



“IPCA Laboratories Limited  
Q3 FY2019 Earnings Conference Call”

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**Moderator:** Good morning ladies and gentlemen, welcome to the IPCA Laboratories Limited Q3 FY2019 Earnings Conference Call hosted by IDFC Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal the operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nitin Agarwal from IDFC Securities Limited. Thank you and over to you Sir!

**Nitin Agarwal:** Thank you. Good morning everyone and a very warm welcome to IPCA Laboratories Q3 FY2019 post-results 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. I handover the call to IPCA management team for making the opening comments and then we will open it up for the question and answers. Sir please go ahead.

**A. K. Jain:** Good morning everyone. We have yet another successful quarter in the current financial year. The domestic formulation business in this quarter has grown by around 10%. Export formulation overall growth is around 4% and overall formulation business in this quarter has grown by around 7%. Overall API business in this quarter has grown by around 20% and overall for the quarter we had around 10% growth overall. On cumulative basis, the domestic formulation for the nine months has grown by around 17% and export formulation by around 7%. Overall formulation business has grown by around 13%. API business for the nine months has also grown by around 21% and overall for first nine months of the current year we are at around 15% growth. Overall on consistent basis we are improving our gross margins material cost to sales for the first nine months of the current year has come down to almost around 31.4% as against 34.75%, which we had in last financial year. In this quarter also material cost to sales ratio is around 31.2% as against 33.8% what we had in last financial year and overall we have further improved our EBITDA margins, in this quarter overall EBITDA margin is around 22.48% as against the third quarter of last year’s EBITDA margin of 18.63% and overall for first nine months of the current year it is around 20.62% as against 14.21% first nine months of the last financial year.

Overall in this particular quarter, you will notice that your employee cost is little on lower side that is by and large relating to the certain reduction in the provisioning relating to domestic marketing incentive because this quarter’s performance was on lower side. Given those for the first nine months of the current year we have achieved almost around 17% growth in domestic market, so that is the one reason that employee cost is on liquid side. Another variation you may notice was mainly in the other expenditure side is largely because of this action loss and profits are bracketed with other expenditure. If you exclude

those kind of expenditure, the by and large in this quarter there is a 15.8% increase in the other expenditure side and for first nine months of the current financial year it is around 10.4% increase in overall other expenditure. Having given the broad numbers, management is now open for question and answer.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from Prakash Agarwal from Axis Capital. Please go ahead.

**Prakash Agarwal:** Thanks for the opportunity and congrats on good set of numbers. Sir my first question is on this institutional generic business, which has been softer this quarter, just trying to understand what really has happened and are w on track for 180 Crores guidance?

**A. K. Jain:** See institutional business can never be a consistent kind of business because there are lot of nominated shipments and other issues happens and tenders are coming at different, different time and then executions happens accordingly, so some of our shipment got postponed. We are perfectly in line for the first nine months of current year, domestic, the distribution business is around 124 Crores as against 112 Crores last year, so there is almost around 10% growth and overall I think we should be able to achieve around 180 Crores for the current financial year.

**Prakash Agarwal:** Well, that is good to know that we are on track, but Sir if we look at the peers like the Cipla, the Ajanta, and the Strides of the world, there is a significant drop in their tender business, that is mainly because of the global tender down and we do not have any contribution from global tender currently is that true and when do we expect our global tender business to kick start?

**A. K. Jain:** You are right to say that we do not have currently any kind of global funds related business currently, but the global funding supporting countries and we have those kind of country businesses right now and as far as global fund is concerned, there is nothing pending from our side, but there is a complete clearance from global fund also, so hopefully as and when the process start and they start awarding this procurement, they start procurement, hopefully we will also be there in the business with global fund.

**Prakash Agarwal:** Any number you can share for next year Sir, how is this business looking with the DTs and injectables coming on stream?

**A. K. Jain:** It is too early. Maybe in the fourth quarter of the current year after that call we will provide you the fulfill guidelines here, but definitely this business will have a substantial growth because of DT and Injectables on line. Right now we are in process of registering the dossier of injectable in all the market. DT registrations may be around 60%-70% of the

countries, so balance is in progress. So hopefully next year will be good as far as institutional business is concerned and also we will get additional business from global fund.

**Prakash Agarwal:** Okay and Sir second question is just clarification on this forex gain that you said we have to adjust with other expenses?

**A. K. Jain:** No. whatever this P&L account format, which is given by MCA that does not accept the line item for forex separately so whatever gain and loss is there, that we are bracketing with the other expenditure and normally since this figure fluctuates, so other expenditure figure also fluctuates, sometime there is a profit, sometime there is a loss, sometime there is a reduction from that expenses, sometimes there is addition to that expenses, so because of that fluctuations happen, so if you want to know comparative figures I will just give you that December 2018 my figure of other expenses excluding the profit and losses of exchange is around Rs.268.4 Crores, for September 2018 quarter it was Rs.277.34 Crores, and for December 2017 this figure was Rs.231.83 Crores.

**Prakash Agarwal:** That is very helpful.

**A. K. Jain:** This quarter there is around 15.8% increase and overall for nine months excluding exchange again is Rs.387.8 against Rs.713.67 Crores, so it is around 10.4% increase in nine months.

**Prakash Agarwal:** Okay. Perfect.

**A. K. Jain:** And this quarter, there is some exceptional figure of around Rs.7 Crores debited to the P&L account on account of failure to supply because the earlier that Propranolol exemption withdrawal.

**Prakash Agarwal:** Which product Sir, failure to supply?

**A. K. Jain:** Propranolol.

**Prakash Agarwal:** Which market?

**A. K. Jain:** US market, so there are 7 Crores exceptional debit is there in the P&L account in this quarter.

**Prakash Agarwal:** Okay Sir. Thank you so much.

**Moderator:** Thank you. We will move on to the next question that is from the line of Dhagar Shah from CD Equisearch. Please go ahead.

- Dhagar Shah:** Good morning Sir. My question was on the raw material side since you have mentioned that the raw materials to sales has gone down this quarter, Sir is there any competitor advantage with respect to procurement?
- A. K. Jain:** It is nothing to do with procurement, it is a lot to do with the product mix what we sell and there is a consistent improvement that this is profitable business. Even though in earlier quarters we have talked about that there is an upward trend from China in all on material cost there is availability issues was also there, but in this quarter we have noticed that the availability issues are completely easing out and there is a slight reduction in the material cost on procurement side, but not making a significant difference, prices are still at elevated level, slightly towards the negative side, so it is better than earlier we have not faced any kind of availability issue in this particular quarter.
- Dhagar Shah:** Alright. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Securities. Please go ahead.
- Tushar Manudhane:** Good morning Sir, just on this failure to supply, is this in raw material cost or this is also in other expenses?
- A. K. Jain:** This is an other expense, because it is already paid, not to be paid, yes.
- Tushar Manudhane:** And do you envisage anything now that we are almost half of the fourth quarter through, you envisage anything coming in fourth quarter also?
- A. K. Jain:** No, we do not foresee anything coming from it.
- Tushar Manudhane:** So secondly on this India business, maybe this quarter it was a base effect, but are we on track to do 14%-15% growth in the domestic formulation for full year and the year next?
- A. K. Jain:** I think overall it is the first nine months of current year we are at almost around 17% growth in domestic market and for the whole of financial year we expect almost around 16.5% growth. Fourth quarter our expectations is almost around 14%-14.5% kind of growth in fourth quarter as far as domestic business is concerned.
- Tushar Manudhane:** If you can help me for nine months breakdown in to price volume and new launches?
- A. K. Jain:** Let us say in our company we hardly introduced the product in divisions and new product introductions are really very small maybe contributing around 8 to 10 Crores kind of business, so by and large it is the productivity gain completely for the productivity has

increased, it is by and large this volume price growth is almost around 3.5% to 4% maybe in the range of that.

**Tushar Manudhane:** So just to understand when this new launches to pick up?

**A. K. Jain:** These are the line extension. No major brand launch as such has happened in the current financial year. It is only line extension.

**Tushar Manudhane:** Understood and lastly any further updates on US FDA side?

**A. K. Jain:** As far as US FDAs are concerned, we have done most of the remediation work. It is already completed and with the consultant and third party all the work is over and now we are awaiting the inspection from FDA, we are engaging with them and hopefully inspection should happen somewhere in the next year.

**Tushar Manudhane:** Next financial year, but there is no further correspondence between Q2 and Q3?

**A. K. Jain:** I would not like to comment on that, but yes we are engaging with them, that is what I can say.

**Tushar Manudhane:** Okay Sir. That helps. Thanks a lot.

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

**Charulata Gaidhani:** My question pertains to what is the outlook of the domestic business going forward?

**A. K. Jain:** As I said that for current year we should end up around 16.5% for overall growth in domestic business, currently it is around 17% and overall company as a whole we should be ending for this financial year at around 14% to 14.5% kind of growth for the whole of the year and next year's guidelines, our budget position is completely on now with all the divisions announced, so probably at the end of fourth quarter we should be able to give you the complete guidance.

**Charulata Gaidhani:** Okay and my second question pertains to the scale up in branded business in exports, can you give the geographies?

**A. K. Jain:** This quarter the overall branded business has done well, the business was around 105 Crores as against 74 Crores last year on the third quarter, so there is almost around 41% growth and for first nine months of the current year branded business growth is around 9%, around 266 Crores as against 244 Crores and we hope to maintain good business even in the

fourth quarter as far as branded is concerned, so overall the branded business let us say second half of the current year is picking up very well.

**Charulata Gaidhani:** And geography is contributing?

**A. K. Jain:** Geography is contributing like say overall for the first nine months yes, it is contributing around 9%, Middle East Africa, South East Africa is around 40%, Middle East Africa there is a minor decline and Latin America is flat, but West Africa there is a very good growth of 23% and overall around 9% and similarly for the quarter also most of the numbers remain on the same line.

**Charulata Gaidhani:** Okay. 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 can you update us on the UK distributor issues, which we had faced in the last few quarters, any update on that front?

**A. K. Jain:** I think somewhere few months back the MHRA has cleared that distributor for importing our products and then they are doing the QP, the issue was mainly with their QP. So MHRA has allowed them to import the products and clear from their QP. So now as far as we are concerned that issue has resolved, but in this quarter also we have seen some kind of decline in UK and it is also mainly because of the sterilization issue, which is currently happening and on the block chain technology, all the serial numbers are to be generated and the barcodes are to be printed on each and every cartons and bottles and also these numbers again whatever serial numbers are to be transported back to our service provider from there to the party service provider and finally it has to land to your server of the European authority, so there are a lot of technology challenges and the line upgradations and together with that also there was another change that you have to do the all cartons and everything needs to be child resistant sealing need to be done completely, so those kind of things were somewhere sticking it to be done or some very hot and cold blue kind of thing and all line upgradations and all work is almost getting over and certain connectivity issues are also there with parties with their service provider. Slowly, slowly this is getting I think maybe all issues will take up to February end to get resolved and everything will be on line. So some kind of business in fourth quarter also may suffer on that account.

**Damayanti Kerai:** Okay. So by end of this fiscal we should be seeing normalization on all these issues, which you have just said?

- A. K. Jain:** Yes. By end of this February itself because half of the customers are already on line, balance is as and when their products are coming on line then the connectivities are established and everything is done, so that process will take some more time, otherwise there are no issues relating to line upgradations, so there are no technology kind of issues, it is completely QA process and process at the end of the customers service provider because everybody has a different service provider, so seamlessly these flow of data and everything should happen and that needs to be established.
- Damayanti Kerai:** Okay. Sir one clarity on this QP thing, which you mentioned for the distributor in UK, so any timeline by when we should be expecting that?
- A. K. Jain:** I already said that they have got the clearance from MHRA, so they can import and test also, which earlier they had issue, the distributor has issue that they were not able to test themselves they were to go to the another labs and they had the method transfers and all were taking a lot of times because they cannot do method transfer, we have to do method transfer and method transfer is very, very tedious process so because of that the whole issues were getting delayed, but now since they have already got the clearance from MHRA that there are no issues left as far as we are concerned.
- Damayanti Kerai:** Okay. So how should we look at generic export business going ahead?
- A. K. Jain:** We will give maybe for the next financial year forecast along with fourth quarter call. So currently there are budget preparations and everything for every business in progress, so hopefully we should be able to give you in fourth quarter completely the forecast, but yes business will definitely improve.
- Damayanti Kerai:** Okay. Sir one question, are you seeing benefit from this Sartan recall issues in the US or Europe or you are not participating in that?
- A. K. Jain:** Let us say we are one of the very large producer of Losartan and Valsartan we have just started got the EDQM approval now and some shipments have already started, we are scaling up, hopefully next year we should get good volumes and also value from Valsartan.
- Damayanti Kerai:** For the US market or other market?
- A. K. Jain:** US we cannot ship right now, but European market itself is big and all other markets are also big hopefully and we do not have capacity for US right now for Valsartan.
- Damayanti Kerai:** Okay. Sir last question on tax, we have seen quite increase in this quarter, so how should we look at tax expenses going ahead, effective tax going ahead?

- A. K. Jain:** We are a med company and those tax basically we are paying on net and some reversal on account of the deferred tax, there is some fluctuation happens, but by and large we are at around 18.6% and for whole of them first nine months of the current year we are at around 17%, so there is a little higher because little higher provision is also on account that you must have noticed that our profitability has gone up, so the tax provision normally happens based on say we do an annual projection and then based on whatever profits are there that is provided, so compared to let us say our current year forecast of EBITDA margin, which we have given fourth quarter last year was around 18% and 18.5%, we are currently at around 20.5% or so close to that. So overall profitability compared to what projections and all has gone up and that is also resulting in higher kind of tax provision in this quarter, this quarter itself we have achieved around 22.4% kind of overall EBITDA margin, so overall profitability is good, so tax provision is also on a little on higher side, but overall tax would remain, we are a med company, we have significant amount of med credit line, so next few years it will remain at med level.
- Damayanti Kerai:** Sure Sir. Thank you for your answers. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Sayan Mukherjee from Nomura. Please go ahead.
- Sayan Mukherjee:** Thanks for taking my questions. Sir you mentioned Rs.7 Crores on the penalty, what is the number for nine months?
- A. K. Jain:** This is for first time the claim has come in current year was 7 Crores and in last financial year we have paid around Rs.4 Crores, so on personal account there is I think for the fourth quarter last year we paid some money and this is the final claim, which is around Rs.7 Crores, so around Rs.11 Crores penalty we have paid for whatever shipments, which we could not paid.
- Sayan Mukherjee:** Okay and Sir on remediation related cost, last quarter I remember you mentioned it was on the higher side, so what is the number this quarter and for the nine months Sir?
- A. K. Jain:** Overall in Q3 we have incurred around 13.56 Crores and overall for first nine months of the year we have incurred around 45.4 Crores, so that is the expenditure, which has gone in to the US remediation and my fourth quarter number would also remain around close to 15 Crores, so for this year overall expenditure could be around 60 Crores completely on remediation.
- Sayan Mukherjee:** So this is primarily related to all the FDA queries that you are responding to right?

- A. K. Jain:** No, it is not relating to that all the GNP work and other work are long back completed, it is only relating to past six years' data verification, that is the major one, and it is huge, huge, huge database, so that work, which is there for two plants, it is almost completed and I think third plant is in progress, hopefully by March end or so, everyone all these verifications would be completed. Then after the number will come down drastically on a lower side, so next financial year we do not see this cost to be significant.
- Sayan Mukherjee:** Sir my one last question is on domestic business, can you throw some light how Zerodol is performing and what is the contribution of that brand for you currently and how is it going and how you think about it going forward?
- A. K. Jain:** As far as brands are concerned, it is not our policy to talk on overall brand values and other, so I will not be able to give you number, but as far as therapy is concerned I would say that certainly as far as the pain segments are concerned, we are continuously gaining the very good tractions. Overall on rheumatoid arthritis we have significant, significant market share close to 60% kind of market share and also on osteoarthritis, which by and large is represented by Zerodol, so overall pain management in the first nine months of the current year has overall grown by around 22% and this quarter pain management production has grown by around 17% that is the number I can give you.
- Sayan Mukherjee:** Okay. That is helpful. So this is largely you would say chronic pain segment, most of the consumption in the chronic pain?
- A. K. Jain:** Both acute and chronic, rheumatoid arthritis is completely chronic.
- Sayan Mukherjee:** Yes. I am just wondering like of the total pain segment things that you have, what is the rough split between acute and chronic?
- A. K. Jain:** So I think ratio is around 60 is the acute and 40 is chronic, yes.
- Sayan Mukherjee:** Okay.
- A. K. Jain:** Broadly that is the ratio, yes.
- Sayan Mukherjee:** And Sir just one last thing on Zerodol, because it is the combination product, and so is there any concern or it being evaluated by the committees because I think there are some spooking has already happened, any risk that you see on that front Sir?
- A. K. Jain:** As far as Zerodol is concerned, I think most product we have received the DCGI approval, but there are two products on which I think last committee has said that you need to conduct the clinical trial, so those clinical trials are in progress.

- Sayan Mukherjee:** Okay. But you would submit the trial.
- A. K. Jain:** Yes.
- Sayan Mukherjee:** Okay. But do you see a risk there, Sir, in case the trial fails or anything of that?
- A. K. Jain:** I have never seen trials failing, multicentric kind of clinical trials and they are largely into the government hospitals and institutions, which are approved again by DCGI and all the trials are regularly monitored by DCGI also and we also monitored the trials.
- Sayan Mukherjee:** Okay. But Sir how big are these two products?
- A. K. Jain:** Normally on each SQ wise we do not give those numbers.
- Sayan Mukherjee:** But, Sir one time, is not a significant number?
- A. K. Jain:** That is quite big.
- Sayan Mukherjee:** Not big Sir?
- A. K. Jain:** Big.
- Sayan Mukherjee:** Okay Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Rahul Jain from Credence Wealth. Please go ahead.
- Rahul Jain:** Thanks for the opportunity Sir. I wanted some understanding on the ODT business, you had mentioned in the last call that you have started registering products and roughly about 30%-40% procurement has happened in the DT part and hopefully the business was likely to commence in this quarter, if you can just throw some light on where we stand on that business and what kind of potentials do we see in this business?
- A. K. Jain:** As far as this DT is concerned, we have already started doing business and business currently is small, but once the global fund business starts, I think the business will have a substantial increase, so hopefully after the fourth quarter we should be able to give you the overall projections of what kind of institutional business is possible in next quarter for the next financial year.
- Rahul Jain:** Sure and can you similarly give some more understanding on the injectable plant where we stand?

- A. K. Jain:** Plant is approved, product is approved, already prequalified and now country registration because only after the qualification you can do country registration, so that process is on, so it will take around six months time to get all the registrations mostly from markets and then business would start, so somewhere registrations say one or two country registration has already come, so as and when procurement happens we would be participating in those kind of procurements.
- Rahul Jain:** Sir typically it is a kind of plant that we have built.
- A. K. Jain:** Yes, right now we are not on any business on injectable in the third quarter of the current year.
- Rahul Jain:** No. I understand that, but what I am trying to understand is given the kind of size of plant peak capacity, in two years, what could be the potential of this particular plant?
- A. K. Jain:** It could go to almost around 70-80 Crores kind of business, it is possible to have that kind of business.
- Rahul Jain:** And ODT can be at around 200-250 Crores?
- A. K. Jain:** It is too difficult to talk, but what kind of global front procurement happens and all that, it is difficult to comment, so I will give you those numbers only whatever my projection of next year in the fourth quarter call.
- Rahul Jain:** Sure and Sir in terms of R&D cost, you could throw some light because it has come down in the current year, so as we stand today in this quarter what has been R&D for nine months and how do you look at it going ahead, earlier it should be around 4% of the sales?
- A. K. Jain:** R&D cost has come down to around 3% of the sales, mainly because let us say currently US is not evaluating the file, so it does not make sense to continuously do the development and pay the all fees last four years, we are sitting on that, so currently those developments are slow, we are developing products for the other market, and therefore the overall R&D cost has come down, but once we get an approval around that time our inspection start, R&D cost will again pickup and it should go to around 4% of the sales.
- Rahul Jain:** Sure and Sir last question, you did mention about remediation cost at around 60 Crores for the current year and in the last call you had mentioned that for FY2020 you are looking towards the figure of around 20-25 Crores, so we stands by the same figure?
- A. K. Jain:** This can be lesser than that.

- Rahul Jain:** Okay. Sure. Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Ashish Thavkar from Motilal Oswal Asset Management. Please go ahead.
- Ashish Thavkar:** Thanks. Sir as regard to the Artemisinin, have the Chinese companies now started to take price hikes and if yes then would it lead to increase in the cost of treatment?
- A. K. Jain:** Currently we are seeing a stability in the prices, so right now the price fluctuations are not too much, in fact as I said commented that currently even some softness is there in the prices and there is also ease on the availability as far as the material is coming from China is concerned. So the kind of that let us say supply chain disturbances, which we are seeing in the first quarter and second quarter, we have not noticed any of those trend in the third quarter in current year, and also supplies are pretty regular now, and as far as Artemisinin is concerned also we have seen that completely the prices are on at stable side.
- Ashish Thavkar:** Fully integrated right on this?
- A. K. Jain:** No, we procure Artemisinin we are not currently producing Artemisinin.
- Ashish Thavkar:** Okay Sir.
- A. K. Jain:** Given all the APIs required for including the Sterile Artesunate and everything we produce ourselves. All APIs from Artemisinin we are producing. Artemether, Arteether, then Artesunate and Sterile Artesunate and BHA, everything we produce, all the products required are producing.
- Ashish Thavkar:** Thanks. The last question on the DT side of the business, so some of the companies have already started getting orders from the WHO since they were already in the market and some companies are also saying that they have been able to retain the market share, so just wanted to add your view on how we should look at this business?
- A. K. Jain:** I already said that yes as far as the global funds are concerned, we have 100% clearances there, so as and when procurement starts we will also be getting orders and hopefully we should do a much better business in institution business in the next year because currently our business is nil and not likely to be there anything and even in the fourth quarter. So hopefully we should be able to do good business once global funds procurement is there. Some procurement must have happened, there is a small here and there, but by and large in this financial year after the tender period was over global fund has not made any kind of significant procurement yes.

- Ashish Thavkar:** So, there are five competitors right, currently in the DT version?
- A. K. Jain:** Yes. There are number of competitors yes.
- Ashish Thavkar:** Okay. Good enough. Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.
- Aditya Khemka:** Thanks for the opportunity. Sir firstly the branded export business that we saw first two quarters I remember we were almost flat Y-o-Y and this quarter we had sort of 40% Y-o-Y growth, what is this driven by is it that the first two quarters you did not get orders for certain countries, this quarter the orders are together bunched up together or is it new product launches, what is driving that growth or is it currency?
- A. K. Jain:** Overall, let us say the first quarter was concerned in most market we did well, there was no much of issue. Second quarter because again this Ind-AS kind of issue coming up where your sales are accounted through a different process, once the goods are received by customer and all shipment issues were here and there, so probably this quarter we are receiving around overall 40%, 41% kind of growth, but in last quarter there was a minus of 9%, it is only because of this tax, by and large invoicing and shipment and those kind of issues and the new accounting process based on Ind-AS and all that, but we see around for the whole of the year around 15% kind of growth on currently it is around 9%, fourth quarter also we will have around 15% kind of overall growth and it is going to be pretty steady.
- Aditya Khemka:** Okay. So beyond this FY2019 also 15% sort of growth is what we see in that market. Okay and how much is currency playing a role there, I understand generally the invoice in dollar, but the currency fluctuations we have take price cuts or price increases depending on how the currency behaves, so what is the current situation there on the currency side?
- A. K. Jain:** Overall let us say in current year if we take completely on overall realization side on various currency basket, we had around 8% increase in the realization in current quarter, but there are some price adjustment also here and there, so overall around let us say I have to say half of it has come as advantage as far as currency is concerned.
- Aditya Khemka:** Got it. So the volume growth you are saying is 7% to 8%. Okay and Sir on the API business side again there was a sharp growth this quarter and you did mention Losartan and Valsartan in Europe, are you selling API in Europe for Losartan and Valsartan and therefore that resultant export API bump up?

- A. K. Jain:** No. Only in Europe, Europe business may be small, but lot of other country businesses are very large.
- Aditya Khemka:** Okay. So this 40% growth this quarter is largely led by Sartan across ex-Europe?
- A. K. Jain:** No. It is not relating in the Sartans only, the basket has overall improved and let us say overall this business has seen those kind of issues last year, and lower business was there mainly because lot of changes we have implemented in our systems and processes, therefore all the clearances and all were getting cleared and now everything is streamlined, so price realizations has also improved overall, so things are far better and we continued to do well even on current base we should have significant growth in the API in the next financial year.
- Aditya Khemka:** So what is the nine month growth in export API this year so far?
- A. K. Jain:** Overall the nine month growth is export API is around 29% from 413-414 Crores to 535 Crores.
- Aditya Khemka:** Got it and next year you were confident of 20% plus growth again in the segment?
- A. K. Jain:** Yes.
- Aditya Khemka:** Should be around that okay and Sir secondly on this US FDA failure to supply from US, now you have got exemptions on two product side, Chloroquine Phosphate I understand is a small market, but figures seems to be a reasonable market, are you participating in that business at all, Furosemide?
- A. K. Jain:** Furosemide, currently we have exemption, we are looking for some kind of partnering with somebody and then producing back, so it is too early, we will maybe I think fourth quarter we should be able to give you update once we finally conclude something.
- Aditya Khemka:** Right and even in Chloroquine Phosphate Sir, I was looking at IMS data, Rising Pharma seem to be the only player selling formulation in that market with 100% market share, so are you not getting any partners for Chloroquine Phosphate despite it being a small sort of product?
- A. K. Jain:** We are working on contract productions and other, so hopefully this kind of things we should be able to conclude little maybe in fourth quarter or so, so we will be able to give you updates only in the next quarter.

**Aditya Khemka:** Okay and Sir again on the IMS side, Sun Pharma shows uptick in market share from what was 1% two quarters back to about 7-8% in HCQS, hydroxychloroquine sulphate, are we getting any profit share from them or how are we able to supply when it is our ANDA?

**A. K. Jain:** Our stocks are nil and we have come out of the Sun Pharma agreement completely.

**Aditya Khemka:** Okay. So now whatever HCQS they are selling is their own product, is that?

**A. K. Jain:** Yes. Not our product.

**Aditya Khemka:** It is not your product. Okay. I understand and on the generic revenue side obviously this quarter was not good, I assume it is UK and Europe causing the disruption, realization as you mentioned, do you feel ex UK, Europe, the rest of the business, what has been the growth?

**A. K. Jain:** Overall the generic business in this particular quarter, there was 3% decline overall from 142 Crores to 139 Crores, so it was there and as far as EU was concerned as against 70 Crores last year we did around 68 Crores, so it may be around 2 Crores decline on that part, whereas the European business has gone up, but UK business is a little down because of these issues and other markets also more or less fixed because last year also there was share of profit from US and other, which is currently not, last year whole year there was around 16.5 Crores share of profit, which is not there in current year, base is there yes.

**Aditya Khemka:** Great and Sir excluding remediation expenses, which you gave good colour on, is there a number you can put on how much cost we are incurring behind the US business in terms of plant, depreciation, operating expenses for which we have no commensurate revenue, it would be across formulation and API businesses right cost?

**A. K. Jain:** Difficult to give number, but two of my formulation plants, which were largely for relating to US, those plants are currently not recovering their cost and that number could be almost around 50 Crores.

**Aditya Khemka:** 50 Crores a year?

**A. K. Jain:** 50 Crores a year.

**Aditya Khemka:** That is the recurring operating expenses, so 50 Crores there and another 60 Crores in FY2019 for remediation.

**A. K. Jain:** That is not only cost recovery, but it is also will have a profit.

- Aditya Khemka:** That will also have?
- A. K. Jain:** A significant profit will also come plus recovery of expenses yes.
- Aditya Khemka:** Obviously, yes, so total of 110 Crores is what we are currently incurring in terms of US FDA registration and operating expenses?
- A. K. Jain:** Yes and all the kind of ANDA maintenance fees and all that, which is also additional cost.
- Aditya Khemka:** How much would that be Sir, any ballpark number there, ANDA maintenance fee, facility registration fee, etc.?
- A. K. Jain:** Around 20 Crores.
- Aditya Khemka:** Another 20 Crores, so 130 Crores, okay and lastly Sir on India business, so this year obviously has been good for us, but FY2018 was a low base given these GST implementation, so could you quantify two things, one is what was the accounting impact of netting GST off return and earlier we used to put exercise in other expenses, so what is the accounting percentage impact in growth?
- A. K. Jain:** See excise last year was 10 Crores only, but on the first quarter, so that is the only number. So as far as the pre-GST period is concerned, we did not give any kind discounts and disrupt the market, we are practically very straightforward, nothing all those kind of adjustments were done in the market and therefore recoveries are also very quick.
- Aditya Khemka:** Understood and last question Sir sorry from my side. There are two acquisitions, PISGAH and Bayshore, could you just update as to what is happening there, what is status and how are those two subsidiaries ramping up?
- A. K. Jain:** As far as PISGAH is concerned, we have the smaller product we are already transferring the technologies for few products there. There are only three products lined up, one product is completed and the other two are lined up, so PISGAH is going very well. As far as Bayshore is concerned, I think in first nine months of the current year they have done I think turnover of almost around \$10 million and they are in process.
- Aditya Khemka:** And \$10 million Bayshore is profitable at the EBITDA line or is it a loss?
- A. K. Jain:** Yes. It is a profit mix.
- Aditya Khemka:** Okay Net profit as well?

- A. K. Jain:** Yes. There is a net profit.
- Aditya Khemka:** Okay and same for PISGah, is it profitable at the EBITDA and profit level?
- A. K. Jain:** No. PISGah because all the technology transfer and other it is taking time, that process is going on, so revenue build up will take some time, so there are losses are there on that, but not in the current year.
- Aditya Khemka:** Okay Sir. Got it and Sir your absolute R&D spend so far for FY2019 would be how much absolute?
- A. K. Jain:** It is around 3% of turnover.
- Aditya Khemka:** 3% total sales.
- A. K. Jain:** Yes.
- Aditya Khemka:** Okay. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.
- Sameer Baisiwala:** Thanks and good morning everyone. Sir you mentioned that for the past data verification, you have done with two sides, one is spending, which is at third side, where it is not done?
- A. K. Jain:** The plant progress is happening here, it is progressing well and March end it should be over yes.
- Sameer Baisiwala:** So is it fair to say that FDA is probably holding on the other two SL because of that plant, is it?
- A. K. Jain:** No.
- Sameer Baisiwala:** And second question on China issue, in the first half we thought it is a very serious issue and it is sort of will take a lot of time, so what happened in Q3 that things have normalized so quickly, I presume the size in China must have been getting shutdown, relocated, etc., so what kind of normalize the whole thing?
- A. K. Jain:** So there was supply chain disturbances were happening and I think lot of those units then subsequent what is their policy and clearances and others, so prices are still elevated, some softening is there, but supply chain disturbances are not there currently.

- Sameer Baisiwala:** So which means that those side continued to manufacture and they have got the pollution licenses?
- A. K. Jain:** Yes. That is true. So prices are elevated. Prices have not come down drastically as prices which have moved down significantly are not coming down, it is a slight softening.
- Sameer Baisiwala:** Okay and so what should be the outlook both on prices and supply from China?
- A. K. Jain:** Our overall supply disturbances would not be there, but prices would remain elevated at current level, minor softening here and there may happen, but it will take some time before the prices tends to start reversing now.
- Sameer Baisiwala:** Okay. Great and Sir final question on capex are you doing anything major here?
- A. K. Jain:** It will remain within depreciation only may be less than 130 to 140 Crores.
- Sameer Baisiwala:** And all of this is maintenance capex?
- A. K. Jain:** By and large maintenance and some balancing or something.
- Sameer Baisiwala:** Okay. Great. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.
- Prakash Agarwal:** Thanks for the opportunity again. So trying to understand R&D investments especially for US better, I understand you will not file now because they will not accept it, but on the R&D centers, which are the key areas where you are functioning in terms of therapeutic or capability and what kind of filings we should expect say once the facilities are cleared?
- A. K. Jain:** Once our filings were around 5, 6, 7, so I think that is the kind of number we will be working in future because mostly it is based on our own API by and large, and you cannot commercialize more APIs than that in a year, currently in our kind of setup, so hopefully these numbers would remain around that level, but currently it is not that you are not accepting they are accepting the files, we have to pay the features and everything, but ultimately it is getting stuck, so it is not giving any advantage currently. So once they start clearing the old backlog after this instructions then only it makes sense to do further filing and incur cost, so last year we have filed some products, but this year we are not filing any, right now, and not investing money on further development for US right now. Any significant expenditure on that, so mostly developments, which are happening for other

market like Europe, Canada, Australia, lot of other markets, South Africa, and Russia, so lot of products are currently on Russian market, so we are incurring the cost in other market.

**Prakash Agarwal:** Okay. Not for US you are saying currently the development work also is not there?

**A. K. Jain:** Yes. Significantly it is scaled down.

**Prakash Agarwal:** And in India like pain clearly we are leaders and segment is growing so well, what are the other key therapies where we are seeing double digit growth and especially for fiscal 2020 where we have laid down the foundations and if there is any MR increase if you can quantify that?

**A. K. Jain:** I think most therapies except our old portfolio may be of 150 Crores and antimalarial, which is continuously declining. We are having good double digit growth.

**Prakash Agarwal:** Across therapies?

**A. K. Jain:** Yes. Across pain is continuously growing, cardiac of course is the number is little lower, but it is growing good not particularly relating to our down therapy, so that is growing very well. Antibacterial, we have significant growth because of the people are now promoting anti-bacterial where the malaria products are there, so same people are promoting, so much more than almost 20-25% kind of growth is we are seeing in antibacterial, same as is also growing, cough and cold is growing therapy, derma we have close to 30% kind of growth, neurology almost growing by 35-36%, ophthalmology growing by 40%, so most therapy what we have is growing except the anti-malarial, which is seeing a decline. Certain old portfolio products, which is around 100 Crores, old portfolios are there, which is in decline phase, so those products are not growing, but otherwise mostly we have double digit growth.

**Prakash Agarwal:** Understood and lastly if you could just help us with the cash and the gross net please?

**A. K. Jain:** I think current cash may be I think as on today is around 370 Crores cash in the balance sheet and that maybe around 550 Crores.

**Prakash Agarwal:** Okay Sir. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment. Please go ahead.

**Pritesh Chheda:** Sir you said 3% is R&D for FY2019, what will be for FY2020, that is first question and second in FY2020 what are the margin drivers that are possible with the company?

- A. K. Jain:** I would say that we have significant operating leverages, the capacity utilization picks up, the margins would be disproportionate and that is what is happening that current year the business is good so overall let us say as against forecast of around 18.5 we are at around 20.5% overall for first nine months as far as EBITDA is concerned. This quarter we are at around 20.5, so overall as the capacity utilization moves up, margins will be much, much better, and most of our segments has good profitability and more profitable business is US and institutional business pick up in next year, hopefully in the fourth quarter of the current year we should be able to give you overall our guidance, but we are very confident that we will have good numbers.
- Pritesh Chheda:** Okay and R&D cost is you said 3% of sales in FY2019, right?
- A. K. Jain:** Yes.
- Pritesh Chheda:** What it would be in FY2020?
- A. K. Jain:** More or less it will remain same because by the time we get an approvals and we starts scaling up it will take some time.
- Pritesh Chheda:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Anik Mitra from Stewart & Mackertich. Please go ahead.
- Anik Mitra:** Good morning Sir. Congratulations for good set of numbers. Sir as you did mention that Valsartan and you are supplying to Europe, market is gradually shifting from Valsartan to Losartan like at least in US, so Sir how do we file the landscape of Valsartan in Europe and other countries, so this is my first question and next one is that as you do not like get product specific breakup, so how do you see like what is the contribution, how much relevant is the Valsartan in terms of your total portfolio?
- A. K. Jain:** So Valsartan has been very small so far, it is only the last tightening quarter, last month in fact in the month of December we could do some kind of some shipments, so it will start picking up, that is what I said and we have a scope to go up to around 7-8 times per month, that is the capacity, some modifications are going on implant, which will become operational by February end, so anything bigger on Losartan would start happening from, but we have let us say after all the issues have happened since our process does not have that kind of impurities we have applied to the European authorities and got an approval and our product does not have those kind of impurity and we have started sampling aggressively and some let us say materials are given to the European suppliers for their initial scale ups

and development of data and other going back to the regulator, so significant gain, which will come only after our capacities are there in completely operations and the customers received again approval after their initial work is done, so there is some time will take, but we will see a great opportunity and we should be able to scale up in next financial year on Valsartan in a big way, it could hedge significant business may be around 70, 80 to 100 Crores of business in the next year, it is possible to be added on that. As far as Losartan is concerned, we are already very, very large producers and we are supplying to Europe and lot of other markets practically, every market we supply except US right now and our production is very large and again I would say that the product also does not have those kind of impurities because our processes are different here.

**Anik Mitra:** Okay Sir and regarding the China issue like they have already discussed, lots of things on this particular issue, so I just wanted to know like how do you see like whether that issue has been permanently resolved like gradually over the period of time, API crisis will come down, how do you see the market?

**A. K. Jain:** Let say we only import, we do not have great amount of intermediate import from China, we only used to import certain starting materials and others. As far as the imports are concerned, (inaudible) 58:15 all intermediates and others in over the years and therefore we have much better margins and others, but certain starting materials they come from China and there those kind of disturbances were there. In last one year also we have developed lot of sources of let us say certain intermediates in India itself and developing and working more and more on that to see that we have more number of suppliers and also lot of them from India. So that focus continued to remain, but what is working general comment, that yes supply chain disturbances are not currently there, prices are elevated, but certain softening are seen, so they are continue to remain elevated, but yes there is some kind of softening in the prices I think may be 5% reductions from that kind of thing, but they are significantly higher.

**Anik Mitra:** Okay. So Sir is it right to interpret that you are like mostly record integrated?

**A. K. Jain:** We also get lot of intermediates developed on third party basis in India itself and where we have our own control so large amount of that happens.

**Anik Mitra:** Okay Sir. That is all from side and thank you so much for taking my questions.

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

**Nitin Agarwal:** Sir you want to make any last comment before we close the call?



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- A. K. Jain:** Again I would say that we have a very strong commitment and we are resolving all the issues and we are online, I hopefully that we should be back in business in US and our institutional business also should have next year a great start, so we are fully committed to that.
- Nitin Agarwal:** Thanks Sir. Thanks for management team and thanks to all the participants who are participating in the call. Thanks and have a good day.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of IDFC Securities Limited that concludes today's conference. Thank you for joining us. You may now disconnect your lines.