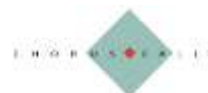




**“IPCA Laboratories Limited
Q3 FY2021 Earnings Conference Call”**

February 05, 2021



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LIMITED**



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Moderator: Ladies and gentlemen, good day, and welcome to the IPCA Laboratories Q3 FY2021 Earnings Conference Call, hosted by DAM Capital Advisors Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” 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 IDFC Securities. Thank you and over to you Mr. Agarwal!

Nitin Agarwal: Thanks, Janice, and good morning. Good morning, everyone. A very warm welcome to IPCA Laboratories Q3 FY2021 earnings call hosted by DAM Capital Advisors. From the IPCA Management, today we have Mr. A.K. Jain, Joint Managing Director, and Mr. Harish Kamath, Senior Corporate Counsel. I will hand over to Mr. Jain to make some opening comments, and then we will open the forum for question and answers. Go ahead, sir.

A. K. Jain: Thanks, Nitin. Good morning to all participants and thanks for taking out time and joining us on Q3 FY2021 earnings call. Today's concall and discussions and answers given may include some forward-looking statements based on current business expectations that must be viewed in conjunction with the risks that our business faces. Our actual future financial performance may differ from what is projected and perceived. You may use your own judgment on the information given during the con call. I would like to inform you that the company's business and financial performance in Q3 FY2021 has been strong in spite of testing times on account of global COVID pandemic. We have used our integrated business capabilities in the prevalence of our global drug formulations and API business.

The business and margin growth in Q3 FY2021 in comparison with Q3 FY2020 are largely driven by domestic formulation business, has had a revival in this quarter. We have recorded around 8% business growth for the domestic formulation business. The business of Antimalarial, Antibacterial, Cough & Cold, Pedia segment continue to show decline. Pain and Cardiac business, which accounts for 70% of our domestic business, has shown 16% and 8% growth during the quarter. The Pain segment has recorded business of almost around Rs.266 Crores for the quarter against Rs.229 Crore in FY Q3 2020 at 16% growth.

Similarly, Cardiac business has grown to around Rs.94 Crores as against Rs.87 Crore last year. Other segments like CNS, Derma, Ophthal, and Gastro are all now turned positive growth during the Q3 quarter. The reduced traveling costs and marketing costs has helped the margin expansion. API business has continued to record an overall 33% business growth. Institutional businesses recorded a significant business during the quarter of almost around Rs.138 Crore as against Rs.47 Crore in the same quarter last financial year. Out of



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this, around Rs.34 Crores in onetime exceptional business has been booked. Institutional business for the first 9 months of the current financial year has been around Rs.309 Crore as against Rs.136 Crore in last financial year. It has exceeded, in fact, our own annual projection for the whole of the financial year. These upsides, to some extent, was offset by the MEIS benefits are now not available. And we used to get around Rs.12 Crore of MEIS benefits per quarter. So that income is not there right now, and RoDTEP rates are still to be announced. Our materials costs on certain key intermediates and availability disturbances, there is also some impact during the quarter. The higher cost of freight, almost by around 40%, 45% that has gone up is also impacting the overall margin. Overall EBITDA, in spite of all that, has been recorded around 26.98% as against 24.46% in last financial year, an increase in Q3 last year, around 2.5%. Having given the broad presentation for the quarter, now I open the floor for question and answers.

Moderator: Thank you very much. The first question is from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Sir, just your comments on the margins, particularly the raw material price and freight prices going up, I mean, can you comment, sir, the outlook on this? Is this something which has happened through the quarter, and we will have even higher impact in 4Q going forward? Any color, if you can give how the trend is evolving with respect to these costs?

A.K. Jain: It is a temporary phase because of certain disturbances also during these times happens in China, largely on intermediate side because of pollution factors and others. So, there are certain availability like, say, I would say, the example like Paracetamol prices used to be Rs.350 a kilo earlier. It has gone to almost around Rs.550 to Rs.600 a kilo; because of certain intermediates are not being available from China. Certain key intermediates also, we had to get from here because there was certain kind of supply disturbance, so additional freights are paid. So, these are the things which are there, but it is a very temporary kind of thing. Maybe going forward, maybe on again, your quarter 1, things will be normalized here.

Saion Mukherjee: Okay. Okay, that is helpful. And sir, second question, if you can give some color on the API business. I mean this year has been very strong. And I mean is there any component that you can call out, which has driven the numbers? And how should we generally think about it for next year and Q4?

A.K. Jain: The API business during the overall 9 months has been very, very strong. And largely, it was also helped by your Hydroxychloroquine and certain Chloroquine-related business of COVID. So that exception was also there during this period. And company as a whole, I



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think in first quarter, we did almost exceptional business of around Rs.260 Crore or so. And some business of that nature continues but that maybe broadly or up to now, maybe around exceptional business maybe around Rs.350 Crore which I am taking put together, not API, it is all formulations and API and everything put together, domestic tender and everything put together. So that has been the exceptional business. But otherwise, let us say, higher capacity utilizations, and overall, the business penetration has been good for us. And also, our sartan business has done very well and will continue to do well. So that will certainly help overall in API business in fact.

Saion Mukherjee: Sir, this exceptional business, like Q1 was very strong. But just for this quarter, you mentioned about the institution business where you have Rs.34 Crore income there. Any other such which you think is exceptional or rather COVID related, which is there in this quarter in any of the segments?

A.K. Jain: Nothing else other than that Rs.34 Crore of exceptional business. That is a one-time.

Saion Mukherjee: Sir, one more thing, if I can. Sir, the sartans, it is still holding on. I mean how has it trended through the quarters? And how are we now in sartan in terms of the pricing, volume, if you can throw some light? And how large it is in our overall scheme of things in API, Sir?

A.K. Jain: Let us say, one of the key intermediates, which is used in all sartans, are the starting material. Their price used to be almost double, and that has come down to half the level. And that is also resulting in overall reduction in the sartan prices in the market because whatever cost reduction is received by company, that is being passed on to the customers. So that trend is there. So overall, price trend is down because of some significant reduction in the raw material costs. So that is with the overall trend in sartans.

Saion Mukherjee: Okay. But now you would say it is stable, Sir these intermediate prices are now stable?

A.K. Jain: Yes, now intermediate prices are stable, yes.

Moderator: Thank you. The next question is from the line of Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai: This is Damayanti. Sir, my question is on the export formulation business. So, on the generic side; we continue to see good momentum. So, can you update us on recovery on the U.K. business? And on the branded promotional market, why we are seeing a bit softer trend?



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A.K. Jain:

Overall, let us say, EU, including U.K., has given a very good business in the quarter, I think. As against Rs.76 Crore in last financial year Q3, we had done around Rs.113 Crore, so almost around 49% of growth. Our other markets like Australia and New Zealand has also grown by 13%. Canada has grown by 37%. And there is some reduction in the business on account of South Africa where last year, there was some kind of tender award and all that was there. They have yet to decide in this year. So that business is a little lower from Rs.43 Crores last year to around Rs.16 Crores, Rs.17 Crores. So, there is some reduction so overall, generic business has grown by around 14% for the quarter and put together with institutions, it is almost around 49% growth for the quarter. As far as your branded promotional businesses are concerned, let us say, your CIS part of the market, more particularly Russia, was impacted by COVID. And if you will recall that in first quarter, we had a significant amount of shipment, which to go in March, and subsequently, they went. Thereafter, because of the COVID, offtake in that market with distributor was less because of COVID. So, in second quarter, shipment significantly reduced in CIS, and we further reduced the shipment in this quarter. I think Q3 last year was almost around Rs.52 Crore of shipment. This year, in Q3, we have done a very minimum shipment of almost around Rs.16 Crore. So that has impacted, it is all because of COVID, and we have adjusted the inventories in that market. Q4 is likely to be normal, and overall branded promotional business for full of the year will show around 10% kind of growth overall. Let us say, business in Middle East, Africa, your West Africa, all that are doing very well. I think West Africa is growing by 23%. Your Middle East, Africa is almost growing by around 46%. Asia is at the same level that is at last year's level. And Latin America is, there are 5%, 6% decline is there. That is likely to get covered up in the first quarter of the current year. So, it is only the CIS where the COVID impact was very high. That has been first 6 months of the current financial year, even though shipments were there, but actual sale on ground was low, and that inventory adjustment has happened in Q3.

Damayanti Kerai:

So, Sir, CIS should normalize from first quarter of next fiscal onwards, right, broadly?

A.K. Jain:

Business growth now is very good. Overall, it has started returning to normalcy. But whatever shipments were made which were planned in the month of March, they were because of lockdown all that happened in first quarter. So that time, shipment was very high, almost around Rs.70 Crore shipment went there to CIS, yes. And those inventories remained in the system and because of COVID. And in this quarter, we have completely controlled the overall inventory in that market.



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Damayanti Kerai: Okay. That is helpful. Sir, a follow-up on the generic part. So, you mentioned pickup has been good across market. So, I was specifically asking how has been pickup on the U.K. market because I think last quarter, we had some pullback on the receivable side, right?

A.K. Jain: That has normalized, and we did almost around Rs.60 Crore business in U.K. as against Rs.21 Crore, Rs.22 Crore in last financial year in Q3, yes.

Damayanti Kerai: Okay. And my second question is, can you provide us update on some of the key capex projects, okay, Aurangabad, Dewas? So how are things moving up on the capex front?

A.K. Jain: Okay. On capex side, the measures, one with one API plant we are further constructing at Ratlam, and that project is going very well. There are some delays because of, again, COVID because of your civil construction part; all machines have all landed at the plant. And probably in the month of March, we will start overall commissioning work. And by May or so, the plant will be completely ready for your validations and all. So maybe from the second quarter of the year, we will start the commercial production from that plant. So that is the one. And I think, overall, that investment may be around Rs.100 Crore there at Ratlam. As far as the Dewas plant is concerned, we have already started the civil work for 2 plants there, and that is going full swing. And I think, hopefully, by September, October, the entire installation should be over. And by maybe on fourth quarter of the next financial year, the plant should be ready for, again, from production. So, these are the 2 projects currently happening. In addition to that, we have done some kind of one automated plant for producing company intermediates has been setup at Aurangabad. That plant is fully commissioned, and because of COVID, a lot of installation and deliveries of equipment got delayed, and now they were to happen maybe around the second quarter of the year, but significantly delayed was that. And now the plant is commissioned and working well now. And looking at maybe I think 1 more month result, we will further set up another plant there for maybe around 50 tonnes or so to scale up further production on that intermediate in the next financial year.

Damayanti Kerai: Okay. And Sir, budget for next quarter, earlier, we indicated Rs.300 Crore to Rs.350 Crore. That broadly stays or you have planned to increase?

A.K. Jain: Broadly, the capex is going to remain in that range only.

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



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Abdulkader Puranwala: Sir, my first question is with relation to the India business. So, any color you would like to provide that about the growth outlook for FY2022? And how do we see this promotional cost panning out in the next 6 to 8 months or whether it would be scaled up to the previous level or there might be some cost savings which would be possible considering we would be moving a little bit on the digital end as well?

Moderator: Ladies and gentlemen, we have just lost the line for the management. Requesting you all to please stay on the line while we reconnect the management back to the call. Ladies and gentlemen, thank you for patiently holding. We have the management reconnected. Sir, the question is from the line of Mr. Abdul Puranwala.

Abdulkader Puranwala: So, shall I repeat my question?

A.K. Jain: Go on. I did not hear you.

Abdulkader Puranwala: Yes. So, Sir, my question was with regards to India business. First of all, I would like to know what would be the growth outlook for FY2022. And the second part of the question was in relation to the promotional cost for which, as you mentioned in your opening remarks, there were some benefits seen in the quarter as well. So, going ahead, how do we see this cost rising? Would it be back to the pre-COVID levels or there might be some cost savings, which would be possible?

A.K. Jain: Okay. As things are normalized in India, and if the second wave of COVID does not happen, I think we should record almost around 13% to 14% kind of growth in domestic market in next financial year. And the business will then be absolutely normalized. As far as cost is concerned, there will be some amount of savings will continue account of whatever this continuous medical educations and conferences part is concerned. A lot of those activities will continue to be on electronic mode and also the medical professions and companies are realizing the benefit of that, that the travel takes a lot of time and that with these kind of conferences, the professionals also save their time because they can participate sitting from their clinics or home or whatever it is. So those kinds of costs will have a significant reduction, but all other costs may start to get normalized in the next financial year. The travel cost, both international and domestic, in this year was hardly any. I think, overall, we must have saved almost around Rs.25 Crore on account of those kinds of travels. So, I think once things get normalized, there is no substitute for travel because, but it may not happen to that extent. Some cost reduction compared to, say, FY2020 will continue to be there, but the cost definitely will move up.



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Abdulkader Puranwala: Clear, Sir. And Sir, my second question is with regards to the API business, and this is a follow-up on the previous participant as well. So, Sir, I mean if I had to understand on the current plant capacity, then what will be the current capacity at what we are operating? And would that be sufficient to drive the 12%, 13% growth, what has been guiding in the last con call as well? So, would that still be achievable in FY2022?

A.K. Jain: So, let us say, excluding the exceptional business, what we have done, that kind of growth is possible, absolutely. There is no reason that why it should not be there. So, we are confident to have that kind of growth. But certain exceptional business, what we have done, those business may not be there in next financial year. So overall, growth numbers will depend on that and that numbers, whatever is there, we will give after the fourth quarter that how things will pan out. But overall, API business will have that kind of growth. As far as capacities are concerned, we are continuously debottlenecking and creating capacities within the existing infrastructure and now have started setting up the new plant. At Ratlam, one plant is under setting up right now, construction and all, and 2 plants at Dewas. So hopefully, next year, the additional capacity will also be there. So that will drive the overall future growth in coming years.

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

Kunal Shah: Yes. So, the first question is on the one-off businesses that we have done in this year till now. So, you have said it is Rs.350 Crore. So if I recollect it, I do not know, I think Rs.40 Crore was the HCQ business that we did with the government, Rs.26 Crore was the shipment that was delayed in the branded ROW market that we did in quarter 1 and then another Rs.34 Crore we have done this quarter for the institutional business. So, all put together, it is somewhere around Rs.100 Crore. So, is it safe to assume that the rest Rs.250 Crore additional business that we have done with this one-off is into API business?

A.K. Jain: It is not API itself. Also, formulation businesses are there and international, like, were more relating to HCQ's use, which were there in the COVID and Chloroquine use in COVID in initial period. So those businesses both API were there, and formulation businesses are also there out there. And mostly, and we had given I think in first quarter almost around Rs.260 Crore number. That was the exceptional business. And in that, we are not taking this CIS business as exceptional because those shipments were just shifted here and there. That is a normal business, normal kind of thing. It is only the business only relating to Chloroquine and Hydroxychloroquine, whatever we have done, additional business on account of



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COVID that is the number which I had given that up to now, it is almost around Rs.350 Crore.

A.K. Jain: So that is not only of API. It is also there of formulation; it is also there of domestic tender and all that. Yes. It is formulations in generics, formulations sales everywhere. So that is the overall additional business.

Kunal Shah: Yes. But now that we have seen the API within that also, you have sartan, you have kind of deflated significantly. So just want to understand what would be our growth profile for API business next year.

A.K. Jain: Overall, our budgets are under preparations right now, and we are working on that. So, in the fourth quarter, when we present our results around that time, we will give the complete projections for the next financial year of all businesses.

Kunal Shah: Okay. And second, on the tax front. So how much MAT credit do we have left? And what is the runway there for us to grow? And when will our tax rate might be resetting to a normalized level?

A.K. Jain: I think we have as of now, around Rs.360 Crore is the MAT credit available, out of which, I think, in current financial year, we will be using around Rs.100 Crore. And next year, some benefit on account of this Sikkim plant will go away. So next year, we may be utilizing almost around Rs.160 Crore or so, broad calculations are there. So thereafter, there will be hardly any MAT credit left maybe around Rs.40 Crore, Rs.50 Crore. So, at that point of time, we will have to decide whether we are opting for 25% rate of tax. So, the tax rate, which is currently, say, 17.5%, 18%, that will go to around 25%. So still there is 1 year and depending on what kind of MAT credit will be left out, we will decide what could be beneficial in FY2024.

Kunal Shah: The last question is on I think I missed some of your starting comments on the gross margin. But can you just, like, quantify what would be the impact of MEIS and when the mix shift towards the institutional business because we have seen exceptional business there and is there any pressure in our core business so what would be the sustainable gross margin level that we should kind of look forward to?

A.K. Jain: I think overall gross margin levels, material cost ratio will be almost around 31% or so practically in the next financial year also.



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Moderator: The next question is from the line of Chirag Patel from Adinath Shares. As there is no response from the current participant, we proceed to the next question from the line of Dheeresh Pathak from Goldman Sachs.

Dheeresh Pathak: Yes. First, for the branded export market, I think if I heard correctly, you said 10% growth. Did you say that for the full year, FY2021, we will have 10% growth?

A.K. Jain: Yes.

Dheeresh Pathak: So, then Q4 would be quite a good growth, right, because of a low base, and year-to-date growth has not been there. So, is that a correct understanding? Are you seeing that in your Jan shipments?

A.K. Jain: Yes. Q4 would be a good growth.

Dheeresh Pathak: Almost like Rs.120 Crores or something like that is what I should expect, right? And that will be like...

A.K. Jain: Yes, Q4 will be a good growth, yes.

Dheeresh Pathak: Okay. Sir, for the Q4 domestic business also, if you can give some guidance, I think in last quarter con call, you had mentioned that we might see low teens growth, I think. Is that possible in Q4 of FY2021?

A.K. Jain: Overall, this quarter, we have achieved around 8% kind of growth, and some of the businesses have now started showing growth. And others also, for the businesses, what we have talked about, the Cough & Cold, then the Antimalarials and Antibacterials and more particularly, Pedia segment, the decline has reduced in Q3. So Q4, these businesses will further be better. So overall, we see that from 8% overall, the growth can be around 8% to 10% in fourth quarter. And next financial year, it could be around 13% to 14% kind of growth.

Dheeresh Pathak: Okay. Just to confirm the capex number. So, API Ratlam capex is Rs.100 Crores, which will commission in Q2. And Dewas was Rs.300 Crores capex, which you said, will commission in Q4 of FY2022?

A.K. Jain: Yes. But some of the expenditure will be done this year. Civil constructions and all are going on, yes.



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Dheeresh Pathak: Right. Right, with the tenants so API Ratlam was supposed to add 10% capacity and Dewas was supposed to add 20%, 25% capacity. Is that correct, Sir?

A.K. Jain: Yes, Dewas will add, yes. That is the kind of capacity Dewas will add, yes.

Moderator: The next question is from the line of Surya Patra from PhillipCapital. Please go ahead.

Surya Narayan Patra: Yes. Just on the export front, I wanted to check whether in the month of the December, we have seen many companies say things are pretty challenges. So, you have seen any impact of that for your trade. That is one. And regards the export growth for the following year or next year, having seen the strong base of the current year, what trend that also you would look at? So, do you see that the integration benefits should start seeing in the next year and hence, even after the high base of the current year, the growth momentum would remain strong?

A.K. Jain: As far as integrations are concerned, we are currently also maybe around 62% of our entire formulations is backed up by our own API. That is a broad number for 9 months. 62% of our formulations are backed up by our own API. So, it is a significant amount of integration already there in the system currently. And that is why in spite of our having a lot of those kind of native products could expire as a generic; we still have a good position in the business and would continue. Right now, what we are talking in terms of is, broadly, let us say, journey, henceforth, is going to be bigger journey will also happen on intermediate side. And intermediate side, right now, there is only one small plant on piloting on 10-tonne plant we have put up at Aurangabad. That is commissioned already and showing good results now. Based on whatever learning's what we have, we will be setting up another plant in next financial year of around 50 tonnes or so. And thereafter, the major expansion on the intermediate side would happen at our Nagpur facility for which now we have initiated the environmental clearance right now. So, billings will happen in next financial year because environmental clearance and pollution board's clearances and all will take around 6, 7, 8 months from now. And then work will start on ground so maybe very small amount of capex may happen in next financial year. Major will happen a year thereafter to set up those. And there, maybe probably larger integration of intermediates to API side will further happen.

Surya Narayan Patra: Okay. And did you get any impact of the trade challenges in the month of December, Sir?

A.K. Jain: No. We did not face those kinds of challenges.



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Surya Narayan Patra: Okay. And interestingly, Sir, you had mentioned about your level of integration which is now 62%. If I remember, in the last quarter, in the fourth quarter, you had mentioned that your level of integration was 55%. So that means, despite all these challenges, you have progressed on the integration front so far as your formulation business is concerned. Is that correct, Sir?

A.K. Jain: Yes.

Surya Narayan Patra: So that is good. And more on this, if you can share what portion of your business, formulation business, would be integrated to the level of a KSM, Sir?

A.K. Jain: That number is not ready, but a lot of the KSMs we produce ourselves, yes. Of our key KPI, a lot of intermediates we are producing ourselves, yes.

Surya Narayan Patra: In a differently, what is the share of the intermediate as of now? For the captive consumption, only that we would be using as of now or the current, let us say in the current financial year and what is likely that we are anticipating post this chemical commencement in that Nagpur plant when you plan to commercialize? What is the kind of progression that you are anticipating for your intermediate?

A.K. Jain: We do not sell KSM. So KSM sell numbers are not there. And by and large, the KSM for our main products, our major products, we produce ourselves. Maybe 7, 8 all the KSMs are produced internally by us. And that is the further journey is being taken up and so it will give you the number of that.

Surya Narayan Patra: Okay. Sir, then, is it safe to believe that at your inference, top 6 to 7 or 7 to 8 products first 7, 8 products, you are manufacturing KSMs yourself? So, can we believe that those top 7, 8 products are fully integrated, starting from the KSM as of now?

A.K. Jain: Not necessary that every intermediate is produced. Some out of that may be imported also, India itself. Not every intermediate like say, sartans are produced from ODT and we do not produce ODT. But we are working on ODT. So, at one point of time, once at very opportune time, those processes are ready, then I think we have certain encouraging kind of results are from R&D. So, something we will work out, but I cannot say that definitely when that would happen. And we formalize our projects and plan and R&D and all those kind of gaps, whatever are there currently, they are closed too.



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Moderator: Mr. Patra, I am so sorry to interrupt, but may I please request you to rejoin the question queue for your follow-up as we have many people waiting for their turn? The next question is from the line of Rashmi Sancheti from InCred Research.

Rashmi Sancheti: Yes. So just on institutional business, if you can share that this exceptional income is related to which products and which tenders. At the same time, ex-exceptional business, currently, which are the products on injectables and the tablet side which we are supplying and which tenders?

A.K. Jain: By and large, let us say, this is an Antimalarial business, broadly Antimalarial business what we are doing, and that is basically your artemether-lumefantrine is in the 2 forms are there. One is your conventional dosage and also in the dispersible formulation. And then we do artesunate and amodiaquine as another product, which is also a large product. And third is artesunate injectable. These are the 3 main products currently are there right now. There are 2, 3 products more are there, which are there in your R&D pipelines and some of the buyers are cleared and then earnings would happen in next year. That will also add to the overall to the basket, which is not currently in the production for IPCA Labs. So, these are the 3 products which are there on Antimalarial. And major businesses, I would say that almost around 95% of institutional businesses are happening on these 3 products. And by and large, this business is of 3 types. One is your Global Fund-related business. Another is relating to U.S. donations to the developed world -- developing world, mainly Africa and other countries. And third is relating to country tenders. And normally, we do not give bifurcations that there what businesses that we are doing. But yes, we have country tenders also. We have businesses relating to Global Fund, and we also have business relating to U.S. donations to the other African markets. So, all the 3 put together are the business of IPCA. Only out of the total businesses of almost around Rs.309 Crore what we have done in the current financial year, only Rs.34 Crore of business, which is not out of these 3 products but again of Antimalarial product is done in this quarter, and that is exceptional business, onetime business. And that is what I said that, that is a purely, purely exceptional because it has nothing to do with these 3 products. It was a fourth product, onetime business of Rs.34 Crore we have done.

Rashmi Sancheti: Okay, Sir. And Sir, on your subsidiary sales business, this quarter, after 2 muted quarters, you have given a strong growth. So which subsidiary is leading that growth? And what is happening on the bottomline of all the subsidiaries if you can give a little picture on it.

A.K. Jain: Let us say, subsidiary-wise, we have major one is in U.K. that is Onyx Scientific. That is continuously doing well. That is generating almost over 30% kind of EBITDA on overall



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business. And I think they have contributed, I think, posttax of almost Rs.17 Crore, Rs.18 Crore of overall profit in the current year. Then we have acquired a front-end in U.S. called Bayshore. And that is, by and large, because we are not there currently in the U.S. So, our formulations are not getting sold. Basically, they do some tie-up with third parties, and their products are being sold. And there, this quarter, the profit has been very good, almost around, I think, Rs.9 Crore, Rs.10 Crore of profit they have shown. Overall, for first 9 months, there is a Rs.6 Crore of profit. There was some loss was there earlier. So overall, that they have done well. So apart from that, we have another subsidiary called Pishgah. And that is your overall for API side. And that subsidiary has given the losses. And because of the continuing FDA issues and all, we are not able to commercialize those API and then continue with that so once the integration fully happens, I think that subsidy, we expect that this maybe current year and next financial year, they may continue to incur the losses. But thereafter, it should start making money. So, these are the major 3 subsidies which are there. Other than that, is we have your associate company called your Trophic Wellness, that is marketing the nutraceuticals in India, and we have around, I think, 20% shareholding in that company. And that company is doing very well. They are generating almost this year, they will generate almost around Rs.100 Crore kind of business and overall profit after tax of almost around Rs.20 Crore and doing very well at the marketplace, and business is also growing very good. And apart from that, we have Krebs as another associate where some kind of fermentations and some synthetic products are there. That company currently is in losses, but hopefully, we should turn it around in the next financial year.

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

Rahul Sharma: I just wanted clarity on any update on the U.S. FDA inspection of our plants, Sir.

A.K. Jain: Let us say, we are in touch with them. Whatever required by them is being supplied. And I think because of COVID, they are not able to do the reinspection. As things get normalize, inspections would happen. Beyond that, we cannot say when and how and how long it will take, very difficult to answer.

Rahul Sharma: Sir, another thing, could you share the numbers of branded and generics region-wise, Sir, for 3 months and 9 months?

A.K. Jain: Overall, I think on Q3, we had done around Rs.77.5 Crores of promotional business as against Rs.112.98 Crore last year, out of which I think CIS business was around Rs.15.85 Crore. Your Southeast Asia was almost Rs.15 Crore. Middle East, Africa was Rs.12.5 Crores. Then Latin America was Rs.10.3 Crore. West Africa was almost around Rs.24



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Crore. So that is a broad breakup is there of that. And in generic business, you -- we had done around Rs.113 Crore as against Rs.75 Crore in last year. Australia, New Zealand is Rs.52 Crore as against Rs.46 Crore last year. And Canada, we had done almost around Rs.35 Crores to Rs.36 Crore as against Rs.26 Crore in last financial year. South Africa business is around Rs.16.5 Crore as against Rs.43 Crore in last financial year in the Q3. So that is the Q3 breakup overall, yes.

Rahul Sharma: So how much we did for Southeast Asia? I missed that number in promotional market.

A.K. Jain: Southeast Asia is around Rs.15 Crore. Last year was also Rs.15 Crore, So more or less same number.

Rahul Sharma: Okay. And Rs.10.3 Crore was on Middle East, Sir?

A.K. Jain: Latin America. Latin America is Rs.10.3 Crore, and last year was also close to Rs.10 Crore, so maybe around 3% growth is there in that.

Rahul Sharma: Okay, Sir. Sir, are you seeing some recovery in the CIS space now, Sir?

A.K. Jain: Yes, business is good currently. The COVID situation is in control there, and business has again started reviving there. And in order to control inventory, we have not done much of shipment in Q3. I think Q4 shipments are going to be normal because average business is almost around Rs.167 Crore last year we did and so 2 months, practically, inventories are controlled there. And hopefully, the fourth quarter will be again a normal quarter.

Moderator: Mr. Sharma, I am so sorry to interrupt. May I please request you to rejoin the question queue for your follow-up? The next question is from the line of Krati Rathi from Perpetuity Investment. Please go ahead.

Krati Rathi: Can you share what is the net cash number as of December quarter?

A.K. Jain: I think, overall, I think cash holding as of now is almost around Rs.850 Crores, yes, Rs.850 Crores.

Rahul Sharma: Okay. And my second question is that in our domestic business, Zerodol brand, which includes Zerodol P, SP, is a significant size. So how is the growth in FY2021? And how are we seeing that brand in the next 2, 3 years?



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A.K. Jain: Actually, we do not give brand-wise number. I have broadly given you the number of pain management that we had done almost around Rs.266 Crore of pain management business as against Rs.229 Crore. So, in Q3, we had grown by almost around 16% on pain management. So, pain management continue to do well, and hopefully, next year, also, it will continue to -- it will have almost around 20% kind of growth in pain. Pain will continue to be significantly driving the overall...

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

Sameer Baisiwala: Most of my questions were answered just a couple of them so one is, Sir, what is the margin outlook for the next 2 to 5 quarters as we go forward?

A.K. Jain: So current year, we have done a lot of exceptional business, so margin levels are high. But overall, we see 25% to 26% kind of EBITDA margins are maintainable kind of thing next year also.

Sameer Baisiwala: Okay, Sir. And second is on this China Plus One strategy or rather trend. Sir, are you seeing this on the ground? Or this is a bit more in terms of sentiments, et cetera, but not on the ground? And second to that is, do you expect Chinese companies to fight back at some point in time, drop prices? So, some real anecdotes or some insights from you would be great.

A.K. Jain: I think that is happening in marketplace. People are definitely looking to broaden their overall supply chain, to add some kind, so that their business does not get disturbed. But currently, we are not there in U.S., and therefore, that advantage to us has not come to a great extent, in Europe, any why we were doing business. Part of our business is distributed across geographies, except 0 business in the U.S. So basically, Lat Am, we have business. We have business in Africa. We have started doing good business in China of API. And Chinese business of ours will have particularly significant growth in next 2, 3 years. So current year, I think we did almost up to Q3 around Rs.25 Crore. It may become almost around Rs.100 Crore in next 2 years or so. So that is the kind of prospect also there in China. So overall, it is a broad business we have and your China Plus One, that is not happening in, let us say, in Africa or that is not happening in CIS, that is not happening to that extent in Lat Am. But it is more happening in Europe and America. Whereas America, right now, we have no business. So, we have not got that kind of advantage of that. But yes, for industry, that is happening.



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- Moderator:** Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** What was the MEIS reduction this quarter?
- A.K. Jain:** Overall, around Rs.12 Crore last year we got on higher business, it could have been more and from second quarter, it fell because government is not disbursing the MEIS in current year. Till down, they have not started, even though it was there for up to a certain period. So, we have not made provision in books. We will make whatever MEIS which we will receive that will be provided because a lot of uncertainties are there. They have yet not opened the DGFT has yet not opened their window to file the application.
- Dheeresh Pathak:** So, in this Q3, there is no MEIS income recorded. And in Q2 of this year, there was Rs.12 Crores. Is that correct?
- A.K. Jain:** Q2 also, we have not provided for in books.
- Dheeresh Pathak:** Q2 also, there was nothing. Okay.
- A.K. Jain:** But this quarter impact is almost around Rs.12 Crore.
- Dheeresh Pathak:** Versus the base quarter last year?
- A.K. Jain:** Yes, compared to that. Last year, it was almost around Rs.12 Crore. We will get certain MEIS once the government opens because Q2 also, there are some MEIS due. But as and when it will come, we will recognize as income because right now, they have not even opened the window.
- Dheeresh Pathak:** Sir, just to understand the reduction in gross margin sequentially from Q2 of FY2021 to Q3. So, one is the mix, which is the higher tender business. The other is, you said, some higher raw material and KSM prices. But it is not to do with MEIS. It is those 2 effects, right?
- A.K. Jain:** MEIS was also there as a part because Rs.12 Crore is not there. But let us say, we were holding certain intermediates of sartans at higher prices because prices have come down, whereas the market prices are corrected. So those higher rate inputs are consumed in this quarter. So that is why the overall margin levels are low. Plus, certain products like, say, normal product like Paracetamol also from Rs.350 level, it has almost gone to around Rs.600, Rs.550 to Rs.600 level. That is the pricing currently prevailing. Certain intermediates because of, again, winter in China, certain disturbances are there because



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certain chlorination compounds and all which they produce less in this and more goes for the pesticide industry rather than for your intermediates for pharma because there, so those disturbances are there. And maybe, let us say, you have to get those intermediates by air and additional costs and all that. So those are some disturbances are there at market. Even Paracetamol disturbance is also because of China because certain TNCB production is disturbed. But it is a quarter's impact. It is by first quarter of or even in the end Q4 also, it will start getting normalized.

Dheeresh Pathak: On the PLI scheme, which was also related to the Paracetamol intermediate, I think you had applied for some. I do not know whether you applied for that or not. Can you just give some update on the PLI scheme, if you applied for anything on this?

A.K. Jain: So, we have made 2 applications for sartans only for one, at Dewas, where plant is already under construction. And one, we have applied for our Gujarat plant, Ranu plant. So, there are 2 applications made, and they are only for sartan. We have not made any application for para or others. So that is not our line of business.

Dheeresh Pathak: Understood. Sir, when you are saying raw material costs would be 31%, so gross margin guidance of 69%. So that is much higher. So that is based on the backward integration that you are doing. I mean what is the contemplation on such gross margin guidance.

A.K. Jain: Basically, what will happen that your domestic business where we have higher margins, branded business where we have higher margins, those all business will start becoming normalized in the next year, higher margins and whereas some costs will also move up. So, taking everything into account, it is a broad number, and I think our budgeting exercise is currently going on. So maybe fourth quarter, we will give you the exact guidelines for everything there, in terms of growth outlook, in terms of margins and everything.

Moderator: Thank you. The next question is from the line of Surya Patra from PhillipCapital. Please go ahead.

Surya Narayan Patra: I just wanted to have a sense on the Noble Explochem side?

Harish P. Kamath: You are not audible, Surya.

Surya Narayan Patra: Okay. Is it audible, Sir?

Harish P. Kamath: Yes. Now it is better, yes.



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Surya Narayan Patra: Sir, about the Noble Explochem, the capacity additions what we are planning, so whether it would be a kind of a face-to-face multiple-unit kind of construction that...

Harish P. Kamath: Mr. Jain has already explained, this land parcel what we got because of this NCLT order, we will be using for manufacturing intermediates, correct? Currently, our environmental applications are in the stage of being processed. It will take certain time. So, any investment in this facility will happen in the latter half of the next financial year. So, we will be initially using that land parcel only for manufacturing intermediates, subject to necessary environmental clearances, yes.

Surya Narayan Patra: Okay. That would be multiple unit kind of a setup?

Harish P. Kamath: Yes, yes, yes. Every API intermediate facility, it will be all multiple-unit type. For example, in Ratlam, we have about 25-plus API manufacturing blocks. We call it manufacturing blocks.

Surya Narayan Patra: Okay. Okay. My second question is, Sir, can you provide some update on the PLI scheme?

Harish P. Kamath: Mr. Jain has already said that we have made application for 2 products. So far, there is no outcome of that. Maybe by end of this month, something will come.

Moderator: Well, ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments. Over to you all.

A.K. Jain: Thank you all for participating. And I think that overall COVID situation being in control, things on domestic and branded markets will again start reviving. And hopefully, I think as COVID situation get normalized, our inspection should happen, and that will further open our future U.S. business. Thank you.

Moderator: Thank you. On behalf of DAM Capital Advisors, we conclude today's conference. Thank you all for joining. You may now disconnect your lines