"FDC Limited Q1-FY23 Earnings Conference Call"

August 05, 2022

FDC TEAM: **MR. NANDAN CHANDAVARKAR – JOINT MANAGING DIRECTOR**
MR. AMEYA CHANDAVARKAR – CEO, INTERNATIONAL BUSINESS & EXECUTIVE DIRECTOR
MR. SANJAY JAIN – CFO
MS. VARSHARANI KATRE – COMPANY SECRETARY & COMPLIANCE OFFICER
MR. MAYANK TIKKHA – AVP (BUSINESS DEVELOPMENT & COMMERCIAL EXCELLENCE)
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Moderator: Ladies and gentlemen good day and welcome to FDC Limited Earnings Conference Call for the quarter ended June 30th, 2022. 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 of the financials from the management. 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 would now like to handover the conference to Ms. Varsharani Katre – Company Secretary and Compliance Officer of FDC Limited. Thank you and over to you madam.

Varsharani Katre: Thank you. Good afternoon, everyone and welcome to all of you. Glad to connect with you all for this quarter ended earnings call. We have already disseminated the financial results of first quarter ended June 30th, 2022 and the investor presentation as well. Now 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. Mr. Harshal Jain – Assistant Manager, Corporate Strategy.

We will begin the earnings call with the highlights on the financial results of the company by Mr. Sanjay Jain – CFO, 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.

Sanjay Jain: Thank you Varsha. Good afternoon All ! So, I will take you through the financial results for the quarter ended in June 30th, 2022 and will try to summarize all the key points during the quarters. So, to begin with, the company has delivered the overall revenue growth by 11%. We are happy to inform you that all the verticals have contributed for the quarter on a positive note.

On the domestic formulation business, company has continued its growth trajectory and it has given the growth of 8% in spite of the high base of the last year when we have achieved the growth of 68% in our domestic formulation business. Also, to be noted that in the last year sales which includes sales pertaining to the COVID related products. If we exclude that then the real growth would have been somewhere around 15% for our domestic formulation business. However, having said this, this growth has been largely driven by our major brands like Zifi, Electral and Enerzal and also by some of our food range of products apart from the other formulation products. We are also pleased to inform you that our Electral brand has now moved to 34th rank in our IPM on MAT June '22 basis as against 37th rank of last year same period.

On the export business front from the standalone perspective, revenue on YOY basis is up by 42% for formulation business and 25% for API business. The increase in the formulation business is largely on account of increased supplies to our US customers apart from the other markets. We also wish to inform you that company is filed an ANDA application for Olopatadine Hydrochloride ophthalmic solution 0.2% during the quarter.

Now coming to the gross margin side; if you have gone through our results, you will notice that there are some impacts on account of gross margin. In terms of percentage, it's around 5% for the quarter which on account of the elevated prices of raw and packing material prices, in terms of absolute value it has impacted by its 34 crores for the quarter. However, with inflation is getting stabilized and our supply chain getting normalized. We may see some respite in the elevated COGS level going forward. This will further ease means the COGS level will ease with our increase in the finished goods sales price as we have taken the sales price on our scheduled formulation at around 10% plus which will have a positive impact on our margin going forward as well.

On the employee cost, we have maintained at around 20% of our revenue which is slightly lower than the last year same period. However, in terms of the absolute cost it has gone up, as you might be aware we have launched a new division in our domestic formulation business and also on account of the annual appraisal cycle.

Coming to be operating expenses, which includes the temporary provision for the fair value impact on our financial instruments which is around 15 crores on account of the mark-to-mark impact with the hardening of debt instrument yields and correction in the NAVs of the financial instrument. But however, these are up to 30th June but with the current rebounding of market levels, the entire provision has been returned back with the softening of the yields and improvements in the NAVs. Apart from this in the operating cost, there are increase in the sales and marketing, production and logistics costs which are due to increase in the overall revenue base. With this all impacts the overall EBITDA margin now stands at 20% for the quarter as against the last year 31%. So, is the reason for the decrease in the overall profit as compared to the last year same period. Thank you.

Varsharani Katre: Thank you Sanjay. So, now I request moderator to initiate the Q&A session. Over to you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ahmed from Unifi Capital.

Ahmed: My first question is on the domestic business. Considering that we have grown a very high rate considering the base we had in last few ones, can you help us understand a break-up of revenue growth? What is the volume growth? How much is the price hike?

Sanjay Jain: Our growth overall has been 11.5%, the volume growth is 7.6%, the price growth is 2.1% and the new product growth is 1.8%. so, you will understand from here that still our majority of the growth is coming from volume growth. There's unit wise growth on our products.

Ahmed: My question is the entire 10.7% NLEM price hike is effective from April or there is some portion that will come in the Q4 only?

Mayank Tikkha: As Sanjay mentioned that we have taken a price rise that is effective from April but honestly speaking the price rise is still to go in the market first quarter, only 50% products would have gone with the price hike because we had inventories in the pipeline. So, for our major brands Electral and Zifi, the price rise has gone effective from the month of May and June. You can say there would be some impact of it but not much of it because the price rise still shows as 2.1%. As we move forward in the second quarter or maybe the third quarter, this price rise growth would be still higher. As Sanjay mentioned that we have taken a 10% hike on an average. So, by the end of second quarter probably the entire price rise would be visible.

Ahmed: On the gross margins front, so there is about 5% YOY decline, so can you help us in terms of what percentages because of increase in the fall in prices, raw material prices and the packaging portion and how do you see it going forward for the next two or three quarters?

Sanjay Jain: So, the overall impact in terms of percentage on the margin is around 5% which is purely on account of increase in the raw material and packing material prices. So, going forward we will not like to comment as of now. So, as I mentioned if the inflation remains at the same level, we might see some stabilization in the margin but with the inflation cooling off and the prices coming down we might see some improvement in the overall gross margin.

Ahmed: Just last question to understand the freight cost and the marketing expense, can you quantify what percentage marketing expenses we are doing for Q1?

Sanjay Jain: In terms of percentage the current it is around 8% of overall revenue which costs somewhere around 6.75% of the last year.

Ahmed: Last year which means, till the full year or with just Q1?

Sanjay Jain: No Q1.

Ahmed: And what percentage it was in Q4?

Sanjay Jain: So, Q4 was maybe lower than the 6.75 considering the overall base of our revenue.

Moderator: The next question is from the line of Amit Doshi from Care PMS.

Amit Doshi: So, you mentioned that the price hike was like whatever May and June, so 2 months and that too for two big products. So, still the price hike is reflecting as 2.5%, I am just unable to reconcile that line.

Mayank Tikkha: So, when I said the goods got released, actually there is a time lack from when we released the goods from our warehouses and actually get consumed from where it gets picked up. So, exact time we will not be able to mention because there are a lot of inventories at the stockiest level because we have a huge network of stockiest. So, we give you what I mentioned in my last answer was that we started releasing the goods from May and June, so the impact would be very-very partial.

Amit Doshi: So, historically our margins have been in the range of 20%-22%-25%. Do you believe we'll be back to those levels and if yes by when? I know you don't give guidance but I'm just trying to understand because there is a significant consistency of margins in past 10 years versus last 1 year probably this quarter.

Sanjay Jain: This quarter probably the impact is more because of these inflationary reasons. But if the prices coming down back to the normal level, we might see the improvement in the overall margin back to the earlier years.

Amit Doshi: How do we plan to use our cash? Do we intend to buy brands or what kind of strategy we have in terms of using of cash to pick up the growth plan?

Sanjay Jain: I think if you have attended our last investor call, we have answered the way like that in the March '22 we announced a handsome buyback amount to the extent of 170 odd crores which is almost 50% or more than 50% of our PAT and we have always been rewarding to our shareholders by way of either buyback or dividend. Apart from this rewarding to the shareholders we have also invested in our ophthalmic line at our Waluj plant, so there also the CAPEX to the tune of 70 to 80 crores will be invested. These are the bigger ones where we are using our cash.

Amit Doshi: Any outlook on export business which you can share or our plans about exports?

Ameya Chandavarkar: So, what is the question, Amit?

Amit Doshi: Basically, export we've been doing decent enough and the API market is also there. So, are we significantly planning to increase the export share in our top line or what is the plan on the export front?

Ameya Chandavarkar: So, yes, we definitely want to increase our sales grow faster, so we will continue to invest wherever possible and we will continue to take advantage of opportunities that seemed attractive to us after ensuring that the risks are also not significant.

Amit Doshi: But this exports business would you believe will be margin improving, could it be the liver for margin improvement, or no?

Ameya Chandavarkar: Right now, it is definitely attractive from a margin perspective particularly because of our US business. Going forward as volumes go up depending on which markets, we cater to, margins can vary. We are definitely keeping a close watch on margins.

Moderator: The next question is from the line of Maanvardhan Baid from Laurel Investment Advisors.

Maanvardhan Baid: My questions largely got covered but just to understand since we've launched a number of new brands, so just wanted to understand how is our focus towards those brands and what are we intending? I mean now that what is the marketing spend that is being done on the newer brands and which ones are our key focus areas besides the marquee ones that are already there?

Mayank Tikkha: A similar question we addressed in our last call also, just to correct you we have not launched multiple or more brands. In fact, from the last year we are consolidating our business. So, we are focusing on our top 10 brands out of which most of the brands are giving us good delta moving forward. We are focusing heavily on our parent therapy basket of antibiotics and as well as Electral, Enerzal therapy, apart from this as Sanjay also mentioned we have launched a couple of divisions in the last 1.5 years and we have started focusing on our nutraceutical portfolio in a big way. Along with that now we are also focusing on a derma basket. These are already areas where FDC was always present. We had a good base but from the last 1 year we are consolidating our positions into these markets. Having said this yes, once we achieve a threshold and we stabilize these expansions what we have undertaken in the last 1 year probably we will be pushing some new launches but as of now the new launches are very minimal in the last 12 months.

Maanvardhan Baid: And sort of outside the three big brands that we have and that is top three, so what other next three areas of focus for us and where do we see, I mean the next 200 crores brand would be what do you internally expect it to be?

Mayank Tikkha: So, very good question, just to give you a backdrop Zifi and Electral are already in the 300 basket. If you ask for the next brand which can make to a 200 list is Enerzal where we are already above 100 crores landmark. So, this becomes the natural choice which goes up the ladder. Apart from these top three, we also have Vitcofol, Zathrin by the Azithromycin brand, Zifi CV, Zocon and Zifi-O. These are the next five brands which are in the vicinity of 50 to 100 crores and gradually with the focus of various verticals on to these SKUs or molecules definitely we look at these molecules to be climbing up the ladder.

Moderator: The next question is from the line of Chirag from DSP IM.

Chirag: So, versus secondary market data our India business revenue seems to be far stronger, higher. Anything that is changing over there in terms of the way discounting that you were giving, rebates that you were giving, what is the change here?

Mayank Tikkha : We have not changed any discounting structure. We are traditionally going the way we have been operating from historical past. There's no change whatsoever what we have made in our top 10 brands.

Chirag: So, then this is an aberration. Do you agree that secondary data is also showing much weaker than primary performance that you've reported?

Mayank Tikkha: No, I don't know from where you are interpreting this because our secondary data is pretty strong, if you're looking at the market numbers from IQVIA, our growth rates are far better as compared to the IPM. And it is not an aberration because as Sanjay mentioned in the opening remarks also, for last quarter we had a very handsome and high growth. On top of that this quarter also, we have shown a double-digit growth. Can you specify what difference you're talking about?

Chirag: I am seeing a 1% growth for the quarter that IQVIA is showing and while our primary data that you've reported suggests a 9% growth YOY which is why I was just highlighting if there is any change.

Mayank Tikkha: No, I don't think so. The secondary market growth is 1% because most of the brands have reported a double-digit growth. Our MAT reflections are pretty high. If I can give you a number maybe as per the June MAT, our growth rate is 11.5 compared to the IPM growth of 8.3.

Chirag: So, there is nothing that you want to highlight. Fair point. The other question was on the field force incentives. Can you quantify field force incentives for FY21 and '22?

Sanjay Jain: So, in terms of value for the year '22, it was around Rs. 61 crores.

Chirag: And '21?

Sanjay Jain: '21 around 25 crores.

Chirag: Do you see this number dramatically changing as a percentage of sales as we go?

Sanjay Jain: The incentive is purely a function of sales, so as the sales grow up the quantum of incentives will naturally go up. But not directly proportional to sales but with the growth percentage of the sales. So, higher the growth of the sales, the percentage to sales incentive will be by and large the same but the quantum will increase.

Chirag: But as a percentage of sales, it will remain the same?

Sanjay Jain: Yes by and large it will remain the same because we have certain guidelines in which we operate our incentive policy.

Chirag: Is our India business margin higher or lower than the company average margin?

Sanjay Jain: Definitely India business margin is better than the overall business margin considering the product that we have.

Moderator: The next question is from the line of Aditya Khemka from InCred PMS.

Aditya Khemka: You mentioned that you have taken a 10.7% price increase in the NLEM portfolio, is the NLEM portfolio roughly around 40% to 43% of our India sales? What is the kind of price increase that we have taken in the non-NLEM portfolio?

Sanjay Jain: The NLEM portfolio would be somewhere around the 45% to 50% with the increase and decrease in the sales. You rightly mentioned we have taken price rise of 10.7%. What we were discussing in the earlier calls, the effective of those 10.7% increase will be coming in the second quarter as well because in the first quarter the new priced product may not be in the pipeline. So, the full impact of the price rise will be seen in the Q2 of this current financial year. And as far as the non-NLEM portfolio is concerned which we have mentioned in the last call as well, so for non-NLEM the price increase on a 12-month rolling basis, so as and when the products get completed their 12 months period, we are eligible to take the price rise. So, it's not on an entire financial year-to-year or on the 1st April basis, it's getting due on every 12-month completion period.

Aditya Khemka: In that case what is the kind of price increase we are planning or for the products where, the non-NLEM products which we would have probably taken price increase till now from April to July, what is the average price increase we are seeing in the non-NLEM basket?

Mayank Tikkha: So, I will answer that question. Maybe normally we have maintained in the historical class our affordable marketing strategy but this year because of the overall inflationary conditions in the economy of India that we have gone ahead with the 10% rise which is permissible. But again, as we said that we cannot give the rough number because as Sanjay mentioned the percentage averaged out on the quarterly basis, on a YOY basis is very difficult to comment as of now. But in all our products wherever possible, wherever the competitive scenario allows us to do we have done that.

Aditya Khemka: I appreciate that. Thank you so much for that. Second on our export business although we are growing from our very weak base of last year but when we spoke about the export business last year, I think your commentary was that FY22 was more of an aberration, we should consider FY21 as the base and the effort from FDC will be to grow from the base of FY21 export number. Is that still your ambition or do you think basis Q1 results it doesn't appear that we'll be able to outperform our export sales in FY21? So, just wanted to understand, if we want to restate your ambition in the export business for FY23?

Ameya Chandavarkar: So, FY21 was also an aberration when it comes to our US business and very specifically the US business profit share. I think we explained that we had a situation where two of our competitors in Timilol Maleate eyedrops got out of the market. I am not sure, we went into so much details but these are the facts and therefore we were in FY21 able to take advantage of that situation where we got significant additional market share as well as we were able to increase price. So, yes, from a sales perspective excluding profit share you can use FY21 as a base but what happened in FY21 in terms of profit share was an anomaly. So, that's really where this year we find it very challenging to hit that same profit share number. Now we do not as a policy share the breakup of sales and profit shares because that is not really something we are comfortable doing at this stage, but I think have I answered your question.

Aditya Khemka: Yes, you have answered, In fact I was just about to make that recommendation on disclosures that even if you are not comfortable let us say disclosing sales and profit share separately it would be very good from the management if you look at what your peers disclose on a quarterly basis they give a very neat clean table on geographical breakup of revenues and let us say if your profit shares comes entirely from the US ANDA business you can maybe include the profit share you can add the two of profit share and revenue and report it as one line item, but to have a very clean table where India, US, other exports and EPI these four are broken on a quarterly basis that would be very useful for your current investors and your potential investors otherwise we have to keep hunting for data including your press release and sometimes we just might arrive at the wrong conclusion as to what is happening in the business?

Ameya Chandavarkar: Fantastic so point very well taken we will work on this. Sanjay wants to add something.

Sanjay: So, Aditya if you look at press release which we have submitted the export revenue which are showing debt includes the profit shares as well.

Ameya Chandavarkar: What he is saying is give a breakup of US and wherever possible in specific countries like USA, UK so we will work on it. Any companies that you recommend we benchmark with.

Aditya Khemka: Thousands I mean you can look at Sun Pharma, Lupin, Glenmark, Dr. Reddy's in every company of your size and bigger have a very neat clean way of reporting the top line breakup every quarter which makes it very easy and practical for the investor community again both existing and potential to understand how your business is evolving and then in the Q&A session on such calls we can focus on what is important rather than just exchanging facts. So, I would recommend India, US, other exports and API has four different line items because we go into separate geographies within other exports it will be a very long table and the numbers will be very menial for some of those geographies which we would not be able to sort of give much color I leave it to you obviously but that is my recommendation.

Ameya Chandavarkar: Then it will become a geography discussion.

Aditya Khemka: Which is why other companies also avoid that they give US and others. So, US is one line item other exports is another line item where you can sort of club three other geographies. So that was my recommendation one more question on the other expenses so obviously mentioned your freight cost have gone up and so has the promotion cost, so promotion cost going up from 6.5% to 8% of sales is that purely a function of the additional division that we launch or is there a increase in the advertising rates that we are witnessing?

Sanjay Jain: So, our budget for the sales and marketing cost is as a percentage to our revenue. So, when you look at the absolute number so with the increase in the revenue the budget or the actual expenditure.

Aditya Khemka: Sir I am asking that 6.75% of sales going to 8% of sales so there is a increase as a percentage of sales also from 6.75% to 8%, so that is my question specific to the percentage only?

Sanjay Jain: The reason being the accounting of the expenses is based on actual receipt of the material related to the promotional item. So, that can be a 1% here or there may be in the Q1 or in the Q2, but when we look at the year end. So, by and large everything gets clear and also as you rightly mentioned the increase to some extent is on account of the new division as well.

Aditya Khemka: Just one last question Sanjay sir in his comments mentioned inflation in freight cost, can you give us a rough ballpark number as to how much inflation we would have seen in our freight rates?

Sanjay Jain: So as a percentage I would say half a percent increase in the overall logistic cost as compared to same period last year.

Aditya Khemka: And sir our annual report when is it due?

Sanjay Jain: I think within the next few weeks you will get it.

Moderator: Thank you. The next question is from the line of Neelam Punjabi from Perpetuity Ventures. Please go ahead.

Neelam Punjabi: My question was related to gross margins so as you mentioned that your gross margins have declined because of raw material price inflation and packaging material price inflation and you did mention that the full impact of WPI linked price hike is not yet reflected in this quarter and it will be coming in next quarter should we expect a gross margin should go up from the current levels and if you could quantify how much would that be in the next quarter?

Sanjay Jain: Can you please repeat your question?

Neelam Punjabi: My question was related to gross margin so given you all mentioned that the full impact of WPI linked price hike is not reflected in this quarter and the second quarter would be a better reflection would we see an increase in gross margin and if you can quantify what kind of gross margin can we see with the price hike in the next quarter?

Sanjay Jain: The exact quantification we will not be able to do as of now, but I can give you a broad guidance on that considering the fact the goods which have been sold in the Q1 are partially from the carry forward of the March quarter inventory and partially from the Q1 inventory. Now whatever inventory which are going to be get sold in the Q2 almost purely of a Q1 inventory means the inventory with the increased sales price. So, with this increase sales price the margins will obviously improve in the Q2 as compared to Q1 margin but having said this we also have to wait and watch any further impact on the raw material and packing material prices if the same whether remains stable or it drop or increase further. So, there will be a combination of the two parameter on one side with the sales price and on the other side the raw and packing material, but the broad guidance will be that we do not see any major increase in our cost level on overall basis.

Neelam Punjabi: My second question is on other expenses so we have seen a sharp jump during the quarter and you mentioned one of the reasons is 15 crores of fair value impact on account of mark-to-market, but even if we exclude that the growth on a YoY basis in the other expense line item is almost 25% versus our overall top line growth of about 11%, so if you could highlight any particular reason why the expenses have gone up?

Sanjay Jain: So, if you are comparing on a June-to-June quarter basis the increase in the overall operating expenditure is around 36 crore out of which if we exclude that about 15 odd crore the remaining I would say around 20 odd crores are largely because of the other expenditure, other operating expenditure which includes about 10 odd crore increase on account of sales and marketing cost, about 3 crore to 4 crore on account of the production related cost and a balance related to the logistic and the export related cost.

Neelam Punjabi: So, is this like the sustainable way of going ahead or are we envisaging further increase from here?

Sanjay Jain: In the previous call we answered we are accounting for the expenditure of the promotion is on the basis of the receipt. So, in some of the quarter when the receipts are on the higher side expenditure can go up but coming on the next quarter if the overall procurement on the lower side the cost can go down as well, but we can look at year-to-year basis where the overall all the cost as a percentage to revenue get nullified.

Neelam Punjabi: My next question is that during the quarter I see that our Medical Representative count has increased from roughly 3,242 last as on March to 3,615 this as on June, so is this mainly because of the new division that has been added and if you can please highlight what this revision is and what the strategy for this division going forward?

Mayank Tikkha: In our last call also, we did mention that we have launched Zocon division as a new division so we have added almost 400 odd people in this division. Now as I mentioned earlier that we are focusing on the derma basket through this division because Zocon is a flagship brand and we have segregated the derma therapies from other divisions mainly Proxima and Lumina these are the two divisions which were looking after these therapies. Our overall strategy moving forward is that this is one area probably FDC would like to focus on apart from our antibiotics Electral-Enerzal and Nutraceutical which I mentioned. This is one of the growth drivers for the next couple of years which we are targeting.

Neelam Punjabi: Wanted to understand our exports business have grown quite better this quarter on a YOY basis so what drove this growth in this business? Almost 23% if I include exports and export formulations in API.

Sanjay Jain: It's mainly on account of the increased supplies to our US market. US revenue alone has increased by 7 crores on YOY basis and compared to the last year June '21.

Neelam Punjabi: Are we expecting this kind of a growth trajectory to continue for the rest of the year?

Sanjay Jain: By and large yes, I would say.

Neelam Punjabi: Lastly my question is on the domestic business. You mentioned that during the quarter our new product introduction contributed about 1.8% to our overall growth. Could you highlight what are these new products?

Mayank Tikkha: These are mainly line extensions of our existing brand, couple of which are Electral Z what we launched. We have also extended EnteroPlus which I mentioned last time also. We had EnteroPlus sachets only. We had launched capsule in the last quarter. We have mainly one by line extension and we have not entered into a new molecule set up as of now.

Neelam Punjabi: For the domestic business it's pretty heartening to see us growing at almost 10% on a high base. Should this business continue to grow, there is still mid-teens for the rest of the year?

Mayank Tikkha: Yes, we are very positive about it because as I said that from a historical standpoint now we are not dependent only on the Top 3. In fact, all our Top 10 brands are firing in double digits and we are focusing on these Top 10 brands through various divisions and separate verticals. We are very optimistic that this growth trajectory we would be able to continue.

Moderator: The next question is from the line of Saket Kapoor from Kapoor & Company.

Saket Kapoor: I would second the views of our earlier participant on going on with further detailed presentation for the benefit of investing community at large. And if you could give us some more understanding on what is the vision of the company going ahead in the product profile in terms of the market share and the size of the business which we are eyeing going ahead. Also, what are the key variables for the business that affects the margins?

Ameya Chandavarkar: That's a very broad question and probably will require a very long answer but in a nutshell if we want to continue this both momentum that we have gained in the domestic business, in export business so overall growth is very important. We continue to focus on our key areas which are so oral rehydration, drinks, the anti-infectives, ophthalmic. We invest in strengthening our brands. We will invest in markets where we see potential for us to get larger market share, expand our margins so in general we will just be very focused on growth.

Saket Kapoor: About the variables part? What should be kept in mind for our business the variables in the industry which result in the fluctuation for the margins?

Ameya Chandavarkar: Are you referring to how recently there was an increase in…..

Saket Kapoor: Yes, for recent. When we look at your quarterly performance it is for investing community, we look at the continuity and the sustainability of the numbers to value a company. For us how should we look when we look at your numbers and what factors should we investors and analysts should be looking for so that we can understand in much deeper and also, we have more predictability on your numbers. That was my point. Since you mentioned about the COVID factor when we are comparing your last June '21 with current June you did mention that there was a benefit of COVID factor for that quarter. Even if you could quantify for us what was the impact on the bottom line because of that one-off item that would also suffice.

Ameya Chandavarkar: Two-parts, I think one is variables in general and second is specifically on the one-off for write-off for Favipiravir and.

Sanjay Jain: On the one-off kind of Favipiravir where we had last year June '21, we had a sale of somewhere around 17 crores odd, so this was purely at ready product at that time. Margin by large was very low but from the top line perspective if we want to take the guidance then what I said the overall revenue growth which we are looking at in the current quarter is somewhere around 8 but had it been that sale was not there in the June '21 quarter the real growth would have been somewhere around 15%. I think from the revenue perspective that should be the guidance for the future perspective and looking at the actual numbers versus the actual excluding the one-off item in the last year. On the other variable like write-offs which we have already done in the March '22 order where we had certain inventory related to the Favipiravir so that write-off we have already taken. We don't see any further write-off on that side which are in the nature of one-off item.

Saket Kapoor: Kindly correct me if I'm wrong. You told 17 crores was the impact from the COVID part that too on the trading that impacted the revenue but the margins were lower.

Sanjay Jain: Yes.

Saket Kapoor: Then how should we understand the 127 crores bottom line for June '21 and 90 crores bottom line for June '22? How to make good of this? Because the top line even if we remove the trading aspect, the top line was 445 crores for June '21 and this time the 493 crores. Whereas the difference in the profitability there's a huge change. If you could explain what factors have enabled that has resulted in these margin speculation, lower margins?

Sanjay Jain: You rightly mentioned there was a profit of around 127 crores on a PBT basis in the last year June '21. Now as we discussed in the previous call on the last year profitability and this year profitability the major impact was on account of the increase in the raw and packing material which has impacted our overall margin. This was we can see one of the major items which has eaten away our profitability for the June '22 quarter. Secondly in the last year the other income portion was significantly higher considering the market conditions whereas in the current quarter the same was not there because of the market condition. I also mentioned that these correction in the market has already been reversed post June. These are the two major factors apart from the other overall increase in the operating cost which are around 20 crores odd. These are two or three variables which has impacted the overall profitability for June '22 quarter.

Saket Kapoor: So, the packaging cost was 20 crores, that is what you quantify? The impact of packaging cost from June '21 to June '22?

Sanjay Jain: 22 crores is the overall increase in the operating costs as compared to the previous year June '21 quarter.

Saket Kapoor: Major of it is because of the packaging aspect?

Sanjay Jain: This 22 is over and above the increase in the raw and packing material cost.

Saket Kapoor: So, could you quantify how much was this impact?

Sanjay Jain: So, if you want the impact on account of raw and packing material which is around 5% of our top line. We have a top line of 491 crores so total impact on account of the prices will be somewhere around Rs. 25 crores.

Saket Kapoor: Now with the increase, the price hikes which we have taken, of the total portfolio, what percentage of our sales would be benefited from the increase in the 10% increase which we have taken? What would be its impact, it will be going down to our bottom line or it will look after first the cost will get nullify? If you could explain since for this quarter, we have the inventory in the pipeline?

Sanjay Jain: The price rise which we have taken is for the scheduled formulation which is our 45% of our overall portfolio which may get benefit in the going forward.

Saket Kapoor: This 10% hike will, what portion would go into the incremental margin and how much will we be nullifying the cost as such?

Sanjay Jain: The price is purely, is directly going to the bottom line unless there are the other factor which are like in the nature of raw and packing material price increase which can nullify otherwise all price hikes goes directly to the bottom line.

Saket Kapoor: You explained that 45% of our total revenue there's an impact of 10% that is attributable to the bottom line if the other variables are remaining the same as have been this quarter, this is correct understanding?

Sanjay Jain: 45% of our domestic formulation business.

Saket Kapoor: Can you quantify the number, the total sales with domestic?

Sanjay Jain: For the current quarter June '22 its somewhere around 423 crores.

Saket Kapoor: Out of the 493 crores?

Sanjay Jain: Yes.

Saket Kapoor: On the other income part you did mention but if you take the impact from June '21 it is to the tune of only Rs. 4 crores it was 23.4 and this year 19.4 so 4 to 5 crores is the impact that is mainly because of the hardening of yields that you have mentioned mark-to-mark?

Sanjay Jain: Yes. And the correction dynamics.

Saket Kapoor: We hope for more discussion and also to have a better understanding in the form of the presentation being giving more color and more illustration. That would give us more understanding and more material to discuss and we look forward for the continuity of the calls from the management team and all the best. For the seasonality part, last point I will forget, for the seasonality part if you could give some color do seasonality part plays for the business of the company? There is lumpiness in the numbers or we have a linear trend for the remaining nine-months?

Mayank Tikkha: Maybe since we are mainly dependent on our antibiotic sales so second quarter normally is the highest or most potential from our overall business standpoint but having said this since we have worked on our other portfolio by and large third quarter would be slightly lean or rather off-season kind of a scenario where antibiotic sales goes down slightly and also the ORS category of product energy drink goes down. All our three flagship brands if we talk about the third quarter is the leanest. But second quarter it is maybe very promising for all our top three brands.

Moderator: The next question is from the line of Devraj, retail investor.

Devraj: Thank you for the opportunity. Is it possible to get to know that the Rs. 475 buyback price, how that was arrived, is it possible to?

Sanjay Jain: So, If you look at the buyback prior to we announced the last buyback which was priced at 450 and market price of our FDC was somewhere around between 350 to 400. We applied some premium based on the last 12 months rolling returns of that price. This is the broad formula which we applied to arrive at the Rs. 475.

Devraj: In future also we will be over the next 10-year period we will be continued this buyback now different amounts?

Sanjay Jain: We can't comment as of now. If anything is there on that side, we will surely update you on that.

Moderator: The next question is from the line of Dhruv Bheda from Jai Ram Stock Brokers.

Dhruv Bheda: We have overall grown by 11% in revenue terms and 7.5% in volumes terms. And the major growth is contributed by our Top 3 products Enerzal, Electral and Zifi. Can you tell us the growth in these three products in terms of volumes and their contribution to the total sales?

Sanjay Jain: For the quarter Zifi has grown by 11%, Electral by 32% and Enerzal by 22%.

Dhruv Bheda: In terms of volume?

Sanjay Jain: For the rupee's overall revenue on account of Zifi is around 7 crores, Electral by 27 crores and Enerzal by 8.7 crores.

Dhruv Bheda: By this amount we have grown?

Sanjay Jain: Sorry?

Dhruv Bheda: By this amount they have grown? This is not their contribution.

Sanjay Jain: Incremental sales over the last year quarter.

Dhruv Bheda: What were the factors that during this growth? This seems to be exceptional growth.

Mayank Tikkha: Last year there was a COVID upsurge which was experienced by the whole IPM not only FDC, because last year the entire country was taking medicines due to COVID and though our therapies were not directly into COVID but overall antibiotics Enerzal-Electral had very high sales. So, to be on a positive side we had planned this strategy at the start of this financial year itself that we will go very aggressive with our Top 5 brands and we have chalked out a strategy how to move about and that is why probably we had gone with the expansion of which we mentioned. So, I did mention that we came up with the Zocon division but by virtue of that expansion we could streamline our overall therapy basket within the parent divisions. Now Electral we went very aggressive with and we changed our secondary tactics into the market. This was one opportunity which we leveraged just to combat the higher volumes which were there in the last year first quarter. The strategy was such that we did try and milk Electral, Enerzal and the market was also very supportive. If you might've seen the IPM itself except for maybe couple of therapies it rebound pretty well. It was a various thought of strategy executed well by the sales team in the market.

Dhruv Bheda: Can we expect this growth to continue in subsequent quarters?

Mayank Tikkha: Again, we are planning in nice fashion. We are very aggressive but as I said that all these plans are plans till the times you don't get the execution right and also the results right. But yes, having this the trends are very encouraging. We have continued good run. The only thing is the secondary factors always there. If you want to grow in the market, market also should be buoyant. As you know these days conditions do change. We have seen in the last 2 years COVID the ups and downs in the IPM overall but having said this if the IPM continues the stable run in the future, we definitely are working on outperforming the market.

Dhruv Bheda: How we did in export market as far as Electral is concerned?

Ameya Chandavarkar: It's going on, we are continuing to sell Electral in Myanmar and UAE and some of the markets where we have launched the brand.

Dhruv Bheda: So, did it grow at the same rate or more than the domestic rate?

Ameya Chandavarkar: The base is lower at the same time we don't have large field forces in the markets. It's difficult to give you a clear guidance on this.

Moderator: The next question is from the line of Neelam Punjabi from Perpetuity Ventures LLP.

Neelam Punjabi: I just wanted to know what is our net cash as on June?

Sanjay Jain: Its somewhere around 750 crores.

Neelam Punjabi: What would be strategy for cash deployment going forward? You mentioned that we are expanding our one ophthalmic line and investing 70 to 80 crores there but what about this remaining cash?

Sanjay Jain: We did answer this question in the last call as well where I mentioned that we are doing the these rewarding the shareholders by way of either buyback or by way of dividend. And apart from that we also do the required CAPEX wherever we require. Which I mentioned about the ALP 4 project where we are going to spend about 70 to 80 crores odd and any other operating CAPEX which are required as a part of replacement and upgradation.

Moderator: The next question is from the line of Maanvardhan Baid from Laurel Investment Advisers.

Maanvardhan Baid: Just wanted to understand this CAPEX that we're doing on the ophthalmic side. What would be the asset turn on this CAPEX? What kind of top-line do we expect out of this CAPEX?

Sanjay Jain: As of now we will not be able to give any number on this CAPEX side. But once we have any guidance on that we will surely share with you.

Maanvardhan Baid: I mean usually what is in the current ophthalmic line what are the asset turns that are there? I mean this would be similar right?

Management: Sorry?

Maanvardhan Baid: On the current ophthalmic line what would be the asset turn that would be there? This would be in something in line with those asset turns only? It won't be different, right?

Mayank Tikkha: Can you repeat that question?

Maanvardhan Baid: Sure. On the current ophthalmic line what would be our asset turn on the current ophthalmic line? I mean my understanding would be that this would be similar to the existing asset turn only just to?

Mayank Tikkha: See we have a few lines so I'm not sure which one you are referring to and as far as to capacity utilization is concerned, we are nothing has changed. I don't think anything will change going forward.

Maanvardhan Baid: I will leave it to maybe at a slightly later day to come back on this question. One more aspect that I wanted to get your views on is our online platform that have come and how much are we contributing to our sales? What is the approach that we are taking toward these platforms?

Mayank Tikkha: Again, online platforms which are there they are selling our products but as of now we are not directly associated with any of the online platforms. They are purchasing from the open market and catering to the consumers. This is our traditional prescription based. What online platforms are normally doing is they're replacing the chemist, your nearby chemists and supplying directly to those consumers. But definitely when a demand gets generated or orders placed on the online platform for any of our brand, they source the product from some of our stock is based on their convenience. It doesn't have any impact on our business neither positive or negative as of now.

Maanvardhan Baid: In terms of increasing visibility or in terms of sort of funneling orders towards FDC's brand, is there something that can be done or something that is possible on the online side?

Mayank Tikkha: As I said that we have brands like Electral and Enerzal where we work on visibility aspect also apart from our traditional prescription business. But apart from these two brands we are completely dependent on our prescription sales and we don't go in for any visibility of any of our brands. Electral-Enerzal are only exception where we do use some visibility tactics along with our traditional business.

Moderator: Thank you. As there are no further questions from the participants. I now hand the conference over to Ms. Varsharani Katre, Company Secretary for closing comments.

Varsharani Katre: Thank you. Thanks to all the participants of this earnings call of FDC and thank you for expressing your views and recommendations. In case if you have any concerns, please reach out to us on investors@fdcindia.com Thank you again. Over to you moderator.

Moderator: Thank you. Ladies and gentlemen on behalf of FDC Limited that concludes today's earnings call. Thank you for joining us and you may now disconnect your lines.