# "Ipca LaboratoriesLimited Q4 FY22 Earnings Conference Call"

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**MODERATOR:** **MR. NITIN AGARWAL – DAM CAPITAL ADVISORS**

**Moderator:** Ladies and gentlemen, good day and welcome to IPCA Laboratories Limited Q4 FY22 Earnings Conference Call hosted by DAM Capital Advisors Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nitin Agarwal from DAM Capital Advisors. Thank you and over to you, sir.

**Nitin Agarwal:** Thanks Pranav. Good afternoon everyone and a very warm welcome to IPCA LabsQ4 FY22 Earnings Call hosted by DAM Capital Advisors Limited. On the call today, we have representingIPCA Lab management, Mr. A.K. Jain – Joint Managing Director and Mr. Harish Kamath – Corporate Counsel &Company Secretary.

I will hand over the call to Mr. Jain to make some opening comments and then we will open the floor for questions. Mr. Jain, please go ahead,sir.

**A. K. Jain:** Thanks Nitin and DAM Capital for organizing this call. Good afternoon to all participants and thanks for taking out time and joining us for Q4 FY22 earnings call. Today's Earnings Call and discussions and answer given may include some forward-looking statements based on our current business expectations. That must be viewed in conjunction with the risks that pharmaceutical business faces. Our actual future financial performance may differ from what is projected and perceived. You may use your own judgment on the information given during the call.

Domestic formulation business delivered 27% growth for the quarter from Rs. 433 crores to around Rs. 551 crores for Q4 FY22. Export formulation business recorded a growth of around 3% from Rs. 338 crores to Rs. 346 crores for Q4 FY22. Branded promotional market in CIS market recorded a significant decline due to geopolitical issue in the region and we could not make shipments in the month of end February and March, both the months and did not go and overall promotional market achievement achieved a turnover of around Rs. 103 crores from Rs. 101 crores in Q4 FY22.

Generic business in UK mainly impacted with much lower shipments for distributors in UK as we have started our own distribution army in that country. Building sustainable business on that will take some more time as we get the product approvals in that market. We were marketing almost around 43-44 products of our own. Right now, in our labels, we had just got around 7 registrations which are commercialized, we have got around 6-7 more registrations recently which will be commercialized now and as we get more and more registrations those products will get commercialized there and business will build. The UK business in this quarter declined from Rs. 60 crores to Rs. 20 crores in Q4 FY22. In spite of the above, the generic business excluding institutional business recorded a growth of around 2% for Q4 FY22 to Rs. 164 crores from Rs. 160 crores in last financial year.Institutional business is also impacted due to lower shipment in the quarter to around Rs. 80 crores from Rs. 76 crores in Q4 FY22.

Export API business recorded a decline in business of around 14% to around Rs. 181 crores from Rs. 209 crores. Domestic API business delivered 52% growth from Rs. 50 crores to Rs. 77 crores in Q4 FY22. Overall, API business for the quarter has declined by 15 to Rs. 260 crores to Rs. 258 crores for FY22. API business for Q4 FY22 is impacted due to issue of Azido impurity in certain API which is since resolved and there was certain sales return received during this quarter.

Domestic formulation business has been very strong in this quarter. Our pain management segment has recorded 32% growth for whole of the year. It has recorded around 20% growth. Cardiovascular in this quarter has recorded 13% for whole of FY22, it has recorded 14% growth. Antibacterial in Q4 recorded 43% growth, FY22 almost around 55% growth. Similarly, Cough and Cold has recorded almost around 71% growth for the quarter as against 72% for whole of the year. Derma business recorded 20% growth and for whole of the year, it has recorded almost around 41% growth and similarly Urology has recorded 36% as against 40% for whole of the year, so domestic business in the quarter has been very strong. In MAT March 22, as per IQVIA, our renting has improved to 18 and overall our market share has gone up to around 1.79% of overall India market. The represent market share has also gone up to almost around 4.98%. The COVID-19 spread and broad-based treatment thereafter positively impacted for the year FY22 for Antibacterials, Antimalarials, Cough and Cold preparation and these therapies had delivered during the year very exceptional overall domestic business growth.

Excluding the exceptional business in FY21 relating to Hydroxychloroquine and Chloroquine for COVID treatment, we had achieved a business growth of almost around 13% for FY22. Overall therapeutic contribution in some of the key therapy area for domestic market has been around, Pain is now almost around 49% of the business, Cardio and Antidiabetics around 17%, Antibacterials is around 7%, Antimalarial, Dermatology and Cough and Cold, each contributing around 5%, Urology, CNS are contributing almost around 3% each now.

Impact of higher cost, overall the value addition for the quarter stood at almost around 70% for Q4 FY22 as against 72% in Q4 last financial year and for the full financial year FY22, our value additions have been almost around 68% as against 70% for the last financial year. The Q4 EBITDA got impacted due to impairment in the value of investment of almost around Rs. 22.46 crores provided during the quarter and for whole of the year, we have provided almost around Rs. 39.14 crores as a provision for impairment in value of the investment.

We almost recruited around 500 additional people in marketing in Q4 and that has also resulted in a higher cost and these additional marketing divisions are launched from 1st of

April in the current financial year. During the year, we are recruiting almost around 1,200 additional medical reps and launching 4 more divisions in the domestic market in the current financial year. Higher incentive to field staff:for significant higher achievement of 27% business growth as against the budgeted growth of around 16% has also resulted in overall little higher provision for the incentives to the field staff. Significant higher fuel cost for the quarter, almost the cost has gone up for the quarter by almost around 60% as compared to last year and for the whole of the year, the fuel cost has increased by almost around 49% for the year. Similarly, shipping cost has also significantly gone up. During the quarter, even though our export business has not done a significant addition, but the freight cost has gone up from Rs. 13.7 crores to almost around Rs. 23 crores, Rs. 24 crores and overall, higher wholesale price inflation in economy has also increased overall cost. Having given the broad presentations, now I request participants to ask the questions.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ranvir Singhfrom Sunidhi Securities& Finance. Please go ahead.

**Ranvir Singh:** Sir, my question is related to that Sartan business, so in last quarter we mentioned that due to impurity,the shipment was lower and that normalization happened in last quarter itself, but yet in this quarter also in your commentary, it seems that it is not normal something, so please throw some light on it?

**A. K. Jain:** Let us say, issue got resolved, we have filed the newer process, whatever with modifications and all, but lot of shipments which were made earlier to certain geographies, they have return back, so sales return was higher. These goods will be reprocessed and then reshipped and reshipment will also and therefore in this quarter because of sales return, some sales return may even come in the first quarter of the current financial year. So, for some more time, this will get impacted, but yes, newer shipments have already started and the business got disturbed for almost around 6 to 8 months because of this issue. So, we are also likely to lose some kind of market which will take some more time to regain back.

**Ranvir Singh:** So, what is the quantum of sales return in this quarter?

**A. K. Jain:** I think overall, may be around more than Rs. 20 crores.

**Ranvir Singh:** And sales return is over now or some part remains to?

**A. K. Jain:** I said some more may come in first quarter of the next financial year.

**Ranvir Singh:** And secondly on institutional business, so that also in last quarter, you indicated full year revenue of Rs. 350 crores, this is the full year revenue is considerably lower, you mentioned that shipment was lower, but reason why shipment was lower, that I wanted to understand?

**A. K. Jain:** Say, as against Rs. 50 crores what we have achieved is around Rs. 318 crores, so it is lower because order flow what we were expecting based on our discussions with various agencies that did not materialize. So, order flow itself is very low from institutions around that time because Artemisinin prices has gone up significantly higher and therefore there was a price increase and getting those kind of higher prices and overall flow was slow. Our Artemisinin price which is to exist around $150 has gone up to almost around $250, $260, and therefore consequently prices were also revised. So, what kind of flow was expected that did not happen.

**Ranvir Singh:** Okay, so this is not a case of any part of sales being differed to?

**A. K. Jain:** No, there is no deferment of shipment.

**Ranvir Singh:** And what would you outlook on institutional business for FY23?

**A. K. Jain:** I think FY23 we see, we will see a flat kind of business, may be around, we don't expect much of growth in institutional business for whole of the year.

**Moderator:** Thank you. The next question is from the line of Damayanti Kerai from HSBC. Please go ahead.

**Damayanti Kerai:** Sir, my first question on Indian business, so obviously we have seen exceptional gain as you mentioned during your opening remarks in some of the therapies due to COVID, so on a high base for FY22, how should we look at FY23 growth and if you can split growth into volume growth and new launches contribution that will be helpful?

**A. K. Jain:** Overall, I would say that all businesses have grown because of the COVID because our pain segment is significantly outperforming and it is continuously doing very well and there was no impact of COVID in that kind of segment except a small brand of Paracetamol of ours has shown a good growth of almost around 109%, but Zerodol continue to record almost around 30% kind of growth in the last financial year and overall Pain segment for Q4 has also grown by 32% and overall, in spite of Hydroxychloroquine which was exceptional business last year and that declined, in spite of that Pain has given 20% kind of growth and other therapies like say let us say Derma for the year has grown almost around 41%, CNS 25%, Urology 40%, so these are the therapies which has outgrown significantly to the market, but as far as some of the therapies like Antibacterials, we had almost around 55% growth for the year, Antimalarials had 64% growth and Cough and Cold, we had almost 72% kind of growth. So, these are the segments which are impacted because of the higher businesses because of COVID also. The normal business has also grown, but because of COVID there was exceptional demand in the market for Antibacterials, Antimalarials and also Cough and Cold patients. As far as next financial year is concerned, I think overall domestic business for us may grow almost around 12% to 13% for the whole of the year.

**Damayanti Kerai:** So, 12% to 13% on the base of FY22 looked achievable for FY23?

**A. K. Jain:** Yes. First quarter growth may be little lower because first quarter, in April and May, because of your delta variance spread and all and broad base treatments and all those significant higher offtake of Antibacterials and Cough and Cold, so on that base, the growth may be little slower, but for whole of the year we should be able to do a business growth of almost around 13%.

**Damayanti Kerai:** And sir, quickly on the price hike which was allowed to aniline portfolio that will be taken and if you can confirm that and whatever price increase for non-aniline portfolio, what kind of price hike you are anticipating or you have already taken?

**A. K. Jain:** All in aniline product almost around 10.7% price increase was allowed and I think price increase was announced tactically as last date. Normally, we carry around 2 months inventory because first quarter business is higher, so we normally carry higher inventory around that time and therefore tactically this price increase in the current year will be only available in June because we will be selling the older inventory which is at a lower price. So, for this price increase will be available for at least around 10 months of whole of the year, not for 12 months as far as aniline are concerned.As far as other products are concerned, normally our price increases has been around 6% overall for the whole of the years, we used to have around 6% kind of, but looking at overall wholesale price and inflations which is currently in economy, probably we may be on an average around 8% kind of price increases during the current financial year.

**Damayanti Kerai:** And my last question before I get back in the queue, given we continue to be high pressure on the input cost part, whether it is raw materials part or shipping and freight cost which you also touched upon, so in terms of margins for FY23, what kind of assumptions you are building in right now?

**A. K. Jain:** Let us say, in spite of higher prices in the current FY22, we have been able to have a gross margins of almost around 68% for the year which has come down from 70% in last financial year. 70% was very exceptional because of an additional business on account of COVID, what we did on Chloroquine, Hydroxychloroquine that was at much higher prices, so in spite of your overall significant increase in raw material, I would say that we have been able to maintain the overall gross margin, value addition at almost around 68% and in the fourth quarter of the current year also we had 70% kind of value addition. That is what I said in the initial presentation. So, we don't foresee that there will be any kind of reduction in that part and what I am seeing from market now is there is a significant resistance from the buyers in passing on the higher cost and normally buyers give one-year orders and all those kind of things for the APIs and all. Currently, what we are looking that buyers has apprehension that prices will come down and therefore they are also giving quarterly orders and not committing for the full year deliveries and all those kind of things and similarly it is happening for intermediates also that the intermediate producers are also facing the hit because their volumes are going down and therefore there is indication of lowering the prices in spite of China lockdowns and so many issues and logistic issues and all that. We are seeing the softening of the prices of certain, the key intermediates in the recent time and probably that trend would continue. So, if that trend continues, then overall our gross margin will further restore.

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

**Surya Patra:** Sir, first of all, can you give us an update on the ongoing projects, whether it is the Dewas or the debottlenecking activities in Ratlam, Aurangabad as well as conversion of Ramdev API to intermediate, on these projects what is the kind of status and in terms of utilization for Dewas, how should that we are building for the current year in terms of the utilization and all for both the units?

**A. K. Jain:** At Dewas, we have started the commercial production for one intermediate, second intermediate productions would start right now, maybe in the next quarter. The major plant is the one which is under installations and overall I think that installations and validations would get completed. It is further delayed by 2 months, so maybe I think around July and or August that will get completed and thereafter say all the establishment and validations and the stability batches and all will be taken. It will take almost around thereafter to generate the 6 months stability data, then file with regulatory authorities for approval and regulatory authorities will take some time for approvals and visit the plants and all. So, we don't foresee any kind of significant impact of Dewas coming in the current financial year. Dewas will start impacting our overall performance, may be from the second quarter of the next financial year. Nothing great would come, in fact it will contribute the initial losses because that is the pain in drug industry that you need to do all those kind of work and then, so mean time it will start producing some kind of **_23.23__** just keep on supplying to Ratlam and from there we will increase the overall API output and all, but Dewas would not have significant impact in the current financial. As far as overall I think Aurangabad you had talked about, Aurangabad, there are no issues, it is a normal business, we have installed when one pilot plant is there and the few stages are tactically stabilized and their yields has gone up by almost around 20%. Few more products are under currently here, trials are going on and we expect significant improvement in that also, but some of the stages where there are high amount of tactically phosphorous oxychlorides were used, those we are facing a problem relating to your MOC issues and we are still not able to resolve in spite of taking up with all the kind of companies in domestic and international even so that issue is still there, but on the other reactions and all, we are seeing good amount of progress happening there and as far as Ratlam debottleneckings are concerned, yes, that has been completed and commercial productions has already started.

**Surya Patra:** About Ramdev?

**A. K. Jain:** Ramdev, that journey is going on almost around 5 to 6 products are validated there now and we have started filing those with the EDQM and other authorities that filings has already started, I think in current year we may do almost around 8 to 9 filings and once those kind of approval start, then European and other business will start from that plant. Meantime, right now it is serving to the domestic industry.

**Surya Patra:** Sir then, overall in terms of annually what you generally mentioned about the integration levels for your activities with your captive operations, so can you share that what is the level of integration now currently?

**A. K. Jain:** It is almost around 56%.

**Surya Patra:** So, 56% is for formulation?

**A. K. Jain:** Our turnover is coming from captively backed API.

**Surya Patra:** Sir, my second question is on the overall export performance, so you mentioned that you had shipment problems during the last 2 months of the quarter and hence there was a kind of impact, so that is clearly visible, so apart from the stronger growth in the domestic formulation which was severe, otherwise all other segments, whether it is API or export formulation or export API, so everywhere that we have seen some slippage to the normal expected levels, so do you think given the kind of concerns that we have there, on the shipment side or trade challenges front, so do you see any kind of softness or softer trend for the export that is continuing at least in the initial period of FY23 and hence kind of moderated growth on the overall export business?

**A. K. Jain:** Let us say, first is promotional market, we were targeting almost around 20% growth excluding the exceptional business what we did in last financial year relating to COVID and if we exclude that part, then I think our promotional markets, we had achieved a growth of around 12%. In spite of 2 months shipment has not happened, if those would have happened which are for the CIS market, if the things would have been normalized, we could have achieved almost around 20% growth in promotional market. As far as current year is concerned, I think April got impacted because we didn't make much shipment in that one, but from May onwards, I think overall things have normalized. In fact, we may gain more in particularly in Russia because one is Ruble rate has now stabilized around 57 and all, our pricing in that market was based on 70, so our overall dollar pricing in that market will improve and we have done, based on overall initial part in April, in February and March, we are looking at the depreciation, we have revised our pricing based on 70 to 90 in that market and therefore we have increased the local prices in that market and we had not reduced the prices right now. So, hopefully, there will be significant gain as far as Russia is concerned in dollar terms for us because our dollar prices will get revised there and not only those businesses, in Russia, even the API business we have very good business in Russia. That business also got impacted and we have put all the customers on advanced list now that you sent the advance and then, so it took some time and now shipments have started going to that market. So, both on formulation front and as far as API front, both we have suffered in that market. As far as Ukraine is concerned, we don't have significant business, but we were doing almost around Rs. 15 crores in that geography in a whole of year and some shipment was sent in earlier part of February, even that has not reached to Ukraine and therefore I think Ukraine business will definitely suffer because they are still finding difficult to have the logistics put in place for shipment to that market. As far as generics are concerned, let us say, all other geographies we are having good progress except UK because there we have now completely stopped shipping to our distributors in that market and as I said earlier that we had almost around 43 products with more numbers of SKUs put together was a very large list. We only got around 7 approvals and 7 products for commercialize, but recently we got almost around 6-7 more approvals which will be commercialized in may be in the second quarter. All preparations are going on. So, overall that business will show a decline in the current year, but European business, Australia, New Zealand, Canada, South Africa, they all will grow, but I don't foresee a significant growth in generics. Overall business growth in generics will be muted because of UK and overall growth in generics may remain around 5% or so overall and API business I foresee almost around 10% to 12% kind of overall growth once these issues are completely behind us.

**Moderator:** Thank you. The next question is from the line of Ranvir Singh from Sunidhi Securities and Finance. Please go ahead.

**Ranvir Singh:** Sir, just on UK side, we have mentioned that change in distribution model has impacted, so wanted to understand what is the status currently, so we have already set up our own distribution channel there and so we expect sales to pick up in subsequent quarters, that process is still here going on and secondly, how that will impact our profitability in that region?

**A. K. Jain:** Overall, if you look at UK, in FY21 we had almost around Rs. 152 crores business. Prior to that, UK was few years back, it was almost around Rs. 350 crores, so because of distribution issues this business has significantly got impacted and therefore we decided that yes, we want to be there in that market and have our own distribution. We have got during the year those kind of registrations what we had talked about almost around 7 registrations. During the year, in our own label, we had done almost around Rs. 23 crores business and on distributors business was almost around Rs. 61 crores, so overall almost around Rs. 84 crores business we have done in UK. Looking at the current basket of 13 products, the 7 which we are currently marketing and 6 approvals what we have received now, we would be almost around Rs. 60 to Rs. 65 crores kind of business. We are expecting more kind of approvals which if it comes during the year, then business could still be better and we could be at a breakeven may be around Rs. 84-Rs. 85 crores in the current year, but we have not factored in our budget so far the fresh approvals, but we will certainly get more number of approvals during the year. So, UK business, we see that there would be some kind of decline during the year.

**Ranvir Singh:** And that breakeven would be achieved?

**A. K. Jain:** Let us say, we have now right now created our own warehousing and other things we are completely outsourcing, but we have marketing teams in place and we have all other people in place, the QPtesting's are completely outsourced there and we are also setting up our ownQP testing facilities there and in fact business margins could improve there.

**Ranvir Singh:** Just connect, you said Rs. 152 crores was from UK in FY22?

**A. K. Jain:** FY21. FY22 was Rs. 84 crores.

**Ranvir Singh:** Rs. 84 crores was in FY22 for the full year.

**A. K. Jain:** Business has significantly come down from Rs. 350 crores to Rs. 84 crores.

**Ranvir Singh:** Rs. 350 crores was in FY19?

**A. K. Jain:** Before that FY18-19, yes.

**Ranvir Singh:** And similarly in Russia, what is the contribution of Russia in FY21 and FY22 if you could highlight?

**A. K. Jain:** I think overall we didalmost around Rs. 134 crores.

**Ranvir Singh:** For FY22?

**A. K. Jain:** FY22, yes.

**Ranvir Singh:** And the majority would be from Russia only?

**A. K. Jain:** Majority is with Russia, almost around Rs. 15 crores are from Ukraine and some from Belarus.

**Ranvir Singh:** And what was that number in last year, just I wanted to understand the normalized number?

**A. K. Jain:** It was almost around Rs. 164 crores.

**Ranvir Singh:** And sometime, in a war like situation when the situation normalizes, the demand also some short of pent-up demand also comes up or there may be some opportunity there because some MNC, we saw some MNC has withdrawn from these, so do you see that the opportunity would be larger when that situation normalizes in Russia?

**A. K. Jain:** In fact, we are sensing that business would definitely go up there. There are good opportunities, our team is working, the team is right now setting from India there to assess all those kind of things which are other dossiers, which are other markets on which we can get Russian approvals and all that, so those all preparations are going on and we see a good improvement in business and also you see earlier Ruble rate was to be almost 35, from 35 it went to 70, 70 it has come down to 57, so it is basically our dollar billings were getting impacted that because of currency depreciation there and since Ruble is again appreciating, our dollar billings will increase, so overall business in Russia will definitely go up and apart from that additional opportunities which are there relating to newer products approvals and all that also will be positively impacting Russian business.

**Ranvir Singh:** So, whether we have that forward contracts there to hit that currency fluctuation?

**A. K. Jain:** No, we don’t have that, but our billings, we decide the prices in those markets, end prices and the distributor margins in that geographies are kept.

**Moderator:** Thank you. The next question is from the line of Renu from InCred Capital. Please go ahead.

**Renu:** Just a follow-up from my side on the domestic market, so we have done exceptionally well in the domestic market last year, so obviously part of it came from the COVID upside, but you also said that part of it is not COVID related, like the pain, derma, etc., so I was wondering all these are businesses which used to grow 10% or 11% annually, what has suddenly changed that these are growing 30%, 40%, what are your thoughts around that?

**A. K. Jain:** Last year, base was low because of the **_37.26__**. If you look at 2-yearCAGR, the business growth was almost around 14%-15%, so as again that because of all these uncertainties and the base last year of the exceptional business what we had more particularly in Antimalarials last year and also in the Antibacterial we are little **_37.53__** let us say 15% kind of growth, we are projecting around 13% kind of growth.

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

**Saion Mukherjee:** Sir, any update on US FDA inspection, any conversation you had with US FDA with regard to your plants?

**A. K. Jain:** Let us say, all remedial actions are done, we are in regular touch with FDA. Hopefully, inspection should happen, but FDA doesn’t announce when they will come, but hopefully inspections would happen in current year because there is nothing pending, no pending requisition from FDA again on any kind of remedial actions or submissions we have made to the FDA.

**Saion Mukherjee:** Sir, on the branded business, you sounded positive with Russia coming back and some of the other market, so what is the kind of growth expectation you have in fiscal 23 for branded formulation exports?

**A. K. Jain:** It could be around 20%.

**Saion Mukherjee:** And sir, your API business has done very well, particularly last 2 years it has come up a little from FY21 levels, you mentioned about Sartans, so how should we think about, what are the kind of opportunities you have, you have guided for around 10% growth next year, but slightly on a longer term basis what is the kind of expectation, this 10% growth you see or there is additional opportunities that you expect on the API side?

**A. K. Jain:** Business from 10%, I think overall API business may grow to around once this capacity becomes available and regulatory and inspections of Dewas site and all it happens and dossier filings happens from that side, I think overall business may grow around 15% for next 3 years thereafter.

**Saion Mukherjee:** Sir, one final question on raw material prices, you mentioned prices have started to come down, I just wanted to understand is the worst behind and is it like the price inflation that you have seen or seeing is limited to specific products, any color if you can give and or is there a possibility of a material margin improvement in gross margin, is that something which you see is possible because some of the cost may be exceptionally high at this point or in fiscal 22 which can come down?

**A. K. Jain:** We are seeing the trend that overall, let us say, intermediate prices and they all started coming down now and even the buyers are facing it because the sellers are facing it because they are also not getting volumes because at higher prices, the buyers are not picking the shipments and those issues are there and company's manufacturers of APIs are also facing problem in passing on the prices because Europeans and other manufacturer, the buyers are hesitant to give these higher prices because somewhere they also have lot of insurances and other issues and there are pricing pressure there and they are not able to buy at those prices, so definitely these prices which has significantly gone up, it is not 10-20% somewhere it is 100%, 200% those kind of price increases happen on intermediates and all and those prices definitely are coming down and the trend will be seen in the current financial year, but at the same time because of higher petroleum prices, your solvent prices continue to remain high, we are seeing that excipient prices which are mainly used in the drugs for formulations purpose, those prices are recently are moving up, but they don't contribute much to the overall cost, but overall we see that yes, the prices will definitely come down and that will positively impact, but how much that would happen, we have seen may be around 5%-10% replacement in the prices, but it has to come down much more and that could positively impact the margin, but right now it is very difficult to project that how much it will come down.

**Moderator:** Thank you. The next question is from the line of Aditya Khemka from InCred Capital. Please go ahead.

**Aditya Khemka:** Sir, just one question on the US business, our acquisition of our stake in Lyka, can you sort of expand on the rationale and what is the progress?

**A. K. Jain:** Lyka, current plant is having WHO GMP and certain authority's approvals there, but they don't have any kind of approvals which are from the stringent authorities of the world, so no approval exists for the stringent authorities of the world. We have made an assessment there and probably some kind of modifications are required, that will be carried out during the year and then our internal teams are assessing their overall quality systems and other issues and then after those kind of things are done, then we will review their data and then after modifications and all, then filing process will start, first in ROW market and then in the stringent market all that kind of things, so that is may be around 2 years journey and injectables are, we have most of our businesses coming from oral therapies and we definitely wanted to go for injectables, we wanted to have those kind of presence and Lyka has a very good product range, so it is only the some kind of corrections and then and the regulatory approvals and we can go for those kind of businesses. ROW itself present very big opportunity as far as those injectables are concerned.So, that is the two years journey.

**Aditya Khemka:** And sir, any outlook on the Sartan portfolio of APIs that we sell, so I know we have been seeing some pricing pressures in Sartan over the past 9 to 12 months, but do you think prices where they are now given the raw material inflation, Sartans will not see further price erosion impact, will we be able to take some price increases in that portfolio to pass on the cost?

**A. K. Jain:** In fact, whatever the impurity issues which has come that has opened us an opportunity that we revise the processes for much higher yield and that would in fact reduce the cost and therefore margins would be better.

**Aditya Khemka:** And you don't see any further pressure of the end price of Sartan portfolio in the markets?

**A. K. Jain:** No, in fact the intermediate prices were elevated, they have started coming down.

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

**Surya Patra:** Sir, couple of question on the finance side, so compared to last year there is a debt addition of almost Rs. 550 odd crores, so what was the reason for that, although it is short term plus long term and couple of small acquisitions that we would have done, but if you can break that up in terms of our requirement and rationale for that?

**A. K. Jain:** Debt is not utilized, let us say it is lying in the bank account, so we may at an appropriate time repay those kind of debt, it is only a commitment for 13 months. For a specific purpose, that debt was paid and that purpose has not materialized, so we have not utilized that debt.

**Surya Patra:** So, then there are no major changes that we should build in our models?

**A. K. Jain:** No, it is lying in cash, I have in the balance sheet almost around Rs. 1,300 cash right now.

**Surya Patra:** Second question is on the cost, so although the elevated raw material cost and all that, so despite that we definitely has delivered a strong gross margin scenario, but the cost pressure what we are currently seeing it is not on the gross margin front or at the gross margin front, the cost pressure what we have seen in the fourth quarter at the employee cost front as well as more on the other expenses front, possibly it is fuel cost, it is the distribution cost, or shipping cost or freight cost and all that, so could you give some sense on that sir, do you think that is the other expenses are likely to be normalizing in the near term or given the trade challenges that is there, so your other expenses is likely to remain elevated for the entire of this year, while we take comfort from on the gross margin front, but the other two line items are looking relatively larger, so some sense on that front for FY23?

**A. K. Jain:** As far as personal cost is concerned; I think overall raise during the year is around 14%. Out of 14%, there are 8% is on account of general increments to the people and balance is, because my incentive provisions are significantly gone up because in our systems when somebody outperforms, the incentives are significantly higher and therefore incentive provisions has gone up by almost around more than double, it is almost around Rs. 60 crores additional provision for the whole of the year so that has pushed the overall personal cost during the year and also in the fourth quarter of the current year, we had decided to add four more marketing divisions in overall domestic marketing and we are increasing our field force size from 4800 medical reps to almost around 6000 medical reps. So, in current year, almost that will significantly impact and therefore personal cost will definitely remain on higher side during the year. We have seen that by and large we are able to do almost around breakeven in the 2 years' time that whatever the reps are added, in two years they start recovering their entire cost and from third year onwards, they start contributing towards the margin, so we will see some pressure during the year because almost around 1200 more peoples are being added and in the last quarter number also almost around out of that 600 peoples were already added in the last quarter and they were under trainings and all that, so that has added to the additionalcost. We are continuously doing better in the domestic market and we see a good scope to further increase overall our market shares and all and therefore we are adding four more divisions in the high growth therapies for all and other cost has concerns, shipping cost will still take more time to normalize because your petroleum's are at higher level and because of the China COVID situations and the overall logistic issues and that will continue to remain elevated, I think it is difficult to say that when that slightly to be normalized, but once I think China overall this situation start and becoming under control as far as COVID is concerned, then the logistic cost will also come down. As far as the fuel costs are concerned, the coal is the real big issue now. In April last financial year, if the coal rate was 100, it is almost around 220 to 225 is the rate now, so it has almost gone up by 120% the coal cost has gone up. So, in spite of whatever efforts we have done to save the fuel cost and others by overall in spite of all that the overall fuel prices, the fuel cost to the company has gone up by almost around 49%. It is very difficult for me to say that when the fuel cost will get normalized. It has again lot to do with again China because they stopped mining coal from Australia and the coal which was coming from all that Indonesia and all that became very high and India also because of high heat suddenly power requirement went up and then the coal was not available to the industry to that extent and the prices, they started moderating in between, but again because of this high heat and all, the coal cost has gone up, but I think we will have to watch because if the rainy season is little extended then the coal price may continue to remain elevated, but if the season ends in time and all that, probably the coal cost may start moderating around that time and as far as electricity's are concerned, overall I think there was a very big strain. This year electricity cost has not moved up very big way, it is only the fuel such as they have increased because all electricity boards were holding tariff hike and all, so we don't know when the tariff hike goes up as far as and that could further increase the cost.

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

**Kunal Dhamesha:** Sir, the first question on the Dewas plant as we mentioned that there would be some formula, becausewhich would be baked into FY23 as the real commercialization would come in FY24, so can you quantify what kind of expense like that we are looking at from Dewas in FY23?

**A. K. Jain:** Overall, I think the plants will be ready for say capitalization, the major part of the plant will get be ready for capitalization in the month of August and thereafter may be around one and a half crores rupeesper month for up to March that will be the cost and some cost will definitely get recovered, but major will remain unrecovered because it is basically all the dossier developments and filings and stability and all those will be done, data will be submitted to regulatory authority. Till the time, we can do is only businesses with the countries where those kind of approvals are not required and they are normally at a much lower prices.

**Kunal Dhamesha:** And second question on the Sartan, so as far as I was aware, the newer process was having a lower yield, but I think earlier you alluded that the newer process is having higher yield?

**A. K. Jain:** No lower yield, that was having lower output, higher time cycle, but that we have again revised that and with that revision it is a normal output and higher yield.

**Kunal Dhamesha:** And on EBITDA margin, have we provided any broad guidance for FY23?

**A. K. Jain:** I think overall our topline may remain around 10% to 12% for the whole of the year and EBITDA margins will be around 22 to 22.5 because we will have pressure of additional people recruitment in the year and overall elevated cost on account of overrates moreparticularly fuel, shipping's and overall inflations in the economy, but our gross margin levels will remain around 68% and if the prices comes down little bit, gross margin may improve and that may impact positively the overall EBITDA.

**Kunal Dhamesha:** And the tax rate still remains at 18% right?

**A. K. Jain:** No, tax rate go to around 25% because we are adjusting most of our MAT credits and all and some credit will get lost.

**Kunal Dhamesha:** I think last quarter we said we had some Rs. 360 crores or something pending?

**A. K. Jain:** Current year because of all the seconds, all those tax incentives are expiring and thereafter you can't take those kind of tax incentives once you are opting for 25%, so some of the credits will get lost. We will have to see that which is the better method, we will have some kind of credits will get lost. Since that credit is not recognized in book, so it will not impact the balance sheet, but yes, the tax rate will go up.

**Kunal Dhamesha:** For this year only?

**A. K. Jain:** Yes, this year only.

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

**Tushar Manudhane:** Just clarity on the API growth outlook, you guided for 10% growth for FY23?

**Harish Kamath:** Yes, that is correct, Tushar.

**Tushar Manudhane:** Just going by the quarter run rate of Rs. 250 crores and Losartan issue may be taking a quarter or so, still attaining 10% on almost about Rs. 1340 crores in FY22, so incremental sales is going to be much higher in the remaining 3 quarters, is that assessment, right?

**Harish Kamath:** Yes, that is correct because progress is slowing happening in capturing additional customers and business for Losartan volume. We were not servicing customer for 4-5 months because of this impurity problem, so getting all that business again is slowly progressing.

**Tushar Manudhane:** But at the same time, I presume there would have been some competition would have already taken away that market share, so regaining the market share?

**Harish Kamath:** Yes, that is correct, but whatever benefit we have costing and other things, we are sure we will get back all our customers and all our volume, but it will a slow progress and this quarter Mr. Jain has already explained there could be some return of older shipment also. To give them the fresh material, so there is no loss of anything, but only that return will get replaced with fresh material to that extent there will be lower growth.

**Moderator:** Thank you. The next question is from the line of Kunal Randeria from Edelweiss Financial Service. Please go ahead.

**Kunal Randeria:** Sir, just want to understand, because when all these API price increases and API input cost increases, API contracts when they come up for renewal, how much of it are you able to pass it on?

**Harish Kamath:** Mr. Jain has already said that is hesitancy in the buyer side to give increased pricing and earlier routinely, lot of long-term contracts used to get signed, but now buyers are preparing one quarter contracts and all, so there is lot of hesitancy in the market place also, so people are not sure whether the price will remain at elevated level or it will go down, so corresponding formulation demand, formulation pricing, those are also having some concern and issues.So, because of all that there is a disturbance in the API business, but it will stabilize and improve as we progress quarter-on-quarter.

**Kunal Randeria:** And just one more, so while you did briefly touch upon this, I think your sales cost increases almost 30% if I understand correctly from around 5100 to almost 7000 by the end of this year, so where you could deploy this any particular division or any brands that you are looking to sort of invest in, a bit more color would be helpful?

**A. K. Jain:** Almost around 350 people will be added to the existing divisions, because what we are filing that our service suggest that in cities, we need more representations and therefore we are adding more number of people in our multispecialty divisions more for cities, so around 350 people will go in existing division. We are adding almost around 1200 people out of which may be 350 people are again getting added to the Pain segment, a newer divisions in pain. The existing Dermatology divisions where we have market leadership and around 60% market share that is getting bifurcated in two parts because it is becoming increasingly difficult to add products there and if you add products with the larger basket it becomes difficult to have kind of focus around the products and all that, so that we are splitting to get the higher market share from that kind of segment. We are creating another segment for Neuropsychiatry and anotheradditions are there and in Cardiology we are adding almost around 2 more marketing divisions there and almost around close to 400 kind of people will be added there, so broadly these are the areas where the deployments would happen.

**Moderator:** Thank you. The next question is from the line of Prashant Poddar from ADIA. Please go ahead.

**Prashant Poddar:** Just a quick question on the hesitancy that you talked about in price increases, so are you doing some risk mitigation at you end in terms of lower inventory cycles, etc.?

**A. K. Jain:** It is very difficult to keep lower inventory because this is the time where there are lot of uncertainties are there as far as supplies are concerned because of China issues and all. In fact, our inventory in the current year has gone up by almost around Rs. 200 crores and we could have in fact reduced the inventory, but in fact the inventories have gone up because in order the maintain the business continuities and to avoid supply disturbances, in fact the inventories have gone up by around Rs. 200 crores.

**Prashant Poddar:** So, could there be intermittent risk if the raw material prices were to correct?

**A. K. Jain:** On that there will be lower realizations, but we can't have business disturbances.

**Prashant Poddar:** And this risk is only in the API business?

**A. K. Jain:** Yes, this risk is in API business.

**Moderator:** Thank you very much. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

**Harish Kamath:** We have nothing more to add, thanks all the participant for taking your time out to attend this concall. Thank you very much.

**Moderator:** Thank you very much. On behalf of DAM Capital Advisors Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.