



“IPCA Laboratories Limited
Q4 FY2019 Earnings Conference Call”

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Moderator: Good day ladies and gentlemen, welcome to the IPCA Laboratories Limited Q4 FY2019 Earnings Conference Call hosted by IDFC Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal the operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I will now hand the conference over to Mr. Nitin Agarwal from IDFC Securities Limited. Thank you and over to you Nitin!

Nitin Agarwal: Thank Ali. Good evening everyone and a very warm welcome to IPCA Laboratories Q4 FY2019 post-results earnings call, hosted by IDFC Securities. On the call today, we have representing IPCA management Mr. A. K. Jain, Joint Managing Director; and Mr. Harish Kamath – Company Secretary and V.P. (legal). I will hand over the call to IPCA management team to make the opening comments and they will open the floor for questions.

A. K. Jain: Good afternoon and welcome all. During the quarter, our net total income has gone up by around 7% to around Rs.848 Crores, overall EBITDA margin in this quarter is around 21.2% as against 16.1% in Q4 last year and net profit for the quarter is around Rs.109.47 Crores. It is up around 113% in this quarter. Overall for the financial year, the income is around 13% up and it is around Rs.3687.74 Crores.

Overall EBITDA margin for the year is around 20.75% as against 14.69% in FY2018 and net profit for the year is around Rs.454.91 Crores is up around 95%. If you look at overall the revenue breakup of this particular quarter, the domestic formulation business has grown by around 10% and overall sales number is around Rs.355.7 Crores as against Rs.322.8 Crores in last financial year and export formulation business is around Rs.253.6 Crores as against Rs.251.21 Crores. So it is up by around 1% and overall formulation business both domestic and export put together is around Rs.609 Crores as against Rs.574 Crores in last financial year so formulation business in this quarter domestic has grown by around 10%, exports by 1% and overall this formulation business growth is around 6%.

Overall domestic API business has grown by around 29% and export API business by 6% so overall API business in this quarter has grown by 10% from Rs.192 Crores to almost around Rs.211 Crores around 10% growth and overall growth in the quarter is around 7% and business is around Rs.834 Crores as against Rs.781 Crores in last financial year. If you look at the whole of the financial year number, overall domestic business has grown by around 16%, domestic formulation business by around 16%, export formulation business by around 5%, overall formulation business for the whole of the year FY2019 has grown by

around 11% to Rs.2695 Crores as against Rs.2419 Crores, API business has grown in this financial year by around 18% to around Rs.885 Crores as against Rs.748 Crores in last financial year and overall company as a whole the business growth is 13% and business is around Rs.3633 cores as against Rs.3219 Crores and overall if you look at the basic ratios like say material cost to sales ratio in this quarter is around 31.7%, for whole of the financial year it is around 31.48% and therefore overall as against if you look at last year for whole of the last year, it was around 34.14% so by and large almost around 2.69% we have overall improved our gross margins in the year and overall EBITDA improvement for the whole of the year has been around 6% plus and in the Q4 also EBITDA improvement is almost around 5% around that much. So having given the basic numbers I would like now request participants to ask questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Niteen Dharmawat from Aurum Capital. Please go ahead.

Niteen Dharmawat: Thank you for the opportunity. I just wanted to know about the status of US FDA visit for our facility so what is the status because it is long time due now we have been talking multiple times, multiple quarters, have we received any updates from them and when is the likely date you are expecting for the visits so that we have more clarity about this?

A. K. Jain: As far as we are concerned all the remedial actions has been done and informed to FDA and we have no communication from FDA and it is basically a status quo as of date.

Niteen Dharmawat: Okay. That is about it.

Moderator: Thank you. The next question is from the line of Rahul Jain from Credent Wealth. Please go ahead.

Rahul Jain: Thanks for the opportunity Sir and just wanted to ask you a couple of questions, one with regard to the remedial cost and also cost related to the US plant. So currently in FY2019, what has been the total remedial cost and what is the expected cost for the next FY2020 and within that also with regards to the plant there are certain expenses or fixed costs you must have incurred at the plant, which possibly could not have generated any turnover from the US side. So if you could just tell the total cost that has been incurred in FY2019 and also the remedial cost expected for FY2020?

A. K. Jain: The remedial cost overall in March 2019 is almost around Rs.49 Crores and last year it was almost around Rs.49.8 Crores, so more or less number is almost similar that in last two years, we are close to Rs.100 Crores of kind of remedial cost and I think in the next

financial year, this cost is going to be not more than Rs.10 Crores in the overall. So there will be a significant reduction in this cost which practically is relating to the re-verification of the past that of six years, so it is only certain kind of the futuristic and training-related cost will continue, but that is all other cost will go away and plant for concern by and large let us say there is now better utilization of capacities as far as API is concerned, but there are two formulation plant where the capacity utilizations are at minimal level, but in one plant we have at SEZ Indore and another is at Piparia plant, which is at Silvassa and maybe this two plants overall maybe incurring, maybe around Rs.70 Crores, Rs.80 Crores kind of losses currently because their operating cost is not getting recovered.

Rahul Jain: Sure so that is for remedial cost this year you have been below your targeted because you had initially mentioned about Rs.60 Crores, which basically means in Q4 you have only incurred about Rs.4 Crores, is that right?

A. K. Jain: This quarter cost is around Rs.3.76 Crores.

Rahul Jain: Very nice and Sir with regards to the business from the African side in injectables, you had mentioned that Q1 FY2020 thinks will start so, where we are on that side of the business?

A. K. Jain: Yes injectable orders has started coming first order is now under execution. So that business has already started and even global fund business has also started.

Rahul Jain: What kind of opportunity you see in both these business in next one or two years?

A. K. Jain: Let us say we look at that current year the institutional business could reach to almost around Rs.250 Crores plus.

Rahul Jain: For the full year?

A. K. Jain: Yes for the current year.

Rahul Jain: And Sir any more details from the Europe and specifically UK you had issues with regards to distributors. So where do we stand?

A. K. Jain: UK distributor issues are now resolved, their all QPs have been cleared by the MHRA. So now it is business as usual from this particular quarter and even in last quarter, the QP clearance has come, but because of this sterilization issues and all, there was some delays in execution of orders and all. There is completely adoption of new technologies and a lot of initial, lot of hardware and lot of software kind of issues and multiple matchings and so many things. So there was certain issues in execution of orders and also it took a lot of time to train and develop the people in-house. So there was a delays and all, but from next

quarter onwards even generic business, which has not grown in this year should start going by almost around 10% to 11% in next financial year.

- Rahul Jain:** Sure would you like to give guidance on overall revenue?
- A. K. Jain:** Our own business growth in next financial year we look at around 12% to 14% kind of growth?
- Rahul Jain:** Revenue growth?
- A. K. Jain:** Yes.
- Rahul Jain:** And there will be improvement in margins?
- A. K. Jain:** Yes there certainly improvement will be there, it could almost be around 200 basis point improvement overall in the margins specifically.
- Rahul Jain:** And that is due to some savings in the cost and do you include this reduction in remedial cost in that margins increment?
- A. K. Jain:** There will be reduction in the remedial cost but there could be some other cost may go up so by and large we are looking that there could be around 2% improvement in the margins so it could be let us say 20.72% almost around 22.7% or 23% kind of margins are possible.
- Rahul Jain:** Sure that is quite helpful Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.
- Prakash Agarwal:** Thanks for the opportunity. Just trying to understand the domestic business better, we had a very strong growth for the full year and comparing the peers also for Q4 just wanted to understand what is the outlook ahead and are we seeing some volume challenges as a industry as a whole?
- A. K. Jain:** If you look at overall the market growth in January, February, March, let us say the overall industry growth has been 7.4%, 8.5% and 6.8% so maybe around 7.5% kind of growth as against that if you look at overall IMS number of growth last year January, February and March it was around 13.3%, 10.8% and 10.9% so practically around 11.5% so as against 11% and 11.5% industry growth in same period in March FY2018, this year it is around 7.5% kind of overall growth. So market growth has per se come down in this particular period. As far as we are concerned as against overall let us say industry net growth of

almost around 10.7% in whole of the year, we have grown by around 16% so normally our growth in last few years maybe around last five, six years has been more or less around 1.5 times to market growth so we are more or less around that. As far as this quarter is concerned the growth has come down but around 10% in this quarter, but the growth could have been better, but antimalarials in this quarter has significantly declined by almost around 37%. We must have lost around Rs.7.5 Crores business only on antimalarials. Overall for the whole of the year, antimalarial has declined by around 6% but in Q4 decline was very, very significant and that has taken away around 2% of the growth. Now antimalarials overall in our pie are becoming very less, it is only around 6% of the business today's coming from antimalarials if you look at overall and if we look at our overall pie of the business let us say from where we are getting business, nonsteroidal anti-inflammatory drugs NSAIDs and rheumatology products, they now contribute almost around 46% of our business and that used to be around 44% last two years and so there is significant change that this business is almost around 2% up in overall pie of the company and overall growth in this therapy has been almost around 20% kind of thing for the whole of the financial year. Cardiovasculars and anti-diabetics now contribute around 20% of business as against 21% in the last financial year. Another therapy where we have done significant good is antibacterials and now it started contributing 7% of our business compared to 6% last year. Antimalarials are down from 8% to 6% and we have a good growth in the newer therapies like dermatology, urology and they also started contributing overall good business to the company. So overall let us say specialty businesses are doing well expect the cardiology where our growth is around the market growth, but your pain segment and newer segments like your dermatology, urology all that are doing very well and therefore we see that our business growth will continue to be around 12% to 14% in domestic market even in the next financial year and it can even have if antimalarial declines stop and we get some kind of growth then that can steal more business in the next year.

Prakash Agarwal: Thank you that is very insightful. Just trying to understand the generics commentary you made around 10% growth. Now Europe coming back with all these issues getting over and your guidance of antimalaria tender also 250, 10% seems to be softer number Sir?

A. K. Jain: It could be a surprise also because overall number looks good and we have good suspect of and overall let us say we have not made very large projections on our generics and institutions yes they will be a good, but injectables we are not factored much so if more orders start coming from injectables then that could also get overall good numbers much higher than what we had projected.

Prakash Agarwal: And Sir lastly on the API business, we have seen very strong growth particularly fiscal 2019 if you could share similar growth outlook is possible for FY2020?

A. K. Jain: Currently order books are good overall and business is doing very well, but there could be some kind of supply chain related kind of constraint because somewhere sometimes intermediate supplies are getting disturbed somewhere and therefore we have taken a growth projection of around 14% to 15% overall as far as the API is concerned, but there are very good prospect that it can further go up, if supply chain related issues are not there to that extent.

Prakash Agarwal: Okay I have couple more, I will join back the queue.

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

Tushar Manudhane: Sir just on your institutional business if you can break down that into country-specific tenders and funding agencies other than global fund at least for FY2019?

A. K. Jain: By and large we were doing all that let us say your business which were there for country-related tenders and now global fund has started so overall from Rs.165 Crores, it could be around Rs.250 Crores kind of turnover overall for the year and in this I also added some kind of around Rs.18 Crores, Rs.19 Crores worth of shipment which was to go in March, which was nominated shipment and that shipment got delayed and that sales has postponed from FY2019 to FY2020 because of the delay in shipment. So that is also factored so because global fund business has just started and we have got current orders maybe around \$2 million to \$2.5 million kind of orders. So we will see that how order flow start and then only we will, if there is any kind of revisions required in guidelines that maybe in the second quarter or so we will be able to give that overall, but from current let us say it looks that we are very conservative in giving that guidelines, but overall it looks to be that we should be able to achieve around Rs.250 Crores kind of turnover from institutions here.

Tushar Manudhane: So this \$2 million, \$2.5 million will be like for a month kind of number?

A. K. Jain: Yes these are orders under execution.

Tushar Manudhane: Okay that is right and just coming back to the supply chain constraint on the API side, has this is to do with again the intermediates coming from China or any other issues for any other reasons?

A. K. Jain: It is only in the intermediates coming from China. There is no other reason.

Tushar Manudhane: Okay Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: My question pertains to generate what type of growth do you see in branded and generics?

A. K. Jain: Branded business for the whole of this current year was around Rs.361 Crores from debt we are looking for almost 13% growth in branded business.

Charulata Gaidhani: Okay and generics?

A. K. Jain: Generics around 10% kind of growth.

Charulata Gaidhani: 10%. Are you seeing sort of slowdown in generics?

A. K. Jain: No generics currently let us say our major block is Europe. Europe contributes almost around let us say, in current financial year it has contributed at Rs.244 Crores business as against Rs.233 Crores last year, but we have seen some decline from UK. Now UK business has started back, but what kind of markets here my distributor because he has been out for a longer period of time so it will take for the time for him to regain the market so if they regained the market share faster then probably we may have to revise again the overall target, but again I would say that we have been very conservative in giving this number.

Charulata Gaidhani: Okay. Thank you.

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

Nimesh Mehta: Thanks for the opportunity. Just wanted to understand more on the domestic market, there has been some kind of changes over the last 12 months especially that companies are required to do the trials for the most of the product and there has been price cut also so anything of that sort can be an hindrance for us, how do you look at that?

A. K. Jain: Those trials are required to be done and will be required for the by and large relating to whatever new products introductions and all that. Anyway that is there and as far as existing product portfolios are concerned after the Supreme Court and Kokate committee kind of issues and all practically we had to do the clinical trial for two of our products and for which we have already submitted protocol and overall if you look at my overall basket of domestic products practically we have for every product other than these two products now we will have approval. So do not have any kind of regulatory risks as for my product portfolios are concerned as of now. All new product introductions any if whatever is there that will be there with proper regulatory approval.

- Nimesh Mehta:** So how many products are we targeting to launch every year?
- A. K. Jain:** We have been very selective in launching products practically in a division we launch either one product or some line extension. Our major focus has been always on brand building and we do not launch too many products for size of our company, we may be having the lowest number, we do not want too many baggages in the portfolio wherever we take brands we want to take brand seriously and then good grow it to the bigger and therefore we do not launch too many product. In a year may be in all 14 divisions maybe around three or five kind of launches not more than that.
- Nimesh Mehta:** That for existing then kind of growth we have witnessed is all coming from like more doctor coverage and from the penetration, how do I look at?
- A. K. Jain:** US states are basically reach and penetration both we had to look at on the products and continuously work onto because whatever is remaining out of focus that goes out of mind and therefore we are continuously working to focus and working on the existing brands to make them bigger rather than adding too many brands here, but yes if there is therapy gaps are there and if they have leadership in therapy then even sometimes on smaller products because that is all the service product which is required in order to remain having leadership in those kind of therapy so sometimes those kind of launches do happen, but numbers are far less.
- Nimesh Mehta:** Very interesting, but Sir finally if you can just tell me what is the doctor coverage that we have as of now that would be very helpful and number of field workers?
- A. K. Jain:** Overall effective field strength if you look at currently is around 4300 medical reps in the markets and it all depends on which kind of division it is there, let us say there are specialty division, they may be covering around 75 doctors, but there are divisions which are catering to generalistic doctors, consulting physician and all, they may cover 150 doctors also. So by and large it also depends on which therapy, what promotion on that overall number of doctor coverages are different.
- Nimesh Mehta:** But we do not have specific targets as a company on the total doctor coverage, do we have that or we do not have?
- A. K. Jain:** Basically 80-20 principle applies everywhere. So it is a 20% doctors they gives you 80% of business, our focus is there we continuously monitor one-product prescriber, two-product prescriber, three-product prescriber, five-product prescriber, seven, so all that kind of things and you always get more dividend from converting one-product prescriber to two-product prescriber, two-product prescriber to three-product prescriber, so that way your returns are

far, far better compared to what kind of investments are required in terms of visits and PSR medical reps time and everything and complete monitoring. So focus is more on getting just say whoever is retention that every doctor is decided that for which product is retention doctor and which product is conversion doctor. So continuously there is follow up to see that what kind of conversion need to be taken on the next brands. That is continuously monitored at each rep level and at each doctor level.

- Nimesh Mehta:** Okay. This is very interesting and very helpful. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.
- Aditya Khemka:** Thanks for the opportunity Sir. Can you guide us through what sort of growth are we expecting in this India business for FY2020?
- A. K. Jain:** India business is almost around 13% to 14% kind of growth.
- Aditya Khemka:** Okay and this assumes that the market grows at 8% to 9% or...?
- A. K. Jain:** Yes around that.
- Aditya Khemka:** Because historically growth has been 1.5x so market grows at 9% that is when you do 13% to 14%?
- A. K. Jain:** Yes.
- Aditya Khemka:** Okay and second question Sir what was your R&D spend this year?
- A. K. Jain:** R&D spend this year was almost around 2.5% of overall revenues and this spend has come down from 3.7% because this year there was no capex was required to be done as far as R&D is concerned and there is a slight reduction even in the revenue cost for R&D.
- Aditya Khemka:** So 2.5% translates to about 90 plus?
- A. K. Jain:** Yes.
- Aditya Khemka:** Okay and what is the outlook on the R&D expenditure?
- A. K. Jain:** By and large R&D, let us say focus is now mostly that developing products for the ROW and Europe, Australia, New Zealand, South Africa those kind of market because US-related development is practically very, very less currently because a lot of those cost, we are

currently incurring and paying and it is taking time and of the investment you are not getting that kind of return right now till the time the regulatory issues are completely resolved, it does not like sense to keep on spending money. So we have completely slowed down as far as the US-related developments are concerned.

Aditya Khemka: Okay and Sir has the closure report for Ratlam also has been sent by the consultant to the US FDA?

A. K. Jain: I think it is maybe a few more days here and there.

Aditya Khemka: Okay safe to be send this and when you guide on the total generic revenue of 10%, you are talking about the generic line item that we report excluding branded and institutional?

A. K. Jain: See excluding branded and yes the institution.

Aditya Khemka: Okay now in the generic line item you have sales from Europe, South Africa, Australia, New Zealand four geographies is that right?

A. K. Jain: And Canada.

Aditya Khemka: And Canada, can you give me the sales so you generally clubbed the Europe and South Africa revenue together and you clubbed Australia and New Zealand together?

A. K. Jain: They might overall say European sales was almost around Rs.244 Crores in the current year, Australia and New Zealand was around Rs.132 Crores and Canada was almost around Rs.49 Crores, South Africa was around Rs.97 Crores in the current year and overall number was around Rs.521 Crores for generics as against Rs.513 Crores last year.

Aditya Khemka: Right, now each of these geography you have done more than 10% growth in FY2019 over FY2018 barring UK?

A. K. Jain: In UK, there was a business growth, that Europe business growth was around 4% because rest of... UK there is a decline of 10%, Europe, there is a growth other than UK growth of 24%. So overall Europe has grown by 4%, Canada growth is almost around close to 4%, South Africa growth is around 6%. So buy and large overall generic growth is only 2% in current year.

Aditya Khemka: Right Sir my question actually pertain to UK, therefore once you start supplying the products given earlier unable to supply, your growth should actually been more than 10% or your other...?

A. K. Jain: It should be more than 10%, we are working for it, but how my distributors are able to regain the market, it all depends on that so as we have sometime, we start supplying and we start seeing the overall is distribution again is rich in the market and is gaining the market share, we will then revise the overall numbers for the current year, but we want to be conservative in giving numbers because till the time we are sure that they are able to regain and reclaim the market, what they have lost so it giving too much futuristic projections and not delivering that is not in our culture.

Aditya Khemka: Fair enough and Sir on the gross margins side from whatever we reported through the year, there is scope for improvement once the other businesses, which are currently not contributing materially start doing well or we should take the gross margins for this year as the right gross margin?

A. K. Jain: This year gross margin if you look at, we have been continuously improving if you look at right from 2014 onwards, I will just give you overall numbers. Raw material to sales ratio in 14 years to be almost around 34.6%, in 2015 it was almost around 36.6% and it remained next year also around 36% and then came down to 35% and then 34% and now 31.5%. There are two things, which has happened one is continuously working on product mix to improve that higher revenue for higher margins product sales are better and also continuously improving on the technology and others and working on pricings and all those factors have resulted in the margin improvement. This is in spite the fact that US business and institutional business which used to be large component around that time, had a much better margins than overall the company margins so we have done tremendous all round improvements in our overall businesses and margins. Even today our European margins and even UK margins are far better than it used to have in past. So continuously on those fronts you have worked and we have had good kind of improvement and these improvements will continue and their API prices currently are good so those businesses were earlier at little lower margins. Those margins are also improvement so there are further scopes to improve the margins.

Aditya Khemka: Right so your 200 basis point EBITDA margin improvement that you alluded that is going to come one because your gross margins itself is improved, through your operating leverage so your revenue might be growing at 13% to 14% and when you have other expenses will be lower given the lower remediation cost and that is how you are basically saying your EBITDA margins will improve by 200 basis points that is right understanding?

A. K. Jain: But there are other cost are moving like say, ANDA filings and all that on holding number of ANDAs now, the ANDAs of my Bayshore will be clubbed so there could be some kind of those kind of traditional cost will be coming even on regulatory. So these costs plus and minus is will keep on happening, but by and large around 2% kind of thing and if

businesses are better than and overall if generic businesses grow faster then even the margins can further go up.

Aditya Khemka: Fair enough and Sir there has been addition of about Rs.100 Crores of intangible assets on the balance sheet, this is largely Bayshore?

A. K. Jain: Yes it is Bayshore.

Aditya Khemka: Okay. Is Ramdev included in the March quarter or Ramdev will come in the June?

A. K. Jain: Ramdev was acquired on April 23, 2019 so there is nothing of Ramdev is included in the current year.

Aditya Khemka: Understood and Sir going forward will be reporting quarterly consolidated numbers for Q1?

A. K. Jain: Yes.

Aditya Khemka: Okay. Thank you Sir. All the best.

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

Prakash Agarwal: Those have been answered. Thank you.

Moderator: Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: My question pertains to the API business, how long you think you will be able to sustain the growth in API?

A. K. Jain: Currently the API business growth is very good, this is an exceptional growth of almost around 18%, normal API growth is around 8% to 10%, but we still have capacity available to service tax and future growth will depend on how further we take up the capacity creations maybe down the line in two years and all that is a little far away so right now for the future, I am not giving the guidelines, but for the current year and next year, we will have good API numbers. I am talking based on whatever kind of development what we are doing with customers. So we have significant amount of those kind of projects going on, so based on that overall we see that growth and current year also will remain good and next year also it will be good.

Charulata Gaidhani: Okay then my second question pertains to global fund, this business is continuing in nature or is there lumping?

A. K. Jain: It is also depends on order flows and really sometime there could be a delay because of their institutions they are not companies and depending on that like say the order itself took a lot of time in spite of all things getting cleared maybe around 6-8 months, maybe a year back so and there could be lumpiness in those kind of businesses, some quarter it could be very good, some quarter the order flow can be less, but we have broad-based market because we service lot of country tenders, we service lot of other NGO. So some or the other things keeps coming, but some quarter there could be some number can be less or some quarter number can be extraordinary. Overall for the whole of the year, we are confident that we should be able to be around Rs.250 Crores from currently Rs.165 Crores.

Charulata Gaidhani: Okay all the best.

Moderator: Thank you. The next question is from the line of Sushmit Patodia from Motilal Oswal Asset Management. Please go ahead. Sushmit your line is unmated please go ahead with your questions. As there is no response we will move to the next question from the line of Kunal Dhamesha from SBICAP Securities. Please go ahead.

Kunal Dhamesha: Thanks for taking my questions so one on the tender business, so now the global fund is back, do we see any cannibalization into our country tender business?

A. K. Jain: No cannibalization would happen here.

Kunal Dhamesha: Okay and how are the pricing dynamics between global fund and country tender, is there significant difference in terms of pricing?

A. K. Jain: Pricings are known to everybody, all institution knows what are the pricing at which you are supplying to others, at least the global front prices are no one so you cannot be too much off but depending on volumes and sometimes depending on our freight which are required to be paid and terms of contracts somewhere the contracts are delivering at five, so they are land transportations also, clearing from customs of various countries and then delivering to their godown, so prices depends on those lot of those kind of logistic costs and it all get added, but by and large I would say that there are few differences here and there but by and large not too much of difference because the market is very, very competitive and there are large number of competitors also there. It is a small number of products and every buyers knows what kind of pricing there in offer, so you cannot do too much of own pricing.

- Kunal Dhamesha:** Okay and secondly on Bayshore what are our expectation from Bayshore in terms of topline in FY2020?
- A. K. Jain:** Bayshore could contribute almost around 17, 18 million kind of business in current financial year.
- Kunal Dhamesha:** Okay and that is bigged into our revenue growth guidance of 13%?
- A. K. Jain:** No what all guidelines I have given on the standalone so the guidelines for those are not added to this.
- Kunal Dhamesha:** Okay so but we will be reporting consolidated numbers?
- A. K. Jain:** Yes we will be reporting consolidated numbers.
- Kunal Dhamesha:** Okay and in Bayshore profitable business at EBITDA level or operating level?
- A. K. Jain:** Till last quarter Bayshore was on profit, but in the Q4 that has contributed some losses overall because of one trading loss in one particular products. So we are taking steps to work on that and hopefully Bayshore should be in profit from first quarter they may contribute loss but from second quarter there will be good recovery over that one.
- Kunal Dhamesha:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Chirag Patel from Bhavesh Investments. Please go ahead.
- Chirag Patel:** Thank you for taking my questions. Most of my questions are answered. I have one accounting questions like have we invested more in associate companies in this particular year?
- A. K. Jain:** If you look at overall associate companies kind of investment, Krebs, we had some right issue subscription was happened and some marginal investment has happened in a week so overall investment in these tools are almost close to around Rs.14 Crores kind of additional investment has gone in the current year.
- Chirag Patel:** Okay my second question was regarding associate companies in CCPL or is it still our associate in which we have 29% holding because it was not mentioned in the report, CCPL Software?

A. K. Jain: CCPL software is completely written off. So there is no value in those kind of investment, it is zero.

Chirag Patel: Okay, another question is regarding that Ramdev Company, what kind of API does they produce what they do make and how it is going to help us?

A. K. Jain: Ramdev is FDA inspected kind of site, it is approved site and it has filed some dossiers in Europe and all and it has products on pain and lot of other advanced intermediates for a lot of newer drug so its product line, it is really exciting and good customer base. Every product of theirs is in the drug master file of some other customers so it offers an opportunity as far as forward integrating that into an API and also forward integrating also in the formulations side for the longer time and also it will have an opportunity if there is a further delays inspection of my Ratlam facility, some of the API we can move here and thereafter export them to the US and get some formulation manufactured there. So those opportunities we are working so it will open lot of those kind of opportunities.

Chirag Patel: Okay thank you.

Moderator: Thank you. The next question is from the line of Rahul Sharma from Karvy Stock Broking. Please go ahead.

Rahul Sharma: Sir just wanted to know what the status of Ratlam is, we are supposed to finish the remediation process and file the same with...?

A. K. Jain: Already completed everything is over from finally it is one or two days review by, it is already in the review by our attorney in US. So it is matter of time fine tuning of submission and then it will go in it is matter of may be few one or two, three days here and there.

Rahul Sharma: And Sir could you give the breakup of branded formulations for the year?

A. K. Jain: Overall CISL done around Rs.156 Crores, Southeast Asia has done around Rs.66 Crores, Middle East Africa has done around Rs.43 Crores, Latin America has done around Rs.42 Crores, and West African is around Rs.54 Crores and totally is around Rs.361 Crores.

Rahul Sharma: Rs.361 Crores?

A. K. Jain: Yes.

Rahul Sharma: Okay Sir. Thank you.

- Moderator:** Thank you. The next question is from the line of Ashish Thakkar from Motilal Oswal AMC. Please go ahead.
- Ashish Thakkar:** Thanks for opportunity. Sir, anything on but the government is working on schedule and there is also dedicated ministry which is actively discussing with Pharma Company, anything on these line you would like to share?
- A. K. Jain:** We have gone through the schedule and there are... completely gone through that and it is always good that yes regulations are tightened around manufacturing so a lot of small PPL, which does not have those kind of quality cultures and others they get weeded out. So we are happy that the government is revising that schedule M and further enforcing the regulations in country.
- Ashish Thakkar:** To this extent for us, how much of our production will be backward integrated?
- A. K. Jain:** Large number of our formulations are based on our RM API, but currently right now I do not have data available may be in the next quarter whenever we have call, I will give you the number.
- Ashish Thakkar:** Okay the last question on the Pisgah acquisition what are the plans and what are we currently doing with the facility there?
- A. K. Jain:** Pisgah, there are three product technologies are getting transferred, one product is completely done, DMF is getting filed down, two second product is under currently said three batches manufacturing that is process is going on and third product we have started on lab level. So that complete work is going on so it is the matter of 6 to 8 months more to completely transfer these technologies and then we will start working on other products then.
- Ashish Thakkar:** Okay last question on ODT business for the malaria when the registration would come in and what kind of business?
- A. K. Jain:** Business has already started coming including from global fund.
- Ashish Thakkar:** From the ODT as well?
- A. K. Jain:** Yes.
- Ashish Thakkar:** Okay. Thanks for taking the questions and all the best.

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

Aditya Khemka: Sir what would be your capex for FY2020?

A. K. Jain: Capex this year is going to be last two years, we have spent very minimum amount may be around in two years, total capex was around Rs.150 Crores, but because of certain very heavy demand which we are finding that somewhere the balancing need to be done so overall capex in current year could be almost around Rs.220 Crores to Rs.230 Crores in current area.

Aditya Khemka: Right and this had been what area Sir API formulation here?

A. K. Jain: Formulation side would be minimum mostly all maintenance capex would be there, but mostly it is going to be on API side.

Aditya Khemka: And this would be API targeted for exports other than US?

A. K. Jain: Yes API targeted other than US by and large still they are more relating to Losartan, Valsartan and all these kind of drugs.

Aditya Khemka: Right and Sir in the consolidated numbers that we have reported this year for how many months so there is difference of about Rs.1 in the consolidated and standalone. So there is Rs.1 loss in the consolidation and this is coming as you mentioned purely from Bayshore Q4 loss or is there more losses in other subsidiary?

A. K. Jain: Both PISGah and Bayshore have contributed for the all their around Rs.26 Crores, Rs.27 Crores kind of loss and Onyx has contributed around Rs.17 Crores, Rs.18 Crores of profit.

Aditya Khemka: Net is about Rs.9 Crores, Rs.10 Crores?

A. K. Jain: Rs.9 Crores, Rs.10 Crores of that and there is some loss in Krebs around Rs.6 Crores. There is profit of around maybe around Rs.2 Crores, Rs.3 Crores coming from other associates here. So that is overall difference of around Rs.10 Crores for the year.

Aditya Khemka: Right and for what portion of the year did we consolidate PISGah and Bayshore?

A. K. Jain: Bayshore is almost around 80% and PISGah 100%.

Aditya Khemka: 80% and 100%. So next year you are hoping that loss would be lower because you are saying from Q4 perspective...?

- A. K. Jain:** Bayshore practically for whole of the year they should be contributing profit, PISGah may continue to remain in loss for one more year, next year it should start coming in profit, six to eight months is going on only in technology transfers and other thing where business is hardly any.
- Aditya Khemka:** I understand and PISGah how much loss contribute this year?
- A. K. Jain:** Almost around Rs.12 Crores and you would expect a similar loss next year. It could be little less here but more or less.
- Aditya Khemka:** Understood. Thank you.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Nitin Agarwal for his closing comments.
- Nitin Agarwal:** Sir Do you want to add any last comment before we close the call?
- A. K. Jain:** We do understand there is a lot of anxiety from the investor community as far as our resolution of issues relating to FDA, we are fully committed. Management is continuously working on it to improve the culture and significant improvement in all aspect of the overall manufacturing, analysis and every aspect of quality and overall lot of efforts has gone into automations and other thing and we are hopeful that as and when the inspection happens, we should be able to clear and restart our business and gain back the market. Rest all the businesses are doing better and the margins are including hopefully we should be going back to maybe in two years' time to all old margins levels are almost around 25%, which we used to have in 2014. Thank you so much.
- Nitin Agarwal:** Thank you Sir. Thank you for management team for taking that time out and thank you for all the participants. Have a good evening.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of IDFC Securities Limited that concludes this conference call of today. Thank you for joining us. You may now disconnect your lines.