



“Ipca Laboratories Q3 FY '20 Conference Call hosted by
IDFC Securities”

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**MANAGEMENT: MR. A. K JAIN - JOINT MANAGING DIRECTOR, IPCA
LABORATORIES**

**MR. HARISH KAMATH - CORPORATE COUNSEL AND
COMPANY SECRETARY, IPCA LABORATORIES**

MODERATOR: MR. NIRMAL GOPI - IDFC SECURITIES

Moderator: Ladies and gentlemen, good day, and welcome to the Ipca Laboratories Q3 FY '20 Conference Call hosted by IDFC Securities. 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. Nirmal Gopi from IDFC Securities. Thank you and over to you, sir.

Nirmal Gopi: Thanks, Ayesha. Good morning, everyone, and a very warm welcome to Ipca Lab's Q3 FY '20 Earnings Call hosted by IDFC Securities. On the call today, we have representing Ipca management, Mr. A. K Jain, Joint Managing Director; and Mr. Harish Kamath, Corporate Counsel and Company Secretary.

I hand over the call to the Ipca management team to make some opening comments, and then we'll open the floor for questions. Please go ahead, sir.

A.K. Jain: Thank you, Nirmal. Good afternoon. Thanks for taking out time and joining us for Q3 and 9 months FY '20 result conference. Today's discussion, we may include some forward-looking statements that must be viewed in conjunction with the risks that our business faces. We will briefly touch upon some of the key performance highlights and would then leave the floor for the Q&A.

Q3 and 9 months of the current financial year 19-20 has been strong for the company. Overall, the standalone net income has gone up by around 20% to 1,157.7 crore and consolidated net income is up 21% to 1,230.99 crore. And overall, the standalone EBITDA margin is now around 24.46% compared to 22.48% in Q3 last year, a significant improvement of around 198 basis points in standalone EBITDA margins. And consolidated EBITDA margin also is around 23.56% in Q3 as against 20.72%.

As far as 9 months' performance is concerned, income is up around 20% to 3,414 crores. Consolidated net income is up 24% to 3,628 crore. And standalone EBITDA margin is around 22.45% as against 20.62%. There is a significant improvement of almost around 183 basis points. And overall, consolidated EBITDA margin is around 21.58%, and there is a improvement of around 154 basis points in overall consolidated EBITDA margins.

As far as businesses are concerned, domestic has done around 486 crore as against 421 crore. Domestic formulations and export formulations is around 353 crore as against 282 crore. So domestic has grown in this quarter, domestic formulation by around 15%, export formulation by around 25%, and overall formulation business has gained around 19%. And overall additional business is around 135 crores in this particular quarter.

On API side, domestic API has grown by around 20% to 53 crores, export API is around 232 crores, around 25% growth. And overall, the export the API business has added around 55 crore. So total overall addition of business compared to Q3 last year is around 190 crores overall.

On 9 months basis, if you look at, domestic business is around 1,482 crores as against 1,291 crores, growth of around 15%. Export formulation business is around 939 crores against 794 crores. So there is a growth of around 18% and overall formulation business has grown by around 16% and added overall in 9 months a business of around 335 crores.

As far as API is concerned, domestic API is around 186 crore, 19% growth. Export API is around 712 crores, 38% growth. And overall API business in past 9 months has added around 225 crore. And overall business addition is almost around 560 crores overall in this period. And overall, your 9 months growth is around 20%.

Summing up the performance for 9 months, I would say that our focus has been on improving productivity and utilization of assets and brand building. Asset turnover ratio has improved almost around 2.6x from 2.4x in March '19, which was around 1.69x in March '18. Cost of optimizations, process improvements are the major areas, which we are continuously working to reduce the wastage, improvement in reaction efficiencies, more particularly on the API side.

Thanks for listening. With this, I would like now the floor open for Q&A.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: Sir, a couple of questions from my side. Any one-off cost of written-offs, the way we had in the last quarter with regards to the FDA 7 crores, and you had also written-off a free amount of about 11 crores. And remedial costs, how do we look at it now? You have guided in the last quarter that it'll be about 16 crore for FY '21. Secondly, on the therapeutic wise, if you can share details therapy wise, how things have been? And lastly, on API business, you were maintaining 20% guidance but for current year 9 months, you are already around 33% growth compared to last year. And if you continue to be that kind of turnover, which you have done, one in quarter 3, then we should end up with 30% growth on the revenues on API. So are we trying to now upgrade the guidance for APIs as far as this year is concerned? And lastly, how do we look at overall sales and EBITDA margins movement for the next year, FY '20?

A.K. Jain: Overall, as far as expenditures are concerned, there are no one-off kind of expenditure in this particular quarter. So there are absolutely nothing of that nature. As far as the remedial cost is concerned, approximately, I think, it's around 2.5 crore in this quarter. Overall, up to 9 months, I think it's around 13 crore. And more or less, it will remain within, we have earlier said around 16 crore or 17 crore, something like that. So more or less, it will remain on the similar lines.

As far as the therapeutic wise in domestic, I will give the numbers right now. Let's say, pain management continue to be our #1 therapy and now it contributes almost around 47% to the pie as against 45% in last year, first 9 months of the last financial year. So the pie here shifted by almost around 2 numbers from 45% to 47%. And the pain management business has grown by around 19% in Q3. And overall, in first 9 months it has grown by around 21%. Second therapy for us is your cardiovascular and antidiabetics put together, and that is around 18% to the pie and this quarter around 9% growth on that. And overall, for first 9 months, it's around 10% growth.

Third therapy for us is antibacterial now. Antimalarials has shifted one rank below. It contributes almost around 8% to our business. And grown in this quarter by around 34% and first 9 months also, it has grown by around 33%. The antimalarials is around 6% in the pie, domestic pie, and degrowth by around 4% and for first 9 months of current year, there is around 4% growth on that.

Next therapy for us is your dermatology, which continues around 5%, and it is growing by around 17% in this quarter and first 9 months, around 18%. Cough and cold also similarly contributes around 4%. And I think this quarter, it has grown by around 18%. But first 9 months growth is around 8%. So urology is another therapy for us, which is contributing around 3%, and it has a growth of around 25% in this quarter and first 9 months is around 26%. And if you look at our top 10 brands, they contribute almost around 55% of our business and growing by almost around 19%. So that's the focus which we have on brand building. And other brands, which contribute around 45% of business, domestic business, they are growing by around 10%. So overall, domestic business growth in first 9 months and this quarter is around 15%.

And we are continuously growing better than industry. I think in this quarter, industry has grown by around, the IQVIA number is around 9.3. IQVIA wisetracking our growth is around 18%. Our internal growth is around 15%. And by and large, this difference may be because our reflection in IQVIA has improved from 83% to around 85%. So that's the overall as far as domestic is concerned.

As far as API goes, yes, we had a good business run and in first 9 months, we added almost around 225 crores business. But this quarter, we added almost around 55 crores and good growth of around 25%. And most of our business divisions in current financial year are on their budgets. And hopefully, I think we should be able to continue with momentum. But our guidance for the next quarter, Q4, would be around a business growth of around 15%, 16% overall for the company as a whole.

Rahul Jain:

And for FY '21, how do we look at FY '21? EBITDA margin wise?

A.K. Jain:

FY '21, we are in a process of making better trends. There are a lot of discussions currently happening between marketing and sales team and strategies, and we are in the process of

preparing our company budget for the next financial year. And probably in the fourth quarter of the current year, then we will give the guide lines for next financial year.

Rahul Jain:

Sure. Sir just one last one. In terms of domestic business, in animals as you said, has gone fantastically well for us in last few years. So now going ahead in next 2, 3 years, as a medium-term to longer-term strategy, what kind of work is being done by the company management in terms of building this company over a period of next 3 to 5 years? What is the next so-called net of growth or the kind of products or the kind of therapies, which we are working upon, which can take company to the next level in the next 3 to 5 years to come?

A.K. Jain:

We continue to focus around brand building, and we don't add too many brands, that is the overall business philosophy the company has. And the company fairly has a good number of therapies currently in the last few years, a lot of those therapies are added. A lot of the therapy-based divisions are added, like say, in neurology now we have 2 divisions. In Derma, we have 3 divisions. We have Ophthal. We have divisions. Now neuropsychiatry, we have one division, probably next financial year, we may go for another division. We are also thinking on ophthalmology to add some another additional divisions. So a lot of work is happening on that direction. But by and large, focused remains on brand building. And on the key brands, continuously working and also continuously work on clinical research, use those kind of materials again for product promotions and also, that focus continue to remain. And as far as the newer therapies are concerned, we continue to keep on evaluating them. And currently, we can't say that which therapy we will be going for. But yes, in future, there could be some therapy additions also could be there. And normally, we don't shy out from adding the people. And currently, my field force size is almost around 4,600 because that's the best investment to make because it has become productive in very second year and will start contributing to the company. So compared to the plant and machineries and all, your rest the productivity and so you get very, very second year, you start getting the breakeven and you start contributing to the company. So if the need be, then we will definitely depending on our budgets and how marketing makes the presentation to us, we will decide in fourth quarter that how many reps we will be adding in the next financial year.

And our business continues to remain robust, and I think the main therapy like pain management, we are significant player. We will continue to grow and outbid the market on a regular basis. Cardiovasculars, we are improving now. Of course, our growth is around market, but the work we are doing on, more particularly, in hypertension therapies and diabetes therapies in recent time that will definitely increase the overall growth in that therapy also. And newer therapies are growing much faster rate but a lot of those therapies are small in number, but they add to the overall company growth.

Moderator:

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

Tushar Manudhane: Sir, just on the API front, as you guided for 15%, 16% growth for 4Q, so effectively, compared to 3Q sequentially, you see business getting down?

A.K. Jain: I think what happens that most of our divisions are on growth. So let's say they are on budget practically and out-beating the budget. So it's a marketing tendency to hold something for next financial year. So that's the apprehensions we have. So the overall growth may be around that kind of number, overall for that last quarter.

Tushar Manudhane: And within API what would be like price growth and volume growth? If you can just for the quarter or for the 9 months?

A.K. Jain: API, we don't work out that exactly, what is the price growth and volume growth. But as far as formulations are concerned, our price growth is around close to 4%, yes.

Tushar Manudhane: Okay. And just if you can give the generic business breakdown?

A.K. Jain: Yes, one minute. Overall, the generic business in current Q3 is almost around 191 crore out of which Europe has contributed almost around 76 crores as against 68 crores in last financial year, there is a growth of around 12%. But U.K. in this quarter has declined from 27 crore to 21 crore. Most growth has come from EU markets. Australia, New Zealand has contributed almost around 46 crore as against 33 crore in last financial year. Canada has contributed around 26 crore as against 8 crore in last financial year. And South Africa, around 43 crores as against 29 crore. So overall, generic business is around 191 crore as against 139 crore in last financial year Q3.

Tushar Manudhane: And lastly, just on the domestic formulation, again. Sir, how much of this growth would you attribute to the seasonality? Overall growth?

A.K. Jain: Overall, there is nothing. But I would say, this is seasonality, except the cough and cold, which has grown in this quarter to 18% as against overall growth of around 8%. But otherwise, all other numbers like pain or malaria, malaria has declined again because of seasonality, poor seasonality in this quarter as it declined by around 4%. But rest, there are not much of seasonality here, yes. And seasonality also remains in antibacterial, but we are a small player currently, it only contribute 8% and overall number is small. And since it is also our focus area, so it is growing much faster than overall and it's growing by almost around 33%.

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

Prakash Agarwal: Sir, if you could just share your update on the last few acquisitions, small though, on the API side and the U.S., you know the Bayshore and on the API side, you had Pigsaw, Ramdev and Noble. So are they contributing on the API growth? The margins obviously are coming down because of this issue, but how do we see this business scaling up? And how do we see the margins scaling up on this business?

A.K. Jain:

Yes. Thanks, Prakash. As far as Noble is concerned, this plant was shut down in 2006. Largely, it has 2 plants basically for production of chemicals based on nitration chemistry. So there are 2 plants. The plants are in good shape and all their access equipment are in very good shape. But all other assets are practically, the MS and all are corroded. So this plant will have to be re-modified. Why we have acquired Noble is, largely we want to go for a lot of intermediates to secure our supply chain. And we were looking for some site because most of our intermediates are currently produced at Aurangabad site and also Mahad site, both these sites are full. And currently, we cannot set up any further capacity at both these sites. And therefore, we were looking for our intermediate production, key starting material production from site. And therefore, the last 6 months, we have been working and we could acquire this. It has a huge amount of land, almost around close to 678 acres of freehold land and also, there is a lease on land and some forest land is also available, so almost around 1,100 acres of land. So long term, it will address our requirements and continuous expansion as far as key starting intermediates are concerned and that will secure the supply chain for long term and also the backward integration will further help us in improvement in overall margins for the company. So that's the one part of it. As far as the other acquisitions are concerned, I'll just give the numbers.

Overall, in this particular quarter, Bayshore has continued at almost around 41 crores of business and Ramdev is around 15 crore kind of business. Onyx is another subsidiary we have, it's contributed almost around 16 crore of business. So overall, let's say, the subsidiary businesses are contributing almost around 74 crore of turnover in Q3. And if you look at the first 9 months of the current year, I think Bayshore has contributed around 122 crore of top line. Onyx has contributed almost around 57 crore of top line. And Ramdev has contributed almost around 33 crore of overall top line in the first 9 months of the current year. As far as profitability is concerned, Onyx continues to remain on a very good profitability, almost close to around 27%, 28% kind of EBITDA margins are there in that business. But the recent acquisition of Pisgah. Pisgah, there are technology transfers and filings and that process is on. So meantime, whatever expenditures are there, that is expense out. And there is a loss of almost around 11.65 crore in the first 9 months of the current year. And in this quarter also, it has contributed around 2.73 crore of loss. As far as Bayshore is concerned, they have contributed a nominal profit of around 1 crore in the overall results of the company.

Prakash Agarwal:

Okay, great. Sir, just one follow-up here. In terms of bringing Noble to shape and restart, how much time do you think even if you do step-wise and block-wise, when do you see the first production starting for your intermediates and KSM?

A.K. Jain:

You see this industry is highly regulated. So we will have to go for environmental clearances and that process itself takes around one year. And only thereafter, we will be able to do some kind of work on that. But certain chemicals, they have already a license capacity and order provides that, yes, the respective authorities will have to renew the licensing. So some kind of chemicals and intermediates which are on nitration-based chemistry and all, we will be able to revive. But that again, will depend on how the overall plans work out and we will have to

revamp the complete facilities and others. So it may take around one year time before you can see any kind of turnover coming from that particular side, even it may take around 15 months or so. So it all will take some time. It's not going to be that quickly, because plant have been closed since 2006, but the structure is perfectly okay. I have seen the structure, and there are not a single crack in both the structure. It is built by, I think, Bofors Noble and very good civil construction and overall good access equipments, which are perfectly in shape.

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

Surya Patra: Sir, just one question on the domestic formulation business and the kind of a consistent growth, what you have been delivering. Congratulations for that also. Sir, in fact, in the opening remarks, what you have mentioned, and what we are observing, just to see your core therapies in pain management or it is cardiovascular, diabetic and all those are or even antibacterial and derma, all those growing faster than your company growth as well as faster than the industry growth. So do you think that because of this, and you are confidently indicating that a similar momentum can be continued further because of the brand focus, what you are having. So is it fair to believe that given the kind of strong performance in the branded portfolio, you can sustain such performance even in the subsequent period, which is largely led by the branded portfolio, and it should be profitable growth?

A.K. Jain: Yes. If you look at our topping brand growth, it's close to almost around 19%. It shows what kind of overall efforts we are making on the brand-building side. And as a company, it's not our practice to have too many brands. We continuously work, and most of our therapies are in the growth phase. And particularly, like say, same is continuously growing. Rheumatoid arthritis, a long way to go. So those therapies are continuously growing. And our focus, let's say on antihypertensive like the chlorthalidone based compound, where we are continuously growing now around 16%, 17% kind of overall growth is there on that also. So these therapies will continue to find the longer to go with us crossed the chlorthalidone based CTD brand has crossed around 100 crore business already. And from 100 crore to 200 crore, the 5-years journey has happened from 0 crore to 100 crore, I think next 100 may take around 3 years or 4 years' time and it has a strength to grow much, much bigger. Similarly, most of the other therapies which were added like derma, urology, the neuropsychiatry, all are growing much faster than overall. And that will continue to have good growth. We feel that, yes, that momentum will continue and our focus on brand building definitely we will give dividend there.

Surya Patra: And whether the brand building spend is now, to a great extent is or what is the trajectory that you are seeing, sir, in terms of the brand-building cost versus the incremental revenue that you were adding on the branded portfolio?

A.K. Jain: That cost, normally, our marketing spends are around, only on marketing is around 8%. There are many industry players spend around 10%-11% kind of thing. But our spends are not that high because it's basically again because Core brand promotions and samplings are very less.

So that helps us to continuously keep the cost also in control, on the overall marketing side also.

Surya Patra: You had earlier indicated about enhancing your presence in the intermediate side and making your activities more backward-integrated and all. So can you say something that, okay, what is the level of integration that you are currently having and post your initiative towards the intermediate, what is the likelihood of the integration level? And currently, is China situation, what we are hearing, so have you started seeing any impact on the prices of the intermediate and accordingly there could be a kind of so potential, near-term opportunity or impact?

A.K. Jain: If you look at overall integrations, our formulations business is integrated to with API and almost around 55% of our company turnover comes from the businesses which are the formulation business, which is backward by our own API side. So it's a very significant amount of overall integration is there as far as the backward integrations are there. And almost around 8 to 10 top API, we have large amount of integrations announced on your intermediate side, but there dependence is still there on China as far as the key starting materials are concerned, we hardly import any kind of API from China. It's basically we used to import some key starting materials and some chemicals from there. And there, as the product becomes big, we would definitely like to have low supply chain, say sustainability and then work on those kind of intermediates. So currently around 8 intermediates, which are currently focused, company is having on that to right build the capacities in time to come. And then we are also working on different kind of chemistries and also working on continuous chemistry kind of things so that those kind of plants when we build, they give us good efficiencies in time to come.

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

Aditya Khemka: So sir, this Noble Explochemacquisition, you said you would ramp-up the facility and make changes to it. But it's about 900 acres of land, including the resold and freehold. So does the current facility appropriately cover the landscape? Or there is opportunity for you to build more blocks and expand, whatever is the existing infrastructure?

A.K. Jain: Let's say, I think overall, the nitration-based chemistry, whatever we will take up, we will consume around 250 acres of land because of safety, you need to keep certain all other facilities away from that. But otherwise, there is a huge amount of land bank is available, it is practically all the flat land, and we will build on future or the APIs, all these intermediate facilities there, yes.

Aditya Khemka: So, sir, any time line, any budget on the CAPEX that you are going to do there? And how much is the potential? Sir, I'm not talking about next year or the year after, I'm talking about like a 3- to 5-year plan for such a huge land parcel, how would you utilize that?

A.K. Jain: The focus is not on utilizing land, focus is on building these all 7, 8 intermediates currently, which we have high dependence on China. So that is what R&D is working on the processes and other things. And broadly right now I would say that it's on drawing board and our project teams and process engineering team, they are all working together to put all these, what kind of CAPEXes are required and what needs to be done and thereafter, we will go for environmental. So it's a little too early to answer that. But yes, there will be some investment will be there going forward, maybe around in 2-years' time to set up those kind of intermediate facilities there.

Aditya Khemka: I understood, sir. And my second question is on the U.K. business. So you see a quarter-over-quarter decline in the U.K. business. So post the resolution of the issue with Bristol, how are we still losing business in U.K.? What happened there and what's the outlook?

A.K. Jain: See initially, once their issue was resolved they set good amount of quantity. And last quarter, they have listed almost around 53 crore. In 9 months, there is a good growth, and since they have come back in the market, it takes some time to build the market again, because they were not there for a very long time on a lot of those kind of products. So some small here and there, it's around 21 crore as against 27, 5 crore- 6 crore. That's so small. But overall, there is a 17% kind of growth in the current financial year. And as their market share improves, the business will keep on improving there.

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

Kunal Dhamesha: So the first question is around the capacity utilization. Given our asset turnover has increased significantly and our revenues has grown across all the segments, where are we on capacity utilization? And what our CAPEX outlook is for next 2 years?

A.K. Jain: Okay. As far as formulation capacities are concerned, ample of capacities are there and our highest utilized plant is our Silvassa Athal plant, which supplies to all the kind of regulated markets like Europe, Australia, New Zealand, South Africa, a lot of supply also going from there to Russia. We currently building almost around the 6 crore unit per month there and their capacity is almost around 10 crore. So significant capacities are still available there. And we have plant at the people core, which has currently utilized around 20%, 25% kind of thing. And another plant, which was earlier FDA-approved, and it's Piparia plant, which is also in the Silvassa, their CAPEX utilization is almost around 10%, 15%. So hardly, it has currently started doing business for Canada. The Canada productions are coming from there. So overall, on formulation side, we have a good amount of capacity, not much of CAPEX is required in. As far as domestic capacities are concerned, we have sufficient capacities at Sikkim last financial year, we have installed some additional machines there to take care of future, for next 2, 3 years kind of production requirement for oral tablets and other things.

So we are not really looking for any kind of much of CAPEXes as far as the formulation business are concerned, the sufficient capacities are available. But there could be some kind of debottlenecking, and those may happen maybe in some of the plants. So that may continue to happen. As far as API is concerned, Ratlam practically utilize around 90% or so. We will definitely need the capacities on the API side, and we have bought land at Devas, which is in the industrial area. Last quarter, we have bought almost around 25 acres of land and we added around 7,8 acres of more land in this quarter. So it will be almost around 30, 35 acres of land will be there. And the process of environmental clearance is on, hopefully, by June or so, we should be able to get the environment clearance from the government because ToRis already issued and those data compilations and everything are happening, presentations are happening. So hopefully, I think the next financial year. But initially, 6-8 months, it's only your civil constructions and site buildings and probably those kind of capacities would be operating only not in 2021, but a year thereafter. So next financial year will be because will get on 9 months to set up all those capacities but may not aid any kind of turnover in next financial year, a year after then those KPI capacity would be available.

Kunal Dhamesha: Okay. And CAPEX outlook?

A.K. Jain: CAPEX would be close to around because the Dewas facility will be taking up. It depends on how, when we get the environment clearance. If we get early, then probably CAPEX may be around 200 crore to 250 crore also, on that facility. But if environment clearance is in June or is thereafter, then it will be more of a civil constructions and some kind of thing. So then CAPEX will not be to that an extent. But hopefully, around next financial year, around 250 crore to 300 crore CAPEX would be there in next financial year.

Kunal Dhamesha: Okay. And my second question is on the 8 to 10 products that you have talked about that where you have dependence on intermediates from China. So what would be the size of those 8 to 10 products? Is there a percentage?

A.K. Jain: Normally, we don't talk of each intermediate wise, but the overall business-wise, I can talk because a lot of key starting materials come from China. And that dependence is there because practically everything comes from China. So that dependence is there, and we like to reduce those kind of dependence in time to come and the R&D is working currently, and this Nagpur Wardha site will be one where we will start producing but it's almost around 2 years away. As far as this coronavirus issue is concerned, we have currently, the available intermediates with us, which can take care up to April of the next financial year. But supply has to start coming somewhere between mid-March, so that your May production is not hampered. So we are continuously in touch with wherever we could establish contact. So somewhere the production factories were, again, restarted and all. But logistic issues, supply issues, still we have to get the answer. But hopefully, maybe I think maybe around next 15, 20 days, a lot of more clarity will emerge on that side. And I don't think so that too much of disturbance will be there as far as supply lines are concerned.

- Moderator:** Thank you. The next question is from the line of Damyanti Kerai from HSBC. Please go ahead.
- Damyanti Kerai:** Sir, can you update us on the supply of antimalarial products to Global Fund. Earlier you mentioned that we have a purchase commitment of around 900 million from the fund. So how much of that has been supplied so far? And do we have a visibility of supply opportunities with any other agencies or any other bodies?
- A.K. Jain:** We have never mentioned about 90 million and never dreamed of that kind of figure on extradition business. So that number may not be the correct one. In current year, we have done institutional business of around 127 crore till now as against 124 crore in last financial year. There is a growth of 10%. In Q3, we have done business of around 48 crore as against 39 crore in last year. So around 23% growth is there on institutional side. Yes, Global front supplies are regular, now injectable supplies also, we have, I think, orders for up to June, July. So that pipeline is also building up. And hopefully, that's more or less it's going to be a business around 15 crore to 55 crore each quarter. So next quarter, maybe more or less in that line. And next financial year because of injectables getting added and whole year production would be there. It can add around 30 crore-40 crore kind of additional turnover. So institutional business which we are ending at around 175-180 crores in current financial year may go to around 250 crore or so, It can make amount as kind of additional turnover. So institutional business, which we are aiming at around 175 crore, crore 180 crore in current financial year, may go to around 250 crore or so. We are yet to work out budgets and numbers. So I think in first quarter of current year, when we have a conference call, we will give you the exact guidelines on that.
- Damayanti Kerai:** Okay. And sir, are we supplying to some other agencies also at this point of time?
- A.K. Jain:** We have also supplied a good number of agencies are there. It's not only that but the main name is your Global Fund and also U.S. donations to the emerging markets.
- Damayanti Kerai:** Okay. Sir, any update on the FDA pending issues for the plants? Anything incremental from last time?
- A.K. Jain:** It's basically around, currently we didn't heard anything from them, but it's a status quo, but we are continuously engaging with them. Yes.
- Moderator:** Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.
- Ravi Naredi:** Sir, what is the progress about the USFDA inspection? Anything you can tell about such thing?
- A.K. Jain:** As I have said, currently it's a status quo, after the inspection, we have replied and whatever details were required and all the remedial actions further, required to be done, that is already

done, and we are engaging with them on a continuous basis. But currently, I would say that this is status quo because we didn't hear anything from them.

Ravi Naredi: And what about the Ratlam plant USFDA inspection?

A.K. Jain: We have done all the remedial actions and now it's FDA to decide that which date they will come and when and how. So difficult to say when they will come.

Moderator: Thank you. The next question is from the line of AmarMourya from Alfaccurate Advisors. Please go ahead.

Amar Mourya: Two book-keeping questions. Number one, on a 9-month basis, your other expenditures, manufacturing and other expenditures has declined by almost around 90 crores. But around 13 crore is only the U.S. remedial. So what explains the this 77 crores additional reduction in the other expenditures?

A.K. Jain: It's a 9-month expenditure, last year was around 814 crore, and it is 843 crore now. So there is no decrease as such. But if you are looking for, let's say, Q2 versus Q3 numbers, Q2 was almost around 321 crore as against here it's around 274 crore. So that reduction mainly on account of largely, if you look at there was a one-time cost which are there on last quarter was almost around 11.5 crore on biotech side. Then your FDA fees and the ANDA maintenance fees that figure was also around 10 crore-12 crore overall. And normally, we have a lot of this domestic marketing, your achievers, although their celebrations and their events in the second quarter of the year. So our travel and other costs were higher by in the second quarter by almost around 8 crores. So these are the major reasons for the overall, let's say where cost on second quarter was higher by almost around 321 crore. And if you look at December '19, there was a FOREX gain of almost around 28 crore. So that figure is getting depressed figure because it's around 230 crore to 240 crore. You have to add around 28 crore to this figure to arrive at the actual expenditure. And this quarter, there's hardly any kind of FOREX, very small number. If you look at the comparable figure, I would say that there is hardly very small marginal growth in expenditure on other expenditure sizing.

Amar Mourya: Yes. Basically, what I was trying to understand, there is a reduction. So is the reduction like sustainable, both on the other expenditure and the staff cost?

A.K. Jain: No. There is no reduction there. Q2 was an exceptional, some kind of figures were there because of that Q2 numbers are higher. Because every quarter when we pay the FDA fees we are charging too in that particular quarter only.

Amar Mourya: Sir, I'm talking about 9 months to 9 months?

A.K. Jain: 9 months to 9 months is 843 crore versus 814 crore. So there is no reduction.

Amar Mourya: Okay. And in the staff cost, what explain this 96 crores on a 9-month basis?

A.K. Jain: Staff cost is overall growing by almost around 12% or so. But if you look at the December number, which was on the December '18 number, which was 176 crore compared to that, currently it's 217 crore. Last year, as you will recall that around that time conference call, we said that our budgets were much higher for domestic and our achievements was far less. So a lot of the incentive provisions which were there that got reversed around that time. And therefore, it's not in a normalized number of 176 crore. On an average, the number was around 190 crore, 195 crores. So because of that, it's appearing to be in higher side, and this quarter, this year, overall personnel cost growth is appearing to be around 24%. But for the current year, it's going to remain around 12% to 13% kind of overall number on personnel cost side.

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

Charulata Gaidhani: I have 2 questions. One about the breakup of generics, the growth of 39% has come from Europe. How is the demand and pricing scenario for Sartans? And my second question relates to the expansion of your Losartan facility.

A.K. Jain: As far as the generic businesses are concerned, I think in this quarter, we did around 191 crore as against 139 crore in Q3 last year. And so there is a growth of almost around 37% in generic business. And 9-months number, if you look at is around generic businesses is around excluding institution is 495 crore as against 403 crore. So there is a growth of around 23%. And if you look at the numbers, Europe has grown in this quarter by around 12%, which a significant growth has come from EU, 32%. And for 9 months also, EU is growing by 37%. And EU, our margins are very comfortable compared to much higher than the overall company EBITDA as far as generic business is concerned. Similar is the case with Australia and New Zealand, we did almost around 46 crore business as against 33 crore in last financial year and overall, in the first 9 months of 105 crore as against 96 crore. Canada, we have added significant business in current third quarter, is around 26 crore as against 8 crore. So overall, in the first 9 months of the current year also is around 56 crore versus 34 crore, so around 67% kind of growth is there.

And South Africa, first 9 months is around 10% growth. But this quarter, shipments are very high, almost around 23 crore business is there as against 30 crore that we had last year, so 47% kind of growth is there on that and generic business is continuously improving. If you see the second quarter of current financial, it was around 178 crore, it has grown to around 191 crore. First quarter, the generic business was around 125 crore. So businesses on generics are continuously improving. As far as the Sartan prices are concerned, there is some softening is happening. But again, because of this China disturbances we are hearing that these prices are again moving up a little bit. So how it overall comes out, it's too early. And maybe I think the whole picture will become clear once China supply chain issues are maybe impacted by April or so that becomes absolutely clear that what kind of supplies are coming. So currently, it will be too early to give that what kind of pricing scenario will be there. But generally, we see that,

yes, market prices are of intermediates and also on API side has started moving up and by 10%, 15% in the market. So absolutely some cost pressure would be there, yes.

Charulata Gaidhani: Okay. About the Losartan facility?

A.K. Jain: The Losartan facility, there is currently no expansion. It's only the some kind of de-bottlenecking, which is currently happening at one site, but right now we don't have environmental clearance to expand the capacity currently.

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

Nimish Mehta: Just to understand a little bit more about the pain management side of your domestic formulation business. Have we seen any price increase in the 9 months? And I understand, and please correct me that Zerodol brand has actually given a good impetus to overall growth. So have we kind of added any novel features to the brand? How do you explain the growth there?

A.K. Jain: Overall pain management consists of 2 parts. One is rheumatoid arthritis, and another is osteoarthritis. So rheumatoid arthritis, we have very significant market share in the market and most of the products we market, we have the leadership there. And significant higher compared to, no competitor is near about us as far as rheumatoid arthritis is concerned. It's also very high kind of productivity division for us. A rep gives almost around close to 10 lakh plus kind of business per month. And most of the product here is in price control. So there are price rises depending on your wholesale price index. And I think current year there was around 2%, 3.5% kind of price rise there. So that is the only price rise we have done in rheumatoid arthritis kind of segment.

As far as overall company average price rise is around 4%. So there could be little 4%, 4.5% maybe in the other category as far as your Osteoarthritis segment is concerned. And there, the major brand is Zerodol which is there. And Zerodol is purely on the focus on the brand. The division has only 2 brands to promote. And they are continuously focusing on Zerodol. And it is a long way to grow. We will be able to continuously out beat and we will be able to show the kind of growth which we currently have of almost around 19%, 20% and for a long time.

Nimish Mehta: Sir, that's very interesting. But sir, is it fair to understand that we are able to grow pain management largely because we have moved it from a let's say, acute therapy to a chronic therapy like osteoarthritis something like that. Is that a fair understanding because what I'm perplexed is that there are so many brands in the pain management, Aceclofenac not a new molecule. So what is so special about the entire category, which is growing very fast?

A.K. Jain: See, Aceclofenac, the advantage here is basically it doesn't create that kind of acidity because with every 10 product doctor prescribes all Proton-pump inhibitor. This brand doesn't require any kind of co-prescription of Proton-pump. So overall treatment cost for the patient is also

low. And he doesn't have discomfort of acidity. And we have a number of good amount of clinical work, which we have done in India and that's the concept we are continuously selling.

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

Rahul Sharma: Sir, what is the remedial cost for the 9 months? And what are we expecting for the current year and for the full year next year?

A.K. Jain: The current year up to 9 months is around 13 crore. This quarter, we have spent around 2.5 crore. And I think for the whole of the year here, it's maybe around 16 crore, 17 crore number, which is overall, for the whole of the year will be there. And next year, I think these numbers will again come down from these levels.

Rahul Sharma: Okay. So should we factor around 5 odd crores, 5 crore to 10 crores, sir?

A.K. Jain: I think that, that's an insignificant compared to the size of our company. Yes.

Rahul Sharma: Okay. And sir, could you please share how much you did in EU for the 9 months and on the branded segment for the 9 month figures, sir?

A.K. Jain: Okay. EU, 9 months is around 245 crore as against 193 crore in 9 months last year, so 27% kind of growth. And on branded side, 9 months business is around 305 crores as against 266 crore. So around 14% kind of growth in branded.

Rahul Sharma: Okay. What is CIS and the other key geographies there?

A.K. Jain: CIS has grown by around 18%. West Africa by around 41% and LATAM by around 3%, 4%. And similarly, the growth in Southeast Asia is around 4%, 5%, yes.

Rahul Sharma: Sir, could I have the numbers for at least for CIS?

A.K. Jain: CIS is 144 crores as against 121 crore.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

A.K. Jain: I think overall, we feel that, yes, whatever business trend, which is there will continue, and we are continuously committed to resolving the issue with U.S. and currently, we are not factoring any number in our projections on that, but U.S. is a large market, and we never would like to ignore that. And we are continuously working to resolve that issues. Thank you.

Moderator: Thank you. On behalf of IDFC Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.