

## Full Year 2018 IPCA Laboratories Ltd Earnings Call

May 30, 2018 (Thomson StreetEvents) - Edited Transcript of Ipca Laboratories Ltd earnings conference call or presentation Wednesday, May 30, 2018 at 5:30:00am GMT

=====

### Corporate Participants

\* Ajit Kumar Bhanwarlal Jain

Ipca Laboratories Limited - CFO, Joint MD & Executive Director

\* Harish P. Kamath

Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary

=====

### Conference Call Participants

\* Aishwarya Agarwal

\* Amit Kadam

\* Charulata Gaidhani

Dalal & Broacha Stock Broking Pvt Ltd., Research Division - Analyst

\* Chirag Dagli

HDFC Asset Management Company Ltd. - Senior Equity Analyst

\* Damayanti Kerai

HSBC, Research Division - Analyst, Healthcare and Hospitals

\* Manoj Garg

\* Nitin Agarwal

IDFC Securities Limited, Research Division - Analyst

\* Prakash Agarwal

Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals

\* Rahul Sharma

KARVY Stock Broking Limited, Research Division - Analyst

\* Sachin Kasera

\* Sameer Baisiwala

Morgan Stanley, Research Division - Executive Director

\* Sangameshwar Iyer

Subhkam Ventures - VP of Investments

\* Shekhar Singh

=====

Operator [1]

-----

Good day, ladies and gentlemen, and welcome to the Q4 FY '18 Earnings Conference Call of Ipca Laboratories hosted by IDFC Securities. (Operator Instructions) Please note that this conference is being recorded.

I now hand the conference over to Mr. Nitin Agarwal from IDFC Securities. Thank you, and over to you, Mr. Agarwal.

-----

Nitin Agarwal, IDFC Securities Limited, Research Division - Analyst [2]

-----

Thanks, Margaret. Hi. Good morning, everyone, and a very warm welcome to Ipca Labs Q4 FY '18 and Full Year FY '18 Earnings Call hosted by IDFC Securities.

On the call today, we have representing Ipca management Mr. A.K. Jain, Joint Managing Director; and Mr. Harish Kamath, Corporate Counsel and Company Secretary. We'll have some opening comments from the Ipca team, and then we'll open the floor for questions.

Sir, please go ahead.

-----

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

-----

Good morning, everyone. For the Q4 of the current financial year, our overall formulation business has grown by around 15%; domestic formulation, by 17%; and export formulation,

by around 12%. And the overall API business for the quarter has grown up by around 25%. And overall, the business growth in the current quarter is almost around 18%.

For the whole of the financial year, the domestic business has overall grown by around 3%. There is no growth in export formulations; and overall formulations business, there is a 1% growth. Overall API business, there is a 5% growth. And overall company as a whole, we have achieved around 3% growth for the current financial year.

Overall, if you look at the EBITDA numbers, in the first quarter, we were at around 3% EBITDA because of GST implementation; second quarter, third quarter, almost around 18%, 18.5% EBITDA we achieved; and in the fourth quarter, we have achieved around 16%. Overall for the year as a whole, it's around 14.7% EBITDA number, excluding the exchange gain and losses on account of currency so -- as against 13.7%, what we had in last financial year.

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

=====

Questions and Answers

-----

Operator [1]

-----

(Operator Instructions) The first question is from the line of [Nisarg Vakharia from Lucky Investment Managers.]

-----

Unidentified Analyst, [2]

-----

Sir, my -- I have 2 questions. My first question is regarding the domestic formulation business. Now I'm assuming that all the disruption that had to happen, inventory correction has already happened across all retailers. So this 17% growth which you've delivered is now the steady-state growth that you are seeing in the business -- core business, right?

-----

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

-----

Overall, domestic business growth could be around, say, 13% to 14% in the current financial year, yes.

---

Unidentified Analyst, [4]

---

Okay. And are we seeing signs of the Indian domestic formulation market itself coming off a low base which is growing, or we are outperforming the market significantly?

---

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

---

Let's say we have, say -- again, let's say, ORG now, our rank has become almost around 20 -- 20th. We have gained 1 rank, and we are outperforming the market. Our pain segment is significantly growing in spite of GST implementations and just simply getting 3% growth in current financial year. But pain segment has given us almost around 15% growth, so there is a significant growth in pain. And cardiac also, we are now almost at the market now. So the overall -- plus the other therapies are growing faster, like urology, dermatology, ophthalmology. And also our antibacterials have given us significant growth of almost around 20% in current financial year, whatever the, say, reorganization of business what we have done. So that has given us dividends. So overall, we expect good growth in current financial year.

---

Unidentified Analyst, [6]

---

Right. Sir, my second question is regarding your other expenses, which have come on the slightly higher side in this quarter. I believe that this quarter, we are going to see a significant ramp down of the U.S. FDA regulation expenses which we have done over the last 1 year.

---

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

---

I think this...

-----  
Unidentified Analyst, [8]  
-----

Has that -- yes?  
-----

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

This disturbance largely happened because of, let's say, this foreign exchange translation or whatever loss and gain, where each quarter, this number also appears as a part of your manufacturing other expenses. Like first quarter, we had a gain; second quarter, we had loss; third quarter, we had almost around a INR 10 crore gain; and fourth quarter, there is a INR 7 crore of...

-----  
Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [10]  
-----

Loss.  
-----

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

Loss is there. So overall, if you exclude all these numbers and then compare the expenditure number, then I think if expenditure of third quarter excluding foreign exchange whatever impact is there, then figure was almost around INR 242 crore, and fourth quarter number is INR 234 crore. So expenditure compared to that, the third quarter is down. And then [second quarter,] there is almost around INR 4 crore to INR 5 crore of some -- some provision is there on account of some penalties on account of failure to supply on account of U.S. because...

-----  
Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[12]

-----  
When these -- exemptions were withdrawn. Finally, the penalty calculations, and that has come in this quarter, so we have provided for around almost close to INR 5 crore in current quarter. So that has also expend -- appeared on expenditure side. So excluding...

-----  
Unidentified Analyst, [13]

-----  
Sir, have you spent anything on U.S. FDA this quarter?

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

-----  
I think the remedial cost in this quarter was close to around INR 6 crores.

-----  
Unidentified Analyst, [15]

-----  
INR 6 crores.

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

-----  
Yes.

-----  
Operator [17]

-----  
(Operator Instructions) The next question is from the line of Prakash Agarwal from Axis Capital.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [18]

---

Sir, first question is on the anti-malaria business. So have the supplies started as we were scheduled for around Q1?

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [19]

---

Let's say agreements are all signed, but Global Funds, the orders are we have to receive. I think nobody has got orders so far, yes.

---

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [20]

---

So we would be still sticking out on Q1 supplies to be there, or it might spill to Q2?

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [21]

---

Let's say supply chain, they get almost around, say, \$1 comes, it's around a quarter. So with maybe that first quarter, there'll be no Global Fund supply. It's only in the second quarter some supply can happen.

---

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [22]

---

Okay. And what are the expectations for this year on this business, sir?

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[23]

-----

Let's say Global Fund, whatever quantity they have indicated, the -- it's not very significant quantity. But yes, the business will start because we are coming after, say, a lot of times of, currently, say, your -- the award is on lesser side. And we expect, let's say, in current financial year, your institutional business could be around close to around INR 180 crore to INR 200 crore.

-----

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of  
Pharmaceuticals [24]

-----

Okay versus INR 157 crores last year?

-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[25]

-----

Yes, yes.

-----

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of  
Pharmaceuticals [26]

-----

So not much of a movement?

-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[27]

-----

Let's say prices are also down, and your Global Fund supply hasn't then start -- is already delayed.

-----

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [28]

-----

Okay, okay. And what is our outlook on the -- so the DT version and the injectables, when would we start seeing the supplies and approvals?

-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [29]

-----

DT approval is, I think, around the corner. Maybe in a month's time, we should be able to get that, yes. And thereafter, we will start the process of registrations in various countries. So hopefully, business would start maybe only after the second quarter. It may happen in third quarter. Some businesses and with registration in various countries also will take time.

-----

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [30]

-----

Okay. Then that number can go up, sir, the one that you mentioned, INR 180 crores, INR 200 crores?

-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [31]

-----

Yes, I think once that certificate is received, we will reassess the business and then let the investors know, yes, thereafter.

-----

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [32]

-----

Okay. And on the injectables, sir?

-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [33]

-----

Injectables, yes, the -- one audit of the plant is already over. And currently, the second audit is currently happening, which is relating to compliance verification, whatever false observations were there. So hopefully, this should happen maybe in -- again, in next 6 months' time or so.

-----

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [34]

-----

Okay. And sir, lastly, can you quantify that both opportunities, DT version and injectables?

-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [35]

-----

Let's say, let the -- these all approval comes and everything happens, we will give the numbers maybe after that, after reassessing everything, because Global Fund business has yet to start for everyone. We'll have to reassess the numbers.

-----

Operator [36]

-----

The next question is from the line of the (inaudible).

-----

Unidentified Analyst, [37]

-----

Sir, I wanted to understand the U.S. FDA inspection. So what is the status of that (inaudible) facilities? You see that had been inspected, and what are the time line that you are estimating? A lot of dependency will be there from their side, but just wanted to understand from your side (inaudible) there's been some time now. So I wanted to check about that.

-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[38]

-----

I think February, we gave the letter to FDA for Ratlam plant, and number was given for the [SEZ Indore] plant. And the Piparia plant was a little earlier. So I think February is the one -- the last letter has gone in February. So we are still awaiting from FDA, but FDA normally don't give any kind of indications that when the audit is possible and all, so very difficult to make -- we are just awaiting inspections. I think that we are ready for inspection, yes.

-----

Unidentified Analyst, [39]

-----

We are ready for the inspection. And all the facilities are covered now?

-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[40]

-----

Yes, yes, yes, all facilities are covered. Anytime, inspection is welcome.

-----

Operator [41]

-----

The next question is from the line of [Ashish Thakkar] from Motilal Oswal Securities.

-----

Unidentified Analyst, [42]

-----

Sir, my question is on margins. Assuming the one-off that could be there in the cost, what could be the core EBITDA margins for FY '18?

-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[43]

-----

I think FY '18, we are likely to go around that 13% -- 12% to 13% kind of growth. And (inaudible) almost around FY'19, let's say, their margin improvement could be there at around 2%, but only the issue is how the supply chain disturbances which are happening mainly on account of certain key starting material from China and prices going up, so we will have to assess those kind of things. But currently -- let's say, currently, there are no much disturbance because you are holding inventory. But for the future, we will have to work over that what kind of impact and its -- the passing on of that cost increases to the market. So those issues will be there. We have never seen such kind of price increases which are currently happening on key starting materials which is there currently now.

-----

Unidentified Analyst, [44]

-----

Understood. Sir, last quarter, you mentioned that the normalized EBITDA margins for FY '18 works out to be around 16%. So the 2% incremental margins you are seeing for FY '19 is over and about 2%?

-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [45]

-----

Yes.

-----

Unidentified Analyst, [46]

-----

Over and about 16%, right?

-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [47]

-----

Yes.

-----

Unidentified Analyst, [48]

---

Okay. Sir, yes, that's helpful. Sir, what would be the remedial cost that you we would have spent in FY '18 overall? And how should we look at this cost in FY '19?

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [49]

---

FY '18, this cost is almost around INR 53 crores, INR 54 crores. And I think around INR 15 crore kind of cost to make continue to be there for, let's say, at least 1 or 2 years.

---

Unidentified Analyst, [50]

---

Okay. INR 15 crore will continue?

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [51]

---

Yes.

---

Unidentified Analyst, [52]

---

Okay, fair enough. Sir, lastly, can we have the CapEx and the R&D guidance now since like we had done almost a lot of CapEx in the past years? So how's the outlook there?

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [53]

---

CapEx is going to be only, say, your maintenance CapEx and some debottlenecking here and there. So there is no project plan as such in horizon. And I think more or less it will remain at around INR 120 crore or INR 125 crore kind of level, yes, in current financial year.

---

Unidentified Analyst, [54]

---

Okay. And anything on R&D you would like to...

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [55]

---

R&D cost will be around almost around 4% level.

---

Unidentified Analyst, [56]

---

4% level.

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [57]

---

Yes.

---

Unidentified Analyst, [58]

---

Okay. And what taxes should we assume, tax rates?

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [59]

-----  
We are a MAT company and having a huge amount of MAT credit line. So for maybe 3, 4 years, we will continue to remain at MAT, so 21% is the tax. Only deferred tax provisions depends on your capital expenditure which happens. So overall, I think the tax rate could be just around -- it's only relating to MAT. Outgoing is only MAT, 21%.  
-----

Unidentified Analyst, [60]  
-----

But reported number you feel...  
-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [61]  
-----

Reported number is only because of your -- the deferred tax credits.  
-----

Operator [62]  
-----

The next question is from the line of [Ryan Sinha.] He's an individual investor.  
-----

Unidentified Participant, [63]  
-----

I wanted to ask what products still currently have in the pipeline.  
-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [64]  
-----

Normally, we don't disclose that what product we have in pipeline.  
-----

Unidentified Participant, [65]

---

Okay. So another question, so can you give me the revenue breakup of branded formulation in India?

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [66]

---

India entire formulation is branded formulation. We don't do this generic generics or pure generics.

---

Operator [67]

---

The next question is from the line of Shekhar Singh from Excelsyor Capital.

---

Shekhar Singh, [68]

---

(inaudible) You mentioned the CapEx...

---

Operator [69]

---

(Operator Instructions)

---

Shekhar Singh, [70]

---

Sir, just on the CapEx, you said the CapEx is INR 120 crore to INR 125 crore of maintenance CapEx, and that will continue?

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[71]

-----  
Yes, that will continue.

-----  
Shekhar Singh, [72]

-----  
And how much was the CapEx in FY '18?

-----  
Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[73]

-----  
More or less around INR 100 crores.

-----  
Shekhar Singh, [74]

-----  
INR 100 crores.

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

-----  
Yes.

-----  
Shekhar Singh, [76]

-----  
So specifically like INR 120 crores will be sort of maintenance CapEx coming every year?

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

---

And there are lots of regulatory changes keeps on happening. Currently, there's your track and trace and all this cartel need to be sealed, tamper proof, all that, let's say, INR 25 crore of CapEx is going in that kind of -- so this kind of changes keeps on coming. Some or other changes keeps on coming, some you need to continuously where you operate on 0 discharge plans. And also you continue to spend some kind of money on upgrading that -- all this your environmental standard of continuous basis to have 100% compliance on that. So those kind of CapEx plus some kind of, let's say, you have a large amount of electronics in the manufacturing and QC. Their life cycle is lesser. So those replacements keeps on coming. That's the normal maintenance CapEx.

---

Shekhar Singh, [78]

---

Okay. And lastly, sir, on the APIs, what is the expected growth rate in the coming year?

---

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

---

API business will grow around 10% to 12% in current financial year.

---

Shekhar Singh, [80]

---

Okay. And in API business, will there be margin pressure because of the raw material from U.S. or from China or...

---

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

---

There could be temporary pressure because if you accepted certain orders, then you need to supply. But over a normal -- over a little longer period of time, maybe 6 months and so,

the prices do exist in the market. So there could be, say, here and there, some disturbances but not -- whatever increases are there, they get passed on.

---

Operator [82]

---

The next question is from the line of Prakash Agarwal from Axis Capital.

---

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [83]

---

Sir, just trying to understand the gross margin improvement. So this would be a function of, what, all things? Or was there one-offs in the past few quarters which ranged from 62% to 65%?

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [84]

---

If you look at overall gross margin levels, by and large, in current financial year, it's very, very consistent.

---

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [85]

---

So this quarter was 67-plus, so -- versus 65% in the past.

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [86]

---

Last quarter was also 66%; second quarter, also 66%; and the first quarter was around 63%. So overall, let's say, currently, by and large...

-----  
Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of  
Pharmaceuticals [87]

-----  
What is driving this, sir?

-----  
Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[88]

-----  
By and large, it's very consistent. It's also dependent on sales mix. Let's say, this quarter,  
also your domestic business growth was very good, where margins are better. So it has a  
slight change here and there is there, but by and large, it's very, very consistent.

-----  
Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of  
Pharmaceuticals [89]

-----  
And you mentioned there was a ForEx loss, right?

-----  
Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[90]

-----  
ForEx loss, that comes in the expenditure side.

-----  
Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of  
Pharmaceuticals [91]

-----  
Other expenses. Now how much was that, INR 7 crores?

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

-----

INR 7 crores 31 lakhs in this quarter. Last quarter, there was a growth -- yes, there's a gain of around INR 10 crore. It all depends on your month-end rate. And whatever is our liabilities and your -- the 6-month hedgings and all are there. They are all everything that (inaudible)

-----

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [93]

-----

Okay. And sir, if you could give the broad breakup of the generics institutional and branded, sir?

-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [94]

-----

I think that the numbers are very clearly, I think, first time we have stated in press release. So if you go to that, those numbers are there.

-----

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [95]

-----

Okay. Sir, institutional business?

-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [96]

-----

Yes, that also is separately spelled out. I think this quarter, the business was around INR 44.64 crore compared to the Q4 last year of INR 31 crore. And if current for, yes, the year as a whole, the institutional business was INR 157.23 crores as against INR 129.19 crore in previous year, yes.

-----  
Operator [97]  
-----

(Operator Instructions) The next question is from the line of Sangam Iyer from Subhkam Ventures.  
-----

Sangameshwar Iyer, Subhkam Ventures - VP of Investments [98]  
-----

Sir, just wanted to understand, when you guide for a 200 basis point improvement in the EBITDA margin levels, where -- could you just give us some clarity in terms of the levers for this 200 basis points improvement, given that our overall -- the formulation business, export formulation business, et cetera, we are expecting that institution will be more or less flattish at around INR 180 crores to INR 200 crores? I mean, that -- there has some dependence on it. So what would be the levers for this 200 basis point expansion?  
-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [99]  
-----

By and large, if you look at it, we are currently operating with a huge underutilized capacities and as the top line gross capacity utilization increases, yes. And currently also, we are incurring all the kind of cost because all plants are in the ready state and (inaudible), and everything is running on a regular basis. So all that cost is there except some temporary -- their work men's related cost would go up. So as the utilization of plant capacity improves, the margins will automatically grow.  
-----

Sangameshwar Iyer, Subhkam Ventures - VP of Investments [100]  
-----

Right, sir. So could you just run through what were the one-off costs that were there in FY '18 which might not occur in FY '19, which could be the direct beneficiary for the margins?  
-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [101]

-----

Except this remedial cost which is almost around INR 54 crore in the current financial year. I would say your next financial year, that may remain around INR 15 crore or so. But the rest on -- other than that, I think there may be around INR 8 crore, INR 10 crore cost on account of this -- INR 5 crore is just provided in this quarter on account of failure to supply some penalty. And maybe some kind of inventories which were there as I think leftover inventories in the U.S. that we have written off in this quarter was around INR 4 crore or so. So -- and [debt] are only exceptional things. Other than that, there's no exceptional in -- exception in the balance sheet.

-----

Sangameshwar Iyer, Subhkam Ventures - VP of Investments [102]

-----

So basically, if I do the sum, the INR 54 crores of cost that was there in FY '18 will actually not recur given that -- the INR 15 crores that might recur?

-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [103]

-----

Some costs will be there, INR 15 crores.

-----

Sangameshwar Iyer, Subhkam Ventures - VP of Investments [104]

-----

Yes, so INR 15 crores will be there. But to that extent, the penalty and the inventory written off, which were again one-offs, we offset that?

-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [105]

-----

Yes, yes, yes, that's true.

-----

Sangameshwar Iyer, Subhkam Ventures - VP of Investments [106]

-----

Okay, okay, okay. And sir, on the formulation -- the generics business, the growth in the generics business would get reflected only once the approval start coming in? Or when should one see the uptick in the run rate in this business?

-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[107]

-----

By and large, let's say capacities are idle because we don't have currently the U.S. business. And U.K. businesses got impacted because of the -- our main suppliers' issue with their inspection. Hopefully, those issues are, let's say, for U.K. is getting resolved now because they are getting the new QP permission. So from -- supplies would get regularized from maybe around August, September or so. And they have indicated there that the QP inspection may happen somewhere in some July or August. So hopefully, from second -- third quarter onwards, much bigger business can happen with U.K. But we are not -- as per our calculations are concerned of numbers, we have calculated current level of business. So there could be upside, too, but that depends on how the -- your -- those issues which are there with our buyer get resolved, yes, particularly relating to U.K. The rest all businesses, they -- let's say, the European business, Australia, New Zealand, South Africa, Canada, all these businesses are growing, yes. And as far as U.S. is concerned, current year, we got a loss from share of profit of around INR 12 crore that may not be there in next financial year because until the time [there's the loss.] Now there are no inventories in the market, so those share of profit may not be there. (inaudible) 1,000 unit will be there, but here, it's around INR 12 crore, yes.

-----

Sangameshwar Iyer, Subhkam Ventures - VP of Investments [108]

-----

Yes, okay. Sir, and to just summarize, so first half would be predominately more export API that would drive the revenue, and second half will be where the formulations will compensate? And then the margin expansion will also get reasonable in a significant manner?

-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[109]

-----

No, the domestic formulation is continuously growing and had a significant growth. So that will drive also the business and margins. So it's not only the exports. The domestic

formulation will continue to do well, yes. And we are continuously improving our performance here in domestic business.

---

Operator [110]

---

(Operator Instructions) We'll move to our next question, which is from the line of Manoj Garg from White Oak Capital.

---

Manoj Garg, [111]

---

Sir, I basically want to understand, one, over the last 12 months, how many regulatory authorities have probably inspected our Ratlam or other facilities, which are under the -- imported that from the U.S.? And how were the outcome for those?

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [112]

---

I think major Ratlam inspection current year has happened, one is of Canada; second one was -- I think Russia has inspected. Then I think WHO inspection was also there at the plant, so Geneva. Then Pithampur was inspected by MHRA. Then all the 3 sites were inspected by Health Canada. Ratlam, Athal and Pithampur, all 3 sites were inspected. And then (inaudible) inspections were also there. So I think there are a lot of regulatory (inaudible) plant was inspected by...

---

Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [113]

---

[TG Australia.]

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [114]

-----  
[TG Australia.]  
-----

Manoj Garg, [115]  
-----

Right. And I believe that all of those inspections have gone successfully, sir.  
-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[116]  
-----

Yes, yes.  
-----

Manoj Garg, [117]  
-----

And sir, so to that extent, I think probably, obviously, we have reasonable confidence that  
as and when the U.S. FDA inspection happens, hopefully everything goes well.  
-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[118]  
-----

Yes. But yes, there is a lot of improvement in the system, processes, and that gives us  
confidence.  
-----

Manoj Garg, [119]  
-----

Sure, sure. And sir, like since no one's -- Canada is [two,] have we start seeing the  
incremental business happening from Canada now?  
-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[120]

-----

Canada from last year, INR 15 crore. This year, it has become almost around INR 45 crore, which is growing very well, yes.

-----

Manoj Garg, [121]

-----

And how do you see the outlook for this year, sir?

-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[122]

-----

Our business will continue to grow there, yes.

-----

Manoj Garg, [123]

-----

Okay, okay. And on the branded formula, sir, and I'm talking about, again, the international branded formulas, and given that emerging market considered more or less stabilized now...

-----

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

-----

Yes.

-----

Manoj Garg, [125]

-----

Are we started seeing again the growth recovery in those markets? And what's the kind of hope that we are sharing out there, sir?

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

-----  
Branded market in current year, we are looking for around 12% to 13% kind of growth, so at least, let's say, ruble is again on -- because there are a lot of uncertainties relating to ruble, so we are not projecting more than 5% growth there and some price rise we are planning because of how it span out and all that, it will depend on that. But currently, our -- in our calculation, we are only considering the [share] in the market around 5% growth. And overall, around 12% to 13% growth in branded formulation. The large part of our business come from that continent.

-----  
Operator [127]

-----  
(Operator Instructions) We'll move to our next question, which is from the line of Rahul Sharma from KARVY Stock Broking.

-----  
Rahul Sharma, KARVY Stock Broking Limited, Research Division - Analyst [128]

-----  
Sir, could you give a breakup year-wise of the key regions which -- revenue mix which is there and on the export front in generics and branded formulations?

(technical difficulty)

-----  
Operator [129]

-----  
Ladies and gentlemen, we seem to have lost the line of the management. (Operator Instructions) And sir, we have Mr. Rahul Sharma in the question queue.

-----  
Rahul Sharma, KARVY Stock Broking Limited, Research Division - Analyst [130]

-----  
Sir, it will be helpful if you could please share the revenue breakup for the export formulations business branded and generics for FY '18.

-----  
Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [131]

-----  
Rahul, it is given in our press release; Rahul, quarter as well as the annual we have given.

-----  
Rahul Sharma, KARVY Stock Broking Limited, Research Division - Analyst [132]

-----  
I wanted the breakup like major regions which are there, U.K., Europe, U.S., Russia and others.

-----  
Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [133]

-----  
Like the Russia, we did around INR 142 crores as against INR 99 crores last year. And U.K., Europe is almost around INR 234 crores against INR 313 crore last year. U.S. is only INR 12 crores share of profit as against INR 48 crore last year revenue which were there. And Canada is around INR 47 crore against INR 21 crore in (inaudible). This is broadly the numbers of geographies in which we're in.

-----  
Operator [134]

-----  
The next question is from the line of Charulata from Dalal & Broacha.

-----  
Charulata Gaidhani, Dalal & Broacha Stock Broking Pvt Ltd., Research Division - Analyst [135]

Yes, my question pertains to the export...

Operator [136]

(Operator Instructions)

Charulata Gaidhani, Dalal & Broacha Stock Broking Pvt Ltd., Research Division - Analyst  
[137]

My question pertains to the growth in export formulations of 12% in the current quarter. And mainly generics, there is a growth of 19%. So where is this coming from, which markets, and how do you see it growing in the future?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[138]

If you look at overall, let's say, in this particular quarter, Australia, New Zealand has done very well. Almost -- there was almost over 17% kind of growth were there. Canada did very well, almost -- as against INR 2 crore, INR 3 crore, we did almost around INR 15 crore in that market. South Africa did very well in this quarter; as against INR 20 crores, we did almost INR 136 crore. So these geographies are continuously growing, and they will keep on driving the business. As far as U.S. is concerned, we don't have currently any business. Whatever share of profits in the current year we have received of INR 12 crore, that will not be there in next financial year. So there are no inventory left in the market now, so whatever -- and the U.K. business has -- [IBF] currently say that we'll continue at the current pace in the time of the issues which are there, with the distributors could be -- get resolved.

Charulata Gaidhani, Dalal & Broacha Stock Broking Pvt Ltd., Research Division - Analyst  
[139]

Okay, yes. Then can you give a geographic breakup of the generics business?

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[140]

---

That is what I have already given earlier.

---

Charulata Gaidhani, Dalal & Broacha Stock Broking Pvt Ltd., Research Division - Analyst  
[141]

---

Yes. But you mentioned about Russia, Europe and Canada.

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[142]

---

As we said, the U.K. business was almost around INR 234 crore, Australia was INR 126 crore, Canada was around INR 47 crore. Those breakup are already given, yes.

---

Charulata Gaidhani, Dalal & Broacha Stock Broking Pvt Ltd., Research Division - Analyst  
[143]

---

Okay, okay, yes. My second question pertains to the increase in key materials -- material costs which you mentioned.

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[144]

---

Yes.

---

Charulata Gaidhani, Dalal & Broacha Stock Broking Pvt Ltd., Research Division - Analyst  
[145]

-----  
How much of an impact do you see because of this? Or what could be the worst-case scenario? And secondly, is there any independence on China?  
-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[146]  
-----

Let's say whole industry depends on China because all key starting material comes from there. It's not one product, it's across. And my reason main disturbances are happening is because a lot of factories which are close to this -- the -- Beijing, Shanghai and all these regions, they are getting closed, and they are asked to getting shifted to other places. So somewhere, those disturbances, because until the time newer facilities are created, the prices of some of the key starting materials are moving 30%, 40%, 50% kind of -- somewhere there, 100% rises are there. So these disturbances are there. Normally, you maintain some kind of -- because these disturbances are known, so you maintain certain kind of inventories in the pipeline. But supply chain disturbance, not only the price which distort the whole economics; but sometimes, the supply chain disturbance is even paying higher prices; also sometimes, the materials are not available. So those issues are there. It's very difficult to quantify each product-wise, but yes, these issues are there and these issues are there for last 5, 6 months. It's not from today. These issues have started appearing from second half of last financial year. So we will continue to, let's say, the -- well, the order bookings, we will normally take -- we've taken into account whatever kind of stock positions are there. And when we do the bookings, then only we can fund the order. So yes, we have to work very carefully. But whatever price increases are there, we have to - - we will keep on passing. But yes, there could be some kind of supply disturbances. And some API businesses also may got disturbed, and somewhere we have to pay higher prices. But as a whole, over a medium term, these increases will be passed on to the customers. So it may not have -- it may have some kind of temporary impact but may not have a longer-term impact, yes.  
-----

Operator [147]  
-----

The next question is from the line of Aishwarya Agarwal from Reliance Mutual Fund.  
-----

Aishwarya Agarwal, [148]  
-----

Sir, I just want to know if the U.S. inspection goes well for the 3 plants, or maybe Ratlam and -- or Ratlam is one bucket, and the other bucket is the 2 formulation.

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[149]

---

Yes.

---

Aishwarya Agarwal, [150]

---

So what kind of revenue we should anticipate to come back?

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[151]

---

I think currently, we are really not -- we're proud of the numbers and all because we are awaiting -- it take time. And giving numbers will not also be useful at current level because how long it takes and when and because market situations are very dynamic. So probably let the inspection happen, and then we will give the numbers. So that would be the right thing to do.

---

Aishwarya Agarwal, [152]

---

And what kind of revenue loss we have taken with these 3 plants U.S. suppliers are going out of?

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[153]

---

That's -- the revenue losses were significant because if you look at the overall impact of that, we were doing close to maybe INR 200 crore of -- worth of our formulation business around that time and maybe INR 150 crore of U.S. API. And maybe there are more than INR 125 crore worth of in direct, our own production office, APIs for supplying to the U.S. formulations and also for the, yes, [captive] consumptions and of intermediates and also all these capacities are, to date, idle. And that is what is the pressure on balance sheet is there -- on P&L account is there currently.

---

Aishwarya Agarwal, [154]

---

So effectively, you are saying that INR 200 crores formulation and INR 140 crores API, total INR 340 crores of top line has on...

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [155]

---

Yes, maybe around -- plus around INR 150 crore were -- whatever this -- your -- in-house production for meeting this demand.

---

Aishwarya Agarwal, [156]

---

No, that's INR 200 crore of formulation needs in-house API that...

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [157]

---

Let's look at the...

---

Aishwarya Agarwal, [158]

---

But ultimately, the top line, it is INR 200 crores impact, right?

-----

Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [159]

-----

No, no, Aishwarya, some materials, API was going to EU. From there, it was going to U.S. after conversion. Even such businesses also we have lost about INR 100 crore.

-----

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

-----

Plus some APIs were given to India for the U.S...

-----

Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [161]

-----

Formulation business.

-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [162]

-----

U.S. formulation, that was almost around INR 50 crores kind of.

-----

Aishwarya Agarwal, [163]

-----

So -- okay, so effectively, I think INR 200 crores, plus INR 140 crores plus around INR 150 crores more?

-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[164]

-----  
Yes.

-----  
Aishwarya Agarwal, [165]

-----  
Which is through the indirect -- indirect to the API is going to U.S. through other company?  
Or maybe Europe is what you are saying, right?

-----  
Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[166]

-----  
Yes, yes.

-----  
Aishwarya Agarwal, [167]

-----  
So from around INR 300 crores, so INR 500 crores of the top line is what we are talking  
right now?

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

-----  
Yes.

-----  
Aishwarya Agarwal, [169]

-----  
Okay. And the second, sir, when we see this, the China's disruption -- I mean, China, this  
raw material sourcing issue, so what kind of impact on the inventory will help you to

overcome this issue, say, if we have the 40 days, increase it to 60 days, and there won't be this kind of issue? I mean, how you will be overcoming this is what I mean.

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[170]

---

Let' say, in spite of all that our inventories has not got up because what we are trying to do is whatever, let's say, we are -- in the related inventory, we are reducing and the key starting materials, wherever risk is higher, those inventories are being increased. So overall, inventory as such has not moved up. I think our inventories are at the last year's level. It has not gone up in spite of increase in the business.

---

Aishwarya Agarwal, [171]

---

No, then how you are managing it (inaudible)?

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[172]

---

Somewhere we are cutting the inventory which are purely, purely domestic, so keeping the inventories at the (inaudible) at the supplier's place that on -- just in time and all that. So we are managing those. The inventories has not really moved up, won't likely to move up.

---

Aishwarya Agarwal, [173]

---

Okay. So that's the good thing. But having said that, if there is a cost, what kind of cost increase are you witnessing? If you say calculate the gross margin, we have the revenue, and then we have the raw material cost. And that raw material cost, what percentage increase we should assume for this fiscal -- where probably will pass on to the customer also.

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[174]

---

It's so difficult to say it today. Like, say, the simple product like paracetamol, it was available to INR 250, INR 260 per kilo. It has moved. Yes, yesterday's price is INR 380. It's only because para-aminophenol, which is a large supply from China, is disturbed. So that's the kind of metformin. The price increase is almost around 40%, 50%. These simple materials like that, the prices significantly moved up. So there are the end number of such products where the prices has moved up 30%, 40%, 50%. It's not -- so disturbances are significant. It's very difficult to -- yes, very difficult to give you quantification that (inaudible).

---

Aishwarya Agarwal, [175]

---

But are you passing on those increases regularly to the customers.

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[176]

---

Yes, we are -- continuous basis, so very transparent basis, we are talking to all our customers and regularly meeting them that what kind of scenarios are there and briefing them because, many times, the even customers are supplying for their social security supplies in Latin America and other places. So their disturbances also disturbed them significantly. There are a lot of the supplies which goes with ultimate customer may be relating to a tender, where he can't increase the prices. So those issues are there currently. These disturbances, so currently, we are handling. It has not disturbed my overall current profitability but because we are vigilant on those issues and continuously working on that. Indianizing a lot of those things will take a longer period of time. It's so difficult because people [don't seem to be] willing to invest money on because had today this Indianization; tomorrow again, the capacity comes from China, and prices start going -- a lot of those units which will make investment will again go in losses. So people are very cautious to invest. Also looking at practically no support from government on -- particularly on, let's say, intermediaries and all these chemical businesses, which are therefore intermediate. So the scenario is very difficult. We are more worried for supply chain disturbances even if paying a little higher prices, you have losses for some time. But your supply disturbances causes more problem. So that's the more worry to us.

---

Operator [177]

-----  
(Operator Instructions) We'll move to our next question, which is from the line of Chirag Dagli from HDFC Asset Management.  
-----

Chirag Dagli, HDFC Asset Management Company Ltd. - Senior Equity Analyst [178]  
-----

Sir, how should we think about staff costs going into FY '19?  
-----

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

I think costs will remain around 8% to 10% increase. Current year increase was around 6% because a lot of rationalizations was also taken up in current year. So the cost has not moved up to that extent.  
-----

Chirag Dagli, HDFC Asset Management Company Ltd. - Senior Equity Analyst [180]  
-----

So 8% to 10%, and this bakes in incremental additions plus inflation as well?  
-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [181]  
-----

Incremental addition may not be very significant, but it's only the normal increases in the [salary, wages,] yes.  
-----

Chirag Dagli, HDFC Asset Management Company Ltd. - Senior Equity Analyst [182]  
-----

Okay. And sir, in terms of EBITDA margins, I'm actually slightly confused. So in your earlier comment, you said that 200 basis points improvement, this is on the reported FY '18 EBITDA margin, or the normalized 16% that you've earlier alluded?

-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [183]

-----

The normalized margin.

-----

Chirag Dagli, HDFC Asset Management Company Ltd. - Senior Equity Analyst [184]

-----

So effectively, you are guiding to 18% kind of margins for FY '19?

-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [185]

-----

Yes.

-----

Operator [186]

-----

The next question is from the line of Sachin Kasera from Lucky Investment Managers.

-----

Sachin Kasera, [187]

-----

Sir, you've recently seen some depreciation of the currency vis-à-vis both the European currency as well as the dollar. Since the last quarter 4 revenues in the exports, when do we start to see some benefits of this currency depreciation?

-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[188]

---

Let's say if you look at overall, might 70 -- 68% is -- billings are in dollar terms. The rest is in other currency. So other currency more or less, the -- your realizations are at the same level. That has not moved up much here and there. Somewhere, it's down, particularly for the Europe. Sterling, some improvement is there, but currently, it's going down. So let's say on 70% of that, there is -- but almost now close to about 25% to 30% is the -- your costs which are there, which are again dollar sensitive. But your -- all petroleum, your energy cost is sensitive. On material costs, out of my, let's say, around 32% material costs, 50% is again dollar sensitive because I may not be directly importing but my supporting manufacturer may be importing certain key starting materials. So those prices have moved up. So that sensitivity is around 15%. Almost around 10% , this is my other remittances are there. (inaudible) Interest payment in dollar terms, so excluding all that, around -- maybe around 60% of my 70% business will have a kind of improvement coming if the currency demand at that level.

---

Sachin Kasera, [189]

---

Sure. Sir, second question is...

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[190]

---

But maybe around, say, \$180 million to \$190 million worth of business, out of which around 70% of that will have it, 60% of that will have improvement.

---

Sachin Kasera, [191]

---

Okay. My second question, sir, is that you indicated that there was a significant loss of business in the U.S. Direct formulation, API, indirect exports and all. So while only formulation side, as you rightly said, it's a little difficult right now to gauge what is the sort of recovery you can have, that will be contingent on the [A&Ps] and all that we have. But on the other business, where we will supply to third parties there, do you see any scope for supply starting maybe end of FY '19 and seeing some good improvement in FY '20?

-----  
Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[192]  
-----

Immediately upon your -- thus, your inspection and your -- in lifting of your import a large size, hopefully, the business -- API business could start faster. Even formulations will start because we are -- we were large supplier of almost around 88 products, so that business could start. But it's too -- I think it's too early because the inspections (inaudible) and the market is very dynamic. So I will not like to give the numbers today that what will happen and what will not. We will assess when the inspections are over and then giving numbers at that time would be much better than giving numbers now.

-----  
Sachin Kasera, [193]  
-----

And sir, you mentioned that API are looking at 10% growth this year against 5% last year. And you indicated there's a lot of price increases happening in both in formulation and API.

-----  
Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[194]  
-----

Yes.

-----  
Sachin Kasera, [195]  
-----

So do we also -- while on one hand, we will be impacted because of certain researches in China, does some portfolio for API also benefit from that?

-----  
Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[196]  
-----

Yes, some portfolio will definitely benefit because of the price rises there. But -- plus we are -- if you look at all these -- just with some businesses which we had lost in U.S., that we have compensated through business increases in other markets in last 4 years, we were at almost around. We were at almost around -- I think in 2014, overall API business are close to INR 700 crores, and we are this close to that business. So whatever these disturbances are there in last 4 years increasing the businesses from other market. We have -- raise to that level. And from here, we will again grow. And once the U.S. had -- the business will grow again, move up to a higher level, yes. Currently, we are sitting at large amount of unutilized capacities.

-----

Operator [197]

-----

(Operator Instructions) The next question is from the line of Sameer Baisiwala from Morgan Stanley.

-----

Sameer Baisiwala, Morgan Stanley, Research Division - Executive Director [198]

-----

Sir, a quick question just on the China situation -- actually, 2 on that. One is, is China so critical -- I mean, given the current situation, is there a thinking that we can bring that manufacturing back to India backward integration? Or is there a technology issue? That's question number one. And second question, sir, is when the manufacturing sites are getting relocated, then the current sites continue to be operational or is -- do they need to shut down, and there's a time gap over it?

-----

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [199]

-----

There are a lot of those facilities are abruptly shut down. So that is causing the disturbance because the supply chains are -- the disturbance and prices are moving 40%, 50%. So China is really taking tough actions on collision front. More particularly in and around the factories which are in and around their major cities, so that is what is causing the larger disturbances. And as far as this API is -- this intermediate key starting material, [largest] amount of that can also be produced in India. But China is sitting on large capacity. When the newer capacity comes, they again start reducing the prices. So the -- if people make investment here, they are not sure whether those investment will be profitable in longer period of time. And therefore, a lot of hesitations as far as making investments are concerned on -- particularly on API intermediates by the manufacturers. And currently, let's say, whatever APIs we are in development, we normally also start -- we have started

developing last 3, 4 years key starting material ourselves. And somewhere we are producing in our own facilities or some, we are giving technologies to the other supporting manufacturers and getting reproduced to manage the future risk. But in respect of the past or whatever those years are filed, the suppliers are there on those years, so you can't change the supplier. When you change supplier, then that again take 6 month to 1 year to go back to the regulator, do whatever studies are there and then change. So that is the reason that there are supply chain. You can't immediately say other source material is available, so you can shift it very quickly because pharma is highly regulated. You need to do the steady as you take the intermediate, produce the product, then do all the kind of studies, stability then your complete profiling of the product, submit the data to regulator, get the approval and then get the source added in your file, and then only you can use the source for supply. So those issues are there. It's currently which we are facing.

---

Sameer Baisiwala, Morgan Stanley, Research Division - Executive Director [200]

---

That's really helpful, sir. Sir, just on U.S. FDA issues, if I'm -- if my memory is correct, in Pithampur, I think you invited FDA almost a year back, and so...

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [201]

---

It's not just Pithampur. That was all facilities. People, yes, we invited a year back, but the major issues were relative of -- they're relating to Ratlam, which was invited in the month of February.

---

Sameer Baisiwala, Morgan Stanley, Research Division - Executive Director [202]

---

Yes, exactly. So is FDA making a connection between these 3 and wants to get Ratlam first cleared before it goes to the other dosage form? Is that...

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [203]

---

We really don't know, but whenever we had that 2, 3 meetings, it was Ratlam was there always on their first forefront, so -- in talking. So -- and Ratlam was just applied in the month of February, so...

---

Sameer Baisiwala, Morgan Stanley, Research Division - Executive Director [204]

---

Okay, sir, one final one. Sir, just being devil's advocate, what we are seeing so far in the sector is FDA is not clearing these sites in the first round of approve -- first round of reinspection. Now everyone is an idiosyncratic case. But do you think this can just go on and on for next another 2, 3 years if we would get back in action in the U.S.?

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [205]

---

It's very difficult to comment on any regulatory kind of process. What we can say is we are ready. And as and when inspection happens, large amount of these stringent regulators have inspected our site in these periods, including -- which includes, say, your (inaudible), which include WHO at Geneva, U.K. MHRA, (inaudible) Japan and inspected the site, the (inaudible) inspected site. Canada has twice inspected sites. WHO at Geneva has inspected almost [TG Australia.] All the regulators -- let's say, the stringent authorities has inspected almost all plants. And we are in that state of absolutely compliance, and it's only that we are awaiting. And then as and when things happens, we can only tell around that because it's very difficult to comment on the regulatory issues.

---

Sameer Baisiwala, Morgan Stanley, Research Division - Executive Director [206]

---

Sir, why are you not doing business for the exempted products in the U.S.?

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [207]

---

There is no exemption now.

---

Operator [208]

---

The next question is from the line of [Kunal Dhamecha from SBI Capital.]

---

Unidentified Analyst, [209]

---

So I want to understand what was the driver behind the institutional exports business this quarter. So as per my understanding, the antimalaria business would start from quarter 2 '19, right? So what was the driver this quarter and (inaudible)?

---

Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [210]

---

No, no, this quarter 2 '19, we said that Global Fund antimalarial business. But other institutional business country-specific tenders, we have been participating regularly, and this business is continuing. So that comment of second quarter this financial year was only for Global Fund antimalarial business. This is a continuing business. It will continue throughout. There is no issue as far as this business is concerned. This INR 150 crore, INR 160 crore business will continue.

---

Unidentified Analyst, [211]

---

Okay, okay. And secondly, if you can comment on the market size of the antimalaria business global [access] point?

---

Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [212]

---

So many things have happened in the last 2 years. The -- even though those areas there is a constant study is there, but prices have reduced significantly. It is very difficult to comment what is happening in the marketplace.

-----  
Unidentified Analyst, [213]  
-----

Okay, okay. But overall market size, if you can give us some idea?

-----

Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [214]  
-----

Well, it is what I said. There is -- so much is happening the last 2 years. [Dosages] and price reductions, very, very difficult to give a comment on that. But whatever our business is there, we will grow from this. That is what we can say.

-----

Unidentified Analyst, [215]  
-----

And the guidance that you have given is around INR 180 crore, right, to INR 200 crores?

-----

Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [216]  
-----

INR 180 crores to INR 200 crores, yes.

-----

Unidentified Analyst, [217]  
-----

INR 180 crores to INR crores, okay.

-----

Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [218]  
-----

Going forward, 2 more products will get added to this business, artemether/lumefantrine dispersible tablet and artesunate injectable.

Operator [219]

The next question is from the line of Damayanti Kerai from HSBC.

Damayanti Kerai, HSBC, Research Division - Analyst, Healthcare and Hospitals [220]

Sir, after the transition of India business, what is the current sales rep headcount? And (inaudible)

Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [221]

It is around 4,000. There was no change in the headcount. Last 2 years, it is more or less steady.

Damayanti Kerai, HSBC, Research Division - Analyst, Healthcare and Hospitals [222]

Okay. And what is the attrition rate which we are seeing that are...

Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [223]

About 20%.

Damayanti Kerai, HSBC, Research Division - Analyst, Healthcare and Hospitals [224]

-----  
Around 20%.  
-----

Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [225]  
-----

Yes.  
-----

Operator [226]  
-----

The next question is from the line of Amit Kadam from LIC Mutual Fund.  
-----

Amit Kadam, [227]  
-----

Sir, my question is regarding the disruption in the prices, what we are seeing with this because of [oversupply,] so how much percentage of the total raw material, like for example, in FY '18, so total raw material cost is somewhere around 1,100. How much percentage will be subjected to this kind of massive significant price hike -- rise?  
-----

Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [228]  
-----

Yes, both 50% of the materials are dependent on all this.  
-----

Amit Kadam, [229]  
-----

So you are saying that almost like 50% of the product are [direct.]  
-----

Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [230]

-----

There is direct import as well as indirect purchases within India, but the prices are depending on petroleum in that way, yes.

-----

Amit Kadam, [231]

-----

Yes, it will be import parity (inaudible).

-----

Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [232]

-----

Yes, yes, yes.

-----

Amit Kadam, [233]

-----

But that means 50% of our current thing is now actually witnessing such kind of a steep price rise, almost like 40%, 50% kind of...

-----

Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [234]

-----

No, no, not in all material. That is not what Mr. Jain also said. You have the material there.

-----

Amit Kadam, [235]

-----

How much per -- so how much percentage will be where we are like critically witnessing the situation?

---

Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [236]

---

It's very difficult. Every day, prices are going on changing. Sometime, there is a reduction in the prices also. Very, very difficult. Last 3 months have been very constant price increase, decrease. Very difficult to say anything.

---

Amit Kadam, [237]

---

Okay. Because the things I am asking is that when on one side, if there is a significant price rise; and on the domestic thing, where the domestic business or the industries bifurcated between Elenium and non-Elenium. And on Elenium, we have that particular annual price revision of mapped against WPI. How the industry, along with us, is going to absorb such kind of a volatility?

---

Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [238]

---

Yes, yes, many products have become even [non- recommended] to produce also today. That situation is there as on the date. But having said that, the material cost component in the branded business of the domestic market is not that significant.

---

Amit Kadam, [239]

---

Okay. So the -- but there will be some impact which we could see in this particular situation per se?

---

Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [240]

---

If this situation continue, there will be definitely impact.

-----  
Amit Kadam, [241]

-----  
Okay. So we cannot quantify, but certainly, there could be a [impact?]

-----  
Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [242]

-----  
For example, paracetamol prices have gone up by INR 100 in last 10 days. This situation nobody has seen earlier. Very, very difficult.

-----  
Operator [243]

-----  
We'll take the last question, which is from the line of [Ashish Thakkar] from Motilal Oswal Securities.

-----  
Unidentified Analyst, [244]

-----  
Sir, what's the gross block today and if you could share what kind of asset turn you are targeting over the next 3 years?

-----  
Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [245]

-----  
Mr. Jain has already said, going forward, next 2, 3 years, there won't be much CapEx. It will be between the range of about INR 125 crores, INR 150 crores. So as the turnover moves up, the -- there will be improvement in the turnover to gross block.

Unidentified Analyst, [246]

---

Got it. And also, absolute number, if you could share for FY '18 gross block number?

---

Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [247]

---

One sec. So property, maybe about INR 2,000 crores.

---

Unidentified Analyst, [248]

---

INR 2,000 crores, okay.

---

Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [249]

---

Yes, net.

---

Unidentified Analyst, [250]

---

Gross block, okay.

---

Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [251]

---

Net block. Net block.

---

Unidentified Analyst, [252]

---

Okay, this is the net block?

---

Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [253]

---

Yes.

---

Unidentified Analyst, [254]

---

Okay, got it. And the last question is on -- there are some articles in the newspaper which say that government is planning to link the non-scheduled drugs also to the WPI. So what's your thought on this? And have we taken price hikes on...

---

Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [255]

---

Even though we are allowed to take price increase to the extent of 10% annually, seldom it happens in the marketplace. Historically, if you see, my price increase in the marketplace of not more than 3%, on an average. Product to product, there can be variance.

---

Unidentified Analyst, [256]

---

But then in some years where WPI could be negative, then even on the non-DPCO portfolio, we'll have to take a decline, so is that what the government is trying to...

---

Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [257]

---

If government mandates that way, everyone has to do that. We have no option.

---

Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director  
[258]

---

Let's say there's also talk that there should be separate index for that because everything at WPI is not relating to industry (inaudible). Industry is impacted much higher than WPI. If you look at currently, all packing material costs is moving up around 8% to 10%. All aluminum prices had significantly moved up. So mostly that seals in packaging of the blisters and aluminum strips and all that. All petroleum-related prices had moved up, so your PET bottles, your PVCs and PVDCs has again moved up around 10%, 15%. All paper packagings has again moved up around 10% to 12% in recent time because [board] costs has moved up. Even kraft paper cost has significantly moved up. And what your WPI increase is just around 3.5%. But compared to that, your overall increases are most significant. Plus pharma industry, yes, and chemical industry use a lot of solvents, which are all depending on petroleum. So also solvent cost -- as the petroleum prices are moving up, solvent prices are also moving in that direction. These disturbances are there, but yes, on continuous basis, we are passing on these costs to the -- but wherever there -- our products are there in [Elenium,] yes, the increases are just 2%, 3%, then somewhere, the cost increase maybe 50% or 100% also are there. And that is causing some of the products are going in net losses also, which we -- the industry is taking -- we have also taken a few such cases with the government, but we are still to get really through here. On certain product, I had given notice to the government that we will discontinue if you don't revise the prices. So those kind of issues are also there. So as and when things -- many, many products are just -- because of the selling prices are fixed, many essential products are today just not available in the market because manufacturers -- all manufacturers have stopped producing them because if you can't increase, then even if these products are taken out from price control, in last 3 years, only 30% price increase you can take but as your cost has gone up significantly higher. So the manufacturers has not really started producing them because it's not remunerative. These issues, there are good number of such products are also there in the market. Even generics are not available of those products. [These issues] are there currently, which industry is continuously taking withdrawal, but issues are not yet resolved.

---

Operator [259]

---

Ladies and gentlemen, due to time constraints, that was the last question. And I hand the conference over to Mr. Nitin Agarwal for closing comments.

-----  
Nitin Agarwal, IDFC Securities Limited, Research Division - Analyst [260]

-----  
Thanks, Margaret. Sir, you want to add any last comment before we close the call?

-----  
Ajit Kumar Bhanwarlal Jain, Ipca Laboratories Limited - CFO, Joint MD & Executive Director [261]

-----  
Let's say we are fully committed to the -- our regulatory journey, and we will -- we are in a state of compliance, and we have high confidence because of a lot of changes we have made in our processes and systems. And we are hopeful that this -- that we should get back to our business in -- particularly in the U.S. market as soon as the inspections are over. Thank you.

-----  
Nitin Agarwal, IDFC Securities Limited, Research Division - Analyst [262]

-----  
Thanks to Ipca management team, and thanks to everyone for taking the time for participating in the call. Have a good day.

-----  
Harish P. Kamath, Ipca Laboratories Limited - Compliance Officer, Corporate Counsel & Company Secretary [263]

-----  
Thank you, Nitin.

-----  
Operator [264]

-----  
Thank you. On behalf of IDFC Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines