"RPG Life Sciences Limited

Q4 FY '23 Earnings Conference Call"

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MODERATOR: **MS. DHARA PATWA – SMIFS LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the RPG Life Sciences Limited H2 FY '23 Results Conference Call, hosted by SMIFS Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand over the conference over to Ms. Dhara Patwa from SMIFS Limited. Thank you, and over to you, ma'am.

Dhara Patwa: Thank you, Davin. Good afternoon, everyone. On behalf of SMIFS Limited, I welcome you all to Q4 and full year FY '23 Conference Call of RPG Life Sciences Limited. We are pleased to host the management of the company. And today, we have with us Mr. Yugal Sikri, the Managing Director, and Mr. Vishal Shah, the CFO of the company.

So, we will start the call with initial comments on the results, and then we will open the floor for Q&A. Now I hand over the call to the management. Over to you, sir.

Yugal Sikri: Thank you, Dhara. Good afternoon, everyone. Thank you for joining us on this earnings call. I hope everybody is fine at home and I hope the pandemic is very, very much behind us. It's now my pleasure to share with you briefly the market context and brief highlights of our performance in Q4 and full year FY '23.

Let me first talk a bit about the market context. As you all know, the market is growing at single digit, sometimes lower single digits, sometimes higher single digits. The MAT data indicates it is around 7.9%. With the price growth, leading the growth, contributing about 5.1%, new introduction, 2.3% and volume growth continues to be very tardy. It is flat more or less.

Let me also, at this juncture, only bring out compared to market, RPG Life Sciences growth had been substantively higher. The volume growth is in the vicinity of 13%. The price growth is a little over 5% and the new introductions are 2% or so. So put together, our Domestic Formulation business is registering a healthy 20% growth versus 7.9% growth of the market as reported by IQVIA.

On the market, if we look at on positive size, biologics, biosimilars are gaining acceptance, e-commerce gaining foothold, API gaining government attention with the PLI scheme and some of the companies in the top quartile are also following and see research and they are also filing NDAs.

Let me now turn your attention towards RPG Life Sciences. For us in RPG Life Sciences, FY '23 has been indeed milestone year in the long, long history of the company. Sales first time have crossed INR500 crores mark. In fact, we have registered close to INR513 crores. EBITDA has crossed INR100 crores mark first time. In fact, it is INR107.5 crores.

Cash surplus has crossed INR100 crores mark in fact, INR115 crores. And I'm very delighted to also share with you in our journey of creating megabrands out of our legacy products, Naprosyn has become the first brand to cross INR50 crores mark. In fact, it has registered INR60 crores-plus in the year gone by.

What's noteworthy is for the fourth consecutive year, we have year-on-year upward trajectory on a number of financial parameters. Sales has grown consistently more than the market for the last four years. All profitability indices, EBITDA, PBT, PAT all have registered year-on-year consistent uptrend or superior growth. Both PBT and PAT has multiplied, has grown 6x in the last four years.

Similarly, margins have also registered consistently year-on-year growth. EBITDA has moved to 21% in FY '23. PBT is up from 4.4% in FY '19 to 17.9% now. PAT is up from 3.2% to 13.2% now. Similarly, cash flow has also registered one of the remarkable growths from minus INR14.5 crores in FY '19, I'm pleased to share with you we are INR115.2 crores this year. And all of the above with a very strong iron grip on the hygiene. In fact, even on the hygiene front, we have almost reached the industry benchmark with the -- we were around 4%-plus expiries in FY '19, we are now down to less than 1.5%.

Reaching here has been a journey indeed. If I recap FY '19, we had the first thing to do was getting into the business and fixing the fundamentals. From there, we move to process excellence and then to sustainable profitable growth. And I'm happy to share with you today, RPG Life Sciences stands amongst the best in the competitor group of less than INR1,000 crores turnover with a number of our margins, a number of our financial ratios matching up or even number 1 compared to the peers in the less than INR1,000 crores or INR2,000 crores turnover company.

Yes, I'm referring to EBITDA margin, PBT margins, PAT margins, leverage ratios, interest coverage, debt-to-equity ratio on the liquidity ratio, cash flow to sales ratio and the like. Let me now turn the attention towards some of the performance parameters on Q4 and then on full year. On Q4, I'm happy to share with you Y-o-Y basis, revenues have gone up by 14%-plus, EBITDA 20%-plus, PBT 26%-plus, PAT 38%-plus. And margins and also, every single margin has registered an uptrend. EBITDA from 14.2% to 15%; PBT from 10.5% to 11.7%; and PAT from 7.2% to 8.7%. And all of these performances are very well supported by the three segments of the business which we have, Domestic Formulation, International Formulation and API. Just to remind, we have about 67%, coming from the Domestic Formulation business. 18% coming from the International Formulation business, around 15%, coming from the API.

And if I have to talk about -- and the number which I mentioned to you was quarter 4 numbers, if I have to talk about quarter 4, both the formulation businesses, Domestic Formulations and International Formations registered a healthy growth of 19%. However, API was a bit sluggish, largely because of the order pegged on by the customers and some inventory adjustments with one of our top customers for one of our top brands, our top products. So, as I think even in the API front, there is no major worry. Things appear to be normal. That was Q4.

Turning to full year. Revenues up by 16%. We registered a 16.5% growth precise. EBITDA, as I mentioned, crosses INR100 crores, around 20%-plus growth. PBT, INR91.7 crores plus 25%, PAT, INR67.6 crores plus 31%. Similarly, the margins, EBITDA moves up from 20.3% to 21%, PBT from 16.6% to 17.9% and PAT 11.7% to 13.2%. In fact, every single index this year also has improved by a good number of basis points.

As I mentioned, it has been the best year for the net working capital also. We have had 48 days of net working capital to 13% to our sales, which is perhaps the best in the last five years or six years. Cash surplus I've already talked to you about. Let me very briefly mention to you some of the operational highlights, which will perhaps answer some of your questions, which you might be having to be raised during the question-and-answer.

Product portfolio front, our innovative life cycle management strategy, which we adopted for all legacy products is yielding results. Naprosyn, as I said, becomes the first brand to cross INR50 crores, registering INR61 crores or so the turnover. New products today contribute -- new products launched since FY '19 today contributes over 28% to our sales. And the product which we launched last year, one of the Mabs, Denosumab where we launched the product in three therapies is almost reaching INR5 crores mark in the very first year of launch.

New therapy, which we entered just 2.5 years, 3 years back, Rheumatology has also contributed significantly close to about 15% to the sales of specialty business today. On the customer front, multiple initiatives were launched to increase the prescriber and the patient base. Today, we cover close to about 90% of all target specialties, be it Nepro, Rheuma, Onco, Cardio, Diabeto, Uro. Even on CPs and GP front, our customer coverage has increased significantly.

Digitalization, something which we got during the pandemic time has gone into our DNA. It has helped us to increase our share of voice and customer engagement dramatically. And I'm sure you remember I talked about RPGServ is a very unique phygital initiative, which we launched during the pandemic. Today, I'm happy to report to you that all 83,000 doctors, 84,000 doctors, which we cover are enrolled on this platform and it has become a wonderful tool for us to engage our customers be it of any specialty.

Medico marketing initiatives, we believe in doing the business ethically has been our -- one of the fulcrum for customer engagement. On people front, I don't know whether you remember, RPG is the only group perhaps globally, which has taken happiness as one of the themes for the entire group. And we not only make sure that a lot of happiness initiatives are launched and implemented, we also have gone to the extent of measuring the happiness at the end of the year.

And I'm happy to share with you that the happiness score, which was two years back 83%, which was also considered to be one of the very good scores, moved to 84% and last year, it had a quantum jump of 87%, which has helped us to focus on performance-focused culture. On process font, a number of internal processes are being challenged constantly adding to agility, speed and cost effectiveness. That has helped us to decrease COGS, opex and simplifying the processes.

Going forward, you would have read in my < Investors Presentation> -- I put across this time in the website, we have seven pillars of growth. One, in a pharmaceutical business, if you are to expand International Formulation business, which I believe is going to be the second big growth driver for us. The first is state-of-art increased capacity plants.

I'm happy to share with you that over INR100 crores of capex is being spent in the modernization of the plants as well as capacity enhancement. Second is, if the plants are getting ready to get the regulatory approvals after becoming modern, we are also working on R&D pipeline, both the International Formulation business as well as the API. Close to nine to 10 products have been identified now and R&D is working on this. In fact, R&D organization also been strengthened.

The third pillar is institutionalized innovation and the fourth is technology enablement. A lot of work is going on from backend to frontend to have technology adoption so that we are able to increase the speed. We are able to decrease the cost and then be competitive. Fifth is M&As, we have a good cash surplus available to us and we want to deploy that with well thought-out M&A strategy, which is in line with profitable growth, which we have talked about earlier.

The next is also looking at exploring adjacencies in our businesses and see that how do we draw on the synergy of the customer segments which we cover. And the last one, I think, very, very critical for us is talent development, and, wherever we do not have the talent, acquisition. So, these are the seven pillars going forward, which are driving -- which are set to drive our growth.

You will recall, I had mentioned, we had worked out a very diligently planned transformation agenda. There were six tenets of transformation agenda and every single tenet execution is being monitored very, very closely. And that's what has resulted into the performance what we see today. So, I thought let me just give you a brief about the financial performance as well as the thoughts or the strategy behind the financial performance before I invite your questions.

So here I stop and request the questions to come over. I try my level best to answer the question. If I'm not in a position to answer the question, I'll take down your question and maybe we reach out to you later.

Moderator: Thank you very much. The first question is from the line of Sudarshan Padmanabhan from JM Financial PMS. Please go ahead.

Sudarshan Padmanabhan: Thank you for taking my question. And congrats on great set of numbers. Two questions from my side. The first on the domestic side. I mean it's very nice to hear the new launches doing very well. But if I look at the split, I mean we have a proportion of old legacy products, which still has a lot of steam. We have monoclonal antibodies where I think we can launch more products and cover the market. And of course, the new products. If I'm looking at, say, the next three years horizon, how do you see each of these subdivisions doing? And how do you see the proportion of stack there in the next three years? I have on the other question, but I will come back after you answer this.

Yugal Sikri: Yes. Thanks for the question. I think that's very relevant for us. In fact, product portfolio rejuvenation is the first of the five pillars we have for Domestic Formulation business improvement. And when we crafted our portfolio strategy, we had focused on three things -- three pillars or three sub-pillars. One is how do we maximize on our legacy products because legacy contributed close to about 67%, 70% of our turnover. And that's where we decided to have a very diligent life cycle management strategy.

And result, we have launched close to about eight or nine line extensions in -- for our legacy products. And the legacy products is growing today much ahead of the market around 16% to 17%. Thanks to the life cycle management strategy, which we have. That's the first pillar.

The second pillar was the focus on the specialty business. As you all know, we have nephro -- we have a dominant player in nephro. So, we thought we should strengthen the specialty business. That's where we have got a great customer engagement. As a part of the life cycle management for our immunosuppression basket, we decided to branch out for rheuma because rheumatology also had the usage of immunosuppressant product, which were earlier being prescribed only in nephro.

So, we forayed into rheumatology. And now we are foraying into dermatology and gastroenterology, not in mass side, but the class side, the specialty side. And with the result, all the three segments are -- but the third one I must mention is chronic. So great strides in the first one, which is life cycle management of legacy products, very good traction in the specialty side. The chronic side, we have entered. We have done all that what we could do. The progress there is a bit slow. We anticipated that to happen because that space is already occupied by the big players. But we have a good representation of product portfolio today and we expect that also to grow significantly.

Going forward, I expect all the three to contribute in the legacy business, thanks to life cycle management. Specialty business, thanks to the life cycle management of the immunosuppressant plus entry into the new therapies like rheumatology going forward in dermatology and gastroenterology. And the third is continued thrust on the chronic portfolio. So, I expect all the three to contribute going forward.

You talked about monoclonal antibodies. Monoclonal antibodies has been our interest area because we are strong in specialty. And the specialty has a place for mabs or monoclonal antibodies. I'm happy to share with you that the five mabs which we have launched have got excellent traction They are contributing close to about 7% or so to our turnover in the Domestic Formation business. So that's my commentary on the Domestic Formulation and the new products. I hope I could answer your question.

Sudarshan Padmanabhan: Yes, sir. It was very helpful. And sir, how much would be the chronic today? And where do you expect it in the next two years, sir?

Yugal Sikri: Yes. Chronic is not that big, frankly speaking. That's been our area which we -- on the product portfolio side, we have strengthened, we had a legacy product called Aldactone, which I call as a gate-opener for cardiologists because the Aldactone is a very well-known brand name in the cardiologists. The traction is not that great. The chronic might be contributing close to about now around maybe 11% or 12%, cardiovascular 11% to 12%. And yet another chronic therapy, which we are focusing on in urology that also should be contributing about 2% to 3% to our turnover now.

Sudarshan Padmanabhan: Sure, sir. My second question is on the margins. If I look at from FY '19 till now. Consistently, we have been improving the margins. In fact, the actual EBITDA margins have moved from

10% to 20%. And when we hear commentary going forward from several stakeholders in the pharma space, they do talk about KSM prices coming down and certain costs coming down and especially with the MR productivity that you are seeing and basically the scaling up happening faster. Where do you see, number one, the margin from here?

And can you also give some color because the working capital improvement has been very good this year, primarily on the inventory side, we've been able to see about INR12 crores in the payable side, about INR16 crores, INR17 crores. I mean is this something that one should expect going forward. What should be the working capital that one should expect?

Yugal Sikri: Okay. So, your first question on margins, EBITDA margins. EBITDA margin has been a function of both components of the cost, which is COGS as well as opex. And I must share with you that our cost reduction story is structural. What we mean by structural is that the basic components of the cost, particularly the ones which are contributing greater proportion, have been addressed from the fundamental standpoint.

One example in case is organization structure. We have looked at the organization structure very, very closely and where we address the roles, the duplication of the roles, span of control and all of that put together has helped us to give good percentage points in the cost reduction. Second, our unrelenting focus on the processes, even our manufacturing costs have shown a significant decrease, thanks to a lot of efforts there, which include that size optimization, process simplification, import substitution, alternate vendor development.

And the top of it all is the first-ever exercise, which we did was the formulation re-engineering, product reengineering, first time industry of 50 years, 55-year-old company, where we challenge every single formulation of 13 SKUs, which contributed over 80% of the Domestic Formulation turnover. So, all of that has put together, as you just mentioned, has shown 11% to 21% EBITDA increase and that's likely to continue.

Now going forward, the drivers of further EBITDA margin improvement are going to be the product mix, scale of operation. And as we go along, I think those are the factors which should help us to deal with the upward trajectory, which you have set for EBITDA margin. Of course, I must hasten to add here, the input cost increase, which we were expecting to come down, has come down to some extent, but not to pre-COVID level.

And that is putting pressure on the material costs. But all the cost optimization measures, which I just talked about are helping us to mitigate the impact of these opex or these cost increases, input cost increases, which we are seeing. So, I'm optimistic for future on the margins.

Sudarshan Padmanabhan: Sure, sir. Thanks a lot. I'll join back.

Moderator: Thank you. The next question is from the line of Aditya Khemka from InCred PMS. Please go ahead.

Aditya Khemka: Yes. Thanks for the opportunity. Hi, Yugal sir. Sir, I was talking about the employee cost this quarter. So, the employee cost this quarter seems to be substantially higher than what we normally do as a run rate. It is about 35% growth year-over-year on the employee costs. So, could you just talk about what changed there? Have we hired additional people? What is driving this additional employee costs?

Yugal Sikri: Yes. I think it's an important observation, Aditya, by you. Yes, the employee costs are up this time. And that's largely -- if you see in the quarter, it is, yes. On the full year basis, the employee cost is up 17% versus the 16.5% increase in the revenue. And this increase which you see in the quarter is largely because of the good performance which we had this year, and therefore, the incentives for management, which we had planned are part of these employee cost provisions which you see there.

But for the year basis, you see a growth of 17% versus the 16.5% growth of revenue. Again, we are growing now and our talent requirements are increasing. The kind of the future we are envisaging, Aditya, will happen only through a good talent acquisition and talent is expensive these days. So, across the roles which we have, we are looking at the talent and therefore, attractive incentive plans for the retention and their increased contribution. That's what is contributing to the employee cost.

Aditya Khemka: So, sir, going forward, when you say that you see margin expansion will continue, do you feel your employee expenses will grow in line with your sales, or will they outstrip because you will need to invest in talent and obviously, when you invest in talent, some of the payback happens in future years? So just some understanding there would be helpful.

Yugal Sikri: Yes. So, Aditya, the way we are doing is we are doing competition benchmarking for our employee cost. So, you tend to move to a little on the higher quartile as you move ahead because you want a better talent. But broadly speaking, I don't think that's going to outstrip. I think it should be in line with the revenue growth which we see today. It's not going to be -- the turnover is increasing by 15%, 20%, it's going to be 35%, 40%. No, it's not going to be that. It should be in line with the revenue growth which you normally see.

Aditya Khemka: Understood. And sir, this particular quarter, we also saw lower sales numbers coming in the International Formulation business as well as the API business. API business sales are actually significantly lower than what we generally do between INR20 crores and INR30 crores a quarter. This quarter was substantially lower than that. And I think the same goes for International Formulation business. So could you just help us -- so I know in your opening remarks you said that the API order pattern and the inventory with the customers.

But we have been hearing from other API companies about that over the last three quarters, four quarters, whereas that change has apparently hit us at RPG more in this quarter. And your International Formulation business also, this quarter has substantially slowed down versus what we did in the first three quarters of the same year. So, any color there, sir?

Yugal Sikri: Yes. If I have to split -- to just indicate you segmental performance, Domestic Formulation had registered 20%-plus growth. The International Formulation business also is 13%, 14% growth. Yes, it did lower than what it was earlier. But I think it's still good, that 13%, 14% is not a bad number. And yes, the API was the smallest business in my portfolio has somehow -- and the portfolio is also limited there.

We have a concentration of the business in a couple of markets and a couple of products and there was some inventory correction. But I have a reason to believe and because we are in touch with the customer there, it should not be stretching to the quarter 1 or quarter 2 going forward because the correction what was to happen has happened. So, I don't envisage such things to happen going forward. I believe this was a onetime correction taken in this quarter. And I hope that will bring API business to the kind of the growth trajectory which we were seeing in earlier years.

I must also add here, Aditya, that we have decided that the international business should also become our yet another growth driver in a stepwise manner for which we are investing in the modernization of our both plants, API and International Formulation. And we are also working on the product pipeline, both for International Formulation as well as API business.

And there is a time period which is 1.5 years or 2 years for the new product development by the time they get developed, get regulatory approval and commercialize. But I see a good traction coming from International Formulation business, perhaps even a little higher than the Domestic Formulation business going forward. Similarly, for API, API was our third priority, but with the API getting traction across and we modernizing our plant and the new product pipeline which we are working on, I expect API also to be a growth driver, 1 year, 1.5 years, 2 years hence.

Aditya Khemka: Understood. Last question, sir. So, on the modernization bit, would you have to take any shutdowns, or have you taken any shutdowns in the plant for modernization? And number two, hence, what is the capex plan for you in FY '24 and onwards, if we can talk about that?

Yugal Sikri: Okay. Good question, Aditya. You are perhaps dealing with good pharma companies and therefore, you have an insight of whenever there's a modernization, there is a possibility of plant shutdown. Yes, in our case also, there would be a plant shutdown for -- I won't say plant shutdowns. We have two, three blocks in which one block will shut down. But before the block shuts down, we have inventory build-up planned for a period of shutdown already. And so that the sales are just not going to be impacted because the inventory build-up will happen for -- it's not going to be shut down for a long period, it's going to shut down for about three months or 3, 3.5 months or so. But before that period, we have the inventory build-up plan in place. So, there is no worry on that count, whether that will impact our turnover.

And what was your second question, Aditya? On capex, okay, capex. Yes, as I mentioned in the last three years, including this financial year, we have close to about INR100 crores-plus capex on the two plants being spent. All this should be over by the end of this financial year.

And at the end of it, I see capacity improvement almost to the tune of 40%, 50% in the API and around 15% to 20% in the Ankleshwar formulation plant. And more importantly, the regulatory approvals from PICS as well as from EU or EU regulators should also happen. So that's what a development on the plants front. I hope I could answer your question.

Moderator: We will proceed with the next question, which will be from the line of Sajal Kapoor, an individual investor.

Sajal Kapoor: Yes, hi. Thanks. I would like to start with a word of appreciation for the entire management team for good execution, not only last year, but over the last four years, ever since Mr. Sikri joined back end of 2018. And there's a lot of visible improvement on the business hygiene, the cash flows as well as the return ratios. Everything has improved and quite remarkably.

But there have been a lot of efforts and initiatives taken on the people side as well, which not many pharma companies bother about, so it's really heartening to note that we have invested a lot behind our people and the happiness initiative and we're attracting those initiatives as well. So, it's not just a lip service that we are doing. So, congratulations and best wishes for the future on that.

And coming to my question, sir. On our API business, I heard your comment that API can be a growth driver going forward after this modernization and capacity doubling is out of the way. The question really is what gives us the right to win -- as in India, we have many strong API players. So difficult to compete against someone whose core competency is API versus RPG where our core competence is branded formulations and connect with the doctors and connect with the international customers. API is not our core competence. So, what gives you the confidence that API can be a growth driver going ahead? Thank you.

Yugal Sikri: Yes. Thanks, Mr. Kapoor, for very generous appreciation. I sincerely thank you. Coming to your question on API, I think it's also a very valid question. What is our right to win in the API space, which is very, very competitive. Yes, Mr. Kapoor, I also had the similar thought at the back of the mind when I focus on the three business segments. So, we focused on Domestic Formulation, then the second was International Formulation. Third was API.

Now with the API situation changing in the country and with the fact that we have an API plant, which is with us for decades now and the fact that we have the infrastructure, whether it is R&D, regulatory, etcetera, also in place, I thought we can look at API a little more differently than what we have looked at so far. And therefore, right to win basically comes from two or three sources.

One is our strong presence in immunosuppressant. We are one of the major suppliers of azathioprine, both on the API side as well as on the formulation side. So, we have a connect with the customers. The customers with whom we are dealing are, we are dealing for almost 15 years to 20 years now and we have a good stickiness with those customers. So, one immunosuppressant and sticky customers.

Second is we have International Formulation, Domestic Formulation products, which we can have backward integration for some of our products. And that will help us to improve our margins because today, we are sharing those margins with others. Tomorrow, we will have the internal manufacturing. And the third one is selection of the API basket itself.

Now we know that we are not a large player. We can't compete with Divi’s, etcBut we can identify some of the niche APIs, which have limited competition, limited number of DMFs filed. And if you work on those APIs and are able to connect with the innovator formulators, I think we have a business case for us. So, these are the two or three drivers which are forming the pillars of our product portfolio strategy. Number one.

Number two, since we had the plant already and we have some kind of expertise already available in terms of people, we thought we can leverage that in this business. And also, this business is more profitable, inherently more profitable to us. So, all of that put together has helped us to craft an API strategy. We have been very careful in crafting this strategy. We have been very careful in deciding which products we should develop. And we have also been very careful in deciding the market where we should be entering. I don't know whether I've been able to answer your question, Mr. Kapoor.

Sajal Kapoor: No, that's really helpful. I appreciate that detailed response. And just a couple of quick questions really. One on the gross margin. So, I see the chemical prices have cooled off substantially on a Y-o-Y basis. And so, we have seen a lot of high price inflation on the input raw material front, that's cooled off now. And plus, the fact that there is a set WPI-based formula for price rise, which will be happening starting Q1, but the effect of that may not be visible in Q1 because of the channel inventory. So maybe in the month of June, we'll get some benefit and then full benefit should come in the Q2.

So, putting these two things together, the cooling off on the raw material side as well as the price hike, that should give us a good fill-it to the gross margin. And if that is a correct understanding, then majority of that increase in gross margin should filter down to the operating margins, is that the right sort of assessment?

Yugal Sikri: Yes. Mr. Kapoor, I think you are on the right track of the thought. If the raw material prices go down, yes, these would immediately be passed on. It will have an impact on gross margin. The effect also is, Mr. Kapoor, that I have been waiting for these price decreases in input for a long time and was expecting that the input costs will come down to pre-COVID level, which barring a couple of categories like aluminum foil, to some extent, solvents , other places, I'm not seeing the decrease the way I expected.

Yes, if that happens, they should be visible in the gross margin. You would have seen that our gross margins have actually improved over the last five years, six years. However, in the last couple of years, they are almost stagnant. Input costs have gone up. The material costs have gone up. However, a lot of optimizations have happened on the manufacturing cost, the manufacturing overheads, with the result, we see the impact on the cost is not that much. It is balancing out in a way. But if the material costs go down in future, it will definitely have a bearing on the EBITDA margins and the gross margins going forward.

Sajal Kapoor: Yes, sure. That's helpful. And finally, it's a very interesting seven pillar slide on our slide deck. Could you add some more color to the pillar two and three, which is the R&D and the innovation pillars on those seven pillars?

Yugal Sikri: Okay. So, thank you so much that we actually uploaded this just a few hours back. I sincerely appreciate that you could spare time to go through that. Yes, you talked about the R&D pipeline. And innovation, am I right? These are the two points.

Sajal Kapoor: Yes, correct. Yes, pillar two and pillar three in that seven-pillar slide.

Yugal Sikri: Sure. On the pillar two, the R&D pipeline, basically we are deploying R&D for the International Formulation and the APIs to be exported. That's where we are making our R&D to work. The International Formulation business, we have a very clearly defined strategy. One is we focus on our strength, which is immunosuppressants basket. We are a strong player in azathioprine. We are now wanting to work on mycophenolate, which is much bigger in market size compared to azathioprine.

So, first focus is on immunosuppressants basket. We want to have every single strength and variant for these four molecules, which is azathioprine, mycophenolate, tacrolimus and cyclosporine. And currently, the work is on. Number of products are -- a number of these variants are under development and going through the bioequivalence study. Some of them are going to bioequivalence study.

Second is we are focusing on the products which are -- which need special manufacturing conditions, like low RH, low temperature, low volumes which does not attract the attention of biggies. And the third one is some amount of complexity in the formulation. And you know that there are complex generic products, prolonged release formulations, sustained release formulation, etc, are the ones which is the third category we are focusing.

Fourth is we have our own API plant. So, we want to have a forward integration for those APIs or backward integration for our formulations. Some of the APIs we are manufacturing, which are in our target list are those APIs as well. So, this is on the International Formulation side. On the API side, we have clearly identified certain -- as I was mentioning earlier, we clearly identified certain APIs, which are niche, size is sub-$100 million. and where the DMF files are very less in number because volumes are low and that's where we can get better margins.

And that's our focus on the API R&D pipeline. International Formulation pipeline I've already mentioned. On the innovation side, what I meant by institutionalizing innovation is we are an old company, 50 years, 55 year-old company and not with a great track record of growth. So basically, there's old processes, old systems, old formulation is the way it has been going.

So, what we've tried to do is involving every single head of the department. And we're 50-plus head of the departments in various functions, involving every single person to identify what is new way of doing what they're currently doing. And I'm happy to share with you that we had record innovation projects, over 120, 130 innovation projects which the teams worked out. We also have an internally innovation festival at the group level. Second highest entries came from our company in the entire group. And I think all of that is really helping people to think differently and also eventually helping whether the revenue side or the cost side. So that's what I meant by institutionalization of innovation. In the sales force, we have created a platform called Navigator. Every quarter, we have a meeting of 50 select sales force people who come up with the new ideas, fresh ideas to promote our product to deal with the competition. And thereby, they get rewarded.

There are a good number of innovation awards created in the system. And that's what I meant by institutionalizing innovation across the organization. I hope I could give some flavor.

Sajal Kapoor: That's very thoughtful and reassuring, Mr. Sikri. And wish you the very best going forward. Thank you.

Yugal Sikri: Thank you, Mr. Kapoor.

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

Tushar Manudhane: Thanks for the opportunity and good set of numbers for full year '23. The number of MRs you intend to add or rather field force you intend to add over the next 12 months to 15 months.

Yugal Sikri: Okay. Thanks for this question. And in fact, this question gets asked in every meeting and I take the opportunity to clarify my thoughts on the MR expansion is that I don't look at the field force expansion per se. I look at the target customer coverage. So, I'm happy to share with you with the field force expansion which you have taken in the last three years, which is a creeping 10% or so every year, we are able to cover all our target customers to the tune of 85% to 90%, except GPs, general practitioners, where also we have increased our coverage almost around 30% more than what we were actually covering. So that's how we look at.

Now as we enter dermatology, as we enter gastroenterology, we will also add the number of reps accordingly. So that's our thoughts. And it actually works out close to about 8% to 10% of the field force expansion on an average basis every year.

Tushar Manudhane: Understood. Sir, the intention to ask was that while you have already discussed in detail in terms of capital allocation for the manufacturing facility, apart from addition of MRs and now that you have a good amount of cash also that is coming up on the balance sheet, what would be the scope of investment for a branded side apart from MR addition and given that you're already getting into more number of therapies?

Yugal Sikri: Yes. So as far as the sales force addition is concerned, as we enter new therapies, we will add the representative there. And we will make sure that we cover 85% to 90% of the targeted customer. So next in the list, as I mentioned, is dermatology and gastroenterology and that's where -- and there also we are not targeting mass specialists. We are talking about a class specialist who focus on the high end of the diseases and the high end of the product. So that's on the expansion side. What was your second question?

Tushar Manudhane: Any further capital allocation apart from MR addition or through inorganic group to get into further domestic formulation branded piece?

Yugal Sikri: Yes. Actually, I request you to kindly look at the website. We have put several pillars there. One of the pillar for our future is M&A, mergers and acquisitions. We have, as you rightly mentioned, we have a good surplus now. And we also crafted our M&A strategy. And we are diligently working on this, maybe 15 to 20 proposals we would have seen in the last one year.

But we want to be thoughtful when we pursue the M&A target and that war chest which we have. Apart from modernization of the plants and creating new product assets in R&D, it will be deployed in inorganic growth as and when we get the right candidate.

Tushar Manudhane: Thank you.

Yugal Sikri: Thank you.

Moderator: Thank you. We have the next question from the line of Naresh Vaswani from Sameeksha Capital. Please go ahead.

Naresh Vaswani: Yes, sir. thank you and congratulations on good set of numbers. So, first question is on the ceiling which got revised this year. So, I wanted to understand how much impact you foresee on the domestic growth in FY '24 due to this, or do you think that a majority of that will get set off by the WPI increases which you will be taking?

Yugal Sikri: Okay. So, you are talking of the balancing out the WPI increase? What are the factors you mentioned? I'm sorry, I couldn't get that.

Naresh Vaswani: Yes. So, the ceiling price is under the NLEM drugs which got revised. So -- yes.

Yugal Sikri: Yes, I understood now. I understood. Thanks, Naresh, for bringing that important point. Yes, the ceiling price reduction as -- like any other pharma company, some of the products of us are also covered there. But as you rightly mentioned, WPI increase, which you have got 12%-plus this year and the price increase in the decontrol products which we normally have should be able to help us to offset the decrease in the prices.

And we are also internally worked at a lot of areas for the cost reduction -- further increases on the cost reduction. And third is also looking at our trade practices, revisit of the trade practices. All these three put together should help us to tide over if there's any negative impact of the ceiling price reduction.

Naresh Vaswani: Okay. Sure. And the second on the coverage which you mentioned that gastro and dermatology are the next two therapies that you are going to target. So, what sort of products do you plan to market in these two therapies?

Yugal Sikri: The therapies of -- which therapy you talked about? Could you please clarify?

Naresh Vaswani: Sorry. Dermatology and gastro you mentioned, right, over the next -- yes.

Yugal Sikri: Yes. Okay. I think good question. See, we have immunosuppressant basket in our range, which is azathioprine, mycophenolate, tacrolimus and cyclosporine. These are the products which are also used in the derma and gastro. Gastro for example, there is a indication called ulcerative colitis. In that indication, we use the immunosuppressant. So, we will promote our immunosuppressants to these target audience.

As we promote these products in these target audience, we will also -- we have identified products in our product grades which are targeted towards rheumatologists and gastroenterologists, particularly the higher end. I'm talking about monoclonal antibodies and the like, which we have identified, which will be launched for these two specialties. And that's the portfolio.

These are part of our product portfolio grid, which we have created three years back and it has over 40 products included. We have launched a few products already and quite many are in the play now and which should be seeing the light of the day going forward.

Naresh Vaswani: Understood, sir. Thank you and all the best.

Yugal Sikri: Thank you.

Moderator: Thank you. The next question is from the line of Ankeet Pandya from InCred Asset Management. Please go ahead.

Ankeet Pandya: Hi, thanks for the opportunity. Sir, congratulations on the great set of numbers. Sir, most of the questions have been answered. I just had one question on the gross margin front. So, on the sequential basis, the gross margins have come down from around 67.5% to 66.7%. And this is despite having a strong growth in the Domestic Formulation also. So, and though you have mentioned that there is still input cost pressure. So that might be one of the reasons. But any other thing that we are missing out or why as the gross margin down sequentially?

Yugal Sikri: Yes. I think largely it is to do with the input costs, frankly speaking, and that is the one which has one of the major implications on the cost. And second also is the -- particularly when you have a small business, product mix becomes important. And that also plays a role. As I mentioned to you, there was some inventory correction happened in one of the major products in the major customer. And once that settles down, once that gets normalized, I don't think the -- even on that front, I have a worry on margins. I hope that answers the questions, Ankeet.

Ankeet Pandya: Yes, sir. Yes. That's it from my side. Thank you.

Yugal Sikri: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was our last question for today. I would now like to hand the conference over to Ms. Dhara Patwa for closing comments. Over to you, ma'am.

Dhara Patwa: Yes. Thank you, Yugal sir and Vishal sir for spending your valuable time and providing this opportunity to host the call. Sir, any closing comments you would like to give?

Yugal Sikri: Yes. Thanks, Dhara, and thanks, everyone, on the call. It has been a great opportunity for me to talk to you about what's today of the RPG Life Sciences and future of RPG Life Sciences. I would just simply mention that we have come to a stage from fundamental succession to process excellence to sustainable profit growth. Two, benchmark performance amongst the competitor companies.

Now we are all set for a scale-up stage where we need to simply scale up the business beyond the current turnover and for which we have listed down seven pillars and we are diligently working on each of the seven pillars going forward and which also takes into consideration the emphasis on Domestic Formulation, which was stated to be our first priority and we are also stating that the International Formulation has also become our second priority and that's where the pillar one and pillar two, in fact, the pillar three and pillar four also come into play. So, with this, hopefully, we should move to a yet another league going forward. Thank you so much.

Moderator: Thank you. On behalf of SMIFS Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.