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Dear Sirs,

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith transcript of our Conference Call which was held on Thursday, 16th February, 2023 to discuss the Company's Q3FY23 earnings and business update.

Thanking you

Yours faithfully
For Ipca Laboratories Limited

HARISH PANDURANG
KAMATH

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Harish P. Kamath
Corporate Counsel & Company Secretary

Encl: a/a

"IPCA Laboratories Limited Q3 FY '23 Earnings Conference Call"

February 16, 2023

MANAGEMENT:	**MR. A.K. JAIN – MANAGING DIRECTOR – IPCA LABORATORIES LIMITED** **MR. HARISH KAMATH – CORPORATE COUNSEL AND COMPANY SECRETARY – IPCA LABORATORIES LIMITED**
MODERATOR:	**MR. NITIN AGARWAL – DAM CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the IPCA Laboratories Q3 FY '23 Conference Call, hosted by DAM Capital Advisors Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the 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. Nitin Agarwal. Thank you, and over to you, sir.

Nitin Agarwal: Thanks, Mike. Good afternoon, everyone, and a very warm welcome to IPCA Lab's Q3 FY '23 Earnings Call, hosted by DAM Capital Advisors. On the call today representing IPCA Labs' Management are Mr. A.K. Jain, Managing Director, and Mr. Harish Kamath, Corporate Counsel and Company Secretary. I will hand over the call to the IPCA Management team to make the opening comments and we'll open the floor for questions. Please go ahead, sir.

Ajit Kumar: Good afternoon. Thanks, Nitin and DAM Capital, for organizing this call. Good afternoon to all participants, and thanks for taking out time and joining us for Q3 FY '23 Earnings 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, business faces. Our actual or 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 has delivered 9% growth for the quarter from INR 645 crores to INR 702 crores. First nine months of the year, the domestic business has delivered a growth of around 10%. In segment both Rheumatoid Arthritis and Osteoarthritis continue to lead the business with 15% growth for the quarter.

Cardiovasculars and Anti-diabetics segment growth has been lower at around 2% for the quarter. Antimalarials, continuously in last three quarters, continued its decline. Even in this quarter, it has declined by almost around 36%, Antimalarial domestic business. And overall for all three quarters, this business is declining by almost around 37%.

In spite of all that, we have continued to improve our market share in Indian pharma market in last five years. In 2018, our market share was around 1.85%, '19 it became 1.61%, '20, it became, 1.76%, '21 it became around 1.77%, '22 it has become 1.86%. So on a continuous basis, we are improving. Not only improving our market share, we are also improving our rank. We were 21st company, now we are 17th company as per IQVIA's numbers.

We have five brands in Top 300 brands and all five brands in current year have improves its further ranking. Zerodol-SP is 17th rank brand now with nine-rank jump over last calendar year. Your Zerodol-P is 57th rank with six-rank jump over last year. Hydroxychloroquine is almost around 132 rank with 14-rank jump over last year. Zerodol TH is 264th rank with 38-rank jump over last year, and Folitrax is 284th rank with 33-rank rank jump over last year. So all five top brands have jump the ranks in the current financial year overall. These numbers are based on the IQVIA trade audits late December '22.

We have consistently outpaced the industry growth in last four years, with the highest growth in Top 30 company. With three-rank gain over previous year, IPCA is ranked now 13th in Acute Therapies, and one-rank gain over the Chronic segment. Now, we are ranked 18th in Chronic segment. In late December '22, we have outplacement industry in both acute and Chronic growth as per the IQVIA numbers. With the addition of almost around 1,500 reps in the current year, we hope that we will continue to improve our penetrations in the market and further improve our market share in domestic market.

Most of the product where the NLEM pricings was to announce is already announced and published now. We expect almost around 15% reduction in the control segment Scheduled Product pricing in the –whatever, we have almost around 104 SKUs on which the prices was to be announced. And everything is announced now.

The price reduction is in the range of around 15%. And with almost around 12% price rise, which will happen in April, overly, probably, for next financial year, the overall reduction in Scheduled Formulation prices would be almost around 3% to 3.5%, in between. And by and large, the impact of these price reductions will happen only for the -- maybe around three to four months in the month of February, March, then April is the going to be the major. By the time the new prices will come, from May onwards, I think overall reduction will come down too, but Q4, impact would be full.

Overall, our Scheduled Formulations' contribution to the overall business has gone down significantly now, because one is Antimalarials, which are mostly Scheduled Formulations. That has declined. And also because of this reduction in pricing and all. So overall, Scheduled Formulations are now contributing only 17% of our business. So rest of our product portfolio is not covered in the Scheduled. It's all non-Scheduled Formulations.

On Export Branded Formulation market, this quarter we have delivered growth of around 17% from INR 109 crores to around INR 125 crores. For the first nine months, the business growth has been around 11%, and I think for whole of the year we should be growing in excess of around 17% to 18%, the fourth quarter growth will be further significant in the Promotional market segment. Market like Latin America, Middle East, Africa, Southeast Asia has delivered better growth for the quarter. [SEAs 0:07:02] has delivered around 11% growth for the quarter.

Generic export business including Institutions has delivered 14% growth, and excluding Institutions, the growth in Generic business has been around 6% for the quarter. After first two quarters of decline, because of various issues which were facing, industry was facing lower demand of API, price reduction, nitrosamine impurities, azido impurities, all these issues, and therefore business of active pharma Ingredients has declined in first two quarters.

API business, this quarter, has delivered around 4% growth to around -- from INR 310 crores to INR 322 crores. For the first nine months of the current year, the business has declined by around 7% from INR 1,084 crores to around INR 1,004 crores. But most of these declines will get covered in the fourth quarter of the current financial year. We hope that probably, there may not be any decline in the API business in the current year. There may not be a growth also. It's just going to be a marginal site. And although ongoing issues like nitrosamine impurities or azido impurities and all which the regulators were facing, all those issues are now since have passed. There are no issues left of that nature now.

This quarter, material cost to total income ratio has come to around 34.13% as against 32.46% in third quarter in last financial year, an increase of almost around 1.67%. Largely the inputs cost rise was there, mostly in the solvents or maybe aluminum foil, but ongoing China COVID issues and higher cost inputs got converted at lower API prices. That has resulted.

And KSM price trends are also towards decline and therefore whatever KSMs we were holding, because of the price reduction, this impact is there, but we don't foresee that our gross margin in time to come, we will be able to go back. Gross margin is not a concern for us. It's a short-term issue.

For the first nine months of current year, our material cost ratio is around 33.88%, marginally higher than 33% in last financial year. The price softening trend, we hope to improve our gross margin in coming quarter. The other expenses include forex loss of almost around INR 16 crores for the quarter as compared to a gain of around INR 10 crores in last financial year.

Apart from be above, other expenditures has largely gone up because of higher promotional cost in the post-COVID era. And large addition of medical representative additions of almost around 1,500 is also contributing to the higher cost. With their becoming productive in next financial year, we hope that this ratio will also get corrected.

Our fourth quarter growth is expected to be almost around 10% to 12% range, and we expect that much better growth will come from Branded Promotional market. Generic formulations and API business, all three will contribute better growth. EBITDA margin for the fourth quarter may get further impacted due to the change in the Scheduled pricing and price reductions, which will get some impact during the fourth of the year. But we are confident that next financial year, our margins will certainly improve.

Having given the broad numbers and guidelines, I request now, participants, to ask questions.

Moderator: We have the first question from the line of Kunal Dhamesha from Macquarie.

Kunal Dhamesha: The first question is on the MR additional. I think till last quarter, we were at 1,200. Now we have said we will add 1,500. So are we done with that addition? Is the incremental cost already baked into Quarter 3 number?

Harish Kamath: Yes, that number is done now. Almost around 1,500 people are added. There are certain vacancies, but broadly it's done now.

Kunal Dhamesha: And sir, if that is done, then why we are not able to see the jump in the employee expenses? Because I believe the fixed salaries, it would be part of employee expenses, right? And the allowances will be part of other expenses…

Harish Kamath: Last financial year, our business growth in domestic was significant higher, almost around 28%, 29%. And therefore our incentive payment last year was very, very high. It was the much, much above normal incentive because from incremental sales, people get much higher incentive. And this year, the overall growth numbers are lower and therefore incentive payments are also lower. And that is offsetting the increase in the cost. So overall, it's appearing that overall manpower cost has gone up by 13%, but in fact, excluding incentive, it's on higher side.

Kunal Dhamesha: And secondly, if I look at on a nine-month basis, our margins have kind of compressed by around 650 basis point. That excludes any forex loss or gain from both the years. Can you kind of provide some kind of clarity in terms of what are the major drivers, one being the MR cost impact that is already baked in into these nine months? Similarly, let's say, power and fuel cost increase, which are the major drivers of this 650 bps, and which of them you see reversing over the next year?

Harish Kamath: Number one was material cost. Practically, it's around 1%. It has gone up by 0.89%. The second head has been the personnel costs, which has moved by 0.72%. The major increase has come in the manufacturing as our expenses, which is almost around 4%. So, that is major increase. Material cost front, we are not worried now because overall, there is a softening and by and large, all the old KSM inventories which were weight more particularly in API and API business outflows, and particularly also the certain inventory which got stuck up because of nitrosamine, which was at -- their procurement price of KSM was much, much higher compared to the current prices.

So practically, 17%, 18% higher prices. That has also not only increased the material cost, it has also depressed the margin because KSM prices have come down. So that has happened in many, in fact, KSM price. And KSM prices are soft. So overall, material cost ratios are going to be soft, and I think overall margins will improve.

Personnel cost is higher because the numbers have moved up in current year, and that has resulted 0.72% kind of overall increase in personnel costs.

As far as manufacturing and other expenditures are concerned, by and large on manufacturing side, as against our growth of, let's say, around 9%, 10% overall increase is around 13% is the increase in manufacturing side. Largely, the power tariffs were not increasing for last two years during COVID times. So most of State boards have increased the power tariffs. The energy cost continue to remain very high. I think, overall energy cost number increase is almost around 45% for current year. So, that has been very high, because the all the coal and other coal furnace foil and all that we buy for energy, that has been at a very, very high level.

Analytical cost has also moved significantly, because now lot of batches need to be test for nitrosamine tests and so many other tests are introduced there. So, testing cost has significantly, plus this year also, lot of work has been to reestablish the methods, more particularly for all those kind of testing. And since lot of work has at the same time, so lot of work also need to be given outside because everything cannot be done in-house at a [inaudible 0:17:02]. So, even that cost has been high.

Then, travel costs mostly doubled. That's another cost. Shipping costs, in first two quarters was very, very high, but from third quarter onwards, the shipping costs have started coming down. Then it's a promotional costs. The major impact during the year has been the promotional costs. And practically, that has moved up by almost around 50% in the current year.

So that is a major impact, is also addition of the people and also various activities which we wanted to do as a company on various therapy areas and all that. Those activity was not there in last two, three years, and lot of those activities was done. And because of that, the promotional cost is on a higher side. And that is the major contributing factor for this.

With the productivity additions and with people becoming productive, these costs will come down. Energy costs, we are not seeing much of trend in further reduction, but if petroleum product cost comes down little bit, then probably that cost may come down. But overall, there'll be reduction in the cost, because of higher productivity additions and also material cost softening and all that. So with that, the margins will improve.

Kunal Dhamesha: And would you be comfortable providing any broad range in terms of EBITDA margin improvement for next year?

Harish Kamath: I think it could be remain in the range of around 21%.

Moderator: We have the next question from the line of Cyndrella Carvalho from JM Financials.

Cyndrella Carvalho: Sir, in terms of the NLEM impact that you've mentioned, have we taken it in this quarter already or some of it will flow in Q4 as well?

Harish Kamath: I think most of the impact is going to come in Q4, because price enhancement started late, in late December. And so December impact is, I will say that very marginal. Most prices have started getting announce in early December, and then, I think it has now completed. I think we have almost 104 SKUs, which are in price control. All product prices are announced. 10, 12 prices are announced yesterday only.

So, all those price announcement, I would say, I can give the number now. We have got the numbers. It's around INR 70 crores reduction on annual basis as far as NLEM portfolios price reductions is there. And it's working out to be around 15% of the NLEM product sales. Out of this, 12%, as I already said that around 12%, we will get the wholesale price increase. So overall impact will be 3%, 3.5%, not more than that. And that too, it will remain for three to four months, because we are now keeping very low inventories of products and so, hopefully we'll be able to do a faster implementation.

So it's only going to be say your January, February, March and April, these are the four months in which the impact would be there. And thereafter the -- and our NLEM contribution has also come down. Now, it's only 17%, whereas largely Antimalarials are in big way in price control. Our Antimalarial business has gone down. And with that, overall, NLEM contributions to the overall, say, business is only at around 17% now as on January-end. So overall, 83% of our portfolio is out of price control, I would say. And so those impacts are going to be marginal now.

Cyndrella Carvalho: Sir, in Q4, we'll see some impact on the overall gross margin because of this?

Harish Kamath: Yes, Q4 will be the highest impact. Because Q4 will be all 15% kind of impact on NLEM product would be there.

Cyndrella Carvalho: And sir, we've not building any [inaudible 0:21:31], because of the price cut in the INR 70 crores number that we are seeing, right?

Harish Kamath: That INR 70 crores is for full year. I'm taking full-year basis. And in Q4, the impact maybe a little more also because of the trade inventories in the market also. Trade will ask for credit notes. And we will have to give them credit notes. So we are in process of verifying as and when the prices are announcing, all these fields are verifying all the stockist inventories and other things. And all those credit note business will also be there in the fourth quarter. So fourth quarter impact would be greater for industry.

Cyndrella Carvalho: And sir, if we look at our India domestic business, our Zerodol franchise continues to do well. But are there any other segments or specific therapies which are kind of impacted our overall growth?

Harish Kamath: The Cardiovascular business, which we want to grow fastest. In fact, as far as industry numbers are concerned, they're looking at that, we are, in fact, in Chronic segment, we are having jump of one-rank, but our overall growth in Cardiovascular segment in current nine months is only around 4%. So, it's a low number. We expect it to grow much faster. So that number is lower.

Antimalarials has declined by around 37%. But our other segments like, and Antibacterial this year has declined by -- because last year, we had almost around 100% growth because of COVID issues and others. On that, there is a very marginal decline, on Antibacterials in first nine months, we did a business of INR 134 crores as against INR 143 crores. So around INR 10 crores decline. So it's not significant in spite 100% growth in last financial year. In fact, that is building base for our future growth also in Antibacterials.

Our CNS business is growing by around 18%. Cough and Cold, despite last year's significant business, we have growth of around 10%. Derma is growing by around 18%. Neuro is growing by around 13%. Ophthalmology portfolio is around 17% kind of growth. So by and large, Neuro therapies are also doing very well for us, yes.

Cyndrella Carvalho: And sir, on the Cardio, Diabetes, even the segment is also not improving as highlighting, so what is our strategy here? What are we trying to play to gain higher share and faster growth?

Harish Kamath: As far as this segment is concerned, now we have very good recognitions at marketplace with whatever work we have done in the last few years on our CTD range and other range, and we have added two more divisions in Cardiovasculars in current financial year.

In fact, the one of the reasons for little lower growth is also because of the addition of people because doctor-product relationships and all get disturbed and all that. So that is also one reason for lower growth that is around 4%. But with addition of these two marketing divisions in Cardiovascular and the addition of products, we will certainly have a much higher growth in time to come in Cardiovascular.

Moderator: We have the next question the line of Dheeresh Pathak from White Oak Capital.

Dheeresh Pathak: Sir, for the domestic business, the Cardio and Diabetes and the Antimalarial portfolio has not done well. So for the full year last year, FY '22, what would have been the sales in the domestic business for these two therapies?

Harish Kamath: I'll give you the number, just a minute.

Ajit Kumar: Yes, Dheeraj, Antimalaria last year was 5% of my domestic business, and the Cardiovascular and Anti-diabetes was 17%. So both put together around 22%. Out of that, 17% portfolio is growing at 4%, only that 5% portfolio of Antimalarial, they are de-growing at around 35%.

Dheeresh Pathak: But you're saying ex of this, the balance 78% of the portfolio is growing at mid-teens, right? Because you said Pain and Rheumatoid is growing at 14%, 15% and then you listed Opthal, Neuro, Derma, everything going at mid to high- teens?

Ajit Kumar: 17%, 18%. Yes. So other therapies are growing definitely anywhere between 12% to 20%.

Dheeresh Pathak: So sir, what are we doing to increase the growth? Because Cardio and Diabetes, that covered market would not have grown at 4%, right? Have you lost market share? What is in this…

Ajit Kumar: In fact, we have increased. In fact, our rank has jump in cardiovascular side. That's what I said in the opening remarks as far as on Chronic segment, overall, our rank has also jumped. I've now become 18th company in Chronic segment. We were 19th earlier a year earlier. So compared to market, we have done better and compared to…

Dheeresh Pathak: So why is the market only growing at 4% in those molecules?

Ajit Kumar: It's only because of [divisionalization 0:27:14] in current year, certain lower end products, because the product reshuffle has happened. So with that, all those markets get disturbed. Whenever there is a realignment in business and all that, some disturbance happens. And this is the year where we have added two more cardiac divisions and reshuffled the products and all that. So there is a suffering on that account, yes.

Dheeresh Pathak: No. Sir, you have anyway grown better than the market. I'm saying, why is the market in those Cardio and Diabetic portfolio is not growing more than 4%? You've done internally, right? What has happened to the market overall?

Ajit Kumar: Market overall, there is probably in Chronic segment, people were keeping, one is higher stocks. The people buying because of COVID times and all six-month stock to one-year stock, many people were buying that way. So those demand has now is normalized. So now buying is on a normal pattern. So that could be one factor.

Second factor also could be that a lot of the people who are in old age and all that and taking so many medicines, they've also disappeared from the market. So that's also maybe one factor, which because a lot of old people have died, which were using a lot of cardiovascular drugs, significant amount of cardiovascular drugs.

So post-COVID also, that also may be one of the impact could be there in this market, because we have never seen this kind of growth in Cardiovasculars and Antidiabetics for last 15, 20 years. This market has been significantly moving up. It's only the current year that your market itself has not done that well.

Dheeresh Pathak: Which are the main molecules that were presented in Cardio and Diabetes?

Ajit Kumar: We have presence on diabetes all the main kind of molecule like, we have sulfonamide urea we have, we have are all these newer drug…

Dheeresh Pathak: Metformin, the newer ones also you have HBMC-2 and BPC-4?

Ajit Kumar: For which, we're not marketing as an individual single drug, but we have these newer product portfolios. And like gliclazide we have, glimepiride we have Vildagliptin we have, yes.

Dheeresh Pathak: And in cardio?

Ajit Kumar: On cardio side, we are on beta blockers, and we are also there on chlorthalidone. And now the newer molecules whatever has come in the market, we have introduced at the same time.

Dheeresh Pathak: And sir, last question, could you say the 21% EBITDA margin for FY '24?

Ajit Kumar: Yes. That's what I told, yes.

Moderator: We have the next question from the line of Amit Kadam from Canara Robeco Mutual Fund.

Amit Kadam: Sir, I have two questions. One thing is in an opening commentary you mentioned that because of API prices, my gross margin had impact. So just wanted to understand, ex that particular API, so ex API, our gross margins would have been better or has it done better in the at least sequentially?

Harish Kamath: If you exclude API business, definitely, yes.

Amit Kadam: And then just wanted to understand how the – like, now the prices are for the overall API basket, how our export numbers are looking forward, especially like the regions like UK, the ROWs? And then just your early commentary on how we need to look at the tender business going forward in FY '24?

Ajit Kumar: I would only say that your ROW markets, we are doing well. I think for first nine months, we had 11% growth. This quarter, we had delivered 17% growth. Fourth quarter is going to be much better. And overall, I think branded promotional market for the whole of the year would be growing around -- in the fourth quarter is going to be significant. The growth may come to around 15% to 16% for the whole of the year for in the Branded Promotional market. In most markets, we are doing better now. All these issues of whatever COVID related issues and all that are not there.

As far as your Institutional business is concerned, probably it's going to be in the range of INR 300 crores to something plus. We expect one more product approval that could have a scope of almost around INR 50 crores, INR 60 crores addition in the business. But with that addition, I think the institutions may reduce the buying of your KL. That's what we are looking at. And so overall, Institutional business, I'm not giving much bigger number. I think overall, may remain between INR 325 crores to INR 350 crores, that's the kind of number could be there in your Institutional Generic business.

Amit Kadam: Sir, in the API business, has the drawdown in terms of like the price coming or going down, so has that stopped?

Ajit Kumar: No, prices now, there is no as such dropping has already happened. Because whatever KSM's, the trend has gone down, that has with that even prices dropped. Already happened. We are not seeing now further decrease in overall in the prices. And we are also not seeing the KSM prices further going down. With that only now, with the demand picking up, KSM prices will also start moving in next year, a little bit. And API prices will also move in line with that.

Amit Kadam: But how the market has behaved in last few months, just to understand where it's getting settled?

Ajit Kumar: Most, I think API players had poor businesses in first two quarters. We also had a decline in the API business in first two quarters. This quarter, we have done better, around 4% growth. In fourth quarter, we are looking at much better growth. Overall, I think we will have some recovery in the API business in fourth quarter. Currently, we are at around 7%, 8% kind of decline in API business. I think that may entirely get covered in fourth quarter. That's what we are looking for.

So probably there may not be a growth. We may be at last year, we did almost around INR 1,311 crores kind of business. We may be more or less at the same number, more or less in API businesses. Good ground will be getting covered. And all those issues which are that regulators were looking for, azido, nitrosamine impurities in all those products, every product that needed to be tested for all that and revised method needs to be worked out to test every product and all that. You're all filing in various markets on that. All those works are now done.

So there are no those disturbing factors, and all those excess inventories in the market, because the developed markets were definitely carrying higher, higher inventories of API and higher inventories also of the generics. So those also, inventories have now getting depleted and all that. So probably API business will also have a good recovery in the next financial year.

Amit Kadam: Sir, next year, in FY '24, on this particular base, any new product launches and new geographies will be, because we have an expanded capacity available so on that, can we see that organic growth to Q2?

Ajit Kumar: Yes, the expanded capacity, by and large, what's happening, we have, I think, lined up almost around 11 to 12 product validations at Dewas. And each product validations take almost around two or three months' time. So most of the time, we'll be going and filing. And I think filings will start somewhere in, I think, in early next year, beginning, filing should start. Thereafter, the inspection should happen of that plant. So because for a filing unit to have six month stability and then your dossier compilations and then filing.

Some of the regulators may come early, some regulators may come late. So hopefully, next year, some, at least a few inspections should start happening from of that site, and we should start getting approval. Post that, the business would increase. So right now, we are not in our projections, we are not adding any kind of business increase coming from Dewas plant because some of those kind of production may happen and we may sell in domestic markets and all because there, you will not need any kind of approvals all those approvals are already in place, licenses and other things. Even GMPs are in place. So that's not an issue at all. But your developed market business will only start after the inspection of the plant.

Moderator: We have the next question line of Surya Patra from Phillip Capital.

Surya Patra: Sir, if you can give us an understanding whether the high cost inventory is likely to sustain for or what more period? So whether it will be depleted in the coming quarter or if it will take a few more quarters to deplete so that some sense on the margin front that we will have?

Ajit Kumar: I think most of the inventories are now depleted. It's only a matter of, let's say, for fourth quarter, I think will -- some more will go. But except one particular KSM, of Antimalarials, where I think compared to the market, I think current pricing, my overall procurement average price may be around $30 to $40 higher because we were the early one to do the tie-up and since the procurement and did not happen so prices has -- it's more particularly for [inaudible 0:38:18] in that prices have dropped to around $140 or so. My average holding maybe at around $180.

So that's only the KSM where it may have some impact for the next six, eight months, six months, I would say. But all others have normalized, will normalize in this quarter. Yes, next quarter.

Surya Patra: And sir, if you can give some sense about the promotional spend during this nine-month period? Or directionally, how much that it would have gone up versus last year?

Ajit Kumar: I think almost it's around 40%, 45% that has moved up compared to last year. And more or less, these numbers would remain at same level in next year. So with increase in the business, the promotional costs will not go up. And that will add to the margins now. And a lot of these people added, there also, the marketing cost or promotional costs have gone up. But whereas it has not added to the productivity to that an extent. So that will also help in building the margin. Yes.

Surya Patra: Sir, about the revised or the new process about the sartan the after the impurities issue that you had filed, so, any update on that? So have we started seeing some recovery?

Harish Kamath: No, we are back on normal business, both Valsartan as well as Losartan. There are no pending issues, Surya.

Ajit Kumar: All approvals are received.

Harish Kamath: Everything is in place. There is no issue.

Surya Patra: Sir, you have provided some update about the Dewas. But if you, means, sir, since some time, we have not heard about the Nagpur site, which was expected to a kind of KSM or intermediate site. So if you can give some sense about it?

Ajit Kumar: Nagpur, I think two months back, we have got the final clearance from the government on environment side, because they have put earlier one condition that you need to get a Forest Department approval. And it took almost around one, 1.5 years' time to represent and see to it that the forest clearance is not required for this site, which finally the Environment Ministry in Delhi has accepted the Maharashtra Government's recommendation that this site doesn't need any kind of forest clearance, because there are certain parameters defined that it has to be in that much kilometers from all these wildlife and everything. So it doesn't fall in that category, but it has taken almost around very long time because forest is a multi, multilayer kind of approval, so they're most stringent approval.

So it took a long time. And finally, we got. We are working on some kind of flow chemistry projects, which will be put at Nagpur. But because of these delay, one particular product which we were to transfer to Nagpur that we are putting at Aurangabad. So that plant is already ordered. So that is not going at your Nagpur, it is going at Aurangabad. Probably, it's only in the next financial year, something would happen on that. So right now, we are only at, basically drawing board stage, not finalize any kind of capex on that front right now.

Surya Patra: Sir, just last one question. So this tax rate that we have guided, so I think we are currently at a much higher than the indicated tax rate levels for the current year. So how should we be building on that for next year?

Ajit Kumar: See, the tax rate now from 18% has moved to 25% because our opting for that method. And now because of all these judgment of Supreme Court and also last budget revision or disallowances all the promotional costs. So that is adding almost around 3% to 4% kind of additional tax. So tax rate is likely to be in the range of around 29% to 30% kind of rate.

Moderator: We have the next question line of Kunal R. from Nuvama.

Kunal Randeria: Sir, this testing cost of the APIs that you spoke of, is it restrictive to sartans or other products also? And is it an ongoing expense?

Harish Kamath: It is not only for sartan, most of the other APIs also. And more or less, that cost is now already, I don't think going forward, there would be anything of that nature.

Ajit Kumar: See, nitrosamine is one kind of thing, which is to be tested for all APIs, including our Antimalarials and everything, all generics, all your formulations and all APIs, everything need to be tested. And it's in parts per billion. Somewhere it's maybe around 35 part per billion, somewhere 15 part per billion. So everything has to be done. And it can come from anywhere. It may not be there in your product, but it may come from water, it may come from anywhere. It can come from any kind of excipients which is being used. So a lot of validations need to be done and see to it and all these numbers have to be filed with regulator.

It's a huge amount of work industry has done in last financial year. On API, intermediates, formulations, excipients, everywhere it needs to be tested because all the new standards are set. So that was a very, very tough work, which industry has done in last year. It's a big, big…

Kunal Randeria: But sir, if it comes from water also, that means it has to be an ongoing thing, right? Because…

Ajit Kumar: Yes, so, testings are going to be ongoing….

Harish Kamath: But initial testing, method validation, development, that takes a lot of time and a lot of money. Once it becomes a routine part of your process of testing, then there is not much issue.

Ajit Kumar: Because when you establish, so many components you need to test. But once you are final product, finally everything is okay, then only our final product testing because there are 10 components and all 10 components need to be tested. But suppose in final product, it's coming in the range or lower than that range, then subsequently, it's only one test.

Kunal Randeria: Sure, sir. And sir, maybe some aspiration guidance…

Ajit Kumar: Establishing the method of testing, method of -- is a very big subject, and then validating that.

Kunal Randeria: And I assume, all the manufacturers would be going have been testing…

Ajit Kumar: Yes, everybody has done that. Everybody, every formulation, it's a big, big exercise, yes.

Kunal Randeria: And sir, maybe some on a slightly longer term, maybe a two or a three-year kind of outlook, maybe some aspiration guidance for generic export and API, you would like to share?

Ajit Kumar: Like I said, as we have already talked that we are already talking that from here onwards, our API business should double. Formulations, we are continuously doing very well in the market. We are growing around 1.5x the market growth. And with that, and domestic because with the addition of people and all, it should continuously add to the market share.

In the last four years, we have had a significant market share from 1.58% to 1.86%. So we will continue to do that. And the first time I think in current year, we will be crossing, I think ROW market business of around INR 500 crores. And at that level, we should continue to grow around 15% to 16%, 17% on ROW market business.

So overall, the growth in time to come is going to be good. But overall, we will give the guidelines when our overall budget for the current financial year is finalized and maybe at around the time first quarter results and all, our annual results. Around that time, we will give the guidance for the next financial year.

Kunal Randeria: And just as one follow-up to this. If you talk of API doubling, what would be the main driver, maybe would it be new products? Or do you believe there is a lot of headroom for existing ones?

Harish Kamath: Even in the existing product, there is a lot of headroom. So it will be both, new products as well as volume growth in the existing products.

Ajit Kumar: Plus capacity additions and new product…

Kunal Randeria: So I assume demand is not a concern for you. It's just…

Harish Kamath: It is not recorded, no.

Moderator: We have the next question from the line of Nikhil from SIMPL.

Nikhil: Two questions. Sir, like last quarter, and this was an industry phenomenon in API, that the KSM prices were high but the API prices has fallen. As a result, the profitability in API business has been impacted. Now, during the call, you mentioned that the API prices have fallen, but they are not falling anymore. And the KSM prices have also fallen, but not falling too much.

Harish Kamath: That is right, yes.

Nikhil: So if we look at the profitability of the API business, based on the correction in the KSM prices and everything, are we back to the normal profitability or is it….

Harish Kamath: No, not in the third quarter. See what has happened, actually, whatever KSM we purchased at higher prices, they got converted into API, which got sold at a lower price. So that was going on for last two to three quarters. Maybe some pain will be there in the fourth quarter. But from the next financial year, first quarter onwards, everything should be back to normal.

Nikhil: So the net profitability on API should be back to what it was in…

Harish Kamath: I mean to say that the gross margin on API business will improve.

Nikhil: And this 12% price increase on the NLEM which we mentioned is the WPI price increase, which the whole industry will take?

Harish Kamath: Yes.

Nikhil: And last question, sir, like if we look at last 1.5 years for IPCA, the cost pressures were too significant. So prior to, like in around second half of '21 and all, we were close to a 24%, 25% kind of EBITDA margin. And then there was a high freight cost and then the API cost increases and the testing increases, all of that has impacted very badly and this quarter was a worst quarter.

Do you think from here on, with the cost pressures and everything getting normalizing on freight and power cost and everything can we come back to what we were doing at around 24%, 25% on a longer period, not in next two, three years, but is the business still able to maintain that 24%, 25% or do you think it could be a difficult task?

Harish Kamath: See, last two years, there were also benefit of COVID business, correct? Because of that, margins were very, very good. But having said this, now Mr. Jain has already explained. This year, there is an unusual, one is increasing the people, expenses, energy cost as well as increase in the material cost, correct?

So these two things are taking away around 5% to 6% of my margin. As we progress, our business will grow because of addition of the people. This material cost, whatever, 1.5%, 2% negative is there, it will become positive going forward. And as the people will become productive, even the other expenses portion where we are today 4% increase is there, that will also become normalized. So going forward, definitely, margins should improve.

Ajit Kumar: No, so, current year, even Dewas plant all costs are debited to P&L account, there are no business. It will -- all cost only because till the time we start filing and getting approval, depreciations and all your people cost, testing costs, all the energy cost, everything is debited to P&L account, and there are no top line coming from that plant. So it's only validation mode. So it's a one-year 1.5 years, that pain is there in pharma industry everywhere. So that is also getting debited to P&L. It's not only people costs, it's also the plant and capacity cost is also adding to the overheads.

Nikhil: And last thing, what would be capex guidance for next year, '24-'25? Any large capex or we would just look at utilize, improving the utilization…

Harish Kamath: INR 200 crores is our depreciation and maybe INR 400 crores to INR 500 crores level will be the total capex, including routine maintenance capex.

Ajit Kumar: Only new thing what we have budget we have is a biotech project which is coming up in MP, where we have around INR 150 crores kind of investment. So that will be commissioned next year. We have almost around five products in pipeline now, two around are in clinical stage now. So we are building the capacity for biotech projects.

Nikhil: This INR 500 crores was cumulative for two years?

Ajit Kumar: Yes.

Harish Kamath: No, it is each year.

Moderator: We have the next question from the line of Tushar M. from Motilal Oswal.

Tushar Manudhane: Sir, just extending this discussion on this biotech. So what sort of projects are we working on…

Moderator: Sorry to interrupt, Tushar, your audio is not very clear. If you go off the speakerphone or come closer to the mic?

Tushar Manudhane: I will come back in the queue, maybe.

Moderator: We have the next question from the line of Dheeresh Pathak WhiteOak Capital.

Dheeresh Pathak: Sir, on this forex loss and gain that we show, what is the underlying nature of the -- underlying reason for this? Can you just explain like which currency is it linked to and which market is this operation linked to? What is it?

Ajit Kumar: By and large, all these forward contracts, we have today not much of forex liability, but we have assets in terms of bills outstanding and all that. So your realizations at lower prices and forwards, the readjustment is all debited to P&L account. If you look at current year, we have realized gain of -- realized loss is around INR 6.68 crores, unrealized loss booked in account is around INR 35.22 crores. And overall net loss because of forex is around INR 41.9 crores.

If you look at other breakup of that INR 41.9 crores, there's that INR 21 crores is only account of INR 10.73 crores is on account of packing credits outstanding which were repriced in the books, and foreign currency loans, your ECBs is around INR 10.3 crores.

So INR 21 crores is on account of loans. And INR 20.86 crores is on account of your balances, against the import of material on outstanding payments and by and large better realizations on bills, but on forward side, there is a loss of INR 48.84 crores and INR 40 crores is higher realizations. So overall, INR 21 crores on trade account. And around INR 21 crores is broadly on loans account, that's more breakup.

Dheeresh Pathak: But sir, on the asset side also, we'll be benefiting, right? Because the realization will book at the higher exchange rate in the revenue line item, right?

Ajit Kumar: That's what I said, the realization higher is INR 40 crores and forward gain loss is INR 48.84 crores. And on import side, there are around INR 10 crores loss. So overall, it's around INR 21 crores is on account of your business transaction. Around INR 21 crores is more or less around same level is on account of outstanding loans. Realized loss is INR 6.68 crores. Unrealized loss booked in books is around INR 35.22 crores. And we don't create a reserve kind of things that when the contract gets matured and we debit instantly to the P&L account.

Dheeresh Pathak: Sir, on this did Artemisinin, did you say that you will still have loss on the -- so for last two, three quarters, we've been having this, right? So why is it not running, why is it not rolling over? Because how much inventory do you carry off the KSMS and for Artemisinin?

Ajit Kumar: Artemisinin, normally, it's a seasonal product. So normally, you don't carry the inventory, but you sign contracts, though it's seasonal. It comes in the agri season, you need to do the contract for the entire year. So, your contracts are at higher price, not that you are carrying inventory at higher price. So those contracts you have to honor. It's not that we are keeping every inventory in pipeline, because when your agri output comes, around that time, you need to do the contracts.

Harish Kamath: This particular product, as you know, the price varies. It is an agricultural commodity. History is $140 to $800, just imagine the fluctuation in the price of this commodity.

Ajit Kumar: This year because of tenders there was lower procurement from the authority. So prices have gone down. There are only three, four manufacturers and your contract has to be with only with them because they are all WHO prequalified, again, suppliers of artemisinin. Everything comes from China. 95% of that comes from China, and only three, four manufacturers.

Dheeresh Pathak: No, sir, if everybody is having the same higher cost of agri…

Harish Kamath: I'm the largest consumer, that is the issue. Unless I…

Ajit Kumar: What happens that, suppose your procurement price and now open market prices have gone down. So opportunity to procure at a lower level is -- suppose you are selling API, market would be pricing those API sales at the current price, current artemisinin price. It doesn't matter as far as your Antimalarial formulation business is concerned. But when you do the API business, yes, it matters because we will do the pricing based on not my procurement price, but market price and then same price. Further, I'll not be able to sell APIs.

Dheeresh Pathak: And sir, apart from artemisinin, the other KSMs you carry for like three months?

Harish Kamath: No, there are no other KSMs.

Ajit Kumar: No KSMs of that nature is there.

Dheeresh Pathak: No. Like you said, you're explaining that we are carrying higher priced KSM and the API cost has come down, that is affecting the API gross margin.

Harish Kamath: No. That is what happened till Q3 end, as we speak now, there are not many KSM left out now. See, from procurement to utilization, there is a time gap, because every stage you have to carry inventory. We are backward integrated. So, right from intermediate, we manufacture API, that is why our inventory of KSM in few material is higher than average.

Ajit Kumar: Plus these all sartan inventories were stuck up, which was at much, much higher price. See at $9, it was double the rate earlier. So my procurement of those which -- because of six, eight months, all these issues, approvals and all that a lot of those inventories are now getting disposed off. That's the major issue.

Moderator: We have the next question from the line Saion Mukherjee from Nomura Securities.

Saion Mukherjee: Sir, on EBITDA margin, so there has been a lot of volatility in the past. I mean before the US FDA issues happened, we were at early 20s. Of course, it went up last year and now it has come down, and you're guiding for 21% next year. What's your assessment from a, let's say, three, five-year perspective, where do you see as the business normalizes, the EBITDA margin you think would sort of settle at?

Ajit Kumar: I think from next year onwards, for the next three years, I would see that not significant expansion will happen in field for size. And therefore, and businesses will improve. So overall margins from that level will further keep on rising, maybe around 1% every year or so.

Saion Mukherjee: Sir, you made a comment around the NLEM 100-odd SKUS which have come under price control or the prices were revised, right? So since the revisions just happened and there's an annual income impact of INR 70 crores, this WPI increases would be allowed in these products within a few months? I mean this will get negated? I mean is there a visibility on that?

Ajit Kumar: 1 April, yes.

Saion Mukherjee: There's visibility on that, okay.

Ajit Kumar: Yes. That's the visibility for that, Yes. It's….

Harish Kamath: So whatever price on 31, March, whichever product, you can increase to that extent. It is simple.

Saion Mukherjee: There's no ambiguity.

Kunal Dhamesha: No, there is no ambiguity.

Saion Mukherjee: And sir, on US FDA, we haven't heard much. So I'm just wondering if you have any interactions on why the FDA is, I mean, where are we on the remediation and any progress there, and why we are not seeing much progress on…

Harish Kamath: From our side, remediation work, everything is complete. We are just awaiting inspection, and we are in dialogue with….

Ajit Kumar: So, your GMP inspections, GMP has given in writing that we are nothing, we don't need anything further from you, and we have responded to the inspection team. Now inspection, when they schedule, it's another team, which we are regularly taking, but they don't tell that when they will come for inspection. So they have their own priorities and subsequent. But we are certainly in the -- because now there is absolutely, nothing is asked by FDA as far as or they don't need anything from our side as far as remediation part, and all those issues are things of past.

It's only, they need to now schedule the inspection, that's all. That's not done by the GMP department. That's done by the inspection department. So we are in touch with them, but we don't know when they will come. And they don't tell that when they will schedule. We are sending another reminders to them.

Saion Mukherjee: So, when will the last set of queries you had from the GMP department?

Ajit Kumar: I think a year back. Final clearance has come six months back. They don't need anything further from us, yes.

Saion Mukherjee: And sir, can you also give us, you mentioned about this biotech project, some capex you are doing. So if you can give some details of what are the products, what kind of -- what is your overall thought process on this project?

Ajit Kumar: I think it's too early. We will not like to talk of products right now, yes.

Saion Mukherjee: So these are biosimilar products or what…

Ajit Kumar: Biosimilar, Yes.

Saion Mukherjee: And you want to do it for the Indian market, you have a CDMO plan or…

Ajit Kumar: We have taken the developed markets consultations from the regulators. And all your clinical trials and everything is going to be in line with that. Indian market, you cannot make money because, it has to be for global markets, yes.

Saion Mukherjee: But sir, typically, the costs are very high. So if you have to run clinical trials, will that mean there would be significant increase in R&D investments over the next three, four years as these projects come to clinics?

Ajit Kumar: I think there are some kind of the -- each clinical trials may cost around INR 15 crores, INR 20 crores. So we have five candidates in pipeline. So overall cost would be going up in time to come. In current year also, our spend on biotech would be around INR 20 crores, INR 25 crores higher.

Saion Mukherjee: This is the R&D expense, INR 20 crores, INR 25 crores?

Ajit Kumar: Yes, yes, R&D expense.

Saion Mukherjee: And sorry, sir, finally, if I can ask any update you can give on your key subsidiaries, how they're doing and any material update there you want to share on the subsidiaries?

Ajit Kumar: On subsidiary side, we have a company called Onyx in UK. They are doing well in UK. They're a good profitable company. This year, there was a significant expansion there on their side. So because of that, I think their profitability have little come down, but they are a profitable company overall. And we expect that current year, they should be doing almost around GBP 14 million to GBP 15 million kind of business with around 27% kind of overall EBITDA margins in current year.

And then there is another company which we have is Trophic Wellness. It's a nutraceutical marketing kind of company where we have almost around 55% stake. That company is also doing well, and they are also profitable. As far as the Onyx business extension further in the US, we have one small API manufacturing and contract research kind of company in US, small company called [phisca 1:07:22], but because of these COVID issues and all our UK team could not do much on that. So, but we have started getting now projects there. And this year, they have reduced their losses also significantly. And hopefully, in time to come, they should do better.

Only concern we have is the US market is Bayshore, which is frontline, we are awaiting that once our FDA get cleared and they get to market, our products, and till such first time, there are -- they are right now procuring products from third parties and then selling. So that company has losses. As far as the another company, associate company called Kraps at Nellore and Vizag, they have reduced their losses and I hope, I think, next year, that company will come in profit. The current developments, what we have on our product mix and all currently going on.

So these are the broad number of subsidiaries that we have. And Ramdev is basically was for again, for FDA approved site, and that site anyway, we are merging with our operations and there are a lot of our APIs are now under filing from that site. So then that will be another site, which is they have approved site and from there, we will then once our formulation facility gets cleared, that also will be sourcing API from that site also.

Moderator: We have the next question from the line of Prakash Agarwal from Axis Capital.

Prakash Agarwal: Just trying to understand the margin bridge. I know you talked about it a little, but you are currently at 16%, guiding for 21%. I understand top line will improve marginally, but raw material, something you've been saying that it's not under your control as things come from China, etcetera. So how do you think you'll regain to that 20%, 21%, which was pre-COVID levels?

Ajit Kumar: See, overall gross margins will improve because most of the portfolios are outside the price control. It's -- 83% of portfolios are price controlled. More or less, there will be no increase in the promotional cost next year. It will remain more or less at the same kind of -- increase your business with promotional costs now going up, it will also add to almost around 2% to the overall margin levels in the business. Gross margin levels itself will improve by around 1%, 1.5% on that because KSM prices are soft, and this was a very unusual situation in current year. So because of that, the cost is higher.

And overall, our capacity utilization with business is going up, will also increase to the overall operating performance and margin. And once in the middle of the year, I think overall, Dewas, if things start on commercial side, at least some recovery of expenditure will start because currently today, all costs are getting debited to P&L account and there are no revenue coming right now because of all validation exercise and filing is currently going. So that will also contribute to the margin.

So all those factors and there are no more addition of people next year. So it's only going to be a wage inflation, whatever addition. So with -- and with the people productivity increase and all that, so that will also contribute towards the better sales. So it will also add to the overall margin. So all those factors will add, will go back to that around 21% kind of EBITDA margin.

Prakash Agarwal: So if I understood it correct, you are saying that 150 basis points from gross margin coming back to 65% and top line being early-teens and then operating leverage cost being lower than early-teens, you will see 20%, 21% margin. Is that correct understanding, sir?

Ajit Kumar: Yes, more or less, yes.

Prakash Agarwal: And secondly, if I see your emerging market business, ROW Generics as well as the Export Formulation overall, there in the last two, three years, there were a lot of inventory stocking, etcetera. And that's why the growth has been a little volatile, not only for you, but across the pharma companies. Do you think the inventories and the demand, etcetera, have been normalized? And a company like yourself could come back to at least early-teens, if not high-teens in both, in the overall Export Formulation market?

Ajit Kumar: Yes. Even current year, I think my European business is growing by around 20%. It's only the UK business because of -- and the UK business will also grow from next year because the base will not be there of at a year back of Bristol. So UK will also grow very well. Other markets are also growing good. We should be able to -- and ROW market will grow faster with higher margin.

Prakash Agarwal: And API, sir?

Ajit Kumar: API, we'll say that around next year, till the time, those capacities from Dewas are available and approval, only thereafter the business will start moving faster, but it should have around 10% kind of growth.

Prakash Agarwal: And that high base of the sartan etcetera is all behind us now. So on this base, we can grow 10% or…

Ajit Kumar: There are no now those kind of issues on all the impurities and everything else, whatever work was required to be done, has been done.

Prakash Agarwal: And early teens is good to modelling or we should look at mid-teens to high-teens as the overall growth for the company?

Ajit Kumar: I think it should be almost around 12% to 13% kind of overall growth.

Moderator: Thank you. That was the last question. I would now like to hand it over to the management for closing comments.

Harish Kamath: Hi. There is nothing further to add, unless there are questions, I think we can close this con call. Thank you, everyone, for participating in our Q3 FY '23 con call. Thank you.

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