume increase or a price increase.

Nitin: Again, it is a combination of various factors. Let me first tell you that, as far as transfer pricing is concerned, in line with our very high standards of governance, we are fully compliant with respect to transfer pricing and related matters. There has been no sharp movement in the transfer-pricing mechanism.

The other point is that all these numbers are also a function of various factors, including our own manufacturing, outsourced manufacturing, sales of traded goods, and sales from our own manufacturing. As I suggested, we can take this offline to understand your math and then provide clarification.

Nishant Maheshwari – {? B&K Securities ?}: Just one more question, my last question. If we start the facility that we acquired from Alkem in the January-to-March period, what could be the incremental margin compared with outsourcing? How much more will we save in percentage terms?

Nitin: We will refrain from providing any specific margin percentage, but I can assure you that our own manufacturing is far more efficient, both from a gross margin perspective and from the perspective of the overall margin profile.

Nishant Maheshwari – {? B&K Securities ?}: Thank you very much.

Operator: Thank you. The next question comes from the line of Harsh Kundani with Ionis Alpha. Please go ahead.

Harsh Kundani – Ionis Alpha: Hi, Parag and team. Congratulations on a good set of numbers. I have a couple of very small questions.

In the opening remarks, you mentioned Arena's contribution to the top line and EBITDA for the quarter. The top-line contribution was 12 crores, and I think you said EBITDA was flat. I wanted to clarify whether I heard that correctly.

Management: Harsh, you are right. The revenue contribution was close to 12 crores, and the EBITDA contribution on that 12 crore revenue was not material.

Harsh Kundani – Ionis Alpha: Understood. Does that mean our base business margins were actually higher than the reported margins if I adjust for this acquisition?

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Management: If you do that math, you are right. The margin would be slightly higher on that 12 crore base, and there would be some slight impact on the overall margin profile. However, considering the order of magnitude, the margin is probably not going to have too much of an impact.

Harsh Kundani – Ionis Alpha: Understood. How do you see Arena's margins developing over the next few years?

Management: As we mentioned earlier, we are looking at the Arena business in various phases. In the first phase, our focus is to identify and fix the growth levers. That will be the focus for this financial year.

In the next phase, we will focus on exceeding IPM growth and driving growth in that business. After that, we will look at profitability. That is how we view the various phases of Arena's journey.

Management: Harsh, if you look at the EBITDA guidance we have given, it is obviously at a consolidated level and takes into account the growth investments in Arena that Nitin just mentioned. Our guidance also takes into account the growth and build-out that we have discussed previously.

Harsh Kundani – Ionis Alpha: Understood. Thanks, Sagar and Nitin. That is all from my end. Congratulations, and all the best. Thank you.

Operator: Thank you. The next question comes from the line of Tushar Manudhane. Please go ahead.

Tushar Manudhane – Motilal Oswal Financial Services: First of all, congratulations on multiple fronts, whether it is financial performance, successful compliance at the Pithampur site, or starting and establishing the US manufacturing footprint.

Connecting to the US manufacturing footprint, I would like to understand how you acquired this facility for just a couple of million dollars. Could you explain that part?

Management: If you look at our approach to M&A and our M&A strategy, we have focused on deals where we can create long-term value. We are prepared to be patient because we believe M&A by design is not related to the next few quarters but is more long-term in nature.

Whether you look at our past acquisitions, such as the center in Canada, which was Inpopharma, or the manufacturing site in Satara, which we acquired 5 years ago and which by all accounts has been reasonably successful, our approach has been consistent.

In this case, the acquisition process ran for a fairly long time, well over 1.5 years. It was a court-supervised bankruptcy, and we were able to stay the distance. The fact that we already had an adjacent site there gave us some advantage in the process because we are well connected in that ecosystem.

This also comes down to our culture—our approach to scouting deals, pursuing deals, and getting them over the finish line.

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Management: To add to that, it is also about our ability to assess how we can build on these acquisitions. These acquisitions come at a certain value, but the more important work we do is to determine how we can use that value and build on it to create significant revenue and profit multipliers across all our acquisitions.

From the beginning until now, for every acquisition we have undertaken, we have been able to build multiples of revenue and profitability on those capabilities.

Tushar Manudhane – Motilal Oswal Financial Services: Understood. Secondly, while the quantum of R&D increases and you have guided for 500 crores, after which it remains at 10%–11% of sales, I would like to understand whether this will be product-specific R&D or whether it will be spread across the portfolio.

Management: It will again be a portfolio approach. By portfolio, I mean that we look at various parameters, including risk, probability, ease of execution, and the organization's maturity in developing those products.

Taking everything together, we will always have a portfolio approach. It will never be the case that we concentrate only on a few big bets. It will be a combination of various thresholds, where we look at long-term, high-innovation products as well as other products that may be within a range where we can execute and have a competitive advantage.

It will always be a portfolio-based approach.

Tushar Manudhane – Motilal Oswal Financial Services: Understood. Lastly, there has been discussion about the manufacturing facilities, but could you elaborate on why there are so many facilities across so many sites?

Management: We have grown our facilities over a period of time, and whenever we have grown a facility, the underlying theory or basis has been our portfolio. We have not made an acquisition simply because a site was available or because it was available at a certain cost.

We have always had an underlying thesis based on our pipeline, and that has guided us toward the next acquisition or the opportunity we have evaluated.

Ambarnath is the core facility where we started, and where we have developed oral solids and nasal sprays. When we acquired Satara, we had a liquid portfolio that we were manufacturing through a CMO. We then brought those products in-house, and we have been building nasal capabilities there, which could serve as a backup to our Ambarnath facility.

Risk diversification is also extremely important for protecting revenue, building capacity, and creating capacity. Then we had Indore. At Indore, as we had said, we were seeing strong traction from a revenue perspective for our existing products, and we also wanted to add capabilities such as hormones, steroids, and high-potent products.

In addition, it was a single site that gave us room to build. It is very important that we build a large capacity at one facility, so that we can have very large batch sizes or adopt modern technology to support continuous-process manufacturing. That is where {? Chungal ?} came in.

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The {? CSNJ ?} facility, or what Nitin mentioned in New Jersey, relates to certain niche dosage forms in our pipeline. Therefore, that facility has been prepared modularly to ensure that, when we develop these niche dosage forms, we have a separate facility from a compliance and management perspective.

That is how we have looked at building our footprint. We have already discussed the US facility, so I will not go back to that. This is how we have evaluated each of these facilities.

We also have to consider that manufacturing outsourcing became part of the overall strategy because our manufacturing is driven by the portfolio, and capex will always lag sales. We are undertaking capex based on the revenue visibility and capabilities we have.

We will maintain a mix of manufacturing arrangements. Risk diversification is important, and for every important product, having a couple of sites ensures that we can offer our customers business continuity.

Tushar Manudhane – Motilal Oswal Financial Services: Thank you very much for that elaborate explanation. That is all from my side.

Operator: Thank you. The next question comes from the line of Pratik Shrivastava with Nivesh Wisdom. Please go ahead.

Pratik Shrivastava – Nivesh Wisdom: Thank you for giving me this opportunity. First of all, congratulations on the great set of numbers and the progress you are making on all the different fronts.

My first question is on US revenue. We saw that Indian revenue grew 9.7%, but US revenue grew only 4%. You mentioned that you walked away from some lower-margin US businesses in Q1. What is the latest status? Have we secured new, higher-margin business for our US subsidiary?

Management: Nitin, will you take that?

Nitin: If I understood your question correctly, you are asking whether, after giving away some lower-margin business, we have secured higher-margin business in its place.

Pratik Shrivastava – Nivesh Wisdom: Yes. What is the latest status? In Q1, you had lower-margin business.

Nitin: If you look at a couple of things, the share of specialty products in overall gross profit has increased with the increase in revenue, and we have technically given away relatively lower-margin business.

In a way, that is correct. Also, if we are letting go of a relatively lower-margin business, we will do so only if we are securing higher-margin business. You are right on that.

Pratik Shrivastava – Nivesh Wisdom: My second question is on the Pithampur site. There is close to 1,500 million in capital sitting there pre-revenue, and the EIR is still awaited. What is our capacity utilization curve in the near term, over approximately 6–9 months to 1 year, versus the long term, say 2–3 years out?

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Management: We do not want to jump the gun. We have mentioned that we are looking at commercialization or ramp-up from Q1. For that, we have sufficient capacity.

As you mentioned, the site is roughly 30 acres, of which we have utilized only 6 acres. Even with the current building, if we build out the site incrementally, there is sufficient headroom for fairly rapid capacity expansion.

Over the next 2-3 years, the facility has substantial land and footprint available to grow the Pithampur business. In one line, there is sufficient capacity available at Pithampur in the long run. In the short run, we will scale up the facility gradually over the next 9-12 months, and we also have sufficient capacity for that.

Pratik Shrivastava – Nivesh Wisdom: For my final question, in the Q4 earnings call you gave the number of 24 products under FDA review. This time, the number is not provided in terms of ANDAs and NDAs. Is there any specific reason for the secrecy, or could you provide some color on that?

Management: If you recall, last time we specifically mentioned that we would provide these numbers once a year. We shared them in the last quarter, and we will share the numbers once a year.

Pratik Shrivastava – Nivesh Wisdom: Understood. Thank you very much, and all the best.

Analyst1: All the very best.

Management: Thank you.

Operator: Thank you. Ladies and gentlemen, we will take that as the last question for today. I now hand the conference back to the management for closing comments.

Management: Thank you, Motilal Oswal, Tushar, and Sagar, for hosting this call. We thank all the participants who joined us for this call, and we look forward to speaking with you in the next earnings call for Q2. Thank you.

Operator: Thank you to the members of management. On behalf of Motilal Oswal Financial Services Limited, that concludes this conference. Thank you, everyone, for joining us, and you may now disconnect your lines.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.