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Scrip Code : IPCALAB

Dear Sirs,

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith transcript of our Conference Call which was held on Friday, 10th November, 2023 to discuss the Company's Q2 / H1 FY24 earnings and business update.

Thanking you

Yours faithfully
For Ipca Laboratories Limited

HARISH PANDURANG KAMATH

Digitally signed by HARISH PANDURANG KAMATH
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Harish P. Kamath
Corporate Counsel & Company Secretary

Encl: a/a

“Ipca Laboratories
Q2 FY2024 Earnings Conference Call”

November 10, 2023

ANALYST: **MR. NITIN AGARWAL – DAM CAPITAL ADVISORS LIMITED**

MANAGEMENT: **MR. A. K. JAIN – MANAGING DIRECTOR – IPCA LABORATORIES LIMITED**
MR. HARISH KAMATH – COMPANY SECRETARY – IPCA LABORATORIES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to IPCA Laboratories Q2 FY2024 Earnings Conference Call hosted by DAM Capital Advisors. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nitin Agarwal from DAM Capital Advisors. Thank you and over to you Sir!

Nitin Agarwal: Thank you. Good afternoon everyone and a very warm welcome to IPCA Labs Q2 FY2024 post results earning call hosted by Dam Capital Advisers. On the call today representing IPCA management Mr. A K. Jain, Joint Managing Director and Mr. Harish Kamath, Company Secretary. I will hand over the call to the management team to make the opening comments and then will open the floor for questions. Please go ahead Sir.

A. K. Jain: Thanks Nitin and DAM Capital Advisors for organizing this call. Good afternoon and Happy Dhanteras to all participants and thanks for taking out time and joining us for Q2 FY2024 earning call. Today's call and discussions and answer given may include some forward-looking statement based on our current business expectations that must be viewed in conjunction with the risk the pharmaceutical business face. Our actual future financial performance may differ from what is being projected or pursued you may take your own judgment on information given during the call.

Our domestic formulation business for the quarter has delivered a business growth of around 10% with two range jump over corresponding period and IPCA is 13th in acute segment. On chronic market also we had one range jump and IPCA is now ranked as a 16th in the segment. IPCA has out placed the industry in both acute and chronic segment. Our market share has improved to around 1.92% from 1.89% on med basis is mid September 2023 as per IQVS. For Q2 FY2024 our branded promotional business has delivered a growth of around 15% from Rs.127 Crores to almost around Rs.146 Crores. Our export generic businesses delivered around 32% growth from Rs.200 Crores to almost around Rs.264 Crores. Mainly the business growth has come from UK and European markets. Institutional tender anti-malarial business declined by almost around 21% from Rs.77 Crores to around to Rs.61 Crores and overall export formulation business in Q2 is at around Rs.470 Crores as against Rs.404 Crores in Q2 FY2023 with overall growth of almost around 16%. API business in Q2 FY2024 delivered a growth of around 6% from Rs.307 Crores to around Rs.335 Crores. We continue to face the price decline and volume decline on certain API as well as on anti-malarial API business. With both formulations plant and Ratlam API plant now in VI category. For Piparia plant as well as Ratlam plant the import

alerts are already lifted and we are awaiting that import alert will be shortly lifted for the Pithampur plant also. We are initiating now the process of augmenting the supply chain and revalidations of all the formulations and updating them. The whole process may take around four to five months and thereafter the shipments to US may begin in Q1 FY2025. Overall we have given earlier the business guidance for domestic business of almost around 12% to 14%, we maintain our guidelines in spite the Q2 business growth was around 10%. Overall in H1, the business growth in domestic formulation is almost around 12%. Our international branded business has delivered in first half a growth of almost around 18%. We have projected a lower growth of around 12% for this business. It is mainly because of depreciation in Russian Ruble and certain contingent challenges are that are being faced in West Africa.

On export generic business at the beginning of the year our projection for growth was around 7% to 8% for the year as against that in H1 FY2024 we have delivered a business growth of almost around 21% and our revised guidelines for this business for the year the growth is expected to around 20%. The overall lower business guidelines which was given earlier in the year was mainly because we lost certain tenders in South Africa and we were expecting a loss of business of almost around Rs.60 Crores, but the business there has been good in private market and other businesses and therefore overall that decline may not be there.

On institutional anti-malarial business, the business is likely to decline by almost around 25%. The lower is mainly because of lower demand as well as lower business of anti-malarial injectable is largely because of the plant upgradations which are currently happening. The API business we have earlier given a guidelines of decline of around 10% to 12% as against this, the decline may remain at around 7% to 8%. Having given the broad numbers, I would now request the participants to ask questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Surya Patra from PhillipCapital. Please go ahead.

Surya Patra: Thank you for this opportunity Sir. Sir this quarter it seems that you have integrated Unichem and that is why to some extent impact on the core margin and earnings that we have seen so is it possible to share what is the Unichem numbers that we would have added in the revenues, EBITDA and PAT?

A. K. Jain: Overall I think around two months from August 1, 2023 we have consolidated Unichem in the overall numbers and overall I think topline which is consolidated is almost around Rs.285 Crores and I think on bottom line side there is a loss of almost around Rs.16 Crores yes.

Surya Patra: Okay and the EBITDA level Sir?

A. K. Jain: EBITDA is positive at around 5% yes.

Surya Patra: Okay Sir whether it is a full phase kind of integration from the August 1, 2023 or it is after September 21, 2023?

A. K. Jain: It is a line by line integration from August 1, 2023 yes. Consolidated.

Surya Patra: My second question is about the way forward that we would have decided or thought about after the integration Sir see like what cost synergy and what revenue synergy that we are witnessing or anticipating for the integrated operation so if you can give some sense about it that will be helpful?

A. K. Jain: Overall we have worked out say short term goals and medium term goals that is what we need to do because the industry is highly regulated and lot of approvals are needed before any kind of changes are implemented. On short term side let us say there are certain changes more particularly in API processes that can be done with minor annual notifications so that process is already initiated on various raw materials which can give almost on RMC reduction on those products by almost around 15% to 40% so that is the one area which is initiated. Second area which we have initiated is we have also started looking into the the the API processes where the improvements are required in the processes where almost around 30% to 40% API cost reductions can be targeted and also the Unichem overall API business is very low so there with these kind of reductions the business volumes on API can certainly go up so that journey we have started looking into. The third process we have initiated is also we are looking into their entire utility cost and all and we expect that almost around Rs.12 Crores to Rs.14 Crores kind of utility cost can be reduced in the the current financial year itself so that process has already initiated. Another process what we initiated is we have mapped into all your material rates they are buying and what kind of material rates what we are getting and we find that the procurement volumes ours is very large and therefore our rates are lower compared to what they are purchasing so which maybe is the solvent and acids and alkaline and intermediates and all that so that the process we have initiated now to align the entire process of procurement. Even on the services and things because we worked on annual contracts with suppliers for all the plants and therefore those kind of costs are also on engineering items are also lower so that process we have initiated and that will also start giving results in time to come. Another issue which we have short term wise which we have looked into is their logistic cost are very high. By and large is because of two reasons. One is their air shipments are very high which is almost around maybe over 50% is air shipment so we are looking into the various issues whereby the productions can be increased and whereby the reduction can

happen in the air shipment and secondly mostly their shipments they are not loading the containers at plant. Most of the container loadings are happening at the port side and therefore their cost on logistics are also higher and that process of integrations and reduction of the cost has already started so that may start giving results from maybe a quarter later so that process which we are initiating. So these are the kind of short term things which we are we are looking into. Another issue which we are looking into is the market extension of products. Let us say that US approvals are there, like say market like Chile except the US ANDA and all that so that filing process we are initiating so that we can open the Chile as a market and without doing any work on the backward side because it does not require because entire dossiers are accepted as it is so with those kind of approvals the market extension can happen to Chile. We are also looking into reduction of losses which are currently happening I think Ireland and UK markets and we expect much better prospect also coming from their range end and probably there may not be any kind of losses in the current year. It may result into profitability in the current year so these are the short-term things which we are looking into. As far as medium terms are concerns, we have identified, mapped their entire API processes. All the products may be around 50 to 55 APIs which they have so entire process is identified. We have appointed the team leader for every API. We have mapped in that from where the current RMC and where the RMC could go and what kind of changes are required and entire valorizations is already done so a lot of work is happening now at the lab level and thereafter the piloting and all and once those kind of reductions happens all the regulatory filing and then thereafter the approval from the regulator so that process is long but we see a significant reductions in their API costing in times to come. Then another issue what we are looking for is market extension of products like say we identified that out of the overall Unichem ANDA there are certain ANDA almost around 17 products we identified where on five product there could be a buyer dossier and those dossier can be directly filed in let us say in Europe, Australia, New Zealand and South Africa where the D's are not required so there are five product market extensions can happen quickly. There are another 12 products where the only bio study needs to be repeated. All parameters of other markets are meeting internally so those extension could also happen very quickly. Another 24 ANDA the products which are developed that with minor tweeting in the dossiers in a period of almost around 18 months from now. Those products also the market extension can be given. As IPCA we do lot of businesses in Europe, Canada, South Africa, Russia and various ROW markets and developed markets so these products of Unichem can also be extended to these markets. Let us say all these works can happen in the period of around 18 months and there may be some kind of sometime may be required thereafter for regulatory approvals and all but those integration process and market extension that process has already initiated and now that another is the aspect we have also looked into is let us say what kind of because Ratlam plant is now clear and there are certain common API which they are using where our cost of

productions are lower and those kind of advantage can come to Unichem in their procurement pricing so those API also maybe around 10 to 12 API are there which can definitely be integrated into the Unichem's basket but of course those integrations will take time. There are regulatory approvals and all that process are there so it is a goal of around 12 to 15 months time so a lot of those issues are looked into and in fact almost 15 API out of 55 APIs basically gives 77% of their business and the balance 14 API if taken up then it is almost around 93% of their business of formulation get covered so all those APIs we are looking into. Then on ROW market also both the teams, their team and our team are integrating and looking into how can we increase the ROW market business and all. We have also looked into the lot of their ANDA which are there under approvals and all which the approvals are expected and all. From that aspect I think almost around 11 new products can be launched in the year 2023-2024. Nine ANDA by and large from April 2024 to March 2025 that can be launched and there are seven ANDA which also include three Para four also included in that. It can be launched in 2024 or 2025 so lot of those works is currently going on. Of course that will take time but from looking at all these data, we are very confident that what we had talked initially when we have announced the deal that we will be able to achieve almost around Rs.300 Crores kind of EBITDA on the Unichem side that is very much possible looking into all these details what we have done and once the market extension happens and we start marketing those products in various market definitely we can make Unichem as a beautiful company.

Surya Patra: Sure Sir this Rs.300 Crores EBITDA for FY2025 you mentioned Sir?

A. K. Jain: I said two years it will take because a lot of work and regulatory approvals are required.

Surya Patra: Yes sure.

A. K. Jain: Nothing happens in this business because you need to take product, you need to validate, then develop the dossier changes and file with regulators and take their approvals. There are only smaller things like say where the no solvent is changing, no process is changing, and no equipment is changing but in spite of that also with the minor tweeting in the process you can reduce the the cost of productions and the time cycle deduction can happen so those are things which are initially targeted but that may not give us significant kind of savings. Some savings will start coming from that but the significant savings will happen with those kind of changes what we have planned and already worked out each API all details and team leaders are appointed, responsibilities are given to the people and the teams are working and by and large their focus in next two years is likely to be the low hanging fruits. All these are low hanging fruits that process changing and all. The product development will be on a slower pace in these two years. The team will work on market extension. The

API team will work largely on cost reduction. Let us say 80% of the time will be utilized on those kind of processes by the team so that the results can be obtained faster so that is the process so that we can turn this company into profitability.

Surya Patra: Thank you so much Sir for a detail explanation. Now having some development on the US business front from our facilities so could you give some sense about activating our DMFS and potential filing of dossiers or reactivating the dossiers what we would have filed long back or what is the thought process here for IPCA own US business?

A. K. Jain: Let us say there are certain products where there are no updates in the file let us say are required so those are around eight to 10 products can start quickly after the supply chain and after the validation again the process because we have not there in the market for almost around nine years so we will have to do the revalidation of the processes and the entire product so that process can start. On other dossiers and other approvals let us say API processes has changed where we have cheaper processes. That processes need to integrate into our dossiers because those work are not done so that work is required to be done so that process also we are initiating at our end so that will take some time but let us say that earliest we can be there in the market is only in the Q1 of next financial year.

Surya Patra: Sure Sir thank you Sir. Thanks a lot. Just one bookkeeping number update? See here the tax number with the integration what is the ETF that we are anticipating for let us say current year and next year after the integration Sir?

A. K. Jain: You want to know about the tax.

Surya Patra: Tax rate integrated tax rate after Unichem?

A. K. Jain: I would say that the as far as Unichem is concerned there are no disallowances are there because they are not there in the domestic market and so their tax rate will remain around 25% or so. There will be not much of change. As far as we are concerned it is mainly largely the tax rate is going up because of disallowances like say CSR cost get disallowed, any donation given that get disallowed and marketing cost large part of marketing cost also get disallowed so that figures the overall because of that I feel that we have made a provision for tax rate almost around which include defer tax at around 34% as against normal tax rate of around 25% plus some deferred tax of 1% to 2% so as against that so tax may be on higher side because of disallowances by almost around 6% to 7% yes.

Surya Patra: Okay sure thank you.

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

Chirag Dagli: Thank you for the opportunity. Sir of the eight to 10 products that you talked about for the US market that can immediately come in in the market what is the market opportunity of these approved products here because the last time we were in the market, we were doing about $35 million to $40 million but since then there could have been price actions and plus this time around we have our own front end as well and not necessarily supplying to a partner so if you can just give us a sense of what is the market opportunity and what should we expect in the first 12 months in terms of revenue from the US post us coming into the market?

Harish Kamath: Yes Chirag the initial products will be same product in which we were there earlier in the US market and as far as the pricing is concerned in our product range there is hardly any reduction in the prices in that market so when we were there we were sharing almost 40% to 50% profit with the marketing partner. Now that issue is not there. All our products henceforth will be distributed through Unichem franchise.

Chirag Dagli: And our base shore as well right?

Harish Kamath: Base shore also operations we are integrating along with the Unichem now. Label will remain but operations will be handled by Unichem.

Chirag Dagli: Understood but the way to think about this is that 100% of the economic interest will be with IPCA or how will you share with?

Harish Kamath: No economic interest is always with IPCA because we are holding all ANDAs. See it is like earlier we were doing business through marketing partner's right. There was Sun Pharma. Initially it was Ranbaxy. At that time there was a formula transfer price in which we have certain margin. Then sales in the US minus our transfer price minus certain percentage of sales as selling and distribution cost which we will also give to Unichem because it is a fair percentage and remaining profit we used to share in the ratio of 40:60 or in some product 50:50 so only that profit sharing ratio may change. Otherwise economics will not change.

Chirag Dagli: Understood sir and would you say that pricing action has gone up or has gone down over the last decade or so?

Harish Kamath: More or less we are confident whatever margin we were doing that time so that will improve because there will be profit sharing.

Chirag Dagli: Understood and like you said 50% you are sharing with your partners?

Harish Kamath: That is right yes.

Chirag Dagli: Correct and Sir can you indicate the number of pending ANDAs we have?

Harish Kamath: There is no change in that scenario know. We have not filed any new ANDAs. Incidentally recently we got approval for one more ANDA. Post all these VAI for all the facilities and all one ANDA approval also we got.

A. K. Jain: We expect a good number of approvals immediately after the Pithampur import alerts are lifted because Pithampur is already VI so import alert lifting may take few weeks maybe. Thereafter good a number of ANDA approvals will come.

Harish Kamath: Because all later part ANDA filings were from Pithampur.

A. K. Jain: And I think we have almost around 18 approvals and around 26 which are.

Harish Kamath: Filed and pending approval.

A. K. Jain: Pending approval.

Chirag Dagli: And of these the ones that you are expecting approval of Pithampur how many will those be Sir?

A. K. Jain: Most of them are from Pithampur only.

Harish Kamath: See initial all filings were from Piparia. Most of them are already approved. Most of the subsequent filings which are now pending approval they are all filed from Pithampur.

Chirag Dagli: Understood so Sir if I were to take a slightly longer term view and I understand you will take time? FY2025 we will likely spend scaling up our existing products but if I were to take a slightly longer term view do you think this can be a $100 million business maybe $200 million business with the existing?

Harish Kamath: Sir it is very difficult to comment on the numbers know but actually when we were there in the US market our API plus formulation business put together including indirect API sales people are buying in India but end formulation was going to US. All that put together was about Rs.500 Crores, Rs.450 Crores to Rs.500 Crores.

Chirag Dagli: Understood and just the last question Sir?

Harish Kamath: That has limited number of products. At that time you are marketing about nine to 10 formulations.

Chirag Dagli: Understood Sir understood and now with Ratlam getting open for the US market are there any products where your realizations are essentially better in the US market and hence you can immediately move?

Harish Kamath: We were not there for 10 years. We have to now start seeding business. It will take little bit time because all my customers are already with currently with some other supplier but we will start that process also.

Chirag Dagli: Understood okay Sir thank you so much.

Harish Kamath: Whereas our efficiency, our cost efficiency and all it is intact. Leadership position that there is no change in that. We are confident we will regain all those lost business in due course of time.

A. K. Jain: Nobody is waiting for us so we will have to create the market so it will take time. Right now we are not in a position to give the number.

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

Syan Mukherjee: Thanks for taking my question. Sir how are we thinking about the US business in terms of filing? We have not been filing and what implications on R&D platform or R&D expenses that you see should happen over the next two to three years?

Harish Kamath: Syan in the meantime we have also developed several formulation. We did not do any filing because it was entailing filing cost and all so now we will increase our filing pace. So as a group we will have lot of ANDA in the US. Unichem itself is having 60 to 70 filings plus we have our filings and we will increase the filing speed going forward.

Syan Mukherjee: So that will have any meaningful implication on R&D expense?

Harish Kamath: Definitely so when we were there in the US we were developing products and filing products. Our R&D cost is around 5% to 6%. Maybe slowly we are now currently around two and a half. Little bit increase will happen maybe up to 4% or so.

Syan Mukherjee: Okay and so how many ANDA have you already decided like how many ANDAs you will be filing going forward?

A. K. Jain: See basically our filings are going to be based on our own API so we are currently producing around 70 to 75 API out of which around 46 are filed so it is going to be the balance API we will look into the filing and as more API are commercialized more filing will happen so we are not filing more number of products based on somebody else API. By and large US market is going to be more integrated kind of business for us so it is not that we have to file significant number of the formulation. That is the practice which is the Unichem also have that they are also integrated operations and IPCA is also integrated operations so by and large wherever we have good API processes that will only be taken for filing. R&D cost is not going to have a significant impact. They did not go from 2.5% to 6%. It is going to remain around 4%.

Syan Mukherjee: Okay and Sir I also see that you are making some efforts on the bio similar front anything that you would like to share? How are you planning? What are the products? How are the spends? Are they already sort of coming in or we will see some increase because of clinical trials, etc.?

A. K. Jain: Currently I think the plant is under construction. It may take I think by let us say the end of the Q1 next year for plant to complete and thereafter the validations and all. We are currently working on almost around five products and for two we have already taken the IMA, USFDA and European authority's guidelines and clinical strategies on that has been finalized. Third is in pipeline so the three products are already at those kind of state but the commercialization of that will happen from the plant so any commercialization efforts will only start after the plant is ready and then so it is still far away, but the current R&D cost also include the bio similar kind of cost here and on all products the development of clone is in house. We are not taking clone from anywhere from outside.

Syan Mukherjee: Right and Sir this pipeline that is selected so when you enter the market so you would target Europe and US at some point right?

A. K. Jain: Yes.

Syan Mukherjee: So these products so we are looking at what 2027 to 2028 kind of time frame and are these products.

A. K. Jain: After the plant is ready it may take around two and a half years. That is the kind of period for the initial batches and thereafter all these establishment batches and then bio development taking the batches and clinical studies and all that so that is the kind of time.

After the plant is ready and everything is done around two and half year so still it is a long journey.

Syan Mukherjee: Okay and Sir the pipeline that you have selected is that you are targeting is the first wave launch or those are the ones where you see you have a cost advantage and you are going for it despite some of them may have already gone generic sometime back?

A. K. Jain: Looking at our R&D presentations and all we are getting values are much higher than currently what market is getting. That is what I can say but I cannot give the name of the production right now.

Syan Mukherjee: Okay thank you.

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

Abdul Puranwala: Thank you for the opportunity. Sir can you provide a rough split of the India versus between the various therapies and how that has grown this quarter?

A. K. Jain: The pain segment has grown by almost around 12%. Other therapies like say your cardiac has grown by 13%, CNS 22%, derma 17%, neurology 23%, ophthalmology 38% and other products by around 10%. The product which has declined in the quarter, anti-malarial has declined by 4%. Anti-bacterial has declined by 2% and cough and cold has declined by 5% so that is the overall number so Q2 was the toughest quarter I think overall market growth was also around 7% or so. We have grown by around 10%. Q1 our growth was 14% much higher compared to market but we are seeing now domestic market reviving. Overall October was good and November is also appearing to be good so we are not changing the overall guidelines for the year. We will continue to have around 12% to 14% kind of growth on domestic market. First half we are at 12% overall domestic growth.

Abdul Puranwala: Sure and Sir I mean a couple of quarters back we had added some MR so I mean in terms of the MR break even or the productivity for those considering that the market has slowed down a bit so where are we? Are we still on track of breaking even in two years or given the current market circumstances you think that will take some time?

A. K. Jain: I think if you look at last year my overall MR productivity was 4,18,000 per month and after addition of people also I am currently at around 4,53,000 kind of productivity in the first of the year. That is the overall productivity. The productivity has definitely improved and this is overall. This includes the newer products but let us say the people which we have added in kind of the cardiac businesses and all that take a longer time compared to the other

businesses. Like say we have started one cardiology division which we may be at our currently around after one year, we are at around 1 lakh productivity but the growth is better. The other division we have around because that in that division certain product was transferred and all so that is around 2.5 lakh productivity. What people we have added in here the rheumatoid arthritis segment that has given very good productivity and almost they are around 4 lakh kind of productivity now. Certain products were transferred and certain products were added in that market but that has not reduced the productivity of the FTA division which was earlier marketing and that is also going up. The productivity level is almost around 9,30,000 so that is a good productivity. Moreover urology has also done well so productivities are good in there.

Abdul Puranwala: Sure understood and Sir a final one if I may so with the US plants getting cleared Sir is there any plan ahead of sourcing some CDMO molecules from the subsidiary which can be scaled up to this plant and cater to the US market?

Harish Kamath: No now presently those things are not considered so initial our work is to launch the products which were already there in the market when we went out so gradually we will look everything.

Abdul Puranwala: All right Sir. Thank you and wish you all the best.

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

Rushar Manudane: Thanks for the opportunity Sir just from the USP again so what would be the current capacity utilization for Ratlam plant, Piparia and Pithampur?

A. K. Jain: Piparia it will be around 15% to 20%, Pithampur maybe around 30%, and Ratlam we are having certain specific plant for specific products where there is a capacity available. In any case now we are gradually scaling up production at Devas also. That plant also ultimately will offered to all regulatory agencies inspection so availability and manufacturing of API should not be any issue.

Rushar Manudane: Understood but at the same time even from an external API sales perspective where there is volume decline?

A. K. Jain: There is not so much declined in volume but price decline is very severe from $100 to about $50 in case of Losartan.

Rushar Manudane: In fact that is the other part of the question is that what new API molecules are we looking for growth in EPI business especially?

A. K. Jain: Across all our products we are seeding across the globe so we have seen good business progress. Many projects are now getting commercialized so there is no issue in growing the API business. The only issue is about pricing. Other than that there are no concerns.

Rushar Manudane: Got it Sir and just lastly we had this Metoprolol filing as well for the US market?

A. K. Jain: It is filed but it is pending approval. There is no change in that status.

Rushar Manudane: 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. Sir my question is on your margin trajectory so lot of cost initiative happening at Unichem portfolio as well as your own so like Q2 number includes two months of Unichem business? Looking ahead how do you see cost like dynamics changing and how do you see margins say in near term and then in slightly longer term in terms of like trajectory movement?

Harish Kamath: Damayanti, Mr. Jain has already explained what initiative we will be taking as far as Unichem is concerned. As far as IPCA is concerned more or less in the Q2 if you see our financials whatever guidance we have given actually we have done better than that so there is an improvement in the standalone EBITDA margin from 18.85% to 20.86%. It is nearly 2% in Q2. Similarly in consolidation there is two month Unichem sales that have come in. In spite of that there is an improvement in the EBITDA margin from 17% to 17.64% and we are confident of telling and assuring the investors our EBITDA margin going forward should improve at least by 100 basis points year after year.

Damayanti Kerai: Okay so at least 100 basis points improvement per year that is good to hear Sir and then I wanted to check update on the Devas plant? You said it is yet to be offered to agency so what is the timeline like when you are planning to invite some major regulators?

A. K. Jain: See initially we have started developing API. Some products are already developed. Then there is a process stability and all so it will take time.

Damayanti Kerai: Okay not in this financial for sure right?

A. K. Jain: It is near future. It will take time.

Harish Kamath: We have filed the products to various regulatory authorities. The dossiers are filed.

A. K. Jain: But when they come for inspection so again all that involves some time.

Harish Kamath: So filing has already started from there. At least we have almost around six to seven API which are stand up there and filings are in process now. A few filings are already done. Europe does not take very long time to come for inspection. Maybe it is a time lag of almost around five months to six months they come so hopefully by this yearend or early part of next year the inspection should happen from Europe. US we have yet to file so once Europe I think five to six all these happen then we will trigger based on our own processes itself the inspection from US also because we will utilize the Devas API also for our formulations the newer API so we will trigger that kind of inspection from there but when inspection will happen that is not in our hands.

Damayanti Kerai: Okay and Sir my last question is?

A. K. Jain: The European and other inspections can start early.

Damayanti Kerai: Okay got it. Sir my last question is like you were working on this continuous process plant for some specific KSM, etc., so any update there like how that has moved and what kind of margin accretion you are seeing or foreseeing for such continuous process based product?

A. K. Jain: We have installed one plant in the last few months at Aurangabad. Earlier we have put up a pilot plant and now we have set up a proper plant for one intermediate so that I think it may start commercial production somewhere in end December or so, so from next quarter onwards then we get all the results of that we will talk to you what kind of reductions are coming and other products by and large thereafter will taken up at Nagpur so we are still awaiting some kind, we have got the environmental clearance but the consent to start is still pending from the state pollution control board so we are following with that and thereafter all the continuous process plant of that type will set up at Nagpur so that is time for me and this plant does not have very high investment. It is a continuous process plant. Every plant may be set up maybe around Rs.20 Crores to Rs.25 Crores. It does not take very long very, very big investment so that is going to be an advantage in that your overall capital cost will come down.

Damayanti Kerai: Got it Sir. Thank you very much and wish you a very happy festive season.

Moderator: Thank you. The next question is from the line of Pulkit Singhal from Dalmus Capital. Please go ahead.

Pulkit Singhal: Thank you for the opportunity. This question on Unichem I mean broadly when you look at the US opportunity from three to five years out you obviously alluded to the cost synergies and the market extensions but when you think about addressing that opportunity are you looking to invest in the Unichem business to do more new product developments? How do you decide what will be done here versus IPCA or will these two be very independent growth engines just a broad thought process five years out?

A. K. Jain: Both are separate growth engine but marketing will happen in US through your Unichem because that is a much better established business. The bay shore was small outfit and therefore let us say both business we will be combining there and we will keep only one marketing outfit instead of two marketing outfit to reduce all the operating cost of that level but otherwise both will be separate engines. The Unichem R&D team will will separately they will report to their managing director but overall the selection of products and all we will guide them in terms of which are products Unichem team is taking up. They already have their pipeline and all so they will continue to work but first focus will be given on the low hanging fruits like say process corrections which the Mr. Pavitra Bhirandiyara he is the managing director and he is technocrat. He is guiding the team in terms and their R&D is now getting dedicated to correct those kind of processes and all that so which all action plans has been taken and then market extension which can give a the faster generation of revenue and also profitability. Those kinds of things are planned so that we turn Unichem into profitability. That is the first goal so I said that next two years almost around 80% of time R&D will devote only on the improvements and 20% on the new developments there. Once these major API these corrections happen then only the new developments will be focused so their R&D cost will not be that high because of course bio cost will be there but other material cost and other things will be on lower side but thereafter again they will take up the development.

Pulkit Singhal: Understood. Thank you and the second question is broadly you had given a guidance of Rs.1800 Crores of revenues and Rs.300 Crores of EBITDA? Obviously you have a much better understanding now having probably evaluated further? I mean the company is already doing almost Rs.1700 Crores of revenue? I mean even now if you just analyze the first half so how do you see that trajectory changing over the next three years? What is the peak potential in terms of revenue growth itself?

Harish Kamath: Actually when we gave this projection their annual turnover was around Rs.1300 Crores. Suddenly this year and the last two quarters they have seen lot of opportunity in the US

because of shortages and all so that is why there is a sudden jump in their US generic business. Having said this they also have a product pipeline. They will be commercializing few ANDAs which are already approved in this financial year as well as the next financial year.

A. K. Jain: And their Brazil businesses started doing which was earlier cash burning business they have started doing well. I think this year in first half they have already grown by almost around 65% and they have good pipeline of products where some of the Sartan journey we will integrate with their approvals and all so we see a good future even from Brazil in that market. We see good revenue generations and all even from their European business point of view.

Pulkit Singhal: Understood just very lastly what do you think is the peak revenue potential for this entity and how many years can it take for you to reach there?

A. K. Jain: Let us say Ghaziabad plant I think their production capacity is almost around 200 million tablets. That plant we have some kind of working is done and that production capacity by certain changes it can go up to 270 million kind of tablets. As far as Goa plant is concerned, the first plant capacity is around 500 million tablets. That can go up to 625. It does not need any kind of investment. It is only the internal some changes are there. As far as their third plant is there Goa 2 which is beautiful plant and it is for the scale up so we are planning a lot of much bigger size bench is there and all that but that will all go through the whole regulatory process of approvals and all. A lot of things may not happen through CB30 process. It is a fast approval process so right now focus is to say bigger volume products to be shifted to Goa 2. Goa 2 also has almost around 500 million tablet capacity so capacity wise there are no constraints as far as Unichem are concerned because Goa 2 capacity is practically utilized very, very small. Today production volume may be around 50 million tablets and all so it is a more scale up basis to be taken products with larger products to be shifted to that and after regulatory approval so it may take around one year time to do that journey and that will also result in lot of cost saving so also free up the lot of capacity there and therefore we have targeted that next three years what kind of the new products they can launch and all that and on those products also on API side we are looking for cost reduction so their ANDA will have to be upgraded again. Once the API has to be qualified in those ANDA so that process is all netted and workings are going on but it take time that is the only thing that in Pharma business everything has to go through the whole process and thereafter approvals and all so that is why we have divided things in two parts. One is low hanging and can that be done immediately and one maybe 12 to 18 months and thereafter the results start coming in so that is the journey.

Pulkit Singhal: That is great. Thank you so much for the detailed explanation.

Moderator: Thank you. The next question is from the line of Rashmi Shetty from Dolat Capital. Please go ahead.

Rashmi Shetty: Thanks for the opportunity. Just one clarification whatever guidance you have given for the branded business and your generic business that includes the Unichem integration sales also?

Harish Kamath: Unichem does not have any branded business. We have given for IPCA it is standalone IPCA. We have not considered anything of Unichem in that.

Rashmi Shetty: Okay not even in your generic portfolio where you have upgraded it by 20%?

Harish Kamath: The guidance given us for current financial year. The next six months we cannot do anything much as far as Unichem portfolio is concerned. This guidance what we have given is our own portfolio and our own business.

Rashmi Shetty: Understood okay and what is the status on borrowing for this acquisition and what is the cost of debt?

Harish Kamath: Our current net borrowing is around Rs.800 Crores. Cost may be around 7%. There is also increase in the borrowing cost. Earlier most of our borrowings were in foreign currency. We were paying about 1% to 1.5% which has now increased to about 7%.

A. K. Jain: It was moving around Rs.1600 Crores but we have almost the balance a cash in the balance sheet around Rs.800 Crores.

Harish Kamath: So net borrowing is around Rs.800 Crores.

A. K. Jain: The net of cash.

Rashmi Shetty: Understood Sir just wanted to understand more so when you said that currently in your guidance you have not included Unichem integration so you are saying that for the integration process will take time and therefore the sales from Unichem will not immediately come in next 6 to 8 months am I correct?

Harish Kamath: Whatever Unichem is doing business their businesses their businesses have also grown in the current financial year by almost 35% so this guidance what Mr. Jain said is of

standalone IPCA business which was growing business. We have not included immediately anything out of Unichem product in our book so far. That will take time.

Rashmi Shetty: Okay all right. Thank you Sir that is it from my side.

Harish Kamath: Per se their businesses have grown from Rs.1300 Crores last year they are growing around 35% in the first half of the current financial year.

Rashmi Shetty: Okay Sir perfect.

Moderator: Thank you. The next question is from the line of Rahul Jeewani from IIFL Securities Limited. Please go ahead.

Rahul Jeewani: Thanks for taking my question so you indicated that you will recommercialize your US portfolio through Unichem frontend so when that happens would you be booking the sales or the sales would be booked at the Unichem level?

Harish Kamath: Standalone we will book in our books. It is an export business to me. Similarly Unichem US will also book. In consolidation it will get adjusted.

Rahul Jeewani: Sir I am saying then it will reflect in IPCA standalone books as well?

Harish Kamath: Of course now because I am manufacturing and I am selling it to Unichem US so it will reflect in my books as sales standalone whatever Unichem is selling in us it will reflect in Unichem USA book but when you do consolidation it will get adjusted.

Rahul Jeewani: Okay sure sir and Sir any plans of merging Unichem into IPCA through a share swap?

Harish Kamath: No currently nothing on board. We have to bring their businesses. We are focusing only on Unichem business now nothing beyond that.

Rahul Jeewani: So both the entities would continue to remain separately listed?

A. K. Jain: That is right yes.

Rahul Jeewani: Thank you and that is it from my side.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.

Harish Kamath: Since there are no further questions I think we should end this call. Happy Diwali to all the participants.

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