

Q3 2017 IPCA Laboratories Ltd Earnings Call

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Corporate Participants

* A.K. Jain

IPCA Laboratories Ltd. - Joint Managing Director

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Conference Call Participants

* Nitin Agarwal

IDFC Securities Limited - Analyst

* Prakash Agarwal

Axis Capital - Analyst

* Aditya Gupta

Narnolia Securities - Analyst

* Abhishek Sharma

IIFL - Analyst

* Saiprasad Prabhu

Bajaj Holding - Analyst

* Mahendra Jain

Way2Wealth - Analyst

* Rahul Sharma

Karvy Stock Broking - Analyst

* Jatin Kotian

Emkay Global - Analyst

* Surya Patra

Phillip Capital - Analyst

Operator [1]

Ladies and gentlemen, good day and welcome to the Ipca Q3 FY17 Earnings Conference Call, hosted by IDFC Securities Limited.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. (Operator Instructions) Please note that this conference is being recorded.

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

Nitin Agarwal, IDFC Securities Limited - Analyst [2]

Thanks Inba. Hi, good afternoon, everyone, and a very warm welcome to Ipca Lab's Q3 FY17 Earnings call, hosted by IDFC Securities.

On the call, representing Ipca management we have Mr. A. K. Jain, Joint Managing Director, and Mr. Harish Kamath, Corporate Counsel and Company Secretary. I hand over the call to them for making opening comments and to take it forward from here on.

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [3]

Good afternoon. The Q3 numbers, domestic business overall has been around INR335 crore, as against INR308 crore in last financial year, a growth of around 9% in domestic formulation business. Domestic API business, which is a small part of the business from INR28 crore it has gone to around INR34 crore, there is a growth of almost around 23% in domestic API business. And overall domestic business in this quarter as by grown by around 10% to around INR370 crore as against around INR336 crore in last financial year.

Export business, overall export formulation business in this quarter, has grown by 3% to around INR233 crore as against INR226 crore in last financial year. Export API from around INR112 crore it has become around INR128 crore, so around 14% growth. So overall exports business in this quarter has grown by around 7%.

And overall formulation business per se has grown by around 6% to around INR569 crore as against INR534 crore in last financial year. And overall API business from INR140 crore it has become around INR162 crore, so around 16% growth and overall business is around INR745 crore as against around INR690 crores. So there is a growth of around 8%.

And on cumulative basis, if you look at the nine months number, overall formulation business has grown by around 14%, API business there is a growth of around 4% and overall business growth is around 12% in the first nine months of the current year.

As far as EBITDA margins are concerned, they are more or less around 15% in this quarter also and cumulative also around the same level. And there are some improvements overall in this quarter in gross margins. And overall around 15% kind of the EBITDA margins are recorded in this particular quarter.

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

Questions and Answers

Operator [1]

Thank you very much sir. (Operator Instructions) Prakash Agarwal, Axis Capital.

Prakash Agarwal, Axis Capital - Analyst [2]

Yes, thanks for the opportunity. So just trying to understand the gross margin movement, QoQ and YoY. If you could explain what has led to this kind of expansion despite domestic and export both showing muted growth?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [3]

Rather a mix of -- product mix which sales in Q3 as a little better margins. And if you look at last year's number, December 2015 number same quarter, the material cost to sales ratio was around 36.59%. And there was one-time write-off of all the inventories, which were relating to Global Fund, which were not exported. That number was close to around INR24.47 crores. If you reduce that from the material cost, then the adjusted material cost ratio for December last year quarter is also 33.02%. As against this -- current year in the material cost ratio number is around 32.81%. So there is a 0.21% improvement in the --.

Prakash Agarwal, Axis Capital - Analyst [4]

But December quarter is what you're saying is seasonally very strong in terms of gross margin, because of the revenue and product mix.

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [5]

Product mix. And there is -- still there is some improvement as against the year, let's say 33% of adjusted number last year it's around 32.81%. So 0.02% improvement in the gross margin so overall.

Prakash Agarwal, Axis Capital - Analyst [6]

Okay. And secondly, on the India business, so obviously, there would have been some demonetization impact if you could quantify, I mean rough guess. And also is this largely done -- are you already seeing improvement on the grounds and how do you see the remaining of the quarter to pan out?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [7]

See if you look at overall, let's say, first nine months numbers then we have -- India business has grown by around 14% to around INR1,085 crore as against INR952 crores. So there is very strong growth in India business in current financial year.

This is on the -- still on the background that we lost around 3% of growth because of price reduction on [Elenium] products and almost around, you will recall that certain products, which were -- government has declared irrational and even though there was a stay, we decided not to market that -- continue to market that and we have lost around 2% of growth because of that.

So if you add both together, then it's almost around 19%. But okay, we have recorded around 14% growth in first nine months of the current year. As against that in this particular quarter there is a growth of around 9% and if you look at the industry growth in this quarter, it's close to around 6%. So as against 6% growth of the industry in this particular quarter, we have recorded around almost around 9% growth.

So, and largely this business is impacted mainly because of your certain lower business on anti-malarials in this particular quarter and also demonetization impact is certainly there in this particular quarter, but that's all behind us now and number should grow normally in the fourth quarter of the current financial year.

Prakash Agarwal, Axis Capital - Analyst [8]

Okay, so we should be back to the teens to grow from Q4 onwards. And lastly, is there any update on the US FDA inspection. I mean, what is our status, are we done with our remediation and third-party validation and we are expecting or invited the FDA?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [9]

So far we've not extended the invitation letter, but whatever we've talked earlier, we are under those timelines and hopefully before the year-end, at least for two plants we will be sending the invitations.

Prakash Agarwal, Axis Capital - Analyst [10]

So we are done with the third-party validation?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [11]

It's ongoing process, but for these two plants it is coming to an end.

Prakash Agarwal, Axis Capital - Analyst [12]

These two plants, which ones, if you can go?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [13]

That we have talked about formulation plant.

Prakash Agarwal, Axis Capital - Analyst [14]

Formulation. Okay thank you, sir.

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [15]

No change between what we have talked about in the last quarter and this quarter, the target dates.

Operator [16]

Aditya Gupta, Narnolia Securities.

Aditya Gupta, Narnolia Securities - Analyst [17]

Thanks for taking my question. Sir, can you give any guidance on the tax rate?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [18]

As far as our tax rate is concerned, we are MAT company. So, we will continue to have MAT as a tax outgo. But you will find that there is -- the deferred tax provisions are higher, is mainly upon because of that number is almost around INR24 crore worth of some credit swaps because of unabsorbed appreciation was taken last year. And that tax is being provided this year because that depreciation is getting absorbed in current financial year. So that deferred tax has got shifted from last year to the current year.

And on an average around INR7 crore worth of additional deferred tax is being provided every quarter in current year, which will be the last quarter will be the end of it. So the deferred tax number will drastically come down significantly subsequent to that, so that's the only issue. But normally deferred tax provisions are not that high. And as far as outgoing of

the taxes are concerned, we are MAT company. And at least for few more years, we will continue to remain in MAT.

Operator [19]

(Operator Instructions) Abhishek Sharma, IIFL.

Abhishek Sharma, IIFL - Analyst [20]

Sir, thanks for taking my question. If you could just give us the breakup between the international branded, generic US, etcetera?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [21]

Let's say if you look at the overall numbers, the branded business this year is around INR58 crores as against INR59 crore last year. So more or less there is a -- small decline is there. Last year around same time, there was a significant higher shipment to -- was there of Russia, which this year is a little lower number.

And overall, branded business in the first nine months of the current year has grown by around 25% to almost around INR204 crores as against INR162 crore in last financial year. So that's the number. And overall, the branded business growth in the whole of the year would remain in the range of around 25%.

As far as generic businesses are concerned, if you look at overall in this quarter, we have done a generic business of around INR155 crore as against INR137 crore what we did in the last financial year. So there is a growth of almost around 13% in the generic business. And last year, there was a significant amount of shipments were there relating to the US of HCQS and propranolol in this particular period. And this year, there is no shipment to the US in this year.

So in spite of that, the overall generic growth is around 13%, which is good. And generic business overall impacted also because of your almost around 17%, 18% lower realizations because of currency in UK. But in spite of that overall generic business is good. As far as institutional generics are concerned as against INR24 crore last year, we have been around INR21 crore this year. So overall say generics including institution is around INR176 crore as against INR161 crore. So there is almost around 9% overall growth in that number.

And overall formulation business in the third quarter is around INR569 crore as against INR535 crore. So there is around 6% overall growth is on the background of let's say lesser business, which has happened out institutions and lesser of your brand promotions. So because of that overall growth number as come down lower to around 6% and also US business is not there. In particular, there are no shipment to the US in this particular quarter.

Abhishek Sharma, IIFL - Analyst [22]

Sure.

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [23]

That's the number.

Abhishek Sharma, IIFL - Analyst [24]

Got it. And sir, just on the API facility, you did speak about the two formulation facilities, but when do you expect the remediation to get over for the API facility?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [25]

We said that more or less, let's say, work is already to say -- the agency are working now on verifications and others, and hopefully the work should get over by let say June, July that's the number earlier the target which we have given and, by and large work is in progress on these timelines.

Abhishek Sharma, IIFL - Analyst [26]

And after that do you intent to?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [27]

After that, we intent to.

Abhishek Sharma, IIFL - Analyst [28]

Right. And sir, just one question on the R&D side, I presume you are not filing to the US right now. So would you expect that filing activity to start only after you have -- got all clear on all the plants or how is it going to be?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [29]

We will be filing, some of the filings are in pipeline and that would start happening now.

Abhishek Sharma, IIFL - Analyst [30]

It would start happening now?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [31]

Yes.

Abhishek Sharma, IIFL - Analyst [32]

So you don't need to wait for remediation to get over for that?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [33]

No, no.

Abhishek Sharma, IIFL - Analyst [34]

And sir, any specific on how many products do you intend to file in FY18?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [35]

More or less, it's around 8 to 10 filings which happens -- so which would be happening.

Operator [36]

Saiprasad Prabhu, Bajaj Holding.

Saiprasad Prabhu, Bajaj Holding - Analyst [37]

Congrats and good set of number. I just had a couple of questions, can you break up your revenue impact between seasonal factor and demonetization?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [38]

Very difficult to give number, but overall because of demonetizations the market growth, which used to be around 10% has come down to 6%.

Saiprasad Prabhu, Bajaj Holding - Analyst [39]

Okay. Maybe 4%.

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [40]

Some seasonal impact is also there, I don't deny that. But the market growth itself has come down in this particular quarter. And demonetization as also been one of the factors for lower market growth. And our number also because we were growing by around, say 14% and that growth number has come down to 9% in this particular quarter.

Saiprasad Prabhu, Bajaj Holding - Analyst [41]

Correct. Sir, and secondly on your consultation cost for your US FDA, so how much we have booked for nine month and what is expected for 4Q?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [42]

Normally, we don't provide these individual -- each consultation wise numbers and all, but yes, there is a significant expenditure. And as a result of this, our -- if you find that your manufacturing and other expenses, this is one of item which has also -- which has resulted in the higher cost on that.

Saiprasad Prabhu, Bajaj Holding - Analyst [43]

So can we expect this to get over in 1Q FY18?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [44]

Let's say, certain amount of expenditure will continue even in future even those -- all these work relating to that will be over. So some consultations would be an ongoing, but yes, the cost which we are currently incurring on verifications and all, probably that would go significantly down. So exact number you can't give. But by and large, if you look at -- yes, the cost will start reducing from the second quarter of the next financial year.

Saiprasad Prabhu, Bajaj Holding - Analyst [45]

As I recall in the last concall, you had said that your formulation plants inspection you should invite in January. So now January is actually at the end, so now we are in February, so any update on that? And secondly, the consultant cost for the two formulation plants, so will we see the overall other expense going down in 4Q or in 1Q?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [46]

Q1 it will continue to remain higher because lot of those costs will be also be there for our API plant. And so that number will continue to remain higher. But as far as we have said that in this financial year, we'll be inviting for two formulation plants, so which we are in line.

Saiprasad Prabhu, Bajaj Holding - Analyst [47]

So we can expect you to invite in February or March, is that a good assumption?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [48]

Yes, that's what is going to happen. And as far as the API facilities are concerned, it may happen somewhere in --.

Saiprasad Prabhu, Bajaj Holding - Analyst [49]

Sure, sir that you had said June, July. So that's not a problem. Thank you, sir. That's all from me.

Operator [50]

Mahendra Jain, Way2Wealth.

Mahendra Jain, Way2Wealth - Analyst [51]

Yes, good afternoon, sir. Thanks for giving me an opportunity. Sir, I just want to -- recent -- you have taken over the plant of Alpa Laboratories Indore, Pithampur. So, that is basically for levothyroxine or something like that. So what is the status of that plant sir? And how you see the -- these hormones market in (inaudible)?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [52]

Let's say, that as far as hormones are concerned we're working on both on let's say developing the starting materials. We are working on developing the API at our one of the plant in Gujarat and also we are working on the formulations of which is at Indore, the second site at Indore.

Mahendra Jain, Way2Wealth - Analyst [53]

Okay.

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [54]

Pithampur, so there are -- all the three we are working. Certain pilot-bios are happening and let's say it is a time consuming process also we'll be filing the DMF and probably these filings, some of the filings may start in late fourth quarter of -- its a tentative timelines that

may start from the fourth quarter of next financial year. As dossiers start getting developed and also your the final bio of certain products will happen after pilot-bios get cleared.

So that the process currently will happen and probably we will have another year for some of the market where registrations will take. Business is still around two years away from -- for formulation. As far as API is concerned, we have already started selling those APIs to emerging markets and as we start filing dossiers and all we will start marketing hormone API also in other markets. So it will take some time to develop business, it is too early even to give any kind of guidelines and the numbers relating to.

Mahendra Jain, Way2Wealth - Analyst [55]

Okay.

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [56]

Hormone business, but yes, we are -- we want to be a strong player in this kind of area and we are developing the -- right now from basics to the -- the building blocks to the end formulations capabilities.

Mahendra Jain, Way2Wealth - Analyst [57]

Okay, as Alpa took already five to six years to develop all these things, and finally they have sold their plants.

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [58]

We have, whatever dossiers where there we have reviewed and we are not going ahead with any of them, we are developing everything fresh.

Mahendra Jain, Way2Wealth - Analyst [59]

Okay. So is it, I mean is it worth -- I mean we have taken around INR65 crore to the plant. So is it like we have got some benefit from that thing like.

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [60]

I will not give numbers to that, it is not our policy to disclose that.

Mahendra Jain, Way2Wealth - Analyst [61]

Which is nearly been done openly, declared.

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [62]

But normally, we don't disclose at what rate we have bought and all that.

Operator [63]

Rahul Sharma, Karvy Stock Broking.

Rahul Sharma, Karvy Stock Broking - Analyst [64]

Thank you for the opportunity, sir. Just wanted clarity on some of the numbers which you just disclosed. As regard to institutional business it was INR155 crores as against INR137 crores and branded was [INR58 crores against INR58 crores]. And how much was institutional business, sir?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [65]

Institutional business in this particular quarter was around INR21 crores.

Rahul Sharma, Karvy Stock Broking - Analyst [66]

Okay. As against INR24 crores --.

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [67]

Our overall cumulative business is around INR98 crores against INR101 crores.

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [68]

Okay. And branded formulation was how much sir?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [69]

Branded in this quarter is around INR58 crores as against INR59 crore last year. And overall nine months is INR204 crores as against INR162 crore last year.

Rahul Sharma, Karvy Stock Broking - Analyst [70]

Okay. And sir, how did some of the major geographies do like US, UK, CIS?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [71]

US, we've not made any shipment except some shipment was made in the I think the first quarter, but there are still stocks there because we have send a high quantity initially depending on the market partners requirement. And as the stocks start getting sold there and further shipments would be made. And still it's around six months to eight months away that we will be making any kind of further shipment to the US. That's a tentative estimate which we have. But let's say that market shares has started improving now. And hopefully after six months, there could be shipments to the US of exempted products.

Rahul Sharma, Karvy Stock Broking - Analyst [72]

Okay. What about UK and CIS particular?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [73]

UK business is definitely getting impacted because of the Brexit, almost around 16% to 18% lower realizations are there. And this year overall, let's say Europe business what we did is almost around INR258 crore as against INR244 crore last year. So around 5% growth in spite of significant impact on Brexit.

Rahul Sharma, Karvy Stock Broking - Analyst [74]

Okay. This is for the nine-month period.

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [75]

Nine month period.

Rahul Sharma, Karvy Stock Broking - Analyst [76]

Okay. And any other geographies, which -- what about CIS, any improvement on that front is coming in?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [77]

CIS, we have around 19% growth in first nine months of the current year.

Rahul Sharma, Karvy Stock Broking - Analyst [78]

Okay. What will be the exact number sir, for the nine months current year?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [79]

Around INR64 crores.

Rahul Sharma, Karvy Stock Broking - Analyst [80]

INR64 crores. Okay sir, thank you. I will join back the queue.

Operator [81]

Jatin Kotian, Emkay Global.

Jatin Kotian, Emkay Global - Analyst [82]

Yes, thank you for taking my question. So I just wanted to check did you have some US FDA inspection for your facility currently in the last couple of months. And if so, then what is the status of it?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [83]

Yes, we had inspections from US FDA for (inaudible) Aurangabad and that inspection was cleared without any kind of observation there. I have already told in the last call itself that we have not paid any kind of establishment fees relating to Aurangabad facility because that not an API facility of us, it's only an intermediate facility and they are the key intermediates, which are used for the API. And US inspections was mainly relating to the key intermediates (inaudible) building blocks for the other API. So that inspection has happened and there was no observation as well. And we're not going to produce an API from that particular facility.

Jatin Kotian, Emkay Global - Analyst [84]

Okay. And my second question is, earlier in the question you mentioned about eight to ten filings for next year, is that correct?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [85]

Yes.

Jatin Kotian, Emkay Global - Analyst [86]

So how should we model, how should we model your R&D cost etcetera because I believe this year R&D would have been a very fairly low number if it all, right?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [87]

R&D cost is almost around 4% of overall turnover currently.

Jatin Kotian, Emkay Global - Analyst [88]

[YTD FY17].

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [89]

Yes.

Jatin Kotian, Emkay Global - Analyst [90]

And how should we model it for next year sir?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [91]

Let's say, that will become around say (inaudible).

Jatin Kotian, Emkay Global - Analyst [92]

Okay. And anything on CapEx for FY17 and FY18?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [93]

CapEx number will remain absolutely low. I think will remain in the region of around INR220 crore to INR250 crore.

Jatin Kotian, Emkay Global - Analyst [94]

Okay. And this is any new facility or this is more from maintenance kind of perspective?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [95]

Let say we have almost around INR145 crore, INR150 crore is a depreciation itself, so.

Jatin Kotian, Emkay Global - Analyst [96]

Okay.

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [97]

To that extended you have maintenance CapEx and some kind of balancing and addition of backing line, some things keeps on happening.

Jatin Kotian, Emkay Global - Analyst [98]

Okay, okay, fine.

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [99]

It's not going to be more than that the number.

Operator [100]

(Operator Instructions) Prakash Agarwal, Axis Capital.

Prakash Agarwal, Axis Capital - Analyst [101]

Yes, thanks for the opportunity again. Just trying to understand the API growth, both in domestic and exports have been much better than in the past. So is there a one-off for it or the especially the exports post the API still being there, has grown very well, if you could elaborate on both please?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [102]

Let's say API, if you look at the numbers, earlier we have said that almost the domestic API was showing a decline. And nine months also it's continuously showing decline. Last year in the same nine months, there was almost around INR117 crore business and this year, it's around INR108 crores, so there is a 8% decline in the overall in domestic API business, but this quarter it has grown by 23%.

But this is mainly because that last year we were also selling certain steroids, which are produced by one of our associate Avik. And so that business was also coming as a part of the Ipca business. And that figure was almost around INR17 crore, INR18 crore for the last financial year for the same number. So this year the Avik business is completely separated out and it's happening from Avik itself. So we no longer sell the steroids which are produced by Avik. So as a result of that, domestic API business got impacted and it showing a lower growth, but otherwise the growth in the domestic API is overall good.

As far as export API is concerned, the number was lower because of certain parties, which we were doing some kind of cramps business, which was not there in the current financial year. Hopefully, that business will come in the next financial year. And because of that also that business got impacted, but overall we see that in current financial year, the overall API business will grow by almost around 10% and hopefully the API business growth would remain in the region of around 10% to 12%.

Prakash Agarwal, Axis Capital - Analyst [103]

Understood. And sir, when do we start seeing the operating leverage driven by higher revenues, so the cost remains under control. I mean especially in exports, ex of anti-malaria, if you could just give some broad color of how we should look about the branded business for next year? And is there a chance that institutional business can come back middle of next year or some broad level highlight for next year revenue, please?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [104]

We are hopeful that yes, anti-malarial business could restart again, but its all depend on when actually it start, but we have already participated in the -- we had an RFQ and we have did this -- given our quotes to the authorities and that process is going on. And so, hopefully things should start happening and we've also filed certain critical important dossiers relating to anti-malarials, which we feel that would be taken up for the -- two of such product would be taken for priority review. And hopefully with that this business, next year should start showing some kind of upside, but actually it's too difficult to give the date that from when it will start happening. And as the thinks keep on happening, we will keep on informing to the investors.

Prakash Agarwal, Axis Capital - Analyst [105]

And some color on branded business sir, because currencies are now stabilizing.

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [106]

Now currencies things are past so hopefully this business will continue to have good growth now. Overall, it should be having almost around 25% kind of number next year on business growth on branded formulation.

Prakash Agarwal, Axis Capital - Analyst [107]

And generic, sir.

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [108]

Generic there are -- let's say as the inventories get sold in US some kind of those business will also start coming in the next financial year and overall business growth of almost around 14% to 15% should be there in the -- overall in generic business in next year.

Prakash Agarwal, Axis Capital - Analyst [109]

Okay. So margin expansion should be there next year is what I understand with the overall business growing 15% to 20%?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [110]

It is too early, we have not made overall guidelines for the next financial year, because our budgeting process is also in the process. So exact numbers we will only able to give our guidelines and all in the -- when we have our fourth quarter conference call. It's too early to give numbers, but yes, definitely business will grow and we are confident that all these businesses will have improvement -- improvements in the next financial year.

Prakash Agarwal, Axis Capital - Analyst [111]

Right. And lastly sir, you alluded on the deferred tax adjustments. So if you could just you know give more color there and what would be the tax rates, effective tax rates next year?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [112]

Last year the profit was miniscule so the depreciation, which is allowed under IT Act was not getting fully absorbed and therefore there was a deferred tax credit was generated in the fourth quarter of the last financial year, which was close to around INR24 crore, because of your depreciation not getting absorbed. So there was a deferred tax credit on that account. Now, since this year there is a profit so that depreciation of last year, another depreciation is getting absorbed. So that INR24 crore, which was reversed last year in

fourth quarter is getting provided in current financial year. So every quarter there is a INR7 crore additional deferred tax provisions are there in this particular financial year. So it will continue to remain in the fourth quarter also. And normal deferred tax figure remains around 3% to 4% kind of numbers. And overall, we are a MAT company so around 22%, 23% kind of that number remains. So overall tax number may remain around 26%, 27% kind of including the deferred tax going forward for at least two or three financial year.

Operator [113]

(inaudible).

Unidentified Participant [114]

Yes, thanks for the opportunity, So just a quick one. Have we received any profit sharing for the HCQS product, which we would have shipped in the last quarter or maybe earlier than that?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [115]

We have received the profit share, but we don't disclose individual product wise what kind of profit share and --.

Unidentified Participant [116]

I just wanted to know (technical difficulty).

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [117]

(inaudible) profit share. We have received certain profit share, yes.

Unidentified Participant [118]

okay. And has it helped anywhere in gross margin this quarter?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [119]

I would say that now say market share definitely is improving and certain clients are being added. And hopefully the inventories, which are there would get used up in maybe around eight to -- nine months or that's (technical difficulty) orders what our partners have. So hopefully after six months or so, there could be some production and further shipments could be there.

Operator [120]

Surya Patra, Phillip Capital.

Surya Patra, Phillip Capital - Analyst [121]

Yes, thanks for this opportunity. So I just wanted to have an update on your crave for acquisition and the API plant what you have created in Vadodara, so any update on those two?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [122]

The Baroda plant is on stream now and they are continuously producing the one particular API, which is on certain range from that line and utilizing its full capacities on that. And other API additions at that particular site is in the process now. So that's what the current status of Baroda is concerned.

As far as (inaudible) is concerned, we are in the process of still generating certain data and finally some of the fermentation product, which we have given them technologies from our R&D is in the final stages and I think the stability datas are being generated.

So hopefully from the first quarter of the next financial year, at least two product businesses would start from there. And we have invited EDQM already on for the inspections and as and when EDQM inspections happens there. Thereafter the (inaudible) business could start also for the European and other market and also for the Latin American markets were certain, their dossiers have been updated for additional data, which are required as per regulatory changes in those markets. So hopefully in the -- maybe from the second quarter of the next financial year, there will be a significant improvement in the (inaudible) performance.

Surya Patra, Phillip Capital - Analyst [123]

Okay. But how important or what is the kind of incremental revenue base that can be added by this crave? And even on the Vadodara you said, you are utilizing full capacity for two product or rather one product at this moment and likely to add one more, but that's a big plant right INR280 odd crores kind of CapEx that you have done there.

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [124]

That's a big plant, but when you do the CapEx it's also I think we have set up R&D center there. And most of the R&D work relating to API have been shifted to Vadodara. So that is also a large CapEx and when you are setting the plant, it's -- initial lot of expenditure happens on infra development.

Surya Patra, Phillip Capital - Analyst [125]

Correct.

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [126]

Because of that and since this certain CapEx, we have put on hold so we had a plan to set up more number of plants there. So that time being is we've put on hold, but the second plant is almost getting ready there -- with that few more products will be added in that particular plant.

Surya Patra, Phillip Capital - Analyst [127]

Okay and overall whatever the manufacturing capacity that we would be having in case of API and formulation, obviously for US that we are not doing any business right now, but for other market so can you tell what is the kind of utilization of the plants that you would be having for formulation and API separately?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [128]

If you look at let say API side, my capacity utilizations maybe around 55% or so of the plant capacity.

Surya Patra, Phillip Capital - Analyst [129]

Okay.

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [130]

Significant and utilized capacities are there, as far as API's are concerned. And as far as formulations are concerned, there are two plants, one is at the Pipariya plant at Silvassa. That was purely for US so that utilizations are hardly any, practically may not be even 5% utilization of that plant. And second plant is our Pithampur plant, that was also made largely relating to US, but their utilization level is around -- currently around 30%. So that plant utilization is very, very low. As far as other formulation plant which we have at Athal, Silvassa that utilization is maybe around 70% level.

Surya Patra, Phillip Capital - Analyst [131]

Okay. Sorry, I missed that, 30% where you said sir, which plant?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [132]

Your Pithampur formulation plant.

Surya Patra, Phillip Capital - Analyst [133]

Okay. And now in the particular the remediation process or the kind of the re-validation process through third parties, what we are currently undergoing since last few quarters. So this is relating to like the kind of a documentation process or it is about the kind of the lay out or designing of the equipments or adding assets or can you throw some light on that? At what stage that we are currently, and what next steps that we are anticipating here?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [134]

There is absolutely no change in the designing of the plant, there are no changes as far as equipments are concerned. So these are not the issues, which are currently being looked into. And is not required, neither we require to change the design of the plant or equipment at any of these plants.

Currently, the issue is relating to fast verifications of your past data, electronic data. We have huge amount of data of last --. So using certain kind of forensic tools, the datas are being extracted and then re-validated and (inaudible) on certain protocol based studies are being done to get certain kind of numbers and re-validate those kind of datas. So that's the one process, which is currently being happening on -- by the consultants. So and that process more or less is already getting over for formulation plants. And API plant that process is currently happening. That's more or less is that re-verification of past datas. And also the second consultant is doing work relating to the re-verification of entire GMP processes.

Surya Patra, Phillip Capital - Analyst [135]

Okay. And just --.

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [136]

Nothing to do with the CapEx part. CapEx part whatever was done required to be done to address the issues was done in the immediately after say -- as we receive the 483 whatever correction was required to be done that was being done in first six, eight months of the -- those things. So nothing is required to be done right now, as far as the CapEx is concerned because that whatever was required to be done was already done.

Surya Patra, Phillip Capital - Analyst [137]

Okay. And regards the areas, the geographies of -- the areas -- geographical business presence (inaudible) then if domestic market that is the area where we are possibly quite confident on for next year. Likewise, which other business segment that we are confident about growing let's say double-digit growth in the current and the following financial year?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [138]

As we have already said the branded business have started doing well, because branded business is already doing very well, but it is only currency issues and that has impacted that part and since currencies are more or less stabilized, branded business even in international market would do well.

Generics we have said that except the US part and UK because of all these uncertainties relating to the currencies the realization are lower, but otherwise quantity wise the business is good and progress very well. Other geographies are also progressing very well, particularly relating to your -- where we do businesses Australia, New Zealand and South Africa.

And also, overall generic business is also looking good. Institutions there are still uncertainties are there that's when the Global Fund kind of business would restart. But we're hopeful that something should happen in next financial year.

We are confident as far as the overall businesses are concerned, even API should have around 10% kind of overall growth in spite there will be hardly any business relating to US. It used to be significant in the -- before the warning -- FDA issue. So overall, we are confident about the business growth.

But right now I will not be able to give the exact guidelines for the next financial year because the budgeting process are currently is in the process. We have yet to make the budget presentation to the Board and once number are finalized, then we will be -- in that when we have the fourth quarter conference call, we will give the guidelines for the next financial year.

Operator [139]

Thank you, ladies and gentlemen, that was the last question. I now hand the floor back to Mr. Nitin Agarwal for closing comments, over to you sir.

Nitin Agarwal, IDFC Securities Limited - Analyst [140]

Thanks for everyone participating the call and sir, you have to make any last comment or should we just close the call?

A.K. Jain, IPCA Laboratories Ltd. - Joint Managing Director [141]

We are doing our best to come out of the situations and we are confident. Lot of process are getting improved in the company and very basic issues are being addressed. So hopefully, we should be through.

Nitin Agarwal, IDFC Securities Limited - Analyst [142]

Okay, thank you, sir. And thanks everyone for taking time on participating the call, have a good day. Thank you, everyone.

Operator [143]

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