# Edited Transcript of IPCALAB.NSE earnings conference call or presentation 15-Nov-16 8:30am GMT

Q2 2017 IPCA Laboratories Ltd Earnings Call

Edited Transcript of Ipca Laboratories Ltd earnings conference call or presentation Tuesday, November 15, 2016

Corporate Participants

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* A. K. Jain

Ipca Laboratories Limited - Joint MD

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Conference Call Participants

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* Nitin Agarwal

IDFC Securities Limited - Analyst

* Aditya Khemka

DSP BlackRock - Analyst

* Prakash Agarwal

Axis Capital - Analyst

* Manoj Garg

DSP Merrill Lynch - Analyst

* Aditya Gupta

Narnolia Securities Limited - Analyst

* Chunky Shah

Credit Suisse - Analyst

* Rohit Gupta

Individual Investor - Analyst

* Dheeresh Pathak

Goldman Sachs - Analyst

* Anmol Ganjoo

JM Financial - Analyst

* Rahul Sharma

Karvy Stock - Analyst

* Ashish Tavkar

Motilal Oswal - Analyst

* Shrihari C

TCS - Analyst

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Presentation

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Operator [1]

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Ladies and gentlemen, good day and welcome to the Ipca Q2 FY17 Earnings Conference Call, hosted by IDFC Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. (Operator Instructions) Please note that this conference is being recorded.

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

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Nitin Agarwal, IDFC Securities Limited - Analyst [2]

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Hi. Good afternoon, everyone, and a very warm welcome to Ipca Lab's Q2 FY17 post results earnings call hosted by IDFC Securities. On the call today, we have representing Ipca management Mr. A. K. Jain, Managing Director; and Mr. Harish Kamath, Corporate Counsel and Company Secretary. The Ipca management team will make a few opening comments and then we'll open the floor for questions.

I hand over the call to Mr. Jain for taking it forward.

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A. K. Jain, Ipca Laboratories Limited - Joint MD [3]

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Thank you. For the second quarter of the current financial year, our domestic formulation business has grown by around 23% as against around INR328 crore business what we did last year; this year we did around INR404 crore business. Export formulations in the Q2 has grown from around INR228 crores to around INR264 crores, so around 16% growth in export formulations. And overall formulation business for the second quarter from INR556 crore to around INR668 crore, so around 20% growth. So overall formulation business in that Q2 has grown by around 20%.

As far API business is concerned, the domestic business -- API business has grown by around 15%, which is very small business. Export API business, there is no growth, it's stagnant. And overall API business, there's a growth of around 2% and overall business is around -- as against INR180 crore in last financial year in second quarter, is around INR185 crore. So, overall, around 2% growth.

And overall Company as a whole, in this particular quarter, there is an overall business growth of around 17%. Domestic business, overall, has grown by around 22% and export business, because of lower API growth, has grown by around 10% even though the formulation business has grown by around 16% and overall business growth is around 17% for the quarter.

For first half of the current year, if you look at the numbers, overall domestic business is growing by around 16%, export business by 19%, and overall formulation business growth of around 17% from as against INR1,096 crore, it has become INR1,288 crore overall formation business. So there is around 17% growth. And overall API business, if you look at, more or less it is at -- there is a minus 1% from against more INR388 crore, it's around INR386 crore, so close to around 1% minus. So, overall, the business growth in the first half is around 14%, out of which domestic business has grown by around 12% and export business has grown by around 13%.

Overall, on the EBITDA side, we have improved the EBITDA overall numbers by around 3.43%, and overall EBITDA number in the second quarter is around 14.68% as against 11.25% for the same quarter last year. And overall for the first half of the year, EBITDA is close to around 15% as against around close to 11% in the first half of the last financial year.

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

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Questions and Answers

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Operator [1]

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(Operator Instructions) Aditya Khemka, DSP BlackRock.

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Aditya Khemka, DSP BlackRock - Analyst [2]

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Sir, so first question is on the exports front. So, can you break up your exports into branded institutional and generics?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [3]

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Okay. As far as the branded business is concerned, it is around INR74 crores as against INR48 crore last year, so around 53% growth on branded side. On generic side, it's around INR148 crore as against INR132 crore, so around 12% growth. And on institutional side, it's around INR40 crore as against INR47 crore, so it's a minus 16%. So overall in generic business, it's around INR188 crores as against INR178 crores, so around 5% growth.

And overall if you look at total export formulation is around INR264 crore as against INR228 crore, so around 16% growth in overall formulation. So around 16% growth in export formulation, that's what I said. And for first half of the year, export formulation growth is around 19%, it's around INR539 crore as against INR453 crores, around 19% growth.

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Aditya Khemka, DSP BlackRock - Analyst [4]

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Got it. Okay. So sir, just to get a better understanding of the exports number, especially on the generic side, so the generics quarter-on-quarter -- sir, I think last quarter you guys did about INR163 crores and this -- last quarter as in 1Q for FY17, and 2Q of FY17, you have done INR148 crores, so there is some decline sequentially speaking. Whereas in what the data -- secondary audit data basically suggest is that, you guys have gained market share in HCQS and propranolol over the last quarter. So, could you help us understand the decline? Is it because you have not received profit share on those two products in this quarter, or is there any other reason?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [5]

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In the first quarter, business included almost around INR24 crore shipment to US. And in this quarter, there is no shipment to US because there is already stocks lying there. So there is a close to around -- after taking into the profit share, close to around INR20 crore decline in the US business. So, if you add INR20 crore, then more or less there is some increase in the business compared to the first quarter of the (inaudible).

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Aditya Khemka, DSP BlackRock - Analyst [6]

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Right. And sir, how much profit share did you receive this quarter?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [7]

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This quarter, overall profit share from US and Canada put together is around -- almost around INR6 crore.

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Aditya Khemka, DSP BlackRock - Analyst [8]

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INR6 crores.

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A. K. Jain, Ipca Laboratories Limited - Joint MD [9]

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Profit, let's say, the HCQS prices have significantly going down, so both contribution has come down significantly in this quarter.

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Aditya Khemka, DSP BlackRock - Analyst [10]

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Right. And your propranolol contribution must have gone up quarter-on-quarter?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [11]

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Yes, propranolol contribution has gone up, yes.

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Aditya Khemka, DSP BlackRock - Analyst [12]

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Okay. So, sir if I were to compare your HCQS prospects as it is today versus what it was before the import alert, before the price had changed when you had 90% market share. So are the prices of HCQS today higher, lower or same as that time?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [13]

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More or less it has gone to around the earlier level.

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Aditya Khemka, DSP BlackRock - Analyst [14]

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Okay. So it almost the same as it used to be when you had 90% market share?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [15]

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Yes.

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Aditya Khemka, DSP BlackRock - Analyst [16]

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Okay. And sir, my second question is on the institutional generics front. So, I read somewhere in the news that there was -- Ipca had won some USAID's tender contract. Could you just elaborate on that? I mean, what is that and what is the size of that contract?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [17]

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It's an initial order received from USAID. So there are some orders there that offer a few million dollars. And once we supply that, and then hopefully USAID business would continue.

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Aditya Khemka, DSP BlackRock - Analyst [18]

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Right. And this is for ARV products, I'm assuming?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [19]

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No, it's antimalarial.

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Aditya Khemka, DSP BlackRock - Analyst [20]

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Antimalarial contracts from USAID.

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A. K. Jain, Ipca Laboratories Limited - Joint MD [21]

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Yes.

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Aditya Khemka, DSP BlackRock - Analyst [22]

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And sir, when you see supply type, I mean, when would you recognize the revenues from this contract?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [23]

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Well some revenue will come in the second half of the current financial year, yes.

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Aditya Khemka, DSP BlackRock - Analyst [24]

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Okay. And could you give us an indicative size of the overall order that we have received?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [25]

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It's a small order to begin with, maybe around $2 million worth of orders are there, but the orders would once the supply start and the business would start coming from them. But right now, it is difficult to project that how much business would come, but yes, let's say, one, the ice is broken and let's say the business has started. So that's a good sign, yes.

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Aditya Khemka, DSP BlackRock - Analyst [26]

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Okay. Sir, just one final follow-up on this. So what is the total USAID's contract for malaria? So you are getting only $2 million?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [27]

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No, they don't give any kind of contact. Based on their demand, they keep on placing orders. So, the first order is placed. They don't give any kind of long-term contracts.

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Aditya Khemka, DSP BlackRock - Analyst [28]

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Understood. And their margins on this -- your margins on this USAID's business will be same as your margin in the African WHO business, or more or less?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [29]

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There is no difference in pricing, more or less pricings are more or less same, yes.

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Aditya Khemka, DSP BlackRock - Analyst [30]

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Uniform pricing.

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A. K. Jain, Ipca Laboratories Limited - Joint MD [31]

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Yes, absolutely.

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Operator [32]

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Prakash Agarwal, Axis Capital.

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Prakash Agarwal, Axis Capital - Analyst [33]

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Sir, just trying to understand the business mix. We've seen substantially high domestic revenues and lower API sales. Despite that, sir, we've not seen a substantial jump in gross margins and EBITDA margins. Can you help us understand?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [34]

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Let's say, in this particular quarter if you look at my domestic business, domestic antimalarial business has grown by around 54% and other domestic business, domestic formulation business has grown by around 18%. So overall business growth is around 23% in that overall domestic market. And this quarter, mainly there was a significant impact of the price reduction from government and also there was impact of Brexit because all the realization used to be almost around pound to rupee was almost around [INR97, INR98], that has come down to around to [INR82, INR83] level. So, there is a significant reduction in the -- whatever shipments are made in this particular quarter. So there is a -- so almost around INR12 crore worth of impact has come because of that and around INR11 crore worth of impact has come because of lower realizations on the price reduction by the government in this particular quarter impact. So that has taken almost around 3% of EBITDA.

Overall these two factors, so otherwise EBITDA could have been higher. And whatever price rise of non-scheduled formulations, we have to take most of our (technical difficulty) in the second -- the end of second quarter, third quarter and fourth quarter. So, as far as my almost around 75% of portfolio which is non-scheduled, there's hardly any price rise in the first half of the year. Most of the price rise are coming in second half. So, second half, we will see that that impact will get neutralized. But yes, there was a significant impact of price reduction and also because of Brexit, these two things has taken up away almost around 3% of EBITDA margin.

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Prakash Agarwal, Axis Capital - Analyst [35]

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Yes, but these are more permanent in nature. I mean, so price reduction happens and it is here to stay, so that's the permanent cut we say respective of higher India growth or not India growth.

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A. K. Jain, Ipca Laboratories Limited - Joint MD [36]

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Almost around 75% portfolio is out of price control and most price increases were in the second half.

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Prakash Agarwal, Axis Capital - Analyst [37]

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No, I understand that. Just on 2Q impact itself, what I'm trying to understand these are more permanent in nature in terms of --

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A. K. Jain, Ipca Laboratories Limited - Joint MD [38]

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Yes, that price reduction is permanent in nature.

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Prakash Agarwal, Axis Capital - Analyst [39]

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Yes. And so is the Brexit re-, what you call, rebalancing to the [INR83, INR84 mark], right? So, from here on that's the base?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [40]

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Currently, it's around [INR85, INR86] level. So when you sell forward, you get around [INR87]. So little improvement is there currently.

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Prakash Agarwal, Axis Capital - Analyst [41]

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So the second part is how do we improve? You're seeing price hike, which is for the 75% of the portfolio, is it?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [42]

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There'll be some price rise and those price rise -- most of the prices were getting due the second half of the year.

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Prakash Agarwal, Axis Capital - Analyst [43]

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So that will be implemented immediately in the second half?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [44]

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Yes. As and when it get due, we are implementing that.

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Prakash Agarwal, Axis Capital - Analyst [45]

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Okay. And sir, can you explain the tax rate also, so high?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [46]

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Tax rate, we're a MAT player. So whatever, say, your cash rate is around 20.5%. And so there is no change as far as that number is concerned, but deferred tax is higher. You will recall that, I think, in the fourth quarter of last year, there was a INR28.5 crore reversal of the deferred tax mainly because of unabsorbed depreciation. And since there is a -- this year there is a -- this depreciation is getting absorbed, so that provision every quarter we are making almost around INR8 crore higher deferred tax provision. So only because of that, your tax rate is appearing to be higher, but that's a book entry kind of thing, deferred tax entry. Cash outgo is around 20.5%, which is a MAT rate here.

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Prakash Agarwal, Axis Capital - Analyst [47]

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This book entry will continue for couple of years?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [48]

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No, this will be in the -- this whole year, it will continue, all four quarters.

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Prakash Agarwal, Axis Capital - Analyst [49]

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All four quarters?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [50]

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Yes. Because around INR8 crore impact is there each quarter. To that extent, your deferred tax is higher.

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Prakash Agarwal, Axis Capital - Analyst [51]

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Okay. And lastly, sir, employee cost YoY it seems to grown up, while QonQ it is flat. So I understood last quarter maybe because of bonus payments and stuff, but is it the new normal?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [52]

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No, if you look at HR costs, let's say, last year we were performing very badly as far as domestic market is concerned. Compared to our budget, we were at almost around 95% and our growth around that time was very low. Overall, we reward our field staff very handsomely with incentive. And last year, because the second quarter performance was very bad, so there was a lot of reversal of incentive which was provided in first quarter. So overall, the number was appearing to be low. And even second quarter number was low as far as the incentives are concerned in last financial year. This year, most of people, let's say, almost all division because there was going to be price reductions and everything, so we have factored it. Overall, when we give the budget, we gave them around 12% to 13% kind of growth and most people are over-performing by almost around 105%. So when there is over performance, there is a higher incentive outgo. And so, there is a higher provision for the incentive as far as for the field staff payment for the whole of financial year. So that is the only reason for the -- some kind of fluctuations in the overall HR cost number but otherwise, let's say, more or less there is no much of hiring and others. And normal wage inflation rate is around 10%. So, I think that number will continue to be in the second half, more or less, it's going to be around that level.

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Operator [53]

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(Operator Instructions) Aditya Gupta, Narnolia Securities Limited.

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Aditya Gupta, Narnolia Securities Limited - Analyst [54]

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Sir, is there any new product in the pipeline to be launched in FY17 second half?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [55]

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In this financial year, there is -- in the first half, we have only launched around the three, four line extensions are there, and there are not much of new product launches lined up in current financial year.

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Aditya Gupta, Narnolia Securities Limited - Analyst [56]

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Okay, sir. And what are the -- in terms of ANDAs filed in FY17?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [57]

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I think we have filed around three.

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Aditya Gupta, Narnolia Securities Limited - Analyst [58]

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Three. And how much are pending for approval?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [59]

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I think that number more or less, let's say, is in addition to -- it's around 42, number.

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Operator [60]

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Chunky Shah, Credit Suisse.

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Chunky Shah, Credit Suisse - Analyst [61]

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Hi, sir. Just taking forward the previous question, you said that you have filed three ANDAs. So two questions there. One is, which facilities are you filing from? And in the past, our understanding was that since these facilities are under import alert, it is not possible for you to file the ANDAs?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [62]

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No, it's possible to file. So we have started filing and most of these filings are happening from Pithampur facility.

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Chunky Shah, Credit Suisse - Analyst [63]

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And what would be the filing number in [FY16] then? How many did you file last year?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [64]

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In current year, I think we may have filed another three or four in the current year.

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Chunky Shah, Credit Suisse - Analyst [65]

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No, sir, you will file -- so you've already filed three in the first half 2017 and you're aiming to file another three, four in the second half?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [66]

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Yes.

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Chunky Shah, Credit Suisse - Analyst [67]

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And I was asking for [FY16]?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [68]

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[FY15], I think we've filed one. Only one, yes.

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Chunky Shah, Credit Suisse - Analyst [69]

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Okay, only one. And what will be the API source for these filings, will it be from our plant itself?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [70]

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Mostly it's internal sources, yes.

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Chunky Shah, Credit Suisse - Analyst [71]

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Okay, internal sources. So there is no requirement from the FDA that if the plant is under import alert, we can still go ahead and file, do the validation (multiple speakers)

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A. K. Jain, Ipca Laboratories Limited - Joint MD [72]

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We can go ahead and file, yes. (multiple speakers)

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Chunky Shah, Credit Suisse - Analyst [73]

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Okay. So, API -- sorry, API is from which facility?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [74]

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It's mostly from Ratlam.

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Chunky Shah, Credit Suisse - Analyst [75]

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Okay, mostly from Ratlam.

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Operator [76]

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Manoj Garg, DSP Merrill Lynch.

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Manoj Garg, DSP Merrill Lynch - Analyst [77]

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Sir, since I have joined a bit late, I don't know whether you have given an overview on the FDA progress. But just would like to understand it, how is the progress, and what are the timeline which we are taking now?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [78]

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Whatever timeline we have given in last quarter, I think, that remains and progress is happening accordingly.

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Manoj Garg, DSP Merrill Lynch - Analyst [79]

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Okay. And sir, has our Aurangabad API facility got inspected in the recent past and we got clearance from the FDA?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [80]

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Yes. API facility, that's basically -- we supply some API from there to domestic market. But, by and large, say, the intermediate facility and that facility got inspected and there are no observations from FDA on that.

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Manoj Garg, DSP Merrill Lynch - Analyst [81]

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Okay. But it's largely an intermediate, there's no API supply from this plant?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [82]

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There is no API supply to the international market from this particular plant. But domestic market, we do supply API from this facility. And we produce certain key intermediates here and they are used at Ratlam facility.

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Manoj Garg, DSP Merrill Lynch - Analyst [83]

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Fair enough. And sir, with regard to this malaria tender particularly on the --

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A. K. Jain, Ipca Laboratories Limited - Joint MD [84]

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I would like to give a disclaimer that this facilities inspection will have no impact as far as on business is concerned, because we are not offering this facility for API for international market currently.

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Manoj Garg, DSP Merrill Lynch - Analyst [85]

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Fair enough. That's very helpful sir. And lastly on this Baroda facilities are like, I think the API facility is up and ready now, but has it been inspected by the regulators, or what's the timeline out there?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [86]

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This facility is ready now and has started commercial production few months back and that certain stability program and all is going on. So once that's complete, then we'll decide the timeline that when we offer this facility. But right now, we -- so far, we have not offered this facility to any regulatory agency. First it is going to be Europe and then other markets, and first filing would happen from there and it will take some time before this facility get inspected, may not be in the current year. Maybe, sometime next year it may happen.

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Manoj Garg, DSP Merrill Lynch - Analyst [87]

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Okay, fair enough. And sir, the last question, are we sharing any guidance for the next year? (inaudible) review for the next quarter.

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A. K. Jain, Ipca Laboratories Limited - Joint MD [88]

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Guidance for the current financial year is likely to be, let's say -- in second half, we see that overall business growth could be around 15% or so. Overall for the whole of the year -- in the first half, we have grown by around 14%, second half maybe around 15%. So overall business growth in the current year, taking into the overall the numbers what appears, it is going to be almost -- turnover will be in the range of around -- could be in the range of around INR3,200 crore to INR3,250 crore, and around 15% kind of growth for the whole of the year.

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Manoj Garg, DSP Merrill Lynch - Analyst [89]

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So, that's top line. And on the margin side, sir?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [90]

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Margin side, let's say, first half, we have EBITDA margins of around 15% overall for the year, and second half it could be around, say, 14%, 14.5%. So at -- finally, here we may end around, say, 14.5% kind of EBITDA margins compared to maybe around last year we had around 11%. So there will be improvement of around 3.5% for the whole of the year.

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Operator [91]

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Rohit Gupta, Individual Investor.

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Rohit Gupta, Individual Investor - Analyst [92]

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Sir, can you give more color on like when you expect the inspection by the US FDA, because at least in the previous call, you had mentioned that you would complete the work in six months and request the FDA for inspection. So are we sticking to that timeline or how is it?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [93]

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By and large, timeline remains the same. Work is progressing exactly as planned. So, hopefully by the first plant, this work may get over by maybe around January or so. So somewhere around that time we will give for a one plant the request for inspection, and thereafter second and third, both of these will keep on happening as per schedule. So there is no change as far as the schedule is concerned, and everything is happening as planned.

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Rohit Gupta, Individual Investor - Analyst [94]

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And the first plant would be the Pithampur formulation plant? We would --

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A. K. Jain, Ipca Laboratories Limited - Joint MD [95]

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First, it's going to be the Piparia, Silvassa plant, and then form Pithampur plant and then Ratlam. And again I would like to give, again, disclaimer that even though these two plants get inspected, there may not be immediately impact on business because most of my API come from Ratlam. So once Ratlam plant get inspected and get cleared, thereafter only the US business prospect will improve in all other, so that's going to take some more time, yes. Of course, we will get the formulation plant cleared and then API. So for API, there is a large amount of work need to be done because it's a very large plant and the consultants are taking little longer time on that, so -- but it's as per the timeline.

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Rohit Gupta, Individual Investor - Analyst [96]

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Okay. So, can we at least expect like the inspections to happen next financial year?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [97]

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Once we give the notice then only it will happen, but it's very difficult that when they come, they may come in very next month or may take six months' time. So, as and when we give notice, thereafter we will be able to give you some kind of timeline but it's very difficult to say right now. I could only say that, yes, whatever we have planned, the work is happening in line with that.

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Rohit Gupta, Individual Investor - Analyst [98]

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So, let me rephrase. So can we at least expect that you can place the request (multiple speakers)

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A. K. Jain, Ipca Laboratories Limited - Joint MD [99]

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Yes. Certainly, yes. Let's say, two funds could be done in the current financial -- at the end of current financial itself, and one would be maybe in the first quarter of the next financial year. So, that's the timeline. So around that time, the request for re-inspection would be done.

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Operator [100]

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Ashish Tavkar, Motilal Oswal.

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Ashish Tavkar, Motilal Oswal - Analyst [101]

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Sir, just a follow-up on the earlier participant question. Sir, what's the take on the third-party risk assessment that we have been doing on our facilities? So, how are the initial readings there? If you could share some light.

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A. K. Jain, Ipca Laboratories Limited - Joint MD [102]

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There are no surprises in that.

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Ashish Tavkar, Motilal Oswal - Analyst [103]

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Sir, you believe we are on course?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [104]

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Yes, we are on hold. We are on absolutely timeline.

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Ashish Tavkar, Motilal Oswal - Analyst [105]

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Sir, regarding the guidance for FY17, my thought was that we were earlier guiding for EBITDA margins of around 16%, 17%. So that was also including remediation cost of [$8 million] for FY17. So, now since that we have toned down our guidance, is it that we are spending a lot more of the remediation for FY17?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [106]

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No, it's because -- let's say, we have large business in UK and that the currency has gone down significantly, and dollar-rupee we have projected at around -- when the guidance was made, it's around [INR66, INR80] and pound was projected around [INR84, INR85] level. So at that level, we had given the guidance. And because of Brexit part itself, around 1.5% EBITDA is gone, because of low realizations of sterling. And if dollar-rupee realization improve, then of course that -- your [process realization of] sterling will also improve little bit. Today also the currency has moved by INR1. So, hopefully these rate remain, then probably we may have to revise our numbers once again.

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Ashish Tavkar, Motilal Oswal - Analyst [107]

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Okay. Sir, how do we see the third quarter panning out for the India malaria business?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [108]

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Third quarter, malarias business is not very large. So it's only the malaria business, most of the business happened in first and second quarter. Third, fourth quarter is very small business. But overall number, if you look at, let's say, the first quarter, we had a decline in antimalarial business by 1% and other business has gone up. Second quarter, we had significant antimalarial business, but other businesses have also gone very high. I think, we had around 18% growth in other than antimalarials in second quarter. First quarter, I think antimalarial, there was 1% decline and other businesses have grown by around 11%; and overall, there was 9% growth. Second quarter, anitmalarial grown by 54%, other business grown by around 18%; and overall business growth is around 23%. So, that's the overall domestic number.

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Ashish Tavkar, Motilal Oswal - Analyst [109]

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Sir, you believe second half also would see a strong India business, 15%, 16%, a good assumption?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [110]

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Something we are also factoring that probably in the month of March there could be a disturbance in business on account of GST, because GST implementation is earlier. So it's really difficult to give you the number, but yes the business growth is good, I could say that. Trend is good.

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Ashish Tavkar, Motilal Oswal - Analyst [111]

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Okay. Sir, till the recent past, obviously we had a huge reliance on Ratlam API facility, and now that Baroda API facility is coming up, but what our thought process are? Are we really looking to diversify the API asset base here, or we would still be largely relying on the Ratlam facility?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [112]

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Ratlam is a very large facility and almost around, huge, more than 20 plants there and almost around 80 APIs are produced there. So, even if whatever we tried to do, we cannot reduce the reliance on Ratlam. All our filings in all markets and future filings are also happening from APIs from here. So over a medium term of maybe three to four years, maybe some API will start coming, but still the numbers would remain very large for Ratlam, and it's going to be -- Baroda will be for -- some API definitely will start from here, but mostly reliance will be in Ratlam.

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Operator [113]

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Anmol Ganjoo, JM Financial.

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Anmol Ganjoo, JM Financial - Analyst [114]

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Most of my questions have been answered, but just trying to understand directionally, I know you're not changing anything with respect to regulatory resolution guidance, but if you have to look at you export efforts, how far are we from full scale resumption of operations from a US standpoint, and what are your thoughts around building a US business?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [115]

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US business will start -- buildup will start only when the facility get cleared. And whatever market shares are lost, it will take time to regain those kind of market share, but once the facilities get cleared. So, it's not going to be an easy kind of the -- we will have to, again, build work on that and maybe whatever lost grounds are there, it may take around three years to come back to that level. So, that's going to be the timeline.

And then also lot of partnerships we had from US, we have come out in large number of products, so we will have to re-workout on our distribution strategies and others. But right now, we're not thinking of that because once -- we'll start the business with existing products and then start building up. But it's going to be taking time, it's not -- because whatever market shares are lost, it will take time to regain that.

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Anmol Ganjoo, JM Financial - Analyst [116]

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Okay. Second, maybe you spoke about this and I missed it, but what is the malaria growth versus the other domestic business growth for the quarter and how is it looking for the year, full year FY17?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [117]

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If you look at, let's say, first half of the year, overall number, say second quarter number is around 54% business increase in malaria, 18% other business increases. So overall growth number was around 23%. In first quarter, malaria was declined but other business there was a 11% growth, and overall business growth of 9%. If you look at first half number, the malaria number becomes 33%, other business growth is around 14%, and overall growth number is around 16%. So maybe around -- in the second half, the other businesses would continue in the same kind of range and malaria business comes down significantly. So maybe around 14% kind of business one can look at in the domestic in the second half. But raider would be there that there could be some disturbances on account of GST in the last quarter. So, growth number, overall number may come down a little bit on that account.

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Operator [118]

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Dheeresh Pathak, Goldman Sachs.

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Dheeresh Pathak, Goldman Sachs - Analyst [119]

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Sir, remediation cost in FY17 would be about how much?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [120]

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Maybe around say around $5 million.

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Dheeresh Pathak, Goldman Sachs - Analyst [121]

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$5 million. And did I understand correctly that Ratlam also you would offer for re-inspection by first quarter FY18?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [122]

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Yes.

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Dheeresh Pathak, Goldman Sachs - Analyst [123]

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And what was the full year UK business revenue for FY16?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [124]

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I think it was around INR272 crore to INR280 crore last financial year.

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Dheeresh Pathak, Goldman Sachs - Analyst [125]

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And here we are selling direct to other generic companies or we are selling to end distributors and retail scale?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [126]

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We are selling it to the distributor in UK and then he is supplying to others.

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Dheeresh Pathak, Goldman Sachs - Analyst [127]

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Okay. So is there scope to take some price increase to offset the credit issue, or do you think because of competition that is not --

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A. K. Jain, Ipca Laboratories Limited - Joint MD [128]

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That will certainly happen but that will take time because most -- normally distributors place six-month orders. So -- and those orders need to be first fulfilled. Meantime, you start negotiating the price rise and market price reflection take time because of the stocks available in the market at older rates. So maybe around its cycle of around nine months. So, some price rises started happening when the new orders are coming, but full impact will take almost around cycle of full. I don't see any kind of much impact or price rise in the second half of the current financial year, but next financial year, you will have certainly the price rises to offset this because this is very significant impact of almost around 17&, 18% reduction in the prices, so it's very significant. So prices will go up, but pending order need to be serviced at whatever rate you've taken, so that's going to happen (multiple speakers)

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Dheeresh Pathak, Goldman Sachs - Analyst [129]

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Almost most of the products that you're supplying in the UK market, you would probably be a large market share. And therefore if you are not able to do a profitable business, then others also would be feeling the pinch and therefore over time prices would need to go up?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [130]

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Prices definitely will go up. That's the indications we are also getting, but prices to reflect in the market will take some time, because there are pending orders and you need to -- six-month pending order -- six-month orders are placed, so there is a -- those pending orders are to be supplied at old rates. So, current year the second half most of these only in the third quarter, some products will start coming up for a price rise.

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Dheeresh Pathak, Goldman Sachs - Analyst [131]

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No, what I was asking was for products which are meaningful contributors (multiple speakers)?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [132]

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Yes, definitely prices will rise. Definitely prices would rise.

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Dheeresh Pathak, Goldman Sachs - Analyst [133]

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No, sir. The other -- the understanding that I want to have is that these products which contribute to a large part of this revenue of INR280 crores, would Ipca be having a very large market share in the UK market like, for example, for (inaudible) in US, we serve a very large market?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [134]

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For some products, we have good market share, and some we have reasonable market share, some we have lower market share. So it's a mix of all. And prices would rise across the board. It's not that (multiple speakers) everybody will increase the prices, because our import cost is mostly dollar related. Most of our API prices are in -- is in dollars terms, whether --

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Dheeresh Pathak, Goldman Sachs - Analyst [135]

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And sir, in product basket -- in our product basket in UK, are we mainly competing with Indian companies, or are we competing with European companies?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [136]

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There's Indian companies competitions and also European companies competitions are there. You see, it's there both. Both the ways, it's there.

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Dheeresh Pathak, Goldman Sachs - Analyst [137]

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Okay. And last question sir. The UNAID business that you went for antimalaria, so they don't go by the FDA certifications like the Global Fund, they just go by WHO certification is it?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [138]

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As far as Global Fund is also concerned, Global Fund (technical difficulty) your procurement agencies can -- see, WHO has already said clear the facilities. So as far as procurement is concerned, there is no issue. But it's only because they're subsequent, their Board has decided that okay any facility having -- any company having some outstanding regulatory issue, they -- but they said that countries can go ahead and procure from the -- and they will continue to fund countries. So, whatever their contributions are there. So with that kind of scenario, we also taken up with the Global Fund but issues still need to be resolved, but we are hopeful.

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Dheeresh Pathak, Goldman Sachs - Analyst [139]

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But this tender that we won, $2 million, which you said, what is the overall sourcing that they do, like what is their total budget spends on antimalarial drug purchases?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [140]

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They don't give the budget, but they keep on regularly buying.

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Dheeresh Pathak, Goldman Sachs - Analyst [141]

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Okay. And this agency was UNAID, is it.

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A. K. Jain, Ipca Laboratories Limited - Joint MD [142]

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Yes, USAID.

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Dheeresh Pathak, Goldman Sachs - Analyst [143]

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USAID, okay. So you don't have a sense of their total budget for antimalaria?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [144]

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They don't give those numbers.

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Dheeresh Pathak, Goldman Sachs - Analyst [145]

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The reason I was asking is because they are willing to allow us to participate, where other agencies are not allowing us, so I was just wanted to sense if their sourcing is large enough to help us.

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A. K. Jain, Ipca Laboratories Limited - Joint MD [146]

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So we were earlier doing a good business with them, at least around 20% of our business was coming from USAID's business. So, hopefully that kind of business can resume.

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Dheeresh Pathak, Goldman Sachs - Analyst [147]

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So when we are doing around INR400 crores odd, we're doing 20% of business from USAID.

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A. K. Jain, Ipca Laboratories Limited - Joint MD [148]

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Yes.

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Dheeresh Pathak, Goldman Sachs - Analyst [149]

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Okay. And this year, this will be the first shipment to USAID, that $2 million?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [150]

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Yes.

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Operator [151]

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Rahul Sharma, Karvy Stock.

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Rahul Sharma, Karvy Stock - Analyst [152]

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Sir, just wanted to ask you, do you foresee improvement in the UK, Europe space in the quarters ahead, sir?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [153]

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Currency is the one issue which is going to take -- even if business increases, overall numbers may remain similar kind of numbers. So there may not be any kind of significant growth coming from the UK because currency will take away the most of that number.

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Rahul Sharma, Karvy Stock - Analyst [154]

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And what about Russia-CIS space? How is it improving, is it a substantial improvement on a QonQ basis or --

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A. K. Jain, Ipca Laboratories Limited - Joint MD [155]

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Let's say -- I've given the number of promotional market that in the first half we have grown by around 42% in promotional market, and my number for second half is also going to be in the region of 38% to 40% kind of. Overall, for the whole of year in promotional market, there will be 40% kind of growth, and Russia is a large part of it.

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Rahul Sharma, Karvy Stock - Analyst [156]

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Okay. But on a generic space, what type of growth are you looking at, sir?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [157]

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Generics, as I've given the numbers that in -- overall if you look at the generic number, in the first half we have grown by almost around -- on total exports by around 19%, and generic exports there is a growth of around 12%. And if you look at the overall second half numbers, I think overall formulation growth of export formulations growth, we are looking at around 17% kind of number. So, more or less -- the numbers are going to be, more or less, similar to the first half of the current year.

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Rahul Sharma, Karvy Stock - Analyst [158]

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Okay, that's around 12%.

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A. K. Jain, Ipca Laboratories Limited - Joint MD [159]

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Yes.

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Rahul Sharma, Karvy Stock - Analyst [160]

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So, can you give the breakup of UK, US, and CIS business for the quarter?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [161]

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I think -- the quarter, I think CIS business was around INR26 crore, US business was hardly any, there was only some share of profits are there, and our UK business was almost close to INR70 crore.

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Rahul Sharma, Karvy Stock - Analyst [162]

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Okay. US could be around INR6 crores, what profit figure you had said, that number is right?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [163]

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That also include Canada, so US profit share is around INR3 crores.

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Rahul Sharma, Karvy Stock - Analyst [164]

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Okay. Any other important markets which you could -- you feel you need to throw some light on some of the export space?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [165]

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Export, I already said that -- I think this second half business space is expected to grow by around -- the overall number is going to be around 15% and generics are likely to grow much faster at around 17% in the second half of the year.

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Rahul Sharma, Karvy Stock - Analyst [166]

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17%, okay. Okay, sir. Thank you. I'll join the queue.

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Operator [167]

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Aditya Khemka, DSP BlackRock.

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Aditya Khemka, DSP BlackRock - Analyst [168]

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So sir, on the other expenses in this quarter and the previous quarter, sir, I remember correctly in FY16 when our other expenses dropped significantly in 3Q16 versus 2Q16, one of the reasons we had mentioned was that of rationalization of field force. You have reduced some employees, so that's brought down our other expenses from INR233 crores in Q2 2016 to INR195 crores in Q3 2016. So in that light, now that you have done INR220 crores and INR248 crores in Q1 2017 and Q2 2017, what do you thing will be the run rate in Q3 2017 and Q4 2017?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [169]

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I think overall this manufacturing and other income may -- expenditure may grow by around 8% to 10% in the second quarter of -- second half of the current financial year.

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Aditya Khemka, DSP BlackRock - Analyst [170]

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8% to 10%.

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A. K. Jain, Ipca Laboratories Limited - Joint MD [171]

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Yes.

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Aditya Khemka, DSP BlackRock - Analyst [172]

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But sir if I see, we have grown like 7% only in Q2, and Q1 was almost flat YoY. So despite rationalization in Q3 and Q4, you are saying --

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A. K. Jain, Ipca Laboratories Limited - Joint MD [173]

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Remedial cost is going to be higher in the second half of the year. And as the dollar rates also move up, whatever remittances you make, those cost is also higher.

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Aditya Khemka, DSP BlackRock - Analyst [174]

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Sure. So sir, what is the remediation cost thus far in 1H and how much do you expect in 2H?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [175]

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I don't have exact number right now, but the second half is going to be almost around two-third of the cost.

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Aditya Khemka, DSP BlackRock - Analyst [176]

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Okay. So that will be higher. All right. And sir, lastly on the profit share number in US, it seems very low INR3 crores, so what I want to understand is does this profit share capture the market share gains in these two products in second quarter of FY17 or is it that the profit share for second quarter of FY17 will come in third quarter? I mean, there is a lag generally, right, so is there a lag or is it at the second quarter FY17 market share?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [177]

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We immediately get profit share on the -- within 15 days -- close of 15 days from the quarter and we account for that number. So there is no lag as such. The month after quarter get over, within 15 days, all the numbers are finalized.

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Aditya Khemka, DSP BlackRock - Analyst [178]

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Right. So if your market shares in these two products remain where it is today, you will get this profit share only for the next quarter?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [179]

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We don't expect much of profit share coming from US in the second half of the year.

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Aditya Khemka, DSP BlackRock - Analyst [180]

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Second half of the year. Okay, understood. And sir, lastly on Baroda, so how much was the CapEx in Baroda, sir, overall? How much did we spend for that plant?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [181]

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Close to around INR270 crore, INR280 crore or so.

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Aditya Khemka, DSP BlackRock - Analyst [182]

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INR270 crore, INR280 crores. And we will be offering the plant first for the European inspection?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [183]

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Yes.

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Aditya Khemka, DSP BlackRock - Analyst [184]

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And then the American inspection will follow that or America will be further out?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [185]

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No, that will follow, but once it gets triggered and all.

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Aditya Khemka, DSP BlackRock - Analyst [186]

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So you expect US FDA inspection in FY18 for that plant?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [187]

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Right now, it's difficult to give them the exact date, because we are yet not offered. So, we will maybe in in the next year, sometimes we will be able to be give the exact guideline.

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Aditya Khemka, DSP BlackRock - Analyst [188]

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Right. And sir, on our tax rate -- one last question on the tax rate. So, obviously there is a deferred tax component, but if I remove that, it will be MAT, right, it will be 20%, the effective tax rate?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [189]

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Slightly higher than 20.5% because the -- because of NDA, certain provisions are made in the books of your returns and your expiries and all, but these provisions are not allowed as a deduction in MAT.

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Aditya Khemka, DSP BlackRock - Analyst [190]

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Understood.

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A. K. Jain, Ipca Laboratories Limited - Joint MD [191]

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It may be around close to 21% or so. 20.5% is MAT, and certain provisions are not allowed in a deduction in MAT, so little higher because of that. So it's around 21% -- little less than 21% (multiple speakers)

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Aditya Khemka, DSP BlackRock - Analyst [192]

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Little less than 21%.

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A. K. Jain, Ipca Laboratories Limited - Joint MD [193]

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And this year, deferred tax is higher mainly because of that -- the last quarter of last financial year, adjustment of around INR28.5 crore of deferred tax reversal, because of unabsorbed appreciation. That is getting each quarter -- the one-fourth getting provided in each quarter.

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Aditya Khemka, DSP BlackRock - Analyst [194]

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Right. No, I understand that. I understand that. And sir, lastly on this -- I'm sorry, lastly on this issue of resolution with the US FDA, so we'll be offering the formulation facilities first and then the API. But, I mean, if you get positive -- I mean, if you get positive feedback on your formulation plant, would that give you any indication, because, if I understand correctly, the --

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A. K. Jain, Ipca Laboratories Limited - Joint MD [195]

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That will have a significant impact on other businesses faster.

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Aditya Khemka, DSP BlackRock - Analyst [196]

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Right, okay.

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A. K. Jain, Ipca Laboratories Limited - Joint MD [197]

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Maybe Global Front businesses and others will be have a significant impact.

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Aditya Khemka, DSP BlackRock - Analyst [198]

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Right, sir. Okay, that's it from me sir. And sir, one -- sorry, on the consolidated results, so we -- when will we start giving consolidated quarterly results, any idea on that?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [199]

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As far as -- let's say most of our business happens from India balance sheet, except for one UK subsidiary which do around GBP4 million to GBP5 million kind of business. So, consolidated and standalone numbers, there are hardly any difference.

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Aditya Khemka, DSP BlackRock - Analyst [200]

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Sir, exactly, I mean, last year FY16, you did about INR50 crores of sales of services from Onyx, and if I understand correctly, we have expanded that facility, so just curious on what's happening on that front?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [201]

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That expansion is not yet fully completed, but business is growing very well there, and good profitability is there in that business.

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Aditya Khemka, DSP BlackRock - Analyst [202]

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So your subsidiary profit this year will be better than your last year profit?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [203]

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Yes.

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Aditya Khemka, DSP BlackRock - Analyst [204]

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Could you indicate a growth rate there sir, so far, how much would have that grown, first half?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [205]

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Almost around 20% kind of growth is there and profit growth is higher, much higher than that.

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Aditya Khemka, DSP BlackRock - Analyst [206]

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Okay. So 20% top line and profit growth is significantly higher.

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A. K. Jain, Ipca Laboratories Limited - Joint MD [207]

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Yes.

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Operator [208]

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Shrihari C, TCS.

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Shrihari C, TCS - Analyst [209]

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Question pertains to the non-antimalarial business in domestic market. Sequentially, you have seen kind of a significant growth, 18% vis-a-vis 11% in Q1.

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A. K. Jain, Ipca Laboratories Limited - Joint MD [210]

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Yes.

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Shrihari C, TCS - Analyst [211]

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So, which therapies have led for this growth and why are you guiding for lower kind of a growth rate in second half?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [212]

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Because say in the second half -- the second quarter your acute therapies growth was very high and you can't expect the acute therapy to grow at the same number quarter-on-quarter, that's the reason. There are lot of one-time businesses, let's say, because when the acute therapy grows very fast, it's not necessary that it will keep the same pace in every quarter.

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Shrihari C, TCS - Analyst [213]

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Okay. So what about the chronic portion in that case?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [214]

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Let's say, overall number is around, say -- and growth could be anywhere between around 12% to 14% in the second half of the year.

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Shrihari C, TCS - Analyst [215]

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Okay. So, overall, you're guiding for 16% for the fiscal?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [216]

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I'm saying that in second half, the overall growth could be around 12% to 14%.

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Shrihari C, TCS - Analyst [217]

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That's right. So which means --

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A. K. Jain, Ipca Laboratories Limited - Joint MD [218]

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In domestic market.

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Operator [219]

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(inaudible)

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Unidentified Participant [220]

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Sir, can you speak about your debt scheduling, how will the debt be going forward and when will be the next payment for that?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [221]

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Overall, if you look at my overall debt, in September 2015, it was almost around INR970 crore; and in June, it was almost around INR864 crore; and in September 2016, it is around INR688 crores. Compared to September 2015, it is reduced by almost around INR283 crores, and compared to the first quarter, March, it is reduced by around INR105 crores. And close to around, maybe around INR60 crore to INR70 crore further reduction would be there in the second half of the year. So overall, debt maybe -- may remain at a level of around INR600 crore by March.

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Unidentified Participant [222]

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Okay. And what about the next year,? How much you're planning to use it?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [223]

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It will further go down by almost around $23 million, $24 million.

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Operator [224]

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Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Nitin Agarwal for closing comments. Thank you.

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Nitin Agarwal, IDFC Securities Limited - Analyst [225]

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Sir, any last comments?

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A. K. Jain, Ipca Laboratories Limited - Joint MD [226]

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Let's say there is that -- in every business, there is improvement except the US business has yet to -- once US and Global Fund business, once they start, then definitely there will be a significantly turnaround, but we are making all efforts to see that all business has its turnaround.

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Nitin Agarwal, IDFC Securities Limited - Analyst [227]

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Thank you, everyone. Thanks to Ipca management team for taking part in the call and thanks for all the participants, and have a good day.

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Operator [228]

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Thank you very much. Ladies and gentlemen, that concludes the IDFC Securities Conference Call. Thank you for joining us, and you may now disconnect your lines