

Q3 2019 IPCA Laboratories Ltd Earnings Call

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Corporate Participants

* Ajit Kumar Bhanwarlal Jain

Ipca Laboratories Limited - CFO, Joint MD & Executive Director

* Harish P. Kamath

Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary

Operator [1]

Good morning, ladies and gentlemen. Welcome to the Ipca Laboratories Limited Q3 FY '19 Earnings Conference Call hosted by IDFC Securities Limited. (Operator Instructions) Please note that this conference is being recorded.

I now hand the conference over to Mr. Nitin Agarwal from IDFC Securities Limited. Thank you, and over to you, sir.

Nitin Agarwal, IDFC Securities Limited, Research Division - Analyst [2]

Thank you, Irina. Good morning, everyone, and a very warm welcome to Ipca Laboratories Q3 FY '19 post results earnings call hosted by IDFC Securities. On the call today, we have representing Ipca management are Mr. A.K. Jain, Joint Managing Director; and Mr. Harish Kamath, Corporate Council.

I hand over the call to the Ipca management team for making the opening comments, and then we'll open it up for the questions and answers. Sir, please go ahead.

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [3]

So good morning, everyone. We have yet another successful quarter in the current financial year. The domestic formulation business in this quarter has grown by around 10%, export formulations overall growth is around 4% and overall formulation business in this quarter has grown by around 7%. Overall API business in this quarter has grown by around 20%. And overall for the quarter, we had around 10% growth overall.

On cumulative basis, the domestic formulation for the 9 months has grown by around 17%, and export formulation by around 7%. So overall, formulation business has grown by around 13%. And API business for the 9 months has also grown by around 21%, and overall for the first 9 months of the current year, we are at around 15% growth.

Overall, on consistent basis, we are improving our gross margins. The material cost to sales for the first 9 months of the current year has come down to almost around 31.4% as against 34.75%, which we had in last financial year. In this quarter also, material cost to sales ratio is around 31.2% as against 33.8% that we had in last financial year.

And overall, we have further improved our EBITDA margins. In this quarter, the overall EBITDA margins is around 22.48% as against the third quarter of last year's EBITDA margin of 18.63%. And overall, for the first 9 months of the current year, it's around 20.62% as against 14.21% in last financial year, the first 9 months of the last financial year.

Overall, in this particular quarter, you will notice that material -- your employee cost is a little on the lower side. That's by and large relating to the certain reduction in the provisionings relating to domestic marketing incentive because this quarter's performance was a little on - or was on lower side. Given those for the first 9 months of the current year, we have achieved our [results] around 17% growth in domestic market. So that's the 1 reason that employee cost is only (inaudible).

Another variations you may notice was mainly in the expenditure side -- other expenditure side. It's largely because of this action loss in profits are bracketed with other expenses. If you exclude those kind of expenditure to by and large in this quarter, there is a 15.8% increase in the other expenditure side. And for the first 9 months of the current financial year, it is around 10.4% increase in overall expenditures.

Having given the broad numbers, the management is now open for question and answers.

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Questions and Answers

Operator [1]

(Operator Instructions) The first question is from the line of Prakash Agarwal from Axis Capital.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [2]

Sir, my first question is on this institutional generic business, which has been softer this quarter. Just trying to understand what really has happened. And are we on track for INR 180 crores guidance?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [3]

So institutional business can never be a consistent kind of business because there are a lot of nominated shipments and other issues happens and tenders are coming at different, different time. But -- and then executions happens accordingly. So some of our shipments got postponed. We are perfectly in line for the first 9 months of current year. Domestic -- the distribution business is around INR 124 crores as against INR 112 crores last year. So there's almost around 10% growth. And overall, I think we should be able to achieve around INR 180 crores for the current financial year.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [4]

Well, that's good to know that you're on track. But sir, if we look at the peer set like the Ciplas, the Ajantas and the Strides of the world, there is a significant drop in their tender business. So these -- I mean, that is maybe because of the global tender down, and we don't have any contribution from global tender currently. Is that true? And when do we expect our global tender business to kickstart?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [5]

I'd say, as far as -- you are right to say that we don't have currently any kind of Global Fund related to the business currently. But Global Fund is supporting countries, and we have those kind of country businesses right now. And as far as Global Fund is concerned, there is nothing pending from our side. But there is a complete clearance from Global Fund also.

So hopefully, if and when the process start and they start awarding this procurement, they start procurement, hopefully, we will also be there in the business with Global Fund.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [6]

Any number you can share for next year, sir, how is this business looking with the DTs and injectables coming onstream?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [7]

It's too early. Maybe in the fourth quarter of the current year, after that call, we will provide you the full guidelines here. But definitely, this business will have a substantial growth because of DT and injectables online. Right now, we are in process of registering the dossier of injectable in all the market. DT registrations, maybe around 60%, 70% of the countries through balance is in progress. So hopefully, next year, we'd be good as far as domestic business is -- sorry, institutional business is concerned. And also, we will get the additional business from Global Fund here.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [8]

Okay. And sir, second question is on the just clarification on this ForEx gain that you said we have to adjust with other expenses.

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [9]

No, no. What happened, this is bracketed this -- your ForEx gain and whatever this P&L account performance, which is given by MCA. That does not accept the line item for ForEx separately. So whatever gain and loss is there, that, we are bracketing with the other expenditure. And normally, since this figure fluctuates, so other expenditure figure also fluctuates. Sometimes there is a profit, sometimes there is a loss. So sometimes there is a

reduction from that expenses, sometimes there is an addition to that expenses. So because of that, that fluctuation happened. So if you want to know comparative figures, I will just give you. That December '18, my figure of other expenses excluding the profit and losses of exchange is around INR 268.4 crores. For September '18 quarter, it was INR 277.34 crores. And for December '17, this figure was INR 231.83 crores. This quarter, there is around 15.8% increase. And overall for 9 months, excluding exchange again, it's at INR 387.8 crores against 317 -- 3-1 -- sorry, INR 713.67 crores, so it's around 10.4% increase in 9 months. And yes, this quarter, there is some exceptional figure of around INR 7 crores debited to the P&L account on account of failure to supply because the earlier that propanol this withdrawal was there, exemption withdrawal. So certainly...

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [10]

Which product, sir, the failure to supply?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [11]

Propanol.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [12]

Propanol. And which market?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [13]

In U.S. market. So it's around INR 7 crores exceptional debit is there in the P&L account in this quarter, yes.

Operator [14]

We'll move on to the next question. That is from the line of [Dagar Shah] from CD
EquiSearch.

Unidentified Analyst, [15]

My question was on the raw materials side. Since you've mentioned that the raw materials
to sale has gone down this quarter. So is there any competitive advantage with respect to
procurement?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director
[16]

It has nothing to do with procurement. It's a lot to do with the product mix, what we sell. And
there is a consistent improvement that this is a profitable business. Even though we have
explained in earlier quarters, we have talked about that there is an upward trend from China
and all on material costs, there is availability issues, it was also there. But in this quarter, we
have noticed that these availability issues are completely easing now. And there is a slight
reduction in the material cost on procurement side. But not making a significant difference.
Prices are still at elevated levels, slightly on a -- towards the negative side. So it's better --
there are no -- we have not faced any kind of availability issue in this particular quarter.

Operator [17]

The next question is from the line of Tushar Manudhane of Motilal Oswal Securities.

Tushar Manudhane, Motilal Oswal Securities Limited, Research Division - Research Analyst
[18]

Sir, just on this failure to supply, is this in raw material costs? Or this is also in other
expenses?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director
[19]

This is in other expenses because it's a claim to be paid. Already paid, not to be paid, yes.

Tushar Manudhane, Motilal Oswal Securities Limited, Research Division - Research Analyst
[20]

And do you envisage anything now that we are almost half of the fourth quarter through?
And is there anything coming in fourth quarter also?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director
[21]

No, we don't foresee anything coming from it.

Tushar Manudhane, Motilal Oswal Securities Limited, Research Division - Research Analyst
[22]

Sir, secondly on this India business, maybe this quarter, it was a base effect. But are we on track to do 14%, 15% growth in the domestic formulation for full year and the year next?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director
[23]

I think overall, the first 9 months of current year, we are at almost around 17% growth in domestic market. And for the whole of that financial year, we expect almost around 16.5% growth. Fourth quarter, our expectations is around -- almost around 14% to 14.5% kind of growth in fourth quarter as far as domestic business is [concerned].

Tushar Manudhane, Motilal Oswal Securities Limited, Research Division - Research Analyst
[24]

Okay. And just if you can help me for 9 months breakdown into price, volume and new launches.

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director
[25]

Let's say at our company, we hardly introduce our product financial results and new product introductions are really very small, maybe contributing around INR 8 crores to INR 10 crores kind of business. So they are sold by and large, is the productivity gain, completely for the [ramps] productivity has increased. It's, by and large, it's volume, price growth is almost around 3.5% to 4%, maybe in the range of that.

Tushar Manudhane, Motilal Oswal Securities Limited, Research Division - Research Analyst
[26]

Okay. So just to understand, when these new launches do pick up?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director
[27]

These are the line extension. No major brand launches such has happened in the current financial year, so only line extensions.

Tushar Manudhane, Motilal Oswal Securities Limited, Research Division - Research Analyst
[28]

Understood. And lastly, any further updates on U.S. FDA side?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director
[29]

As far as U.S. FDAs are concerned, we have done most of the remediation work. It's already completed. And with the consultant and third party, all the work is over. And now we are awaiting the inspection from FDA. We are engaging with them, and hopefully, inspection should happen somewhere in the next year.

Tushar Manudhane, Motilal Oswal Securities Limited, Research Division - Research Analyst
[30]

Next financial. But there is no further correspondence so to say between Q2 and Q3?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director
[31]

I would not like to comment on that. But yes, we are engaging with them. That's what I can say.

Operator [32]

The next question is from the line of Charulata Gaidhani from Dalal & Broacha.

Charulata Gaidhani, Dalal & Broacha Stock Broking Pvt Ltd., Research Division - Analyst
[33]

My question pertains to what is the outlook of the domestic business going forward.

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director
[34]

As I said that for the current year, we should end up around 16.5% for the overall growth in domestic business. Currently, it's around 17%. And overall company as a whole, we should be ending at around -- for this financial year at around 14.5% to -- 14% to 14.5% kind of growth in the -- overall for the whole of the year. And next year's guidelines, our budget position is completely on now with all the divisions announced. So probably at the end of our fourth quarter, we should be able to give you the complete guidance.

Charulata Gaidhani, Dalal & Broacha Stock Broking Pvt Ltd., Research Division - Analyst
[35]

Okay. And my second question pertains to the scale up in branded business in exports. Can you give the geographies?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director
[36]

This quarter, the overall branded business has done well. It's around -- the business was around INR 105 crores as against INR 74 crores last year in the third quarter. So there's almost around 41% growth. And for the first 9 months of the current year, branded business growth is around 9%, around INR 266 crores as against INR 244 crores. And we hope to maintain good business even in the fourth quarter as far as branded is concerned. So all the branded business in, let's say, the second half of the current year is picking up very well.

Charulata Gaidhani, Dalal & Broacha Stock Broking Pvt Ltd., Research Division - Analyst
[37]

And geographies contributing?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director
[38]

Geographies contributing, like I said, overall, for the first 9 months, let's say, yes, it's contributing around 9%, Middle East, Africa. Southeast Africa is around 40%. Middle East, Africa, there is a minor decline. And Latin America is flat. But rest of Africa, there is a very good growth of 23%, and overall, around 9%. And similarly, for the quarter also, most of the numbers remain on the same line.

Operator [39]

The next question is from the line of Damayanti Kerai from HSBC.

Damayanti Kerai, HSBC, Research Division - Analyst, Healthcare and Hospitals [40]

Sir, can you update us on the U.K. distributor issues, which we had faced in the last few quarters? Any update on that front?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [41]

I think -- so I think some time a few months back, the MHRA has cleared that distributor for importing our products, and then they're doing the QP. The issue was mainly with their QP. So MHRA has allowed them to import the products and clear from their QP. So that issue is now -- as far as we are concerned, that issue is resolved. And -- but in this quarter also, we have seen some kind of decline in U.K. And it's also mainly because of the serialization issue, which is currently happening in the whole -- on the block chain technology, so all these, the serial numbers are to be generated and the barcodes are to be printed on each and every cartons and bottles. And also these numbers, again, whatever serial numbers are to be transported back to our service provider from there to the party service provider, and finally, it has to land to the server of the European authority. So there are a lot of technology challenges and other -- the line upgradations. And together with that also, there was another change that you have to do all the cartons, and everything needs to be -- your [channel] filling need to be done completely. So those kind of things were compared of the stickering need to be done on some very hot and cold blue kind of thing in now those all cartons. So all line upgradations and all work is almost getting over and certain connectivity issues are also there with parties and with their service provider. So at least really, this is getting -- I think maybe all the issues will take up to February to get resolved, and

everything will be online. So some kind of business in fourth quarter also means for -- on that account.

Damayanti Kerai, HSBC, Research Division - Analyst, Healthcare and Hospitals [42]

Okay. So by end of this fiscal, we should be seeing normalization on all these issues, which you have just said?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [43]

Yes, yes. It should by end of this February itself. Because half of the customers are already online. Balances, as and when their products are coming online, then the connectivities are established, and everything is done. So that process is -- will take some more time. Otherwise, there are no issue relating to line upgradation, or there are no technology kind of issues. It's only that your -- the completely QA process and process at the end of the customer's service provider. Because everybody has a different service provider. So seamlessly, these flow of data and everything should happen. So that needs to be established.

Damayanti Kerai, HSBC, Research Division - Analyst, Healthcare and Hospitals [44]

Okay. Sir, one clarity on this QP thing which you mentioned for the distributor in U.K. So any time line by when we should be expecting that, this should be able to...

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [45]

I already said that they have got the clearance from MHRA, so they can import and test also, which earlier they had the issue. The distributor has the issue that they were not able to test themselves. They were to go to another labs, and they had the method transfers. And all were taking a lot of times because they can't do method transfer, we have to do method transfer. And method transfer is a very, very tedious process. So because of that,

the whole issue was getting delayed. But now since they already got the clearance from MHRA, there are no issue left as far as the account.

Damayanti Kerai, HSBC, Research Division - Analyst, Healthcare and Hospitals [46]

Okay. So how should we look at generic export business going ahead, one (inaudible)?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [47]

We will give the -- maybe for the next financial year forecast in the fourth quarter -- along with the fourth quarter call. So currently, there are budget preparations and everything for every businesses are in progress. So hopefully, we should be able to give you in fourth quarter completely the forecast. But yes, business will definitely improve.

Damayanti Kerai, HSBC, Research Division - Analyst, Healthcare and Hospitals [48]

Okay. Sir, 1 question. Are you seeing benefit from this certain recall issues in the U.S. or Europe? Or you are not participating in that?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [49]

Let's say, we are one of the very large producers of Losartan. And VALSARTAN, we have just started, got the (inaudible) approval now. And some shipments have already started. We are scaling up. Hopefully, next year, we should gain good volumes and also value from VALSARTAN.

Damayanti Kerai, HSBC, Research Division - Analyst, Healthcare and Hospitals [50]

For the U.S. market or other markets?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [51]

U.S., we can't ship right now. But Europe market itself is big, and all other markets are also big. So hopefully, and we don't have capacity for U.S. right now for VALSARTAN. So yes.

Damayanti Kerai, HSBC, Research Division - Analyst, Healthcare and Hospitals [52]

Sir, last question on tax. We have seen quite an increase in this quarter. So how should we look at tax expenses going ahead, effective tax expenses?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [53]

We are a med company. And those tax, basically, itself we are paying on med. And some reversal of your -- on account of the deferred tax. There is some fluctuation happens. But by and large, weighted, we're at around 18.6%. And for whole of the first 9 months of the current year, we are at around 17%. So that's a little higher because the little higher provision is also on account that we must all notice that our profitability has gone up. So the tax provision normally happens based on, say, we do an annual projection. And then based on whatever quarter profits are there, that is provided. So our annual -- compared to, let's say, our current year forecast of EBITDA margin, which we have given in the, let's say, fourth quarter last year, was around 18% and 18.5%. We are currently at around 20.5% or so, close to that. So overall, profitability compared to our projections and all has gone up. And that is also resulting in a higher kind of tax provision in this quarter. This quarter itself, we have achieved around 22.4% kind of overall EBITDA margin. So overall, profitability is good. So tax provision is also a little on the higher side. But overall, tax will remain. We are a med company. We have significant amount of medical use line. So next few years, it will remain at med level.

Operator [54]

The next question is from the line of Saion Mukherjee from Nomura.

Saion Mukherjee, Nomura Securities Co. Ltd., Research Division - Head of India Equity Research [55]

Sir, can you mention the -- I know you mentioned INR 7 crores on the penalty. What is the number for 9 months?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [56]

This is for the first time, the claim has come in the current year, so it's INR 7 crores. And in last financial year period, around INR 4 crores. So on personal account, there is, I think, for the fourth quarter last year, we paid some money. And this is the final claim, which is around INR 7 crores. So around INR 11 crores penalty we have paid for whatever shipments which we could not make, yes.

Saion Mukherjee, Nomura Securities Co. Ltd., Research Division - Head of India Equity Research [57]

And sir, on the remediation-related costs, last quarter, I remember you mentioned it was on the higher side. So what's the number this quarter and for the 9 months?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [58]

This quarter number is almost close to around -- 1 minute, I'll just take out the number. Overall in Q3, we have incurred around INR 13.56 crores. And overall, for the first 9 months of the year, we have incurred around INR 45.4 crores. So that's the expenditure which has gone into the U.S. remediation. And my fourth quarter number would also remain around close to INR 15 crores. So for this year, overall expenditure could be around INR 60 crores on -- completely on remediation.

Saion Mukherjee, Nomura Securities Co. Ltd., Research Division - Head of India Equity Research [59]

So, this is primarily related to all the FDA queries that you are responding to, right?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [60]

No, it's not relating to that. It's all the GNP work and other work that's long back completed. It's only relating to past 6 years' data verification. That's the major one, and it's a huge, huge, huge database. So that work which is there for 2 plants, it's almost completed. And I think third plant is in progress. Hopefully, by March and also every one, all these verifications would be completed. Then after, the number will come down drastically on the lower side, yes. So next financial year, we don't see this cost to be significant.

Saion Mukherjee, Nomura Securities Co. Ltd., Research Division - Head of India Equity Research [61]

And sir, my 1 last question is around your domestic business. Can you throw some light how the overall is performing? And what's the contribution of that brand for you currently? And how is it going? And how you think about it going forward?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [62]

As far as the brands are concerned, it's not our policy to talk on the overall brand values and other. So I will not be able to give a number. But as far as the therapy is concerned, I would say that certainly, as far as the pain segment are concerning, we are continuously gaining the very good tractions overall. On rheumatoid arthritis, we have significant, significant market share, close to 60% kind of -- those kind of market share. And also on arthritis, which by and large is represented by Zerodol. So overall, pain management products in the first 9 months of the current year has overall grown by around 22%. And this quarter, pain management products has grown by around 17%. That's the number I can give you.

Saion Mukherjee, Nomura Securities Co. Ltd., Research Division - Head of India Equity Research [63]

Okay. Sir, this is largely, you would say, chronic pain segment? Most of the consumption is in the chronic pain you would say?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [64]

Both acute and chronic. Rheumatoid arthritis is completely chronic.

Saion Mukherjee, Nomura Securities Co. Ltd., Research Division - Head of India Equity Research [65]

Yes. So I'm just wondering like of the total pain segment things that you have, what is the rough split between acute and chronic?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [66]

It's -- I think ratio is around 60 is the acute and 40 is chronic, yes. Broadly, that's the ratio, yes.

Saion Mukherjee, Nomura Securities Co. Ltd., Research Division - Head of India Equity Research [67]

And sir, just one last thing on Zerodol, I mean, because it's a combination product. And so is there any concern on it being evaluated by the committees? Because I think that some [spooking] has already happened. I mean, any risk that you see on that?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director
[68]

As far as Zerodol is concerned, I think most product we have received the DCGI approval. But there are 2 products on which, I think, last committee has said that you need to conduct the clinical trial. So those clinical trials are in progress.

Saion Mukherjee, Nomura Securities Co. Ltd., Research Division - Head of India Equity Research [69]

Okay. But you would submit the trial and...

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director
[70]

Yes, yes, yes.

Saion Mukherjee, Nomura Securities Co. Ltd., Research Division - Head of India Equity Research [71]

Okay. But do you see a risk there, sir, in case the trial fails? Or anything of that burden should we be concerned by?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director
[72]

I have never seen trials failing, multicentric kind of clinical trials. And they're largely into the government hospitals and distributions, which are approved by, again, by DCGI. And all that are regularly monitored by the DCGI also. And we also wanted to do the trial there.

Saion Mukherjee, Nomura Securities Co. Ltd., Research Division - Head of India Equity Research [73]

Okay. But as to the data of these 2 products then, which one are you doing the first?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [74]

Normally, on each Q-wise, we don't give those numbers, yes.

Saion Mukherjee, Nomura Securities Co. Ltd., Research Division - Head of India Equity Research [75]

But this is onetime, isn't it a significant number? You're...

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [76]

That's quite big. That are big, yes.

Saion Mukherjee, Nomura Securities Co. Ltd., Research Division - Head of India Equity Research [77]

Not big, sir?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [78]

Big, big.

Operator [79]

The next question is from the line of [Rahul Jain] from (inaudible).

Unidentified Analyst, [80]

I wanted some understanding on the ODT business. You had mentioned in the last quarter you have started registering products, and roughly about 30% to 40% procurement had happened in the DT part. And hopefully, the business was likely to commence in this quarter. If you could just throw some light on where do you stand on that business? And what kind of potential do we see in this business?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [81]

As far as this DT is concerned, we have already started doing business. And the business currently is small. But once the Global Fund business starts, I think the business will have a substantial increase. So hopefully, after the fourth quarter, maybe we should be able to give you the overall projections of what kind of institutional business is possible in the next quarter -- for the next financial year.

Unidentified Analyst, [82]

Sure. And can you similarly give us some more understanding on the injectable plant, where we stand?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [83]

Ipca Laboratories plant is approved, product is approved, already prequalified. And now country registration is only after the qualification, you can do continualization, so that process is on. So it will take around 6 months' time to get all the registration mostly from markets, and then business would start. So from there, registration, say, 1 or 2 country registration has already come. So as and when procurement happens, we would be participating in those kind of procurements, so.

Unidentified Analyst, [84]

Particularly, it's the kind of plan...

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [85]

It should be, yes. Right now, we have not done any business, yes, on injectable in the third quarter of the current year.

Unidentified Analyst, [86]

No, I understand that. What I'm trying to understand is given the kind of size of plant, we're at peak capacities. In 2 years, what could be the potential of this particular...

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [87]

It could go to almost around INR 70 crores, INR 80 crores kind of business. It's possible to have that kind of business.

Unidentified Analyst, [88]

ODT can be at around INR 200 crores, INR 250 crores?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director
[89]

It's too difficult to talk about what kind of global procurement happens and all that. It's difficult to comment. So I will give you those numbers only, whatever my projection of next year in the fourth quarter call.

Unidentified Analyst, [90]

Sure. In terms of R&D cost, if you could throw some light because it has come down in the current year. So as we stand today in this quarter, what is the R&D for 9 months? And how do you look at it going ahead? Earlier, it should be around 4% of the sales.

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director
[91]

R&D costs have come down to around 3% of the sales, mainly because, let's say, currently, the U.S. is not reevaluating the file. So it doesn't make sense to continuously do development and pay all the fees. And last 4 years, we are sitting on that. So currently, those development are slow. We are developing products for the other market. And therefore, the whole overall R&D costs has come down. But once we get the approval, around the time our inspection starts, we will again -- R&D costs with again pickup, and we should go to around 4% of the sales there.

Unidentified Analyst, [92]

Sure. And sir, last question, you did mention about remediation cost like around INR 60 crores for the current year. In the last call, you had mentioned that for FY '20 you are looking towards a figure of around INR 20 crores, INR 25 crores. Do we stand by the same figure? Or we have a lesser or more of that?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [93]

This will be lesser than that.

Operator [94]

The next question is from the line of Ashish Thavkar from Motilal Oswal Asset Management.

Ashish Thavkar, Motilal Oswal Asset Management Company Limited - Associate VP [95]

Sir, as regard to the Artemisinin, have the Chinese companies now started to take price hikes? And if yes, then would it lead to increased cost of equipment?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [96]

Currently, we are seeing a stability in the prices. So right now, the price fluctuations are not too much. In fact, as I said -- commented that currently, even -- some softness is there in the prices. And there is also ease on the availability as far as the materials coming from China is concerned. So the kind of that left supply chain disturbances, which we have seen in the first quarter and second quarter, we have not noticed any of those trend in the third quarter in the current year. And also supplies are pretty regular now. And as far as Artemisinin is concerned also, we have seen that completely the prices are on a stable side.

Ashish Thavkar, Motilal Oswal Asset Management Company Limited - Associate VP [97]

Okay, we fully back -- fully integrated, right, on this?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [98]

Well, we procured Artemisinin. We are not currently producing Artemisinin, no. Yes, given all the APIs required for including the Sterile Artesunate and everything we produce ourselves, yes. All APIs from Artemisinin we have produced: Arteether, Artemether, then Artesunate and Sterile Artesunate and everything with BHA, everything we produce, yes. All the products required are produced in-house.

Ashish Thavkar, Motilal Oswal Asset Management Company Limited - Associate VP [99]

The last question on the DT side of the business. So some of the companies have already started getting orders from the WHO since they were already in the market. And some companies are also saying that they have been able to retain the market share. So I just wanted to have your view on how we should look at this business.

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [100]

As we said that yes, as far as the Global Funds are concerned, we have 100% clearances there. So as and when procurement start, we will also be getting the orders. And hopefully, we should have much better business in institutional business in next year because currently, our business is 0 and not likely to be there anything, anyone in the fourth quarter. So hopefully, we should be able to do good business once Global Fund procurement is there, yes. They have -- some procurement must have happened. There's small here and there, but by and large in this financial year, after the tender period was over, Global Fund has not made any kind of significant procurement yet.

Ashish Thavkar, Motilal Oswal Asset Management Company Limited - Associate VP [101]

Sir, there are 5 competitors, right, currently in the DT version?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [102]

Yes, there are a number of competitors, yes.

Operator [103]

The next question is from the line of Aditya Khemka from DSP mutual fund.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [104]

Sir, firstly, the branded export business that we saw, so first 2 quarters, I remember, we were almost flat Y-o-Y. And this quarter, we had sort of a 40% Y-o-Y growth. What is this driven by? Is it that the first 2 quarters, it did not get orders from certain countries? This quarter, the orders are together, bunched up together? Or is it new product launches? What is driving that growth? Or is it currency?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [105]

Overall, let's say, the first quarter was concerned, in most market, we did well. There was not much of an issue. Second quarter, because again, this Ind AS kind of issue coming up where your sales are accounted through a different process, one is good (inaudible) customer and all those kind of movements. Shipment issues were there, here and there. So probably, this quarter, we are seeing around overall 40%, 41% kind of growth. But last quarter, there was a minus of 9%. It's only because of this by and large invoicing and shipment and those kind of issues. And the new accounting process of -- based on Ind AS and all that. But we see around for the whole of the year, around 15% kind of growth. And currently, it's around 9%. Fourth quarter also will have a good growth. So around 15% kind of overall growth. And it is going to be pretty steady, yes.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [106]

Okay. So beyond this FY '19 also, 15% sort of growth is what we see in that market, okay. And how much is currency playing a role there? I mean, I understand generally, the voice in

dollar would be currency fluctuations. These are certain price cuts or price increases depending on how the currency behaves. So what is the current situation there on the currency side?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [107]

So the overall, let's say, in the current year, if we take completely the overall realization side on our various currency basket, we held around 8% increase in the realization in current year. But there are some price adjustment also here and there. So overall, around, let's say, I would say half of it has come as advantages as far as the currency is concerned.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [108]

Okay. So the volume, what you're seeing is 7% to 8%?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [109]

Yes.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [110]

Okay. Sir, on the export API business, I think there was a sharp growth this quarter. And you did mention Losartan and VALSARTAN in Europe. Are you selling API in Europe for Losartan, VALSARTAN, and therefore, that resulted in export API bump up?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [111]

It's not that -- only in Europe. Europe business may be small, but a lot of other country businesses are very large.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [112]

Okay. So this 40% growth this quarter is largely led by Sartans across ex Europe?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [113]

No, it's not relating to the Losartan only. It's overall. The basket has overall improved. And let's say, overall, this business was, let's say, have seen those kind of issues last year and lower business was there, mainly because a lot of changes we have implemented in our systems and processes and others. And therefore, all the clearances and all were getting delayed. And now everything is streamlined, yes. The price realization has also improved overall. So things are by far better. And we continue to do well. Given our current base, we should have significant growth in the API in the next financial year.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [114]

Okay. So what is the 9-month growth in export API this year so far?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [115]

Overall, the 9 month growth on -- 1 minute, on API...

Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [116]

25%.

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [117]

Around that -- export API is around 29% from INR 414 crores to INR 535 crores.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [118]

Got it. And next year, you are confident of a 20%-plus growth again in the segment?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [119]

Yes, FY -- yes.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [120]

It should be around that, okay. And sir, secondly, on this U.S. FDA failure to supply from the U.S. Now you have got exemptions on 2 product sites. So you -- Chloroquine Phosphate, I understand is a small market, but Furosemide seems to be a reasonable market. Are you participating in that business at all, Furosemide?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [121]

Furosemide, currently, we have redemption. We are looking for some kind of partnering with somebody and then producing that. So it's too early. We will -- maybe I think fourth quarter, we should be able to give you an update once we finally conclude something.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [122]

Right. And even in Chloroquine Phosphate, sir, I was looking at IMS data, and I think Pharma seems to be the only player selling formulation in that market with 100% market share. So are you not getting any partners for Chloroquine Phosphate despite it being a small sort of product?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [123]

We are working on contract productions and others. So hopefully, this kind of things we should be able to conclude maybe a little maybe in fourth quarter also. So we will be able to give you updates only in the next quarter, yes.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [124]

Okay. And sir, again, on the IMS side, Sun Pharma shows uptick in market share from what was 1% 2 quarters back to about 7%, 8% in HCQS, hydroxychloroquine sulphate. Are we getting any profit share from them? Or how are they able to supply when it is our ANDA?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [125]

Our stocks are 0, and we have come out of the Sun Pharma agreement completely.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [126]

Okay. So now whatever figures they are filling is their own product, is it?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [127]

Yes, not our product, yes.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [128]

It's not our product, okay, understood. And on the generic revenue side, obviously, this quarter was not good. I assume it's U.K. and Europe causing the disruption serialization as you mentioned. Do you feel ex U.K., Europe, the address of the business, what has been the growth?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [129]

Overall, generic business in this particular quarter, there was a 3% decline overall from INR 142 crores to INR 139 crores. So a decline was there. And as far as EU was concerned, as against INR 70 crores last year, we did around INR 68 crores. So let's say, maybe around INR 2 crores decline on the part. Whereas the European business has gone up, but U.K. business is a little down because of this issue. And other market also more or less because last year also, there was share of profit from U.S. and others, which is currently more. Last year, the whole year, it was around INR 16.5 crores was share of profit, which is not there in the current year. That's also the base -- basis there, yes.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [130]

Right. And sir, excluding remediation expenses, which you gave good color on, is there a number you can put on how much cost we're incurring behind the U.S. business in terms of plant, the depreciation, operating expenses for which we have no commensurate revenue? What is the -- and it would be both across formulation and API businesses, right, the costs?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [131]

It's difficult to give a number, but 2 of my formulation plants, which are largely for relating to U.S., those plants are currently not recovering their costs. And that number could be almost around INR 50 crores.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [132]

INR 50 crores a year?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [133]

Yes, INR 50 crores a year.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [134]

So that is a recurring operating expense. So INR 50 crores there and another INR 60 crores in FY '19 for remediation. So a total of...

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [135]

That's not only cost recovery, but it also will have profitable year.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [136]

That will also have a?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [137]

A significant profit will also come plus recovery of expenses, yes.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [138]

Obviously, yes, yes. So a total of INR 110 crores is what we are currently incurring in terms of U.S. FDA resolution and operating expenses.

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [139]

Yes. All those kind of India maintenance fees and all that, that's also additional cost, yes.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [140]

How much would that be, sir? Any ballpark number there in the maintenance fee, facility, registration fees, et cetera?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [141]

Around INR 20 crores.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [142]

Another INR 20 crores, so it's INR 130 crores, okay. And lastly, sir, on this -- sorry, on the India business. So this year, obviously, has been good for us. But FY '18 was a low base

given this GST implementation. So could you quantify 2 things? One is what was the accounting impact of netting GST of return? And earlier, we used to put excise in other expenses. So what is the accounting percentage impact in growth?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [143]

Excise last year was INR 10 crores only now for the first quarter. So that's the only number. As far as the pre-GST period is concerned, we didn't give any kind of discounts and other to kind of disturb the market. We've maintained pretty -- no, we're practically very straightforward. Nothing of all those kind of adjustments were done in the market. And therefore, recovery was also very quick.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [144]

Understood. And last question, sir, sorry from my side. The 2 acquisitions, Pisgah and Bayshore, could you just update us as to what is happening there? What is the status? And how are those 2 subsidiaries ramping up?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [145]

As far as Pisgah is concerned, we have the smaller product, we have -- already transferring the technologies for 2 products there. There are only 3 product lined up. One product is completed, and the other 2 are lined up. So Pisgah, that journey is going very well. As far as Bayshore is concerned, I think in first 9 months of the current year, they have done, I think, a turnover of almost around \$10 million, and they are in profit.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [146]

And at \$10 million, Bayshore is profitable at the EBITDA line? Or is it a loss-making?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [147]

Yes, it's a profit-making.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [148]

Okay. And net profit as well?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [149]

Yes. There is a net profit, yes.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [150]

Okay. And same for PISG, is it profitable at the EBITDA and at profit level?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [151]

PISG, that is because all of these technology transfers and others, they are taking time. That process is going on. So revenue build up will take some time. So there are losses out there on that. But not very -- anything material.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [152]

Okay, sir. Got it. And sir, your absolute R&D budget for -- sorry, our absolute R&D spend so far for FY '19 would be how much, absolute?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [153]

It's around 3% of total sales.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [154]

3% of total sales.

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [155]

Yes. (inaudible) yes.

Operator [156]

The next question is from the line of Sameer Baisiwala from Morgan Stanley.

Sameer Baisiwala, Morgan Stanley, Research Division - Executive Director [157]

Sir, you mentioned that for the past data verification, you are done with 2 sites, 1 is pending. Would you say the third site where it slowed down?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [158]

The plant progress is happening, yes. It's progressing well. And margin, it should be over, yes.

Sameer Baisiwala, Morgan Stanley, Research Division - Executive Director [159]

So it's fair to say that FDA is probably holding on the other 2 [SL] because of (inaudible), is it?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [160]

It's not -- no, no correlation there.

Sameer Baisiwala, Morgan Stanley, Research Division - Executive Director [161]

Okay, okay. And second point is -- and second question on China issue. In the first half, you talked about this same issue, and it sort of will take a lot of time. So what happened in Q3 that things have normalized so quickly? I presume the sites in the -- in China must have been getting shut down, relocated, et cetera. So what kind of normalized the whole thing?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [162]

So there were a lot of supply chain disturbances that were happening. And I think a lot of those units then subsequent (inaudible) clearances and others. So prices are still elevated. Some softening is there. But supply chain disturbances are not there currently.

Sameer Baisiwala, Morgan Stanley, Research Division - Executive Director [163]

So which means that those sites continue to manufacture, and then what the pollution licenses result, right?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [164]

Yes, that's true. That's true. But prices are elevated. Prices are not coming down drastically as prices, which have moved up significantly, are not coming down. It's a slight softening that we've seen.

Sameer Baisiwala, Morgan Stanley, Research Division - Executive Director [165]

Okay. And so what should be the outlook both on prices and supply from China?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [166]

I should say, sir, that our overall supply disturbances would not be there, but prices would remain elevated at current level. Minor softening here and there may happen. But it will take some time before the price's trend start reversing.

Sameer Baisiwala, Morgan Stanley, Research Division - Executive Director [167]

Okay. Okay, great. And sir, final question on CapEx. Are you doing anything major here, this year and next year?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [168]

It will remain within depreciation only, maybe less than INR 130 crores, INR 140 crores, yes.

Sameer Baisiwala, Morgan Stanley, Research Division - Executive Director [169]

And all of this is maintenance in CapEx, is it?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [170]

By and large, maintenance and some balancing, line balancing or something, yes.

Operator [171]

(Operator Instructions) The next question is from the line of Prakash Agarwal from Axis Capital.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [172]

Sir, trying to understand the R&D investment, especially for U.S., better. I understand you will not file now because they will not accept it. But on the R&D centers, which are the key areas where you are functioning in terms of therapeutic capability? And what kind of filings we should expect, say, once the facilities are cleared?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [173]

Our filings were around 6 to -- 5 to 6, 7. So I think that's the kind of number we will be working in the future. Because mostly, it's based on our own API, by and large, by and

large. And you can commercialize more APIs than that in a year currently, in our kind of set up. So hopefully, these numbers would remain around that level. But currently, it's not that U.S. is not accepting. They are accepting the file. We have to pay the fees and everything. But ultimately, it's not getting stuck. So it's not giving any advantage currently. So once they start the clearing of all the backlog after this inspection, then only it makes sense to do the further filing and incur costs. So currently, we are not -- we were earlier filed. Last year, we have filed some sorts. But currently, this year, we are not filing any right now and not investing money on further developments for the U.S. right now, any significant expenditure on that. So mostly, developments which are happening for other market like Europe, Canada, Australia, a lot of other markets, South Africa and Russia, a lot of products and clinical trials are currently on for Asian market. So we are incurring the cost on other markets.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [174]

Okay. Not for U.S., you are saying. Currently, the development work also is not there.

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [175]

Yes, yes. It's significantly scaled down.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [176]

Okay, okay. And in India, like pain, clearly, we are leaders, and the segment is growing so well. I mean, what are the other key therapies where we are seeing double-digit growth and especially for fiscal '20 where we have laid down the foundations? And if there is any MR increase, if you can quantify that?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [177]

I think most therapies, except the old portfolio of maybe of INR 150 crores and antimalarial, which is continuously declining. But we are having good double-digit growth, let's say, which is...

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [178]

Across therapies?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [179]

Yes, across. Let's say, I'll review the -- let's say, pain is continuously growing. Cardiac, of course, the number is a little lower, but it's growing good. One particularly relating to our -- the (inaudible) therapy, so that's growing very well. Antibacterial, we have significant growth because of the people are now promoting antibacterials there. Malaria products are there, so same people are promoting. So much more than -- let's say, that's almost 20%, 25% kind of growth is we are seeing in antibacterial, same as the -- results are growing. Cough and cold is a growing therapy. Derma, we have close to 30% kind of growth. Urology, almost growing by 35%, 36%. Ophthalmology, growing by 40%. So most therapies that we have is growing except the antimalarial, which is seeing a decline. Certain old portfolio of products, which is around INR 100 crores. Old portfolios are there, which is in decline phase. So those products are not growing. But otherwise, mostly we have double-digit growth.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [180]

Understood. And lastly, if you could just help us with the cash and the gross debt, please.

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [181]

I mean, current cash is maybe, I think, as of today, it's around INR 370 crores cash in the balance sheet. And debt, maybe around INR 550 crores.

Operator [182]

The next question is from the line of Sachin Kasera from Lucky investment.

Sachin Kasera, [183]

Sir, you said 3% is R&D for FY '19. What will it be for FY '20? That's the first question. And second, in FY '20, what are the margin drivers that are possible with the company?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [184]

I would say that we have significant operating leverage. As the capacity utilization picks up, as the top line goes up, the margins would be disproportionate. And that's what is happening that current year, you have business is good. So overall, let's say, as against forecast of around 18.5%, we are at around 20.5% overall for the first 9 months as far as EBITDA is concerned. This quarter, we are at around 20.5%. So overall, as capacity utilization moves up, margins would be much, much better. And most of our segments has good profitability. And more profitable business as the U.S. and the institutional business pick up in next year. Hopefully, in the fourth quarter of the current year, we should be able to give you overall our guidance. But we are very confident that we will have good numbers here.

Sachin Kasera, [185]

Okay. R&D costs, as you said, 3% of sales in FY '19, right?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [186]

Yes, yes.

Sachin Kasera, [187]

And what would it be in FY '20?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director
[188]

More or less, it will remain the same because by the time we get an approval and we start scaling up, it will take some time, yes.

Operator [189]

The next question is from the line of Anik Mitra from Stewart & Mackertich.

Anik Mitra, Stewart & Mackertich Wealth Management Ltd., Research Division - Research Analyst [190]

Sir, as you did mention that VALSARTAN and you are supplying to Europe. From different sources, can I confirm that the market is gradually shifting from VALSARTAN to Losartan, like, at least in U.S. So sir, how do you find the landscape of VALSARTAN in Europe and in other countries? This is my first question. And next one is as you don't, like, give product-specific break up, so how do you feel like -- what is the, like, contribution -- what is the -- how much relevant is the VALSARTAN in terms of your total portfolio?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director
[191]

So, VALSARTAN has certainly been very small so far. It's only the last, I think, quarter -- last month, in fact, in the month of December, we could do some kind of some shipments. So it will start picking up, that's what I said. And we have a scope to go up to around 7x, 8x per month. That's the capacity, some modifications are going on in turn, which will become operational by February end. So anything bigger on VALSARTAN would start happening from, but we have -- let's say, after all the issues have happened, since our product didn't have that kind of impurities, we have applied to the European authorities and got an approval. And our products doesn't have those kind of impurity. And we have started sampling aggressively and some, let's say, materials are given to the European suppliers for their initial scale-outs and development of data and others and that going back to the regulator. So a significant gain, which will come only after our capacities are there and completely operational. And the customer received -- gained approval after their initial work is done. So there is -- some time will take. But we see a great opportunity, and we should be able to scale up in the next financial year on VALSARTAN in a big way. It could add significant business, maybe around INR 70 crores, INR 80 crores to INR 100 crores of business in next year. It's possible to be at around that. As far as Losartan is concerned, we are already a very large, a very, very large producer. And we are supplying to Europe, and there are other markets that, typically, every market, we'll supply except to U.S. right now. And our production is very large. And again, I would say that, that product also doesn't have those kind of impurities because our processes are different, yes.

Anik Mitra, Stewart & Mackertich Wealth Management Ltd., Research Division - Research Analyst [192]

Okay. Okay, sir. And regarding the China issue, like they have already discussed lots of things on this regulation. So I just wanted to know like how do you see like whether this issue has been permanently resolved, like gradually over the period of time the API prices will come down? How do you see the market?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [193]

Let's say, we only import. We don't have a great amount of your intermediary import from China. We only import from them starting materials and others. As far as the imports are concerned, we have a lot in the (inaudible), all intermediaries and others in all of the years. And therefore, we have much better margins than others. But starting -- key starting materials, they come from China. And they are those kind of disturbances were there. And last 1 year also, we have developed a lot of sources of, let's say, the certain intermediaries in India itself and developing and working more and more on that to see that we have more number of suppliers and also a lot of them from India. So that focus continue to remain. But 1 general comment that is the supply chain disturbances are not currently there. Prices are

elevated, but certain softening are seen. So they continue to remain elevated. But yes, there is some kind of softening in the prices that are happening, maybe 5% reduction seen from that kind of same work. But they are significantly higher, yes.

Anik Mitra, Stewart & Mackertich Wealth Management Ltd., Research Division - Research Analyst [194]

Okay. So sir, is it right to interpret that you are, like, mostly backward-integrated, like, your progress on...

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [195]

Yes. Some of the APIs and also intermediaries, yes. And we also get a lot of intermediaries developed by -- on third-party basis in India itself, and there we have our own controls. So a large amount of that happens, yes.

Operator [196]

Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Nitin Agarwal for his closing comments.

Nitin Agarwal, IDFC Securities Limited, Research Division - Analyst [197]

Sir, do you want to make any last comments before we close the call?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [198]

Again, I would say that we have a very strong commitment. And we are resolving all the issues, and we are online. Hopefully, that we should be back in business in the U.S. And our institutional business also should have next year a great start. So we are fully committed to that.

Nitin Agarwal, IDFC Securities Limited, Research Division - Analyst [199]

Thank you, sir. Thanks to Ipca management team, and thanks to all the participants for participating in the call. Thanks, and have a good day.

Operator [200]

Thank you. Ladies and gentlemen, on behalf of IDFC Securities Limited, that concludes today's conference. Thank you for joining us, and you may now disconnect your lines. Thank you.