"Ipca Laboratories
Q1 FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the IPCA Laboratories Q1 FY2022 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 DAM Capital. Thank you and over to you Sir!

Nitin Agarwal: Thanks. Good morning and a very warm welcome IPCA Labs Q1 FY2022 earnings call hosted by DAM Capital Advisors Private Limited. On the call today we have representing IPCA Lab management, Mr. A.K Jain – Joint Managing Director and Mr. Harish Kamath – Corporate Counsel & Company Secretary. I will hand over the call to Mr. Jain to make his opening comments and then we will open the floor for Q&A. Please go ahead Sir!

A.K Jain: Good morning to all participants. Thanks for taking out time and joining us on Q1 FY2022 earnings call. Today's earnings call and discussions and answer given may include forward-looking statements based on our current business expectations that must be viewed in conjunction with the risks that pharmaceutical business faces. Our actual future financial performance may differ from what is projected or perceived. You may use your own judgment on the information given during the call.

Our business performance has been better than our own expectations for the quarter. The domestic formulation business delivered 25% growth over previous year and excluding 54 Crores of domestic hydroxychloroquine, institutional business which we have done in last year Q1, if we exclude that then domestic formulation business has grown by almost around 41% in Q1 on a lower base.

Some of the therapeutic area recorded very strong performance. Our Pain segment has given almost around 36% growth which contributes almost around 49% of our businesses that is excluding hydroxychloroquine business that we have done with institutions including that the Pain segment has just given around 6% growth, overall. Cardiovascular and Antidiabetic has grown by almost around 14%, which contribute almost around 18% of the business, Antibacterial has done really very well. The business from 18 Crores has gone to almost around 50 Crores. It contributes around 8% of the business and overall growth in this business segment has almost 173% for the quarter.

Derma is another business where last year Q1 we were facing problems because of lockdowns and other things that recovery has been very strong, the business last year was almost around 13 Crores, that has gone to almost around 25 Crores and the business growth has been almost around 89% and Derma contributes almost around 4% of the business.

Similarly, anti-malarial in this quarter has done well almost around 98% of growth and its contribution is around 6%, the 20 Crores business last year Q1 has gone to almost around 39 Crores. Cough and Cold is another segment where it continuously last financial year there was a decline but in this Q1 FY2022, there is a sharp recovery in cough and cold business and that has also grown by almost around 83% and it contributes almost around 3% of our overall business.

So, overall it is a broad based most of the therapeutic area we had a very strong growth in Q1 of the current financial year. If you look at CAGR growth of domestic business in Q1 on a base of FY2022, it works out to be almost around 16.34%, so that has been really good growth on the base of first quarter's base of FY2022, if we look at then it becomes almost around 16% of growth because there is no point in looking growth from the base of FY2021 because business was facing problem because of lockdown but on a base of Q1 FY2022 it is almost around 16.34% growth.

The broad based treatment of hospitalized patient helped antibacterial business growth at the same time selective lockdowns did not much disturb the overall market in Q1 of the current financial year. Excluding almost around 259 Crores exceptional business in Q1 last year on account of Chloroquine and hydroxychloroquine that we have done last financial year, if we exclude this then on lower base of last financial year, we have recorded as business growth of almost around 23% in the current year overall for the company as a whole.

We have achieved an EBITDA margins of around 27.1% for the quarter in spite of 2% lower currency realization compared to the last financial year, higher material cost at market place, increasing basic chemical prices and intermediate prices, petroleum product prices are at very high which includes all the solvents which are used for APIs, so lot of those cost and packing material cost because of commodity prices going up is also very high and higher energy cost, transport cost and shipping cost, shipping cost particularly the container cost that has significantly moved up. Also the promotional cost has started returning back in Q1 of the current financial year as the situations are becoming normalised now.

The COVID-19 has posed tough challenge due to COVID infections at plant and loss of life due to COVID as well as selective lockdown also disturbed the plant productivity due to less availability of manpower at certain of our plant during Q1.

Having given the brief presentation, I would now like to open the floor for question-answer. Thanks once again for taking out time and participating on this call. Thanks Nitin.

Moderator: Thank you very much Sir. Ladies and gentleman, we will now begin the question-and-answer session. The first question is from the line of Tushar Manudhane from Motilal Oswal. Please go ahead.

Tushar Manudhane: Thanks for the opportunity Sir. Just on the raw material cost, so how do you see the outlook now for the coming next three months to six months whether the cost are stabilizing or continue to rise?

A.K Jain: Still continuing the rising trends are there, more particularly again the flood in China and lot of other issues are still disturbing the markets for more particularly for the basic chemicals and intermediates.

Tushar Manudhane: So would be logistics cost as well?

A.K Jain: Logistic cost is also I mean in fact the container hiring cost is further going up, the European containers which was available much earlier at much lower price now is almost around reefer containers are almost around $6000-$7000 now and US containers because of lots of the shipping companies are from China and that is the tremendous amount of disturbances and we have to book container well in advance and so there is a lot of disturbance as far as freight is concerned and that cost is moving up here.

Tushar Manudhane: Given that we had some amount of inventory which would have taken care of this quarter, so maybe will that cost impact could be more reflected in the coming quarters?

A.K Jain: Cost increase is there but at the same time the pricings are also continuously getting revised. In domestic also we are taking little higher pricing, normally we take not around 4% price hike, this year our average price hike may be around 6%, so to some extent that will get compensated and as far as API business is a quarters lag because what inventory you have, you priced a product in line with that and then price goes up again you revise the prices in the market, so we do not find any kind of long-term contracts, so the prices keeps on revising, so it does not have much of impact there may be it is of short term some kind of impact may come.

Tushar Manudhane: Just lastly if you could also like extending the API on the sales aspect like how do you see for the full year, is there anyone off that the quarter or this is normalised run rate to go by?

A.K Jain: Let us say we have the business was good in Q1 of current year, Domestic API business we were expecting very, very significant decline because of last year we had almost around 136 Crores of API business, which we have sold API to an Indian company which in turn exported the product to US for COVID but excluding that also against our expectation, the API business has done very well and current trend also appears to be good as far as domestic is the concern because domestic market is also growing very well, so domestic API may do a little better. On export side, we have projected for whole of year around 10% kind of growth, there could be some impact here and there because we were exporting some API to market like Iran where there are issues currently because India is not buying the oil and therefore your rupee payments mechanism which is there, that rupee is not available even though you have orders in hand but shipments are not happening, so that may have little impact here and there but more or less it is going to be in line with our overall expectations of the current year.

Tushar Manudhane: Thanks a lot Sir.

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. So, first question is regarding the gross margins, so if I look at our mix it has not sequentially shifted much as we know the domestic is still around 40% of our revenue but if we look at the gross margin, they have compressed quite a lot on a sequential basis, so apart from higher raw material cost, are there any other reasons for that?

A.K Jain: Basically, there are the two reasons, one is let us say the product mix which is sold in this particular quarter, as I told you that there are significant jump in some of the product portfolios like Antibacterials, Antimalarials, cough and cold and all those kind of portfolio. Traditionally, their margin levels are low. Their cost of manufacturing is higher and some of the Antimalarials we have very, very low margins and their business growth has been significant, so that also impacts, so we cannot see the pharma business sequentially, it has to seen with reference to the quarter-on-quarter, you cannot see that. It has to be with reference to each quarter, product mix is little different, so that is one factor, of course the cost of material also gone up but it is also the product mix which is also interacting overall on material cost side and last year for Q1 if you look at most of those business relating to Chloroquine, hydroxychloroquine which has happened that has happened at much, much higher margin level and therefore the material cost was almost around 27% but if you look at overall our material cost for whole of the year it was around 32% kind of material cost and current in this quarter is for on 33%-33.4%, so it is little increase also is because of overall product mix changes.

Kunal Dhamesha: Second question is on other expenses, so you did that we know that promotional activities are coming back but still you believe we are still at around 300 Crores, so do you expect this 300 Crores topline to move up material in the coming quarter?

A.K Jain: More or less like cost increase trend would remain similar kind of trend which we have witnessed in Q1. Q1 there is some kind of exceptional entries also there of some provisions of diminution and value of investment around 16 Crores we have provided on that, so excluding that there are no exceptional as far as expenditures are concerned. If you look at your energy cost as almost your A4 cost has moved of almost around 50%-55% in this quarter, so energy cost has significantly moved up. Then the shipping cost has significantly moved up and promotional cost has come back, last year Q1 most of the film stars were sitting at home, so they were only paid the salaries, normally they are almost around 5000 people who travel every day, so the travel cost and also allowances, so that cost was not there so that cost has return back and secondly on human resource cost side if you look at since the domestic business has outperformed and has given a significant growth, so we also made a much higher provisions for the incentive payment to the overall to the field people but lot of those incentive payment also depends on how they perform in subsequent quarter, so it is based on our judgement so we made in higher provision may be practically doubled amount we have made provision. So it all depends that how in future that will work out. There could be reversal or there may be requiring additional provisions. Let us say your but generally trend is good July trend has been very good and August has also opened very well, so we do not see any kind of concern as far as domestic is concerned.

Kunal Dhamesha: Sure, and just small follow up on that, we were expecting to add around 200 MRs this year, so has that cost also be incurred I mean any kind of hired those many people and that is already built in to our number?

A.K Jain: That is already built up, let us say we have alleged people in your CNA segment is one segment we have added people. Another we have added people is in ophthalmic segment we have added people and some people we have added in towards the derma business and derma business for us is doing very well now, very good recovery. So, it is not that these products people have become productive and their cost has come in Q1.

Kunal Dhamesha: Sure. Thank you.

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

Damayanti Kerai: Thank you for the opportunity. My first question is on India business, so you have mentioned we have seen very good recovery in some of the segments, so just to understand like most of these are seasonal in nature, so how do you see India growth panning out in next few quarters?

A.K Jain: As I have already indicated that yes there was some impact of COVID also in that because there was 4 Crores hospitalized patients and therefore there is a sharp recovery in anti-bacterial but the anti-bacterial sales happens very good in the rainy season because lot of infection happens around that time. Q1 is one where the slow infection are at lower level but this year, it has also helped by the overall those kind of infection there and overall let us say trend appears to be good. We have selected for the current year that this domestic business should be growing around 16% to 18%, the trend appears that we may have to revise our guidelines.

Damayanti Kerai: Okay, so this 16% to 18% you might revise later on but so far you are seeing good trends?

A.K Jain: Yes, we are seeing good trends.

Damayanti Kerai: Okay. Sir my second question is on your capacity expansion for API, so can you please provide update here?

A.K Jain: We are still facing problem because that whole expansion got delayed because of COVID. At Dewas customer was setting up a plant but we also created there 250 bed at COVID hospitals and because of that the workers ran away and we are at almost around three months gap in project implementation, so project was somewhere to become being operational at the end of Q3, now it will go to Q4 to do entire validations and also typically that plant will not be available for any kind of commercial production in current year. The capacities will become operational in the next financial year only and we are setting up one more plant at Ratlam that also got delayed and I think that should be somewhere at the end of Q3 that should be operational, so some kind of additional quantities maybe available in Q4 for this year.

Damayanti Kerai: Sir, so broadly we should be expecting these new plants will be contributing for next fiscal year onwards?

A.K Jain: Yes, next fiscal year onwards.

Damayanti Kerai: I will get back in the queue. Thank you for your answers.

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. On the export side, just wanted to understand the outlook I mean clearly this quarter is an impact of high base of last year's quarter, on the outlook side, how do we see the branded business and the generic business shaping up especially in Europe of generic business?

A.K Jain: Some of the branded business which we are doing currently in let us say CIS market there is also impact of currency that your Ruble has moved almost around 72-73 level from 68–69 level, so there is a minor impact of that also will be there. Some of the markets are also disturbed like Myanmar where we were doing good business and currently because of all those turmoil which are there, so that market is disturbed but some of the other markets may be in Africa and French African, African markets are doing really very well, so it is a mixed trend, we have projected almost around 14% growth but it is likely to be little less than that may be around 12% or something like that. That will have some kind of little disturbances as far as that business is concerned. Generic businesses last year we did lot of businesses relating to hydroxychloroquine and all and also the Para prices Paracetamol has also one of the good product is good in Europe and other market in a big volume because of Para prices moving up to almost around double the level than last financial year, currently the buying levels are low, so the generic European business may have some kind of impact of that but overall your API business we should be able to achieve around 10% kind of growth, Domestic API should be able to do better than that and overall our guidelines continue to remain around 8% to 10% growth for the current financial year but looking at overall trend after Q2 we will decide on and revise our overall guidelines for the current financial year.

Prakash Agarwal: Thanks and any outlook for the gross margin, you mentioned not to look at quarter-on-quarter but there is a sharp jump in the high margin domestic business, so how do we see the upcoming year as a gross margins because this seems pretty low to us seeing your past performance?

A.K Jain: Our guidelines for this year on EBITDA margins side was almost around 25% and in Q1 we have recorded around 27% growth and the trend is likely to be better, so after Q2 we will revise our guidelines for the year.

Prakash Agarwal: Okay but any colour on gross margin?

A.K Jain: Gross margin is a quarter-on-quarter kind of let us say in this quarter, we have lot of those businesses happen where the cost was on higher side but that trend may not continue for a longer period, so overall material cost will come down little bit, so gross margin levels will improve.

Prakash Agarwal: Thanks and lastly, on API business is looking at your annual report so currently this Pisgah and Ramdev still at loss making at the PBT level and how do we see the turnaround, I mean there was a thought that we will consolidate and scale all these businesses, what is your one-two year outlook on these subsidiaries?

A.K Jain: Pisgah in current year continue to remain a loss like but basically we had taken that for grams business and now the business has started happening, we already won the two projects and there are good amount of work in progress is happening on that, so it takes time for a new entity to establish there and all that, so that work is currently happening, so Pisgah we do not expect that to make money. At Ramdev, we are changing the complete product portfolio because they were more on intermediate side and in IPCA we do not do much of intermediate business, there is hardly any intermediate business, so we are now focusing more on APIs, so lot of APIs are taken for qualifications and lot stability and those kind of works are going on, so may be current year they will be on losses but on a longer term may be next financial year we should be able to turn that down.

Prakash Agarwal: Thank you Sir and all the best.

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

Surya Patra: Thanks for this opportunity and congrats for the good set of numbers. Just a clarification from the earlier question that you mentioned Ramdev which has been in the intermediate business and you were trying to switch it to API manufacturing one, so while we are creating capacity for intermediates in backward integration and all like in Ratlam also in Aurangabad, as well as in Dewas, why are we changing here?

A.K Jain: These are small. Ramdev is not a very big plant. It is more suited for high value small API kind of things, so it is not a plant for intermediates. So they were doing mostly the intermediate for smaller product which are not there in our product line and we do not want to be there on those product lines, so it does not make sense. As far as the intermediate journey is concerned we need to support our captive conjunction. We cannot do any kind of intermediate business as such we do not sell intermediate. So, that is the change, wherever we are setting up the intermediate production is only to support our API.

Surya Patra: Okay and my first question is about this you mentioned that Dewas project possibly will be commercialized starting FY2023 or something like that, so is that early part of the FY2023 or do you think that it will be only in the second half of FY2023 or something like that and also what is the update on the debottlenecking project that you have been doing in Aurangabad, you said about Ratlam?

A.K Jain: Ratlam, that project is progressing well I think Q3 that should be commissioned so Q4 there should be available for business. As far as Dewas is concerned, it is new site, so we will have to after for qualification and we do everything, may not add immediately to the business we will have to generate data file everywhere with a regulator and then invite them for inspections.

Surya Patra: Even if for intermediate?

A.K Jain: No, in intermediate we do not do, so what we do is initial days we will produce intermediate for our own and -1 at here and there and send it to the plant, so we will increase our Ratlam productivity and by the time let us say six months to eight months time all the data will generated and submit to the regulators and then there is some kind of time lag for their inspections and all that, so after that once that site is qualified then only you can export API from that side. So, any kind of new sites you create it is some amount of pain till the time you get all those kind of approvals, so even in 2023 there will be some pain will remain because it is a process by itself that that process has to be completed, regulatory approvals need to be taken and then you will start exporting, that time will be required for any new Greenfield, your adjusting side whatever expansion will come from day one, you can do the business.

Surya Patra: Just on the Dewas, the objective is to have an external sale or it is largely to have more of a backward integration for the existing operations?

A.K Jain: No, Dewas is purely for external base and captive consumption, it is not intermediate. It is basically an API site.

Surya Patra: Second question if you can just talk something about the how should one really look at the associate companies where we have gradually expanded our holdings, let us say CRAM or the Trophic Wellness or the Avi, so all these three are having some unique capabilities but we are at almost like threshold levels before having a kind of majority stake, so the main point on those what is the kind of outlook that one really you have for IPCA?

A.K Jain: Overall, let us say Tropic Wellness is a company which is dealing into nutraceuticals product and there is a different kind of marketing model there, it is direct selling to the customers that is the kind of model is there and that business is doing very well overall last financial we did business of around Rs.100 Crores that company and had a profit of more than Rs.20 Crores, so that is there as far as Tropic Wellness is concerned and that business is also shaping up very well for nutraceuticals and your wellness is one particular area where in longer-term that businesses will do well and we will have a much higher growth. So, we have increased our overall holdings because when this company was started there were three partners and one of the partners wanted to exit so we bought his stake. So, there were three partners and IPCA was also one of them and with that overall, our stake has gone up and it has become our subsidiary company. So, that is one and as I have already talked about Ramdev this plant is more suiting for the high value small volume kind of products and that is the journey we are having from that particular plant. As far as Avik business is concerned it is more on the steroid side, steroid that business and we have not increased our stake in that company of course more or less it remains at the same levels. As far as Krebs is concerned it is basically a fermentation plant. There are two plants, one is at Nellore and another is Vizag. Nellore plant is already on breakeven and it started earning money but as far as fermentation plants are concerned we are still facing some kind of issues there but hopefully by this yearend we should be able to because we have overall lot of changes we have already made there and we are also changing the product line and we should be able to now come to the breakeven by the maybe third quarter or fourth quarter of the current financial year. It is basically a fermentation plant and with a very high, high, high, very large fermenters base it is not a small fermenter base, it is very large plastic fermenters are there in that plant. Basically, was producing Simmba but their process is not efficient so those also we are changing.

Moderator: Thank you. We take the next question from the line of Kunal Randeria from Edelweiss. Please go ahead.

Kunal Randeria: Thanks for taking my question. Sir, first on the domestic business lot of top brands like Zerodol and extensions, CTD, Folitrax see these are number one in the market and have huge market share. So, I am wondering if the upside at least in terms of market share expansion seems challenging, so just wandering what your thoughts are for the longer-term growth for these brands?

A.K. Jain: See, Zerodol is a very large brand today and at that level also if you look at in last 12 years, we have grown by around 18% on Zerodol and the whole market was challenging. In current year even in first quarter Zerodol as a brand has grown by almost around 36% and we are very confident that we will take this brand to the newer levels. So, there is a huge, huge, huge potential still to be tapped on this kind of product. So, there is nothing as far as we are concerned, there is no worry as far as Zerodol growth is concerned. As far as your hypertension brand CTD is concerned, yes, we have market leaders and we are expanding its overall more offering as far as in terms of the combinations and others on CTD brand and again here as far as overall hypertension markets are concerned, it is a very small if I look at that way and we have long, long way to go with it and to make it further very big. So, I do not think so we have any concern that and as far as other therapies are concerned like Rheumatology, we have more than 40% kind of market share where most of those brands are having a leadership at the market place all rheumatology brands, most of the brands they have leadership. Recently, we have launched I think in November Tofacitinib also in the market and that product is also having leadership in the market and we are doing very well on that, and disease prevalence of rheumatology is very high. It is autoimmune disease. We are continuously expanding the market. It is only last one year – one a half year because of COVID there are challenges in expanding market so, overall little growth has come down on rheumatology side, but on medium-term and longer-term we do not foresee any kind of issue in growing that market further and continue to maintain leadership and still grow that market very well. Other most therapies of ours are basically it is growing, we have like say, Derma it is a growth market for us, or Urology is a growth market for us, CNS is a growth market for us, our Ophthalmology all these are high growth market for us. So, they will continue to do very high growth at the same time, we do not foresee any kind of issue in growing our existing the kinds of portfolio. Our challenges are only relating to anti-malarial which has become very small part of the overall market overall, in our pipe. Of course, in first quarter it has become 6% but overall, for the whole of the year it is only around 4% of our business. So, that is the only one which is a declining market and some of old legacy products like beta blockers and all they are on declining side on cardiovascular side. So, rest is all our portfolio is more linked to the growth markets.

Kunal Randeria: Sure, just a follow up to this Sir, Aceclofenac as a compound is that also you believe can grow at 12% to 15% in the coming years?

A.K. Jain: Aceclofenac is continuously taking market share from others because the GI issues with Aceclofenac is much less compared to all other NSAID's and it is continuously taking the market share from others, and we are driving that basically.

Kunal Randeria: Just one more clarification, what would be the tax rate guidance for this year and next year?

A.K. Jain: I think current year and next year we will remain on MAT thereafter we will opt for that lower rate of tax of 25% because by that time then your net credit should be almost whatever accumulated net credits are that will be consumed.

Kunal Randeria: Thank you and all the best.

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

Charulata Gaidhani: Sir, congratulations on the good set of numbers. My question was more pertaining to the Sartans prices, how do you see growth with the decline in Sartans prices?

A.K. Jain: Sartans prices have sharply come down Losartan was the main product for us and there also prices have sharply come down because of overall intermediate prices coming down and that whatever that cost reduction is there on material side that we have passed on to the market. But what we have done overall our business has not grown up on that, but our volumes have gone up. So, we have taken more market share in quantity terms. But our overall topline on rupee terms has not moved up in first quarter of the current year. But we have sold higher volumes in the market, so more market shares in terms of quantity we have taken. So, that is reflected in overall revenue going down, but we have to produce more quantity to compensate for the reduction in the prices.

Charulata Gaidhani: How do you plan to overcome this?

A.K. Jain: Plan to overcome is let us say the market forces will always play, sometimes the intermediate prices are higher, sometimes the prices are lower, we also are developing lot of sourcing from India also on that so that your knee-jerk reactions are not there to this kind of market. It is a dynamic situation sometimes there are a more number of producers come in the market of intermediates and intermediate prices fall and sometimes some plant gets some issues or bigger plant has issues relating to any kind of issues like pollution issues or some kind of breakdowns or all then suddenly demand moves up, those demands are not fulfilled, and market prices move up. So, these are the issues can only be addressed if you are having captive productions of some of the intermediates or some of those are in your supporting manufacturers are producing that, so that is a long-term focus for us to internalize some of those intermediates.

Charulata Gaidhani: Okay, and do you expect improvement in profitability going forward?

A.K. Jain: Our profitability continuously last few years are moving on and we will continue to move upwards as our production mix are moving towards the higher value chain.

Charulata Gaidhani: Thank you. All the best.

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

Kunal Dhamesha: Thank you for providing the opportunity again. So, we are planning to commercialize Dewas probably in FY2023, but will we have higher operational costs related to it once we commercialize but then there will be no revenue at least as you suggested for some time till we get the plant inspected and all and what could be the quantum of those operational cost initially?

A.K. Jain: Let us say when you start the plant immediately their operational costs may not get fully recovered but as I have said that we will produce n-1 from this particular plant and shift it to our Ratlam plant and keep on producing API from there. So, it is not going to be a complete loss or no revenue that situation will not be there, there will be a transparent the n-1 will be transferred to Ratlam and then from there the API's will be produced. So, that is going to be initial journey till the time plant gets regulatory approvals from the regulators. So, it is not that this will be incurring huge amount of losses on operational cost and all.

Kunal Dhamesha: The second question I have is again on Sartans. I think few quarters back we were thinking to add a contiguous manufacturing facility for Sartans but then I think the market forces have moved quite significantly, so are we still on track to do that investment?

A.K. Jain: No, we have said that we have set up one particular continuous process plant to produce one particular intermediate, it is a 23-step process is there and we have successfully done that to improve the yields and others. But on one particular step we are continuously facing the problems for the MOC of the particular equipment and that challenge is continuously there we are in process of consulting with lot of experts and finalizing now that what kind of corrective actions need to be taken on that. So, it may be another few more months here and there and thereafter that plant will be completely operational because that one particular step challenge is still there. So, we will reduce the intermediate cost of that particular product significantly.

Kunal Dhamesha: Sure, and lastly beyond FY2022 what are our capex plans?

A.K. Jain: The capex more or less now because almost on API side we do not have surplus capacity, there will be also some kind of intermediate journey will be there and formulation side as the business starts moving up some kind of balancing equipment and all will be needed. Maybe one–one and half year after we may need even capacities for our domestic production also because Sikkim plant is almost running at full capacity now so, we may need to make some kind of more investment there, so overall capex cycle may remain around Rs.400 Crores level for next two year to three years.

Kunal Dhamesha: Thank you.

Moderator: Thank you. The next question is from the line of Deepali Pataria from Samiksha Capital. Please go ahead.

Deepali Pataria: First of all congratulations for such a good set of numbers. I understand that you said you might revise your guidance on revenue growth and margins, but specifically on EBITDA margins like we guided for 25% for FY2022 and now we are at 26.6% for this quarter. So, directionally how we should be looking at for the upcoming quarters FY2022 as whole and what would be the levers that would be driving the margins and also in the longer-term if you could help us understand how EBITDA margins might shape up?

A.K. Jain: Basically, domestic business does well then overall margins will definitely improve, and the second quarter is always very heavy for us, as I said that July was very good and August trend is also very good. So, if the second quarter you overall business is good then overall for the whole of the year there will be much better EBITDA margins than compared to the overall guidelines what we have given. So, after looking at second quarter numbers and all we will revise the overall guidelines for the whole of year. But as I said that trend is good, the business is very good.

Deepali Pataria: Thank you and my next question is on institutional business. So, we saw good set of numbers there as well. So, can you help us understand what through this kind of numbers in institutional?

A.K. Jain: We are completely backward integrated on most of the APIs, and we are most cost competitive as far as all the anti-malarial are concerned and two years back because of certain changes in your policies for the US donations to world most business has come down little bit and what challenges we had with the global fund and all. So, those all issues are behind us now and we are getting the good businesses from country tenders and also from institutions and on the product portfolio side we have added injectables Artesunate and that is also doing very well for us. So, overall, the business is good, and we have future product pipeline also there on that. So overall, this business will continue to do well.

Deepali Pataria: Thank you, Sir.

Moderator: Thank you. The next question is from the line of Uday Shah an individual Investor. Please go ahead.

Uday Shah: Thank you. Sir, overall plan for our investment in Makers Laboratory and Resonance Chemicals, if you can give some colour?

A.K. Jain: IPCA has no investment in Makers Laboratories and Resonance. It is a separate company and I do not look after anything Makers and Resonance, so I will not be able to give any answer on that.

Uday Shah: Thank you, Sir.

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

S Mukherji: Thank you, Sir. Sir, on the API business once those expansions are in place what kind of capacities we will have compared to the current levels?

A.K. Jain: Overall, capacities will increase by almost around 20% with all the three plants, two plants at Dewas and one which is coming up at Ratlam itself. So, around 20% API capacities will go up.

S Mukherji: I am just thinking about a medium-term growth for the API business as these capacities come and the product mix that you have. So, how should we think about growth over a medium-term for the API business?

A.K. Jain: By and large all these capacities on APIs are our whole focused first is captive. All these products which are taken up for API manufacturing are basically linked to formulation journey and by and large these capacities, which we are creating is let us say that at some point of time the US will get cleared and then we will fall short of capacities. So, it is also we are building those kind hedges otherwise when US get cleared we may not have the API capacity even to have for our captive consumption because we cannot then whatever customer base we have created and servicing them that cannot be denied those API and at the same time our API volumes are also moving up because of that we are creating these kind of capacities so that when the captive grows on formulation side we have sufficient capacities to meet our demand.

S Mukherji: Sir I was looking for external sales, how will that grow if you take three, four-year view?

A.K. Jain: We do not see that API business per se growing by more than 10% year-on-year.

S Mukherji: Okay, so that is the limit that you see on the API business growth?

A.K. Jain: Yes.

S Mukherji: Sir, just on the domestic business is it possible for you to underlying volume growth, of course this quarter is exceptional but otherwise how much volume growth and price increase that you see. You mentioned 4% in a normal year but what is the volume growth?

A.K. Jain: This year average price increase is 6%.

S Mukherji: Yes, that I think this year but generally it is?

A.K. Jain: Normally our prices increase is around 4%. It is more or less close to your wholesale price increase overall but this year since all inflationary trend is there and also because all the material costs are moving up and energy cost is moving up, all those costs are moving so therefore we have taken little higher price increase in current year. So, rest is all volume growth, if we have grown by 23% - 24% it is only the 6% is coming from price increase rest is all volume growth.

S Mukherji: Sir Zerodol what kind of volume growth that what kind of growth you record there, volume growth in Zerodol?

A.K. Jain: Zerodol, last year it has grown by 18% so it is almost around 14% - 15% is volume growth. In the first quarter it is almost around close to 30% is volume growth.

S Mukherji: Sir this 14% - 15% volume growth in Zerodol you think this is sustainable over the medium – term?

A.K. Jain: We still see a huge amount of opportunity as far as Zerodol is concerned overall.

S Mukherji: Any kind of competitive pressure you have here, I mean competitive dynamics or any kind of price pressure etc., is possible you see, or you think the market itself, is there enough opportunity to grow for this space for everyone to grow?

A.K. Jain: As far as the competition from brands of Zerodol is concerned, they were there already, and they will continue to remain, but we have leadership across products and across all the states of the country. So, every state we have leadership and there is a huge difference between us and the second leader and therefore some kind price competitions and all it is not there and the Zerodol is not priced aggressively, it is priced around the competitors' prices only. It is not as a larger brand we are not taking any kind of premium on pricing because it is a product with huge amount of volume growth, so the price growths are more when somewhere on maturity side the product start moving on maturity side. So, we are not too aggressive on taking prices growth on that it is more or less around the competitions only.

S Mukherji: Sir last question, just quickly on the tax rates you mentioned FY2022 - FY2023 we should be at 17% - 18% and FY2024 we should take 25%?

A.K. Jain: Yes.

S Mukherji: Thank you Sir.

Moderator: Thank you. The next question is from the line of Ashish Thavkar from Motilal Oswal Asset Management. Please go ahead.

Ashish Thavkar: Thanks for the opportunity. Sir, on the revenue guidance you said 8% to 10% and you might consider it revising upward. So, does this guidance include the HCQS numbers or the 8% to 10% is excluding the HCQS of last year?

Harish Kamath: Ashish, the guidance given was vis-à-vis the income of whole of the last year. So, last year whatever sales that have come of HCQS, CQP everything is included in the guidance.

Ashish Thavkar: Sir correct me if I have mistaken, because just last quarter you guys had said FY2023 we will revert to 25% tax because in FY2023 we will exhaust all the credits?

Harish Kamath: Ashish, FY2022 that is current financial and next financial year i.e., FY2023 we will remain more or less in MAT tax only. We will be utilizing the MAT credit available. Maybe in the subsequent financial year we will revert to that lower tax regime which is about 25%.

Ashish Thavkar: Okay, in FY2024 you are talking?

Harish Kamath: FY2022 and FY2023 it will be current tax rate will continue. In FY2024 it will perhaps change to that 25% regime.

Ashish Thavkar: Okay, perfect. So, this was all from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Kunal Randeria from Edelweiss. Please go ahead.

Kunal Randeria: Thanks for the follow up. Sir, just one question on the EU Jadex business are the UK issues completely behind you now, are you sort of stepped up your launches there just any kind of longer-term guidance would be welcome.

A.K. Jain: During Q1 FY2022 UK business has grown by about 15%. As mentioned in our last concall we have already started marketing generics in UK in our own trade name. Slowly, one after other products are getting registered and we will expand product offering in our label in UK market in the quarters to come.

Kunal Randeria: Any aspirational guidance for next three years in UK?

A.K. Jain: More or less UK market should continue to grow around 10% - 12% kind of growth year-after-year maybe for next three to four years and European market should grow much better than the UK market that is overall guidance as far as the European generics business is concerned.

Kunal Randeria: And any particular reason why UK is going slower coming out of a sudden?

A.K. Jain: UK is highly competitive. The margins in the UK generics business is the lowest margin what we get amongst all our generic global business.

Kunal Randeria: Thank you. That is helpful. Thank you.

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

Surya Patra: Thanks for the follow up Sir. Just one more question on the cost front only. This quarter other expenses if I see, although we have seen or rather in the previous year, we had seen a kind of a saving in terms of marketing and distribution cost to the tune of Rs.60 Crores – Rs.70 Crores and which has now normalized. There is a kind of promotional expenses which is now normalized, all that has happened despite of that the run rate in terms percentage to sales what we are currently seeing that is lower when compared to the kind of a trend. So, this saving is kind of one off quarter specific or any directional indications?

A.K. Jain: Whatever other expenses of this quarter minus whatever a small exceptional item of about Rs.16 Crores – Rs.17 Crores. This trend should continue in the coming quarters. Before the other expenses you do measurement vis-à-vis our FY2020 Q1 not FY2021, because FY2021 there were hardly any promotional expenses, there were no incentives, there were no daily allowances and if you see today apart from those things coming back there is also higher utilization because of fuel, energy plus shifting.

Surya Patra: I am seeing there is a greater saving that we are witnessing I am not saying that it has got eliminated, absolute number could be looking higher, but I am saying that in terms of percentage to sales if you consider there is a kind of meaningful saving?

A.K. Jain: Surya, if you see our CAGR growth in the sales of last two years, it is more than 17% - 18% and the cost inflationary trend would not be to that extent. So, this particular trend will also going as we move ahead also. If you see percentage of sales all these costs it will go up according to the inflationary pressure not beyond that. When your sales grow higher as a percentage it will go on reducing.

Surya Patra: Just last one question on the Onyx side, how is the performance there whether the COVID related thing, is there any continued impact on that or what is the kind of outlook that you are going to give on that front?

A.K. Jain: As far as Onyx is concerned, since last three years quarter-on-quarter they are growing and as far as this COVID related we have not felt anything as far as the Onyx operations are concerned.

Surya Patra: Just one statement that Sir has mentioned about a very definite kind of clearance of the plant from the USFDA side so, any progress that you are witnessing Sir?

A.K. Jain: Between last quarter and this quarter there is status quo nothing so far.

Surya Patra: Thank you Sir. Wish all the best.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Nitin Agarwal, for closing comments.

Nitin Agarwal: Sir, do you have any last comment Sir.

A.K. Jain: Most the things were covered during the question and answer session. I do not think anything is further left out.

Nitin Agarwal: Thank you very much everyone for taking the time out and participating in the call. Thank you with the IPCA management team for your valuable time. Good day everyone and stay safe.

A.K. Jain: Thanks Nitin and all participants. Thank you.

Moderator: Thank you very much, Sir. Ladies and gentlemen, on behalf of DAM Capital Advisors that concludes this conference. We thank you all for joining us. Now you may disconnect your lines.