# IPCA Laboratories
# Q2 FY23 Earnings Call

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## CORPORATE PARTICIPANTS:

**Mr. A. K. Jain**
Joint Managing Director

**Mr. Harish Kamath**
Corporate Counsel and Company Secretary

## Q&A PARTICIPANTS:

1. **Nikhil Mathur** : HDFC Mutual Funds
2. **Surya Patra** : Phillip Capital India Pvt ltd
3. **Kunal Randeria** : Antique Stock
4. **Amit kadam** : Canara Robeco Mutual Fund
5. **Chirag Dagli** : DSP Blackrock
6. **Ms. Damayanti Kerai** : HSBC
7. **Tushar Manudhane** : Motilal Oswal
8. **Rashmi** : Dolat capital
9. **Rahul Jeewani** : IIFL Securities Limited

**Moderator**

Good evening, ladies and gentlemen. I'm Kritika, moderator for the conference call. Welcome to IPCA Laboratories, Q2 FY23 Earnings Conference Call hosted by DAM Capital Advisors Limited. As a reminder, all participants' lines will be in the 'listen only' mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should any assistance during the conference call, please signal an operator by pressing * then 0 on your touch tone telephone. Please note this conference is recorded. I would now like to hand over the floor to Mr. Nitin Agarwal. Thank you and over to you, Sir.

**Nitin Agarwal**

Thank you. Hi, good afternoon, everyone and a very warm welcome to IPCA Labs' Q2 FY23 post earnings call hosted by Dam Capital Advisors Private Limited. On the call, to represent today, IPCA Lab management, we have Mr. A. K. Jain, Joint Managing Director and Mr. Harish Kamath, Corporate Counsel and Company Secretary. I'll hand over the call to the management team to make the opening comments and then we'll take it forward from there.

**Management Team**

Thanks Nitin and Dam Capital Advisors for organizing this call. Good afternoon to all participants. And thanks for taking out time and joining us for Q2 FY23 Earning Call. Today's earning call and discussions and answer given may include some forward-looking statements based on our current business expectations that must be viewed in conjunction with risks that pharmaceutical industry faces, or actual future financial performance may differ from what is projected and perceived. You may take your own judgment on the information given during the call.

Domestic formulation business for the quarter **[inaudible 00:01:53]** 10% growth, and domestic antimalarial business has shown a decline of almost, around 19% for the quarter. IPCA is second fastest growing in IPM among the top 20 players in mid-September 2022. We have gained 3 ranks over 2018, and now we are 17$^{th}$ player, rank 17 In IPM. Most therapy growth is better than the Indian pharmaceutical market mid-September 2022. Except the cardiovascular therapy, where we have reorganized and restructured our business to build a strong focus, the teams are stabilizing now, and we will see much better results in future.

Our market share has improved to 1.86% in last 4 years from 1.59% in 2018 and for Q2 FY23, our market share has further improved to around 1.91% overall of the pharmaceutical market. Our export promotional business has delivered a growth of almost around 33% for the quarter. Export generic business, including institutional, has delivered almost around 8% growth for the quarter. Institutional business per se, has delivered around 12% growth and generics has delivered around 4% growth for the quarter. Our active pharmaceutical business has declined by around 15% for the quarter, mainly due to the lower demand in Latin America and Asia and pricing pressures witnessed in this business.

Our overall, for the year, API business is expected to deliver a negative growth of around 2% for the whole of the financial year 2023. Material cost to income is at around 32.83% for Q2 FY23 as against 33.09 for the same period last year. There is an improvement of around 0.26%. We are seeing the softening trend in prices of intermediate and starting material, some of like solvents, API, your aluminum foil, plastic, PVC, PVDC. The paper marginal cost has gone up for paper and even glass product, that has slightly gone up. In overall, on the other expenditure side, there is an overall increase of almost around 23% for the quarter.

And this increase is mainly on account of two head, one is energy cost for the quarter is almost higher by almost around 16 crores because of increase in the overall coal prices, SSD prices, and electricity rate revisions by the state electricity boards and all. And marketing costs have significantly gone up. The marketing costs has also gone up on account of overall increase in the sales strength, significant increase in sales strength in the current financial year in Q1-Q2. EBITDA margins have declined to around 21.04% for the quarter on standalone accounts basis as against 23.05% in same period last financial year. Having given the broad numbers, now I request my friends to ask questions.

**Moderator**

Thank you, Sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. I repeat, ladies and gentlemen, if you have a question, please press * and 1on your telephone keypad. We will wait for a moment while the question que assembles. First question comes from Nikhil Mathur from HDFC Mutual Funds. Please go ahead.

**Nikhil Mathur**

Yeah, hi, good evening, everyone. My first question is on the RM front. We were able to that RM prices are kind of softening. So, can you give some indication on key RMs model of prices today and what they were six months back? How much decline have you witnessed, and how far are we from, say 1 year, 2 years back?

**Management Team**

I would say that, almost around, on material to material wise, somewhere there are almost around 30-40% decrease, somewhere there is around 18-20% decrease, in somewhere around 8-9% decrease on the main raw material, we are today consuming. That's the overall on RM side. On, broadly on API side let's say, product like paracetamol and all, there almost around 18-20% kind of decreases are there. Product like Erythromycin or Pantoprazole or Aceclofenac we consume, there are around 10-15% kind of overall decrease is there on those kinds of materials. And if you look at the, your solvent prices, solvent prices have gone up by almost 2%, but overall, other solvents, like say Acetone, IPA, Methanol, and MDC is around 9-17%, is overall decline in all those materials.

That's overall range which we have. And like on metal prices, if you look at Aluminum foil, from, which used to be a year back around Rs. 300, now come to around Rs. 200, a level. LULU foil, from 400 to almost around close to Rs. 320, kind of a little less than Rs. 320 or maybe the caps we use on bottle from Rs. 400 to Rs. 320 - 325. That's the kind of range. Plastic PVDC similar kind of trends, trends are there around, almost around somewhere 30-35, 16 to 30-35% kind of reductions are there.

So, those kinds of prices trends are there. And on energy front also, if you look at the coal, used to be almost around Rs. 15 / Kg. Now it has come to around Rs. 12-12.90 / Kg. Furnace oil, from, I think, per metric ton, from 70,000 has come to around Rs. 44,000 - 45,000 level. So, that's the kind of decline is there. But, somewhere, like say, your, what we are using is biofuel, those prices have gone up from, maybe around Rs. 7 a Kilo to almost around Rs. 8.7-8.8 per Kilo. So, it's-- somewhere prices have gone up, but majority of the prices are coming down.

**Nikhil Mathur**

Right. So, but Sir can, again if I look at the mix, mix must improve right, on last couple of quarters basis and the prices have come up, so, why is gross margin still way short of what we used to do, let's say pre-COVID?

**Management Team**

Let's say, the gross margin, there is an improvement, but there is always a time lag because you keep on buying every month by month. Inventory prices are going down and you have inventory. So first you consume the-- we follow the FIFO method. So that impact will, greater impact will come now in the coming quarters, earlier, in first quarter level, when we were consuming material the prices of whatever there in inventory was very, very high compared to what is prevailing today. And what we bought in Q1 compared to the second quarter inventory, but Q1 whatever buying's are there, that getting consumed in Q2. So, that process is on, but I think overall impact will start coming in the subsequent months, and impact has already started coming in, little bit.

**Nikhil Mathur**

Okay, got it Sir. Second question is around India? Can you help me with the growth x of antimalaria and **[inaudible 00:10:32]**.

**Management Team**

I think excluding antimalarials, our growth is almost on 13%.

**Nikhil Mathur**

Okay, so Sir, I mean, if I remember correctly here, almost 1200 MRs have been added in last 2-3 quarters. Why isn't the positive impact of those MR additions yet reflecting in numbers?

**Management Team**

I didn't get you.

**Nikhil Mathur**

So, my point is that the steady present growth, it would have a component of obviously volume and pricing increase as well. It doesn't seem that the kind of MR additions that we have done, almost 30% of the **[inaudible 00:11:07]** increase in over the last 2-3 quarters and the prescription uptake is not yet visible in domestic sales numbers. So, any reason why?

**Management Team**

Domestic we are already-- among the top 20 companies, we are the second highest growing company. The market growth is very bad. We are going around one and a half times the market growth overall. And whenever you recruit the new people, it take time to-- for them to become productive. It will take almost around 2 years' time for them to start giving breakeven to the company. So, an initial 2, 3 months goes in their trainings and over all induction in the field and all that. So, they don't become immediately productive. So right now, in the 2nd quarter, they are the burdens on-- as far as the cost is concerned, there are hardly any productivity is expected. It's only now some kind of impact will start coming in, but overall, we will not be recovering costs. It will take almost around 2 years' time to do even recover their costs. 3rd year onwards they will start contributing profits to the company.

**Nikhil Mathur**

One last question on this only. Can you quantify the extent of cost build up, I mean, how much of cost is sitting and absorbed today in the P&L from these MR additions and marketing initiatives that you alluded to?

**Management Team**

No, we don't segregate the cost on new people and old people, all that. That doesn't happen. I'm telling you generally that's the trend. **[multiple people]**. An overall cost increase only on account of addition of people will be anywhere between 120 crore to 150 crore for the whole of the year. And people are not added at a time. So, in this financial area itself, maybe around-- it's around 100 crore kind of overall cost impact will be there for the whole of the financial year, on the new people addition during the year.

**Nikhil Mathur**

Sure Sir got it. Thank you so much.

**Moderator**

Thank you, Sir. Next question comes from Surya Patra, from Phillip Capital India Private Limited. Please go ahead.

**Surya Patra**

Hello, thanks for the opportunity, Sir. And I mean in delivering kind of okay kind of results despite the challenges. So, first question is on the UK market, where we have been registering out of our own 43 odd products, who are only from the third-party name, what is the progress there at the end of- what is the annualized revenue rate that we have achieved so far for our own registration base products?

**Management Team**

Say 1st two quarters are impacted because of the overall significant business around that time we had with Bristol. So, that business is not there in 1st two quarter. From Q3 onwards the business was hardly anything, it may be around 9-10 crore of our distributor related business.

So, we will start seeing good growth, as far as the UK business is concerned, in the second half of the year. And overall, for the year, there will be marginal decline will be there in the business, but the business progression has been very good.

We have, whatever product we have launched we have got good amount of market share on those kinds of products and there are at least around 7 to 8 products are under launch currently. Including SPUs, it will be maybe around more than around 20 products will be there and for our launch in the next second half of the year. So, we are seeing a good traction coming on as far as UK is concerned and whatever products we have launched we have had a good market share in on those kinds of products.

**Surya Patra**

Okay Sir. So, my second question is, let's say on the API, a underperformance what we have seen. There could be multiple reasons. Reason could be Saturn also, could be the non-activation of the purified process, what we had filed for the recondition and all that. So, two things here Sir, could you give us some sense of what is the outlook for your API business here on for the export market? That is one. And Saturn is a category, what is your outlook there, because there are enhanced competition, that is what we are witnessing, some other people who are claiming about qualitative product compared to **[inaudible 00:15:58]** product bases.

**Management Team**

As far as API business is concerned, this impact is mostly not on account of Saturn. Saturn has impacted, but it's only very small. The major geographies where the impact has come is, one is Latin America, and one is Asia. These are the two geographies where the major impact we have seen is, basically because of slowdown in the demand and customers postponing the order executions. That's what's the one of the major reason and also there is a significant-- because there is a slowness in demand, there is also a significant pricing pressure. So, that is also there.

So, on that account, there is an overall decline in API business. And, if you look at geographically, it’s only the two geographies where we have done well in European markets, we have done in well in other like **[inaudible 00:17:00]** market, we did well. And India Business also was good, but it's only the Latin and your Asia business that has given us a decline of almost around 50 crore of business in API industry. And overall, for the year, the overall API business, there will be some recovery and we see that overall, for the year API business may see around 2 to 3% kind of decline. So, there will be some recovery is expected in the 2$^{nd}$ half of the year.

**Surya Patra**

Okay, and Saturn as a category Sir?

**Management Team**

Saturn as a category has a significant pricing pressure. So that's also resulting in the overall lower business. But that's not the only reason. Saturn has not done that bad in the quarter. Saturn decline is very, very small, but it's an overall decline is there, in there because of low demand and pricing pressure.

**Surya Patra**

Okay. So, regards the institutional business, considering the kind of launch of antimalarial vaccines in various areas and all that, and the pricing pressure that is there for institutional business, generally what outlook one should build for your institutional business, going ahead Sir?

**Management Team**

Vaccine has not made any significant impact as far as the antimalarial business is concerned in the market. And anyway, with the vaccine some kind of antimalarial drugs will also need to be given. So, that's not likely to have an impact. But in the current financial year, I'd say that this is a year where the retendering was done and all that, and because of that, there is a-- some kind of slowdown in ordering. So that's the reason we have said that this year overall antimalarial business may not grow.

But as such, also, we don't foresee a very great, long term, let's say, or medium-term increase in antimalarial business, because by and large, because of all these climatic conditions and all, antimalarial as a category itself is not doing that well. And India, this business has significantly declined. Currently, let's say, this businesses are happening in other markets, but we don't know what kind of impact that might have in future. So, we are not projecting a significant growth as far as this category of business is concerned. And on institutional business we are there are only antimalarials. So, that's the kind of scenario over a longer period of time.

**Surya Patra**

Okay, just last question Sir, from my side. About the Dewas, whether the second unit has commissioned? The new, second unit, and what is the utilization of the first unit and obviously you have already indicated that Dewas first unit will be contributing meaningfully starting next year. But what is the current status of that and also, if you can say something about the progress in the Nagpur site.

**Management Team**

See, Dewas, we have planned to validate almost around 10 APIs and that validation programs have started. And after starting our validation programs, we had to do around 6 months stability and then, each market regulatory filings will start happening. So, it has very recently started the first page, we started some intermediate business from unit 1, for our captive consumption, that did not contribute any kind of top line to the company. So, and now since that phase is over, so we have started now, started validating API. So, during the next 1-year time, almost around 10 APIs will be validated there.

And filing will start from now, or at least around 6 months' time, the 1st filing will start take place from that site. And thereafter, say at least 4 or 5 filings happens, European authorities and other authorities will start, maybe after filing maybe 3, 4 months, 5 months after, at least some regulatory inspections should start happening and business will scale up only after that. So, we see that overall, for 1 year nothing meaningful contributions would come from this site, till the time we file all the products and till the time regulatory inspections of the site happens.

**Surya Patra**

Okay. Sure, Sir, Thank you.

**Moderator**

Thank you, Sir. Next question comes from Kunal Randeria from Antique Stock. Please go ahead.

**Kunal Randeria**

Yeah, hi, Kunal here. So, Sir, on the API business, as to probe a bit more. Can you tell us what exactly is the issue? I mean, why is there lower demand or why are customers postponing their orders? Is it because anticipate better pricing in the coming months or what exactly is happening here?

**Management Team**

See, India itself market has started, say, having overall lower growth. So similar kind of trend is also there in other markets. That, there is a-- demand slowdown is there in the market. So, that's a factor which is contributing.

**Kunal Randeria**

Okay, so demand slowed down. And Sir, I think.

**Management Team**

The market is not growing to that level which they were growing earlier.

**Kunal Randeria**

And Sir, this is happening across the world or is there any specific market you would like to call out?

**Management Team**

I think that the greater impact we have seen is one is in Latin and another in Asia.

**Kunal Randeria**

Okay, got it Sir. Sure. Then the second question from the branded business, I have seen a bit lumpy, rather generic, which export business, being a bit lumpy. Perhaps it's because of the Ukraine issue. So, should we consider this quarter as the base or was an element of some channels selling also happening here?

**Management Team**

What has happened that, as we have talked earlier in call, that when Ukraine war started, we were not sure because currency was at very, very high level and at what level it will get settled and all that and it will start selling aggressively around that time, that will result in a huge amount of losses. But, because Rubel-Dollar around that time practically was more than double than the current level. So, that was the scenario earlier. So, we didn't make that kind of shipment. We significantly reduced the overall inventories in those markets with the stock list and all, with our distributors and all.

And when they started stabilizing around 60-70 level, we started making shipments. So, first quarter there was some kind of overall decline, but not even in account of sales in that market, on account of overall reduction in the inventories in the market. And some of those inventories were replenished in this quarter. What we see that, this quarter as far as the **[inaudible 00:24:39]** market is concerned because of air-shipment, it has almost around practically doubled the business, around 93% kind of growth. But our projection for the whole of the year in that market, the **[inaudible 00:24:52]** market, growth is around 15% and we are on track.

**Kunal Randeria**

Got it Sir. And just last one. So, if I were to sort of take a 3-year view on your domestic business, how do you see the composition changing, in reference to, still expect the same to be a growth driver and its contribution to move up from say 50% to 60%, or all the other therapies should grow just as quickly as **[inaudible 00:25:19].**

**Management Team**

See, most of our therapies are growing, except say, little, because of this year, we have reorganized our Cardiac business. So, they're just having some kind of some lower growth. Lower growth is there on Cardiac business compared to market. But, all other therapies, we are growing faster than the market. So, the neuro therapies are all doing very well. But pain forms, say, a significant part of our business. It's almost around 50% of business is pain, and pain include both Rheumatoid, Arthritis and Osteoarthritis. In both segments, we have been, let's say compared to the market growth, our growth is significant, significantly higher, is practically around, if you look at, I will just give the number, one minute.

As far as the pain is concerned, I think overall market is growing by around 12%, and we are growing, I think, in September mid, so it's the 1st 2 quarters business, almost around 21% is the growth in the pain segment. Whereas if you look at the cardiac market, the market is growing by 7%; We have grown by 4%. As far as anti-infectives are concerned, market has grown by around 4%; we have grown by 5%. Dermatology, market has grown by 3%; we have grown by 14%. Then on cough and cold and that kind of portfolio market has grown by 12%; we have grown by 24%.

Then on CNS segment, market growth was 9%; we have grown by 30%. Urology market growth was 17%, we have grown by around 35%. And after market growth was around 13%; we have grown by over 21%. So that's the kind of overall numbers we have as far as therapy device is concerned. And this number is what we are talking is as per this IQR number.

**Kunal Randeria**

Got it. And this, just this one last one. So there have been reports in the media since the last couple of months that the government is looking to ban Aceclofenac combinations. Just want to gather your thoughts on this.

**Management Team**

There is no such report, that market is, government is looking to ban any kind of Aceclofenac asides that's the wrong reading of the report. The report was saying that last quarter, that it was parliamentary question-answer that, relating to one of our products, which is there. Others are also there in that market. That has been the product which was earlier, it was covered under that 300 and some drugs which was covered under Madras High Court, and then the government of India appointed Kokate committee and Kokate committee has gone into, and then thereafter the Drug Technical Advisory Board has reviewed and finally that combination is approved in the market.

We have approval from the DCGI of that combinations. So maybe almost around a year back that approval has come. But you need to generate the kind of, with that approval, one rider was there that you need to generate some kind of data and give it to them, safety and efficacy data. Now, if you look at safety, millions and millions of people are every month receiving those kinds of doses. So, there are no side effects. So, the question of anything going wrong on safety, efficacy of data does not arise. So that's not the issue. But we have submitted the protocol to the government, but our government has yet to approve the protocol.

So, once the protocol approval-- and that's wherever protocols were to be approved for industry player, none of the player has got any kind of approval because government is in COVID time, they have not approved any kind of thing and subsequently they're looking into it. Hopefully there will be approval of protocol. It will take 6 months' time to generate those kinds of data and submit to the government. But product approvals are already there in hand. So absolutely, there's absolutely zero risk as far as that product is concerned.

**Kunal Randeria**

Okay, thank you and all the best.

**Moderator**

Thank you, Sir. Ladies and gentlemen. If you have a question, please press * and 1 on your telephone keypad. I repeat. If you have a question, please press * and 1 on your telephone keypad. We will wait for a moment while the question que assembles. We are having a question from Amit Kadam from Canara Robeco Mutual Fund.

**Amit Kadam**

Yeah. Hi. Good evening, Sir. Am I audible?

**Management Team**

Yeah, good evening.

**Amit Kadam**

Yeah, Sir, my question is on other expense. I think you've partly explained also. But then I just want further clarity on it. So, this quarter, we had other expenses of somewhere around 435 odd crore, which is sequentially, it's like 35 crore higher than Q1, of which you mentioned that 16 crore is related to the higher power costs-- that sequentially there was 16 crore higher power costs. But that balance part is because of the marketing cost and promotional costs, is it that fully related to that particular thing?

**Management Team**

95% of this increase in the cost on other expenditure is only because of these two heads, one is the fuel and power, and second one is marketing cost. Because of let's say, once the COVID started opening up-- during COVID time, there was hardly any, neither there was domestic travel, and international travel. So, travel costs have gone up. We have recruited almost around, more than 1200 people, overall increase will be 1500 people during the year. So, their traveling cost is also the part of it. And because petroleum prices have gone up, their overall traveling costs itself has gone up, per kilometer rates and all those has moved up. So, people increase, travel cost increases and also promotional costs increase.

These are the main factors for overall increase in-- plus some expenditures have gone up on analysis side because lot of this Nitrosamines related impurity testing's and all, we have a lot of equipment ourselves in the company, but some of the validation studies or some kind of method development studies and all which, in order to get it faster, we are also using outside services. So, that cost has a little moved up. And also, during COVID-19, overall maintenance is of the plants and all because agencies were not available and all that. So, those activities have also gone up and therefore little repair cost is higher. But, by and large, the marketing costs, which include fill staff costs, travel costs, the power and energy costs. These are the major factors, which has increased your other expenditure.

**Amit Kadam**

So, just an extension to this thing, so, how do we look at this cost, like 435 crore, how do we see this as a quarterly run rate going ahead, like example, like power cost, which is like a 16 crore, I think that it is subjected to how the coal price behave. But the balance, which is marketing and everything, it may not be complete, temporary one, because some part is related to the increase in MR. So, that will continue. So, just wanted to know what the sustainable and what is just like something which is temporary, something training, and I think which would fade away. Just wanted to know the bifurcation, so that will help me to properly gauge what is a sustainable OpEx, and how do we see this going forward? Thank you.

**Management Team**

Normally trend is of marketing cost is that the Q2 and Q3, it is at a higher level. Q1 and Q4 is normally at lower level. So, I would not say that it is linearly, it is going up or going down. But it also depends on, these are the 2 periods where we have major domestic businesses coming in. And so, therefore, major spending also happens in this particular quarter, Q2 and a little lower in the Q3. Q4 comes down significantly because more of those kinds of, our domestic sales also come down in the in the Q4 because of a lot of seasonality and other factors.

So, the trend of marketing costs in current year would remain high. I will say that we are done the CAGR of that expenditure from 2019-20 and that growth is around 10%. So compared to because, lot of these costs looking higher, because then later part of the COVID period, we have not spent that kind of money which was happening earlier. So that's also one of the factors. So, from next financial year it will become like a normal cost increase of around 8-10% kind of.

**Amit Kadam**

So, is it like maybe for next year, whatever the base, what we form in FY23, from there, this numbers could just be growing at like 10 odd percent?

**Management Team**

Yeah, 8-10%. Right.

**Amit Kadam**

8-10. Okay and this particular thing, with that signal, volatility and OpEx and oil, coal price, hard to infer what will be the correct number, but it will broadly remain in this current range for the balance part of the year. They will form a base for FY23.

**Management Team**

Yes

**Amit Kadam**

Okay, I am done. Thank you.

**Moderator**

Thank you, Sir. Next question comes from Chirag Dagli from DSP Blackrock. Please go ahead

**Chirag Dagli**

Yes Sir, thank you for the opportunity. Sir, what does the INR weakening mean for us?

**Management Team**

Chirag, if you see that way, the Q2 realization of the USD for example is actually lower than the price oddities is there today. So, even at todays' USD-INR rate also, I will benefit if it continues like this for another 2 quarters. My average realization for 1st half of the current year is, USD is less than Rs. 80 / Dollar.

**Chirag Dagli**

Okay. So, if this remain where we are then 6 months down the line, we will start benefiting.

**Management Team**

In fact, if we look at in the Q2, our currency realizations on dollar were around 79.85. But other currencies which are cross currency there, that realizations have gone down by almost around 7-8%, like Sterling, Euro, New Zealand Dollar. Australian Dollar was around 2% kind of lower realization. So, most other currencies, there was a lower kind of realization compared to dollar. Now Dollar accounts for almost around 60% of business and other currencies account for 40. So, now Dollar, Rupees have little gone, but I think Dollar, Rupee realization in coming months will remain higher than 79.85. but cross currency realizations will improve because dollar Index is going down and other currencies are moving up. So, hopefully that will be beneficial in time to come.

**Chirag Dagli**

Understood sir. And Sir What is our overall margin outlook. We are seeing quarters being very volatile, especially for margins, given the large, fixed cost base that we are getting on the P&L. So, if you just think about the sustainable margin for the business and this is not this year, but generally, how are you thinking about margins?

**Management Team**

I think that our EBITDA margin should remain around 21%. That's what we have given forecast last, we have guided in last, Q1 end. This year, this quarter also is around that and hopefully it will remain at that level. Because material costs trend is better and except these energy cost and marketing costs these are the two factors. So, overall, it should be around 21% for the year. For the rest of the period

**Management Team**

Chirag, these people who are added, they also go on giving us benefit quarter after quarter. Even that will also add little bit to my EBITDA margin going ahead.

**Chirag Dagli**

Understood Sir. And the India Business margin should be materially higher than this 21

**Management Team**

Our India Business gross margins are at a consistent level of 67-68% always. It has not materially changed.

**Chirag Dagli**

Understood. And Sir, the last question was on Dewas, you talked about the second unit, and you talked about 10 products? Is this for the continuous manufacturing?

**Management Team**

Not continuous manufacturing.

**Chirag Dagli**

Understood, any update?

**Management Team**

**[inaudible 00:39:13]** but, not continuous manufacturing, it's not continuous manufacturing. Continuous manufacturing with our plant at Aurangabad. We are likely to put second plant outside also at Aurangabad. That's under process.

**Chirag Dagli**

Any update on, if you've had any successes on continuous manufacturing for any products?

**Management Team**

It's too early to give, a lot of work is happening and is bound to succeed but it will take time because it's all a lot of R&D and other things are involved. Some of the steps what we are currently doing, we had significant success. Some of the chemistries are, we are still consulting where we more particularly using this corrosive chemical like Phosphoric acid and Phosphorus Oxychloride, we are yet to get some kind of answers and all. So, today, those kinds of products, everything is not going on continuous basis. There are some steps which are we are yet to get the answers are on conventional basis, some other steps are on continuous basis. So, it's a mix kind of thing.

**Chirag Dagli**

Understood, okay Sir, thank you so much.

**Management Team**

A lot of learnings are happening and with the time we will learn more.

**Chirag Dagli**

Okay, Sir. Thank you.

**Moderator**

Thank you, Sir. Next question comes from Damayanti Kerai from HSBC. Please go ahead.

**Damayanti Kerai**

Hi, thank you for the opportunity. Sir, any update on potential FDA inspection for the effective plant and what are the current utilization for the existing facilities?

**Management Team**

No, madam as far as US FDA is concerned, we are awaiting re-inspection. It is status quo. As far as the plant utilization is concerned, there were 2 formulation manufacturing units which were meant for US market, out of which the Silvassa facility is, maybe working at 15-20% capacity. This Silvassa facility was recently inspected by UK, MHRA. Hopefully we should get accreditation in a month or so, and the second facility which is there in SEZ, Indore. That is working at around the 35-40% capacity. That facility we are using for Europe, Canada, Australia, New Zealand and South Africa market.

**Damayanti Kerai**

Okay. So, is there a possibility we will further increase utilization of the Indore plant for export market because we are yet to hear back from the?

**Management Team**

As and when there is a demand, and the quantity requirements increase. We are working on all that.

**Damayanti Kerai**

Okay, Sir. My second question is on the MR addition front, you are done right whatever you have targeted and now focus is on scaling.

**Management Team**

That is right. Correct. Right.

**Damayanti Kerai**

Okay.  Right. And my last question is, how should we look at our tax rate for this year and then coming year also?

**Management Team**

As we explained in the last quarter comm call, we are now at 25% tax rate. But there are certain expenditures which are not allowed as a deduction. For example, CSR expenses. Even though it is mandatory, you don't get any tax advantage on that. Similarly, there are certain marketing expenses. Because of Supreme Court judgment, we don't take tax benefit on such expenses. Because of all this, our tax rate will be 25% plus another, maybe around 3% more because of all these disallowances.

**Management Team**

There will be some kind of element of deferred tax credit, deferred tax also, because whatever facility you're recently put, there, add depreciation allowance. So deferred tax put together maybe around 28-29% kind of overall tax rate.

**Damayanti Kerai**

28-29% is the rate at which we can work with.

**Management Team**

Yeah.

**Damayanti Kerai**

Okay Sir. Thank you.

**Moderator**

Thank you, Madam. Next question comes from Tushar Manudhane from Motilal Oswal. Please go ahead.

**Tushar Manudhane**

So just on this cardiovascular therapy in the opening remarks, you refer to some restructuring. Can you elaborate on that?

**Management Team**

We have added more division and more people, who are a little bit restructuring of the existing product going to a new division, those things have also happened. But, it will get streamlined, will be a question of a quarter or 1 more.

**Tushar Manudhane**

Okay, so particularly for this quarter, what has been the growth of this, for cardiovascular therapy?

**Management Team**

As per IMS data, our cardiovascular divisions are growing around 4% and market maybe growing around 6%. That is what Mr. Jain, said. Our growth in the Cardiovascular is lower than the market growth. So, except there therapy, in all other therapy our growth is better than the market growth.

**Tushar Manudhane**

Got it. And just lastly on the Dewas facility, how much operation cost to be there in the P&L now?

**Management Team**

Till now the cost is hardly any because it's commercialized now. Cost addition will be greater **[inaudible 00:44:47]** in the 2nd half. Cost may remain at, may be around two and half Crore per month roughly, plus additional depreciation whatever is there.

**Tushar Manudhane**

Understood Sir. Thank you.

**Moderator**

Thank you, Sir. Next question comes from Rashmi from Dolat Capital.

**Rashmi**

Yeah, thanks for the opportunity first. Can you update on Ramdev plant and Lyka plant? In Ramdev plant, I think last year, as you mentioned that, we were looking to file some products for the European market. Have you done that and when do we expect approval and the commercialization of those products, and currently is it taking only to the domestic market or the rest of the world market? And second question is on Lyka plant, I think, again from this plant, have we started supplying products to any of the market, it is update on that thing and also on the capacity utilization for both the plants.

**Management Team**

Ramdev, Rashmi many products' development work is ongoing. A few products are at the late stage and one more, few product also, we have also filed dossier. That to get commercial benefit out of that will take time, because you will need the product registration and all. See, earlier most of their business was coming from intermediate sale which we have more or less completely stopped now. So, it maybe another 3, 4 quarters for Ramdev to come to its full capacity utilization. As far as Lyka is concerned, **[inaudible 00:46:35]** work is ongoing.

**Rashmi**

So, from the Lyka plant, we are not currently catering to any market, right?

**Management Team**

No, that is what I said, we are taking to market where I am promoting my branded formulation. That is one of the reason why we acquired some stake in this company. The product dossiers are being prepared and they will be filed in many countries going forward. But then filing and ultimate registration and commercialization will take time. There is a gestation period in this business.

**Rashmi**

Okay, for both the plants?

**Management Team**

Country to country registration time also varies. Somewhere you get registration in 6 months, somewhere you get registration in 1 year, 2 year, some places even 3 years.

**Rashmi**

Okay. And Sir, on the guidance part, do you maintain your guidance for India market, then generic market, what you have given in the last quarter.

**Management Team**

**[inaudible 00:47:36]** business where we gave guidance of about 5% growth. Instead of that we believe by the end of this year, there will be some degrowth, 2-3%. Other than this all-other guidance, whatever are given, we will maintain that.

**Rashmi**

Okay. And on the EBITDA margin front, this year I understand that you also mentioned that there would be, operational costs will be still high and we have added people. So next year how do we see EBITDA margin from your current guidance of around 21%? Whether we will be able to see any kind of expansion or we could remain more or less at the same level, or we will see some kind of cost softening and that will actually lead to some kind of expansion?

**Management Team**

Actually speaking, this financial year is very difficult, cost pressure, demand issues, so many regulatory problems with the API, Nitrosamines impurity and, plus, over and above that we have added about 1500 people in the domestic market. In spite of that we are delivering this kind of EBITDA margin. We are very confident on these people become productive people who are added in the domestic market, plus all these demand issue and all other problems which are there, regulatory-wise, once they're all resolved, EBITDA margin will definitely improve.

**Rashmi**

Okay, and what are the.

**Management Team**

**[inaudible 00:49:04]** 24-25% EBITDA margin 3-4 years down the line.

**Rashmi**

Okay. And the guidance which you are giving is basically including the other income also, right?

**Management Team**

Other income is, Madam, more or less it is repetitive income, every quarter, it is there. **[inaudible 00:49:24] g**iven include other income. Definitely yes.

**Rashmi**

Okay, Sir. I got it. Thank you so much.

**Management Team**

Thank you.

**Moderator**

Thank you, Madam. Next question comes from Rahul Jeewani from IIFL Securities Limited. Please go ahead.

**Rahul Jeewani**

Yeah, hi, Sir. Thanks for taking my question. Again, on the EBITDA margin guidance which We have provided of 21% for FY23, I think we refer to the margins for the standalone business. But if we see between the standalone and the console business, there is a margin differential of almost 200 basis points. So, if you can also comment that, how are you looking at the margins for the console business this year and potentially over the next 2-3 year period as well?

**Management Team**

Basically, the difference is mainly because in this quarter, there was some exceptional losses in the Bayshore accounts. So, all these COVID sale and the post COVID, whatever returns and discounts and all, because of that, it was a exceptional thing, this particular quarter. Otherwise, more or less the standalone and consolidated EBITDA margin should be more or less similar. Only two companies are facing difficulty little bit, Pisgah and Ramdev. As I said, Ramdev should be back on track maybe in another 2, 3 quarters. Pisgah may take another year or so. Other than that, whatever this difference is there, it will definitely come down going forward.

**Rahul Jeewani**

Okay, sure. Thanks. That's it for my side.

**Moderator**

Thank you, Sir. There are no further questions. Now, I would like to hand over the floor to the management for the closing come.

**Management Team**

Thank you, everybody, for participating in this Con call. There is nothing further to add. Thank you. Thank you, everyone.

**Moderator**

Thank you, Sir. Ladies and gentlemen, this concludes the conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have pleasant day. Thank you, Sir.

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***Note:*** 1. This document has been edited to improve readability
2. Blanks in this transcript represent inaudible or incomprehensible words.