IPCA Laboratories
Q1FY23 Earnings Conference Call

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CORPORATE PARTICIPANTS:

Mr. Nitin Agarwal,
Dan Capital Advisors

Mr. AK Jain,
Joint Managing Director

Mr. Harish Kamath
Corporate Counsel and Company Secretary.

Q&A PARTICIPANTS:

1. **Surya Pathra** –Philip Capital
2. **Anubhav Sahu** – Envy Research
3. **Prakash Agarwal** – Axis Capital
4. **Chirag Dagli** – DSP Mutual Funds
5. **Priya Harwani** – Perpetual
6. **Kunal Dhameja** – Macquiry Capital
7. **Dino Pathiparamtil** – Incred Capital
8. **Kapil Agrawal** – ITUS Capital
9. **AbdulkaderPuranwala** – Elara Capital
10. **Mithesh Shah** – Nirmal Bang Securities

Moderator

Good evening, ladies and gentlemen. I'm Kritika, moderator for the conference call. Welcome to IPCA Laboratories Q1 FY23 earnings call posted by DAM Capital Advisors. As a reminder, all participants lines will be in 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 touch-tone telephone. Please note this conference is recorded. I would now like to hand over the floor to Mr. Nitin Agarwal of DAM Capital. Thank you. And over to you, sir.

Nitin Agarwal

Thanks, Kritika. Hi, good evening, everyone, and a very warm welcome to IPCA labs Q1 FY23 post earnings conference call hosted by Dan Capital Advisors. On the call today, representing IPCA labs, Mr. AK Jain, Joint Managing Director, and Mr. Harish Kamath, Corporate Counsel and Company Secretary. I'll hand over the call to Mr. Jain to make the opening comments and then we'll open the floor for questions. Mr. Jain, please go ahead, sir.

Ajit Kumar Jain

Thanks Nitin and Dam Capital for organizing this call. Good afternoon to all participants and thanks for taking our time and joining us for Q1 FY23 earnings call. Today's earnings call and discussions and answer given may include some forward-looking statements based on our current business expectations. This must be viewed in conjunction with risks that pharmaceutical business faces or actual future financial performance may differ from what is projected or perceived. You may use your own judgement on information given during the call. Domestic formulation business for Q1 FY23 has delivered a growth of around 12% from around Rs. 613 crores to around Rs. 685 crores.

Domestic anti-malarial business has shown a significant decline in Q1 by almost around 68% and business from 39.5 crores last year Q1 is reduced to just around 12.6 crores, so excluding anti-malarial domestic formulation business other therapies have delivered almost around 17% growth during the quarter.This is in spite the WIP base pricing increase on domestic schedule formulation benefit was not fully available during the quarter because we were maintaining around 2 months inventories around that time. Prices have become effective only from somewhere in June. We expect the domestic formulations business to grow around 12-13% in current financial year, FY23.

The lower projection for growth in this business is on 2 accounts. We also have higher base of anti-malarial business in Q2 and higher base of anti-bacterial business that we had last financial year due to COVID-19. Our export formulation business was around 14% for this quarter, the business in Sri Lanka, Russia, and Ukraine declined for the quarter because of geopolitical issues and the stock market. For FY23, this business is expected to deliver around 13 to 15% growth. Export generic business for the quarter has declined by around 2% to around Rs. 213 crores from around Rs. 217 croresis mainly because of decline in UK business because of issues with, we have stopped dealing with one of our distributors.

We are confident that in spite of some decline in UK business overall for FY23, the generic business as expected to deliver around 5% growth. Institutional export business of anti-malarial had declined by around 17% in this quarter to around Rs. 97 crores from Rs. 116 crores. We have pressure on this business in FY23 and there may be some decline maybe around 8 to 10% in this business in FY23. API business has shown decline of around 10% for this quarter, is mainly because of sales return of Losartan. And now, EU has come out that there is no risk of azido impurity level that we had earlier in our earlier produced batches.

We have further improved our manufacturing processes to reduce the impurity level to a drastic low level and this API business is expected to deliver around 5% growth in the current financial year.Overall material cost to your overall total income has gone up to alarm of around 34.71% for FY23 as against 33.39% on same period last year. There is an increase of almost around 1.33% on this. Inventories of higher cost procurement are consumed for this quarter. The cost has started coming down. There is a softening trend in the prices of both raw materials and packing materials, but inventories, which were procured earlier was at higher prices. So, mostly that got consumed in this particular quarter.

Expenditure on fuel, travel, export fares are high to a very significant level and the increase in the cost compared to FY22. At the same time, increase in the number of sales staff as well as lower base of expenditure last year due to COVID delta wave resulted in the higher sales promotion and marketing costs. Practically, field staff has worked in last financial year for only two months, so the travel and everything was low. At the same time, we have also increased our sales staff in current financial year. So that is also increasing the promotional costs as well as our field cost.

The EBIDTA margins for the quarter have declined to around 19.5% in our standalone accounts as against 27.1% in the same quarter in last financial year. We have revised our EBITDA guidelines for FY23, are as against 23% last year for the whole of the year 23.25, earlier revision was around 22%, but looking at now, the inflationary pressure we are revising our EBIDTA guidelines to around 21% for financial year. There is a pressure on additional costs due to field staff due to the overall increase in the field strength.

On taxation front, our post-tax profit will decline due to opting for 25% tax as against 18% tax earlier paid in cash and balance tax was paid through past mass credit available to the Company. Since we are now opting for 25% tax, the net credit would not be available and our overall current tax is expected to be around 27% because lot of those kinds of costs, which are there on marketing and sales promotions and CSR and all those will get disallowed. So, as against 25% tax, our overall current tax is likely to be around 27.5% in the current financial year. The deferred tax provision for the quarter is higher by around Rs. 8.76 crores.

This is mainly because whatever earlier net credit was there as a part of books, and there was a higher deferred tax liability was there, the deferred tax liability is coming because we are at lower level because of 25% tax and the net credit that got set off and there is a difference of around Rs. 8.76 crores that has been charged to the P&L account as a part of deferred tax liability. And, therefore, deferred tax liability in the current quarter is higher by around Rs. 8.76 crores. Even the overall business scenario and some details, I now request participants to ask questions.

Moderator

Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask a question. If you would like to withdraw your request, you may do so by pressing * and 1 again. I repeat, ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. We will wait for a moment while the question queue assembles. First question comes from Surya Pathra from Phillip Capital. Please go ahead.

Surya Pathra

Thanks for this opportunity. Sir, just a couple of questions. First of all, let's say the European business cities **[inaudible 00:09:38]** see a kind of a pressure in terms of growth, largely led by UK. So, could you give some more colors, like we had registered around 43 odd products in our own name or rather, we're converting those registrations to our own name. So, what is it to stage of this conversion there and when do we really see the revival of the business in the UK, something on that side?

Ajit Kumar Jain

Let’s say, by the current year end, probably we will be more or less, there'll be some decline, but overall, we will be able to recover in the current year itself as against 43 dossiers, because all these dossiers were registered in distributors name. So, now, we have to get our own registration. So, practically, up to now, we have launched 6 products only in UK and almost around similar number of approvals has recently received. So, next, I think in few months' time, almost around 5 to 6 more products will be launched.

With that, almost around 80-85% of the business, whatever distributors and our own we were doing that we'll be able to recover. And in the course of the year, we expect around 8 to 10 approvals more. So, depending on that approval, hopefully, the business would be recovered. And it's only I think, whatever decline is there, a small decline may remain that will remain in current year. From next year onwards, this business will start doing very well.

Surya Pathra

And is it fair to say this 20% kind of a decline in the overall European business in FY22, because last to do with the European destruction, sorry, UK disruption rather?

Ajit Kumar Jain

That was only last year, where from last year it has started because the distributors, we had business relations for almost around more than 20 years, and we had a significant business with them, but since their financial position deteriorated and their payments started coming late, and as a result of that, we never wanted that business cycle should disturb that way because of payment, and then, you stop dealing with them because the situation was not improving from their side. So, it's only because of payment. There are no as such disputes with the parties or anything of any kind of litigations or those kinds of things. It was only because of payments not coming in time, we have said that we will not be able to do business and then, we will start our own distribution in the UK. So, that's what we have done.

Surya Pathra

Okay. The second question is on the domestic formulation business, sir. So, we had indicated about around 1200 odd people addition for the current year. So, what extent that we have done, and they are also indicating about so the price hike, but possibly in the opening remarks, you've commented something that okay, the full benefit of the price hike was not visible, but whether we were able to take the price hike of around 6-7% on the entire non-CDL basket.

Ajit Kumar Jain

Yeah. That's what is going to happen in current years and in fact, domestic market we are doing very well. More particularly, we have increased the people in metro cities, because almost all bigger cities have expanded largely, and their populations are increasing in these cities. So, our more focus is now towards the city side, and we are increasing our coverage in cities in most divisions. And even in the Q1 itself, by enlarge say Delhi, Calcutta, Mumbai, Hyderabad and Bangalore and Chennai, these cities have registered almost around 23% growth because of overall increase in the field sport. We have improved our ratings, we also improved our market share in domestic market. And as you have seen that excluding antimalarials, our growth is almost around 17% and antimalarial pie in this quarter, I think from 6%, it has come down to 2% in for the quarter.

But our Q2 base of anti-malarial is normally very high because it's around that time all antimalarial sale, but we are not seeing that kind of sales in current year. And we see that there will be a significant decline in antimalarial base even in the Q2 of the current year, and therefore, even though our other businesses will move up, but overall growth will come down because both your antimalarial and antibacterial, these are the two therapy antibacterial because of COVID-19 and delta wave and subsequent infections and all were very, very high and therefore antibacterial were last year for whole industry was good.

And this year, more particularly for your Azithromycin, the business was, we also had Azithromycin brand and that brand is declining current year because of it was significantly used for COVID-19 treatment. So, those issues will continue and because of that, we have taken an overall let's say growth guidelines to 12-13% for this year as against higher guidance of 13-15% kind of guidelines, because of these two declines, yes.

But overall, in domestic market, we are doing very well. And as I guess, 1200 people, overall increase almost around 800 people are already recruited, and I think balance will get recruited in next 2 quarters depending on the overall progress and all. So, almost around 1200 people will increase in the current year, that will also put a little more pressure on your field operating costs as well as on sales promotion cost. These costs will be higher, and normally, it takes around 2 years' time for people to become productive. So, hopefully for domestic, we are doing very well. Our market shares are increasing, most therapies are doing well. So, it's the right time for us to increase our overall penetration in India and that's why this step is taken.

Surya Pathra

Sure. So, just last one question, so obviously, the elevated costs, input costs, logistic and all that gives in a kind of a concern area since some time, and you are also kind of indicating a lower margin for the current year from the earlier guidance, so about 100 basis points kind of lower. So, sure, the commissioning of the Dewas plant and whether the likelihood of benefit flowing from the integrated operation on due to that new plant, whether that will not be seen this year, end of this elevated cost structure is likely to continue entire of this year that is why you are guiding this way or anything else that you're thinking about it for cutting your marketing guidance.

Ajit Kumar Jain

Let's say cost heads. The major cost heads are like say, one is fuel, which has moved up significantly, another is field cost has moved up. Sales promotion cost is moving up. Travel cost last year was hardly any. And now, let's say international and domestic travel so far of corporate staff and sales promotion teams and sales team and international marketing team, all those travels are happening. So, that cost is moving up and another is freight. So, these are the costs, which has mainly contributed; otherwise, all costs are more or less at the same level, but these are the costs which in the Q1 has almost headed almost around Rs. 60-70 crores to the overall cost, which includes fuel itself is around Rs. 12 crores, freight itself is also around Rs. 11 crores.

Field staff cost has gone up by almost around Rs. 14 crore and I think travel itself has gone up by around Rs. 6 crores and balance from sales promotion costs. So, I would say that, as far as fuel is concerned, in Q1 last year, the base was lower. We were procuring coal at around Rs.7-8 which has gone to Rs.15-16-17 in the in between period. Now, coal cost is coming down. It's around Rs.12-13 kind of, from that base, it has come down, but from a base last year of Rs.7-8, it is still at elevated level and is not likely to come down so drastically and its cost is coming down every month. But it's not likely to come down to anywhere near the level, which was prevailing in the Q1 last year.

So, the fuel costs definitely will remain high. Freight, I would say that container costs which has gone to 8-9000 has come down by almost around $3,000 now, but the cost is coming down, but it's also not likely to be what was practically before 1 year those kinds of costs which was prevailing, and costs will remain elevated. As far as my field staff is concerned that cost will remain high because we are adding almost around 1200 people and also because of all these fuel costs has moving up, their travelling allowances and all those kinds of say daily allowances have moved up. So, that cost definitely will remain elevated, will not come down.

Q1 impact is higher because for 30 to 40 days the field staff are sitting at home. There was no travel or nothing and no sales promotion because of Delta wave around Q1 time.And, therefore, this year cost is not after we are comparing 2 months cost with practically 3 months costs. So, the cost increase in the Q1 is higher as compared to in the future. So, in future quarter, the increase may not appear to be that high, but yes, this cost will remain high because of overall increase in people and also increase in that not only your travelling cost, your ticket cost and all that, their allowances have also moved up because of higher petroleum costs, so that will remain elevated.

And freight is coming down, but still it is nowhere nearer to what it used to be there earlier. So, cost pressure will continue to remain. Looking at the cost pressure and looking into overall business and everything, as against 23%, kind of EBIDTA, 23.25% what we had in FY22 or earlier guidanceof 22, but looking at overall overhead and overall field staff increase and other costs, we have further revised our whole working and it's coming out that I think probably we will be able to achieve around 21% EBIDTA for the whole of the year. So, EBIDTA from our last financial year, it's going down by almost around 2.25%. It's not 1%, 1% is from earlier guidelines.

Surya Pathra

Okay, sure sir. I have a couple of questions. I'll be in the queue sir. Thank you.

Moderator

Thank you, sir. Next question comes from Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal

Yeah, thank you sir. Good afternoon. Just clarification. So, your EBITDA margin includes other income, right. I mean, then only we get 19%. So adjusted for quality etc., you're at 17.9%.

Ajit Kumar Jain

Yeah, that's how we calculate.

Prakash Agarwal

And the other clarification is, you mentioned that most of the high-cost inventory is largely consumed in this quarter. And the resultant would be that gross margins would likely to come back to 66-67, or it will have a step function?

Ajit Kumar Jain

Gross margin, definitely, costs are coming down. It's definitely there, but they are not near to the level, which was there earlier here, but let's say you're on domestic market, like say your schedule formulations, now it will be available for whole of the year that price increase and other price increase will also be in the region of almost around 7% in current year. So, overall, it will have an offsetting effect of that. So, that also will come in the overall margin calculations.

Prakash Agarwal

Any expectations sir on gross margins?

Ajit Kumar Jain

Overall, I'm not looking at much of gross margin pressure. More pressure is on the account of the overheads. And also, it seems we have done almost around significant improvements in 3 of our major API in cost reduction and that cost reductions are almost accounting for around 20 to 25% of the cost. And they are major selling APIs where we have new processes and those validations and submissions to the regulatory authorities are happening now.

So, overall, I think maybe in the somewhere in the Q3 and Q4, some of the effects of that also will start coming in, plus they have around 2 big intermediates we were importing from China, that we have completely internalised now, and there will be no more imports of those, except if there is a higher consumption, then some quantity we may import from and that is coming at an overall lower cost, our own internal manufacturing will be at a lower cost. So, that will also have some kind of a positive impact overall on margin.

So as far as gross margins are concerned, I'm not looking for a bigger pressure. Bigger pressure is on account of cost increase because of overall increase in number of field staff and still the cost of fuel, travel and freight they are at elevated levels.

Prakash Agarwal

That is clear sir. So, gross margin actually will improve from here is what I understand. And you have given 21% margin versus 19% in Q1. So, the remaining 9 months, margins should be healthier because of the reasons you said about cost reduction, price increase in India. Are there any big pieces which we are missing?

Ajit Kumar Jain

No, that's what I had talked about. Yeah.

Prakash Agarwal

Okay. And second question is on, you know, the new initiatives you're taking for the India Business. Currently, we see you're having a very strong growth in pain management, cardiovascular, but have we looked at, you know, new initiatives, new therapies, new product launches in India and export markets, anything new segments, we are looking at India API and export markets sir?

Ajit Kumar Jain

I would like to correct you a little. Let's say pain, they are continuously doing well. Even in the Q1 of current year, we had 20% growth on pain. Cardiovascular, our growth was lower. In fact, cardiovascular, anti-diabetic, in Q1, we just had around 5% growth. The reason for that is that we have started two more divisions.

And with that, whenever you do the restructuring, there are disturbances because your doctor-product relationships and all those get disturbed and for some period, some coverage gets missed and all those issues happen. So, we were knowing that since the Q1, because of the overall reshuffling in the overall cardio basket, and that 2 more divisions we have started mainly because of the huge amount of good number of products which are blockbusters, are getting **[inaudible 00:25:40]** and their launches and we are doing very well.

Our overall cardiovascular reach is improving us at consultant level and all, and therefore, we wanted to have furthermore penetrations in these markets, more particularly to increase your overall chronic basket coverage. And therefore, this initiative is taken, but for short-term period, this kind of disturbance is there in Q1 that we had lower growth. Hopefully, we will do better in the Q2 now onwards. So, in fact, our other therapies growths are very good. antibacterial also has declined in this quarter only because of Azithromycin that last year Q1, we had around almost 48 crores business of antibacterial as against this year, we did only 40 crores.

So, these 2 therapies, one is antibacterial and antimalarial, both has declined and cardiovascular has had lower growth because of restructuring. In spite of that, we have 12% growth and excluding antimalarial itself, we have 17% growth. We have overall improved our market share in India and the market share has become almost around 1.85% now.

Prakash Agarwal

Okay. And exports and APS or any new initiative, new product launches or anything in the pipeline?

Ajit Kumar Jain

That's a continuous process is there on new product launches and all that. We are looking for much higher significant business increase in API in time to come with Dewas commissioning and with lot of products, which are commercialized now, on this lot of sampling and other things are done. Hopefully, in 3-4 years' time, our API business itself should be almost around 3 years' time or 4 years' time, maybe around 2000 crores basket.

Prakash Agarwal

Okay. And lastly, on Fiscal 24, since so much development is happening, how do we see the margin playing out for Fiscal 24, just little colour will help.

Ajit Kumar Jain

Let's say by enlarge this one year is a transition period because of all these 1200 people additions and that cost, that is what is putting larger pressure and hopefully, by year end, a lot of good tractions in the market with these people additions will start and next year should be much better because now cost pressures are also reducing, particularly on your chemical side and on the intermediate side, and our own production of certain intermediates and cost reductions on certain API, which are larger in volume terms. So, that will **[inaudible 00:28:32]** to the earlier level.

Prakash Agarwal

Can we come back to 23-24 then? 23-24%?

Ajit Kumar Jain

Around 23 is reasonably possible. We have not done the working right now, but it's possible to achieve that kind.

Prakash Agarwal

Perfect. Thank you so much, and all the best.

Moderator

Thank you. Next question comes from Chirag Dagli from DSP Mutual Funds. Please go ahead.

Chirag Dagli

Thanks for the opportunity. Can you comment on your margins in India currently versus pre-COVID level?

Management Team

Yeah. As far as India is concerned, gross margin, there is not much of a difference. The issue is only increase in the overhead because of additional people what we have added since Q4 of last financial year. This is I'm talking about India formulation business.

Chirag Dagli

Correct. So, just you are broadly.

Moderator

Sorry to interrupt sir. Your voice is too low. Could you please be louder?

Chirag Dagli

Hello. Is it better now?

Moderator

There is some electric noise from your line.

Ajit Kumar Jain

There is a lot of disturbance, sir

Chirag Dagli

I'm actually on my handset.

Ajit Kumar Jain

No, there is still a lot of disturbance.

Chirag Dagli

I will come back again.

Ajit Kumar Jain

Yeah. Thank you.

Chirag Dagli

Thank you.

Moderator

Thank you, sir. Next question comes from Priya Harwani from Perpetual. Please go ahead.

Priya Harwani

Hi. So, first question is like just a clarification on institutional sales. In the dimension, there will be some pressure in FY23. So, what the guidance exactly set for FY23?

Ajit Kumar Jain

Actually, we are not given very big growth numbers, but unfortunately, looking into the current scenario and sourcing and fund allocation and other things by institutions, we feel there could be some reduction in this business compared to the previous year.

Priya Harwani

Okay, okay. And sir second question is on branded formulation business on export size, so you said there was a decline in business in Russia, Ukraine and Sri Lanka. So, how's the situation now, like in July or maybe in mid-August?

Ajit Kumar Jain

Overall, I think we have guided for current year, that this business will grow almost around 15%, 13 to 15%. The business in Russia is happening good. As I have told in earlier, I think we had our I think our Q4 results, that initial period in Russia, the currency fluctuation was very high. Currency went up to very, very high level. Ruble was almost around 120 to 125 level.At that time, we were little slow in shipping. So, practically, we have lost a lot of time in April. So, practically in April, hardly any shipments were there.

And because that would have added it from the past levels of currency, if this kind of levels were there, and for some time, we have stopped even billing there because in Russia, distributor we have said because, otherwise, reimbursement of cost difference would have been too high to them.If we sold at 120 level, then practically, they would have asked the reimbursement of that cost difference to us. So, when currency started stabilizing around at a lower level, then we started billing and then thereafter, the traction has been very good.

In fact, Russian markets are doing very well. So, business definitely is improving. In fact, that inventory level in that market has significantly come down and therefore, business will again move up. It's only in case of Sri Lanka, we have no overdue in Sri Lanka for the matter, because we are getting all the payments in time. Mostly the businesses are happening in LCs, and we have distributors there. They have a very large network and lot of exports also they have and therefore, they are able to overall get the foreign currency and do the business, but businesses are not happening because it's also people's affordability levels.

So, businesses are not happening to the level, which was happening earlier. So, there will be definitely some reduction in Sri Lanka market. In Q1 itself, I lost business of almost around 5 crores in Sri Lanka. So, overall, all markets are doing well and hopefully, we should be able to do almost around 1-15% kind of growth overall in branded promotional market.

Priya Harwani

Okay. Thank you so much.

Moderator

Thank you, Ma’am. Next question comes from Kunal Dhameja from Macquiry Capital. Please go ahead.

Kunal Dhameja

Thank you for taking my question. So first one clarity on the EBITDA margin guidance, we said 21%, but is it including the other income, etc. at guidance?

Ajit Kumar Jain

Yeah. I have clarified that. Normally, we include other income. So, I think probably your method is that you exclude the other income Yeah. So, there are both other incomes and.

Kunal Dhameja

Okay. And on the manufacturing, on the other expenses side, is the Dewas commercialization already included in the Q1 thing or there's some more overhead that can come from there, you know, future quarter.

Ajit Kumar Jain

Dewas, initially, we started production of two intermediates. We have just received the drug license now. I think last 10 days back, we have received the drug license. And now, the process of establishment basis of API as well as their validation basis, that process will happen off around 5 to 6 API. So, from now to March will be the Dewas plant will be doing only the establishment and validations establishing the entire chemistry. They will take the transfer of technologies on your entire analytical methods and manufacturing and all those kinds of practice, training, and by and large they will be only the validation, which would happen, because our first priority to do the validations and thereafter do the stability, because without stability from that plant, you can't ship anything to anybody.

So, next 6 months is practically whole plant will be busy only on the establishment and validations. And once you have, let's say around 6 months, when your stability data, then on the API preview, then you can give a higher kind of stability and shelf life on the product. So, actual business would start happening only from next financial year. Dewas will not contribute to any kind of turnover in current financial year, because unless we generate the data, we will not be able to do business.These data will then be supplied to be filed with regulatory authorities, then we will invite the regulatory authority for approvals and all.

For the meantime, let's say India related business and a lot of other market related business, where those approvals are not required to be taken merely on submission of data, we can start. So, those kinds of businesses will start first. And thereafter, once regulatory inspections happen, then other markets like EUs and lots of those markets like Brazil, Mexico, all those kinds of markets will be added to that. So, that's the process. So, Devas will have to go through that process. So, for some time, these kind of let's say operating losses would be there and that is all factored in our calculations here.

Kunal Dhameja

Okay. And the last one on the India business, so on NADM businesses, you suggested that price increases will kick in from Q2, but on non-NADM piece, have we taken the price increase, or you know, are they still going to pitch in the same Q2 or Q3, or is it currently factored in quarter?

Ajit Kumar Jain

In India business, let's say on 1st April, as government announced the prices on schedule formulations, we've taken the pricing, but that production started in April and by the time they say for 2 months, we have sold our old stocks off with a lower pricing, so practically somewhere, pricing has come effective from June and somewhere from July, but now, everywhere the prices are effective.

As far as the non-schedule formulations are concerned, the prices can be taken, and the increase can be taken in a cycle of 12 months. And most of our cycles are falling in the Q2 and Q3. So, Q1 mean **[inaudible 00:37:40]** that significant, but overall, as we have added around 6 to 7% price increase would happen and that some price increase has happened in Q1 also, but major increases are happening in the Q2 and Q3.

Kunal Dhameja

Thank you and all the best.

Moderator

Thank you, sir. Next question comes from Dino Pathiparamtil from Incred Capital. Please go ahead.

Dino Pathiparamtil

Hi. Thanks for taking my questions, two quick questions. Sir any further update on our US business restarting, anything further?

Ajit Kumar Jain

As far as the US business is concerned, whatever regulatory content, we've already submitted to them, and for all the plants we have made a request for inspection. They have started now visiting India and probably that inspections have started off the companies now, so I think a lot of inspections are currently happening. Hopefully, our plants will also get inspected, but it's very difficult to say that when the inspections would happen, but we understand that there is nothing pending from our side to be given to FDA. So, hopefully, from that end, the US inspections would happen, but when FDA, any day they can come today or tomorrow, anytime they can come. We are ready for it.

Dino Pathiparamtil

Understood. Right. Suppose that inspection happens, and you're cleared, you know, can you immediately start selling some of your old food products immediately in the US market or is it going to be a cycle of fresh approvals product-wise?

Ajit Kumar Jain

Let’s say we are on import alert. So, after inspection, suppose there are some kind of minor observations are there, they need to be replied within certain number of days.

Dino Pathiparamtil

No, no. I'm talking about once everything is cleared. Once the plant is cleared, immediately your old, approved products.

Ajit Kumar Jain

My disclaimer is that nobody's waiting for me. So, I had to go and disturb the market and create the market again. And it's a cycle that some people get tied up for 6 months, some get tied up for 3 months, so whenever they come back for buying, then we start pitching, so it will take some time to get back to the market. So, it's not that from day one the business will start and business will start in a big way. It will take its own time. But we are concerned that we are still able to get higher businesses on those products, because we have cost efficiencies on our major products, and we still have cost leadership, and on those very products, we are further reducing the cost. So, we have the ability to disturb market big way.

Dino Pathiparamtil

Got it sir. One final question on tax rates. So, you were mentioning in the initial comments about the tax, something about the deferred tax liability regarding MAT. So, what is the fuller reported tax rate that you're looking at for this year and also, say for next couple of years?

Ajit Kumar Jain

That's what I have clarified. Earlier, our guidelines were there that probably we will fall in 25% tax rate not from this financial year, but from next financial year, but Supreme Court has come out with the decisions on all those sales promotion costs of past and other things, and because of that judgement, your even past cases, which are there in your appeals and all, whatever assessments are open, let's say 3 years assessments are open and there are certain assessments, which are there in the appeals and all, for small issues, the litigations are there, but now, these cases will be looked, they're fresh and practically, a lot of those possibly get disallowed.

And therefore, we thought that whatever MAT credit available with us, let us utilize that credit for the past disallowances and therefore, instead of opting for the 25% next year, we have opted for this year. So, there are no past liabilities. Past liabilities will get adjusted on your past MAT credit available. From this year, we will be on 25% current rate of tax, but the finance sector has changed practically some kind of that there will be absolutely when you are opting for 25%, there will be no incentive, or no kind of deductions will be there. And finance sector has also come out that whatever say brand recalls and all that are given to the doctors on small values and practically, to remember the brands and all those kinds of things, that will also be likely to get disallowed.

And, therefore, that will also put an additional burden on pharma company. So, we said that as against 25% tax, our tax rate is likely to be around because of disallowances. There could also be mismatch between the book depreciation and IT depreciation. So, the overall tax rate could be around 27.5% in the current year and that tax rate will continue. And then, because of timing difference, there could be deferred tax, but that deferred tax amount is not very large. So, overall, let's say around 27.5 to 28% would be the current tax and deferred tax in the current financial year and future financial years.

Dino Pathiparamtil

Perfect. Thank you very much.

Moderator

Thank you, sir. So, next question comes from a Kapil Agrawal from Itus Capital. Please go ahead.

Kapil Agrawal

Hi sir. Am I audible?

Ajit Kumar Jain

Yeah Kapil. Yes, you're audible.

Kapil Agrawal

I wanted to understand a little better on what's happening around the UK. From my understanding, you were partnering with only 1 distributor in the UK. And when you had a single distributor, you decided to facilitate your own distribution. So, I wanted to understand what are the dynamics that would lead you to not partner with multiple distributors in the UK and why did you decide to, instead of partnering with some other distributors that you decide to distribute on your own?

Management Team

Kapil, we were doing business with this partner when we were nobody in UK. So, our relationship with this distributor is of 25 years. So, from zero, he took us till 300 crores, there was absolutely no issue, but since last two years, the distributor is having its own problem because he also had its own manufacturing facilities in UK. Because of this COVID and Brexit and all, so his own operations is also into some kind of a trouble. So, because of all that, the remittances from him were not coming in time. That is the reason we decided that better we start our own distribution network in UK. So, that is how we started.

Now, we are having already six products in market and another six products will get added during maybe in a quarter or two. Few more products' registration will come before the end of this year. Another few products are under registration. So, going forward, we will have a good number of our own products registered and under market in the UK and we are very confident and whatever business now we are doing is our own business and it is a more predictable business, and it will grow year after year instead of depending on a distributor and we see a good scope in UK market

Kapil Agrawal

Understood sir.

Ajit Kumar Jain

And also doing business in many European countries where we have multiple distributors. We have learnt from UK. So, you should not depend on one distributor. And actually, what happened in UK, we were new, and this distributor came to us and all our dossiers, even though we developed it was registered in his name. So, because of that, we could not start our own distribution immediately, neither we could give those dossiers to somebody else.

Whereas our model in other European market, we are present in many countries. We give product to multiple distributors. They have to exclusively buy from me because it is my dossier, but I am not exclusive to him. I can give same product to any other party. So, that kind of a business arrangement we have in multiple countries, Australia, New Zealand, many of the European countries, Canada, which is our business model.

Kapil Agrawal

Got it. That's it from me. Thank you.

Moderator

Thank you, sir. Next question comes from AbdulkaderPuranwala from Elara Capital. Please go ahead.

AbdulkaderPuranwala

Yeah. Hi. Thank you for the opportunity. So, my first question is on your entire business. So, what is the total number of **[inaudible 00:47:15]** do we have right now? And secondly, did we call out the productivity of these **[inaudible 00:47:21]** would be at par in the next two years?

Management Team

By the end of this current year, more or less we should be having around 6000 sanction pills spent in the market.

AbdulkaderPuranwala

Okay. Yeah. And so, on the productivity front, you know, by what time could we ask to be productive as the current ones?

Ajit Kumar Jain

Our current productivity is around Rs. 4 lakh per rep on an average basis. There are newer divisions where productivities are low. There are older divisions, where productivity is as high that Rs.10-12 lakh Rs.7-8 Lakh. So, it all depends on establishment of brand by their divisions and over a longer period of time as the business gets established, the productivity keeps on rising. So, since we wanted to increase our penetrations, by and large the field force additions are happening and that number one is an existing division to increase the penetrations because our survey suggested that our own internal surveys that overall, we do have lower number of peoples in metro cities where we need to have more penetration metros, all bigger cities are growing faster and there the doctor coverage was a little lower side because of lower field people.

So, one, we have increased more penetrations to the bigger cities and number 2, we have started two more cardiac diseases. We also splitted our Rheumatoid Arthritis division, which is in pain management and created one more division because we wanted to add more number of products in Rheumatoid arthritis segments and all, and with more number of brands coming in, it becomes difficult for a rep to concentrate on that and in a division, you can have only 3-4 power brands. So, brands can grow only if there are more number of power brands and a rep can't concentrate more than 3-4 kind of power brands. So, we needed to create one more division in Rheumatoid Arthritis.

So, basically, it's more metro coverage, more penetrations in Rheumatoid Arthritis and Cardiovascular divisions where the addition of people are happening. Almost around 1200 people are getting added in the current year, out of which almost around 800 are already recruited, balance people are in the process of recruitments and all in the current financial year, so by the year end, we should almost have **[inaudible 00:50:03]** medical reps in the industry.

AbdulkaderPuranwala

Sure sir. Appreciate in that clarification. So, next question is on this API guidance with the year of 5%. Are we factoring an entire normalization of Losartan in the year in this guidance for 5%?

Ajit Kumar Jain

Normally, what happens then when disturbance happens, other suppliers penetrate in between. So, somewhere some Chinese suppliers has also entered into the supply chain. And it takes some time to get back that market back. Even though let's say the regulators has come back and said that whatever our impurity levels were there in parts per million, earlier they have expressed that that could be risk, but now they've come out that yes, absolutely at that level of impurity, there are no risks, but meantime, market got disturbed, because of that guideline. And it took us some time to come up with process.

First, we came out with a process where overall, let's say impurities have come down, but our productivity has drastically gone down because of additional strip of verifications were added, costs were also increasing, but that process was not efficient. So, we were simultaneously working to come out with newer process where we have added a process, where efficiencies are gained back, your capacities are gained back, then also we improve the overall yield factors, thereby reducing the cost. So, that process registrations are on.

So, we will be able to aggressively compete and gain the market share, but it will take some time and therefore, we have overall lowered the guidelines from the current year and Q1, anyway, we have recalled, and those kinds of losses are there on account of lower business and all. So, looking at that kind of things, we have reduced the overall guidelines to a lower level in current year. Hopefully, next year and next three years, as I already guided, we are looking almost from API side around 2000 crores kind of business. And we have those kinds of product pipeline and now, capacity is getting build up for our Dewas plant and all, so hopefully, that journey will perform. We expect to do very well on API in a longer period of time.

AbdulkaderPuranwala

Got it sir. Thank you and wish you all the best.

Moderator

Thank you. Next question comes from Mithesh Shah from Nirmal Bang Securities. Please go ahead.

Mithesh Shah

Yeah. Thanks for taking my question. I just want to repeat the same thing about the tax rate. You said that rate increased from 25 to 27.5% mainly because some of the assets not considered in the depreciation. Is it right?

Management Team

No. Some of the expenses will get the disallowed. For example, CSR expenses, correct. So, in your Profit before tax, you are reducing there, but for income tax, you have to add it back because it is a disallowable level expenditure. Similarly, Mr. Jain said because of the supreme court judgments, certain small recall items, what we use for brand recall and all, those expenses may also get disallowed. Because of all this, the taxation actual rate will be 25 plus another 21/2 %.

Mithesh Shah

But that recall.

Management Team

profitbefore tax.

Mithesh Shah

That recalls are from the export market, right?

Management Team

No. Domestic market.

Mithesh Shah

Domestic market. Okay. Got it. Thanks.

Management Team

So, whatever sales promotion or whatever expenses, you're incurring like brand recall, you give pen, paper weight, such expenses.

Mithesh Shah

Got it. So, that is.

Management Team

Where the name of the brand will be put?

Mithesh Shah

So, that is applicable for the across the industry, right?

Ajit Kumar Jain

Yes, across industry, every player will have to pay higher taxes because all those expenditure will get disallowed under Income Tax Act.

Mithesh Shah

Got it. Thanks a lot.

Ajit Kumar Jain

Law is also amended, and Supreme Court decision has also come. So, both are there. Yeah. The Supreme Court judgement is impacting the past open assessment and your current taxation rates are changing because of budget.

Mithesh Shah

Yeah. And just one more question that 1200 MR’s you are adding, you said that that will be productive in next two years. So, that will be optimal productivity they will reach in the two years?

Ajit Kumar Jain

Normally, a rep takes two years’ time to become productive. That's what our past experience is there. Productive means, I would say that he starts recovering his cost, his supervision costs all the promotional costs we incur on them, and then he starts contributing towards the margin. Till such time let's say his travel cost, his salary costs, by the time he starts giving us the business at a breakeven level and above breakeven level, it will take around 2 years’ time.

Mithesh Shah

Got it. Thanks. That's it from my end. Thanks a lot.

Moderator

Thank you, sir. Next question comes from Anubhav Sahu from Envy Research. Please go ahead.

Anubhav Sahu

Hello. Yeah. Thanks for the opportunity. A couple of questions. One, I probably missed out. What is your overall sales guidance forFY23?

Management Team

It was around 9-10% growth. Yeah.

Anubhav Sahu

9-10%. I mean here also, have you revised down? I mean or.

Ajit Kumar Jain

It's around that, earlier we were talking around 10-11%, so it is 9-10% now, so we are going 1% down.

Anubhav Sahu

Okay, and for domestic business?

Ajit Kumar Jain

Domestic business, we have guided around 12%.

Anubhav Sahu

Okay, and if we exclude antimalarials any numbers you have?

Management Team

It will be higher, anywhere between 17-20%.

Anubhav Sahu

Okay, got it. Second sir, could you tell what would be our utilization level for the facilities, which are impacted by import alerts, like Pitampura, Silvassa and all?

Management Team

There are two formulation facilities, which were having a US FDA approval that is at Silvassa and Pithampur. Pithampur, we are using to some extent for other generic market, whereas Silvassa capacity utilization is bare minimum, hardly anything. Pithampur maybe around 30-35%. Whereas Ratlam capacity, whatever was there, which were using for US market, most of them we have now started using for other markets globally.

Anubhav Sahu

Okay. And for Ratlam, we also did the debottlenecking also.

Management Team

That is correct, yeah. And we have also come out with a new facility at Dewas, which will help in scaling up my API production as and when required for US market including.

Anubhav Sahu

Okay, but Dewas is primarily for APIs, right?

Management Team

It is for API.

Anubhav Sahu

Okay. And sir, what is your use of good Krebs Biochemicals? How do you foresee the business right now and when can we actually break even at the EBIDTA level?

Ajit Kumar Jain

I think Krebs is the listed company. So, it's not good on my part to talk to you on Krebs. I think, probably you can raise the question to the Krebs.

Anubhav Sahu

Okay. Thank you.

Moderator

Thank you. We are having a follow up question from Kunal Dhameja from Macquarie Capital. Please go ahead.

Kunal Dhameja

Thanks for the opportunity again. Just one on the daily allowance, you said that daily allowances for medical reps have increased. So, can you just give some clarity on what was the number before and what is it now?

Ajit Kumar Jain

There are various kinds of allowances. I will not be able to give number, but let's say petroleum cost has moved up. So, their travel costs have moved up. So, somewhere, those allowances are gone up, plus all food prices have moved up. The daily allowances on food and travel have gone up.

Management Team

And 6000 people in field so that will definitely put some pressure on cost.

Kunal Dhameja

So, can you quantify the allowances as percentage in revenue?

Ajit Kumar Jain

Allowances increasedare 10-12%. Yeah. Well, there are two kinds of effects. One is increase in allowances and secondly, increase in field people.

Kunal Dhameja

Numbers.

Ajit Kumar Jain

Both have increased, yeah.

Kunal Dhameja

Both are happening simultaneously, okay. yeah. Thank you. Got clarified

Moderator

Thank you. That would be the last question for the day. I would now like to hand over the floor to Management for closing comments.

Management Team

No, madam. We have answered most of the questions. There are no further comments from our side. Thank you. And thank you all the participants.

Moderator

Thank you. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines sir. Thank you and have a pleasant evening.

Management Team

Yeah, thank you all. Bye

Note: 1. This document has been edited to improve readability
2. Blanks in this transcript represent inaudible or incomprehensible words.