"IPCA Laboratories Limited
Q4 FY2021 Earnings Conference Call"

May 31, 2021

ANALYST:	**MR. NITIN AGARWAL - DAM CAPITAL ADVISORS LIMITED**
MANAGEMENT:	**MR. AJIT KUMAR JAIN - JOINT MANAGING DIRECTOR – IPCA LABORATORIES LIMITED** **MR. HARISH KAMATH – COMPANY SECRETARY-SENIOR CORPORATE COUNSEL - IPCA LABORATORIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the IPCA Laboratories Limited Q4 FY2021 earnings 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nitin Agarwal from DAM Capital Advisors Limited. Thank you and over to you Sir!

Nitin Agarwal: Thanks, Mallika. Good morning everyone and a very warm welcome to the Q4 FY2021 earnings call for IPCA Laboratories hosted by DAM Capital Advisors Private Limited. On the call today, representing the IPCA management team are, Mr. A. K. Jain, our Joint Managing Director and Mr. Harish Kamath, Company Secretary & Senior Corporate Council. I will hand over the call to Mr. Jain to make some opening comments and then we will open it for our question answers. Please go ahead Mr. Jain.

Ajit Kumar Jain: Thanks, Nitin. Good morning to all participants and thanks for taking out time and joining us for Q4 FY2021 earning call. Today's earning call and discussions and answer given may include forward-looking statements based on current business expectations that must be viewed in conjunction with risks that pharmaceutical business faces. Actual or future financial performance may differ from what is projected and perceived. You may use your own judgment on the information given during the call.

Q4 business performance has not been in line with our expectation. Domestic foundation business just delivered around 1% business clocked for the quarter. Last financial year, we had Hydroxychloroquine formulation business sales of almost around 37 Crores for the quarter in domestic market in view of significant demand post then President, Mr. Donald Trump announcing it to be a game changer.

Q4 FY2021, HCQS formulation business was around 20 Crores. The back effect of lower domestic formulation business has impacted almost around 4% of domestic growth. We have also observed lower domestic formulation business in last 10 days of March compared to normal. There could be two possible reasons for this; one is lower stocking by the wholesalers due to March year ending, second could be possibly our sales staff incentive-linked to their annual budget in this financial year, they have not earned much. There some of the businesses were pushed by them to the next financial year. We can collaborate this by the openings first few days business in the current financial year. Ex-Hydroxychloroquine or pain therapy, which account for almost around 50% of the business has recorded almost around 9% business growth over previous financial year.

Our cardiovascular business in domestic market has recorded almost around 6% business, similarly the newer therapies, which are like CNS, 11% growth, Uro 7% growth, Derma has given almost around 23% kind of growth and ophthal has given almost 61% kind of growth. Even the nutra has grown by around 43%, but these are smaller businesses and we have seen that good revival overall in the business, but some of the therapies like anti-malarial, anti-bacterial, cough and cold, they continue to show decline for the quarter and also for the whole of the financial year due to COVID impact. We have improved our overall gross margin during the quarter, Q4 to 72% as against 68% Q4 last financial year. This improvement is attributed to superior product mix for the quarter and overall prudent procurement to keep the cost in check in spite of all round increases in the prices in the market.

Overall, FY2021 has been a strong year for the company. We have achieved a consolidated business of around 5482 Crores with 16% growth. Our consolidated EBITDA is at 1566 Crores with 50% growth. Our captive backed formulation business has improved to around 2195 Crores, 60% of overall formulation business of around 3574 Crores as against 56% last year of around 1760 Crores for last financial year out of 3130 Crores formulation business what we did last year. So from 56%, the integrated business has moved to almost around 61%. This has been the key strength that company has been working to improve our delivery performance and keep the cost in check. Our FY2021 performance has also impacted overall positively by almost around 365 Crores, additional business we had done during the financial year on an account of Chloroquine and Hydroxychloroquine business, which includes both API as well as formulations business. We had done on formulation side almost around 185 Crores of additional business, on API side that figure is almost around 180 Crores for the financial year.

COVID-19 has posted tough challenges for the financial year due to supply disturbance, logistics issues, and labor availability for production, field staff sitting at home for a considerable time, healthcare challenges of medical fraternity as well as uncertainties faced by us. We could still deliver a strong performance during the financial year due to dedication of our staff, support we received throughout the year from our vendors and customers and medical fraternity. Above all our integrated business capability and help us to deliver better. Having given the small brief, I would now like to open the floor for question answer.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Good morning, Sir. Sir, is it possible for you to give a little bit more colour in terms of how do you see the export opportunity, I think six months back also we were talking about, in your capex update do you see more opportunities over next two, three years?

Ajit Kumar Jain: Overall, if you look at our business guidance for the current financial year, we feel that because we did a substantial amount of additional business last year on an account of Chloroquine and Hydroxychloroquine, overall business growth will be little lower, but we are confident to achieve a business growth of almost around 9% to 10% in the next financial year. We feel that our domestic formulation business will be very strong in the current financial year and overall we expect the business growth of almost around 16% to 18% in domestic formulations. Our promotional branded business, which we do in the Rest of the World market, is expected to grow almost around 13% to 15% in next financial year. Domestic API will show a decline because of some kind of additional business what we did last year for supply of some API to the local company for their export to the US, so that was an additional business, so domestic API business will decline for almost around 28% in the financial year. Institutional business last year, the business has grown up by almost around 95% to 96% from that base we are expecting a 5% improvement overall business throughout in institutional business and as far as generic businesses is concerned that also include a lot of onetime business we did on Hydroxychloroquine so overall business growth on generic side is likely to be around 5%. In API business, we will have a lower growth of around 10% overall. So overall we expect around 9% to 10% business growth in spite of higher base due to the exceptional business what we did last year and broadly our margin guidelines would remain that our EBITDA could be almost around 25% to 25.5% in the next financial year. As far as Dewas is concerned, work is delayed because of COVID situation again, last two months practically oxygen is not available for fabrication and since the land which we bought there we had almost around 50000 square feet beautiful building, which be converted into a COVID center almost around 250-bed COVID center to help the domestic, the local administration to win the challenge over COVID in that particular area and we have provided also oxygen plant there and all, but on downside what we faced that there was a big rumor in construction worker that COVID center is coming up and almost the site had almost around 300 workers and all they disappeared because of that, so the contractors were facing a tough time again to bring the construction workers and I think the whole project work is getting delayed by three to four months because of all these kind of development, so Dewas maybe in the third quarter end or fourth quarter, it may go towards the installation now in view of all these kind of scenario.

Rajesh Kothari: Great, Sir. Thanks for that update. I will come back in queue. Thank you.

Moderator: Thank you. The next question is from the line of Aditya Khemka from InCred Asset Management Company. Please go ahead.

Aditya Khemka: Thanks for the opportunity. Good morning, Harish, Sir, on the domestic formulation, first of all in your opening remarks you gave a number as to this was the sales number with for CQ and HCQS put together throughout FY2020 related to COVID, can you repeat that number for me? I missed it?

Ajit Kumar Jain: Overall, Hydroxychloroquine formulation business was around 151 Crores and that is my additional business we did and Chloroquine business formulation business was around 34 Crores, so overall 185 Crores business we did, which is exceptional last year and API side, almost 137 Crores and on API which is a Chloroquine business and Hydroxychloroquine API business was around 43 Crores, so 180 Crores, so overall exceptional business was around 365 Crores overall for the year and I think in the last quarter of the financial year that Hydroxychloroquine business for the quarter was almost around 37 Crores as against that we did in this quarter around 20 Crores business, so it is down by almost around 17 Crores that is the overall number and because base effect that has impacted 4% of the growth for the domestic formulation business in this particular quarter.

Aditya Khemka: Understood and Sir, your guidance for the next year EBITDA margin was above 25% is it or how much is that?

Ajit Kumar Jain: Yes, 25%.

Aditya Khemka: Thank you. Sir, just understanding this particular quarter's gross margins, so I see that your domestic business has struggled in this quarter and that is understandable, but your gross margins have substantially gone up from what you reported in Q3 and Q2, what led to the expansion in gross margin, Sir?

Ajit Kumar Jain: Let us say it is a better product mix, which we have sold in the current financial year like say lower the margin business like anti-malarial, anti-bacterial and all that business even cough and cold is there, they were at a lower and secondly we did very good business in promotional market in this quarter, almost around 32% kind of growth. All these businesses are with much better with the overall margin and also in marketplace lot of prices have moved up, but as far as we are concerned we could still buy lot of my APIs and all that at our intermediates at a much cheaper prices because of our contracts with the buyers on a medium term contracts so our overall cost on that account has not moved up overall and that kind of benefit we are currently also enjoying maybe in the first half of the year, we will continue to enjoy those kind of benefits and therefore we do not expect in spite of a significant rise in the API prices and intermediate prices that may not impact us that much, but the packing material prices because of commodity rises and solvent prices and these kind of things will have very small because their consumption to the overall consumption may not be that significant. There prices have moved up significantly.

Aditya Khemka: Understood and Sir, last question from my side, on the sales and marketing expenses that you report as a breakup of your other expenses so I can see in FY2020 it was about 212 Crores to 213 Crores, could you give us a sense of what that number was in FY2021?

Ajit Kumar Jain: I think we have saved almost around 90 Crores of expenditure on an account of marketing in last financial year.

Aditya Khemka: As we go forward, how you obviously would expect this to come back?

Ajit Kumar Jain: Majority of this cost is expected to come back.

Aditya Khemka: Thank you, Sir. I will get back in the queue and all the best.

Moderator: Thank you. The next question is from the line of Kunal Dhamesha from Emkay Global. Please go ahead.

Kunal Dhamesha: Good morning. Thank you for taking my question. Sir, can you provide our capacity utilization at various plants in terms of API and formulation?

Ajit Kumar Jain: Overall, on formulation side, we have still good amount of capacity, so there is nothing to worry as far as and we are not really looking for much of the capacity expansions on formulation side currently except for putting some packing line at our SEZ plant in view of our future pipeline products which are coming there. So except that there is no proposal to expand overall capacities on formulation side, we still have good amount of capacities on formulation side. So as far as API is concerned yes, we are definitely running with capacity constraint and on continuous basis we keep on doing some kind of incremental changes and all that which are resulting in little higher capacities and all that, but I would say that we are still working on almost around API side almost around 90% kind of capacity utilizations currently and we definitely need capacities and those capacities will be available only maybe around the end of the third quarter or fourth quarter as far as Dewas is concerned, but at Ratlam some kind of work is going on and that should get over by the end of second quarter completely validated and also those capacities could be available.

Kunal Dhamesha: So, Dewas you are saying Q3, Q4 is the installation and then the capacity could come online maybe six months later?

Ajit Kumar Jain: Yes, then the validations and all that will start, your stability and other things and then by the time it gets inspected and all it will be almost around, a lot of inspections are required so it is a one year overall journey and real business by the time will start producing intermediates here and start giving it to our plant site and then increase the overall output from there, but in real terms this plant API business to start will take still maybe around nine months to one year after the capacities are installed.

Kunal Dhamesha: Sure and with the intermediate check I think supply from the Dewas plant, do we expect significant structural improvement in the gross margin from the current level in Q4?

Ajit Kumar Jain: Intermediates, we are already producing some those products, so it is only the additional capacity will increase. It will not have additional margin increase as such.

Kunal Dhamesha: Thank you and I will get back in the queue.

Moderator: Thank you. The next question is from the line of Abdul Puranwala from Anand Rathi. Please go ahead.

Abdul Puranwala: Thank you for the opportunity. Sir, just in continuation to the previous participant, as per your guidance from the API side, which a 10% in FY2020, so if we have to adjust for one off things, what we had in FY2021, so that translates into a growth of about 21%, now the new capacity is slated to come only in FY2023, so what gives us this confidence for achieving this 10% year-on-year growth in this API business?

Ajit Kumar Jain: This is somehow the bottleneck issues already resolved, so we have considered all those aspects and then looked into overall kind of business growth, so API we are confident of around 10% kind of growth.

Abdul Puranwala: Sir, what would be your capex plan for the next two years?

Ajit Kumar Jain: I think next year we will be spending almost because Dewas is a laggard project which will be there, so overall and right now only the civil construction kind of work that too not fully completed, so overall Dewas will have around 250 Crores to 280 Crores kind of capex and there will other than that almost around 300 Crores kind of capex, 150 Crores to 200 Crores is our normal capex and some kind of additional capex is there at Ratlam site and others so overall it could be 550 Crores to 600 Crores kind of capex in current financial year.

Abdul Puranwala: Thank you.

Moderator: Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

Nikhil Upadhyay: Thanks for the opportunity and congrats on a great year, last year. Sir, two, three questions, one is on your growth assumptions, which you have given for next year the expectation, I just want to understand on the promotional and on the institutional side, if you can just help me understand the kind of growth because on institutional, if I remember there was some additional business, which we have done in Q3, so you were expecting that may not repeat, but on 365 Crores and all across quarters or commitment or our discussion has been that 400 Crores is the maximum size there we see the institutional can remain, so if you can just help me understand what gives you the confidence of sustaining around 5% to 10% growth and similarly on promotional, do you see that because the base is very low of last year and a lot of the patients are coming back to the market or coming to the clinic, which is giving us 13% to 15% kind of growth, just to understand it better?

Ajit Kumar Jain: That is our overall broad assumption because by and large COVID situation had subsided in various continents overall and even countries like CIS, the cases are low, so business are becoming normal, French speaking African market another business the area which we have that has given even last year good growth and they are in much better shape, so overall that also will contribute and other geographies, which were impacted by COVID, that also will contribute to the overall good commercial business so looking into all that aspect we have given that kind of growth projection overall for the promotional market here.

Nikhil Upadhyay: But on generic contrary your assumptions are quite low of 5%, but I would have thought because we had issues with UK and we were expanding markets in Europe and we were quite positive that as we expand the growth in Europe can sustain significantly vis-à-vis that our growth estimate of 5% looks pretty low, so if you can just help me understand generic where do you see this disconnect because the issues were much higher in generic regulated markets last year?

Ajit Kumar Jain: This is mainly because let us say base figure has a lot of Hydroxychloroquine formulation business, which may not be there in current financial year, on that base then we had given a projection of 5% is also an account of overall much better business we may do in Europe in current year and another but other areas which may impact is we had a lot of businesses relating to the Paracetamol kind of exports, where the prices have moved from 350 to almost around 900 levels, it may take some months to subside still maybe around three, four months more to subside, right now the downward trend has started, but not that much, some supplies have started easing up the material there, chemicals which they use, but major chemical which Paracetamol the supplies have still not eased and therefore the prices are higher and that may impact some kind of business on European generics on that account so all that aspects we have considered and base effect is also there because of Hydroxychloroquine formulations which is there so all that we have considered and then given the 5% kind of growth.

Nikhil Upadhyay: Just one last thing, if we remove HCQS and one off issues of Paracetamol the underlying business for rest of the product where we had brought in changes in UK and entered market so ex of these one off issues is the business growing at 15% to 18% or what is the business growth trajectory?

Ajit Kumar Jain: Yes, that is the kind of growth is being achieved regularly.

Nikhil Upadhyay: Lastly on API, we have seen some drop, so on the export side domestic side you explained, on the export side, the Sartan price drop has also played some role here?

Ajit Kumar Jain: Certainly, yes, Sartan prices have definitely dropped and that also played the role.

Nikhil Upadhyay: How do you see over three to five years because the way we are seeing in terms of volume, the way most API players are talking of expansion in capacities and demand coming very strongly any enquiry levels or any software issues which you can help me understand how you are looking at things and how things are improving for us?

Ajit Kumar Jain: API businesses last two, three years has definitely improved and will keep on improving, demand side is very strong.

Nikhil Upadhyay: Thanks. I will return back to the queue.

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

Chirag Dagli: Sir, thank you for the opportunity. Sir, can you comment on our API portfolio pricing scenario how it will pan out?

Ajit Kumar Jain: Pricing side, Sartan prices are definitely down and all other product portfolios because of material cost increases some kind of price increases are there, but overall if you say what kind of intermediates we are producing overall the prices increase has not been that significant except like in artemisinin and all the prices from $165 had moved to almost around $250 right now, but we have contracts for $165 for a little longer period of time, so we may not be getting impacted to that an extent and similarly there are some kind of other intermediate also we are able to get at much cheaper because of our overall medium term contracts and also that may not have much of impact on us.

Chirag Dagli: Sir, that was helpful and the second question was on any updates on the Nagpur site?

Ajit Kumar Jain: Nagpur site because of COVID scenario and all, we could not attend to that much on that and you have already, I think in a recent time we have applied for the environmental clearance and that process will now go on for five, six months, so as the process gets over and we start getting all the permission then only we will, so nothing great would happen on ground on our current financial year.

Chirag Dagli: Understood. 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 second wave, how much would be the benefit in pain management for India?

Ajit Kumar Jain: Let us say if you look at pain scenario, we have been in last five, six years, we have been growing by almost around 18% CAGR on pain and in last financial year also as far as the pain is concerned, our overall growth has been almost around 14%, but that also included Hydroxychloroquine so overall pain segment has given very good growth. Zerodol as a brand has given almost around 18% kind of growth in this tough situation also in the current financial year and we expect pain to give much higher growth in current year because of that scenario and that is what by 10 we are currently witnessing in first month of the current year.

Charulata Gaidhani: Right that was helpful. My second question pertains to most of the growth in Q4 has come from institutional, so do you expect similar growth to continue over the next few quarters?

Ajit Kumar Jain: Let us say, as far as the generic businesses are concerned by and large many except domestic formulation most of the people have done their budgets and they were significantly higher performance compared the overall annual targets and all, so overall because of that also I feel that the businesses maybe in Q4 has gone downside, but you will see return of business in the first quarter of the current financial year.

Charulata Gaidhani: Last question, how many MRs do you have and if you could give any change in the reach that has taken place?

Ajit Kumar Jain: In COVID scenario, we have really not expanded our overall foot size and currently we have almost around 4000 medical reps currently and in the current year we are just adding few more reps in neuropsychiatry and on ophthal side, which are very small business segment, but they are doing well for us and some more number of people maybe on derma we may add, but overall addition of people may not be more than 200 in current financial year, so once the COVID situation is behind us then we will look for that what kind of further restructuring is required to get the higher growth from domestic market.

Charulata Gaidhani: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Naresh Suthar from SBI Life Insurance. Please go ahead.

Naresh Suthar: Thank you. Most of my questions have been answered. One clarification on the growth guidance, the 9% to 10% growth guidance, if I remember correctly first quarter of last year had the majority of HCQS, so is it right to believe that from second quarter onwards the growth of 9% to 10% will be more like mid to high teens, the normalization will take apart from second quarter itself?

Ajit Kumar Jain: Let us say, first quarter itself I think first two months trend are very significant and we will see a much better growth even after taking into account the base effect of Hydroxychloroquine extra business will be of last year, so even that business will be very, very strong. Overall, we are pretty confident that we should be able to achieve almost around 16% to 18% kind of growth looking at what kind of numbers we have achieved also in the first two months of the current year where it will translate into very good growth for the whole year.

Naresh Suthar: I have question more on the overall business, so will it be like second half would be more kind of Y-o-Y 20% plus growth and first half would be 5% kind of growth because of HCQS that is how should look at?

Ajit Kumar Jain: That is not because HCQS I said in first quarter we did almost around 137 Crores business on domestic API, which was an exceptional business so that will definitely overall first quarter growth will be very, very low or maybe having a negative growth in first quarter because the domestic Hydroxychloroquine business was there in the first quarter in domestic market. So domestic will still be in growth in spite of that base, but some of the other thing the other business like API business will go down and some of your even my institutional business is one of Hydroxychloroquine formulations were exported, so there you will see some kind of impact, so we may not be able to achieve the overall what kind of turnover be achieved in last year in first the first quarter, but thereafter business growth will be good.

Naresh Suthar: Understood, second question is the more on the longer term margin trajectory, so in FY2020 we did around 20%, now with the savings of COVID or other things and operating leverage, we have now waiting for FY2020 to 25% to 26%, so now this significant increase over last two years have been achieved so after that how do you think about the margin trajectory in two to three years time, what are the levers you have to improve from here on?

Ajit Kumar Jain: Overall, our formulation side still we have lot of surplus capacity, so we did not to incur much of the capex on that account so that average operating leverage is still available then your overall productivity in the last few years we have seen that good amount of a MR productivities are moving up except the current financial year because of COVID that has not moved up, it a little down than current year, so that also will keep on improving and that will also help in overall maybe in the domestic market and also in international promotional market both the places so those productivity expansion will also help in the overall margin and third is what kind of the your process changes on API side what we are continuously working on to improve the reaction efficiencies and all that that is the continuous exercise to reduce the overall cost on that account and overall drive of the company towards our integration that is also helping and you have seen that our overall captive back formulation businesses are definitely moving up and that also help us to improve overall margins and keep cost in control, so these are the things, which will keep on improving overall margins for the company for few more years.

Naresh Suthar: Thank you very much.

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

Tushar Manudhane: Thanks for the opportunity. Sir, just two clarifications, on the API side you said growth of 10% to 11% or any guidance for FY2022?

Ajit Kumar Jain: Yes, domestic API will go down a little bit, but export API will grow, yes.

Tushar Manudhane: So, overall API to growth by 10% to 11% is that right?

Ajit Kumar Jain: Not overall. I said export API, domestic API will go down. Overall API may show around 2% kind of growth.

Tushar Manudhane: 2% kind of growth and the EBITDA margin guidance, 25%?

Ajit Kumar Jain: Yes.

Tushar Manudhane: Thank you.

Moderator: Thank you. The next question is from the line of Cyndrella Carvalho from Centrum Broking. Please go ahead.

Cyndrella Carvalho: Thanks for taking my question. Sir, any update of US FDA have you heard anything or any clarification?

Ajit Kumar Jain: I did not get your question, please?

Cyndrella Carvalho: Based on US FDA anything we have heard from the agency?

Ajit Kumar Jain: We are in regular touch with FDA, but since we import alert and all that so probably what we understand from FDA is that there will be a physical inspection from their side because of COVID scenario they are not able to visit and inspect. So as far as we are concerned, whatever was required to be done that has been done and we are also continuously getting our plants and systems and practices and everything audited from third party even though that may not be required, but that for our own confidence and all that we are continuously doing that and we are confident that once they visit us hopefully things would be much better for us.

Cyndrella Carvalho: In terms also the domestic growth, if we see the first two months we have seen a very strong growth of the domestic market, how is our expectation versus growth in terms of our portfolio and any benefits of these COVID scenario have we seen in these first two months and across the global also you could give colour how is the growth in this quarter as we speak?

Ajit Kumar Jain: We do not overall COVID portfolio in domestic market that is so basically Hydroxychloroquine is a drug for rheumatoid arthritis. It was very repurposed for the purpose of COVID and it was only the initial period of start of the COVID, Hydroxychloroquine business for the overall business was very, very high because of that initial requirement, but once the other drugs started coming in the market like Favipiravir or Remdesivir and all, the overall sale of Hydroxychloroquine was lower and secondly this is also very cheap drug. It is not a very expensive drug. All treatment happens with this drug less than maybe around Rs.100 or so. It is very cheap drug. So as such we do not have access the COVID portfolio, but in spite of that in the first two months of the current financial year, there is a significant recovery overall in the business and that may also be because of COVID because lot of medical professionals were not able to identify whether it is a COVID case or whether it is a typhoid case or whether it is a malaria case to start with in the rural India and also in urban India, so lot of this kind of mix of treatments were given to the patient till the time identification happens and all that so overall your antibacterial sales in the domestic market was also good, there is a good revival of even in the anti-malarial business, cough and cold which was not performing well had a significant growth in the recent times, so overall the portfolios which was declining for the whole last financial year suddenly we was a very good growth coming in that and also very, very revival in other businesses and pain portfolio continued to do well and it is even much higher growth, which we are seeing compared to the last financial year so overall business has been good.

Cyndrella Carvalho: Sir, just relating with the same phenomenon if we see that our domestic core and base business have been growing stronger and if this similar trend continues say overcoming six months also do we think that the promotional and all other expenses in relation to the overall business also this could help us to deliver better margins than our guidance?

Ajit Kumar Jain: See, margin guidelines we have given based on overall taking into all those kind of scenarios, but if drastically differs from our overall projection then probably the margins would definitely different, but we have considered all those aspect like how much of the promotional cost is going to come back on what kind of the overall 16% to 18% of growth we have projected in domestic market, looking also into the what kind of growth which we are getting in first two month of the current year and it very difficult to say that what kind of scenario will be there after even in June is very difficult to say that and it is also very difficult to say why so much of antibacterials were selling, why so much of a cough and cold and even anti-malarials were selling in current period, so it is difficult that tomorrow situation maybe a little different also, but looking into the overall revival of the business, overall our speciality business growth that is what we have been proceeding more towards the speciality business in the last few years and overall growth in pain portfolio and cardio portfolio, we have given that kind of growth projections.

Moderator: Thank you. The next question is from the line of Yash Gupta from Angel Broking. Please go ahead.

Yash Gupta: Good morning, Sir. Thank you for the opportunity. Sir, my first question that you have given a domestic group guidance of 16% to 17%, so how much we are expecting a volume growth and the pricing growth, is that we are expecting a good pricing growth in FY2022?

Ajit Kumar Jain: The pricing growth this year NELM products pricing growth is hardly even less than 0.5%, so that may not be there and the overall prices are normally the increases are in the range of around 5%, so may be 5% to 6% price growth on your non-scheduled formulation and practically zero growth on scheduled formulation, which are price controlled formulation so overall it may not exceed more than 5%.

Yash Gupta: Second question that you have mentioned that we have medium product contract for the raw material so if this product pricing continue to be for like suppose next six to nine months then also we are going to remain have, price contract will get the same price or is there any rise in raw material price?

Ajit Kumar Jain: The prices are applicable only up to the period of contract, so prices will keep on taking into account overall, our volume of purchase and so sometimes when your volumes are high you get a much better prices so that advantage definitely will be there on some of the drugs and some of the drug where volumes are lower you may have to pay even the higher prices, so that definitely will be the scenario, but by and large for the large part of the current financial year, we have good amount of contracts which will keep the cost low.

Yash Gupta: Thank you, Sir.

Moderator: Thank you. The next question is from the line of Jitesh Rathod from Nippon India Mutual Fund. Please go ahead.

Jitesh Rathod: I think you have answered this question in previous participant's question, but still current EBITDA is somewhere around 20% you are guiding to 25% there are headwinds such as sales and marketing costs normalizing in second half of FY2022, what are the tailwinds you have assumed to achieve to bridge that gap of 500-basis point from the current quarter maths?

Ajit Kumar Jain: You have seen that all overall our gross margins levels in last financial year has also moved up and we are continuously improving our overall material cost percent ratio and also our overall product mix improvement is there and also the better realizations are there also on an account of your currencies compared to overall, so these factors which are there which are helping in overall margins and improvement is continuously there.

Jitesh Rathod: Second question on the API capacity addition which will come in FY2023 like it will start ramping up, what kind of growth do you will see post FY2022 in API business on a normalized basis, it would be 10% to 12% kind of a growth from 15% to 20% kind of growth?

Ajit Kumar Jain: Once the plants are commercialized then we will like to give the guidelines may not be in the upfront because today I give you guidelines and then there are some delays and some exceptional or third wave comes in, we really do not know today, so I will not like to give the guidelines before my capacities are put in place, so once the capacities are put in place, we will definitely give the guidelines on that.

Ritesh Rathod: What would be the capacity addition to the existing API capacity both Dewas and Ratlam plant?

Ajit Kumar Jain: Dewas plant, we will have a capacity for almost around 300 tonnes of overall productions and Ratlam, what we will also add to around 150 tonnes of overall API production.

Ritesh Rathod: So, that would be what percentage to the base number?

Ajit Kumar Jain: Maybe around 10% to 15% capacity additions would be there depending on production this year.

Ritesh Rathod: Thank you and best of luck.

Moderator: Thank you. The next question is from the line of Ranveer Singh from Sunidhi Securities. Please go ahead.

Ranveer Singh: Thanks for taking my question. Just on margin front, you did well explain, but just wanted to clarify in case assuming that exceptional revenue which we got from HCQS, if you remove this part then what would have been the EBITDA margin in FY2021?

Ajit Kumar Jain: See, those kind of businesses came with significant margins also and that is why our overall margin in the current year is almost around 29%, we are guiding as 25% margin, which also have some kind of improvement so overall and beginning of the year, if you see we were guiding for around 1.5% increase only from 22% to 25% kind of EBITDA we were talking of around 1.5% improvement as against that the overall improvement has been significant in the current year also because of the factors of additional business what we did in current year and from that level we are guiding around 25% kind of margin improvement, which also includes overall improvements in overall margins, so everything of that is taken into account.

Ranvir Singh: Because so you are saying 150 kind of improvement from base margin excluding the **(audio cut) 47:18**?

Ajit Kumar Jain: Current year we are not taking 150% kind of base margin improvement because lot of those costs which are relating to R&D, which are relating to marketing will come back so we have only factored around on a normalized margin around 0.5% improvement in the current year.

Ranvir Singh: It is around 365 Crores exceptional income or income from that HCQS even if we take a highest range of margin to 60% or 50% of margin if we assume still we get some 27% kind of EBITDA margin or 26.5% in FY2021, that is why I was wondering that whether institutional or the domestic growth are more than this?

Ajit Kumar Jain: The businesses what we did last year was even at much higher margin than what you are talking about because of that only this overall EBITDA has moved to 29%, overall guidance was only 1% and 1.5% kind of improvement, which has improved little better because of your expenditure side it was much, much lower on marketing side, but then you are in the domestic business also did not happen.

Ranvir Singh: Just another one, that if you can give a geography wise breakup of revenue?

Ajit Kumar Jain: Domestic business we did almost around 1982 Crores of sales, promotional market around 403 Crores in the year, so domestic business has 4% growth overall for the year, commercial market has 6% growth for whole of the year. As far as generic businesses are concerned, we did almost around 804 Crores as against 560 Crores in last year, so 22% kind of growth, institutional business from 176 Crores it became almost around 385 Crores and overall formulation export business was around 1597 Crores as against 1222 Crores last financial year, so around 31% growth was there on export formulation business overall and on API side, domestic API has moved up significantly also because of that 137 Crores sales one time business what we did and that business growth is almost around from 250 Crores to around 386 Crores but that include 137 Crores of the exceptional one-time business and your export API business from 922 Crores, it has moved to around 1120 Crores, so almost around 21% growth on that overall and if you look at the quarter numbers, your domestic formulation business is around 434 Crores overall and the past promotional market businesses is around 101 Crores from 76 Crores in last financial year, generics by and large if you look at is around 159 Crores as against 164 Crores last year, so there is a decline of around 3% there. Institutional business is at 76 Crores as against 40 Crores last year, so around 92% overall growth and overall export formulation business is around 338 Crores as against 282 Crores last year so around 20% kind of growth and overall formulation business growth is around 8% to 771 Crores as against 713 Crores last year. That is overall breakup.

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. Sir, my first question is on the raw material prices, we have been hearing on some calls that the prices have gone up so what is our on ground check are we feeling the same and what is your gross margin outlook?

Ajit Kumar Jain: I will give you the prices trend on various business segments. Overall let us say formulation side whatever API we procure except perhaps from all and except one or two small API, we did not pay any kind of much higher prices and also you will notice that we have good amount of integration and therefore our formulations side the prices are not many more except Paracetamol and some other or a few other small products. As far as intermediates are concerned, your anti-malarial we have the artemisinin prices are significantly moved up in market, but more or less procurements has remained at lower price which I have already talked to you earlier. Another big impact comes from another drug called Lumefantrine there our intermediate prices have moved up. but we had a kind of mix of that somewhere we are paid higher price, somewhere lower contracts were also there, so that is a mix of it. As far as other intermediate like say Metformin, and some of the Chloroquine kind of intermediates and Furosemide intermediate there the price increase has been in the range of around 15% to 18% kind of those prices increase has happened in the last quarter of the financial year, so there some of the higher prices are paid. As far as solvents are concerned by and large if you look at it around 18% to 30% kind of price rise has been there in solvents, but all the solvent prices have not moved up like IPA prices just moved by

2%, which we use. The methanol prices have moved to almost around 45%, solvent prices have moved by 20%, methylene chloride prices have moved by almost around 23%, so significant movements are there but overall their consumptions may not be even 5% of overall cost API cost side, so that overall does not have much of impact. As far as packing materials are concerned, we have seen significant rise in prices because of commodity prices have gone up. If you look at aluminium price, by and large from 15% to 26% kind of price rise we have seen. On plastic side 12% to 30% kind of rise on resin side. On paper side if you look at from 5% to almost around 17% to 18% on different kind of paper, recycled paper has gone up by almost around 19%, craft paper has gone up by around 18% to 19%, but your other papers has not moved up that much or your FBB board, which used for show boxes, which has a large consumption has just moved by 6%, and as far as the glass is concerned there is almost around because of LPG prices going up and oxygen going up those prices increase was also very significant. I have given you segment wise price increases overall.

Prakash Agarwal: But do you expect to absorb or pass on to the customers and your gross margin outlook, Sir?

Ajit Kumar Jain: Gross margin outlook, we have already given.

Prakash Agarwal: Okay and second question, on the acquisitions we have done on the API side, Bayshore, Ramdev two, three years back, so we have talked about synergy benefits, which would play out in next two three years when we acquired it, so where we are in the overall journey and when do you see the scale up on these three assets?

Ajit Kumar Jain: Bayshore has started getting profits in the current year. I said that is a front end kind of thing for us and that ramp up of that Bayshore will happen only when your IPCA gets qualified and the FDA issues are cleared because that is going to promote our by and large, this will be a front end for the US business since that time they are only doing the small trading with, which does not have a large percentage of profit, but they have still given almost around 5.5 Crores profit on 162 Crores sales in the current financial year. Last year they were in loss around 155 Crores and 13 Crores to 14 Crores kind of loss was there. Second the company what we have is Onyx Pharmaceuticals in UK. That business growth is very strong. They get EBITDA margins for more than 30%. At PAT level they contributed almost around 23 Crores of PAT on almost around 9 Crores to 7 Crores of business so that is another company. Ramdev, a lot of restructurings are getting done, we are doing some kind of validation there and therefore capacity utilization was also lower and there were a lot of intermediate sales were happening from there which we do not foresee to be our strategy. So we are discontinued on those kind of product, which were contributing around 30 Crores of business so their sales in the current year has come down, but they will bounce back and they have contributed around 8 Crores of loss on Ramdev side. As far as another associate side is concerned, we have company called Trophic Wellness where we have now increased our stake to around 30% in the company and they are a nutraceuticals marketing company. They have done the business from 85 Crores last year to around 103 Crores in current year and their PAT has increased from 15.5 Crores to almost around 22 Crores in current financial year. There is another company called Krebs, which is at Vizag and Nellore. Their operations has resulted in losses, but we are continuously working to improve that leg, processes are getting improved, capacity utilization are an issue there so that is what some kind of new product introductions in all our plant, hopefully, Krebs will also start performing and hopefully the losses will come down significantly in current year and thereafter it can turn in profits.

Prakash Agarwal: Sir, one more if I may on the other expenses side, I mean percentage to sales is higher, I understand sales in Q4 is lower, but is there any one off in other expenses?

Ajit Kumar Jain: If you look at our overall own expenditure side more or less it is around 275 Crores or so, 275 Crores to 300 Crores, in current year also expenditure side is more or less on that line except that around 13 Crores, we have provided for impairment on Krebs in current year. So to that extent is a higher and also there is a higher expenditure on some kind of repairs and maintenance side almost this quarter we had paid almost around 9 Crores to 10 Crores higher compared to the normal, which is very abnormal cost. This is largely because lot of those kinds of costs, which was getting postponed as happened because of COVID scenarios and contractors not available, lot of other issues were being faced in the current year. So a lot of those kind of work as happen in the last quarter of financial year, so that cost is higher you can consider that is abnormal, but that is the normal cost, otherwise it would have come in all the quarters otherwise, so that is not a cost which can be passed on or it is not an abnormal cost, but abnormal is there for only for this quarter. The overall if you look at last year expenditure base was very low so because of that you are seeing that overall base has significantly increase in other expenses, but when you compare it with other quarters of the year then you do not find that is an exceptional except these two costs I have talked about that is higher and another cost which have moved up significantly is your freight. Sea freight are practically double, air freights somewhere has gone up to 5 times to 10 times now and that cost we must have paid in last even in fourth quarter were overall exports are little lower, also we had paid almost around 5 Crores additional cost, so the freight costs are significantly higher at current time.

Prakash Agarwal: 13 Crores impairment is for this quarter or for the year, Sir?

Ajit Kumar Jain: This quarter we had provided 13 Crores impact.

Prakash Agarwal: Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Sameer Bhisewala from Morgan Stanley. Please go ahead.

Sameer Bhisewala: Thank you. So, may be you covered this or maybe I missed it. I do not know. If I look at your fourth quarter sales, every single segment, those have shown a meaningful quarter-on-quarter decline, why is that so, Sir?

Ajit Kumar Jain: The business segment, say there are three segment where we have seen what is the decline, one is your anti-malarial had declined, another is your cough and cold had declined and antibacterial has declined in the current financial year. These three segments has declined is by and large the effect of COVID in the current financial year. So cough and cold, nobody was going to the doctors, but the scenario is absolutely reverse in the first quarter current financial year, and malaria incidences were more, but all other segments even in the first quarter, derma, Uro, CNS, those segments were declining, but they have seen a very good recovery and good growth has given in the second half of the current financial year, so like pain has done overall almost let us say the division which is promoting Zerodol is almost around 18% kind of group they have reported, so mix of everything was also because of the abnormal situation because of COVID.

Sameer Bhisewala: Fair enough, Sir. I think you are breaking down the domestic branded business in different segments. I think overall business composition which is exports banded institutional, generics, API, domestic exports all of them, all of them have shown a very meaningful decline and quarter-on-quarter decline that is what is a bit surprising to me?

Ajit Kumar Jain: Let us see, if you look at the Q4 projection numbers, which I had given the overall promotional businesses have grown by almost around 32% in the current year, yes, generic businesses declined except your institutional business, which has grown by almost around 92% on that so overall formulation business and exports around 20% kind of growth.

Sameer Bhisewala: Sir, I am saying about the fourth quarter, full year, third quarter?

Ajit Kumar Jain: Fourth quarter number I am talking.

Sameer Bhisewala: Institutional has come down from 138 Crores to 76 Crores, it has not grown 96%?

Ajit Kumar Jain: For 39 to, we do not see from your sequential basis, we do not see a quarter-to-quarter. We see on last year versus, every quarter is different and demands of drugs are also different according to seasonalities and others, so works in IT does not work in pharma in that way.

Sameer Bhisewala: Okay, that is fine. Sir, the second question I had, I think in the industry made some representation to the government for better pricing for domestic formulation I am referring to, any update on that I think for non-NLEM to give for this year a higher price more than 10% limit that the government has set?

Ajit Kumar Jain: It is all discussion stage. There are no commitment has come. The Paracetamol what formulations currently we are selling at is at huge loss right from 300 it has moved to almost around 900, so nobody in the industry is making money on that. It is being sold at huge loss and in fact business is also higher because of COVID demand is so much on Paracetamol, so industry is still continuously selling and nobody is stopping that kind of business because there are losses, but yes, there are proposals to the government and normally government at COVID time and when that crisis time they normally do not consider price increase, but maybe when situations are little stabilized government may look into it, some kind of industry demand on that.

Sameer Bhisewala: Sir, one final one if I may, that is with three sites for import alert. I was just wondering because these observations are whatever two, three years or maybe more old and the ammunition work is also, so is there is any concept of obsolescence when FDA comes whenever it does that these things have expired and it strictly begins unfortunately all over again or it is not like that?

Ajit Kumar Jain: No, it is not like that and as I said as practice we are also getting our plants continuously audited by international agencies, even current year also we have got it audited, so robust processes are in place, so we are not worried on that account.

Sameer Bhisewala: Okay, Sir, good luck. Thank you so much.

Moderator: Thank you. The next question is from the line of Amar Maurya from AlfAccurate Advisors. Please go ahead.

Amar Maurya: Thanks a lot for the opportunity. Sir, just wanted to understand like you know if I reduce the one off revenue and one off margin is it like on the yearly basis our margin would around 20%?

Ajit Kumar Jain: No, it would be much higher.

Amar Maurya: So, as you indicated that 365 Crores kind of revenue would have a margin probably higher than 65% to 70%?

Ajit Kumar Jain: Gross margins.

Amar Maurya: I am sorry, gross margins okay, so EBITDA would you want, 20%?

Ajit Kumar Jain: That is somewhere more, somewhere very high, somewhere in the range of 25%, somewhere very, very high.

Amar Maurya: So basically around 22% kind of base margin you would be?

Ajit Kumar Jain: Little higher than that.

Amar Maurya: So, basically on 23% to 23.5% you are talking about 150-basis point margin expansion in financial year 2022, it that fair to assume?

Ajit Kumar Jain: We have projected around 0.5%, so it is around 24.5% that kind of level and 0.5% improvement in current year.

Amar Maurya: Secondly, what would be our overall capacity in API today and if you can indicate as you have highlighted, but if you can indicate what does the expansion we are doing on the overall capacity in next two years?

Ajit Kumar Jain: Overall capacity that is very difficult thing to talk about because some product may have 20 steps, some may have two steps, three steps or if you produce larger amount of Metformin volume, your capacities are very, very mixed sizes and overall production numbers are very high, tonnage is very high, but broadly if you look at we are currently at almost around 90% kind of capacity utilization that is what and some kind of capacity we keep on creating by incremental work throughout the year and because of that we are able to overall increase the business in API side.

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

Rahul Sharma: Sir, a perspective on the different regions across export market where we have performed in the years like Europe, CIS, Africa and others?

Ajit Kumar Jain: Rahul, in this financial year that is FY2021, in EU there is a growth of 31%, Australia and New Zealand there will be a growth of 18%.

Rahul Sharma: The numbers could you give?

Ajit Kumar Jain: EU is 419 Crores versus last year 319 Crores, so 100 Crores growth. Australia and New Zealand 151 Crores versus 178 Crores, 18% growth, and this year there was also some US sales of HCQS in the beginning of the year about 21 Crores, last year it was not there and Canada from 78 Crores to 105 Crores that is 34% growth and there is a decline in South Africa business from 110 Crores to 80 Crores, 30 Crores decline is due to the tender business basically, total generic from 668 Crores we have done 804 Crores that is 22% growth.

Rahul Sharma: The 78 Crores to what decline, which region was that?

Ajit Kumar Jain: South Africa from 111 Crores to 80 Crores.

Rahul Sharma: Before that 78 Crores you said something?

Ajit Kumar Jain: 78 Crores last year was USA and Canada put together it has become 127 Crores this year, but 127 Crores also include 21 Crores of US HCQS business, which was not there in the previous financial year.

Rahul Sharma: How much is CIS?

Ajit Kumar Jain: CIS is more or less flat, 167 Crores versus 164 Crores, so in some continents because of this COVID situation, the sales got impacted.

Rahul Sharma: Sir, another thing was how this R&D shapes for the year?

Ajit Kumar Jain: There is a slight 0.5% incremental expenditure as a percentage of sales in the R&D cost this year.

Moderator: Thank you. The next question is from the line of Sayan Mukherjee from Nomura. Please go ahead.

Sayan Mukherjee: Thanks and good afternoon. Sir, on the EBITDA margin guidance that you are giving, so now we have a new base, so when we think about next three to four years and I think you mentioned that there can be an improvement on this space, so what kind of numbers you think the margins would stabilize, as your capacity utilization?

Ajit Kumar Jain: Sayan, if you see our audited financial results, in FY2020, we had a margin of about 20% to 22.5% and in the beginning of the year we give a guidance of 150-basis point improvement in the margin vis-à-vis that our margin ended up at 29% because of some additional business in HCQS and B2B, so excluding those additional business and its margin on a standardized basis maybe this year we did EBITDA margin of about 24% to 24.5% versus 22.5%, which was there in FY2020, so about one 150 to 200 basis point improvement in the margin, which was the guidance what we gave and this margin is at the back of decrease in our marketing expenses by about 90 Crores, similarly we have also lost business. This year the marketing cost will come back, our domestic business will improve, so that will get offset and on EBITDA margin level we are guiding about 25% EBITDA for the current financial year, so going forward our guidance remain same 12% to 13% topline growth from the next financial year onwards and about 100 to 150 basis points improvement in the EBITDA margin. This has been our guidance for last four years. We have not deviated from anything. This year there is an improvement in margin mainly because of the extra sales in HCQS and they came with a very, very good margin and certain reduction in the marketing cost.

Sayan Mukherjee: Sir, the marketing costs in the fourth quarter, you said 90 Crores for the full year, so how much is the fourth quarter like how much?

Ajit Kumar Jain: Fourth quarter more or less everything was back on track perhaps except for last week of March because of lockdown coming in again. But most of the cost will get spent in the current financial year. So we do not foresee there is any reduction in those costs, but we will also see a good growth in the domestic branded business sales.

Sayan Mukherjee: Thank you.

Moderator: Thank you. I would now like to hand the conference over to the management for closing comments.

Ajit Kumar Jain: Apart from whatever questions asked and answers given, we have nothing more to add. Only thing we reiterate our guidance for the current financial year, topline will grow by about 9% to 10% and we are confident of achieving about 25% EBITDA margin for FY2022. With this we close this session. Thank you.

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