"Ipca Laboratories Q4 FY'20 & FY'20 Earnings Conference Call hosted by IDFC Securities"

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MODERATOR: **MR. NITIN AGARWAL – IDFC SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Ipca Laboratories Q4 & FY'20 Earnings Conference Call hosted by IDFC Securities. As a reminder, all participant 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 touchtone phone. Please note this conference is being recorded. And I will hand the conference over to Mr. Nitin Agarwal of IDFC Securities. Thank you. And over to you, sir.

Nitin Agarwal: Thanks, Vikram. Hi! Good morning, everyone and a very warm welcome to Ipca Labs Q4 FY'20 and Full Year FY'20 Earnings Call hosted by IDFC Securities. On the call today we have representing Ipca management Mr. A.K. Jain --Joint Managing Director and Mr. Harish Kamath -- Senior Corporate Counsel. I hand over the call to the management for opening comments and we will open the floor for question-and-answer session. Thank you. Please go ahead, sir.

A.K. Jain: Thanks, Nitin. Good afternoon. Thanks for taking out time and joining us for Q4 & FY20 Results Conference Call. Today's discussion may include some forward-looking statements that must be viewed in conjunction with the risks that our business faces.

I will briefly touch upon some of the "Key Performance Highlights" and then leave floor open for "Question-Answer." Q4 & FY'20 has been strong for the company. Standalone net income has gone up by around 20% to around Rs.1,018 crores and consolidated net income is up around 22% to around Rs.1,087.49 crores. Indian Formulations business in Q4 has grown by around 21% at around Rs.430.96 crores. Export Income during the fourth quarter was almost around 18% up to around Rs.492.66 crores. Standalone EBITDA margins was around 22.29% as against 21.2%, it is up by around 1.08% and consolidated EBITDA margin is also up by around 1.38% overall.

If you look at the key highlights of the financial year 2020, standalone income is up by around 20% to around Rs.4,432 crores. Consolidated net income is up 23% to Rs.4,715 crores. Indian Formulations overall income has gone up by around 16% to around Rs.1,916.61 crores. Exports has been very strong around 24% up to around Rs.2,143 crores. Standalone EBITDA numbers is up to around 22.41% in FY'20 as against 20.75%, so it is up by almost around 1.66% and consolidated EBITDA number is around 21.55% as against 20.05%. So it is up by around 1.5% overall. And overall standalone net profit is at around Rs.652.46 crores and consolidated net number is around Rs.603.56 crores, this is also up by around 36% overall.

If you look at the overall turnover breakups, domestic business is around Rs.431 crores as against Rs.355.7 crores in last financial year.

Exports Formulations if you look at it is around Rs.282.47 crores as against Rs.253.6 crores in last financial year. Overall Formulations business in Q4 is around 713.43 crores as against 609.3 crores. So overall formulations income in Q4 is up by around 17%.

API has done well; it is almost around Rs.275 crores as against Rs.211 crores, up by 30% and overall is up by almost around Rs.1,004 crores as against Rs.833 crores.API is constituting almost around 27.38% after business in fourth quarter as against 25.38% which we had last year and therefore overall the pie of API has gone up in this quarter by almost around 2%.

If you look at the standalone number for the whole of the financial year FY'20, overall domestic income is around Rs.1,912crores as against Rs.1,646 crores in last financial year, up by around 16%.

Export Formulations is around Rs.1,221 crores as against Rs.1,048 crores. And overallFormulations business is around Rs.3,134 crores as against Rs.2,695 crores, is up by almost around 16%.

API domestic business is up by around 24%,Export business is up by 35%and overall API business we have done is around Rs.1,173 crores as against around Rs.885 crores in last financial year.And overall business number is around Rs.4,367 crores as against Rs.3,633 crores. And API business has accounted for almost around Rs.26.86% to the overall turnover which were last year around 24.35%. So overallin pie API business has gone up by around almost 2.51%.

And overall if you look at our captive backed formulations business, we have done a captive backedfor API-based Formulations business of around Rs.1,728.35 crores in current financial year which is accounting for almost around 55% of our business which was last year around 1,454.58 crores,so that was around 54%,so 1% business of the captive API-based formulations has gone up in this particular financial year.

Overall, if you look at our standalone gross profit for the quarter and for the financial year, the gross profit compared to last financial year fourth quarter has gone down by almost around 0.41% and for the whole of the financial year it is down by around 1.96%. And this has been mainly because of input cost increase during the financial year and also higher ratio of API business in the overall business pie. But there has been good improvement in the fourth quarter as against 1.96% gross margins which was down in the whole of the financial year, in Q4 it is only 0.41%.

Overall summing up the performance for FY'20, I would like to say that our focus has been on improving productivity and utilization of assets and brand building. Our net asset turnover ratio has improved to around 2.3% as against 2.04% in last financial year. If you look at our return on capital employed, has improved on a standalone basis to almost around 20.2% as against 16.31% in last financial year and if you look at our consolidated return on capital employed is around 19.63% as against 16.58% in last financial year.The inventory days if you look at it is almost around 107-days as against 108-days in last financial year.It is mainly because we were looking to reduce the inventory but the finished goods inventory in the month of March has significantly moved up because a lot of the consignment which was meant to be exported, they could not be done because of the lockdown situation, as a result of that finished goods inventory has little moved up. If you look at on receivable fronts, our overall receivable in current financial March '20 is around 71-days as against 64-days in last financial year and that is also largely because in the month of March after the Janata Curfew was announced the domestic credit by whole industry has increased by around 10 to 15-days,we have also increased our domestic credit by around 10-days and export receivables also there were issues because most countries that were facing the lockdown situation,so remittances could not come, as a result of that overall debtors has moved up by almost around seven days by and large.If we look at the IQVIA MAT March '20, our domestic market share has significantly improved. If you look at MAT March '20, our market share has gone to almost around 1.67% and our rank has improved to 19 as against MAT March '19 number of market share of around 1.58% and rank which was around 21.So we have jumped the rank from 21 to 19 in overall MAT numbers.

And if you look at our market share in represented market of the molecules we market, there also we have increased our market share from 5.36% to around 5.49%.The top 10-brands in Indian market has contributed almost around 57% of our business as against 56% in last financial year with a growth of almost around 20%.

The cost optimization and process improvement which are the major areas which we are continuously working to reduce the wastages, improvement in reaction efficiencies in API plant. Some of the dedicated plants were taken up for automation. That has given us the good consistency and the output and also lower cost of production.

Thanks for listening me. With this I would like to open the floor for question-and-answer.

Moderator: Thank you very much, sir. Ladies and gentlemen we will now begin the question-and-answer session. The first question is from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.

Aditya Khemka: Sir, what was our total net loss or profit in the P&L for FOREX for the full year?

A.K. Jain: For the quarter the realized gain is around Rs.3.54 crores and we have made a provision for unrealized losses of around Rs.24.41 crores, so overall for the quarter the loss is around Rs.20.88 crores. And if you look at the whole of the financial year, the realized gain is almost around Rs.7.79 crores and overall provision is around Rs.21.75 crores, so overall loss on exchange is almost around Rs.13.96 crores and that is mainly because I think there was significant movement in dollar to 75.66 as against March '19 it was around 69.15. Even though our fourth quarter average realization was around 72, but year-end assets and liabilities and forwards and everything mark-to-market was done at around 75.66. So small losses are there. But by and large now our assets and liabilities are balanced, the FOREX, it is only by and large this loss is relating to certain mark-to-market on forward contracts.

Moderator: Thank you. The next question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: Just trying to understand the domestic formulations business. We have had a strong growth in this quarter of more than 20% and for the full year also over and above 16% last year. So what has led to the strong growth because compared to some of the other domestic peerswe have done much better and how do we look forward for the next year or two to come? And sir in the previous call, you had mentioned about our growth plan and targets and guidance's for next two, three years.Where do we look ourcompany from here on in terms of the growth for the coming two, three years?

A.K. Jain: Overall, if you look at our therapeutic performance of fourth quarter and also for the financial year, if you look at our pain portfolio in the month of March, April has gone by around 26% and overall for the whole of the year, growth is around 20%.Our cardiovascular and anti-diabetic portfolio has grown by around 10%and for whole of the year is also around 10%. Our anti-malarial Malaysian business in the fourth quarter was a little better at around Rs.16 crores as against Rs.12 crores, so it is around 33% growth and for whole of the year this portfolio has grown by around 7%.Anti-bacterial has done very well for us in the current financial year.In fourth quarter, we have growth of almost around 40%in anti-bacterial portfolio and for whole of the year it is around 35%.Anothermain business like CNS has grown by 18% in fourth quarter and whole of the year it has grown by around 20%. Our Urological portfolio has grown in fourth quarter by around 18% and for the whole of the year it has grown by around 24%.And ophthalmology is relatively new business and small business which has grown by around 29% in fourth quarter and overall it is around 38%. So overall business growth in fourth quarter and also for the whole of the financial year has been good for us and that trend is continuing.

Rahul Jain: We are also looking forward for the EC approval for Dewas expansion. You had mentioned in the last call that by June,we are expecting the EC approval and we will do a CAPEX of around Rs.250 crores. If you could spell out the plan for next two, three years in terms of our growth profile?

A.K. Jain: That is the major CAPEX we have planned because on the API front we are continuously facing the capacity constraint.So two or three plants will be put up at Dewasand EC final hearing is over and I think minutes are out, it is only thefinal EC has not come in our hand. And till the time EC come in our hand, we cannot even lay a brick. Hopefully, we are saying that this month end itself or maybe early part of July we should get EC and thereafter we will be able to start the construction maybe by July end or so, finalize the contracts and everything. So monsoon may disturb the kind of schedule thereafter and hopefully some kind of work will start only after September after the monsoon is little settle, and hopefully in this financial year there will be only kind of civil work will happen and most of the installations and other things will then go because we will only get six months to set up the plant in current financial year thereafter. So hopefully the plant will become operational in the next financial year only. Overall I think the CAPEX number in the whole of the year may remain in the range of around Rs.250 crores in current financial year which will also include some of the initiatives we have the solar power and maybe around 20 to 25 crores we will be investing in there.In current financial year also, we have invested in solar and wind power for our captive consumption of around Rs.17 crores. Overall if you look at our guidance for the current year, there are a lot of uncertainties and still there are many places our reps are not able to meet thedoctors and there are a lot of issues still but we will be able to grow in the current year overall maybe in the range of around 14% to 17% in the current year and maybe our EBITDA margins will also improve by around 1.5%.

Rahul Jain: 14% to 17% is for the overall company, right?

A.K. Jain: Yeah, overall company.

Rahul Jain: Any guidance on MR addition this year?

A.K. Jain: We are not adding much of MR in this year because this is not the time to add MR and hopefully we will be working with similar kind of strength in the current year what we have currently.

Rahul Jain: Last thing on the remedial cost. This year if I am right…

A.K. Jain: In the current financial year we have incurred almost around Rs.16 crores and overall I think in this quarter we have incurred around Rs.3 crores on remedial.

Rahul Jain: This year also we will do around Rs.16, 18 crores only in FY'21?

A.K. Jain: I do not think so. Maybe a few crores. So henceforth we will not talk of any remedial cost now.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: What is the actual position of USFDA now?

A.K. Jain: There is no change in the situation still. We have done the remedial, everything and informed to FDA. There are still uncertainties because in current situation the FDA may not visit. So it may take some more time. Very difficult to put any kind of guess work on when they will come and when the plants will get approved, but as far as we are concerned, we are fully prepared and geared up.

Ravi Naredi: Sir, what is the current situation of debtors and stock in current quarter versus March '20?

A.K. Jain: Definitely, there is a significant liquidation for finished products and even there is improvement on realization front. So on both the sides, good improvements are there.

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

Surya Patra: Just two things: First, on the one-off impairment charge that you have built in the quarter, can you just elaborate something on that what is this all about and why at this stage, so if you can add something on that? And secondly, on the HCQS side, whether any number that we have already seen, and even in the running quarter if we have played a kind of important role there for the US? How big is the US market currently?And what share that we are anticipating, something on those lines?

A.K. Jain: On product wise numbers, we do not give but we did reasonably good business in first two months of the current financial year on Hydroxychloroquine. In this month, overall because government was talking about that they are relaxing the restrictions and therefore I think from 25th of May they have started stopped giving the overall DGFT approval and now it is around 17th of June. So the approvals are not coming and neither notification has come. Everybody is stuck up; no consignments are moving except for the consignment for which approvals were given prior to that. So normally after the approvals are there, immediate shipment happen. Hardly a few approvals are there which are little longer period. So in this month, there are uncertainties, but hopefully I think notification should be out in a few days' time and we should be back in the business. As far as the US part is concerned, we have exported some quantity there and it is too early that what kind of market share we gain. We are working hard on that but time only will tell and right now we will not be able to highlight that what market share we are expecting and all what is the market number?

Surya Patra: How big would be the market, any sense on that?

A.K. Jain: Right now I will not be guessing anything because the FDA has withdrawn the emergency use of this particular drug in US and it is a regulatory matter, so I would not like to comment on that.

Surya Patra: Second thing, sir, an interesting aspect that you have said this time what is the captive API based sales that you have achieved in FY'20, so that is 55% versus 54%. But when we talked about captive API, what is the level of integration sir, whether it is just a couple of N-minus 1, N-minus 2 onwards to the API level of integration or to the KSM level or to the intermediate level, so on that front if you can qualitatively share something on that?

A.K. Jain: We are not in a business of let us say the first-to-file and first-to-market. So we do not at N-minus 1at all. Our whole focus is to build the very robust and competitive product and therefore we always look at the products that how do we produce in-house itself or maybe outsource from India itself or get it manufactured, give technologies to others and get it produced from others. And therefore the whole supply chain should remain in our control.That is always the focus. Maybe then when we are starting products, we may import certain KSMs and start,but once the volume start building up, we then take it up KSM also production in-house and we have very good level of integrations on most of our API.

Surya Patra: So that means for most of the key APIs, it is fair to believe that we would be either starting…?

A.K. Jain: Good level of integrations are there and therefore ourinventory days are also a little higher because we have to keep the KSM production,we have to keep the API production and then also formulations production.So inventories are there are at a multiple level because of that. The production of KSMs and intermediates help us to keep the absolutely supply chain in control and cost efficiencies in control.

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

Kunal Dhamesha: So the first question is on the revenue guidance that we have provided 14% to 17%. Does it include the Hydroxychloroquine tailwind? If yes, is it what we have supplied till now or do you expect further addition to what we have supplied?

A.K. Jain: As far as Hydroxychloroquine is concerned, we are a long-term player and we market this productsin a lot of ROW markets for rheumatoid arthritis and osteoarthritis. And it is a large number of countries we market that product.We market this product in European market, in Australia and Canada and now we are exporting also to the US. So it is a very large amount of countries and very wide basket of countries where we market this product. And that is for your rheumatoid arthritis and your lupus.As faras the India is concerned, we also market this drug for diabetes.Because of let us say it is used in COVID, some kind of additional revenue has come in the current quarter.There was hardly any kind of things relating to Hydroxychloroquine in the last 10 days of the month after Trump'sannouncement as a game changer and all that. So there was hardly any shipment of Hydroxychloroquine formulations and all. So practically some kind of additional business has happened in the first quarter.And when we were finalizing our budgets in the month of March, those scenarios were becoming clear. So certain kind of things were factored in our guideline. But we didnot factor the dollar-rupee at 75. Our budget was at a lower level of around 72, 73.So the cost is also increasing because of that and also realizations are also improving. So those things were factored.But there could be some kind of upside because of your overall currency.But because of lockdown and all, certain hits are there in domestic market and overall. So overall, we have factored into all these situations and then came out with the overall guidelines of around 14% to 17% kind of the turnover growth which includes even additional business what we have done on Hydroxychloroquine and also significant government business which we have done in India in the first 45-days of the current year, all orders from government we have completed within 45-days from 1st of April to 15th of May.So that business was close to around Rs.40 crores we have done.

Kunal Dhamesha: So as far as I understood, we still assume some growth to be coming in coming months, right?

A.K. Jain: Yeah, definitely,the marketsare still buying Hydroxychloroquine and those will continue.And as far as India is concerned,the ICMR guidelines are very much clear. This can be used as a preventive,also it is used in the early stages and also when the person in the mild kind of stage. Once a person goes in ICU kind of situation, this drug has no role.

Kunal Dhamesha: On the same guidance that you have provided, if you could just provide more colors in terms of broader moving pieces in terms of export formulations and export API, where do we see those moving pieces in FY'21?

A.K. Jain: Let us say export formulations and API will also have a good growth.Only domestic business part we have projected growth of around 11.5%. API business will continue to have good growth and domestic generic formulations also will have a reasonable kind of growth. Right now I will not be able to give a number. But yes, we have factored all those kind of things and then arrived at the overall guidance.

Moderator: Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

Nikhil Upadhyay: Two bookkeeping questions: One is on the consol,we see a major jump in the depreciation. So if you can just help me understand why that jump has happened so from Rs.45 crores to almost Rs.64 crores? And secondly,because we mergedNoble Chemicals also,so is there additional costswhich would have come up and if you can quantify those costs?

A.K. Jain: As far as Noble is concerned, that NCLT order came in the month of February and then that has been consolidated, but there is hardly any kind of expenditure has come because since then in the month of March there is a complete lockdown and nobody is able to visit. So, we have not done any kind of work on Noble till date. So there are no expenditure except the security cost which is currently there of the land. So there are no costs. And this plant was also not running of Noble. So last 14-years, it was closed. So, we will have to look at a fresh and then start. And this acquisition is largely because it is a low cost land and we are looking for manufacturing large amount of KSM ourselves and future journey of KSMs we want to have from this particular place where a good amount of manufacturing would happen internally. So it will become a KSM site for Ipca in long-term. But, we also applied for environmental clearance and everything, that will still take a long time. So nothing would happen on ground maybe around 1.5-years from now.

Nikhil Upadhyay: And on depreciation the jump?

A.K. Jain: When we had done the Bayshore acquisition, the acquisition cost was almost $10 million around that and by and large it was assigned to whatever ANDAs they were holding. And those ANDAs are depreciated by us in the fourth quarter of the current year by almost around $2 million. So that is based on that. So that has added to the overall depreciation going up.

Nikhil Upadhyay: On a normal run rate, it will be around Rs.44, 45 crores only or this Rs.64 crores would be...?

A.K. Jain: Yeah, that is true.

Nikhil Upadhyay: Can you give the breakup of the different countrywise revenues for full year?

A.K. Jain: Overall promotional markets we have done business of around Rs.77 crores as against Rs.94 crores in last financial year. This business got hit because of shipment could not happen in the month of March…a lot of shipment got delayed. So overall, there is a decline of almost around 19% on promotional market which include CIS, Asia, Middle East, Africa, Latin America and Africa. As far as European business is concerned, there is a growth of almost around 47%. Business is around Rs.75 crores as against Rs.50 crores in last financial year. Australia and New Zealand has grown by around 28% in this particular quarter. Canada has grown by almost around 53% in this quarter. Business is around Rs.22 crores as against Rs.14 crores in last financial year. South Africa has also grown by around 33% to around Rs.22 crores as against Rs.16.5 crores in last financial year. So overall, generic business is around Rs.165 crores as against Rs.117 crores last year. So generic business has grown by around 40% in this particular quarter, but the promotional market business is down by around 19%. Institutional business more or less remain at the same level of around Rs. 40 crores;last year it was around Rs.41 crores. So overall generic business including institutions has grown by around 29% to Rs.204 crores as against Rs.158 crores in last financial year. And overall export formulations business growth is around 11% because of decline in the promotional market business. So overall business is around Rs.282.5 crores as against Rs.253.6 crores in last financial year,so around 11% kind of growth is there in the year. So that is the Q4 number. If you look at the whole of the year number, we did a promotional market business of almost around Rs. 381 crores as against Rs.361 crores last year. So there is a growth of around 6% on that and largely it was hit by the fourth quarter number. And had there been no lockdown, this business also would have grown by around 12% kind of thing because good amount of shipments were hold up. As far as generic businesses are concerned, we have done business of around Rs.659 crores as against Rs.521 crores in last financial year,so around 21% growth is there, of which I think Europe has grown by around 31% to Rs.319 crores as against Rs.243 crores in last financial year. Canada has grown to Rs.78 crores as against Rs.48 crores in last financial year. South Africa has grown to Rs.110 crores as against around Rs.96 crores, so around 14% kind of business growth is there. So overall, generics per se has grown by around 27% because institutions business growth is only 7%,so it is around Rs.176 crores as against Rs.164 crores, so around 7% growth is there in institutions business. So overall generic business has grown by around 22% to Rs.836 crores as against Rs.686 crores in last financial year. And overall export formulations business including branding is Rs.1,222 crores as against Rs.1,148 crores,so around 17% growth is there in that. So these are by and large continent and country-wise numbers.

Moderator: Thank you. The next question is from the line of (Bhaumik Patel) from Canara Robecco Mutual Fund. Please go ahead.

Amit Kadam: It is Amit Kadam. So my first question is are we providing guidance for the tender business for FY '21? Second question is because now government is coming out with this policy to boost API and intermediates manufacturing in India and we have this Noble Explochemacquisition what we did last year,are we going to seriously or maybe just paid up something on this particular thing where we can take this as an opportunity?

A.K. Jain: We are considering certain kind of API even on formulations but not the anti-bacterial and all and certain other APIs. So that definitely will be taken up. But, those will be happening at the current sites, may not happen at the Noble Explochem because Noble will have to go through the complete environmental clearances and other things and that will take a little longer time. And overall, if you look at our institutional business in the current financial year is likely to be around Rs.240 crores or so as against Rs.176 crores in last financial year.

Amit Kadam: So for the API sales because with a strong base of FY '20, we are still comfortable of growing in double digit for FY '21 because we understand there could be a capacity or something hurdle for us to grow in API this year?

A.K. Jain: A lot of debottlenecking exercise has been done by us and that is continuing basis going on. So there will be good growth even on API front in current financial year in spite of reduction in prices of certain sartans.

Moderator: Thank you. The next question is from the line of Bharat Celly from Equirus Securities. Please go ahead.

Bharat Celly: Just wanted to understand how the overall input prices are moving for us? Are we seeing any spike in the prices for KSM or the API or the other ingredients?

A.K. Jain: If you look at the whole of the '20, there are significant jumps in KSM prices in the beginning of the year and then the softening trend started from somewhere after Q2. So that trend has continued even now. So the prices have not moved up to that level. And there is a still softening trend. And as far as the basic materials which we import from China for hydroxychloroquine,those prices have significantly moved. They are starting chemicalwise from around $5. Some of the people have imported at $45, $30, those kind of things from $5. So those kind of the jumps are seen. But, as the numbers of COVID have started coming from January onwards from China and looking at those situations, we have imported those kind of basic materials from China well in advance for much higher inventory levels and therefore we have not paid a single penny extra on the import of those kind of starting material and now prices are normal again. So, as far as we are concerned, we are not impacted, but industry is impacted.

Bharat Celly: So you are saying that for the future shipments also which will be now taking in the future that has already started seeing normal prices, is it correct?

A.K. Jain: Yes.

Moderator: Thank you. The next question is from the line of Manoj Garg from White Oak Capital. Please go ahead.

Manoj Garg: Basically since you have commented about government supply on HCQS for the first two months, so would you like to call upon what could be the total contribution of HCQS in your this 14% to 17% kind of guidance which you are giving for FY '21?

A.K. Jain: Normally, on product numbers, we donot talk. But, as far as the government is concerned, this is in public domain. We have done almost around 12 crores tablet supplies to the various state government and central government over a period of around 45-days and we have realized around Rs.42 crores. So that is the number I can talk. But on exports front and API front and all, I will not be able to give you any number.

Manoj Garg: Second thing with your guidance of 140, 150 bps kind of margin improvement, even in fiscal '21, we would be closer to the average industry margins of around 22%, 23% by fiscal year 2021. While we have seen a lot of improvement in terms of operating leverage over the last few years, how much you feel still the steam left in terms of further expansions in the operating margins going forward maybe beyond fiscal year '21?

A.K. Jain: We still have a lot of room to improve the margins because some of our plants which are more on formulations side are yet to become productive.They are still incurring losses, more particularly my Pipariaplant and SEZ plant. As the utilization of those plants improve after the US resolution, some of the European products and other products we have started taking at those sites and improving.But, significant capacity utilizations on those plants will further improve the margins for us because all costs are incurred also today.

Manoj Garg: On the subsidiary side, like we have seen around 35, 40-plus kind of process in this year. Anything you would like to highlight about that in terms of the path to profitability in those subsidiaries and what could be the timeline?

A.K. Jain: Let us say, there are three major operations -- one is your Onyx, which is there at UK and they do the CRAMS business. They have done very well and they have contributed almost around Rs.18 crores of profit in the current financial year and their growth is very, very good; they have done business of around £8 million and I think around Rs.18 crores kind of profit they have contributed in the consolidation. The two other operations are there -- One is your Bayshore. Bayshore has been acquired by us to become a front-end for our formulations sales in US. Currently, they are doing business which is mainly for trading. Trading margins cannot be very significant. And they contributed in the current year almost around Rs.155 crores of business. But, their overall profit before amortization is just around $2,00,000. So very insignificant profit and we were not really looking for big profits to come from the Bayshore on trading front. If they are able to manage and give some kind of profits on trading and continue that because that acquisition was by and large to become for our front-end for the US and this loss of Bayshore is only because of amortization of cost what we have paid. So that loss is kind of your amortization of those costs, not the real loss what they have incurred. They have contributed some kind of EBITDA to the company. And we donot expect very large profits to come from that operation till the time our operations and they become front end for us. And we have already sent certain kind of shipments of hydroxychloroquine. And as resolutions happen, then they will become front end and then they will start contributing overall to the profitability of the company.The third operations which is there is Pisgah site which is by and large we have acquired for again front-ending the CRAMS business from UK. There are certain projects which we have got.Again, because of this lockdown and those kind of projects are getting delayed and certain APIs we have transferred the technologies and they have done initially piloting and all, but US inspection of that is pending. So those commercialization is also not happening there till the time the US inspection happens. So that is what is the operational losses what they have on that. At the time of acquisition, they have out-licensed certain patent and they were getting over $1 million as royalty, but the party to whom they have given technology, they have significantly lost the market share. So that $1 million royalty has come down to around less than $2,00,000 kind of royalty. So on acquisition price which we have factored, that has taken as an impairment. So almost around Rs.27.6 crores we have taken a hit of impairment charges. And those royalties were very consistent for a very long period of time. So looking at that we have done the factoring around that time of acquisition. But, suddenly the parties to whom they have given this patent out license, they have significantly lost market share and we had to factor that impairment in our balance sheet.So, these are the major operations which we have. So we donot expect much of the profitability to come from Bayshore till the time they…. Onyx will continue to do very well and Pisgahthere will be improvement.

Moderator: Thank you. The next question is from the line of Gaurav Hinduja from GETLCapital.

Gaurav Hinduja: My first question is with regards to your branded export portfolio.Since we saw a marginal dip of 19% this quarter any specific guidance on how we could look at it in the future? And besides the supply chain restrictions, is there anything else we can attribute this dip to?

A.K. Jain: Let us say almost around Rs.26 crores worth of shipments of these markets could not go. So the first quarter will see a very great set of numbers again because these shipments have gone in the first quarter of the current financial year. But, again what would happen is a lot of countries are having lockdown situations and others,and similar kind of situations are being faced in various markets,like say we have Russia as a big market and there again my medical reps are not able to operate and they are not able to meet the doctors and other things. So, some kind of business dip will happen.But that will offset by this additional kind of the business what …and we have projected almost around 12% kind of growth in promotional marketing next year. Had it been a normal situation, this growth because of this Rs.25, 26 crores shipment would have been significant. But, we have factored in all these kind of numbers and then only given you the overall guidance of around 14% to 17% kind of number.

Gaurav Hinduja: My second question is with regard to your CAPEX guidance for next year considering you are planning to add more capacity. So, any guidance on that front?

A.K. Jain: Overall CAPEX number will be almost around Rs.250 crores in the current financial year. Out of this, maybe around Rs.60, 70 crores will be spent on Dewas on the initial startup and civil and all those kind of numbers will be there. Rest maybe around Rs.180, 190 crores will be the normal CAPEX which will also include certain kind of initiatives on your clean energy and your solar which will be almost around Rs.20 crores. And a lot of CAPEX is going on automation part. And also upgradation of certain kind of lab software and a lot of the software upgradations and all. So maybe around Rs.15, 20 crores will be spent on that aspect. And automation expenditures maybe again around Rs.15-20 crores and certain environmental expenditure and all. So by and large, it is a normal kind of CAPEX and also to do the debottlenecking of the capacity which is continuous basis happening particularly on API side. We donot foresee much of the expenditure on formulations side except around Rs.30 crores which we are spending again on our Pithampur site to keep the site ready for significant higher capacities. Once the US resolution happens, that will be the site which will do the more formulations business. So, we are preparing for future.

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

Sameer Baisiwala: Sir, is it possible for you to tell us how did the sartan prices, I mean, at what level it peaked?And from the peak, how much it has come off in Q4 and Q1? And is this normalized or do you see it roll down further in the next couple of quarters?

A.K. Jain: Let us say large fall has happened in Valsartan prices, which used to be almost around $270 to $350 kind of things. Of course at that level we didnot enter into. We entered at much later level. The current price is maybe around $125-150 range. So that is the kind of level has happened. As far as Losartan prices are concerned, they were normalized in last financial year in the Q3, Q4 thing. So maybe around $100-110, that is the pricing which is there.

Sameer Baisiwala: Do you think it is now stabilized or do you think it can go down?

A.K. Jain: They are stabilized,because the Chinese players are now in the full swing also on those kind of products.

Sameer Baisiwala: My second question is on the US business. Sir, just your perspective beyond the remediation,how would be the contours of recovery? Do you need both Ratlam API and Pithampur formulations? And even if one comes on board, you can start the business and how would it ramp up in one, two and three years?

A.K. Jain: We are really not looking at today because first thing first, let the FDA get cleared and then we will be able to talk all that because even if we give numbers and it gets delayed…so let that thing happen and then we will give the guidance, that would be better because then we can perform on those guidelines.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.

Bharat Sheth: Sir, just want to understand from two, three years perspective.When one side we are saying that some of the plants we are not able to make it because it is not fully operational, so it is incurring loss and other side we have acquired Noble Explochem for future expansion. So want to have some kind of your broader understanding, how do we really see and what we are doing to ramp uputilization of these existing plants which are currently not making profit?

A.K. Jain: Let us say three things are there -- One is your formulations which are for domestic market. We donot have much of surplus capacities neither we are setting up the plant because Sikkim plant was expanded in last financial year and that has been suffice for the capacity. So we donot need any kind of capacities neither we have significant surplus capacities as far as domestic formulations plants are concerned. As far as the generic exports are concerned, by and large, Pithampur and Piparia plants, these are two plants were set up for the US exports. Currently, US resolution is taking time. So these are the two plants, which are having a lower capacity utilization and incurring losses currently. As far as API is concerned, we have been continuously talking that our API business has significantly moved;it is almost over Rs.1,100 crores, 1,200 crores kind of business now and it is also continuously growing. And we are facing a lot of capacity constraint as far as API is concerned plus in order to have a lot of supply chain in control for the future and upcoming APIs and API which we are currently importing certain KSMs, we need the kind of CAPEX for API as well as for the key starting materials. So Dewas plant is largely for API side and Noble acquisition is largely for the long-term requirement of my KSMs. So these are not the kind of thing where we have any kind of surplus. On a continuous basis, we need to do the debottlenecking of capacities on API to sustain the order flows and currently what we have. So that is what is currently happening. So, it is only for the formulations plants which were made for generics.There we have surplus capacity.Nowhere else.

Bharat Sheth: On Noble Explochem, since it has been fully acquired, I understand that all environmental related clearances are already there. So where do we start I mean, giving some...

A.K. Jain: Environmental-related clearance process will start now. It is a land with some kind of infrastructure, good civil constructions and those infrastructures are there. But the plant has been closed for last 14-years. So that has to restart for the KSM production. And it was an explosive plant with good nitration chemistry. So lot of those kind of KSMs, which are based on nitration and other chemistries, we will do there, but still I would say that anything starting there on ground will take minimum 18-months from now.

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

Rahul Sharma: What is the R&D spend in the current year?

A.K. Jain: R&D spend is almost around 2.5% in current year because now we are not incurring any kind of cost relating to US.

Rahul Sharma: How much was CAPEX?

A.K. Jain: CAPEX is only Rs.3, 4 crores, all is revenue and revenue cost has moved up.

Rahul Sharma: Sir, I missed out the revenues of some of the key geographies like US, CIS?

A.K. Jain: I will separately provide you those numbers after the call.

Moderator: Thank you. The next question is from the line of Amar Mourya from AlfAccurate Advisors. Please go ahead.

Amar Mourya: My first question would be in terms of the operating guidance which we had given, this includes before FOREX or this is after FOREX?

A.K. Jain: I have said that assets and liabilities are balanced. I have hardly ECB loans of around $19 million as of March. Out of which $9 million would be paid in current year and I think balance would be only say around $10 million to be paid in next financial year. So, there are long-term loans are hardly in balance sheet. And balance is only on the cheaper finance which we take on packing credits in foreign currency and also on the bills discounting. And against that, we have the receivables and all. So by and large as far as balance sheet is concerned, we do not have any kind of balance sheet because if we have $50, $55 million of receivables, around same is the number of import payable, your ECBs and your packing credits in foreign currency. So, rupee/dollar at any level will not impact the overall balance sheet. But, as far as my forwards are concerned, currently, we are hedged at around 47% of our NFE level and the hedge is also at good levels are there. Most of the hedges has happened after the rupee/dollar has moved in. But whatever outstanding were there at March end, certain kind of mark-to-market was provided and that has resulted in around some kind of losses which are Rs.13, 14 crores in the current financial year. But by and large as far as asset/liability basis, we do not have much of balance sheet risk today on account of FOREX.

Amar Mourya: So your OPM guidance what you have given about 150, 170 bps improvement is on FY ‘20 before FOREX or after FOREX what we...

Harish Kamath: It is before FOREX loss or gain.

Amar Mourya: My second question is in terms of the capital expenditure which you have talked about, the Rs.250 crores which you are planning to do now, in which year you think it will commence the operations?

Harish Kamath: Out of this CAPEX, what we are talking for the current financial year, about Rs.40, 50 crores will go for Dewas. That is all startup CAPEX… building, site development and all. The production of Dewas will happen maybe in the year 2022’23. These are all routine maintenance CAPEX and a little bit for environmental and a little bit on solar and wind power energy.

Amar Mourya: So when that CAPEX for Dewas,this capacity, -can give potentially what kind of revenue...?

Harish Kamath: Dewas is a vast land bank. There is scope to further expand that capacity. Initially, we are talking about three API manufacturing plants. Going forward, you can expand that also.

Amar Mourya: What is the tax rate one should assume for full year FY '21?

A.K. Jain: Almost Rs. 300 crores of around MAT credit lying with us and I think another two years, we will utilize those kind of MAT credit. And thereafter we will be around 25%. Currently, because of MAT credit utilization, the tax rate is around 17.5%.

Moderator: Thank you the next question is from the line of Susmit Patodia from Motilal Oswal AMC. Please go ahead.

Susmit Patodia: These times must have been difficult for some of the smaller pharma companies in domestic. So, are you seeing any nice M&A opportunity now…would you be looking at it?

Harish Kamath: We have been always looking at M&A, but so far we have not succeeded in any opportunity wherever we were interested. We keep looking on whatever opportunities there in the marketplace and we are evaluating every opportunity that come to us, but nothing has happened so far.

Susmit Patodia: So the deals are not getting better even in this environment?

Harish Kamath: No.

Susmit Patodia: You said that the R&D spend is down to about 2.5%. So assuming US comes back at some point in time, where do you think this goes and stabilizes?

Harish Kamath: Over a period, it will increase to about 3.5% to 4%. It was our rate when we were doing a lot of work for the US market. It would not go beyond 4%, 4.5%.

Moderator: Thank you. The next question is from the line of Prakash Goel from ICICI Prudential AMC. Please go ahead.

Prakash Goel: I have two questions: One is with respect to, can you summarize the guidance across India, institutional, API, generics and branded?

Harish Kamath: It is very difficult period to give any guidance for India business. But overall, we are confident we will grow our business by around 14% to 17% based on rupee/dollar rate of about Rs.75,that is what we have factored in our budget,that is the only thing what we can say today. And in this growth also, as Mr. Jain said, there is some benefit that has come to us because of sales of Hydroxychloroquine Sulphate between April and May and some more orders are there,as and when the exports get cleared, we will supply those orders also. So there would be definitely some contribution from the sale of Hydroxychloroquine Sulphate which we have factored in our growth what we are giving 15% to 17%.

Prakash Goel: So the additional order which you are mentioning if that gets supplied, 14% to 17% guidance will get...?

Harish Kamath: It will get definitely supplied. In lift of this embargo on Hydroxychloroquine Sulphate by government, there is some confusion. Earlier, we used to get permission to export. Neither the notification of lifting that ban has come nor any approval order to order is coming today. So last 15, 16-days even though we have ready goods, we cannot supply.

Prakash Goel: My second question is impairment in Pisgah. What is the plan ahead and as to why we are...?

Harish Kamath: Whatever that impairment was there, as Mr. Jain said, it was based on the future receivable of the royalty what we factored when the acquisition price was paid. This was one-time. There is nothing left out in that now.

Prakash Goel: And what is the plan ahead,that is the question.

Harish Kamath: Pisgah, as Mr. Jain said, we acquired that unit more for CRAMS-related activities. So several projects are ongoing.But because of this lockdown, there is some delay. Plus three to four products of our own, we will be doing site transfer for manufacturing and sale in the US APIs marketfor which one product we have already filed site transfer application with USFDA. Second product, the application will be filed maybe in this month,another two products are under development.

Moderator: Thank you. The next question is from the line of Anubhav Sahu from MC Research.

Anubhav Sahu: I have a couple of questions: One is what was the capacity dedicated to HCQS before COVID and what is it now?

A.K. Jain: As far as Hydroxychloroquine capacities are concerned, we were earlier producing around 17, 18 MT and current production is around 25 MT. So that is the only change. We didnot increase any capacity on Hydroxychloroquine. That is the installed capacity what we have. And for one-time sales kind of opportunities, you donot incur the CAPEX and increase the capacity because Hydroxychloroquine is a drug which is a very specialized drug only for rheumatoid arthritis. The COVID is a small time business opportunity and whatever businesses we have done with producing at full kind of capacity and also we were holding some kind of stocks that we have converted and did good formulations business. But a lot of people are expanding the capacity. They will repent because it is very difficult to sell these kinds of products unless you do the marketing for rheumatoid arthritis and all that kind of things. We are a global player as far as this product is concerned and we have footprints practically everywhere.

Anubhav Sahu: Whatever we are producing right now, are we getting all the required API for it captively or do we need to source part of it?

A.K. Jain: We produce APIs and also KSM ourselves. We donot depend on anybody else.

Anubhav Sahu: Even for the increased production, you donot need anything from others?

A.K. Jain: We donot depend on anybody.

Anubhav Sahu: For the 1.5% EBITDA margin improvement which you are guiding, would it be largely because of the change in product mix or some operational cost savings also you are accounting for?

A.K. Jain: It is a mix of everything.

Moderator: Thank you. The last question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

Nikhil Upadhyay: Sir, just two things. One is on this institutional business. You said that from Rs.175 crores we would probably reach Rs.240 crores. But do you see any risk that the budgets which are being allocated towards the products and all could be impacted because most of the agencies are devoting a lot of money towards research and fighting COVID as of now. So just to understand this number a bit better.

A.K. Jain: We donot foresee much of risk and it is also additional business which we are currently doing on injectables. That is also contributing to the better growth in current financial year. And that is included in our guidance Rs.175 crores to Rs.240 crores number. And there is a good visibility now because last year the procurement has not happened to that level. So, higher procurements are happening and also additional business which we are currently getting on injectables. So, that is factored and then given the Rs.240 crores kind of guidance. Not much of risk on that.

Nikhil Upadhyay: Lastly, sir, if we look at it like in terms of our CAPEX and a lot of CAPEX we are putting towards API and KSM, now considering if US status quo remains for the foreseeable future because we donot know how FDA will come out and thing and there is too much uncertainty. So keeping that aside, would you say that for Ipca, this API contribution which is around 25%, 26% could probably move to 30%, 35% over the next three, four years and if that is the case when we are selecting the APIs, so would we be the lowestcost producer there in the APIs where we are competing? So if you can just help me understand this over a three to four year period how do we see the mix of API and formulations keeping US status quo as it is?

A.K. Jain: As far as your use of word that lot of CAPEX, we donot have lot of CAPEX as far as API overall is concerned. We are still very conservative as far as CAPEX is concerned. And largely this CAPEX is maintenance CAPEX. It is only say current year around Rs.50, 60 crores may go for Dewas, by and large in civil construction and other and maybe around Rs.200 croresCAPEX will happen a year thereafter for installations and other things. So, that's the thing. But current financial year let us say our depreciation itself is more than Rs.160, 170 crores. So to that extent there is always a maintenance CAPEX. Also we are spending a lot of CAPEX on automation and various products. And that is what I've talked that, yes, we are getting a lot of consistencies and also improvement in overall yields and the much lower cost of production. So that is the focus which we have. And good amount of CAPEX will be spent in current year also on automation. We are also spending good amount of CAPEX and again on upgradation of lab software and lot of other production-related software and maybe around Rs.20 crores will be spent on those kinds of software's in current financial year. So that is a running kind of thing and by and large it is maintenance CAPEX. As far as API visibility is concerned, yes, API business is continuously improving and we will continue to improve. And I think API can become in next two, three years almost around 30% of our business. And by and large we donot select any API unless we are not interested in formulations of that API. So we look that if we are interested in formulations, then only we produce. We donot do work on API if it is only for selling API. So, primary focus of API is formulations. And once we are there in API, then we donot ignore it. So that always help you to know that from which quarter the competitions are coming, what are the cost evolving and continuously work on process efficiencies and others and backward integrations, that helps you to reduce the cost and continuously work. And we keep on filing the variant of API, the processes as the cost reduction keeps on happening. So it is a continuous journey.

Moderator: Ladies and gentlemen, that was the last question. I now like to hand the conference over to the management for any closing comments. Sir, over to you.

A.K. Jain: Let us say overhang for us is only the US FDA and as a management, we are continuously committed to see that this resolution happens and we are focused on that. When it happens?It is not in our hand, but we are fully committed to do that. And thank you so much for participating in the call and sparing so much time.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of IDFC Securities, that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.