"RPG Life Sciences Limited Q4 FY22 & Full Year FY22 Earnings Conference Call"

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MODERATOR: **MS. ARCHANA GUDE – IDBI CAPITAL MARKET**

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY22 Earnings Conference Call of RPG Life Sciences Limited hosted by IDBI Capital Markets & Services Limited. As a reminder, all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded. I now hand the conference over to Ms. Archana Gude. Thank you, and over to you, ma'am.

Archana Gude: Good afternoon, everyone. I would like to welcome Mr. Yugal Sikri – Managing Director; and Mr. Vishal Shah – Chief Financial Officer of RPG Life Sciences and I thank them for giving us this opportunity. I shall now hand over the call to the management for the opening remarks. Over to you, sir.

Yugal Sikri: Thank you, Archana. Good afternoon everyone. Thank you for joining us on this Earnings Call of RPG Life Sciences for the Quarter 4, as well as for the Full Year FY22.

As we straddle into the past COVID era in the new financial year, hope your near and dear ones are safe and healthy.

It's my pleasure to share with you briefly the market context, our broad priorities and how we fared, and thirdly, brief highlights of our performance in Quarter 4 and Full Year FY22.

First, the Market Context:

Monthly market growths are tapering. If you look at the immune pharma market progression in the last 12 months due to the base effect and COVID therapies play. RPG Life Sciences had been consistently growing faster than the market, gaining market share and ranks and with the market growth as per AIOCD AWACS. The latest data stands at 20% growth for RPG Life Sciences and the market growth is at 14%.

Let me now share with you our priorities and how did we fare there:

Our priorities, you will recall as we mentioned last time, are six:

- Colleagues
- Cost
- Cash
- Communities
- Demand and supply

On the Colleagues' front:

Thanks to our relentless focus here with 100% double vaccination insured, we are now focused on our corporate team, that is Happiness. Thanks to our 10 different initiatives designed around

6 tenets of Happiness within RPG happiness framework, the impact cannot only be visibly seen, but also is reflecting in our high happiness score further moved up this year.

On the Cost Front:

Thanks to various cost awareness and control initiatives introduced for the last 3 years, which include first ever comprehensive formulations reengineering exercise of its 50 plus year old products, organizational restructuring and optimization exercise and a number of kaizen projects ongoing across the organization, both cost of goods and administrative OpEx has come down significantly. That has also helped us to deal with cost inflationary environment, and finally eventually has resulted in EBITDA improvement from 10% plus to 20% plus of sales in the last 3 years.

On the Cash Front:

Thanks to the all-round efforts and profitability improvement and impressive working capital management, we have not only paid our debts, but also have generated healthy cash flows, and I'm pleased to report to you now it extends over Rs. 70 crores after paying the highest ever dividend and advance tax of around Rs. 31 crores.

On the communities Front:

As a responsible corporate citizen, we have been exercising three priorities. One, reaching medicines at the doorstep of patients in difficult times. Two, reaching medical care via our unique portable fever clinics launched in the state of Maharashtra. And number three, reaching education via our unique initiative called Pehlay Akshar, which has trained over 9,000 Teachers and over 2.5 lakh students.

On the Demand Front:

Industry's first ever anytime, anywhere physician service initiative has been launched. And you'll recall I talked about it last time, we did a pilot of 113 doctors, and I'm happy to report to you that it has been scaled up now to over 58,000 doctors in a span of 12 months. It is pull based rather than push based and has helped us to multiply our share of voice in the physicians clinic, which we all know is too vital for prescription generation.

And finally on the Supply Front:

In the environment of heated input sales so far, our proactive pragmatic supply chain management has helped us to keep COGS reduction trend intact and that’s what gets reflected in our consistent gross margin improvement over the years, retained last year as well, despite the most difficult environment on input fronts.

Now, let me share a brief commentary on our quarter performance and then the full year performance:

On quarter performance year-on-year, you would have noticed we have registered a double-digit growth both on revenues and profits, revenues up by 12%, profitability up by 22%. On the margins front, gross margin we could see an upward trajectory. However, on the EBITDA margin front, it has been flat. And largely it is due to the new product launches, a spate of new product launches which we had in H2, particularly in quarter 4. And that too in a competitive area of cardiovascular, metabolic disorders and urology, that has had an impact on EBITDA margin.

On PAT as well, we have been flat and largely again because of the higher tax provision because we had exhausted our MAT credit. So, on the quarter front, on Y-o-Y basis, the upward trajectory is retained and I hope that is also likely to be retained and accelerated going forward in the year FY23. At the company level and full year level, I'm very, very happy to report to you that we have healthy double-digit growth in both revenues and profits, revenues are up by 13%, PBT is up by 37% PAT is up by 29%.

The margin acceleration drive, which started about 3 to 4 years back is consistent. I'm happy to report to you that EBITDA has moved from 10.4% to now it stands at 20.3%, up from FY19 10.4%, FY20 15.9%, FY21 18.2%, and as I said, FY22 is 20.3%, retaining upward trajectory year after year after year. That's also getting reflected in PBT margin, which was 4.6% in FY19, moved to 11.1% in FY20, moved to 13.8% in FY21, and is now standing at 16.6% in FY22.

Number three, our sales health parameters are well entrenched in healthy zone. You will recollect this was an issue 3 to 4 years back. We are well within very good healthy zone and when I say sales health parameter, I mean by product expiries, sales returns, receivables, and market inventories, etc. And as I mentioned earlier, our continued healthy cash flow generation has helped us to stand at a cash flow war chest of about Rs. 70 crore as I said earlier, after record payment of the advance tax and materials.

Coming to the 3 segments which we operate:

Domestic formulations, international formulations, and API, which contribute 65%, 17%, and 18% respectively. I'm happy to report to you that the performance continued to be good in all the 3 segments led by our largest contributing segment, domestic formulation; as I said, it contributes 65% of the sales. Revenues here grew by 19%, significantly higher than the pharma market growth. The growth has been driven by the 5 pillars of turnaround strategy which was put in place 3 years back:

1. Product portfolio rejuvenation by building chronic and specialty portfolio both and I think there's a good traction in both these areas.

2. Creating strategic brand assets out of our legacy products of iconic textbook brand by very comprehensive lifecycle management strategy.
3. Customer coverage expansion in the targeted therapies, and particularly in the cardiovascular, metabolic and urology, and the specialty businesses.
4. SFE or sales force effectiveness augmentation to increase the productivity.
5. Profitability improvement through various measures which I talked about earlier. I'm pleased to share with you all the 5 pillars are resulting into the purpose for which they were created.

Talking about product portfolio rejuvenation:

The new products today account for 19% of the domestic formulation sales. If I take last 2 years is 16%. If I take last year alone, the new products contribute 10% to the sales. The legacy products are textbook iconic brands, I'm happy to report to you, thanks to our comprehensive lifecycle management strategy, they are growing at healthy double-digit and the factors are lifecycle management as I mentioned earlier, share of voice enhancement, both physical as well as digital and third, the expansion of current products into the new customers as well as new customer segments.

If you recall, I had mentioned earlier that we are targeting the 80% to 90% coverage of our target customer segments, whether it's cardiologist, endocrinologist, consulting physicians, nephrologist, rheumatologist or even gastroenterologist, I'm happy to share with you in all of these, we have achieved 85% to 90% customer coverage. Our consulting physician coverage, which used to be 30% plus has moved to 50% plus. And similarly, the significant addition in our general practitioner, general physician coverage.

Productivity has seen a significant jump. It used to be 3.4 lakhs. Today I'm happy to report to you that we are 5 lakhs plus productivity in domestic formulation business, and productivity acceleration being reported in both the segments, both mass business as well as the specialty business. And of course, in the domestic formulation business, the margin which was negative 3 years back has now a healthy 18% plus margin which we have in the domestic formulation business. But without the international formulation business, it contributes 17% to overall revenues. Here the business has been a bit subdued, because of largely 2 factors. One was Myanmar which is our major contributing market in international formulation business, which had a political turmoil. It has still not come back to normal, though we see some business traction emerging there.

Second was because of COVID situation and where the need was to have immunity improvement or immunity enhancement and we have our immunosuppressant basket, that dose was being tapered by the doctors struggling between the immunity enhancement versus immunity suppression which was understandable. However, that was also partly offset by our movement to another customer segments like gastroenterologist or dermatologist, etc. So, here, we continue to build our immunosuppressant portfolio comprising of azathioprine, tacrolimus, cyclosporine, and mycophenolate.

We also continue to maximize our new products. We had launched products, a complex generic product sodium valproate. We also continued to add new customers, new markets. There are 4 new customers added last year and which also contributed to business. And lastly, strengthening our manufacturing facility to the best of the standards in Ankleshwar, our investment continued to be there for this particular project.

Talking about the third one API:

This contributed 18% to our business, recorded a robust growth of 15%. Here again, we continue to focus on business continuity in newer products, in newer markets, and entry into the newer portfolio, which we are developing. And lastly, upgradation of API manufacturing facility.

So, that's a brief update on the 3 business segments.

As an integral part of our transmission agenda, there are 2 more critical areas which we'd identified. One was embracing digitalization from front end to back end to support functions. The one I've talked about RPG Serve, which was the front-end initiative. It covers now 15 services, 6 segments, 58,000 doctors, 6 therapies and could good stickiness and excellent metrics to know how Share of Voice is faring on this parameter. On the backhand side, 7 different digital initiatives are underway, which are directed, increasing efficiency, increasing compliances, decreasing costs. And they are e-QMS, e-DMS, e-LMS, and all of that should help us to achieve the 3 objectives which I just enlisted. We work on happier performance; dual culture continues to be finding more acceleration now when we are returning back to physical mode of working. And as I mentioned earlier, I'm happy to report that the kind of the framework we have created to instill happiness and measure happiness has helped us to improve our score of happiness from what it was last year and that was pretty high to still higher this year.

And I'm also happy to share with you that last quarter was also very good for us because we could bag 2 recognitions from the Indian pharmaceutical industry. One recognition was the Best Patent Award for our formulation Alfalog, which is a formulation of amino acid, which is used alongside dialysis now, and it forms an adjunctive therapy. And the second one was the Best Corporate Citizen for the initiatives I just talked about.

Going forward, our priorities and outlook is maintain and accelerate growth momentum in the company across segments. We will continue to grow revenue higher than the market and continue glued to our strategic priorities, which are 5:

1. Focus on profitable growth.
2. Focus on the maximum contributive domestic formulation through product portfolio transmission and productivity enhancements.

3. Stepwise build up international formulation and API business through new products, new customers, new markets from ROW to emerging markets, and eventually leading to US. Second is upgrade our manufacturing facility, enhanced capacities both for API and domestic and the formulation business.
4. Embrace digitalization from frontend to the backend, that will also help us increase our manufacturing efficiencies and sales force efficiency. And the last one, but not the least is building happy performance.

I'll stop here and thank you for your patient listening. I'm open to questions now.

Moderator: We will now begin the question-and-answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. First question is from the line of Aditya Khemka from InCred Asset Management. Please go ahead.

Aditya Khemka: So, firstly, on your domestic business, 19% growth for the full year of FY22 is really something which deserves special mention, I think you've done very well there. And our sales force productivity has now improved to over 5 lakhs. So, that again is a feat I think, in itself very few pharma companies have been able to achieve that. So, congratulations on that. Sir, my question here is that your new products are growing at 19% and your legacy products you said are growing in double-digit. So, going ahead, would you expect the legacy products to continue to do double-digit? And if so, then what would be the price and volume breakup there between the double-digit?

Yugal Sikri: So, thanks Aditya for the kind words. Regarding the domestic formulations, you have rightly captured, the growth is 19%. I mentioned 19% today. New products contribute 19% to the sales, that is an important point, I just wanted to bring it to your notice. Going forward, as I mentioned earlier, in the domestic formulations, we have 3 pillars, as far as product portfolio rejuvenation is concerned. One is the lifecycle management of existing products. Second is the entry into the chronic portfolio. And the third one is strengthening the specialty portfolio by entering to new therapies with newer product categories like monoclonal antibodies or biologics or biosimilars or entering into new segments. So, to my mind, all the three are going to contribute significantly. If I have to mention, the topmost would be the specialty, then would come the lifecycle management, and then would come chronic. I'm putting chronic at the last, as you know, that chronic is difficult to crack, they are late entrant in the chronic market. We have done all that whatever we could do, which is increasing the customer coverage 85% 90%, increasing the Share of Voice through our digital and physical initiatives. And third, building up the portfolio by launching the new gliptins, we launched Vildagliptin, Teneligliptin, we've launched Dapagliflozin. Last quarter, we beefed up our cardiovascular portfolio by launching Azilta which is Azelnidipine and we also beefed up our Urology portfolio by launching the newer overactive bladder products. But I expect that to contribute lowest amongst the three because as I said it takes traction, it takes time to build traction over there. So, I think all the 3 are going to contribute significantly. And in what measure it is difficult for me to say because the attempts are on in all the 3 directions, but in the order which I just described. I hope you got some answer to your question.

Aditya Khemka: Yes, sir, I do. So, sir, we all read the NPPA announcement where they have allowed 10.77% price increase in NLEM products and my understanding is these price revisions have to be taken in the month of April. So, can you help us understand what percentage of our portfolio is under NLEM? Have you taken the 10.77% price increase in those products? And in the non-NLEM portfolio, what is the level of price increase? I know for a product it will be different, but at an aggregate level, at a product basket level, what kind of price increase have we taken?

Yugal Sikri: So, the answer is fairly straight here. We have 35% of our business is DPCO controlled which has actually come down from 38%-39% earlier because of our conscious attempt to enter DPCO decontrol category. So, that is one point. Second on the decontrol category, we have taken complete price increase which was granted to us which is in 9.8%, 9.9% versus the last year. All products, the controlled category where the WPI first time we got a 10% price increase, we have taken the price increase wherever we could, there are certain products which are competitive, very, very competitive, and there we had to consider market conditions before we take the price increase in the price control category. Otherwise, we have exhausted all price increases which were given to us by the DPCO.

Aditya Khemka: So, sir, would you be able to elaborate a bit more on that? So, 65% of your portfolio you have taken a 9.9% price increase as you said. Now 35% of the portfolio which is NLEM products, in some products you have taken and some you have not. So, would it be 50:50?

Yugal Sikri: Yes, almost.

Aditya Khemka: Okay. So, then my following question is this that which means 17% plus 65%, so almost 80% to 85% of your portfolio, we have taken almost a 10% price increase, which means for FY23, 8% growth on our domestic portfolio will purely happen because of price. And then add the new product introduction that you will do in FY23 and then add the volume growth that will happen. So, would it be fair to assume that we will be close to 15%-16% top-line growth in domestic business in FY23?

Yugal Sikri: Yes. I think I would assume it should happen. In any case, as I've been saying, we want to grow faster than the market and market is expected to be somewhere between 9% to 11%, 9% to 10% or so. So, if you have to grow faster than market, then also it comes to a similar number, which you just mentioned.

Aditya Khemka: Right. Sir, next question on the domestic business. You mentioned 18% margin, that's the EBITDA margin for your domestic formulation business.

Yugal Sikri: That's right.

Aditya Khemka: And if I exclude chronic where obviously your cost currently would be exceeding your revenue, would your legacy portfolio be at 30% or 25%, or any ballpark?

Yugal Sikri: It will be difficult for me to give you the exact number because it's a mix, and the growth rates, etc, would also be different for different products which are there depending upon -- as you know that we have 40–50-year-old molecule in our legacy portfolio. So, it will be difficult for me to give the ballpark number, but I would presume that we will continue to work towards accelerating the EBITDA margins. It is also really difficult for me to also comment because of the RMC scenario or packing material cost scenario which we are observing today. I'm sure you would have known from the industry that there is relentless increase in the RMC going on. Last year, we were lucky because we had a very pragmatic and prudent proactive purchase done for a number of our API recipients, packing materials, etc. But this year, we know that situation is not cooling down quickly. So, it will be very difficult for me to give you the exact number because there are a number of factors at play. But having said all of that, our intent is to still make sure that we continue to accelerate EBITDA margins in the domestic combination business as well.

Aditya Khemka: So, your gross margin, sir, for the full year of FY22 seems to be around 67.8%. My question is given the aforementioned increase in raw material prices -- but you're also taking a price increase in your domestic business, which is your largest business, would you expect gross margins to improve, decline, stay the same?

Yugal Sikri: I can mention my intent to you. My intent is to see that gross margin is improved. If the RMC situation doesn't become worse, I'm assuming some kind of cooling in the input costs happening in the next quarter or maybe H2. But if that doesn't happen, I think the EBITDA margin discussion for this year we are dependent on lots of other factors, very difficult to mention or give any specific number on gross margin to be very frank with you, Aditya.

Aditya Khemka: I understand, sir, not a problem. Sir, last question from my side. On the international formulation business, so your EBITDA margin as a total company is 19.8%. And your domestic EBITDA margin is 18. So, I'm just trying to understand what's the pegging order of EBITDA margin? Is it API followed by international formulation followed by domestic?

Yugal Sikri: Let me share with you, Aditya, you need not fret on this. The whole purpose that I mentioned to you, the topmost priority is to drive profitable growth, and to drive profitable growth, all the 3 segments of the business must be profitable. And I'm happy to report to you that contrary to 3 years back today, all the 3 segments are profitable, and all the 3 segments are, and don't ask me further question, all the 3 segments are in double-digit EBITDA margin now. So, now, how the interplay is going to take place, again is the function of lots of things, China, the Ukraine war, RMC going up, the KSM prices are going up. I mean, in certain cases, there is 100% increase in the input cost. So, this year would be a very difficult year for somebody to predict how things will shape up on this front. But if the past isn't any indication for future, I think we have been able to make all the 3 segments profitable. EBITDA margins are double-digit for all the 3 business segments now.

Aditya Khemka: That's very nice to know, sir. Sir, you mentioned a cash flow Rs. 70 crores for the full year. Was that the operating cash flow? Or is that the free cash flow?

Yugal Sikri: It should be the free cash flow.

Aditya Khemka: So, this is free cash flow, right?

Yugal Sikri: Vishal, would you like to comment? This is operating cash flow. Vishal, are you there?

Vishal Shah: Yes. It is operating cash flow, Aditya.

Aditya Khemka: And what is the free cash flow there for? What was the CAPEX for the full year?

Vishal Shah: So, CAPEX was in the range of around Rs. 24 crores, if you see our cash flow statement.

Aditya Khemka: So, roughly about Rs. 46 crore, Rs. 47 crores of free cash flow, correct?

Vishal Shah: Yes.

Aditya Khemka: So, Yugal sir, my question to you, therefore, is now that we don't have any more debt, we are a net cash company, how do we use the cash that we generate?

Yugal Sikri: I think that's an important question, that's a good question. I am working towards deploying all of this to business enhancement. Now, there are 2 ways to enhance business. One is work at the backend, to see that both the plants are of the best of the standards so as to enable us to export products to the regulated markets. And second is even inorganic growth, whether that growth may happen through brand acquisition, brand portfolio acquisition, and even maybe company acquisition. We are wary of the fact that the outside market is tough now. It's a seller's market. But nevertheless, we also have the ambition to grow our business, but in a very sensible way, in a way that it makes sense to the company, in a way that if at all, we are doing any acquisition, it should be value accretive, synergistic, and it should also be in line with the product portfolio strategy, which we have identified or we are working on for the last two years.

Aditya Khemka: Got that. And sir now that your productivity is crossing Rs. 5 lakhs per MR, would you need to hire more MRs in the next 1 or 2 years or would the current team of MR suffice? And what is the number of MRs we have right now?

Yugal Sikri: We've close to about 470 plus MRs now. And as I mentioned to you, I'm not chasing increase in the MRs per se. However, what I'm chasing is the customer coverage in the identified therapies. So, as I mentioned to you earlier, we have now the most optimal coverage of cardiologist, diabetologist, endocrinologist, urologist, nephrologist, rheumatologist, we are there too. And we have also improved our customer coverage for consulting physicians from 30% plus to 50% plus. So, now, I'm looking at increasing the customer coverage of the consulting physicians and to some extent GPs. In terms of the coverage, I think we are represented in all major headquarters now in the country, both in the mass business and the specialty business. Specialty business as you know, the specialists are more focused towards or more concentrated in the metros and the class 2 markets and where we have got good enough coverage. So, my intent is more focused on the customer coverage. And we will add to the representative for sure, wherever there's a need, we are also in a limited way, expanding this year. We are doing a research to see that where all the gaps are there, where we can identify the customers and then create a headquarter and then put the field force over there. So, that's the salesforce expansion strategy.

Moderator: The next question is from the line of Samarth Singh from TPF Capital. Please go ahead.

Samarth Singh: My first question was on the 3 levers that we talked about in terms of cost control, which is manpower costs, field hygiene, and manufacturing efficiencies. So, how far down the line are we in all these three? And is there any more opportunities in any of these aspects?

Yugal Sikri: Thanks Samarth for asking very relevant question. As I mentioned earlier, in my initial comments, all the three levers, we've started addressing, right from the beginning. The very first lever was on the manpower cost. We looked at the span of control optimization, we looked at low productivity areas, and that we addressed in the beginning itself. And that gave us good traction in the very first year itself. Then we went backwards to our back-end functions, the factories and saw whether there are opportunities there, that we worked upon. And to see that wherever we have the opportunity to optimize manpower costs, we should do that. We also started doing the competitive benchmarking for our compensation. That also helped us to streamline our manpower costs. And there had been a significant reduction in the manpower costs over the last 3-3.5 years if you see. On the sales hygiene parameter, again that was a low hanging fruit for us. It was a great opportunity for us to do that. We had expiries mounting to the tune of 6% of the sales. Account receivables were significantly higher in market inventory, but also double than what the other industry would have. All of that had been addressed now. Our expiries are 1.85% of the sales now last year, and which was earlier around 5% of the sales. Yes, there is small traction there, we can bring it down to say 1%-1.25%-1.3%, but beyond that, I think it becomes impractical for one to bring down the sales expiry. The accounts receivables continue to be under control. So, on hygiene front, we have almost done it. Manufacturing efficiencies, yes, the work is going on, on the manufacturing efficiencies front. We have taken the services of external consultants to help us drive the manufacturing efficiencies in our plants. So, that's currently underway. Some of that had been already encashed, some are likely to be encashed as we go forward. So, we also worked on our procurement, direct material, indirect materials, etc. So, there was some traction there, part which we have encashed, part is yet to be encashed in the year FY23. So, that's the progress on the 3 levers of cost reduction that you just talked about.

Samarth Singh: That's very helpful, sir. Would you be able to quantify what sort of EBITDA margin you would be able to get out of the manufacturing efficiencies going forward?

Yugal Sikri: Since the major contributor of the cost reduction all been encashed, it will be there, impact will be there, but it will be marginal. As I was mentioning to Aditya in response to his earlier question, I'm little wary now because of the mounting inflationary cost pressures on the input costs. So, to what extent we are able to -- this will be seen in the EBITDA margin improvement. It all depends upon how the situation on the R&D and the packaging materials, solvents, APIs, etc, pans out. So, our objective is to continue to discover processes and focus on profitable products, do not launch price decontrolled products, to keep on taking maximum price increase. All of that is directed towards EBITDA improvement. You've seen in the last 4 years, there had been a consistent improvement in EBITDA margin. And because within the organization, our objective is benchmarking, our objective is to benchmark all the processes, all the ratios vis-à-vis the best. So, going by that, our objective was to further improve but depends on how the interplay of the upward and downward elements happen.

Samarth Singh: Sir, just two more questions. One was, could we quantify what amount of sales we've lost due to political instability in Myanmar?

Yugal Sikri: We would have lost close to about Rs. 7 crore.

Samarth Singh: For the full year?

Yugal Sikri: Yes.

Samarth Singh: And that would be turning around now or is that still uncertain.

Yugal Sikri: The situation there politically is not yet improved, you know the latest political development when the political leader is put behind the bar, people are not happy, which has created -- which has really vitiated business environment there. So, since we are selling medicines, they are likely to come back, but will not come back to the extent they would have come back otherwise till the political situation improves. So, I see betterment. To what extent the betterment will happen, time will tell.

Samarth Singh: And lastly on, I think we're spending some money on making one of our plants PIC/S compliant. So, when is that expected by? And how much have we spent already and how much is remaining?

Yugal Sikri: You're talking about the plants?

Samarth Singh: That's right. I think we are spending -- I think we had budgeted Rs. 36 crores or so of CAPEX to make it one of the plants PIC/S compliant if I'm not mistaken.

Yugal Sikri: You're right. We had a CAPEX plan of about Rs. 36 crore for our plant, which we have spent almost close to about 50% or so. And in between, they happened because of the COVID, but we are back again with the full swing now. And so, the entire amount should be used up there. We are also working on improving or modernizing our API plant also, that I'll be able to share with you maybe next time, how much of an investment you're working on the API plan.

Moderator: The next question is from the line of Archana Gude from IDBI Capital. Please go ahead.

Archana Gude: Maybe a couple of questions from my side. Sir, what is the near to midterm plans or new launches? And also, are we looking to enter any new international markets, especially the regulated one?

Yugal Sikri: So, the new product are going to be the drivers of our future growth. So, we have a very extensive new product launch plan in place. And that new product launch plan comes under three different product categories. One is the existing product, legacy product. Some of them are the iconic textbook brands. So, there we have large number of line extensions identified over 25 or so, for our 7 or 8 legacy products, which we have. Some of them we have launched already, some of them we are launching. We are going to launch in the next 2-3 years. So, they are largely line extensions. Just to typically give you an example, we have a product called Naprosyn, which is a painkiller. So, we have close to about 9-to-10-line extensions identified, one line extension we launched last year, which has done considerably well, which is Naprosyn plus. Then we have combinations, in combination with ephedrine to see that various patient segments in pain management category and we are able to specifically address. So, that's one category. Second category is chronic portfolio. As we all know that our contribution of the chronic portfolio is relatively lower. So, we have identified a range of products in the cardiovascular metabolic disorders and the urology area. And looking at our current range, the portfolio list is pretty good. We are not as much represented in the antihypertensive segment. We as I just mentioned last quarter, we launched a calcium channel blocker, antihypertensive product called Azelnidipine and the combinations and we have possibilities of launching in this particular segments 3 to 4 very good products which we have identified. And similarly in the specialty, we have entered into Rheuma, we are also now entering to Gastro, thanks to immunosuppressant basket. There we have identified products. In the mass category, some of them we have launched, some of them we are going to learn for example, denosumab is a monoclonal antibody. We are going to launch in H1 this year. Similarly, there are products in the gliflozin category as well as gliptin category, which we are slating to launching in the H1, H2 this year. We have launched in our nephro basket iron product called isomaltoside just H2 last year, which has also been put to action. So, what we have done is we have met the key therapy areas in a very scientific way identified a list of the product, list of priority molecules. We have a 7-step process to identify the products. All the molecules which pass through 7 stages are the ones which are identified. So, there is a list identified for those products.

Apart from this, we are also actively looking at in licensing opportunities from those boutique companies or those companies which are not yet represented in our country. We have actually recruited a person, a business development person who will be actively searching those opportunities, which will also help us to expand our portfolio. So, these are our attempts on new products. In the new markets, I think I stated last time, we have ROW markets identified which are Myanmar, Sri Lanka, Vietnam, Philippines, Egypt, Sudan. These are the markets which are identified for ROW, regulated. We are currently supplying products to Canada, Australia, EU, we have France, Germany, and UK. And there our approach is via immunosuppressant basket and whichever is the big market for immunosuppressant, we are entering that market whether it is regulated or ROW market or emerging markets. Plus our strategy there is to have the differentiated product, a complex generic product so that we get better profitability, and better revenue share. Also, a third category of the product is a niche product which needs special manufacturing conditions like low temperature, low relative humidity, because that gives us good margin. We have worked on 3 products, which are in various stages of launches. And one is, as I mentioned, complex generic product of sodium valproate, prolonged release formulation. We've launched in UK; we're going to launch in Australia now. Second is the product which needs special manufacturing conditions like Nicorandil, we will launch that product in the UK, it has got a good traction and we are searching more opportunities for this particular molecule. And likewise, we have a pipeline which fulfils this criteria being identified for future launch.

Moderator: The next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: Most of the questions have been answered and I just have a few questions related to domestic. One is, can you let us know how many products we are planning to launch this year? I mean, the new products I'm talking about and excluding line extensions. And of that, how many would be biologic product?

Yugal Sikri: So, the number of product launches which we are planning for the next year should be in the range of 7 to 8. And in the areas of mass business as well as specialties, that was one question which you asked. The second was, how many of them are going to be the monoclonal antibodies or biologics? Denosumab is going to be one, which I said we'll be launching now in the H1. This is what I will think of at the moment.

Nimish Mehta: And the other thing I just wanted to know, I mean, are we not likely to see an improvement in the European business among the international business because that was a business where I think we've launched few products. Also, if you can let us know the launch pipeline for the European business and the growth there? Any ballpark expectations for the coming years, not for this year, that will be greatly helpful.

Yugal Sikri: The European business is an important business for us, because we have good presence with our immunosuppressant basket in UK, Germany, and France. However, we have presence only with azathioprine. The other 3 products which are tacrolimus, mycophenolate, and cyclosporine are not represented in the European markets. Now, currently, we are working on those products. There is a new product development work going on tacrolimus formulations as well as in the mycophenolate formulation. They are also larger in size, and they are quite at advanced stage, some of the product we are conducting with the DE studies. We have also identified the customers in these markets. These are little difficult formulations to make and get the regulatory approval because the margin of safety is a major issue there. So, I expect that the products are likely to contribute significantly as we go forward after we get the regulatory approvals, which takes about in some cases, 1 year, in some cases 2 years or so. And they've all been directed to European markets, whether it's Germany, France, UK and even moving to Australia, Canada, etc. Another one, I think I should mention, we are also working on --- we have certain products where we are domestically strong. Those products also we are working on taking them global. One of the product is naproxen which also we want to take it global. In fact, we are in discussion with one of the large customer for that particular product.

Nimish Mehta: I mean, taking a second year or whatever I mean, this year could be a significant year for RPGs because one we're talking about significant price increase coupled with continuous momentum of new product. I think 7 to 8 new product launches would be probably among the highest in the last 3-4 years, if I'm not wrong, I mean if we exclude line extensions. And if we see any of the European launches the likes of mycophenolate, that will be very high value product. So, this is going to be a significantly kind of much better year than what we had seen so far? I mean, although obviously the last year also was very good. But is that a fair assumption or am I missing something?

Yugal Sikri: I think you are right. I also expect FY23 to be good except that you mentioned about mycophenolate. Mycophenolate may not be seen in FY23, may be seen somewhere in FY24, because the DE studies are going on, submissions will take place in the next six to eight months, and then you know regulatory authorities will take some time to approve. So, some of them may not seem, particularly in the international site may not be there in FY23, but I expect FY24, FY25 are the ones where the portfolio is getting pretty ready.

Nimish Mehta: Lastly, if I can squeeze in, I just wanted to know your input on the domestic market. I mean, we see quite a few interesting trends, but some of them are contradictory. One is, let's say, the expansion of Jan Aushadhi stores, the second. I'm talking about the long-term scenario, the second is about increasing number of medical colleges, across the nation. So, you know, if you look at and I may be missing, but if you can take into consideration all these compensatory factors, what do you think is likely to be the outlook for the next 4-5 years for the domestic market in general, I mean, your sense will be greatly appreciated.

Yugal Sikri: There are both positives and negative trends playing out in the market. And if you see the trends which have happened in the last 5-7, on the positive side, we have seen the non-communicable diseases and the chronic are really expanding, the usage is expanding, awareness, diagnosis treatment levels are expanding, and we are still nowhere in terms of penetration into the markets. And therefore, that itself will provide a huge opportunity for the industry to grow. We thought that acute is sliding now, is the era of chronic COVID prove that no, acute is also important. One thing about acute is important, India as it is knew about acute and now, all the more acute also will play an important role which people thought that it will now decline. So, amongst the portfolio type, acute and chronic both will grow, the penetration levels are currently number one.

Number two, if you see the number, if you see the distribution of doctors between urban and rural, rural is grossly underrepresented. And as you said, medical colleges are increasing, the urbanization is happening, more rural areas are becoming urban, that is another important driver for our growth. Third, government also is now waking up, acting upon. If you look at national digital health mission, which is integrating all the doctors, all the medical ecosystem, and all of that will bring the usage of the allopathic medicines more, awareness, diagnosis, treatment levels will also improve. All of that are all positive factors. The downside which one can see the form the trend is that the volume growths are declining. If you see 5% it used to be, then became 4%, 2%. Now volume growths are declining, that is one worrisome sign. Second is government is pushing for the price decrease. So, you talked about Jan Aushadhi Kendra, at least they're showing the intent. Whether Jan Aushadhi Kendra will eventually impact, we have 800,000 odd or a million kind of retail pharmacies and 10,000-15,000 Jan Aushadhi Kendras are not going to make much of a different unless they go into big numbers. There also they have logistic issues or sourcing issues, etc. So, those are the dampeners, but the dampening effect is not to be too great. The newer categories which are pushing the business also is biologic/biosimilars, which world it is pushing, in our country also biologics/biosimilars have taken off now. So, that will also accelerate the growth, and they are a little high revenue, per patient high revenue kind of a product. So, I see overall a very positive outlook for future.

And amongst the global markets, amongst the emerging markets, India will continue to do outshine given the factors which I just described. So, that's broadly I see, net-net between the positive and the negative factors.

Moderator: The next question is from the line Siddharth Soni, an individual investor. Please go ahead.

Siddharth Soni: So, I just have a couple of questions. Like, what is the broader vision for the next 2 to 3 years? And the second one is, I'm sorry if it is repeated, just the clear light on the CAPEX plans? And how do you intend to fund them?

Yugal Sikri: So, the first question was broader vision for next 2 to 3 years. The broader vision is profitable growth, and in domestic business growth ahead of market. I'm not talking about explosive growth, I'm talking about the growth, which is above the market, sustainable, profitable growth. So, that takes us to Rs. 600 crores, Rs. 700 crore, Rs. 1,000 crore, we'll see. We also are open to inorganic opportunities now is that we are actively scouting. So, as, and when that happens, I know the market there is little bit mad, so we can't predict. And we need to be cautious. But if that happens, that would significantly enhance our revenues. So, that's the vision for next 2, 3 years. Talking about the segment, as I said, the topmost priority will be domestic formulation. Next comes the international formulations and the API, but those two would also contribute to the business. And there they have already panned out our focus areas. We are not going to every place there or every kind of product portfolio, every marketer, but we have clearly indicated our priorities are going to be immunosuppressant portfolio, our priority is going to be those niche products, which can provide us better margins. And our priorities are going to be certain other ROW markets. We are also wanting to reach US through our partners. For example, we are now working with one of the large Indian companies, which will take our product, our API, which will take our API in the US market. So, those are the opportunities also we are looking at. So, that will help us to achieve our vision. But the action is on -- we are open to all possible ways of expanding our business in a profitable way. In terms of the second question which you asked about capex, I did talk about that we have a CAPEX for our formulation plant. And for the 36 crore CAPEX, almost 50%, 60% is done, 40%-50% is left out, which should be done in the next 1 to 1 1/2 years. I also mentioned that we are also working on modernizing our API plan and expanding our capacities about which I should be able to talk about in my next call, and that also is going to be a formidable CAPEX plan.

Moderator: The next question is from the line of Aditya Khemka from InCred Asset Management. Please go ahead.

Aditya Khemka: Sir, you have been mentioning about a potential acquisition, you are looking for assets. Can you talk a little bit about which segment is the domestic formulation? You said brand or portfolio of brands or an entire company and what is the size of an acquisition that you're looking at?

Yugal Sikri: Aditya, as I said, it's a seller's market. Basically, as I mentioned, it is not going to be a very blind kind of an acquisition, it is going to be very focused and targeted acquisition. We should be able to fill up portfolio gaps, which we have. The way we have worked out, it makes the acquisition a little tougher. So, as I said, being a seller's market, whether it will be brand or brand portfolio is Rs. 20 crore, Rs. 50 crore, or even higher, we are open to that, as long as it satisfies our criteria that it belongs to the segments where we are wanting to beef up our presence, number one, which can add to our productivity, per call productivity and which are also profitable. So, that's criteria, we are open frankly speaking. Of course, we're not open to Rs. 800, Rs. 1,000 crore kind of an acquisition, but we are open to if the brand is good, portfolio is good, and in belongs to a segment, and molecules have promise. I think we are open. And I think this is the first time I'm talking more openly about the acquisition because we have actually started working on it already.

Aditya Khemka: Makes sense. And sir, what is our attrition in the field force?

Yugal Sikri: Attrition is somewhere around 23%, 24% at the moment, in some segments. It was very, very much under control. But after the COVID opening up, I think many companies had expansion plans. And therefore there had been musical chair going on in the field force now. Having said that, I think I was checking our attrition vis-à-vis the industry attrition or major companies attrition, we are still better off.

Aditya Khemka: And sir, any of our products that might have benefited from COVID. I mean, is there any element of our sales or product basket that was overused in the last 1 or 2 years because of COVID?

Yugal Sikri: Yes, actually Aditya, there were 2 or 3 where we didn't have any COVID specific product. So, we were not in any of the peramivir or favipiravir or tocilizumab or remdesivir, we didn't have those products, but we had the COVID therapies, the one for example is the fever. You know

Dolo 650 became a big product. So, we had naproxen, Naprosyn, which also found some usage there in the COVID management. We also to a limited extent had some kind of gain in product category like Lomofen, which is anti-diarrheal, because towards the other variants also had some GI problems being seen. So, that's where our Lomotil, Lomofen or Tricaine for example, we're getting some traction. For a couple of months, we also got some gains in Ivzumab or bevacizumab was the product which was also getting some traction for a couple of months when the Tocilizumab was not available. So, barring those, at that time, we were saying we are unlucky to not get any traction out of COVID. And now we're thinking we're lucky that we didn't get the traction because those who got the traction are facing the negative growth.

Aditya Khemka: Exactly. So, sir, would it be fair to say that the volume base for our domestic business in FY22 is a completely normal volume base or do you think we still lost some sales in FY22 due to the various sort of small waves of COVID we saw in India?

Yugal Sikri: No, I think if I look at all my brands in the domestic business, I think they did well. Majority of them did well. So, it would be unfair to say that we were negatively impacted. Yes, there were some issues in chemotherapies, numbers were less or transplant numbers were less. But our business largely being old products means by being in the market for 30, 40, 50 years, they have the current patient base who were taking those medicines. And so, therefore, that continued to be there. So, I don't think that there was anything specific negative I must say, comes out. I mentioned just one if I recall, is in our immunosuppressant basket, particularly azathioprine, there were dilemma for the physicians who was wanting the immunity to be boosted. And therefore, he was prescribing immunity boosters like zinc, etc. And these drugs are immunosuppressant. Immunosuppressant are the immunity suppressing drugs. So, there was some kind of balancing act the doctor had to do, which might have impacted to some extent the volume decline. Let me put the other way around, the patient was being prescribed at a lower strength. So, to that extent, there was some impact. Otherwise, I think, it was pretty normal.

Aditya Khemka: And sir, last question on the domestic business. If you look 3 years out, right, so in the next few years, we'll launch multiple new molecules, MAbs, and hopefully get some traction on our chronic side. So, 3 years out, what do you feel would be your aspiration of an EBITDA margin in our domestic business?

Yugal Sikri: Aditya, you are very, very persistent person, I must say. The objective of ours is – actually you can also extrapolate, we have been consistently improving our EBITDA margin for the last 4 years, I've just indicated in my initial comments from 10% we've moved to 20% now. I would definitely like to be best in class. In the segment we are, we are already amongst the top. If I take up Rs. 500 crore, Rs. 1,000 crore group, sales turnover group with the complexity that we have presented for all the 3 API, IF and DF, we are amongst the top already. But our objective was to still go further up in the margins by launching profitable products, by bringing certain kinds of efficiencies. So, the objective was still higher, which continues to be there. Now, I'm little guarded, because of the way the things are happening on the raw material costs, the packing material cost plant.

Aditya Khemka: No, I understand that sir. Which is why so this raw material inflation, obviously, I understand that which is why I asked for 3 years out because next year can be or may or may not be difficult, depending on how the raw material prices sustain. But maybe over three years, raw material prices will normalize, right?

Yugal Sikri: No, I'm not too sure. I was thinking it should have normalized already, Aditya. And I was really thinking the way I assumed the pricing I thought it can't sustain for so long, but it is just showing upward traction. So, at this juncture to guesstimate would be a little premature for me. Having said this, I would like to continue improving my EBITDA margins to match the best in class. Might be I'm not able to give you the answer which you're seeking from me, Aditya.

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

Yugal Sikri: Thank you very much for everyone who has been able to make it for this conference. Just to summarize, the FY22 was a year where we saw double-digit revenue growth, profit growth and work on all the tenets of transmission that the companies identified with positive outcomes coming out of each of the tenets. Going forward, our priority is to continue the upward trajectory, continue to give performance which gives us ahead of market growth and driven by new products, new customers, and new markets, as well as the focus on the system and process orientation. And through these, the motivated happy employees. Thank you so much.

Moderator: Thank you. On behalf of IDBI Capital Markets and services that concludes this conference. Thank you for joining us and you may now disconnect your line