



## FDC Limited

MANUFACTURERS & EXPORTERS OF FOODS, DRUGS & CHEMICALS

Date: February 15, 2022

To,  
BSE Limited  
Phiroze Jeejeebhoy Towers,  
Dalal Street,  
Mumbai - 400 001

National Stock Exchange of India Ltd.  
Exchange Plaza, Plot no. C/1, G Block,  
Bandra-Kurla Complex, Bandra (E),  
Mumbai - 400 051

Scrip Code: 531599

Symbol: FDC

Subject: Transcript of the Analysts/Investors Earnings call for Q3 FY 21-22 held on February 11, 2022 at 03.00 p.m. (IST).

Ref: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015.

Dear Sir/Madam,

This is with reference to the Analysts / Investors Earnings call for Q3 FY 21-22 held on February 11, 2022 at 03.00 p.m. (IST). The transcript of the said Analysts/Investors Earnings call is enclosed herewith.

The aforesaid transcript shall also be made available on the website of the Company i.e. [www.fdcindia.com](http://www.fdcindia.com).

This is for your information and record.

For FDC Limited

Varsharani Katre  
Company Secretary & Compliance Officer  
M. No. F-8948

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# “FDC Limited Q3 FY-22 Earnings Conference Call”

**February 11, 2022**



**MANAGEMENT: MR. NANDAN CHANDAVARKAR – JOINT MANAGING  
DIRECTOR, FDC LIMITED  
MR. AMEYA CHANDAVARKAR – CEO,  
INTERNATIONAL BUSINESS & EXECUTIVE DIRECTOR,  
FDC LIMITED  
MR. SANJAY JAIN – CFO, FDC LIMITED  
MS. VARSHARANI KATRE – COMPANY SECRETARY &  
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MR. MAYANK TIKKHA – AVP, BUSINESS  
DEVELOPMENT & COMMERCIAL EXCELLENCE, FDC  
LIMITED**



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**Moderator:** Ladies and gentlemen good day and welcome to FDC Limited Q3 FY2022 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the brief highlights on the financials from the management. At that time if you'd like to ask a question you may enter '\*' and '1'. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Varsharani Katre – Company Secretary and Compliance Officer of FDC Limited. Thank you and over to you ma'am.

**Varsharani Katre:** Thank you. Good afternoon, everyone and welcome to all of you. Glad to connect with you all. I hope all are safe and healthy. I would like to introduce the FDC team present in this Earnings Call. We have with us Mr. Nandan Chandavarkar – Joint Managing Director, Mr. Ameya Chandavarkar – CEO, International Business and Executive Director, Mr. Sanjay Jain – Chief Financial Officer, Mr. Mayank Tikkha – AVP, Business Development and Commercial Excellence.

We'll begin the Earnings Call with the highlights on Q3 and Nine months ended December 31, 2021, financial performance of the company from Mr. Sanjay Jain, Chief Financial Officer followed by an interactive Q&A session.

There might be certain forward-looking statements. These statements are subject to certain risks and uncertainties since they are based on certain assumptions and expectations of future events. I would request all the speaker participants to restrict their queries to 5 minutes only and avoid repetitive queries to save upon the time..

With this I shall now handover to Mr. Sanjay Jain, our Chief Financial Officer. Sanjay over to you.

**Sanjay Jain:** Thank you Varsha. Good afternoon, all. This is Sanjay Jain. I will just take you through the Quarter 3 financial results, along with the quarterly results, the YTD results also of December '21 period.

To begin with; On the overall revenue perspective, this quarter we have achieved a 3% growth on a year-on-year basis. In terms of breakup of top line, domestic formulations sales recorded growth of 16%, like the earlier two quarters strong growth in the domestic formulation business. The export numbers for the quarter is at a 41 crores against last year 45 crores. However, there is a reduction in our US revenue to 9.59 crores against last year 34.6 crores.

Coming to the YTD numbers; we have registered a growth of 17%. In terms of breakup; domestic formulation sales has recorded a growth of 36% and the numbers are 1022 crores against last year 753 crores. On export side the numbers are 113 crores versus last year 146



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crores. The revenue from US is at 39.6 crores versus last year 102 crores. The growth in the domestic formulation business as continuously with the last three quarters performance, some of the secondary data which I hope you must have read in our press release; on a year-on-year basis we have registered 22% growth against the IPM growth of 21%. This growth mainly driven by our big brands like Zifi, Electral and Zathrin. Also, the Company has moved one rank above to 22<sup>nd</sup> from the same period last year 23<sup>rd</sup>. Also, in the nine months period Zifi has moved to 35<sup>th</sup> largest brand in IPM from 49<sup>th</sup> same period last year. Also Electral has moved to 54<sup>th</sup> in IPM against last year 64<sup>th</sup> in the same period.

Moving to the margin part; this quarter margins, the EBITDA margin at the operating level is at 43.45 crores against last year 68.9 crores. The reason for the de-growth in the EBITDA margin is primarily because of the some of the costs which were not there in the last year same period on account of the COVID restriction. The expenses pertaining to the marketing, the logistics costs and some of other admin related costs were not there. Hence this quarter all these expenditures are to the pre-COVID levels. Hence there is some pressure on the margin for the December '21 quarter.

On the YTD number the nine-month basis, EBITDA margin on operating level is at 229 crores against last year 280 crores. The reason being the various costs associated with the operations were not there in the last year same period. In this current year the costs are almost at the pre-COVID level. I'm happy to again share with you, the company has announced the buyback to the extent of 170 crores including of tax at the rate of Rs. 475 per share.

Moving to next some of the few key developments about the company for the current quarter; company has received ANDA approval from US-FDA for the product Ofloxacin Otic Solution 0.3%. Also, company has successfully completed the PIC/S audit at our Goa-III plant. Thank you very much. Now I will hand it over to Varsha to take the proceedings further.

**Varsharani Katre:**

Thank you Sanjay. Now I request moderator to initiate with a Q&A session.

**Moderator:**

Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Riddhesh Gandhi from Discovery Capital.

**Riddhesh Gandhi:**

Just have couple of questions. You indicated that effectively because of the comeback of certain amount of expenses to the normalized level, our Q3 margins effectively have come off. So is this what we should take as new normalized EBITDA margins because even historically pre-COVID we were doing higher with an 14%. Just wanted to understand the reason we are saying that's the reason EBITDA is lowest and because return of certain amount of costs?

**Sanjay Jain:**

The margin pressure in the current quarter is as I explained not only on account of the normalization of all the operating expenditure but the topline pressure also. As you can see the overall top line for the current quarter has not given that much growth. When we compare the



overall percentage margin to the top line, it's automatically reduced to the percentage which was not there in the earlier period. It's a mixed combination of the expense and the revenue part. Also, as I explained the revenue was under pressure mainly because of our international business and more specific to the US revenue which is almost down by 72% on a year-on-year basis and on a YTD basis its down by about 61%. These are the few reasons why EBITDA margin is under pressure.

**Riddhesh Gandhi:**

What I was asking is I'm assuming our India wide business obviously given how strong our brands are is throwing out a reasonable amount of free cash flow and we are deploying some amount of that free cash flow into America, the generics business which is a highly commoditized business which effectively we are a very small player in and obviously we are seeing even large people kind of struggle. Just wanted to understand where do you expect to be deploying the free cash flows that we generate over the next few years from our India business into? The other question is that in the event that the US generic business is not an attractive business, wouldn't it then just be helpful to say that let us increase our payout ratio or let's adjust buybacks to 80% on the net profit as an example, just if we don't have attractive areas in which we can redeploy the cashflow?

**Sanjay Jain:**

As I mentioned about the buyback, if I put it in terms of the number, the bypass which has been announced this year is almost at (+60%) of our net profit. It's not that we are retaining their entire amount, the significant portion of our PAT we are distributing either by way of buyback or dividend. This time we have again given the buyback.

Coming on the expansion plan; we have taken a few CAPEX programs during the current financial year which are expected to materialize in over a period of next 2 or 3 years. You must have viewed our exchange intimation with respect to our installation of new line on ALP-IV where we are going to spend of almost around 70 to 80 crores. It's a dedicated line for ophthalmic purpose. We have both objectives in mind for the shareholders on a distribution of the free cash flow as well as the selective CAPEX plan for our future business growth.

**Ameya Chandavarkar:**

Riddhesh, also to add to your point that where will you reinvest funds generated? We are in relatively a niche space in the US which is ophthalmic. You cannot say that it's highly commoditized like simple oral solid dosage forms. Therefore, we have to be careful when we say, 'okay we're going to only deploy or reinvest in a specific market or in a specific category of products.' We will be investing wherever we see higher returns wherever we feel confident that we can deliver.

**Riddhesh Gandhi:**

How much is our hurdle rate for reinvestment and how do we then look at it in terms of equity IRRs, payback in the steady-state ROCEs, how should we be really looking at that or how do you look at that rather?



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- Sanjay Jain:** Again, this is on a case-to-case basis. Various parameters we look at each and every case, so there is no fixed percentage or IRR that we look at. On an overall basis if it is profitable to us which makes sense for the business, we will opt for it.
- Ameya Chandavarkar:** The future cash flows Riddhesh, need to be attractive. So, you're in the investment business, so you know that we need to consider certain risk, certain discount rate and look at the present value of future cash flows.
- Riddhesh Gandhi:** I'm asking in terms of your own internal thresholds, be it an equity IRR which would be effectively equivalent of TCF or payback period, how have we look at it, what would be your internal metrics to say okay it is so much therefore I am okay, going ahead with ROCE under the threshold therefore I would skip it.
- Ameya Chandavarkar:** We usually use a discounted cashflow flow method.
- Riddhesh Gandhi:** How much is the discount rate reduced?
- Ameya Chandavarkar:** So, depends project to project.
- Moderator:** Our next question is from the line of Ajay Sharma from May Bank.
- Ajay Sharma:** I joined the call late, so apology if you already thought about it. But I wanted to know in US, we have this profit-sharing model and I'm wondering what has happened really that both the turnover and the profits seem to be collapsed in this year. Why so much kind of volatility in ophthalmic business which is supposed to be more stable?
- Ameya Chandavarkar:** So, Ajay in our last call—this is Ameya, in our last call—we explained that in the previous year, financial year '21, we had a great opportunity with one of the products and where two competitors got out of the market. Therefore, our market share in that category went up significantly. We were also a partner, was agile enough to raise price and take advantage of the opportunity. Now what has happened this year is those competitors have come back and things have normalized in that market. So that's one major reason. The US market as you know it's extremely dynamic. There are competitive pressures when competitive intensity goes up, pricing changes and that impacts your top line. It impacts your margins.
- Ajay Sharma:** How much is the profit-sharing number for the nine months?
- Ameya Chandavarkar:** We're not authorized to share those numbers according to our IR policy.
- Ajay Sharma:** Because if not I'm not mistaken, last year full year number was about 129 crores. I'm just wondering basically that was a pretty chunky number. Just want to understand basically all the margin pressure we've seen in the first nine months, is it coming entirely from that number going down significantly?



- Ameya Chandavarkar:** Ajay where did you get this number from, how are you arriving at that number?
- Ajay Sharma:** It is disclosed in your annual report under profit sharing.
- Ameya Chandavarkar:** I am just making sure that we've talked about it earlier and it's in the public domain, so that I can talk about it. So, you're absolutely right that's the number that has gone down.
- Ajay Sharma:** Do you think now it's kind of stabilized at this low level and can rebound or how do you say it?
- Ameya Chandavarkar:** So that's a great question. We believe that at least for that product, things are stabilized and we've got another product that has got approved. We are hoping that things only look better going forward.
- Ajay Sharma:** On domestic business, basically, I just want to get a sense of the brand wise or in the category wise commercial market which are the main brands.
- Mayank Tikka:** So, this is Mayank answering the question. Yes, Zifi, Electral, Enerzal, Zathrin what was mentioned by Sanjay that has really contributed but just to give you a zest, this year probably all our therapeutic basket has fired pretty well in double digit growth except for a couple of them. All our top 10 brands have given a substantial growth but if you talk of the overall quantum definitely the top five brand which are Zifi, Electral, Zathrin and Enerzal, they have really contributed well, right from April first quarter, second quarter and the third quarter.
- Ajay Sharma:** Just wanted to know when are the new launches expected in the US market?
- Ameya Chandavarkar:** You might have seen, we informed the exchanges that we got approval for the ear-drop, Ofloxacin ear-drop. So, our customer has started placing orders. That will be launched anytime within the next 3 months.
- Moderator:** Next question is from the line of Kunal Randeria from Edelweiss.
- Kunal Randeria:** Do you foresee some weakness in your domestic market and in FY23 considering that some of your brands like Enerzal or Zathrin or even perhaps Zifi would have benefited from COVID?
- Mayank Tikka:** Again, it is very difficult to predict but we are very optimistic that overall if you look at the antibiotic market, the oral rehydration salt this is very buoyant. Yes, we got some advantage because of COVID because overall the patient outcome was pretty good at the doctor level but if you have studied our category of products, our products were not directly catering to any of the COVID related issues. We are very optimistic but yes you cannot define because this year has opened up lot of surprises, challenges but we are expecting the industry to be growing somewhere around 9% to 10%. If that happens probably, we are very bullish about the next financial year.



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- Kunal Randeria:** Maybe, it's a slightly longer-term kind of a question, so in the next 3 to 4 years, you still believe that your Electral or Enerzal will still be a growth driver? The reason I ask is if I look at AWACS data, I see that for example Electral you are around 60% of market share, in Enerzal its around 95%. So just wondering where do you see the next leg of growth coming from?
- Mayank Tikka:** Maybe you asked a very pertinent question, we normally debate this out internally also. One hand we are the market leaders in this category and we are carving out or enhancing maybe the market overall. These are very generic products where we are trying to expand our use case scenarios at the doctor fraternity, various indication profiling and other things. We are very bullish that these things will not slow down for us. Having said this since we have done well in the last couple of years and especially in this financial year, we are trying to optimize other therapeutic baskets also where we are present right now. You will see definitely a movement apart from Zifi, Electral, Enerzal, we are focusing on the next league of brands also and we are doing our level best to push this in the next financial year.
- Ameya Chandavarkar:** Also, I'd like to add, see market share when you talk about 60% in the ORS and then Enerzal 95%, it all depends on how you're defining the market. As soon as you start talking about in the rehydration space what's the market share then you'll see that there's tremendous potential in a country like India. Please also review how you're defining the market when you talk about 95% market share for Enerzal. That seems a little too high.
- Kunal Randeria:** Continuing with your comment also, so any particular brand you would like to call out where you think maybe besides these top 3-4 brands which you expect to become like a blockbuster brand in the next maybe 3 or 4 years?
- Ameya Chandavarkar:** So how would you define blockbuster brand?
- Kunal Randeria:** Let's say more than 100 crores, I mean your Zifi and Electral are 200 crores kind of brands. So maybe some around 100 crores or something like that.
- Ameya Chandavarkar:** This year Enerzal will probably breach 100 crores, past 100 crores and there is tremendous potential for these brands to go to become much larger as we keep adding.
- Nandan Chandavarkar:** Just to add, whatever were brands that you named Electral, Enerzal, that's their size in our existing value chain so to say in the mainstream business. But as we expand, we would probably go to and we'll be exploring other channels and that is going to provide a lot more growth I think for those brands. Enerzal, variants are there. We are exploring different channel.
- Ameya Chandavarkar:** Does that answer your question?





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**Kunal Randeria:** Yes, it does. The reason for asking is you're highly levered towards 2 or 3 brands. So just wanted to get some sense on how you see probably the composition changing in the next maybe 3 to 4 years. But it did answer to a certain extent. Just one last question, any new launches, how many new launches would you have made in the last couple of years and what would have been the contribution to growth?

**Mayank Tikka:** As of now we have not entered much with the new products. It is more of a line extension what we've done in the last couple of years just because there was COVID around and last to last year you had the lockdown and there was so much of uncertainty which was there. All our launches, either have been line extension in the last 24 months, a couple of them have been COVID related where we tried to milk the situation. Like we entered into the Vitamin C and zinc market and etc. So yes, moving forward we are looking for couple of big launches which I would not like to disclose as of now. But first quarter definitely when we meet next possibly we will be coming out with some blockbuster launches in various categories.

**Moderator:** Our next question is from the line of Cyndrella Carvalho from Central Broking.

**Cyndrella Carvalho:** My questions may be repetitive because I missed a bit of call. There was some login issue. Coming to this quarter I just want to understand how do we define the domestic sales during the quarter? Do you think there is some one-off or you will call it seasonality because looking at our cost base which Sanjay sir highlighted that is a kind of normalized cost base? But then our sales at this range of domestic revenue, should we look at what should be a normalized range or is there anything in it which you can explain for us to understand it in a better way?

**Sanjay Jain:** Cynderella what I explained basically the cost which were not there in the last year those have come back to the normal in the current quarter. Some of the costs are on the higher side also like the marketing costs, the freight related cost on the export side where there was container shortage across the globe. These are some of the costs which were on the higher side. That's why the reason for the pressure on the margin. If you ask me any specific, any one-off kind of there is no as such major one-off in the entire quarter.

**Cyndrella Carvalho:** I am trying to understand if we compare the Q2 domestic revenue versus Q3, so if you can just help us understand the revenue gap which is stated in this quarter and what has led to that, if there is some explanation which you can help us understand?

**Mayank Tikka:** I will like to pitch in here, may be the cost Sanjay would answer that, if cost would have remained similar. But if you look at our overall sales that has slightly gone down if you are comparing with Q2. Now this is because of the industry also slowed down. If I can give you some numbers that on a MAT basis the growth of the IPM is 18% but if you look at the IPM growth for the third quarter alone, its 10.4%. There was a definite slowdown in the third quarter which was experienced by us also. This is very specific to the third quarter comparative to the second quarter.



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- Cyndrella Carvalho:** Let me just reframe it. If I look at our FY20 year's base of our domestic sales and then I look at the FY21-22. So, we saw some growth over FY20 and '21 but '22 again, I mean '21 was a disrupted year given that there was COVID and then we have a different base. What should be a normalized run rate that we should look at from our domestic sales perspective? If you can help us from directionally because you understand that there are challenges, there were anti-infective market slowdown, there's some recovery that we've seen. On a normalized base because there is a difference between the run rate that we were doing pre-COVID and post-COVID. What should be a general run rate that we should look at in line? How should you look at your domestic growth going ahead, any broader range would be directionally helpful for us to understand, on annual basis even if you think quarterly, it is difficulty to give some direction?
- Ameya Chandavarkar:** Cyndrella you're aware that we can't really give you numbers when it comes to direction or growth rate, then we would not like to give guidance. But let's just say that we are confident, we are optimistic about our domestic business and there are no major concerns.
- Cyndrella Carvalho:** If I come back to our major brand growth, say Electral which we, our Enerzal, if I look at the MAT level growth of IPM, they are looking fairly strong at December MAT level. Should we consider these run rates going ahead or did you see any risk to them? What kind of contributions the new products that you are envisaging or pushing in the markets or expecting to drive growth would be contributing if you can help us with that?
- Mayank Tikka:** Again, in the last answer I said probably you missed it. Yes, we would be launching new brand but I would not like to share those details as of now but we are planning to enter into newer category of products which will definitely drive growth. But to answer your previous part, yes, the contribution of Zifi, Electral, Enerzal had been significant but as we said that these are markets which are expanding. So, we don't see a challenge, if the industry continues to grow there would not be any challenge because in the last 2 years we have made ourselves or these brands much more emphatic in their operating space. We are very bullish about it that we would be able to continue this progress.
- Cyndrella Carvalho:** One more last question from my end and that is on how much is the NLEM contribution as of date?
- Sanjay Jain:** It's around the 44% of our overall revenue.
- Cyndrella Carvalho:** On that 44% of domestic revenue or overall revenue?
- Sanjay Jain:** So, 44% of our domestic revenue.
- Cyndrella Carvalho:** Considering that the WPI linked inflation we should be able to take that in the April month?



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**Sanjay Jain:** Yes.

**Moderator:** The next question is from the line of Sharad Sharma as an individual investor.

**Sharad Sharma:** Is it safe to assume Q4 would be slightly above par than what we did in Q3 and also can we assume the promoters would participate wholly in this buyback?

**Sanjay Jain:** Sharad, we can't hear you. Can you speak little loudly?

**Sharad Sharma:** Can we assume I know this has been asked but not answered as well, but can we assume Q4 to be better than the current Q3 numbers? Can we also assume that the promoters will participate to the maximum share on the buyback?

**Sanjay Jain:** Honestly, we can't give you any guidance on the Q4 and on the second question about the buyback. So, since being it's a tender offer, promoters, will tender their shares also as per their eligibility criteria.

**Sharad Sharma:** And just a request. Maybe great if you could do these conference calls more often. Great legacy brand and all the best.

**Sanjay Jain:** Yes, thank you very much.

**Moderator:** Our next question is from the line of Nandvardhan Baid from Laurel Capital.

**Nandvardhan Baid:** Just wanted to understand the market size of the latest ANDA approval that we've got in US. What is the market size of that particular product?

**Ameya Chandavarkar:** It's about \$25 million.

**Nandvardhan Baid:** What is the pipeline on the ANDA for 2022 calendar year? Now what can we expect going ahead?

**Ameya Chandavarkar:** Are you talking about the next financial year?

**Nandvardhan Baid:** No, I'm talking about I mean this calendar year.

**Ameya Chandavarkar:** So, as we said even in our last call, our plan is to file about two to three ANDAs every year.

**Nandvardhan Baid:** Any expected approvals in the near-term? Since I'm sure there must be some filings that are awaiting some clearances etc.?

**Nandan Chandavarkar:** Yes. There are some filings which are at the goal date but we can't really predict when it will come through.



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- Nandvardhan Baid:** Tentative market sizes of those filings which are expected? Maybe hopefully this year that might come?
- Ameya Chandavarkar:** Too early to say. The market keeps evolving.
- Moderator:** Our next question is from the line of Ahmed Mhada from Unifi Capital.
- Ahmed Mhada:** My question is on the current existing exports block. What is the utilization level?
- Ameya Chandavarkar:** We don't have a dedicated capacity for exports Ahmed. We are using a facility that also serves the domestic market. So, if you're talking specifically about our ophthalmic manufacturing then that facility serves our global requirement whether it's India or the US and we are setting up an additional line ophthalmic line there, which will be able to again serve global requirements that will comply with all the more stringent markets including of course the US. What prompted us to make that investment was that we saw a growing opportunity in the US market.
- Ahmed Mhada:** When does the new capacity get commercialized?
- Ameya Chandavarkar:** It's still about 2 years away.
- Ahmed Mhada:** Still 2 years away?
- Ameya Chandavarkar:** Yes.
- Ahmed Mhada:** Yes, because I think in the press release which was issued a year back December '20, it was mentioned 20 months from December '20?
- Ameya Chandavarkar:** There are certain processes that have to be complied with for us to start commercial manufacturing and that's why I'm giving you this timeline.
- Ahmed Mhada:** On the WPI inflation part. Because we have large NLEM portfolio, we have been impacted badly because of the current inflationary environment. Do we intend to take the entire maybe double-digit price hike if it gets effective from April?
- Sanjay Jain:** Yes, so that's what we answered in the last question. We will take the WPI price increase wherever possible and yes you are right this time, it could be around a double-digit.
- Ahmed Mhada:** I think there is a lot of discussion on the OPEX part whether the OPEX is a percentage of revenue has gone up much and I get that last Q3 FY21 was not normal base but if I take Q3 FY20 numbers say 2 years back and at that time I think we did about 320 crores revenue and our OPEX was about 80 crores. That was 24% of revenue. Now, as of this quarter the revenue has grown from 320-340 but the OPEX part has grown from 75 to 95. That is like increase in



4% of sales. What line items have impacted this or this is just normal inflationary impact of fixed cost?

**Sanjay Jain:** Of course, one of the reasons as you explained is the inflationary also but as I explained earlier there are certain line items in terms of marketing cost and logistic cost. These are also gone up and because the marketing cost was not there in the last year-same period because when you compare the number which you gave 80 crores and 100 crores, if you compare our OPEX number on Q2 the 100 is almost and 100 in Q2 also.

**Ahmed Mhada:** I am asking about FY20 numbers. That has normalized number, right? Q3 FY20. I'm comparing with Q3 FY21, I'm comparing with Q3 FY20.

**Ameya Chandavarkar:** You are talking pre-COVID?

**Ahmed Mhada:** Yes.

**Sanjay Jain:** Pre-COVID means you are talking about December '19.

**Ahmed Mhada:** Yes. Definitely. December '19 quarter.

**Sanjay Jain:** December '19 of course the overall inflationary cost has gone up as compared to December '19 because those costs were 2 years back. The cost incurred in the current financial year with respect to the AOP plan for the current financial year. Normally the overall OPEX cost will go up as compared to the cost which was there in the 2 years back.

**Ahmed Mhada:** Say going forward, if there is pick up in the revenue from the current base, there will be impact of operating leverage on margins. Is it a right understanding?

**Sanjay Jain:** Yes, but not in the same line. There will be some plus and minus in particular quarters but when you compare on the overall yearly basis, the cost increase will not be in line with the increase in the sales.

**Moderator:** Our next question is from Saket Kapoor from Kapoor & Company.

**Saket Kapoor:** It is indeed grateful of you, on a regular basis, if con-calls are being held. It would throw more light on and give chance to investor to participate in the growth journey. Just to understand the company in a gist and it maybe repetitive. What are the current growth triggers for FDC going forward and the reasons for which the margins have corrected over a period of time? If we take the September quarter PBT numbers of 91 crores, even if we remove the increase in the other income items, the profitability has fallen Q-on-Q and also on a year-on-year basis. If you could dwell on the factors of which are the one-off expense items or is it the margin trajectory that will be there for the next foreseeable future?



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- Sanjay Jain:** So, you are right, the other income in the current quarter is on the lower side considering the fact that both in the debt and equity market, the reversal of trend was there in the current quarter whereas in the debt, the yields have gone up and the equity market has saw some kind of a correction there. On the expense part, we just discussed the trend in the overall cost that will be there going forward. Because cost if you compare with a last year-same quarter is not truly comparable because of the COVID restriction, those cost but not there. These are the reasons why, basically the pressure on the margin for the current quarter.
- Saket Kapoor:** For us as visibility and predictability of fundings which investors look forward; what should be the earning profile for the organization going forward? The only your thought on that would suffice. Are the current quarter numbers are the ones that are the normal quarter for us, or is it the other way out? And also, on the utilization levels for the various facilities which we are running, what is our current utilization levels?
- Sanjay Jain:** Obviously the current quarter is kind of a one-off kind of a quarter and it will not be a trend for the future. If you have seen in the past quarters, our margin more or less remained in the range of 22% to 25% at the operating level barring the current quarter. Truly we cannot compare the current quarter with the previous year's quarter. It's a one-off quarter where the overall margin and the revenue from our export business was under pressure. On the capacity side the overall basis assuming certain facts; we are utilizing our capacity to the extent of 65% to 70%.
- Saket Kapoor:** What is the reason? In historical way are these the levels which are maintained or we can scale it up higher? What are the reasons why the plants are operating at 65% to 70%?
- Nandan Chandavarkar:** One of the biggest reasons is it's a multiproduct plant. There is a lot of time which is lost in change overs and so on. That is the reason.
- Saket Kapoor:** For last year, last financial year what were the utilization levels? The average utilization levels for these facilities?
- Sanjay Jain:** Last financial year was the COVID affected year. I would say about 10% to 12% drop was there in the utilization but those have come back to now normal percentage of 65% to 70%.
- Saket Kapoor:** Historically also we will be expecting this level only or are we looking to ramp up to get the teething problems behind if I may use the term?
- Nandan Chandavarkar:** What kind of level do you think we'd be able to take it up to because being a multiproduct plant, it is difficult to probably get past maybe 75% utilization or so because bag sizes, bag size optimization; there are many factors which prevent us from a 100% utilization. So, it was a single product plant, it probably would have been possible.



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- Saket Kapoor:** On product launches and which are the key markets where all our future product launches, we are looking into and the growth potentials there in?
- Nandan Chandavarkar:** There would be future launches in the foods, in the specialized foods area and the food products, also in our existing mainstream pharma space.
- Saket Kapoor:** On the raw material front, what constitute the key raw material and what are the vagaries we have to face because of these COVID factors in the raw material or in what ways are we looking to maintain our margins even if there are fluctuations or non-availability of the raw material? What steps are there in the process?
- Sanjay Jain:** As far as the raw materials are concerned, the prices across the board are more or less stabilized, barring few of the raw materials which are Chinese dependent raw material. And wherever we see any threat of price increase; we stock up the inventory to the extent required for next couple of cycles.
- Saket Kapoor:** What is the key raw material baskets that if you could give?
- Sanjay Jain:** So key raw materials are like cefixime, cephalosporins products, azithromycin, dextrose. These are few key raw materials for us.
- Saket Kapoor:** And they are all imported or are we sourcing it domestically?
- Nandan Chandavarkar:** We are sourcing domestically but I think some of the key starting materials even for those manufacturers are imported. Indirectly it affects the cost of raw material.
- Saket Kapoor:** To have greater visibility and now maintaining the COVID protocols are factory, plant visits and all being allowed for investors and institutional guys? Are we conducting?
- Nandan Chandavarkar:** This whole thing has opened up less than 2 weeks ago. Difficult to say, even in the office we are still maintaining with just about coming to 100% population. If you're asking me, can you go visit the plant? I don't think I have an answer yet. Let's wait and watch. Let's see. What is the outcome of the government's opening up? Do we go back into another wave, what happens, I can't say, not predictable at all?
- Saket Kapoor:** Other than this medium of con-call, in what other way can investors communicate for one-on-one? Calls are also allowed? I'm new to the organization?
- Nandan Chandavarkar:** We are not encouraging one-on-one calls but please feel free to send an email. If it's within reasonable means then we'll try to respond to you. Otherwise, we have regular con-calls at the end of every quarter. I'm sure there's enough opportunity to answer any of your questions.
- Moderator:** Our next question is from the line of Neelam Punjabi from Perpetuity Ventures.



**Neelam Punjabi:** My first question is on exports formulation business. Is it fair to assume that the current quarterly run rate of 37 crores for the export formulations is a base now on which we can grow going forward or are we anticipating further price erosions?

**Ameya Chandavarkar:** So, as we said earlier; we have some significant variability because of profit share. If you're asking this question to put it into your model to project this quarter, I would say was surprisingly relatively low for us. That's all I can say and going forward of course we will strive; we'll do our best to do better and we are confident that numbers will look better.

**Neelam Punjabi:** If you can just provide a longer-term outlook for your exports business? How do you see it growing going forward let's say 3-4 years? Can we see it double from the current base given you all are even putting up a dedicated ophthalmic line for this business?

**Ameya Chandavarkar:** So Neelam that's the goal. The goal is that the base of export business today, the sales relative to domestic is small and you are right that we are also investing in additional ophthalmic capacity that will as I said serve global requirements. To great extent it was served the export market also. Yes, the growth rate on export should be fairly significant. It should be at least at par with domestic growth rate if not higher.

**Neelam Punjabi:** Can you just highlight what's your target in terms of ANDA filings on an annual basis?

**Ameya Chandavarkar:** It's about two to three ANDAs every year.

**Neelam Punjabi:** Shifting focus to the domestic formulations. If I look at your 10 years history, we have grown at mid-single digit and it's heartening to see that in the last 2 years we've started outperforming the pharma market barring COVID. Going forward are we confident to grow, continue to grow faster than the market?

**Mayank Tikha:** As you rightly said we will probably we said since our last call also. Yes '19-20 was a turnaround year for us where we started outperforming the market. Internally, we are very confident because we have done the basic changes in our overall strategic inclinations and they are yielding good results and our top brands are firing. Maybe if I talk of top five brands all are in good shape as you might've seen in the data. We are very confident that we will be outperforming the market but again the levels as I said in my earlier answer, it is very difficult to predict because of the COVID. Every time it comes as a challenge, you might have seen normally the third quarter slowing down but again December came out as a surprise. So, industry levels are very unpredictable but we would definitely try and outperform the market as we have been doing significantly in this year.

**Neelam Punjabi:** If you can just highlight what are the strategic changes that you did to start outperforming the market?





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- Mayank Tikka:** So again, these are internal things. I would not be able to share much but what I can say that we went back to our grassroots or maybe our strong holds and we optimize them to get the desired results. There are lot of refabrications between the marketing teams which has been done, the refocusing on our parent historical brands and reinventing the markets for them. That has been the key in the last 2 years.
- Neelam Punjabi:** Just wanted to know what is your current medical representative count and any plans to add more MRs going forward?
- Mayank Tikka:** So, we are approximately at around 4000 now. We have already expanded; we have taken one maybe expansion this year. So yes, couple of expansions have been done within the therapeutic divisions just to grab the opportunities which are prevailing post-COVID. Also, we have come up with one more division. Again, we have not launched new brands for that division but we have refabricated as I said and refocused on our therapeutic baskets with one more addition of division.
- Neelam Punjabi:** What would be the net cash on our books as on December?
- Sanjay Jain:** As on 31<sup>st</sup> December it will be close to 900 crores.
- Moderator:** The next question is from the line of Lokesh Nagpal, as an individual investor.
- Lokesh Nagpal:** The first question is with respect to the quantum of buybacks. We all having empirical data in front of us with respect to how much have promoters' buybacks in the last 2-3 years, buybacks that you have taken place. Is there a better way of rewarding the small shareholders? Because the quantum of buyback as per current regulations is highly skewed, not in favor of the smaller shareholder. We continuously do these buybacks every 15 months, very small buybacks. Is there some thoughts from the leadership on this? My second question is specifically with respect to the other markets, other than domestic and US both regulated and access markets where FDC's team is trying to do some brand building and get an entry into those markets. Can I have responses to these questions?
- Sanjay Jain:** Let me answer the first part of your question. As far as the buyback is concerned, I would not say it's a small portion of the allocation to the shareholders. It's almost 60% of our yearly PAT revenue and for the small shareholders as per the SEBI guidelines, the reserved amount for the buyback for small shareholder is to the extent of 15% which is more than the percentage of small shareholders in the company. In a way the small shareholders are getting a better pie of the buyback as compared to the other shareholders. With respect to the quantum of buyback, it's a total of 170 crores including the buyback tax which the company has to pay. And the price will be 475.



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**Ameya Chandavarkar:** Just to understand when you say, it's not in favor of small shareholders, how else, what are the other better ways you believe funds can be returned or small shareholders, the shareholders in general can be rewarded.

**Mayank Tikha:** There's only two ways. Dividend and buyback.

**Lokesh Nagpal:** In terms of many companies who undertake buyback in frequency as you do. The operational performance over a period of time catches up. Here for FDC we continue to see that the price lag which is we have not even reached these buyback price from the last buyback which happened last year, it was Rs. 400. I am surprised that when we have cash of 900 crores, we do a 170 and out of that 15% we saw the last ratio was about 3.3, one out of every....So, almost 30% of our shares get accepted. And when the price comes back to haunt us and see the past three buybacks and you will perhaps get the point in terms of what I am trying to say. So, when do we see the operational catch up which is a good idea which is of course that can always be the case if it happens? So that's the limited point. Of course, our dividend and buyback is the only thing. I was looking from a quantum of buyback. So, when you said ratios are not pretty much in front of 3.3 was the time that these small shareholders rewarded but the way we run the stock markets, many new small holders, shareholders come into picture with the buybacks is announced. The shareholders tend to suffer the smaller ones. Especially who have being with the company for a long period of time.

**Ameya Chandavarkar:** We weren't able to hear you clearly. Can you repeat that last point please? Can you please slow down a little, it'll help if you talk a little more slowly and maybe closer to the mic?

**Lokesh Nagpal:** What I was trying to say was, if you look at the buyback prices of the last two or three buybacks, you have never been able to catch those performance? I mean catch those share market price once the buyback is complete, perhaps because of operational reasons. The best way is when companies do to keep these buybacks, they are able to be, it is accretive to be, and if we are able increase, improve our performance and slowly and steadily it catches. But I have not seen that as a small shareholder with FDC. The other point of course is even though the way these buybacks are currently run in SEBI many new small holders, shareholders come in and hence the smaller shareholders who have been with the company for a very long period of time tend to suffer. The best way to reward the smaller shareholders is making sure that the price reaches a buyback price. Here we see that the last buyback price also has not been received and we keep a huge gap between the current market price and the buyback price and suddenly. As a small shareholder I would like you to improve your operational performance rather than giving these hefty buybacks which doesn't both seem to be rewarding the smaller shareholder.

**Ameya Chandavarkar:** So, we appreciate your point. See, performance is the number one goal and if that is in so operating performance is the number one goal. If that of course results in a higher share price everyone benefits, not only you as a small shareholder. Of course, that is our number one



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priority. That's our main goal. Now what we have done with the buyback, we have done our best to reward all shareholders and it's a little unfortunate if you see it as not sufficient but of course you're entitled to your opinion. So, we've done our best. Of course, the focus will always be to grow the company and to keep performing better.

**Lokesh Nagpal:** My second question is a company of ours and FDC size and stature and looking at the questions from the other participants; don't you think it would be a good idea to have a full-fledged corporate communications and investor relation cell which can come in the way of answering our queries rather than writing mails every time and then expecting a response. Do we have, can you throw some light on the investor relations department that the organization has today?

**Sanjay Jain:** You are happy to send any communication to us and naturally we will respond to that any question anytime.

**Ameya Chandavarkar:** So, it's a work in progress. See as we grow, we will definitely add capabilities to engage more with investors and to serve investors. Right now, you have all the senior people from the company, most of them sitting here engaging with you and I think that's a good start for us considering that we used to not do calls because we were focused on what you mentioned earlier, operations and building the business. We felt that, that's the most important thing and then of course now we realized the need to also listen to shareholders, engage with them and so this is what we are doing and it's a journey so we will build capability.

**Moderator:** Our next question is from the line of Mohammed Patel from Care Portfolio Managers Private Limited.

**Mohammed Patel:** My question is regarding US business. Can you just break-up it between value and volume, nine-months?

**Ameya Chandavarkar:** Break-up, can you repeat that?

**Mohammed Patel:** Break it up into volume and value growth-degrowth.

**Ameya Chandavarkar:** Volume and value growth?

**Mohammed Patel:** For nine-months.

**Sanjay Jain:** We can share you the overall US number. You want on a quarter basis or on a YTD basis?

**Mohammed Patel:** YTD basis.

**Sanjay Jain:** YTD basis the overall revenue from US is 54 crores.



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- Mohammed Patel:** My question is what is the volume growth or degrowth number?
- Sanjay Jain:** As of now will not be able to give you the overall value and volume breakup. The overall revenue is 54 crores. We will share you separately if you can able to send us an email that requirement.
- Mohammed Patel:** My second question is that you had a press release on this approval regarding the facility at Goa. What actually this will contribute to the business going forward, if we can throw some light?
- Ameya Chandavarkar:** You're talking about the PIC/S approval?
- Mohammed Patel:** Yes.
- Ameya Chandavarkar:** That basically opens up several markets because more and more countries are signing up for the PIC/S approval. In a way it basically allows us to then export to more than 15 maybe more than 20 different countries. Currently it's a good approval to have. We still need to look at how we can monetize and how we can extract value out of it.
- Moderator:** Thank you. Ladies and gentlemen that would be our last question for today. I now hand the conference over to Ms. Varsharani Katre, Company Secretary for closing comments. Thank you and over to you ma'am.
- Varsharani Katre:** Thank you all for joining this Earnings Call of FDC and the speakers as well for expressing their views. In case if you have any concerns, please reach out to us on [investors@fdcindia.com](mailto:investors@fdcindia.com). Thank you all again. Moderator, you can just conclude the call.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of FDC Limited that concludes today's Earnings Call. Thank you all for joining us and you may now disconnect your lines.