"Ajanta Pharma Limited Q4 FY21 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Ajanta Pharma Limited Q4 FY21 Conference Call. 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. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Yogesh Agrawal - Managing Director of Ajanta Pharma Limited. Thank you and over to you, sir.

Yogesh Agrawal: Thank you. Good evening and welcome to all of you. With me, I have Mr. Rajesh Agrawal – our Joint Managing Director and Mr. Arvind Agrawal, our CFO. We sincerely hope that all of you are safe and healthy and taking abundant precaution against the second wave of the pandemic. Financial year 2021 saw the full impact of COVID-19 on life and business we could have never imagined. As we remained persistent to grow, we quickly adapted to new normal for working and ensured that vis-à-vis all our customers globally without any interruption or shortages in the supply. This has enabled us to achieve once again a remarkable performance in a very difficult year.

Coming to the results, they are already with you now and I am happy to share that this has been an exciting quarter and the financial year. We have been able to achieve continued growth for the financial year 2021 in all market we are present in and also a stellar growth in the profit. With these opening remarks, I will now hand over to Arvind to take you through to the financials and thereafter we will open up the floor for questions and answers. Thank you and over to you, Arvind.

Arvind Agrawal: Thank you. Good evening to all of you and a warm welcome for this earning call. For ease of discussion, we will look at the consolidated financials. Let me discuss key financial highlights with you. It was indeed a satisfying performance for Q4 with 11% growth in revenue for the quarter. Branded generic sale in India grew 23% whereas emerging market saw a degrowth of 10%. US sales grew 20% and institution sales growth was 88%. Our performance for the year has been impressive with revenue from operations up 12% and 2890 crores. Branded generic contributed 68% out of which India was 28% and emerging market was 40%.

US have contributed 22% and institutions have contributed 10%. Our gross margins have improved and stood at 78% against 75% in financial year 2020. This was mainly driven by product mix and impact of product recall in FY2020. Other expenses saw a sharp decline in H1 in FY2021 due to lockdown, but we are normalized in the second half of the year. EBITDA stood at 34% for the quarter at 259 crores and profit after tax stood at Rs. 159 crores. For the year, EBITDA stood at 35% or Rs. 999 crores with some contribution of savings in other expenses in H1 which is not sustainable. Profit after tax was 654 crores, up 40%. We incurred the CAPEX which is 155 crores during the year. Return on net worth has moved up to 23% from 19% last year and return on capital employed has moved up to 30% from 26% last year as return on our investment in new plants have started realizing. Our balance sheet continues to be healthy with cash and liquid investment of more than 375 crores even after paying Rs. 250 crores to the shareholder.

With these analysis highlights, I open the floor for the question and answers. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Rashmi Sancheti from InCred Research. Please go ahead.

Rashmi Sancheti: Sir, just want to know that are we seeing any sort of supply disruption in your Asia and Africa branded business, I mean what is the reason for the degrowth during the quarter and secondly, if you can give the breakup, I know that we have changed the sales format, but since we already have 9 months numbers, if you can give one last quarter number of Asia and Africa business, the branded space?

Yogesh Agrawal: Rightly said, we are seeing some disruptions in our market in the Asia and Africa. We believe they will stabilize soon. That is the reason you have seen this in the current quarter and also because corresponding quarter of the last year, we had seen slightly elevated numbers in exports for both these markets, so that further difference is coming slightly higher. The Asia for the quarter has been at 176 Cr and the Africa branded has been at 97 Cr. So there has been a slight more dip in Asia as compared to Africa. Africa, we still posted 3% growth and Asia is down by about 16%.

Rashmi Sancheti: Sir and how do we see going ahead in FY22, are you finding it little tough in the coming quarters also due to this second wave of COVID surge?

Yogesh Agrawal: There could be some disruption, but we don't anticipate this to be long lasting, so we believe it should normalize going forward.

Rashmi Sancheti: And my second question is related to India market, are we seeing any field activity impacting again in this quarter because of the lockdown in some of the states and related to your Ophthalmology segment, as a segment only this particular therapy is not going, so is it temporarily due to COVID or the overall segment is seeing a large slowdown due to the lack of launches and all?

Rajesh Agrawal: I will answer the second part of your question first, this is Rajesh Agrawal. In Ophthalmology, I believe that this is only transitory. Primarily because again Q4, the basic surgeries were down and OPDs have started to getting affected starting from March, so we are very hopeful that this should normalize going forward in this current year and the first part of your question was?

Rashmi Sancheti: Sir, related to field activity?

Rajesh Agrawal: In the field activity, what we have done is, there are multiple states which are working from home and safety of our employees will come at the topmost priority for us and hence we have starting from mid of March, depending on whichever state is seeing the peak in the surge, we are putting our field force on work from home, but we are continuing to have a very strong customer connect through various means and various technologies that we have deployed in the last year.

Rashmi Sancheti: Sir, so that means the operating cost will more or less this is the new base what we have reported in quarter 4?

Arvind Agrawal: Yes, that is going to be the new normal and it may go up slightly as we go along in the year.

Moderator: Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Sir, just on the US generic side, while the filing pace has been slower in FY21 and at the same time the pandemic situation is still continuing, may be another 3 to 6 months, so the filing would be more back ended or we will see this spread across the quarters for FY22?

Yogesh Agrawal: As you know, last year it was very hard lockdown, so because of that the R&D was shut for 5 months and that is the reason we see those reflecting in the ANDA filing for the current year or rather last year, but we believe we have made good progress during last 5-6 months and currently also, our R&D is operating, if not at a full capacity, but at a reasonably good capacity. So we believe that the ANDA filings will pick up in the current year and we will try to come as close to the target of 10 to 12 per year.

Tushar Manudhane: And in the India business, how much would be the institutional sale for the quarter?

Rajesh Agrawal: For the quarter, institutional sales is 21 crores.

Tushar Manudhane: So while you have given some color on the branded generic outlook in Asia and Africa, but on the similar lines, even there also you see the operating cost getting curtailed or reduced because of this lockdown related impact?

Yogesh Agrawal: No, there is no lockdown similar to what we see in India there. So there it should be in the normal trend what we have seen in the past quarter.

Tushar Manudhane: So basically sales outlook also should be better than at least the industry and subsequently on the cost side as well?

Yogesh Agrawal: Absolutely, the endeavor is to outgrow the market, so whatever is the market growth, our aim is to grow faster than the market.

Moderator: Thank you. The next question is from the line of Onkar Ghugardare from Shree Consultancy. Please go ahead.

Onkar Ghugardare: My question was regarding what kind of CAPEX is lined up for the next one or two years and what would be the asset turnover ratio in the year which spent by and what would be the asset turnover ratio in the future you are looking at?

Yogesh Agrawal: The last year CAPEX was around 150 crores. In the early part of the year, there was a lockdown. In the current year, we are estimating the CAPEX to be in the vicinity of 250 Cr and what was the next question you have?

Onkar Ghugardare: I was asking about the asset turnover ratio?

Yogesh Agrawal: So I think asset turnover ratio would be around in the vicinity of 1:1.75 about there and it should probably improve from here onwards going forward.

Onkar Ghugardare: And what is currently the gross block in total?

Yogesh Agrawal: It was around 1800 crores.

Onkar Ghugardare: 1800 crores?

Yogesh Agrawal: Yes, approximately, roundabout, I think to be precise, 1765.

Onkar Ghugardare: This is gross, right or net?

Yogesh Agrawal: Yes, gross.

Onkar Ghugardare: And that you are expecting around more than 1.75 asset turnover, right?

Yogesh Agrawal: No, we are talking on the net.

Onkar Ghugardare: You are talking about, 1.75 upwards and 1.75 on net, right?

Yogesh Agrawal: Yes, I am talking about what is the ratio for the last year.

Arvind Agrawal: This ratio which is 1.75 is net fixed asset turnover ratio for FY2021.

Onkar Ghugardare: And the CAPEX which you have talked about around 250 Cr in the current fiscal, can you give just breakup of that, what for it go to?

Yogesh Agrawal: It is largely going to be towards maintenance CAPEX and some new expansions for the corporate office and may be some key expansions in the facility.

Onkar Ghugardare: So, no major expansion in terms of technical capacity or something like that?

Yogesh Agrawal: Capacities, there are no significant expansion. We believe that we have enough capacities right now to cater to our growth.

Onkar Ghugardare: So what is the current utilization range you are working on?

Yogesh Agrawal: It is very difficult to give you utilization right now because of the current challenges of the pandemic. It is currently fluctuating, but we have sufficient capacities right now.

Onkar Ghugardare: There is no need to put up anything extra?

Yogesh Agrawal: No, there is no need to put anything extra right now.

Moderator: Thank you. The next question is from the line of Manoj Garg from White Oak Capital. Please go ahead.

Manoj Garg: Just coming to the first question and that is largely of the domestic market, but we have seen good recovery on the Derm side, Dermatology which were pulling obviously our performance over the past 1-1.5 years, so if you can just highlight the kind of initiative which we have taken and that has helped us to bring the growth in this segment particularly?

Rajesh Agrawal: We have initiated multiple customer relationship management initiatives that we took in the last year on a cluster basis, we have 4 teams in Dermatology and all 4 teams put together we initiated the outreach where we held lots and lots of webinars with the customers, we held many round table meetings and doctor group meetings and we enrolled whole lot of the PG graduates into medical training and all of that, so those are the efforts that we took which has helped us to turn around in the last year plus honestly speaking, opening up of the market in Q3 and Q4 also helped us a lot along with the industry as you would remember Dermatology got the most hit because Derma being more of a lifestyle in the first two quarters of last year, so we saw some recovery happening in quarter 4.

Manoj Garg: And the second question is basically, while I understand over the past 3-4 years, the focus was to build capacity and we obviously have invested quite a bit in terms of creating infrastructure, creating plants and all, but given the kind of profitability and the return metrics we enjoy, how should we think about reinvesting a part of profit to further accelerate the growth momentums, particularly brand in markets like India emerging market and even in the US, if you can just throw some light out there?

Yogesh Agrawal: I think we have discussed this in the past also, so there has been no hold back in the growth because of the want of the fund. You know the balance sheet we have been fairly profitable and healthy cash balance has been there, so I don't think it is the right way to connect the cash flow or cash balance with the growth. They are irrespectively happening. So whatever is the requirement of the market in terms of field expansion, new product launches, R&D spends and contribution of all these 3-4 things results into the growth. When you add more people, more product and existing people will start giving more higher return. So all the 3-4 aspects are going on independently, so I hope I am able to kind of give you answer which you are looking for.

Manoj Garg: The only thing you guess and sorry I am extending this question. Today, if you look at the size and scale where we are and obviously like the focus has always been on the profitable growth, but given the kind of potential opportunity market has, I clearly see that we do have a case in terms of accelerating the growth number which we are putting up over the last 2-3 years in terms of early double digit kind of range to may be mid to high kind of things and that is what probably I was just trying to understand that are we thinking about may be getting into newer markets, setting newer markets or may be within India, may be expanding our therapy base, given that we are still like 100 million plus kind of franchise in India as of now?

Rajesh Agrawal: So the effort is constantly on both the aspects; A, to evaluate newer markets and B, to penetrate those markets even further whether it is India or international markets where we are present. Even within India, you rightly pointed out we are still continuing to dig deeper into the four specialties that we are present, but at the same time, we keep evaluating all the opportunities that we may get for a brand or a company acquisition to really see if we can expand the footprint, but having said that the current market across the globe and within India, the specialties that we are in offer us enough opportunity to continue to grow and as you rightly pointed out, profitable growth is I think prime most important for us, so we continue the efforts towards it.

Moderator: Thank you. The next question is from the line of Runjhun Jain from Nirmal Bang. Please go ahead.

Runjhun Jain: Though most of the questions have been answered, sir, I just want to understand what is the best thing differently we are doing in pain management, so we have seen doing the quarter that the industry growth has been negative whereas we have reported a good growth in the pain management and overall we have seen that the acute segment has been under pressure, so what is something we are doing differently here and is it sustainable?

Rajesh Agrawal: I hope it is sustainable. The difference that we have brought is, again what we have been doing for the last 15 years, we introduced some very good products in FY20 which have yielded positive results in the last year, FY21 and which are growing robustly. We are ahead of the competitors for the lives of biggest competitors in the rheumatoid arthritis segment, so those brands are the ones that are really driving the growth along with our lead brand Feburic which is the second largest brand febuxostat in the country and even out of Rs. 50 crores sales that is growing in early teens kind of growth rate and we are quite confident that this growth rate should, this momentum should continue with all the effort that we are putting into the segment.

Runjhun Jain: Sir, last question is, is it possible for the management to quantify the savings in the other expenses due to lower field activity if it is any and when it is likely to, how much that impact would be on the margin?

Arvind Agrawal: As far as the saving in expenses is concerned, it was there in first quarter and second quarter, but then now it has got normalized and now the expenses are absolutely normal for our trade expenses and R&D expense also.

Runjhun Jain: Sir, the Q4 other expenses is the current base?

Yogesh Agrawal: That is right.

Moderator: Thank you. The next question is from the line of Abdul from Anand Rathi. Please go ahead.

Abdul: Sir, my first question is regarding the India business, as what you mentioned on the pain side that there were couple of launches which helped you in FY21, sir, going forward, how many launches could we expect in FY22? And how many of those could be the first to market product and in the therapeutic segment the focus would be now?

Rajesh Agrawal: Going forward, in the current year, we are working on multiple opportunities. Unfortunately, I will not be able to put a number to that as a matter of policy we don't give the guidance on the new brand launches that we intent to do, but we have exciting opportunities that have been lined up and we are very hopeful that at least for both of them, we could be number one, if not we will be number two for sure and the past year, the brand that we have launched will again continue to deliver in the current year also as you would know, in pharma it would take typically between 4 to 6 years for the brand if nurtured well to really peak on the sales side. So we are quite hopeful that in the next two years, again we will continue to build on that.

Abdul: And my second question is with regards to the margins and this was in continuation with the previous speaker, so sir, when you said that the other expenses and the other related cost are back to the previous level or fully recovered, are we indicating this 34% sort of EBITDA margin would be sustainable for next year?

Arvind Agrawal: Not really, I think as you know very clearly that the first half was beneficial for us, so naturally that impact is there, so I don't think. It will get normalized in next year.

Abdul: Sir, would you like to quantify any number to which the margins could hover around from next year?

Arvind Agrawal: I don't think we will be able to give out a number as such. But I think (to the level) whatever we were doing earlier. I think we should get normalized to that level.

Moderator: Thank you. The next question is from the line of Kunal Randeria from Edelweiss. Please go ahead.

Kunal Randeria: Sir, my first question is actually an extension of the previous participant's question, in the next 3 to 4 years, are you seeing sort of enough opportunities in the first to market molecules and any particular segment you think is very attractive and you would like to highlight?

Rajesh Agrawal: Sure, it is a very kind of melting pot situation, the opportunities keep presenting and unfolding even though we work on them for 6 years, 7 years to get the regulatory approval, so we are working on multiple opportunities which could be first to market in this year as well as in the coming 3 to 4 years also and I would not like to quantify it because it will be premature to do that and we are fairly sure that those will be the growth drivers for us.

Kunal Randeria: But are you seeing it across all your four therapies or?

Rajesh Agrawal: More or less yes, in the past year, if we talk about we have been able to launch two new molecules for the first time in the country in Ophthalmology which were both for Antiglaucoma. In the last quarter itself, we launched another new product for the first time in the country which was for severe dry eyes and corneal aberration. Including in Cardiology, we were able to innovate and launch for the first time in the country Azelnidipine. So we have had interesting launches and so it was in Dermatology. We are able to innovate across segments and we hope that we will be able to continue that.

Kunal Randeria: Sir, my second question is on the US business, now you did mention the number of filings that you expect to make, but can you also share expected launches, also see because a lot of other pharma companies are targeting like 15 to 20 launches annually, so I am just wondering why you are not being a bit more aggressive, are there not enough lucrative opportunities, will growth then come at the cost of profit and hence you are going a bit slow in the US**?**

Yogesh Agrawal: Whatever we have been filing, we are in fact very efficiently getting the approval for the ANDAs, so as and when the ANDAs were getting approved we are getting the products to the market. There is no issue on that front. Only I think last year, our filing was impacted because of the pandemic. Otherwise, we have been fairly consistent in filing as well as launching the products in US. Earlier, some of the companies they may be having the filings in the excess of 20-30 and that is how then they get the approach in those numbers, we have never been in that base**,** our focus was always to be very calibrated in the kind of investments which we make on the ANDAs and that is the reason, whatever we have been filing, we have been able to commercialize those.

Kunal Randeria: So may be in the next couple of years, you would be targeting, may be like 8 to 10 launches every year?

Yogesh Agrawal: Right now, we are giving out the guidance of 10 to 12 filings and correspondingly we should be able to fruitify and come to the market.

Kunal Randeria: And just one quick clarification, sir, in your presentation, I just saw that you have 300 plus product basket in India and if I see the last quarter presentation, it was some 270 plus, so have you sort of made 20-25 launches in this quarter?

Rajesh Agrawal: We have had 21 new brand launches in the last whole year of which 5 products were for the first time in the country across different therapeutic segments. So this is the figure that we have.

Kunal Randeria: And may be in FY22, any kind of guidance would you like to give us?

Rajesh Agrawal: I would not like to put a number to it. The efforts are on to continue to innovate because the market opportunities also depend how the COVID situation unfolds. We will have to keep that also in consideration.

Moderator: Thank you. The next question is from the line of Alroy Lobo from Kotak Investment. Please go ahead.

Alroy Lobo: One is on your recent investment in ABCD Technologies of around 25 crores for 4% stake, could you just give us some perspective on why you make this investment? Number one, number two on your CAPEX of 250 crores, how much of it is allocated for corporate office expansion?

Rajesh Agrawal: I will take the first part of the question on the ABCD Technologies, so effectively somewhere between 15 and 20 large sized Indian pharma companies have come together and in an effort to streamline the logistics that we have in the country, so that we can bring in more efficiency, at the same time we can have cost saving at the end of, for example, the product expiries and the sales return that we have as well as we want to enable the pharmacies and stockers to be able to have better visibility on the products they should be stocking based on their sales strengths and hence we have joined hands and we hope to be able to bring this efficiency into the supply chain in the country and with ABCD we should be able to do that. So that is the intent.

Yogesh Agrawal: And regarding the CAPEX for the corporate office, last year it was about 30 crores and current year, it could be in the vicinity of 60 to 80 crores.

Alroy Lobo: Coming to the MR productivity, could you just give us how that has moved in FY21 with respect to FY20 and where do you see it finally getting optimize that?

Rajesh Agrawal: I would like to break it down into each segments, because our segments are kind of extreme, so for that matter, in Ophthalmology if I look at, Ophthalmology we are at an optimum MR productivity level if you compare us with the number one and number three competitor, we are nearly there. So our productivity is not less, but in Opthal alone you cannot expect the productivity of 10 lakhs to 12 lakhs because the segment being a small segment. If you look at Cardiology, we have four teams and of those, two teams are already touching the productivity of somewhere between 5 lakhs to 6 lakhs and it is the other two teams that are rapidly growing and we hope to catch up in the current year. Dermatology, as you all know is an area where we faced multiple challenges in the last two years, but we are rapidly improving on that and the team sizes are much smaller in Derma because couple of teams focus purely on the lifestyle as well as the Cosmetology part of it, so we are quite hopeful that in the current year the productivity should improve and we should get a growth in that.

Moderator: Thank you. The next question is from the line of Donald Francis from ValuePickr. Please go ahead.

Donald Francis: Sir, my first question is on the outsourcing front, I believe with the Guwahati facility, the India formulations outsourcing and they aiming to bring in terms of **(Inaudible)** what kind of outsourcing will still be left post that and the question related to this is that, I may understood earlier **(Inaudible)** outsourcing done by you was the major source of margin advantage that Ajanta enjoy and how would that picture change with reduced outsourcing?

Yogesh Agrawal: Your question was not quite audible, the way I understood is that you are looking that what kind of domestic production we have shifted to the Guwahati facility, is it correct?

Donald Francis: Outsourcing sir, what portion of outsourcing that was done earlier?

Yogesh Agrawal: So outsourcing, a good part was being outsourced earlier and now in the last year we have transitioned a very big part of that to our Guwahati facility for all the dosage forms for the domestic. So it will be a small percentage in the current year which will be still outsourced.

Donald Francis: So how the margin factor is going to look sir with this outsourcing?

Yogesh Agrawal: Margin, you have already seen that in the current quarter, that is factoring in the transition also, so it should not change much from there. Naturally, the in-house cost will be higher than what you are sourcing outside, but for the want of better control on our own production and supply chain, we have consciously taken that decision. At the same time, we will see some efficiency in the income tax also because that unit being income tax exempted, so there will be set-off of some income tax benefits, the expenses that will happen.

Donald Francis: Sir, just wanted to understand a little bit more from how the organization, in the US market especially, you have done extremely well in the last 4 to 5 years, at the same time, we are seeing that generics big pharma like Mylan, Teva, Sandoz, all of them have been losing market share and some other Indian companies like Alembics or in Alkem, they have been gaining market share, so what is your view for the next 3 to 5 years, how do you see the competitive environment and the margin profile and if you could elaborate how have you organized your sales distribution and warehousing operations in the US to give us a flavor of how you are executing there?

Yogesh Agrawal: What we had seen 2-3 years back, due to the customer consolidation, there was a huge margin pressure in the US, we are seeing that has stabilized now. Having said that it is very difficult to put what kind of price erosions that can happen on a particular product or in a particular quarter, but nevertheless it is stabilized much better as compared to what we had seen few years back. Going forward, we believe the competitive intensity was there 5 years, 10 years back also and it will remain 5 years 10 years later also, there should not be any change. How organization strategizes its thing in the market with the product portfolio supply chain and all the other things compliance with the facility, I think that will determine what kind of market share we are able to get and then sustain. So far we can able to execute quite well on all the aspects in terms of facilities, supply chain. So we feel comfortable to carve out the space for ourselves going forward in the US market.

Donald Francis: Any flavor you would like to give about how your sales organization is there in the US, what kind of team and what kind of experience is there?

Yogesh Agrawal: It is a too granular discussion which cannot be held on the concall. Every organization has their own set up, so we have a fairly good team which is doing a great job there.

Moderator: Thank you. The next question is from the line Anupam Agarwal from Lucky Investments. Please go ahead.

Anupam Agarwal: Sir, just to start with, if you can give some color on the African Institutional business, it has been a fairly lumpy sales quarter-on-quarter and over the last year, can you give some highlights and color of what this business is going to shape out for the next two years?

Yogesh Agrawal: It is one of those very difficult businesses to predict because that depends on the number of factors on what is the funds available with the NGOs and the global fund. This whole year, I think we have been able to do better, we posted a 11% growth. Going forward, our outlook would be to maintain the similar level of sales. That is all I can say.

Anupam Agarwal: Sir, second question, coming to US, we have not launched any product in this quarter and so basically can you quantify on the number of launches that we intent to do next year?

Yogesh Agrawal: I don't have the number, what we will be able to launch next year because that also depends on the FDA and as you know right now currently with the inspections not happening the approvals are getting delayed significantly, but we are keeping a close watch and close contact with the FDA to see if we are able to facilitate some approvals of our product and resultant to that, we will get the product in the market.

Anupam Agarwal: In the past sir, we have been hinted by the management that US business is going to grow at 25% CAGR, do we still stand by that number?

Yogesh Agrawal: We have been giving the guidance earlier, but as a policy going forward, I think we will not like to give the guidance more so in the current pandemic situation it is very difficult to give any kind of predictions.

Anupam Agarwal: Sir, last question on the R&D, what could be the percentage range that we look to spend on R&D going ahead?

Yogesh Agrawal: It should increase from current 5%. It could go at about 6%.

Anupam Agarwal: And can you give a mix between how much spend on Us and non-US in that?

Yogesh Agrawal: We don't have the specific number right now, maybe we will come back to you on that.

Moderator: Thank you. The next question is from the line of Mitesh Shah form ICICI Securities. Please go ahead.

Mitesh Shah: Can you see any of the impact of this second wave in your business like the export or the domestic market?

Rajesh Agrawal: On the domestic front, none of our brands are actually affected positively by COVID, so we are not getting any tailwinds because we are not present in the typical segments of let us say for example, the Azithromycin or the Paracetamols or the Vitamin C and Vitamin D and all of those. So it is quite neutral to us. We are not getting any positive tailwinds from that.

Mitesh Shah: And about the export market also when we say?

Yogesh Agrawal: Yes, exports, we have Azithromycin brand for the export market and we have seen last year the uptake in that particular product, but if you see in the overall scheme of 2800 crores, it will not be such a significant percentage.

Mitesh Shah: Can I get the segment wise bifurcation of domestic branded business for Q4?

Arvind Agrawal: We don't give that segment wise, what we have given you is IMS numbers.

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

Nimish Mehta: One question on the domestic, you mentioned that you launched 5 products which are first in market, if you can just let us know in which segment you launched it that will be helpful?

Rajesh Agrawal: Sure, two have been in Cardiology and 2 of them have been in Ophthalmology and fifth one has been in Pain segment.

Nimish Mehta: And these are not line extensions, right, these are completely product?

Rajesh Agrawal: These are completely new brands, one was Vildagliptin sustained release where the commercial release was already available, but we were the first brand in the country to launch 100 milligram sustained release which offers superior patient compliance over the existing conventional dosage form. So that I would like to categorize as a new brand, not a line extension. So including that we have 5 new brands.

Nimish Mehta: The other question I had was on the US business, we see quite a few interesting products which are lined up, one is the brand name, Vimovo or Naproxen-Esomeprazole Magnesium where we have a Para IV and second is the Varenicline Tartrate, so can you let us know what is the likely timeline and are they interesting product or am I missing something?

Yogesh Agrawal: Definitely, they both are interesting products and they are at advanced stage of review with the FDA, very difficult to predict the approval timeline from the FDA.

Nimish Mehta: I think both of them has been settled, so you would know, I mean other than the approval, if a ballpark number or ballpark timeline can be given that will be helpful assuming the approval will come in, let us say next two quarters?

Yogesh Agrawal: No, I wish I could give either of the things, both are not in my hand, so right now I don't know the two timelines for either of the products.

Nimish Mehta: No, I was talking about the settlement related timeline, approval of the FDA will not know, but based on the settlement, any launch in this year, let us say in FY22?

Yogesh Agrawal: I don't have that information with me right now.

Nimish Mehta: And lastly, we also see a lot of products that you are developing for the US market in the Ophthalmology segment, is that true and if yes, is that going to be a next focus area for us for the US generics?

Yogesh Agrawal: That is on the drawing board for the evaluation, but no concrete decision has been taken to go ahead with the filing in the Ophthalmic space yet.

Moderator: Thank you. The next question is from the line of Manish Dhariwal from Fiducia Capital. Please go ahead.

Manish Dhariwal: My question was basically on the balance sheet, I noted that the inventory levels have increased whereas the receivables actually had some very good control and that have come down, so if you could give some perspective on that?

Arvind Agrawal: See, as far as inventories are concerned, this is a conscious call taken by the management to ensure that we don't get any disruption because of the current situation of pandemic, so we hope that this is something which will help us to maintain our supply absolutely without any interruption into any of the market. As far as receivables are concerned, yes we have been able to improve and this is definitely on the back of some improvement in our US collection and this is something which can be sustained.

Manish Dhariwal: So this inventory, I understand that this is more on the API side rather than on the finished good side?

Arvind Agrawal: It is mix of it, both finished goods and raw material.

Moderator: Thank you. The next question is from the line of Onkar Ghugardare from Shree Consultancy. Please go ahead.

Onkar Ghugardare: I just wanted to know what is the management's **(Inaudible)** for say in terms of revenue and profit growth for the next 3 to 5 years, what is your vision?

Yogesh Agrawal: Profit growth, I am sorry, not able to give any guidance on those.

Onkar Ghugardare: Sir, I am not expecting any guidance from you, just for trajectory I am looking, not expecting any numbers from you?

Yogesh Agrawal: Trajectory as I said before our endeavor is to grow faster than the market and the segments which we operate in, so we are quite confident to operate the market and keep growing.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.

Nitin Agarwal: Sir, on the emerging market businesses, especially in Asia and in Africa, how do you have the strategy there essentially for is going to be both in the current key markets or it is going to be more about are you looking to enter new markets to primarily grow the segment over the next 3-to-5-year period?

Yogesh Agrawal: Broadly, it is going to be in the existing market. We believe that we have enough space for us to be able to keep growing there in the same markets.

Nitin Agarwal: Have you seen any comparative changes in these markets for good or for bad in terms of which has made them the happiness of the market changing anyways since the time you have been there, you have been there in this market for pretty long time now?

Yogesh Agrawal: No significant change which pans out which is worth discussing, the normal pharma challenges which are there, they continue.

Nitin Agarwal: In terms of our therapy presence, are there any specific therapies, where you are especially strong in these markets?

Rajesh Agrawal: See, this is very market specific. So for example, in the Philippines we are very strong in Pulmonology, Antidiabetic, Respiratory, so it is very market specific. We tried and identified the opportunities that market presents and then fill the unmet needs by way of launching new brands.

Nitin Agarwal: And sir, secondly, through this year we witnessed pretty strong improvement in gross margins in the business, I mean the business mix doesn't give a change much, so what really has driven that?

Arvind Agrawal: Last year, if you remember, there was a product recall of US because of which it got impacted, so now it is getting normalized for the year.

Nitin Agarwal: So these current level of these gross margins are done for this year or largely sustainable around these levels?

Arvind Agrawal: Going forward, I think it will increase because looking at the current situation in terms of the increasing API prices etc., we expect that we should be in the range of 75% gross margin.

Moderator: Thank you. The next question is from the line of Bharat Shah from ASK Investment. Please go ahead.

Bharat Shah: Yogesh and Rajesh, no real question to ask, but just to express that in a year which has been difficult with so many variables up in the air in so many geographies this has been a really remarkable performance, so hearty congratulations to you and the team and namaskar Arvind Ji.

Yogesh Agrawal: Thank you Bharat bhai for your encouragement.

Moderator: Thank you. The next question is from the line of Gagan Thareja from Kotak Securities. Please go ahead.

Gagan Thareja: Sir, first question is around the commentary for drop in Asia's sales, if you could elaborate what was the disruption which caused the drop in Asia sale for the quarter?

Yogesh Agrawal: So it is a normal pandemic disruption. Markets are having challenges to import, some clearance and supply related issues, which are we feel will get transitioned and are temporary.

Gagan Thareja: Is it the logistics related issue or is it a market related issue?

Yogesh Agrawal: Mostly, it is logistics related issue to an extent even though getting containers also sometimes become challenging which we believe should get normalized.

Gagan Thareja: And tax rate in the quarter was also on the higher side given that you are way to grow production in your capacities which are in tax-free zone, how should we think of the tax rate going ahead?

Arvind Agrawal: Yes, it should improve certainly. I think as we go more and more into these capacities, there will be improvement in the tax rate.

Gagan Thareja: Any number you could give us ballpark for the next 2 years?

Arvind Agrawal: It is very difficult, because it will depend on many factors, so very difficult to give the number, but I think definitely you can see the improvement.

Gagan Thareja: And in the past you generally been indicating that CAPEX will drop off after FY21 and I think the number generally given out was it could be more around 100 to 120, 125 crores whereas now, you are guiding again for 250 crores CAPEX next year, I would just like to understand what is the reason behind that uptake in CAPEX, I can understand some bit of it could be because this year was below your overall initial budget may be, but it would still be significantly higher than past guidance?

Yogesh Agrawal: Now, the CAPEX was shifted from the new capacity to the maintenance CAPEX for the existing facilities and for the current year, I have given the guidance of approximately 200 Cr., so a part of it will be going towards the new corporate office also.

Gagan Thareja: Thereafter what should the CAPEX be because you have adequate capacity and you probably require only maintenance CAPEX, so thereafter what could be the CAPEX trajectory or CAPEX budget like?

Yogesh Agrawal: It should remain in the same vicinity of 150 Cr to 200 Cr.

Gagan Thareja: And one, I am a bit confused, on the one time you have indicated that the current quarter cost are representative of what cost will be in the future, whereas I think there was also an indication that some bit of the cost for this year will lower in an unsustainable way and therefore there will some drop and also an indication that they might go back to what they were in the past year, so which is it, is it that cost operating margins will be lower than the bygone years, but may be in between 20 and 21 or probably closer to 20?

Yogesh Agrawal: What we have been talking about is that Q1 and Q2 expenses, they have been depressed and there are Q3, Q4, they have normalized. So that is what we are talking about.

Gagan Thareja: So the Q3-Q4 margin run rate is a sustainable one?

Arvind Agrawal: To some extent yes, but then again, I think the pickup in the R&D cost is going to be there, so it is going to be little lower than what we have seen in these two quarters.

Gagan Thareja: You are going to increase R&D by a percentage point and that will impact the margin to that?

Arvind Agrawal: Exactly, because filings have not been done in these two quarters so far which we will pick up in the next year.

Gagan Thareja: And on gross margins, I couldn't catch the number you indicated this year's gross margins are better because last year there was a product recall in US which impacted gross margins and going ahead there might be an impact of API cost on gross margins, if I got it correctly?

Arvind Agrawal: Absolutely right.

Gagan Thareja: So 75 is what you are saying for gross margin?

Arvind Agrawal: Yes, plus minus 1 or 2%.

Gagan Thareja: And finally, just on your working capital, you indicated that receivables which you have closed this year are sustainable going ahead?

Arvind Agrawal: Yes.

Moderator: Thank you. The next question is from the line of Harsh Beria, Individual Investor. Please go ahead.

Harsh Beria: I would like to ask about your API sourcing strategy for the US formulations business and this is because I did not see a lot of active DMFs from Ajanta and you have plans to do backward integration for US APIs?

Yogesh Agrawal: No, we have no plan for the backward integration and we have very good and strong partnership with various API vendors with whom we are working, so we would like to continue excelling into the formulation which is our core competence and develop the products and keep filing.

Harsh Beria: And the next question to take on just like a broad brush revenue potential in a 5-year time frame, sorry I don't want the guidance from you, but currently you are doing around $80-85 million in

US with a current strategy on oral solids, with these R&D spend, where do you see this number going, can it be 200 million in a 5-7 years timeframe and do you have to go into other sterile projects to achieve that or can that be done with oral solid itself?

Yogesh Agrawal: It is a very long duration to talk about. I think we can talk of current year or next year. Directionally, we believe that US market if you play a right strategy, there is business to be done and money to be made, in what shape or form, it is going to be same, so right now I think they are focusing on our oral solids product portfolio what we have and we have enough products in the pipeline which will take us to for next 2 to 3 years.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I request to the participants, if any questions are unanswered, you may please send the same to the investor relations desk. I would now like to hand the conference back to Mr. Yogesh Agrawal for closing comments. Over to you, sir.

Yogesh Agrawal: Thank you everyone for joining this call. All I would say is please stay safe and take care of all your near ones and loved ones. In case there are any questions that remain unanswered today, you can reach to our investor relations team. Thank you.

Moderator: Thank you. On behalf of Ajanta Pharma Limited, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.