



“IPCA Laboratories Limited  
Q2 FY2020 Earnings Conference Call”

November 08, 2019



**ANALYST: MR. NITIN AGARWAL - IDFC SECURITIES LIMITED**

**MANAGEMENT: MR. A. K. JAIN - JOINT MANAGING DIRECTOR -  
IPCA LABORATORIES LIMITED  
MR. HARISH KAMATH – CORPORATE COUNSEL &  
COMPANY SECRETARY - IPCA LABORATORIES  
LIMITED**

**Moderator:** Good day ladies and gentlemen and welcome to the Q2 FY2020 Earning Conference Call of IPCA Laboratories Limited hosted by IDFC Securities. 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 IDFC Securities. Thank you and over to you Mr. Agarwal!

**Nitin Agarwal:** Thanks Margareth. Hi good morning everyone and a very warm welcome to IPCA Laboratories Q2 FY2020 earnings call, hosted by IDFC Securities. On the call today, we have representing IPCA management Mr. A. K. Jain, Joint Managing Director; and Mr. Harish Kamath – Corporate Counsel & Company Secretary. I hand over the call to IPCA management team to make some opening comments and then we will open the floor for questions. Please go ahead Sir!

**A. K. Jain:** Good morning, everyone. For Q2, our domestic formulation business was around Rs.543 Crores as against Rs.469 Crores last year with a growth of around 16% in domestic formulation business. Export formulation business was around Rs.341 Crores as against Rs.288 Crores in last financial year so there is a growth of around 18% and overall formulation business in this quarter has grown by around 17% to around Rs.884 Crores as against Rs.757 Crores in last financial year.

The API business has again shown a very good growth in the second quarter of the current year to around 40% so business is around Rs.314 Crores as against Rs.225 Crores last year and overall income from operations is around Rs.1212 Crores as against Rs.997 Crores in last financial year so overall, domestic business has grown by around 17%; export business, including formulations and API, has grown by around 27%; and overall business growth in this quarter is around 21%.

If you look at the first half of the year, more or less, the growth remains on the similar line. Domestic formulation business in first half has overall grown by around 15%, export formulation by around 14%, and overall formulation business growth in first half is around 14% and the API business growth is around 38% and overall first half total income growth is around 20% in the first half of the current year.

If you look at the overall margin profiles, overall, the EBITDA in this quarter has gone up to around 22.69% as against 21.46% in Q2 last year and overall in the material cost-to-sales ratio close to 31% to around 33.4% so around 2.4% there is the overall increase in net ratio.

Personnel costs has gone down by around 2.24%. Manufacturing, other expenses and debt ratio has also gone down by around 1.4% and overall, the EBITDA increase is almost around close to if we look around 1.23% in this particular quarter. Having given the basic numbers, now I request participants to ask questions.

**Moderator:** Thank you very much. The first question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

**Rahul Jain:** Thanks for the opportunity and Sir, congratulations on a fantastic set of numbers. A couple questions from my side, first on the business side in terms of our APIs and formulations. Sir, as far as your API is concerned, you have in Q1 guided for a 20% growth for FY2020, but your Q2 earnings has surprised all of us is 40% growth, and your half 1 is almost now at 38% growth, so how do we look at is there some kind of one-offs which is coming in the growth, certain products only contributing which can probably fall in the next half? I needed to understand, how do we look at the second half and the next year? Similarly for formulations, we have had again a fantastic growth of about 16% for this quarter. If you could share some details about what kind of therapies is leading to this kind of growth, and again, as in API, how do we look going forward. Secondly, Sir, in terms of remedial costs, you had spent about Rs.6 Crores in Q1 and you were guided about Rs.10 Crores for the full year so given your observations, which you have at plan, are we going to increase the guidance for the next quarter?

**A. K. Jain:** Overall second quarter of current year, our pain segment has grown by almost around 22% and first half also is around 22% kind of growth; cardiovascular anti-diabetic had grown by 10%, even first quarter also, around 10%; antimalarial in this quarter has grown by around 20%, and overall in the first half, it is around 6% growth; antibacterial is almost around 37% and first half is around 33%; CNS is around 21%, first half is around 23%; dermatology around 19%, first half is 18%; urology, around 27%, in first half it is around 26% so by and large, most of the therapies have done well. Except in first half, antimalarials has not done well. This quarter, antimalarials all better first half. There was a decline overall, in antimalarial so most of the therapies are doing well as far as company is concerned in domestic market.

As far as international, our overall API business is concerned, there is nothing one-off in the business overall. Overall portfolio is doing well and let us say that the products which contributes a major portion of the overall sales, most of the products have done really very well and sales are, more particularly from Sartan category, has been very good. But it is not that only Sartan has contributed all other portfolio has also contributed to the overall good growth in the business so the trend is likely to continue. But also it depends on days, and we have continuously same for the second half also, our guidelines will remain around 20%

growth. But yes, the overall business growth in the first half has been very, very good and beyond our expectations so that has been about overall as far as the business growth are concerned.

As far as the overall expenditure side is concerned, I think overall, I think the first quarter was almost around Rs.6 Crores and I think this quarter, the remedial costs were almost around Rs.4 Crores kind of remedial costs have been spent. There could be some more costs maybe around Rs.3 Crores, Rs.4 Crores, Rs.5 Crores and maybe around remaining period, so it may range around, say, Rs.15 Crores, Rs.16 Crores for the whole of the year as against Rs.10 Crores, which we had guided earlier.

And overall, about the expenditure side, if you look at the numbers, we have saved almost around Rs.18 Crores as far as remedial costs is concerned compared to September 2018 quarter. But there is a one-off cost there is around Rs.11.5 Crores, which is relating to one biotech projects which we have taken technology from U.S. But looking at now the yield which is coming from that particular project and our R&D efforts, we are getting much higher yields than different platforms so we are now going ahead with that kind of that project and therefore, whatever cost incurred in that, that has been taken to the P&L account in current year which is around Rs.11.52 Crores and we have taken additional fees on account of FDA because I think last in the current quarter, we have paid mostly more than \$2 million for the U.S. fees, and all has been taken as a period cost in this particular quarter because right now, there is no business and since the ANDA number is now more than 20 because of some addition of ANDAs from Bay shore, so as against \$0.64 million, which we have paid as ANDA fees last year, this year, the number has gone by around \$1.66 million so more than \$1 million extra has been paid and that is around more than R.7 Crores that was also debited to P&L account so whatever Rs.18.5 Crores savings that has come by the remedial costs, they got offset by around Rs.11.5 Crores, whatever is written off on account of that biotech project, and around Rs.7 Crores, which we have paid on account of U.S. FDA's additional fees which has gone this particular quarter. Overall excluding that and overall excluding actions, adjusting the numbers for actions in profit and loss accounts, practically our expenditure size in this particular quarter, our expenditure has gone up by around 15% overall in the numbers, yes.

**Rahul Jain:** Sir, you said a 20% API growth so are you saying 20% growth for the second half which is...

**A. K. Jain:** Yes second half.

**Rahul Jain:** Okay so overall, the growth for the full year FY2020, which you had earlier guided for 20%, I expect 20% will go up now? Yes. Is that fair?

- A. K. Jain:** Yes.
- Rahul Jain:** Sure and Sir, with regards to R&D. You continue to maintain a guidance of about Rs.220 Crores to Rs.230 Crores for FY2020?
- A. K. Jain:** Our R&D cost is going to be in the region of around 3% overall for the whole of the year, yes.
- Rahul Jain:** Okay and Sir, any new initiatives being taken, new products which are introduced? Any color on that, Sir? Including the...
- A. K. Jain:** We are not doing any kind of US developments so the cost is also on the lower side so we are currently more focused on other markets and products are getting developed for all other markets, where we have marketing generic formulation. But we have selected developments are low, so therefore, the overall cost is also low on the R&D side.
- Moderator:** Thank you. The next question is from the line of Nitin Dharmavat from Aurum Capital. Please go ahead.
- Nitin Dharmavat:** Thank you for the opportunity and congratulations on a good set of numbers. I have a couple of questions. The first one is in the cash flow from investing equities, proceeds towards business combination is shown as Rs.108 Crores in this quarter versus 0 during the last quarter of the previous year. Can you please explain this number? What is this number and where does it comes from?
- A. K. Jain:** Rs.108 Crores is basically, I think, the acquisition of Ramdev, yes, in the first quarter.
- Nitin Dharmavat:** Okay and in the cash flow again in the financing activities, we noticed a substantial increase in the short-term borrowing to Rs.121 Crores from Rs.25 Crores. Why it has gone up so much and what is the cost of borrowing for short-term versus long-term? And what is the total consolidated debt at the end of the quarter?
- A. K. Jain:** Overall, around March 2019, the overall number was around Rs.445 Crores. That has gone to around Rs.511 Crores in August and long-term debt is less than Rs.200 Crores, so it is around Rs.193 Crores. Short-term debt has slightly moved up because if you look at March, our overall business was almost around Rs.868 Crores and then Rs.870 Crores compared to that, in this September, the overall business base has gone to almost around Rs.1200 plus Crores so overall debtors has gone up even though we are not concerned on number of days as far as debt is concerned, but overall, because of that, almost more than Rs.200 Crores as additional from cash flow has gone up in sundry debtors and therefore, little overall, slightly

borrowing is on the high side. Overall, as far as the debt rate is concerned, most of our borrowings are in dollar terms, which is Libor is currently less than 2% and the spread is less than maybe around 0.5% or even sometimes lesser than that so overall, not more than 2.5% because most of our borrowings are in dollar terms. We hardly have any kind of rupee in the balance sheet.

- Nitin Dharmavat:** Okay Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.
- Aditya Khemka:** Thanks for the opportunity. Sir, antimalarial, you said, grew 20% Y-o-Y in the domestic business this quarter?
- A. K. Jain:** Y-o-Y in this quarter. The Y-O-Y is fixed.
- Aditya Khemka:** No, my question was so how much is antimalarial as a percentage of domestic sales for Q2 FY2020 and what was this number in FY2019?
- A. K. Jain:** Overall, antimalarial-based contribution to the domestic business has come down from 8% to 7% overall if you look at overall pie of the business, around 47% is now being contributed by the pain segment, which is continuously growing around 20% plus kind of growth is there so and your other therapies, one which has significantly grown is the antibacterial, which is **(audio cut) 15:07**.
- Aditya Khemka:** Right, Sir so basically, 7% of domestic sales are antimalarial for the first half, is it? Or for second quarter?
- A. K. Jain:** Yes, first half.
- Aditya Khemka:** First half and 8% number that you gave was what, for year FY2020?
- A. K. Jain:** Yes.
- Aditya Khemka:** Okay and Sir, on your API sales, earlier a participant asked a question so I was just doing some numbers so for the first half year, you have done almost Rs.600 Crores in total API sales, domestic and export put together that is about Rs.100 Crores a quarter so assuming there is no one-off, as you said, and that number continues, if you do Rs.600 Crores in the second half as well, then the growth that I can see mathematically coming in second half is about 30%, 35% Y-o-Y in API sales and not 20% so any reason why you expect API sales to decline sequentially in the second half versus the first half?

**A. K. Jain:** Let us say that we have given a consolidated projection of around 20% because API the business, as such, at a normal growth is around 8% to 10% so we only do not foresee the business growth to be in the second half more than 20% but if the trend continues, it is very good and we can beat the overall number. But our guidance is around 20% kind of growth in the second half, yes.

**Aditya Khemka:** Understood, Sir and what percentage of our API sales could be coming from the Sartan portfolio? Any ballpark number would do.

**A. K. Jain:** We do not calculate as such as what is the overall Sartan and non-Sartan but yes, sartans has also contributed significantly to the business overall maybe additional business which has come from in the region of around Rs.80 Crores, Rs.85 Crores has come from some products and I think another product has contributed around Rs.30 Crores so may be Rs.100 Crores of overall business has gone up on account of sartans, yes.

**Aditya Khemka:** Right and Sir, your generic exports, excluding institutional generics, that came at Rs.180 Crores for this quarter and that was Rs.126 odd Crores for the first quarter so what has driven the growth and how sustainable is this growth that we have seen in the generics business, unbranded generics?

**A. K. Jain:** Let us say overall, if you look at the generic numbers, I think Europe has contributed around Rs.102 Crores of the business as against Rs.72 Crores last year so Europe as there is a growth of around 32% in the Q2 and overall, for first half, there is a 35% growth in the Rs.169 Crores as against Rs.125 Crores last year. Australia and New Zealand in this quarter has contributed around 21% kind of growth from Rs.33 Crores to around Rs.41 Crores, but for first half of the year, it is more or less there is a decline of around Rs.2 Crores. Canada has contributed around Rs.14 Crores this quarter as against Rs.21 Crores last year. But first half, it is around Rs. 30 Crores, so it is around 17% kind of growth is there on that and overall, the number is around Rs.178 Crores as against Rs.161 Crores so around 11% kind of growth and as far as first half is concerned, this was Rs.303 Crores as against Rs.264 Crores, so around 15% kind of growth has come in generics. Institutional generic in this quarter has given 40% growth as against Rs.44 Crores and Rs.61.5 Crores but for first half institutional growth is around 4% from Rs.89 Crores, it is around Rs.85 Crores last year so it is only 4% kind of figure. Overall, generics growth is, for the first half, including institutional, is around 12%. But for this quarter, it is around 17%.

**Aditya Khemka:** Right, Sir so this European number of Rs.102 Crores versus Rs.72 Crores last year for the quarter, this is driven by mainly U.K. MHRA resolution and therefore a sticky number as and can we...

- A. K. Jain:** The U.K. has grown much faster. The European business is around, let us say, other than U.K., is around Rs.75 Crores as against Rs.63 Crores last year so that has grown by 41%. U.K. growth is around, first half, is around 31% from Rs.72 Crores to around Rs.94 Crores, yes.
- Aditya Khemka:** Okay and what is the trajectory now we are projecting for the U.K. now that the issue is resolved? How do you look at it going forward? And how can we...
- A. K. Jain:** Couple of market, so their business is already picking up so we are waiting and watching, but it all depends on how their business picks up, give you right now the numbers but yes, good growth will be there. But it is difficult to give a description.
- Aditya Khemka:** Fair enough, Sir, one last question from my side. How would you sort of guide us on your on overall EBITDA margin standalone or consolidated, whichever you want to guide us on, for FY2020 and 2021?
- A. K. Jain:** Our guidance, whatever that we had given, that would remain, that around 1.5% kind of growth in the EBITDA margin compared to last year so that would remain that guidance will continue to remain.
- Aditya Khemka:** And this is true for FY2020 as well as FY2021 or only for FY2020?
- A. K. Jain:** Oh, 2021, we have not done yet that exercise so it is for the current year, yes.
- Aditya Khemka:** Okay Sir. Thank you and I will get back in the queue.
- Moderator:** Thank you. The next question is from the line of Vaibhav Badjatya from HNI Investments. Please go ahead.
- Vaibhav Badjatya:** Congratulations for a good set of numbers. Just wanted to know, do we have any plan to acquire any companies?
- A. K. Jain:** We keep on looking at opportunity so that is difficult to comment that whether we will acquire or not acquire. If right opportunities are available and if we need it, then we will acquire but as far as formulation side is concerned, we are already having excess capacity so right now we are not really looking at anything. But on the API side, yes, right now we are facing certain capacity concerns and we will also like to look at the various opportunities on how we can further augment the capacity that we have.



**Vaibhav Badjatya:** But as per some of the records you have already submitted a bid for one of the company and it has been accepted by a committee of creditors so I just wanted to understand why acquiring that company and what you are planning to do with the company?

**A. K. Jain:** That is basically in the middle of India and a very, very large piece of land also around 1000 acres kind of land. It is really very, very significant asset there in terms of land and some of the infrastructure so and we are, long term, let us say, we will be investing some kind of money to do more our intermediate ourselves. We were looking for some kind of site, and therefore, a bid is given. But it is too early when the final list is provided to us so...

**Vaibhav Badjatya:** You basically plan for use it for your own business? Or you do want to something else with the land that you will get if you win the bid?

**A. K. Jain:** It is long-term plan to do more of intermediates for ourselves, yes so less dependence on China, yes, and more on continuous chemistry and all so those kind of things are there. It is our long-term plan.

**Vaibhav Badjatya:** Okay and when that is a related-party transaction? This acquisition would be a related-party transaction or outside related party transaction?

**A. K. Jain:** No. There are no related party.

**Vaibhav Badjatya:** Okay thank you that is it from my side.

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

**Kunal Dhamesha:** Thank you for taking my questions. Sir, the first question pertains to the gross margins. Sir, if I remember it correctly, last quarter, the gross margins went down significantly on sequential basis, and you called out three reasons for that. Now this quarter, again, it has improved by around 250 BPS so could you just like provide some color in terms of what were the drivers of improvement in this quarter? One would be definitely the mix because the API mix has gone down and formulation has gone up. But any other things that you would want to call out?

**A. K. Jain:** By and large, we say it is a mix of business because API has a higher material cost and material cost to sales ratio in first quarter of around 35% as against 32% is largely because the API base has moved up and this quarter also, it is basically on account of API so on formulation side, there are not much of changes there. Margins continue to remain stable so it is only because of the API business. The change in that mix is resulting in the material

costs going up and down basically. I would like to say that as far as trend is concerned, there is some certain softening in the prices which is happening, but not significant. Small some kind of softening's are there so price trend is now there. But softening's are not happening to that extent, yes. There are some prices reductions are taking place but not too bad.

**Kunal Dhamesha:** Okay and we also had a program in place to bring the raw material costs down, right? We are done through that? Or there is still some more savings that can come through those program?

**A. K. Jain:** Well, we always try to put the loss to our sales as an integrated kind of business model. But right now, we have capacity constraints so we cannot produce too much of our intermediates ourselves. But in the longer term, let us say, medium term, yes, we will definitely like to produce more intermediates so that the business continuity is better and also we will improve our margin profiles and also it gives a competitive advantage as far as the generics are is concerned because, overall, costs goes down. That has been always the philosophy of the company, and we will continue to work on that line and currently also working on that so right now we have on API side a lot of constraints as far as capacities are concerned so it will take some time to augment that.

**Kunal Dhamesha:** Okay and my second question is on the receivables side as you mentioned that the debtors have increased significantly so is there a particular geography concentrated to that? Or is that the normal course of business?

**A. K. Jain:** Let us say our business based on the March quarter, if you say, was around Rs.860 Crores so March quarter balance sheet debtors are based on the Rs.860 Crores kind of business base. Now it is gone more than Rs.1200 Crores so almost 50% increase is there in that so debtors has also gone up in that line and if you look at the overall numbers of, let us say, in terms of number of days, then debtors had just gone up by two, three days so we are not clearly worried on that part. It is more or less, everything is in order and numbers are mobile. It is only because the business is based in, again, in March. Normally, our March quarter is less so when you would see again the March numbers, the debtors will come down significantly, yes. But this quarter is second quarter; the base of business is always high so the number will always be high in this particular quarter. March quarter, it will again go down. Because business base is the fourth quarter is the lowest for us, yes.

**Kunal Dhamesha:** Okay and lastly, on the institutional antimalarial business. Sir, have been seen orders from Global Fund? Or is it still being orders have yet to pick up?

**A. K. Jain:** The Global Fund orders are there. In fact, there is some change in unit heads so unit heads business flow is little slow currently because there is certain method of their procurement and all so it will take some time to pick up for that part. But Global Fund orders are there, and we were not there in first practically in the first quarter as far as Global Fund. It is only started in second quarter and more or less, right now, executions are picking up so our guidelines for the institutional business in current year would be around, say, overall Rs.215 Crores to Rs.220 Crores kind of business as against Rs.170 Crores, Rs.180 Crores that we have done last year as against that, first half business is around Rs.85 Crores, Rs.88 Crores.

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

**Surya Patra:** Congratulations for a great set of numbers Sir. Sir, can you just update us on the subsidiary performance, PISGah and Bay Shore and also if you can give some of your thought process about these two businesses, particularly the PISGah intermediates as well as API manufacturing base, what you are having. How well is that utilized currently and what is the scope of expansion there or your intention of expanding that base so that we could possibly approve the U.S. market possibly through your integrated base here in India for intermediates. Sir, any thought process on that front end Bay Shore? What is your long-term game plan there?

**A. K. Jain:** Bay Shore is going to be front end as far as the U.S. is concerned and Bay Shore in this quarter has contributed some small profit, maybe around Rs.3 Crores so overall amortized. Basically all small part of their R&D and rest is on the marketing product. But overall, once the IPCA remediations and everything FDA got cleared, they will be our front end overall so Bay Shore has been acquired, for making it a front end entity for us. That is the purpose and until that time, they will continue to do with whatever partner is present, which currently they are doing and in addition to that, IPCA business will become an additional business. As far as PISGah is concerned, that was required by and large to do some kind of low volumes and the high-value APIs in U.S. Some of the products technology transfers are going on there and the submissions and all are taking place. Right now that has not contributed any kind of business in the first half of the current year. But it will start contributing in the latter part of the year and I think they have incurred a loss of almost around Rs.8 Crores to Rs. 9 Crores in first half and that got offset by the whatever earnings we had from the Onyx operations in London and Bay shore has contributed some small kind of profit so as such, subsidiaries are currently not contributing much, but they are not contributing too much of losses also, marginally Rs.1 Crores, Rs.2 Crores here and there.

**Surya Patra:** Okay. So that means this year can possibly play the kind of work in terms of API and manufacturing, supplying, front-ending kind of activity for our record?

- A. K. Jain:** Some of our APIs is there as well.
- Surya Patra:** Okay. About this API business progress, so whether you have started supplying the Valsartan also, as you are indicating, this quarter onwards possibly you will see pickup there with the capacity addition. So how is the trend there that you are witnessing? And so if that is the case, then possibly the momentum will likely sort of possibly continue in the near future.
- A. K. Jain:** Let's say, I think maybe in the month of September, overall, let us say, whatever capacity we wanted to achieve, that has been achieved on Valsartan and that the business flow has already started. And that will continue to contribute in the second half of the financial year, yes.
- Surya Patra:** Okay. And regards in the API front, what is the capacity inflation that you will be able to see? Although the return that it is restricted for U.S. market, but it is, I believe, optimally plays to end. So what are the capex that we should be seeing this year and next year, this year may not be good, but next year and the following year and your view on those trends in building capacities, either in formulation or API?
- A. K. Jain:** We have different kind of plants. Some plants are multipurpose plants, we have dedicated plants. So we still have a lot of capacities on your dedicated kind of plants, like say, we have quite a lot of plants. We have so many others which are dedicated plants out there. So dedicated plants, overcapacity. But the multipurpose plants, there, we are facing where we do a lot of changes, the campaign basis plant. So there, we are facing now the capacity constraint. And so that's the issue there, but we are in a process of addressing that. But it will take some more time. Currently, we can't expand in the state of Gujarat because of all these grave terminal issues and other issues which are currently there, even though that our sites are more sites. But because of overall environment, these issues are there in Gujarat. And as far as the plant is concerned, there are certain issues which we need to address in terms of availability of power because right now, all line capacity is completely exhausted. So we are putting the new power grid line from 132 kV lines from currently 66 kV. So that work is going on so only after the availability of power is only whatever additional if for, let us say, balancing it to be done or some kind of new plants are to be set up there, that it still will take some time and not going to open it this year. It is going to be sometime next year. And the capacity's availability will still take longer time because setting up plant; this will take around 8 to 9 months and then validations, and so maybe a year away. Additional capacities are more or less a year away from now.
- Moderator:** Thank you. The next question is from the line of Sachin Kasera from Svan Investment. Please go ahead.

**Sachin Kasera:** Congrats for these set of numbers. Just a couple of small things. One, if you could tell us the capex for capex and the tax rate for this year and the next year?

**A. K. Jain:** Currently, our capex is, I think, first half, we incurred around Rs.80 Crores, Rs.85 Crores. And second half there also, more or less will be on that line. But the next year, capex would be a little higher side, maybe around Rs.250 Crores to Rs.300 Crores kind of capex will be there. More capex will be needed on the contracts for just the API side there.

**Sachin Kasera:** And Sir, on the tax rate for this year and next year?

**A. K. Jain:** Tax rate, let us say, that since the net rate had gone down by 4%, we will continue to remain late and we will be paying around 17.5% kind of rate. We have around, overall, close to around Rs.300 Crores of net credits, which is recognized in the books at around Rs.70 Crores, Rs.80 Crores. Rest of the net credit is not recognized because we started recognizing only in last 2 years. And here, we were not recognizing net credit in the books. So that figure will get, let us say, adjusted will take around 3 years or so from after this year. And thereafter, we will come right around 25% kind of tax rate. So for the next 3 years, our tax rate is going to be around 17.5%, and thereafter, it will become 25%. So by that time play, most of the incentives which are there relating to R&D and which is there relating to certain plants, and all will get adjusted, so net credit would not be available thereafter. In fact, currently also, we have started utilizing the net credits which is available. And we have a deferred tax liability in books of maybe around Rs.143 Crores also. Out of which, maybe around Rs.40 Crores, Rs.45 Crores then will be reduced, and that will be recognized maybe once the macro data are completely over, then we are 25% kind of tax rate. Currently, we will continued tax rate would be 35%, but we will be paying 17.5%, and balance will be likely accumulated net credit.

**Sachin Kasera:** Sure. So the P&L tax rate will be around 18%, 20%...

**A. K. Jain:** Yes. 17% to 17.5%, yes, which is their net debt. So there is a clearly 4% savings, which is there on net, from earlier tax rate, yes.

**Sachin Kasera:** Sir, just one clarification on this other expenditure, you initially mentioned certain expense regarding the fees and A&D and biotech. Is that the main reason why when we compare to the June quarter, the September quarter, other expenditures have gone up?

**A. K. Jain:** So basically, you can compare it quarter-to-quarter, not one quarter or other because they are business-based and all are the same. So one comparison I was giving you the reference to September 2018 to September 2019. And there, what we said that there is almost around Rs.18 Crores, Rs.18.5 Crores reserves saving compared to last year's quarter on account of a

remedial cost. But that got offset by way of around Rs.11.5 Crores, which we had written off on R&D costs with that onetime write off. And Rs.7 Crores, we will extract to FDA. And FDA, so we have paid close to maybe more than \$2 million, more than \$2 million in this particular quarter. The entire cost has been taken as well. Period cost, not getting spread over in the 4 quarters because right now, we do not have U.S. business. So we had taken a conservative view of debiting everything to P&L when it is being paid. So in this quarter, around Rs.7 Crores additional payment has been made to the U.S. FDA because the IND holding fees this year has gone up from USD 1.62 million. So practically, \$1 million has been paid extra to FDA, so around Rs.7 Crores. So close to, whatever, Rs.18 Crores which we have paid on the legal cost. That has got offset by way of your additional cost, which we had made in this quarter. Excluding that, other expenditures has moved up by around 15% in this particular quarter as against the overall 20%, 21% kind of business. That is not the number I said earlier.

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

**Charulata Gaidhani:** Sir, can you give the geographic makeup of the exports?

**A. K. Jain:** In generics, I have already given. Only branded, I have not given. So branded, if you look at CIS business growth in this quarter is around 30%, and overall first half is also 30%. So business was, in the first half, is around Rs.91.7 Crores as against Rs.70.7 Crores last year. Similarly, East Asia, also business is around, this quarter, Southeast Asia is around 19% growth, from Rs.16 Crores to around Rs.19 Crores. But first half, it is around Rs.32 Crores to Rs.32 Crores, so there is only 2% kind of growth is there. In Latin America, in the branded business, it is around 14% kind of growth. And West Africa in this quarter is around 80% growth, from Rs.7 Crores to Rs.12 Crores. And on first half also, it is around 32% kind of growth, it has become Rs.26 Crores from around Rs.20 Crores last year, so overall, branded promotional business is around Rs.192 Crores as against Rs.161 Crores in the last financial year, around 19% growth in first half. And in this quarter also, it is around 20% kind of growth in there. So overall, that's the promotional business. And as far as generics are concerned, your European business in the first half is around Rs.169 Crores as against Rs.125 Crores last year, so around 35% growth. Overall, generics if you look at excluding institutional business, it is around Rs.304 Crores as against Rs.264 Crores last year, so around 15% kind of growth. Institutional business in first half has grown by around 4%, from Rs.85 Crores to Rs.89 Crores. And overall, the generic business overall for first half is around 12% growth, Rs.392 Crores as against Rs.350 Crores, so around 12% growth. In this quarter, generic business is around 17% kind of growth, so 330 -- Rs.340 Crores as against Rs.205 Crores, so around 17% kind of growth.

- Charulata Gaidhani:** Okay. And can you give the outlook for U.K?
- A. K. Jain:** U.K., so let us say our agent is back our distributor is back in the business, but it is too early because they have a costly quarter. They are in business. Their business is picking up. But currently, let us say a lot of shipments we have made to them in this quarter. They are in a process of clearing stocks and all that's out there. So it will take some time. Maybe it will be around after second quarter, third quarter, we will be able to tell you how exactly businesses are picking up. It is really, really too early because they have just started operations. And so far, the pickup has been good in the second quarter. We have done U.K. business of around Rs.54 Crores as against Rs.37 Crores last year. And overall, U.K. in the first half is around 31% growth, but this is way below our earlier business. We were doing in U.K. almost around Rs.240 Crores, Rs.250 Crores kind of business. So it will take some time to pick up, but yes, definitely, it will pick up.
- Moderator:** The next question is from the line of Alok Dalal from CLSA. Please go ahead.
- Alok Dalal:** Just one question. I wanted to understand, are you allowed to file products into the U.S. market from a plant under input alert?
- A. K. Jain:** We can definitely file. There is no restriction in that, and we have been filing. But currently, we stopped because they are not taking it for a year. Then each filing, you need to pay so much of fees to the FDA and then we do not get any kind of results. So it doesn't make sense to do filings right now.
- Alok Dalal:** Okay. So your filings will pick up only once the facility is clear?
- A. K. Jain:** The facilities are clear because currently, also, there is a huge pipeline that's available. So we will first use that pipeline and then we will start picking up R&D projects.
- Alok Dalal:** Okay. Sir, just want to understand the longer-term plan in the U.S. because even after doing everything, probably you will remain a small company in the U.S. So what is the longer-term plan? Why has a front-end in the U.S. when you can easily pursue a very good job by being a back-end player?
- A. K. Jain:** Let us say our business philosophy is that, let us say, we may remain small, but on the product, we will remain big. So whatever our products are there, we will have a larger market share. That is our business plan. And on the products, we will do a great business. That has been the business philosophy that we should be the lowest-cost producer, integrated supply chain kind of thing and then take the larger market share on that particular

product. So I would say that with the products which we will be marketing, we will have a good set of market share from those products.

**Alok Dalal:** Okay. Sure. And one last question. Sir, last 10 to 12 quarters, your revenues have trended far ahead of your expenses. Until when do you think this trend can sustain?

**A. K. Jain:** We still have a significant amount of capacity as far as formulations are concerned and still this kind of operating leverage is available from formulation side. API side, as I said, certain dedicated plants and we still have capacity there. But certain multipurpose plants, the capacities are reaching to the saturation level. So certain kind of those investments would be there and as far as the margin profiles are concerned, by and large, are that the overall gross margin levels is almost around 67%. And your expenditure rise unless you put up too many plants and all that kind of thing or add too many people. So it is not going to grow in line with business growth. So naturally, we'll continue to keep on increasing our overall EBITDA margin profile.

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

**Tushar Manudhane:** So good set of numbers. So just first, on the API thing. So in terms of procurement of key starting materials for API, any consultant in terms of availability of the key starting materials?

**A. K. Jain:** Availabilities are improving. The price trend is also improving, but we do not see any kind of significant dip in the prices from earlier on. So there, our prices are falling, but not significant. And availabilities are definitely improving.

**Tushar Manudhane:** So basically, backward integration would not be a viable option given the scenario being getting favorable?

**A. K. Jain:** No, we cannot have that kind of generalized kind of thing because backward integration, when you look at different technologies and other things, and we will look at the correcting the cost significantly. So we are not going to give up backward integration. Backward integration to reduce the cost of overall APIs and be competitive in the market, so we will continue to work towards backward integrations and that also builds a lot of confidence to my buyer that yes; I have in the supply chain income growth. So that philosophy will continue to be there because we always work in the terms of India, are integrated in that we do API, we do intermediaries, we do formulations, and then we address the entire evolution. So that's the business philosophy and that would continue to remain. We are not changing that also.



- Tushar Manudhane:** What would be the volume growth, like in the API segment per se?
- A. K. Jain:** Well, let us say, the volume growth, if you look at it, would not be that significant, but your mix change is significant because the prices of the products, these are having the higher prices, are selling much higher. So our focus has been towards that. So maybe around 10% increase then, but in the same kind of increase in the overall top line. That's the kind of thing. So more and more...
- Tushar Manudhane:** Sorry, 10%?
- A. K. Jain:** Volume increase and 40% rise has happened in the...
- Tushar Manudhane:** Prices...
- A. K. Jain:** No, overall volume, volume, volume. Yes, it more focuses towards the high-value products there.
- Tushar Manudhane:** So how do you see the sustainability of these high prices, like in terms of visibility, let us say, next...
- A. K. Jain:** The prices will remain. Some softening may happen, but not significant because we do not see any kind of significant reductions in intermediate prices. There is a minor softening's are there, but not great, yes.
- Tushar Manudhane:** And secondly, what is driving growth or in the API itself, other than for the products which are a burden sartans, maybe sartans because of the regulatory issues to peers. But for the other product, what would be like key driving factors?
- A. K. Jain:** Let us say, sartans then even maybe around an additional business of around Rs.100 Crores, but our overall business growth is very good, yes.
- Tushar Manudhane:** So just wanted to understand, so excluding sartans, what will be the key factors driving the growth in other API molecules other than sartans?
- A. K. Jain:** So listen, we have been working with various customers, various countries, so it is the 2 and the new sources, the new buyers and all that. So that had been continuously driving, reaching out to the more number of market, more number of customers and all.
- Tushar Manudhane:** Okay. And lastly, just the recent 483, so in terms of time line to resolve the issues and get back to U.S. FDA, any...

- A. K. Jain:** Let us say, we had reached out to FDA, but they said that they are set to go through the other responses, and they normally do it around 90-days time. And so we are in the touch base on this. Soon the reviews happen, we would like to have a meeting with them and then present our side to them, everything. So we are planning that kind of meeting with them, but it all depends on when their reviews are completed. Normally, they take 90 days to review the response and all. That will hover mainly around that, just onetime that period will get over.
- Moderator:** The next question is from the line of Manoj Garg from White Oak Capital. Please go ahead.
- Manoj Garg:** Congrats on a great set of numbers.
- A. K. Jain:** Thank you.
- Manoj Garg:** Sir just wanted to check on the domestic market, if you can help us understanding the growth between volume and price increases.
- A. K. Jain:** Normal price increase is around that, let us say, 3% to 4% in a year. The current year is also remaining in that line, yes.
- Manoj Garg:** Yes. Okay. So then probably, we have seen around 10% to 11% kind of volume growth?
- A. K. Jain:** The overall growth in the first half is around 15%. So 4% for this year and maybe prices are also a little better. So around 4% in price hikes and around 11% of overall revenue growth. Yes.
- Manoj Garg:** So Sir, I just wanted to understand, well, the change in the domestic market because a couple of quarters ago, there was concern around the volume growth in the industry. And even in the past two years, we have seen high-single-digit kind of growth. But probably, in this year, we have been seeing very, very strong recovery. So I think structurally, you would like to highlight which is helping us or the overall industrial growth, are they at a faster pace now?
- A. K. Jain:** Let us say, our focus is more on continuously on brand building. So if you look at our top 10 brands, the growth is almost around 20%. So that is significant. Our overall top 10 brands are growing by around 20%, and others are growing by around 8% to 9%, so that is giving us around 15% kind of growth. So that kind of focus on products and driving the volume growth will continue to remain, yes.
- Manoj Garg:** Sure. And second thing is like in terms of sustainability, how do you see the domestic growth sustaining over the next maybe 2 to 3 years here?

**A. K. Jain:** No, we have a long way to go because of that. And there is a lot of unmet needs we still need to address our cardio franchise are going to go much better. Our pain segment will continue to drive that kind of growth this year. And we are picking up growth on antibacterial and also the other therapies. So overall, our growth numbers are definitely going to be around 1.5x the market growth.

**Manoj Garg:** So you're not sure yet. And the last question from my end, like since you said that there's a lot of scope in terms of operating details like in the formulation side. So without U.S. consolidation, how do you see that operating details maybe playing out over the next 2, 3 years? Like at some point of time, we have indicated that we would like to go back to the historical margins, which was around anywhere between 23% to 25% kind of range. And when do you see that probably will be getting to that...

**A. K. Jain:** Maybe we have 2 areas away from that because we are already used to around the 22% kind of number. So maybe around 2 years' time, we should be back on our historical numbers, without the U.S. because with U.S., it will go up further high because our U.S. margins are much higher. And currently, the prices are fabulous in the U.S. for our products. So as and when it gets cleared, the margins will further improve. But otherwise, maybe in 2 years' time, we should be back with that kind of number in the margin side.

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

**Rahul Sharma:** Sir, I just wanted to ask you on what is the status of the plants which are there from the U.S. perspective, individual plant waste?

**A. K. Jain:** Let us say, one plant is inspected. There were 483, which we already replied, and we are awaiting some kind of meeting with FDA. They have yet not reviewed the response which we again we are installed to that. And the other plants, also we are expecting the inspection. So as and when they happen, we are fully prepared to address that. And all the remedial actions or whatever required to be done, that has been completed.

**Rahul Sharma:** Okay. So they have to get back to us on this. Is 483 regarding Pithampur, right, Sir?

**A. K. Jain:** Yes. That was the Piparia plant which is in Silvassa and Pithampur is pending and the plant is pending.

**Rahul Sharma:** Okay. And Sir, South Africa, many companies are facing some headwinds. How have we performed in South Africa, Sir?

- A. K. Jain:** We have not faced any kind of those problems, but only there was some kind of delay on allotment of awarding the tender in current year and how that is a tender business. And the supplies are quite in South Africa. So our overall, let us say, to catch the numbers, South Africa numbers, there's much buildup very much they are in line with last year's numbers.
- Rahul Sharma:** How much we did for the half year, Sir?
- A. K. Jain:** Around Rs.35 Crores as against Rs.51 Crores that we have done last year.
- Moderator:** We'll take one last question from the line of Dhwanil Desai from Turtle Capital. Please go ahead.
- Dhwanil Desai:** Congratulations on a good set of numbers. Sir, 2 questions. So one is with respect to our remedial cost. We have issued term observation in Silvassa. Going forward, the 2 plants are being inspected and they are on observation. Do you see any possibility of our remedial cost again going back to Rs.70 Crores, Rs.80 Crores, Rs.90 Crores in case how the observation that are at work? That's the first question?
- A. K. Jain:** As far as the observations are concerned, they will require any kind of further remedial work to be done.
- Dhwanil Desai:** Okay. And you do not know...
- A. K. Jain:** Now the other response will be on that. So no further remedial are required. And as far as the one plant which is there are 2 plants that they actually inspected, so difficult to comment at this stage.
- Dhwanil Desai:** Okay. And Sir, second question on the API side. So I think a lot of API players are saying that people are looking at India for a second source, and there's a demand movement from China to India. So I mean, do you see also see that trend happening? And is that what is driving the growth? Or overall, is it like more companies (inaudible) they want the growth, if you can shed light on that?
- A. K. Jain:** By and large, let us say, most markets are becoming more regulated now. And earlier, for a lot of markets, they are not procuring API from the sources which are there because everywhere, there is a grandmaster file, and all smaller countries also have now regulations. So it is difficult for people to change the first month. And so if you are there in anybody's procurement as the #1, #2 supplier, then you remains a long-term kind of supplier with that party.

Because of that reason, also now prices are, on API side, are much better as far as -- earlier previous prices also will be much higher than other market prices. And now many of the APIs we get at par with U.S. the prices in other markets. So prices tend to also improve because of this entire regulatory environment that's currently there and which will continue to remain. People are looking for a more stable source of supply, okay, because the fast disbursement that we have seen in terms of the supply chain, which in terms of trade, we have supply chain. So they look for the more stable source of supply, and they are willing to pay some kind of premium on the API as well. So supply performances are good. That trend is definitely there in API, and that will help Indian companies also.

**Dhwanil Desai:** Okay. And Sir, lastly, on this API need. So I mean most of the APIs that we manufacture and supply, is it not yet covering that we will be vertically integrated with almost the implementation run or that is fairly across products?

**A. K. Jain:** Not on everything. But yes, on our major APIs, we are integrated. And on certain other intermediaries also, we are working to see how we can produce in-house those intermediaries, yes.

**Dhwanil Desai:** So that positions us in terms of with the customer in a better place because then you are vertically integrated and the supply security is kind of there.

**A. K. Jain:** Yes, that definitely helps. Yes, that definitely will help.

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

**A. K. Jain:** Let us say, we are continuously committed to the resolving these issues and go back to our past glory as far as the U.S. business is concerned. And we have taken all the steps and that we are hopeful that we have some time to come. Yes, we will get back the resolutions and then work on towards the U.S. market and see back the margins, which were in that kind of profile which we had in the past. Thank you so much.

**Moderator:** Thank you. On behalf of IDFC Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.