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DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare

PhillipCapital (India) Pvt. Ltd., Research Division - VP & Pharma Analyst

Ladies and gentlemen, good day, and welcome to the Ipca Lab's Limited Q1 FY '20 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. Thank you, and over to you, sir.

Thanks, gentleman. Good morning, everyone, and a very warm welcome to Ipca Lab's Q1 FY '20 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 Counsel and Company Secretary.

I hand over the call to Ipca management team to take it forward from here. Please go ahead, sir.

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

Good morning, everyone. During the first quarter of the current financial year, our standalone sales number, the domestic business -- domestic formulation business had grown by almost around 13% in this quarter, and overall number is almost around INR 433 crores as against INR 400 crores what we had in last financial year. Export formulations in this quarter was around INR 245 crores as against INR 224 crores, so around 9% growth. So overall, formulation business has grown by almost around 12% in this quarter from INR 625 crores to almost around INR 698 crore. So that's overall formulation number.

On the API side. Domestic formulation -- the domestic API has grown by around 9% in this quarter from INR 60 crores to almost around INR 65.7 crores, and export API has grown to almost around 37% in this quarter to around INR 233 crores as against INR 157 crores in last year. And overall API business in this quarter is around INR 298 crores as against INR 217 crore. So a growth of around 37%.

Overall domestic business in this quarter, API and formulation put together, has grown by around 12%. And export business, API and formulation put together, has grown by around 25%. So exports overall has become around INR 477 crores as against INR 381 crores in last financial year, so a growth of around 25%. And overall turnover of the company, standalone, is INR 1,030 crores as against INR 867 crores in the last financial year.

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

Overall ratio of the API to overall sales is close to almost around 30% now as against 23%, 24% normal we used to have. And that has led to disturb our overall material cost-to-sales ratio. The material cost-to-sales ratio in this quarter has grown to almost around 35%, close to 35 point -- 35% as against 32% what we had in -- overall in last year. But overall, there is a, let's say, material cost-to-sales ratio has come down by around 2.5% from 22.5% or almost around 20% level.

And same case with the manufacturing and other expenses, where also from 27.9%, it has come down to around 24.9% -- almost close to 25%, so around -- a reduction of around 3%. So overall, material costs have gone up by 3%, but there was a 6% reduction in personnel costs and manufacturing and other expenses. So overall, there is an improvement in overall EBITDA margin.

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

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Questions and Answers

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Operator [1]

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(Operator Instructions) The first question is from the line of Tushar Manudhane from Motilal Oswal.

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Tushar Manudhane, Motilal Oswal Securities Limited, Research Division - Research Analyst [2]

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Sir, just would like to know the remediation costs for the quarter.

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

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Our remediation costs for the quarter is around INR 6 crores.

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Tushar Manudhane, Motilal Oswal Securities Limited, Research Division - Research Analyst [4]

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Which was like year-on-year basis?

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

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I think the first quarter last year was also around same number.

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Tushar Manudhane, Motilal Oswal Securities Limited, Research Division - Research Analyst [6]

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And we stick to the overall full year FY '20 remediation costs of?

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

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Not more than INR 10 crores for whole of the year.

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Tushar Manudhane, Motilal Oswal Securities Limited, Research Division - Research Analyst [8]

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And then for the API business, strong growth is primarily made by?

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

Let's say overall shipments are good and also the sartans have also helped us.

Tushar Manudhane, Motilal Oswal Securities Limited, Research Division - Research Analyst [10]

So you -- sir, I just wanted to understand the -- at least, I guess for next 2, 3 quarters, sustainability of this.

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

I don't foresee that your growth numbers could be the same as 49% kind of growth, 47% kind of growth. But yes, growth will be maybe around 20% or so for the whole of the financial year.

Operator [12]

The next question is from the line of Kunal Dhamesha from SBICAP Securities.

Kunal Dhamesha, SBICAP Securities Ltd., Research Division - Analyst of Pharmaceuticals [13]

Sir, was there any impact of Ind AS 116 on EBITDA level? Or are your EBITDA, likely it was neutral?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [14]

Because of the lease accounting, almost around INR 1 crore in the lease rentals are going out, and that is adding to the depreciation and interest part. So around INR 16 lakh, INR 17 lakh is added to the interest around some INR 90-odd lakhs are added to depreciation. So that's the impact of the 116 -- Ind AS 116 here.

Kunal Dhamesha, SBICAP Securities Ltd., Research Division - Analyst of Pharmaceuticals [15]

So INR 1 crore positive impact on EBITDA?

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

Yes.

Kunal Dhamesha, SBICAP Securities Ltd., Research Division - Analyst of Pharmaceuticals [17]

Okay. Okay. Okay. And any update on U.S. FDA you would like to share, whether we have something like the response for the Ratlam plant, I think, which was pending. And then...

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [18]

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No. We have already invited for all the plants, wherein we are awaiting inspections. So there is no further update.

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Kunal Dhamesha, SBICAP Securities Ltd., Research Division - Analyst of Pharmaceuticals [19]

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And then the date...

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [20]

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There is no further update.

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Kunal Dhamesha, SBICAP Securities Ltd., Research Division - Analyst of Pharmaceuticals [21]

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Okay. But the date -- we're told we were supposed to submit for Ratlam plant, right?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [22]

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Yes. So we already invited...

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Kunal Dhamesha, SBICAP Securities Ltd., Research Division - Analyst of Pharmaceuticals [23]

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So that has been submitted?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [24]

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Yes.

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Kunal Dhamesha, SBICAP Securities Ltd., Research Division - Analyst of Pharmaceuticals [25]

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

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [26]  
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Let's say Global Fund business offtake was a little bit slow, that the order started a little late. Let's say we have, overall, close to around the whatever contract values -- and which is likely to be almost around INR 90 crores. So out of that, we have received an amount of value up to around INR 28 crores. But nothing has been scheduled as for the third quarter to Global Fund. So all these business will be going a little latter part.

And as far as institutional business is concerned, first quarter was slow. Overall, we expect that against around INR 250 crores of full year guidelines, what we had given, it could be in the range of around INR 225 crores to INR 250 crores, whatever. So there could be little, little -- so business could be a little less, yes. But we are optimistic about the future by the kind of commitments we have from other buyers. Hopefully, in the next financial year, business will be even much, much better, yes.

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Kunal Dhamesha, SBICAP Securities Ltd., Research Division - Analyst of Pharmaceuticals [27]  
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Okay. Okay. So you said you have INR 90 crores of the contract for this year. And do you see that growing significantly next year, the Global Fund contract?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [28]  
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It's too early to comment. But just -- yes, the -- let us first do performance against the existing contracts and as the order comes, and then we deliver a large supply to the Global Fund. And hopefully, with the performance going up or our delivery is going in time and everything, well, probably, the allocations will increase in time to come. But it's too early to -- yes. Yes. Let's first perform.

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Kunal Dhamesha, SBICAP Securities Ltd., Research Division - Analyst of Pharmaceuticals [29]  
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Okay. And this INR 90 crores includes the your disposables and injectables shipment as well?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [30]  
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Yes. Injectables also is included, yes.

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Operator [31]  
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(Operator Instructions) The next question is from the line of Charulata Gaidhani from Dalal & Broacha.

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Charulata Gaidhani, Dalal & Broacha Stock Broking Pvt Ltd., Research Division - Analyst [32]  
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Yes. My question pertains to geographic. Can you give the geographic breakup of exports?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [33]  
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Okay. Let's say that as far as CIS concerned, we have almost around 17% growth in CIS business. As far as Europe is concerned, we had almost around 27% business. Both U.K. has grown by around 19% and EU has grown by 47%. So overall, Europe has grown from -- last year from around INR 53 crores shipment to almost around INR 67 crores shipment, so 27% kind of growth.

And Canada business was around, as against INR 5 crores last year, was around INR 16 crores. So overall, that shipment is also good. South Africa was around INR 17 crores to INR 24 crores. And overall, let's say, generic business, as against INR 103.59 crores, it's almost around INR 125.57 crores, yes. And institutional business, against INR 41 crores, is around INR 27 crores. So Institutional business has declined in this particular quarter.

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Charulata Gaidhani, Dalal & Broacha Stock Broking Pvt Ltd., Research Division - Analyst [34]  
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Great. And how is India business performing? How do you see the Indian market going forward?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [35]  
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So our India business was almost a growth of around 13%. As against INR 400 crores, it was almost under INR 453 crores, 13% growth. And overall, we see that, yes, around 13% to 15% kind of growth will be there in -- overall in domestic market for the current financial year.

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Charulata Gaidhani, Dalal & Broacha Stock Broking Pvt Ltd., Research Division - Analyst [36]  
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Okay. Are you seeing any competition coming up because of the changes in the marketplace? And if you could give, how much was the volume growth and price growth?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [37]  
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Let's say the Indian market has been always an actually competitive market. So competitive scenarios were always there and will always remain, but we have been continuously growing our business in domestic market. And some of our main therapies, like, say, we have pain management is significantly outperforming. We have grown by almost around 22% in our pain segment, and we continue to maintain that kind of growth. Our target in diabetic segment has grown by almost around 11% in this quarter. Malaria, there was a decline, and the decline was sharp in this quarter by almost around 23%. But our other segments like antibacterial, CNS, dermatology, neurology, all the new specialty segments are in double-digit growth and good growth. Antibacterial particularly, we have around 28% growth. CNS, 26% growth. So we have good growth in this kind of overall businesses in spite of decline in anti-malarial. So we did well and -- overall in first quarter of current year. And hopefully, we'll maintain the trend.

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Charulata Gaidhani, Dalal & Broacha Stock Broking Pvt Ltd., Research Division - Analyst [38]  
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Right. How much was the volume growth and price growth?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [39]  
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Our price growth is always in the region of 3% to 4%. So the rest is all volume growth.

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Operator [40]  
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The next question is from the line of Prakash Agarwal from Axis Capital.

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Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [41]  
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Sir, first question on the gross margins. If we see that there is a dip in the gross margins, would it be due to the mix of higher API? Or would it be, as you said, the COGS are higher? What is the function of higher API in business mix?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [42]  
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Let's say we have done further analysis of this number. That was almost around 3% increase in material costs. The close to around 2% is coming because of product mix change, like, say, on API turnover going up because of significant export increase of 47% in this quarter. So 2% is because of that. And 1% is the increase of -- in the overall, let's say, APIs and other material overall costs [impacting] material costs and other costs. So 1% is increase because of that, yes.

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Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [43]  
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And we are expecting this to normalize? As you said, API would be around 20% growth. So we would expect the mix to normalize, sir?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [44]  
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Mix to -- let's say, for last financial year, your overall material cost-to-sales ratio for whole of the year was almost around 31.5%, close to that. So a little bit differential may move by around 1% because of your overall -- your API business going up.

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Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [45]  
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Yes. Okay. And the costs of API...

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [46]  
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As far as the business is concerned, the rates -- most of the rates are also started coming down. So I don't see further any kind of risk to my margin front in the latter part of the year.

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Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [47]

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What is coming down, sir? Sorry.

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [48]

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The API rates have also started coming down.

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Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [49]

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Exactly my point. So we hear from other companies that API prices are moderating.

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [50]

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I don't see any kind of further risk to my margin. That's what I'm telling.

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Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [51]

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So we should normalize soon?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [52]

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Yes.

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Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [53]

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

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [54]

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Yes. The -- I think all the numbers are out. IMS numbers are out. And we are also doing the -- they're growing very well in domestic market, much higher than the -- our first quarter growth.



Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [55]

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

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

Anti-malarial, yes. In the first month, there was -- at the current quarter, there was a better growth. But we are still not able to recover the -- what we had lost in the first quarter of the current year.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [57]

Understood. And lastly, sir, if you -- if I heard that correct, on the anti-malaria kind of business, the guidance remains at INR 225 crores to INR 250 crores for the year?

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

Yes. We are earlier (inaudible), little revising lower also. Yes.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [59]

INR 225 crores to INR 250 crores?

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

Yes.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [61]

And despite a very soft Q1?

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

Yes.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [63]

And there was a comment of this INR 90 crores is the extra business we will get from next year.

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [64]  
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If Global Fund commits almost to achieve that. That's the kind of indications we have. And we only received order workarounds, INR 28 crores out of that. So that's under U.S.

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Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [65]  
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And sir, this is for next year?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [66]  
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No. No. Current year.

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Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [67]  
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Current year. And that bakes in the INR 250 crores guidance?

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

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Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [69]  
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And for next year, this number could be around INR 300 crores?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [70]  
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Yes. Yes. It can exceed also.

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Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [71]  
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It can exceed also. And last question, sir. On this gross margin, could it be also due to the jump in Europe and especially the U.K. business that we have seen? The gross margin could be a function of that also?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [72]  
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The gross margins, earlier, it used to be lower. But now as a European business, their margins are also quite the same now. So that is there. But net in cost is only -- by and large, only because of API ingredients and certain increase in other -- overall other costs, too.

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Operator [73]

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(Operator Instructions) The next question is from the line of Surya Patra from PhillipCapital.

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Surya Narayan Patra, PhillipCapital (India) Pvt. Ltd., Research Division - VP & Pharma Analyst [74]

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Sir, just wanted a little bit sense on the -- just how important the (inaudible) funding scenario is the digital business opportunity side of Ipca currently. And in the (inaudible) business, what is the total quantities or what is the total percentages become currently? And what is it you're directly and currently anticipating in the pain business? Some sense about the opportunity of the (inaudible) business opportunity and the visibility on the Global Fund side also.

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [75]

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Yes. Global Fund side, we always have various order flows already started, and we already talked like what kind commitments we have received. Of course, our allocation translate with our performance. Again, those in future, let's say, allocation may increase. So it depends all on performance. Because it's not only on the price but the results on our overall performance. But earlier, our business allocation was quite large. As our performance goes up, again, let's say, deliveries goes in time and everything happens, hopefully in the future, we can always increase the overall Global Fund business. And as we are aware, the most -- that actually we produce almost all APIs which are required for our Global Fund business. And that natural advantage continue to remain mutual. So we will continue to do better as far as those businesses are concerned. And what kind of allocations that we are getting? That's on the basis we have been talking of materials. In next financial year, our directive will be much higher than INR 250 crores also. Currently, I'll comment only of [that opportunity].

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Surya Narayan Patra, PhillipCapital (India) Pvt. Ltd., Research Division - VP & Pharma Analyst [76]

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Okay, sir. This -- your INR 250 crore guidance, it is not including the Global Fund kind of business?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [77]

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No, no. It includes. No. Because we are -- we will start now -- delivering now.

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Surya Narayan Patra, PhillipCapital (India) Pvt. Ltd., Research Division - VP & Pharma Analyst [78]

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Okay. Okay. And because the API business have concentrated more in the business in U.K., prices seem to have been softening. But if we see the recent past -- the quarter before, even the prices are at their peak. So the numbers were not that high. And possibly, in the recent times, this quarter's number is significantly higher from the trend. So is it that there is a kind of significant volume trend that we are reaching this

quarter, that is, the numbers are looking better? Or I could not understand (inaudible) that okay over the next...

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [79]

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The ratio of patents business has gone up in the overall business. Other businesses are also good, I will say that. But also, our patent business has gone up. Because of that also, the overall API business has moved up, and it will continue remain on a higher side here. And today, we are the largest deliverer of Losartan in the world today, #1 here.

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Surya Narayan Patra, PhillipCapital (India) Pvt. Ltd., Research Division - VP & Pharma Analyst [80]

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Yes. Yes. Sir, do you see at least a benefit therefore because of the scale benefit is unlocked. So do you see improvement in the earnings efficiency in the API business visible?

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

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Yes. Because higher capacity is now something that's also there. And overall, the [mining], also efficiencies and other things, so overall, my EBITDA margins on API business is also improving now.

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Surya Narayan Patra, PhillipCapital (India) Pvt. Ltd., Research Division - VP & Pharma Analyst [82]

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Okay. And last year also, India business cracked. Sir, have you witnessed any -- so though we have delivered strong numbers better than the industry growth and also we had incurred a much stronger number than the industry expectations. So it is completely different than the kind of portrayal your customers are talking about. And also, there are concerns when it comes (inaudible) by the industries about -- there are daily decreases in trend and the impact on the prices, which possibly will be impacting the margins on the domestic formulation business. So on these effects, what is your take?

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

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Let's say that if you look at our performance in first quarter, the pain segment is continuously driving. And pain has also almost given us of around 22% growth. So a significant growth and mostly accounts for more than 35% of our business. And both the (inaudible) who are private, let's say, they are all again the undisputed brand and continuously going very well. Most of our -- all (inaudible) brand is probably there in the marketplace. And in that kind of scenario, we are continuously outperforming compared to the market, and we see that we should be able to maintain that kind of trend on the patent segment. And in order to build up further focus on that -- or these kind of segments, let's say, we have our main division, which is to be -- we chose upon as our pharma division, which also had large number of other products. So that we have like transferred into some other divisions. So the pharma division with 1,000 people is only promoting Zerodol and 1 antibacterial. There are only 2 products they are promoting. And because of that, their overall Zerodol sales is fantastic. And also, our antibacterial sales growing by around 28% is also because of -- one of the reason is that -- that is also growing very, very fast, because of, again, the guided focus. So that is also helping company in terms of overall achieving the better number.

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Surya Narayan Patra, PhillipCapital (India) Pvt. Ltd., Research Division - VP & Pharma Analyst [84]

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Okay. For the domestic formulation business, there's 2 things basically: Can you say what would be the share of your -- the generic business in the overall domestic formulation? One. And secondly...

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

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We don't do any kind of (inaudible). It's 0.

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Surya Narayan Patra, PhillipCapital (India) Pvt. Ltd., Research Division - VP & Pharma Analyst [86]

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Okay. So -- okay. That is still branded as (inaudible).

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

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Yes. Zero business on that.

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Surya Narayan Patra, PhillipCapital (India) Pvt. Ltd., Research Division - VP & Pharma Analyst [88]

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And whether you have witnessed any margin kind of erosion for the formulation business -- domestic formulation business over last, let's say, 1 year or...

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

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Of course, we have not -- any kind of margin erosion has not happened. The overall, let's say, 1% material cost increase is also there. That is there. But there is no margin erosion has not happened in this quarter.

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Operator [90]

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The next question is from the line of from Mayank Hyanki from Axis Mutual Fund.

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Mayank Hyanki, [91]

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Could I get some clarification on the API sales? You said that you have received more than INR 100 crores from Global Fund. So has any of that been accounted in the Q1 sales?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [92]

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No. Nothing. There is nothing from the Global Fund in the first quarter, yes.

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Mayank Hyanki, [93]  
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Okay. Okay. And secondly, I wanted to know what is the distribution of the U.K. business right now? Where are we right now in terms of our partners' compliance and our production?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [94]  
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I think that they are fully compliant. And that's why I think, overall, some business growth has already started in the first quarter of current year. From INR 34 crores, we're around INR 40 crores, which is very marginal change. But yes, it has already started, and that will reflect in the numbers in the next 3 quarters there.

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Mayank Hyanki, [95]  
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So one should assume a kind of gradual ramp-up? Or one should assume a sharp jump up in...

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [96]  
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It will be a gradual because we have debt there on your outer market for long, and then nobody waits for you. So again, you have to take market share. So it's going to be gradual also. But yes, it will be about the overall number growth rate. But far away from -- let's say we used to do in U.K. almost around INR 260 crores, INR 270 crores. As against that now, last year, we did INR 125 crores. Even at 20% dry goods, it's the same mode.

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Mayank Hyanki, [97]  
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And in the meanwhile, when we were out at the market, the competition would have [changed] or remained the same number that we (inaudible) from the products that you have (inaudible)?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [98]  
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U.K. is always vastly competitive. Anybody starting generic business start with U.K. today. And lot of -- it's a vastly competitive market. And you have to always work in that kind of scenario. But in spite of that, lot of products which have low margins and all, we have discontinued. And we do now business on the traditional margins.

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Mayank Hyanki, [99]  
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Okay. But the product categories, where you're located, the prices would not have changed materially. They should not have increased, basically.

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [100]  
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Yes. Yes, of course. We don't do business unless there is a profit.  
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Mayank Hyanki, [101]  
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Yes. lastly, around the API business systems, we -- because you noted it is kind of quite lumpy depending on orders coming in. So did this quarter's number of export API, is that something which you would say is sustainable? Or there could be lumpiness and this number could go -- trend down going forward?  
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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [102]  
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I think the overall API number, we see around -- almost around 20% growth in API as against talking about 8%, 9% growth. We see that even in the future quarters, we will perform much better. So the overall growth may not remain like 47%, what we had in -- overall, it's going to be around 22% to 26% kind of growth, yes.  
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Mayank Hyanki, [103]  
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And sir, just to understand what it means when you say (inaudible) you have done when you are taking market share away from the people whose sartan supply were contaminated or not in line with compliance...  
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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [104]  
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Let's say our Losartan didn't mean to have that kind of impurities which the (inaudible) are looking for, that few impurities. So that has also helped us to ramp up Losartan business. And Losartan, we just started early. A very small part of shipment is covered in the first quarter of sales, but that will also have the upside from renewal from next quarters.  
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Mayank Hyanki, [105]  
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And because you bring up further, within in the exports API, this material would be mostly for the forementioned end use or market -- end market would be of Europe? Or should ...  
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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [106]  
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Europe is also there. Europe is there. Then all these pharma, the Mexico, Brazil. A lot of other geographies are there. Also, we have good business with Iran and a lot of other countries. So it's in a lot of other (inaudible) including CIS. And RA, it's a very, very good spread. It's quite wide.

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Mayank Hyanki, [107]  
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Okay. Okay. Okay. But these would be probably with long-term relationship types? Or this would be like probably the one-off orders which would have come through because of problems with the other suppliers.

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [108]  
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Most markets are regulated markets, and changing supply source is too difficult now. It takes a long time. So once you are there with them, you remain on -- for a medium term, you are there with them. If you are totally uncompetitive then somebody will change you, but otherwise, it doesn't happen. Or if you have there more than one source, then probably the allocation principles are decided, okay? You may get lesser or more. But overall, once you are there on products, relationship remains for a longer period of time.

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Unidentified Analyst, [109]  
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Okay. Sir, lastly, is there any change in the CapEx numbers for this year? And if any thoughts on next year budget?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [110]  
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CapEx number, I think, first quarter, we incurred almost around close to INR 60 crore of CapEx. And I think overall number we have this year is going to be almost around INR 220 crores to INR 230 crores kind of CapEx would be there in current year. So -- and more particularly, these CapExes are required because our API shipments are moving up and now capacity, but we need to see that where do we need to do debottlenecking of those kind of capacity, some kind of those incremental CapEx.

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Operator [111]  
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The next question is from the line of Vishal Sonawane from KK Securities.

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Vishal Sonawane, [112]  
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Sir, you said Global Fund uptick is really slow. So is there any reason you want to share? And second, what is the R&D expenses during the quarter?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [113]  
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Overall, I said that there was no offtake in first quarter because this business started late for us as against overall, say, what we are looking for INR 90 crore in a year. Again, that INR 28 crore business is already there in (inaudible), some has gone in the second quarter and will go in second quarter.



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Vishal Sonawane, [114]  
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So nothing has next quarter?  
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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [115]  
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Too late. That business started late. So were not earlier the supply, but there are no supplies to Global Fund. So that has started late. And because of that, these effects are there, yes.  
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Vishal Sonawane, [116]  
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And sir, what about R&D expenses during the quarter?  
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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [117]  
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R&D expenses is around close to 2.5% of the turnover overall.  
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Vishal Sonawane, [118]  
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And sir, last question. (inaudible) in last financial year, so what is the situation right now?  
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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [119]  
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It's based on improvement because the (inaudible) shipments are moving up. But I would not say that they're very significant because those capacities are quite large. And it will take some time. It's still incurring losses.  
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Operator [120]  
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The next question is from the line of Ashish Thavkar from Motilal Oswal.  
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Ashish Thavkar, Motilal Oswal Asset Management Company Limited - Associate VP [121]  
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Yes. Sir, in your early comments, you mentioned you expect the gross margins to normalize over the coming quarters. So your earlier guidance on the EBITDA margins, revenue 100 to 200 basis point expansion every year. That stays?  
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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [122]

Yes. That very much stays, yes.

Ashish Thavkar, Motilal Oswal Asset Management Company Limited - Associate VP [123]

Okay. Great. And lastly, on this tax rate, right? We did 18% tax in FY '19. And this quarter, we are at 22%. So it would be helpful if you could guide us.

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [124]

But we are a net company, so that will remain. And earlier, we were not recognizing the net credit. If our profits from the tax rate [image] start moving up, those credits which were not earlier recognized will start coming into play. So overall tax rate will be -- will remain in the region of around 20%. 20% kind of a numbers.

Ashish Thavkar, Motilal Oswal Asset Management Company Limited - Associate VP [125]

Okay. So for FY '20, we should assume 20% as the market expect?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [126]

Overall number will be around that.

Ashish Thavkar, Motilal Oswal Asset Management Company Limited - Associate VP [127]

Okay. The last question on these, like you were doing around INR 2.5 crores of sales per month. So any update on the capacity expansion there? And what's the run rate? If you could help us.

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [128]

Yes. There's some capacities are expanded within the existing plant itself. And I think, overall, we have around the increase at tactically to double, so shipments have started moving up higher now from this particular quarter, second quarter.

Ashish Thavkar, Motilal Oswal Asset Management Company Limited - Associate VP [129]

Okay. So in one quarter -- in first quarter, there was a normalized run rate.

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [130]

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It yes, yes, the (inaudible) shipments and product move up in the second quarter, yes.

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Ashish Thavkar, Motilal Oswal Asset Management Company Limited - Associate VP [131]

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Okay. And how has low certain shaped up or like we did around INR 130 crores in FY '19. So how is that shaping up?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [132]

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Losartan is one of our main products and where we have the largest producer of Losartan and continuously doing very well there. Losartan has also contributed significantly to our overall API number here. But normally, we don't give a product prices, so like to comment on product prices.

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Operator [133]

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The next question is from the line of Rahul Sharma from KARVY Stock Broking.

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Rahul Sharma, KARVY Stock Broking Limited, Research Division - Analyst [134]

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Yes. Sir, could you just rerun through the Europe, U.K. and CIS numbers?

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

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Overall, let's say, the CIS business is around INR 42.5 crores as against INR 32.94 crores, so around 29% growth we did. And Europe number, if you look at, is around INR 52.82 crores last year as against this year, it's around INR 66.86 crore, so around 27% kind of growth.

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Rahul Sharma, KARVY Stock Broking Limited, Research Division - Analyst [136]

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Okay. And how's U.K. be shaping up, sir?

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

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U.K. from INR 34 crore, it has gone to around INR 40 crores, so around 19% kind of growth. And yes, the future numbers, it will reflect even better here.

Rahul Sharma, KARVY Stock Broking Limited, Research Division - Analyst [138]

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Okay. And sir, anything on the regulatory update on 3 plants?

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

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The -- let's say, we have invited FDA to have an inspection. So as and when inspections are happen, we are confident that we should be able to come out here.

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Rahul Sharma, KARVY Stock Broking Limited, Research Division - Analyst [140]

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Okay. But all the data submission and everything has finished, sir, have been submitted?

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

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Yes. We have invited, so all those actions are taken, yes.

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Rahul Sharma, KARVY Stock Broking Limited, Research Division - Analyst [142]

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Okay. Any expectation when? Probably it's Q2, Q3?

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

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It's difficult to reply.

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Rahul Sharma, KARVY Stock Broking Limited, Research Division - Analyst [144]

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

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

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That's a continuous process. And as we have already said that we don't add too many products. Mainly is the focus around the key brands, power brand. And that's the reason that we are continuously outperforming the market.

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Operator [146]

The next question is from the line of Aditya Khemka from DSP Mutual Fund.

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Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [147]

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

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [148]

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Let's say that, in this particular quarter, because of product mix change, let's say, because API shipments are higher, we have higher material costs there. So 15% is the increase in material costs in all that account, yes, because the API shipment -- API sales to that overall [exchange] number is almost 30%, which used to be around [23%] earlier. So because of that, there is a -- because of higher API number, overall material costs has gone. And overall material cost increase is around 3%. So 1% has come because of the overall increase in the overall API. And I said that, that will get normalize because the API rates has also started coming better, prices are also on lower side. So all other costs are now going down. So I'd say that, that will get absolutely normalized. But as far as this product mix change ratio because the API, if it grows by 20%-plus kind of numbers, that impact will be there on material cost ratios. So overall, we will have a much better EBITDA number.

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Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [149]

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Correct. Got it. Fair enough. So would you also see from the export API number of INR 232 crores that we reported this quarter. Would you say that this is not like a sustainable number or [times 10] growth will be for the rest of the year?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [150]

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We will definitely be growing much higher in the API. That's what I said. And it can be by 20%-plus kind of growth from all of the -- and I can (inaudible).

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Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [151]

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Sir, actually, my question would be have done already like 40% growth in the first quarter in API sales, export API. So the rest of the year will be like 30%, 40% growth in that region. This is what basically it is (inaudible)?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [152]

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Currently talking of around 20%-plus kind of growth. But it can surprise.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [153]

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Okay. And sir, on the branded promotional exports, branded (inaudible) exports, there, you did about 17% growth in this quarter. What is the outlook for the full year there, sir?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [154]

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The growth would be because yes, I'm surprised that are now dollar, ruble has, they are now favorable. So overall numbers should be around 17% kind of growth for the whole of the '19.

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Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [155]

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Okay. And on the subsidiaries. Sir, if I take out your subsidiary financials from the consolidated and the standard financials, I see that we have a INR 4 crore positive EBITDA and a net profit loss of about INR 1 crore in subsidiaries. 2 questions here. #1, so as per your annual report, both those lines they show losses for FY '19. How are they for the first quarter of FY '20?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [156]

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If you look at overall number, let's say, the Onyx has given us around INR 5 crore of profit in first quarter, INR 4.9 crore. (inaudible) made a loss of around INR 4.5 crore. (inaudible) made loss of around INR 1 crore. The [inshore] recovery will be very fast. [India] recovery will take some time.

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Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [157]

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Okay. Okay, understood. And also, was Ramdev consolidated for this finished -- this quarter?

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

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Yes. Ramdev is also consolidated in this quarter, yes.

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Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [159]

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And what was their (inaudible).

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

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(inaudible) first quarter, because we (inaudible) -- but we have looked into their numbers and also some cleaning up, so there is a INR [0.6] crore -- less than INR 0.5 crore loss there in first quarter.

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Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [161]  
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Less than INR 0.5 crore loss in first quarter. Okay. And sir, what is the strategic intent of having run rate? I mean do we intend to shift some APIs from the plant around various (inaudible) deciding for the site transfers? If you could talk a little bit about what is there in that context? Hopefully, starting our U.S. business, regardless of the outcome of U.S. inspection of let's say our sites?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [162]  
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Let's say, (inaudible) we were to stand them around there. So that's the process currently going on. Let's say, we'll be first focus is to put all the software in place as far as (inaudible) is concerned. And those -- what is currently going on. We don't have on, let's say, a supply chain management systems and all that. The level of these are (inaudible) is very, very low. We have to -- we have installed the servers and all that, and that process is going on to put the supply chain management in place and that will -- and then, to all the SOPs and that and processes (inaudible). So implement that at around there. So it's going to be a little slower process of ramping up. Our first criteria is to see that they should be a part of our journey on GMP. And thereafter that, just second process will start of shifting, and all that, and revamping the business and others. So we are in that journey. And it may take a 1-year time to be in that journey. So we are working on that, and we will only talk after this journey has performed, like how do we really -- but yes, it's there in our mind that, yes. So the product can be shipped and then it can be faster. A lot can happen. But that journey will be taken only after the first journey is completed.

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Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [163]  
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Understood, sir. And Ramdev was last audited by USAP. What was the outcome of that inspection? Can you substantiate that?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [164]  
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So I think that inspection was because is not paid any kind of inspection fees and all. And but it is clear for shipment of API and for our intermediates, yes.

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Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [165]  
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So last time ahead of GMP inspections what were the observations (inaudible) to the plant?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [166]  
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I think there was -- I think 2 observations were there, and that's cleared, yes.

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Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [167]  
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Okay. Understood. And lastly, sir, if you could guide us to our full year EBITDA margin on a consol basis, because in a consolidated financial revenue to us. And we have very little visibility on the profitability of the subsidiaries. If you could have that, (inaudible) what we should be penciling into our models for the full year EBITDA margin for Ipca.

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

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Let's say, overall, if you look at the business, there are 3 subsidiaries which are particularly operating subsidy. Onyx will continue to do very well. The run rate will further increase our profits. They are doing very well. And I think that may contribute almost around INR 20 crore plus kind of profits to the -- for the whole of the year. Ipca will have some kind of losses then -- and I think that recovery will take at least a year's time because the hospital technical technology transfer has happened. And then I think it's a fight with FDA some more time will take because any shipment can start from that facility. And second and third products, those kind of -- that what is going on. So maybe it will take around 2 or 3 quarters to complete that journey. And then other products are what we are looking for there. So I think (inaudible) continue to incur loss at the rate of around INR 3 crore to INR 4 crore every quarter for next 3 quarter. And the share recovery will be, again, faster. So we should be in profit in next quarter. So overall, let's say, it may not add significantly to the overall profits of the company, but it will not also bank overall our stand-alone number.

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Operator [169]

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The next question is from the line of Cyndrella Carvalho from Centrum Broking.

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Cyndrella Carvalho, Centrum Broking Limited, Research Division - Analyst of Pharmaceuticals [170]

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

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [171]

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So let's say, there are 2 segments -- subsegment in pain, one is rheumatology and another is osteoarthritis. So rheumatoid arthritis and osteoarthritis. Rheumatoid arthritis we are the leaders in the segment and we have significant market share. And practically, nobody's nearer to us. Nobody are even -- we have very high market share in rheumatoid arthritis. We are pioneering in this particular segment in the market, and -- particularly, it's more than 50% kind of market share overall. And in fact, this home therapy we have created in the downstream market. Next player in [might not even have] 10% kind of market share. And we are continuously very high -- the focus on rheumatoid arthritis and we are driving the market, basically, that's the kind of thing.

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



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Cyndrella Carvalho, Centrum Broking Limited, Research Division - Analyst of Pharmaceuticals [172]

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What's the name, sir, antibacterial?

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

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The product name is [rapiclap].

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Cyndrella Carvalho, Centrum Broking Limited, Research Division - Analyst of Pharmaceuticals [174]

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Excellent. I mean it's really commendable. And sir, what will your MR strength as of now in the domestic market?

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

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Close to 4,200 -- in between 4,200, 4,300, keep on fluctuating. But we have increased the overall numbers by around 300 in current year from last financial year, because we have added around 600 people overall in in the bifurcation of, but 300 people, we have reduced from other divisions overall.

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Cyndrella Carvalho, Centrum Broking Limited, Research Division - Analyst of Pharmaceuticals [176]

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So net 300 additions, sir?

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

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So net is the 300 additions, yes.

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Cyndrella Carvalho, Centrum Broking Limited, Research Division - Analyst of Pharmaceuticals [178]

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

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

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Yes. It's in-house, yes.

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Cyndrella Carvalho, Centrum Broking Limited, Research Division - Analyst of Pharmaceuticals [180]

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In-house? And sir, how should we (inaudible) numbers for the kind of suppliers for the full year?  
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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [181]  
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We don't have any supply to U.S. right now. Other than U.S. -- all business, we have 0 business with U.S. currently of API.  
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Cyndrella Carvalho, Centrum Broking Limited, Research Division - Analyst of Pharmaceuticals [182]  
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And that -- sir, from the new facilities we highlighted that we intend to ramp up the field, right? So how should we look at that?  
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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [183]  
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No. We have not created any new facility. We have bought one company called Ramdev. But first year, we will be, let's say, looking into our system, processes and everything. And then we will look into ramp up the kind of things what we want to do there.  
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Cyndrella Carvalho, Centrum Broking Limited, Research Division - Analyst of Pharmaceuticals [184]  
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Okay. And sir, from the Global Fund perspective, you said that this quarter, it was like only some part of the overall book. So from a full year perspective, how should we look at it? What kind of number should we ...  
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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [185]  
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Earlier, given a guidance of around INR 250 crore but currently, I'm looking at the current trend, we see that it could be anywhere between INR 225 crore, INR 250 crore.  
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Cyndrella Carvalho, Centrum Broking Limited, Research Division - Analyst of Pharmaceuticals [186]  
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Okay. Slightly lower than our expectation?  
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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [187]  
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Yes.  
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Cyndrella Carvalho, Centrum Broking Limited, Research Division - Analyst of Pharmaceuticals [188]

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Okay. And sir, from the U.S. FDA, we did highlight that we have invited, but I think we had invited U.S. somewhere last year-end or maybe early Jan, right? So we have not heard anything from them as of now?  
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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [189]  
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No. We are in touch with them. I would not say that we are not in touch and inspections would happen, but when it will happen, I can't comment on that.  
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Cyndrella Carvalho, Centrum Broking Limited, Research Division - Analyst of Pharmaceuticals [190]  
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Okay. But we are in constant talks with them?  
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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [191]  
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Yes, yes, yes.  
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Operator [192]  
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The next question is from the line of Sameer Baisiwala from Morgan Stanley.  
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Sameer Baisiwala, Morgan Stanley, Research Division - Executive Director [193]  
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At this point, all my questions have been answered.  
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Operator [194]  
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The next question is from the line of Prakash Agarwal from Axis Capital.  
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Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [195]  
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Sir, trying to understand R&D spend going forward, given facilities under the issues around. So we are not currently investing in a big way. So what is the outlook for next year given the fact that we are still expecting the resolution this year?  
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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [196]  
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As I said, the R&D expenditure will increase. But currently, it was making any kind of sense, keep on doing the filings and they are not renewed, keep on paying the pieces. So we have reduced that cost currently. But yes, definitely, R&D costs will go on in time to come.

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Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [197]

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So it could go back to (inaudible) percent?

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

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(inaudible) the pipeline of products which are to be commercialized and others. So -- but we will ramp up the R&D once again.

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Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [199]

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

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [200]

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

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Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [201]

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

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [202]

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Margins, they will down. But yes, it's still around company EBITDA.

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Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [203]

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

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [204]

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It will not dilute the margin.

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Operator [205]  
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The next question is from the line of Kunal Mehta from Vallum Capital. There seems to be no response from the line of Mr. Kunal Mehta, we move to the next question. The next question is from the line of Kunal Dhamesha from SBICAP Securities.

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Kunal Dhamesha, SBICAP Securities Ltd., Research Division - Analyst of Pharmaceuticals [206]  
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Sir, just one clarification. So when we say our tender business guidance of INR 225 crore to INR 250 crore, we have baked in fully the INR 90 crore commitment that we have bought, right?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [207]  
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It's 1 year, so something will go in the next financial year, but there are country tenders and others. So not the entire INR 90 crore. It has started around second quarter. So the number will realize for 1 year coming. So 1 year will happen in the next year. So something of that is there and something is not there.

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Kunal Dhamesha, SBICAP Securities Ltd., Research Division - Analyst of Pharmaceuticals [208]  
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So 1 year started from April?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [209]  
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Yes. Because it is -- basically, it's all -- the shipments are starting from the second quarter of current year. So 1 quarter is ...

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Kunal Dhamesha, SBICAP Securities Ltd., Research Division - Analyst of Pharmaceuticals [210]  
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So 1 year.

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [211]  
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It will be of next year, yes.

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Kunal Dhamesha, SBICAP Securities Ltd., Research Division - Analyst of Pharmaceuticals [212]  
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Okay. Okay. Okay. So effectively, we are baking in around INR 60 crore, INR 65 crore in our guidance for this financial [year]?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [213]  
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Yes, yes.  
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Kunal Dhamesha, SBICAP Securities Ltd., Research Division - Analyst of Pharmaceuticals [214]  
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And out of which, some we have shipped out of the -- out of this year, INR 28 crores.  
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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [215]  
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Not in first quarters. Yes.  
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Kunal Dhamesha, SBICAP Securities Ltd., Research Division - Analyst of Pharmaceuticals [216]  
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In quarter 2, right. Okay. Okay.  
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Operator [217]  
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The next question is from the line of Tushar Manudhane from Motilal Oswal.  
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Tushar Manudhane, Motilal Oswal Securities Limited, Research Division - Research Analyst [218]  
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Sir, just on the API segment. As of now, what would be the capacity utilization?  
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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [219]  
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It's planned by this by different inflation. But I think plant is almost now close to 80%, 80% inflation now, which is a major plant here.  
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Tushar Manudhane, Motilal Oswal Securities Limited, Research Division - Research Analyst [220]  
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So I just was wondering, so in the API, you had kind of capacity buildup is going to be gradual.  
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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [221]  
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Yes. That process is going happening now because lot of those kind of debottlenecking exercises are going on there. Therefore, CapEx are rising basically here.

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Tushar Manudhane, Motilal Oswal Securities Limited, Research Division - Research Analyst [222]

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And secondly, you might not give the product specific details, but at least the top 3 or 5 (inaudible)?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [223]

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Basically, all the 3 or 5 will contribute almost around 50%, 55% of the business.

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Tushar Manudhane, Motilal Oswal Securities Limited, Research Division - Research Analyst [224]

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And (inaudible) category is included in there?

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [225]

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Yes, yes.

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Tushar Manudhane, Motilal Oswal Securities Limited, Research Division - Research Analyst [226]

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

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [227]

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Pricing growth is around 3% to 4%. This is all volume growth here.

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Operator [228]

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We'll take that as the last question. I would now like to hand the conference back to the management team for closing comments.

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Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [229]

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Let's say we are continuously working on to improve overall performance of the company. And we are confident that once the regulatory inspection happens, we should be back in the U.S. business soon. And the management team continuously devoting a lot of time on building the quality culture in the company.

And that's what in future as and when our inspection happens, we should be once again to be having the (inaudible) in the future as far as the U.S. business is concerned. Thank you.

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Operator [230]

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