"IPCA Laboratories Limited
Q1 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the IPCA Laboratories Limited Q1 FY2020 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 please signal the Moderator: by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I will now hand the conference over to Mr. Nitin Agarwal from IDFC Securities Limited. Thank you and over to you Sir!

Nitin Agarwal: Thanks Raymond. Hi good morning everyone and a very warm welcome to IPCA Laboratories Q1 FY2020 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 & Company Secretary. I will hand over the call to IPCA management team to take it forward from here. Please go ahead Sir!

A. K. Jain: Good morning, everyone. During the Q1 of the current financial year, our standalone sales number, domestic formulation business had grown by almost around 13% in this quarter, and overall number is almost around Rs.453 Crores as against Rs.400 Crores what we had in last financial year. Export formulations in this quarter was around Rs.245 Crores as against Rs.224 Crores, so around 9% growth so overall, formulation business has grown by almost around 12% in this quarter from Rs.625 Crores to almost around Rs.698 Crores So that is overall formulation number.

On API side, domestic API has grown by around 9% in this quarter from Rs.60 Crores to almost around Rs.65.7 Crores, and export API has grown to almost around 47% in this quarter to around Rs.233 Crores as against Rs.157 Crores in last year and overall API business in this quarter is around Rs.298 Crores against Rs.217 Crores so a growth of around 37%.

Overall domestic business in this quarter, API and formulation put together, has grown by around 12%. And export business, API and formulation put together has grown by around 25%. So exports overall has become around Rs.477 Crores as against Rs.381 Crores in last financial year. So a growth of around 25% and overall turnover of the company, standalone, is Rs.1030 Crores as against Rs.867 Crores in the last financial year.

Overall, if you look at the EBITDA side, we have achieved almost around 19.91% in this quarter as against 17.57% in Q1 of last financial year on a standalone basis. On consolidated basis, our EBITDA is around 19.11% against 17.73% in the Q1 of last financial year.

Overall ratio of the API to overall sales is close to almost around 30% now as against 23%, 24% normal we used to have and that has disturbed a little our overall material cost-to-sales ratio. The material cost-to-sales ratio in this quarter has grown to almost around 35% as against 32% what we had overall in last year but overall, there is a, let us say, personnel cost-to-sales ratio has come down by around 2.58% from 22.5% or almost around 20% level and same case with the manufacturing and other expenses, there also from 27.9%, it has come down to around almost close to 25%, so a reduction of around 3%. So overall, material cost has gone up by 3%, but there was a 6% reduction in personnel costs and manufacturing and other expenses. So overall, there is an improvement in overall EBITDA margins.

Having given the basic numbers, now I will request participants to ask questions.

Moderator: Thank you very much. The first question is from the line of Tushar Manudhane from Motilal Oswal. Please go ahead.

Tushar Manudhane: Sir, just would like to know the remediation cost for the quarter?

A.K. Jain: Our remediation cost for the quarter is around Rs.6 Crores.

Tushar Manudhane: Which was like year-on-year basis?

A.K. Jain: I think the Q1 last year was also around same number.

Tushar Manudhane: And we stick to the overall full year FY2020 remediation cost of?

A.K. Jain: Not more than Rs.10 Crores for whole of the year.

Tushar Manudhane: And this API business, strong growth is primarily led by…?

A.K. Jain: Let us say overall chip-ins are good and also the sartans have also helped us.

Tushar Manudhane: So I just wanted to understand at least, for next two, three quarters, sustainability of this?

A.K. Jain: I do not foresee that your growth numbers could be the same as 49% kind of growth, 47% kind of growth. But yes, growth will be maybe around 20% or so for the whole of the financial year.

Tushar Manudhane: Okay Sir. Thanks a lot.

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

Kunal Dhamesha: Sir, was there any impact of Ind-AS 116 on EBITDA level? PBT level I think it was neutral?

A.K. Jain: Because of the lease accounting, almost around Rs.1 Crore is the lease rentals are going out, and that is adding to the depreciation and interest part. So around Rs.16 lakh, Rs.17 lakh is added to the interest around some Rs.90-odd lakhs are added to depreciation. So that is the impact of the Ind-AS 116 here.

Kunal Dhamesha: So Rs.1 Crores positive impact on EBITDA?

A.K. Jain: Yes.

Kunal Dhamesha: Okay and any update on US FDA you would like to share or whether we have submitted the response for the Ratlam Plant, I think, which was pending and any...?

A.K. Jain: We have already invited for all the plants and we are awaiting inspections. So there is no further update.

Kunal Dhamesha: But the date...?

A.K. Jain: There is no further update.

Kunal Dhamesha: Okay. But the data which we were supposed to submit for Ratlam plant, right?

A.K. Jain: Yes. So we have already invited...

Kunal Dhamesha: So that has been submitted?

A.K. Jain: Yes.

Kunal Dhamesha: Okay and any outlook on institutional business? So I know it is a lumpy business and it was down year-on-year. But in terms of whether we supplied any AL dispersible this quarter or injectable and how do we see that business panning out for the full year? Is Global Fund coming back? Is there any green shoots on that front?

A.K. Jain: Let us say Global Fund business offtake was a little slow, that the order started a little late. Let us say we have, overall, close to around whatever contract values and which is likely to be almost around Rs.90 Crores. So out of that, we have received an order value up to around Rs.28 Crores. But nothing has been shipped in this quarter to Global Fund. So all these business will be going a little latter part.

And as far as institutional business is concerned, first quarter was slow. Overall, we expect that against around Rs.250 Crores of earlier guidelines, what we have given, it could be in the range of around Rs.225 Crores to Rs.250 Crores, whatever. So business could be little less, yes, but we are optimistic about the future by the kind of commitments we have from other buyers and all. Hopefully, in the next financial year, business would be even much, much better, yes.

Kunal Dhamesha: Okay so you said you have Rs.90 Crores of the contract for this year. And do you see that growing significantly next year, the Global Fund contract?

A.K. Jain: It is too early to comment but let us first do performance against the existing contracts as the order comes, and then… we were a large supplier to the Global Fund and hopefully, with the performance going up or our delivery is going in time and everything, probably the allocations will increase in time to come but it is too early to… let us first perform.

Kunal Dhamesha: Okay and this Rs.90 Crores includes the AL disposables and injectable shipment as well?

A.K. Jain: Yes. Injectable also is included, yes.

Kunal Dhamesha: Thank you.

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 geographic. Can you give the geographic breakup of exports?

A.K. Jain: Okay let us say as far as CIS concerned, we have almost around 17% growth in CIS business. As far as Europe is concerned, we had almost around 27% business. Both U.K. has grown by around 19% and EU has grown by 47%. So overall, Europe has grown last year around Rs.53 Crores shipment to almost around Rs.67 Crores shipment, so 27% kind of growth and Canada business was around, as against Rs.5 Crores last year, was around Rs.16 Crores. So overall, that shipment is also good. South Africa was around Rs.17 Crores to Rs.24 Crores.

And overall, let us say, generic business, as against Rs.103.59 Crores, it is almost around Rs.125.57 Crores, yes and institutional business, against Rs.41 Crores, it is around Rs.27 Crores so Institutional business has declined in this particular quarter.

Charulata Gaidhani: Right and how is India business performing? How do you see the Indian market going forward?

A.K. Jain: So our India business was almost a growth of around 13% as against Rs. 400 Crores, it was almost under Rs. 453 Crores, 13% growth. And overall, we see that, yes, around 13% to 15% kind of growth will be there overall in domestic market for the current financial year.

Charulata Gaidhani: Okay. Are you seeing any competition coming up because of the changes in the marketplace and if you could give, how much was the volume growth and price growth?

A.K. Jain: Let us say the Indian market has been always vastly competitive market. So competitive scenarios were always there and will always remain, but we have been continuously growing our business in domestic market and some of our main therapies, like, say, our pain management is significantly outperforming and we have grown by almost around 22% in our pain segment, and we continue to maintain that kind of growth. Our cardiac and diabetic segment has grown by almost around 11% in this quarter. Malaria, there was a decline, and the decline was sharp in this quarter by almost around 23% but our other segments like antibacterial, CNS, Dermatology, Neurology, all the new specialty segments are in double-digit growth and good growth. Antibacterial particularly, we have around 28% growth. CNS, 26% growth. So we have good growth in this kind of overall businesses, so in spite of decline in anti-malarials. We did well overall in Q1 of current year and hopefully, we will maintain the trend.

Charulata Gaidhani: Right. How much was the volume growth and price growth?

A.K. Jain: Our price growth is always in the region of 3% to 4%. So the rest is all volume growth.

Charulata Gaidhani: Okay, fine. Thank you.

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

Prakash Agarwal: Sir, first question on the gross margins. If we see that there is a dip in the gross margins, would it be due to the mix of higher API? Or would it be, as you said, the COGS are higher, what is the function of higher API in business mix?

A.K. Jain: Let us say we have done further analysis of this number. That was almost around 3% increase in material costs, so close to around 2% is coming because of product mix change, like, say your API turnover going up because of significant export increase of 47% in this quarter. So 2% is because of that and 1% is increase in the overall, let us say, APIs and other material overall costs, packing material costs and other costs. So 1% is increase because of that, yes.

Prakash Agarwal: And we are expecting this to normalize, as you said, API would be around 20% growth. So we would expect the mix to normalize soon?

A.K. Jain: Mix to let us say, for last financial year, your overall material cost-to-sales ratio for whole of the year was almost around 31.5% close to that, so little bit this ratio may move up by around 1% because of your API business going up.

Prakash Agarwal: Yes. Okay. And the costs of API...?

A.K. Jain: As far as the formulation business is concerned, most of the rates have also started coming down. So I don't see further any kind of risk to my margin front in the latter part of the year.

Prakash Agarwal: What is coming down, Sir? Sorry.

A.K. Jain: The API rates have also started coming down.

Prakash Agarwal: Exactly my point. So we hear from other companies that API prices are moderating?

A.K. Jain: I do not see any kind of further risk to my margin. That is what I am telling.

Prakash Agarwal: So we should normalize soon?

A.K. Jain: Yes.

Prakash Agarwal: Okay. And Sir, given the pickup in June and July for the India business, and especially for acute where we are also present, are we seeing a much better traction?

A.K. Jain: Yes. I think all the IMS numbers are out and they are growing very well in domestic market, much higher than our Q1 growth.

Prakash Agarwal: Yes. And that anti-malaria also is picking up, no?

A.K. Jain: Anti-malarial, yes at the current quarter, there was a better growth but we are still not able to recover what we had lost in the Q1 of the current year.

Prakash Agarwal: Understood. And lastly, Sir, if I heard that correct, on the anti-malaria tender business, the guidance remains at Rs. 225 Crores to Rs. 250 Crores for the year?

A.K. Jain: Yes. We have earlier given Rs.258 Crores, I am little revising lower here.

Prakash Agarwal: Rs. 225 Crores to Rs. 250 Crores?

A.K. Jain: Yes.

Prakash Agarwal: Despite a very soft Q1?

A.K. Jain: Yes.

Prakash Agarwal: And there was a comment of this Rs.90 Crores is the extra business we will get from next year.

A.K. Jain: If Global Fund commits almost to say that is the kind of indications we have. And we only received order worth around Rs.28 Crores out of that. So that is under...

Prakash Agarwal: And Sir, this is for next year?

A.K. Jain: No current year.

Prakash Agarwal: Current year. And that bakes in the Rs. 250 Crores guidance?

A.K. Jain: Yes.

Prakash Agarwal: And for next year, this number could be around Rs. 300 Crores?

A.K. Jain: Yes. It can exceed also.

Prakash Agarwal: It can exceed also and last question, Sir. On this gross margin, could it be also due to the jump in Europe and especially the U.K. business that we have seen? Is the gross margin could be a function of that also?

A.K. Jain: The gross margins earlier used to be lower. But now as a European business, margins are also quite decent. So that is there but material cost is by and large only because of API ingredients and 1% increase in overall other costs.

Prakash Agarwal: Thank you.

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

Surya Patra: Sir, just wanted to have a sense on what is the kind of funding scenario in the tender business opportunity side in Africa currently and in the institutional business, what is the total opportunity there is currently? And what is the share that we are currently anticipating if you can give some sense about the broader picture of the business opportunity in the visibility on the Global Fund side also?

A.K. Jain: Yes. Global Fund side, we have already talked that. Yes order flow has already started, and we already talked that what kind of commitments we have received. Of course, our allocations are slow with our performance again, those in future, let us say, allocation may increase. So it depends all on performance because it is not only on the price percentage also on the overall performance but earlier, our business allocation was quite large. As our performance goes up, again, let us say, deliveries goes in time and everything happens, hopefully in the future, we can always increase the overall Global Fund business. And as we are aware, that we produce almost all APIs which are required for our Global Fund business and that natural advantage continue to remain with us. So we will continue to do better as far as those businesses are concerned and what kind of allocations that we are getting? That is on the basis we have been talking that in next financial year, our guidance could be much higher than Rs.250 Crores also. Currently, I can only talk of that.

Surya Patra: Okay, Sir. This Rs.250 Crores guidance, it is not including the Global Fund kind of business?

A.K. Jain: No, it includes. No. Because we will start delivering now.

Surya Patra: Okay and regards API business opportunity though we have discussed that ok, the prices have started softening, but if we see Sir recent the past the quarterly performance when the prices were at their peak, the numbers were not that high and possibly, in the recent times, this quarter's number is significantly higher from the trend. So is it that there is a kind of significant volume chunk that you have achieved this quarter, that is why numbers are looking better? Or I could not understand really that okay because there is a ...?

A.K. Jain: The ratio of patents business has gone up in the overall business. Other businesses are also good, I will say that, but ratio of patent business has gone up and because of that also, the overall API business has moved up, and it will continue remain on a higher side, yes. And today, we are the largest deliverer of Losartan in the world today, #1, yes.

Surya Patra: Yes. Sir, do you see any benefit therefore because of the scale benefit and all that, so do you see improvement in the earnings efficiency in the API business visible?

A.K. Jain: Yes. Because higher capacity is also something that is also there and overall the buying efficiencies and other things, so overall, my EBITDA margins on API business is also improving now.

Surya Patra: Okay.and lastly on the India business cracked. Sir, have you witnessed any… so though we have delivered strong numbers better than the industry growth and also guiding for a much stronger number than the industry expectations. So it is completely different than the kind of trend what people are talking about and also there are concerns when highlighted by various players about the trade generic issues and disruptions there and impact on the prices, which possibly would be impacting the margins on the domestic formulation business. So on these effects, what is your say?

A.K. Jain: Let us say that if you look at our performance in Q1, the pain segment is continuously driving. And pain has also almost given us of around 22% growth, which is a significant growth and now pain accounts for more than 45% of our business and both rheumatoid and arthritis and osteoarthritis like say Zerodol is enlisted in brand and continuously going very well. All rheumatoid arthritis brands are leaders in the market place and in that kind of scenario we are continuously outperforming compared to the market and we see that we should be able to maintain that kind of trend on our pain segment and in order to build up further focus on these kind of segments, let us say, we have our main division, which we used to call it a pharma division that also had large number of other products, so that we have like transferred into some other divisions. So the pharma division with 1,000 people is only promoting Zerodol and one antibacterial. There are only two products they are promoting. And because of that, your overall Zerodol sales is fantastic and also, our antibacterial sales growing by around 28% is also because of one of the reason is that is also growing very, very fast again because of focus. So that is also helping company in terms of overall achieving the better number.

Surya Patra: Okay. For the domestic formulation business, there are two things basically: Can you share what would be the share of the generic business in the overall domestic formulation? One. And secondly...

A.K. Jain: We do not do any kind of trade generics, zero.

Surya Patra: Okay. That is pure branded business focus.

A.K. Jain: Yes. Zero business on that.

Surya Patra: And whether you have witnessed any margin kind of erosion for the domestic formulation business over last, let us say, one year or...?

A.K. Jain: Any kind of margin erosion does not happened. The overall, let us say, 1% material cost increase is also there. That is there. No margin erosion has not happened in this quarter.

Surya Patra: Okay Sir. Thank you.

Moderator: The next question is from the line of from Mayank Saranki from Axis Mutual Fund. Please go ahead.

Mayank Saranki: Could you give some clarification on the API sales? You said that you have received about Rs.28 Crores from Global Fund. So has any of that been accounted in the Q1 sales?

A.K. Jain: No, nothing. There is nothing from the Global Fund in the Q1, yes.

Mayank Saranki: Okay and secondly, I wanted to know what is the status of U.K. business right now? Where are we right now in terms of our partners' compliance and our production?

A.K. Jain: They are fully compliant and that is why I think, overall, some business growth has already started in the Q1 of current year. From Rs.34 Crores, around Rs.40 Crores is very marginal change. But yes, it has already started, and that will reflect in the numbers in the next three quarters, yes.

Mayank Saranki: So one should assume a kind of gradual ramp-up or one should assume a step jump up in...?

A.K. Jain: It will be a gradual because there we were out of market for long, and then nobody waits for you. So again, you have to take market share. So it is going to be gradual also. But yes, it will be a good overall number growth wise, but far away from let us say we used to do U.K. almost around Rs.260 Crores, Rs.270 Crores. As against that now, last year, we did Rs.125 Crores, even 20% rises it is still low.

Mayank Saranki: And meanwhile, when we were out at the market, the competition area would have worsened or remained the same and whether the prices hikes in the products that you were?

A.K. Jain: U.K. is always vastly competitive. Anybody starting generic business start with U.K. today. And it is a vastly competitive market. And you have to always work in that kind of scenario but in spite of that, lot of products which have low margins and all, we have discontinued. And we do now business on with different margins.

Mayank Saranki: Okay but the product categories, where you vacated, the prices would not have changed materially. It should not have increased per se?

A.K. Jain: Yes of course. We do not do business unless there is a profit from it.

Mayank Saranki: Yes. lastly, on the API business systems, because API business can be quite lumpy depending on orders coming in. So is this quarter's number of export API, is that something which you would say is sustainable or there could be lumpiness and this number could go trend down going forward?

A.K. Jain: I think the overall API number, we see almost around 20% growth in API as against we were talking about 8%, 9% growth. We see that even in the future quarters, we will perform much better. So the overall growth may not remain like 47%, what we had in overall, this may be around 22% to 23% kind of growth, yes.

Mayank Saranki: And Sir, just to understand what it means when you say sartans and all have done well you are taking market share away from the people whose sartan supplies were contaminated or not in line with compliance...

A.K. Jain: Let us say our Losartan did not mean to have that kind of impurities which the regulators are looking for there are few impurities. That has also helped us to ramp up Losartan business. And Valsaratan, we just started only very small part of shipment is covered in the Q1 of sales, but that will also have the upside even from next quarters.

Mayank Saranki: And just to dig up further within in the exports API, this material would be mostly for the aforementioned end use or end market would be what Europe or...?

A.K. Jain: Europe is there. Then all these the Mexico, Brazil. A lot of other geographies are there. Also, we have good business with Iran and a lot of other countries. So it is basically including CIS. And RA, it is a very, very… the spread is quite wide.

Mayank Saranki: Okay. But these would be probably with long-term relationship types? Or this would be like probably a lot of one-off orders which would have come through because of problems with the their own supplier?

A.K. Jain: Most markets are regulated markets, and changing supply source is too difficult now. It takes a long time. So once you are there with them, you remain on for a medium term, you are there with them. If you are totally incompetitive then somebody will change you, but otherwise, it does not happen. Or if they have there more than one source, then probably the allocation principles are decide that okay, you may get lesser or more. But overall, once you are there on products, relationship remains for a longer period of time.

Harish Kamath: Okay. Sir, lastly, is there any change in the capex numbers for this year and if any thoughts on next year budget?

A.K. Jain: Capex number, I think, Q1, we incurred almost around close to Rs.60 Crores of capex and I think overall number this year is going to be almost around Rs.220 Crores to Rs.230 Crores kind of capex would be there in current year and more particularly, these capexes are required because our API shipments are moving up and now capacity, we need to see that where do we need to do debottlenecking of those kind of capacity, some kind of those incremental capex has happened earlier..

Mayank Saranki: Great. Thanks a lot Sir. Thank you. That is all from my side.

Moderator: Thank you. The next question is from the line of Vishal Sonawne from KK Securities. Please go ahead.

Vishal Sonawne: Sir, you said Global Fund uptick is really slow so is there any reason you want to share? And second, what is the R&D expenses during the quarter?

A.K. Jain: Overall, I said that there was no offtake in Q1 because this business started late for us as against overall, say, what we are looking for Rs.90 Crores in a year against that Rs.28 Crores business is already there in hand to be serviced in, some has gone in the second quarter and further it will go in second quarter.

Vishal Sonawne: So nothing has next quarter?

A.K. Jain: No, the business itself started late because we were not earlier supplier, but there are no supplies to Global Fund. So that has started late and because of that, these effects are there, yes.

Vishal Sonawne: And Sir, what about R&D expenses during the quarter?

A.K. Jain: R&D expenses are around close to 2.5% of the turnover overall.

Vishal Sonawne: And Sir, last question our Pithampur and Piparia plants had losses in last financial year, so what is the situation right now?

A.K. Jain: There is some improvement because the generic shipments are moving up. But I would not say that they are very significant because those capacities are quite large. And it will take some time where these plants are still incurring losses.

Vishal Sonawne: Thanks and all the best.

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

Ashish Thakar: In your early comments, you mentioned you expect the gross margins to normalize over the coming quarters. So your earlier guidance on the EBITDA margins, wherein you were saving 100 to 200 basis point expansion every year. That stays?

A.K. Jain: Yes. That very much stays, yes.

Ashish Thavkar: Okay. Great. And lastly, on this tax rate like we did 18% tax in FY19 and this quarter, we are at 22%. So it would be helpful if you could guide us?

A.K. Jain: But we are a MAT company, so MAT will remain. And earlier, we were not recognizing the MAT credit. If our profits from the tax-free units start moving up, those credits which were not earlier recognized will start coming into play. So overall tax rate will remain in the region of around 20% kind of numbers only.

Ashish Thavkar: Okay. So for FY2020 we should assume 20% as the work in the tax rate?

A.K. Jain: Overall number will be around that.

Ashish Thavkar: Okay. Great. Sir last question on these Valsartan, like you were doing around Rs.2.5 Crores of sales per month. So any update on the capacity expansion there? And what is the run rate? If you could help us.

A.K. Jain: Yes. Some capacities are expanded within the existing plant itself and I think, overall, we have around the increase is tactically to double, so the shipments have started moving up higher now from this particular quarter, Q2.

Ashish Thavkar: Okay. So in Q1, there was a normalized run rate which is 2.23?

A.K. Jain: Yes, the Valsartan shipments will further move up in the Q2, yes.

Ashish Thavkar: Okay and how has low certain shaped up or like we did around Rs.120 Crores in FY2019. So how is that shaping up?

A.K. Jain: Losartan is one of our main products and we are the largest producer of Losartan and we are continuously doing very well there. Losartan has also contributed significantly to our overall API numbers, yes. But normally, we do not give the product-wise sales, so I would not like to comment on product-wise sales.

Ashish Thavkar: Okay. Great Sir. Thanks and all the best.

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

Rahul Sharma: Sir, could you just rerun through the Europe, UK and CIS numbers?

A.K. Jain: Overall, let us say, the CIS business is around Rs.42.5 Crores as against Rs.32.94 Crores, around 29% growth is there and Europe number, if you look at, is around Rs.52.82 Crores last year as against this year, it is around Rs.66.86 Crores, so around 27% kind of growth.

Rahul Sharma: Okay and how has UK been shaping up, Sir?

A.K. Jain: UK from Rs.34 Crores, it has gone to around Rs.40 Crores, so around 19% kind of growth. And yes, the future numbers, it will reflect even better, yes.

Rahul Sharma: Okay. And Sir, anything on the regulatory update on three plants Sir?

A.K. Jain: We have invited FDA to have inspection. So as and when inspections would happen, we are confident that we should be able to come out, yes.

Rahul Sharma: Okay but all the data submission and everything has finished, Sir, have been submitted?

A.K. Jain: Yes. We have invited, so all those actions are taken, yes.

Rahul Sharma: Okay. Any expectation when probably as Q2, Q3?

A.K. Jain: It is difficult to reply.

Rahul Sharma: Okay. Sir, any measures are we taking on improving our productivity on the domestic field force, Sir?

A.K. Jain: That is a continuous process and as we have already said that we do not add too many products. Our main is the focus around the key brands, power brand and that is the reason that we are continuously outperforming the market.

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

Aditya Khemka: Sir, I joined the call a little late, so apologies if I repeat any questions. Sir, on the gross margin side, I heard you saying that it will normalize from the next quarter onwards. Would you care to guide us, I mean this quarter, on a stand-alone basis, your gross margins were 63.6%. Could you give us a number which you feel should be a more sustainable number?

A.K. Jain: Let us say that, in this particular quarter, because of product mix change, let us say, because API shipments are higher, where higher material cost is there. So only 2% is the increase in material cost on that account, yes, because the API shipment -- API sales to that overall sales number is almost 30%, which used to be around 23% earlier. So because of that, there is a -- because of higher API number, overall material cost has gone and overall material cost increase is around 3%. So 1% has come because of overall increase in the overall API. And what I said that, that will get normalize because the API rates have also started coming better, prices are also on lower side. So all other costs are now going down. So I would say that, that will get absolutely normalized. But as far as this product mix change ratio because the API, if it grows by 20%-plus kind of numbers, then some impact will be there on material cost ratios. So overall, we will have a much better EBITDA number.

Aditya Khemka: Correct. Fair enough. So would you also say Sir therefore the export API number of RS.232 Crores that we reported this quarter. Would you say that this is not like a sustainable number or can we still grow off this base for the rest of the year?

A.K. Jain: We will definitely be growing much higher in the API. That is what I said and it can be by 20%-plus kind of growth from whole of the…and it can further surprise also.

Aditya Khemka: Sir, actually, my question was you have done already like 40% growth in the Q1 in API sales, export API. So the rest of the year would be like 30%, 40% growth in that region, which is what basically it will be?

A.K. Jain: I am currently talking of around 20%-plus kind of growth. But it can surprise.

Aditya Khemka: Okay and Sir, on the branded promotional exports, branded generic exports, there, we did about 17% growth in this quarter. What is the outlook for the full year there, Sir?

A.K. Jain: This growth would be because CIS also prices are now dollar, ruble is now favorable. So overall numbers will be around 16%, 17% kind of growth for the whole of the financial year.

Aditya Khemka: Okay and on the subsidiary front Sir. So if I take out your subsidiary financials from the consolidated and the standalone financials, I see that we have a Rs.4 Crores positive EBITDA and a net profit loss of about Rs.1 Crores in subsidiaries. Two questions here, number 1, Sir as per your annual report, both Pisgah and Bayshore were making losses for FY2019. How are they for the Q1 of FY2020?

A.K. Jain: If you look at overall number, let us say, the Onyx has given us around Rs.5 Crores of profit in Q1, Rs.4.98 Crores. Pisgah had made a loss of around Rs.4.5 Crores and Bayshore has made a loss of around Rs.1 Crores. The Bayshore recovery would be very fast. Pisgah recovery will take some time.

Aditya Khemka: Okay. Okay, understood. And also, was Ramdev consolidated for this quarter?

A.K. Jain: Yes. Ramdev is also consolidated in this quarter, yes.

Aditya Khemka: And what was their contribution?

A.K. Jain: …around Q1, because of lot of other things but we have looked into their numbers and also some cleaning up, so there is Rs.0.46 Crores less than Rs.0.5 Crores loss there in Q1.

Aditya Khemka: Less than Rs.0.5 Crores loss in Q1. Okay and Sir, what is the strategic intent of having Ramdev? I mean do we intend to shift some APIs from that plant to Ramdev. If yes, are we filing for those site transfers? If you could talk a little bit about both Pisgah and Ramdev in that context of restarting our US business, regardless of the outcome of US FDA inspection of let us say our sites?

A.K. Jain:: Let us say, first is we have to strengthen the Ramdev, so that process is currently going on. Let us say first focus is to put all the software in place as far as QC is concerned and those work is currently going on. We don't have on, let us say, supply chain management systems and all that. The level of your computerization is very, very low. So we have installed the servers and all that, and that process is going on to put the supply chain management in place and then, to all the SOPs and that systems and processes IPCA has. So implement that at Ramdev. So it is going to be a little slower process of ramping up. Our first criteria is to see that they should be a part of our journey on GMP and thereafter the second process will start of shifting, and all that, and revamping the business and others. So we are in that journey. And it may take a one-year time to be in that journey. So we are working on that and we will only talk after this journey is performed, that how do we really but yes, it is there in our mind that, yes some of the products can be shifted and then faster ramp up can happen but that journey will be taken only after the first journey is completed.

Aditya Khemka: Understood, Sir and Ramdev when it was last audited by US FDA, what was the outcome of that inspection, can you substantiate that?

A.K. Jain: So I think that inspection was Ramdev has not paid any kind of inspection fees and all but it is clear for shipment of API and intermediates, yes.

Aditya Khemka: So last time when they had a GMP inspections what were the observations given to the plant?

A.K. Jain: I think 2 observations were there, and that were cleared, yes.

Aditya Khemka: Okay, understood. And lastly, Sir, if you could guide us to our full year EBITDA margin on a consol basis, because consolidated financials are new to us and we have very little visibility on the profitability of the subsidiaries. If you could hazard a guess on what we should be penciling in for our models for the full year EBITDA margin for IPCA?

A.K. Jain: Let us say, overall, if you look at the business, there are three subsidiaries which are particularly operating subsidy. Onyx will continue to do very well. The run rate will further increase our profits. They are doing very well. And I think that may contribute almost around Rs.20 Crores plus kind of profits for the whole of the year. IPCA will have some kind of losses and I think that recovery will take at least a year's time because the first product technology transfer has happened and then I think it is filed with FDA. So some more time will take because any shipment can start from that facility. And second and third products, that work is going on. So maybe it will take around two or three quarters to complete that journey and then other products are what we are looking for there. So I think IPCA will continue to incur loss at the rate of around Rs.3 Crores to Rs.4 Crores every quarter for next three quarters. And Bayshore recovery would be again, faster. So Bayshore we should be in profit in next quarter. So overall, let us say, it may not add significantly to the overall profits of the company, but it will not also dent overall our standalone number.

Aditya Khemka: Understood. Okay Sir. Thank you and all the best to you Sir.

Moderator: Thank you. The next question is from the line of Cindrella Carvalho from Centrum Broking. Please go ahead.

Cindrella Carvalho: Sir, just wanted to understand what is our domestic strategy in terms of the pain segment where we are doing very well and what are the measures that we have implemented that is driving such a high growth and would it be sustainable?

A.K. Jain: So let us say, there are two subsegments in pain, one is rheumatology and another is osteoarthritis. So rheumatoid arthritis and osteoarthritis. Rheumatoid arthritis we are the leaders in the segment and we have significant market share and practically, nobody's nearer to us. Nobody is even -- we have very high market share in rheumatoid arthritis. We are pioneering in this particular segment in the market, and practically, it is more than 50% kind of market share overall and in fact, this home therapy we have created in the downstream market. Next player in may not even have 10% kind of market share. And we are continuously very high focus on rheumatoid arthritis and we are driving the market, basically, that is the kind of thing.

As far as the osteoarthritis is concerned, the main sales are driven by -- there are 2 brands out there. One is Zerodol and one is Etodolac brand, Etova. So both these brands are driven by, again, by the same... one, Zerodol, is driven by the pain, the main division of the company. And Etodolac is part of my rheumatoid arthritis division. So as far as Zerodol is concerned, in order to have further focus on it, we have Pharma division, we have subdivided into two divisions for this Pharma and another is Pharma Next. All the other brands of cough and cold and other whatever brands, they had 5, 6 brands, they have been shifted from the Pharma division. So Pharma division is only promoting 1,000 people team, is only promoting two brands, one is Zerodol and another is one antibacterial product is there. So therefore, we have also a very significant growth of 28% in antibacterial because that team, which is a major team of the company is focusing only on two brands, so Zerodol and one antibacterial.

Cindrella Carvalho: What is the name, Sir, antibacterial?

A.K. Jain: The product name is Rapiclav.

Cindrella Carvalho: Excellent work there Sir, I mean it is really commendable. And Sir, what will your MR strength as of now in the domestic market?

A.K. Jain: Close to 4,200, in between 4,200 and 4,300, that number keeps on fluctuating but we have increased the overall numbers by around 300 in current year from last financial year, because we have added around 600 people overall in the bifurcation, but 300 people, we have reduced from other divisions overall.

Cindrella Carvalho: So net 300 additions, Sir?

A.K. Jain: So net is the 300 additions, yes.

Cindrella Carvalho: And Sir, when we look at the supply for Valsartan and Lorsartan that we spoke about, just wanted to clarify, is the Valsartan API in-house?

A.K. Jain: Yes. It is in-house, yes.

Cindrella Carvalho: In-house? And Sir, how should we pencil-in numbers for the US kind of supplies for the full year?

A.K. Jain: We don't have any supply to US right now. This is all other than US, all business. We have 0 business with US currently of API.

Cindrella Carvalho: And that Sir, from the new facilities we highlighted that we intend to ramp up the sales, right? So how should we look at that?

A.K. Jain: No. We have not created any new facility. We have bought one company called Ramdev. But first year, we will be, let us say, looking into our system, processes and everything and then we will look into ramp up the kind of things what we want to do there.

Cindrella Carvalho: Okay and Sir, from the Global Fund perspective, you said that this quarter, it was like only some part of the sales was book. So from a full year perspective, how should we look at it? What kind of number should we ...?

A.K. Jain: Earlier, given a guidance of around Rs.250 Crores but looking at the current trend, we see that it could be anywhere between Rs.225 Crores, Rs.250 Crores.

Cindrella Carvalho: Okay. Slightly lower than our expectation?

A.K. Jain: Yes.

Cindrella Carvalho: Okay. And Sir, from the US FDA, we did highlight that we have invited, but I think we had invited US FDA somewhere last year-end or maybe early Jan, right? So we have not heard anything from them as of now?

A.K. Jain: No. We are in touch with them. I would not say that we are not in touch with them and inspections would happen, but when it will happen, I said I can't comment on that.

Cindrella Carvalho: Okay. But we are in constant touch with them?

A.K. Jain: Yes.

Cindrella Carvalho: Okay Sir. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: All my questions have been answered.

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

Prakash Agarwal: Sir, trying to understand R&D spend going forward, given facilities under FDA issues around, so we are not currently investing in a big way. So what is the outlook for next year given the fact that we are still expecting the resolution this year?

A.K. Jain: Let us say the R&D expenditure will increase but currently, it was not making any kind of sense, keep on doing the filings and they are not renewed, keep on paying the fees. So we have reduced that cost currently. But yes, definitely, R&D costs will go on in time to come.

Prakash Agarwal: So it could go back to original 4%?

A.K. Jain: Also the pipeline of products which are to be commercialized and others, but we will ramp up the R&D once again.

Prakash Agarwal: Yes. Sir, it could go back to the original 4% mark?

A.K. Jain: Yes. Those kind of things can happen, yes, but it will be in a gradual process.

Prakash Agarwal: Okay. And secondly, Sir, on the tender business, if I am not wrong, in the past, we have said the margin profile is better than the company average. Would that still hold good given the current environment?

A.K. Jain: Margins have come down a little. But yes, it is still around company EBITDA.

Prakash Agarwal: Around company EBITDA? So because we are expecting some ramp-up going forward, so it would not dilute the margin is what I was trying to understand?

A.K. Jain: It will not dilute the margin.

Moderator: Thank you. The next question is from the line of Kunal Mehta from Vallum Capital. There seems to be no response from the line of Mr. Kunal Mehta. There seems to be no response from the line of Mr. Kunal Mehta, we will move to the next question. The next question is from the line of Kunal Dhamesha from SBICAP Securities.

Kunal Dhamesha: Sir, just one clarification. So when we say our tender business guidance of Rs.225 Crores to Rs.250 Crores, we have baked in fully the Rs.90 Crores commitment that we have got, right?

A.K. Jain: It is one year, so something will go in the next financial year, but there are country tenders and others. So not the entire Rs.90 Crores is taken. It has started from second quarter. So the number will… it is for one year commitment. So one year will happen in the next year. So something of that is there and something is not there.

Kunal Dhamesha: So one year started from April?

A.K. Jain: Yes basically it is all the shipments are starting from the Q2 of current year. So one quarter is ...

Kunal Dhamesha: So one year.

A.K. Jain: So one quarter will be of next year, yes.

Kunal Dhamesha: Okay so effectively, we are baking in around Rs.60 Crores, Rs.65 Crores in our guidance for this financial year?

A.K. Jain: Yes.

Kunal Dhamesha: And out of which, some we have shipped out of this we have Rs.28 Crore shipment.

A.K. Jain: Not in Q1.

Kunal Dhamesha: In Q2, right. Okay. Okay.

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

Tushar Manudhane: Sir, just on the API segment as of now, what would be the capacity utilization?

A.K. Jain: It is planned by this by different utilization. But I think Ratlam plant is almost now close to 80% utilization now, which is a major plant.

Tushar Manudhane: So I just was wondering, so surprise in the API, and the capacity buildup is going to be gradual?

A.K. Jain: Yes. That process is going happening now because a lot of those kinds of debottlenecking exercises are going on there. Therefore, capex are rising little bit.

Tushar Manudhane: And secondly, you might not give the product specific details, but at least the top 3 or 5 molecules in API would contribute how much of the APIs here?

A.K. Jain: Basically, all the three or five will contribute almost around 50%, 55% of the business.

Tushar Manudhane: And sartans category is included in that?

A.K. Jain: Yes.

Tushar Manudhane: Sir, just one more. On Zerodol just would like to understand what would be the volume growth and pricing growth, Zerodol group of products?

A.K. Jain: Pricing growth is around 3% to 4%. Rest is all volume growth.

Tushar Manudhane: Okay Sir. Thanks a lot.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

A.K. Jain: Let us say we are continuously working on to improve overall performance of the company and we are confident that once the regulatory inspection happens, we should be back in the US business soon and the management team is continuously devoting a lot of time on building the quality culture in the company and that is what in future as and when our inspection happens, we should be once again to be having very good substance in the future as far as the US business is concerned. Thank you.

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