"Ajanta Pharma Limited
Q3 FY 2023 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Ajanta Pharma Limited Q3 FY 2023 Earnings 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, please signal an operator by pressing star then zero, on your touch-tone phone. Please note that this conference is being recorded. I'd 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; Mr. Arvind Agrawal, our CFO; Mr. Rajeev Agarwal, AVP Finance and Investor Relations. I hope that the results are already there with you now, and I'm happy to share that we have been able to achieve continued growth in the revenue for the current quarter as well. I and our Joint MD will take you through the business-wise performance for Q3 and nine months FY 2023, along with the comparison of previous year same period.

It was yet another good quarter with continued revenue growth. The total revenue for Q3 stood at Rs. 972 crores and for nine months Rs. 2,861 crores posting growth of 16% for both Q3 and nine months. The business is divided in three verticals; Branded Generics, US Generics, and Institution business in Africa. Let us first start with the Branded Generics business. During the nine-month period, 73% of the total sales came from the Branded Generics, which is spread across India, Asia, and Africa.

This business has surety, scalability, and sustainability for the long term. During Q3, Branded Generics sale was Rs. 666 crores against Rs. 620 crores, posting 8% growth. In nine months, sales were Rs. 2,065 crores against Rs. 1,739 crores, posting healthy growth of 19%. This growth is in line with our expectations and the guidance. To begin with, I invite Mr. Rajesh Agrawal, Joint MD, to take you through India business. Thank you, and over to you, Rajesh.

Rajesh Agrawal: Thank you. Good evening to all of you. Let me discuss some of the key highlights of the India business with you now. India business contributed 31% in total revenue during nine months. In Q3, sales stood at Rs. 294 crores against Rs. 260 crores, posting a growth of 13%. And in nine months, sales stood at Rs. 888 crores against Rs. 737 crores, posting a healthy growth of 20%. We launched 21 new products in first nine months with 6 first-to-market products. With consistent growth in business without any increase in MR strength, we have seen continued improvement in MR productivity as well.

Our performance has been satisfactory, which was on the back of new product launches, market share gain, and price increase. I'm delighted to mention that our overall growth was 2 times the IPM growth rate as per IQVIA MAT December 2022, with Ajanta's growth of 15% versus IPM growth of 7%. Even in all therapeutic segments that we are present in, our growth was much higher than the segment growth, as you must have already seen in our press release and the presentation.

In the covered market, we stood at 4th largest against 27th rank in the overall IPM. It will be heartening to note that in all therapeutic segments, our ranking in covered market is among top

10 with 2nd rank in Ophthalmology and Dermatology. As per IQVIA MAT December 2022; Cardiology contributed 40%, Ophthalmology contributed 31%, and Dermatology contributed 21%, of our India business with remaining 8% coming from Pain Management.

India business includes revenue from Trade Generics of Rs. 38 crores against Rs. 30 crores in Q3 and Rs. 109 crores against Rs. 87 crores in nine months of FY 2023. Now Mr. Yogesh Agrawal, MD, will take you through the other business performances. Thank you, and over to you, Mr. Yogesh Agrawal.

Yogesh Agrawal: Let me now discuss some of the key highlights of the Branded Generics business in emerging markets. The Branded Generics business of Asia and Africa contributed 42% in total revenue during nine months. Our exports to these markets were Rs. 372 crores against Rs. 361 crores, a growth of 3% in Q3, and Rs. 1,177 crores against Rs. 1,002 crores, a growth of 18% in nine months FY 2023.

We launched 30 new products during nine months in these territories. We continue to see mid to high 'teen growth in the Branded Generics business of emerging markets on back of our robust product pipeline, increased productivity, and excellent execution of the strategy across various countries. In Asia, our business is spread over Middle East, South-east Asia, and Central Asia. During Q3, sale was Rs. 228 crores against Rs. 194 crores, posting a healthy growth of 17%. In nine months, sale was Rs. 719 crores against Rs. 551 crores, posting healthy growth of 31%.

Africa business is spread over of West and East African countries. During Q3, our sale was Rs. 145 crores against Rs. 166 crores, posting 13% de-growth. The growth was adversely impacted by about 6% due to INR appreciation against Euro from previous year. However, in the month of December 2022, we have seen a reversal of this trend, and we hope to see the growth in this market again going forward. In nine months, FY 2023, sale was Rs. 458 crores against Rs. 451 crores, posting 2% growth.

Now let us move to the US business. This is the second vertical of business and contributed 22% of the total revenue in nine months. In Q3, sales were Rs. 266 crores against Rs. 166 crores, posting 61% growth. In Q3, there were tailwinds due to high flu season, which contributed incremental revenue during the quarter. The flu season is now almost over, and we do not see this to continue in coming quarters.

Price erosion has stabilized to the mid-single digit to high-single digit in our existing portfolio on the shelf. In nine months, sales were Rs. 631 crores against Rs. 528 crores, posting 19% growth. At the end of nine months, we filed 4 ANDAs and also received 1 final and 1 tentative approval. We now have 22 ANDAs awaiting approval with US FDA.

I now move to African Institution business. This is a third vertical of business comprised of antimalarial product and contributed 5% in the total revenue. In Q3, sales were Rs. 31 crores against Rs. 36 crores, posting 15% de-growth. In nine months, sales were Rs. 141 crores against Rs. 156 crores, posting 10% de-growth. As mentioned earlier, Institution business remains unpredictable and depends on the procurement time, schedule and funds availability with the agencies. With this, I will now hand over to Mr. Arvind Agrawal, CFO, to take you through the financial performance. Thank you, and over to you, Arvind.

Arvind Agrawal: Thank you. Good evening to all of you, and warm welcome to this earnings call. I know that the time for the results to be there with you were very short. My apologies for that but I think I will take you through the entire thing and then maybe you can ask the questions.

For ease of discussion, we will look at the consolidated financials and provide year-on-year comparison. Let me take you through key financial highlights for Q3 and nine months for the FY 2023. In Q3, total revenue stood at Rs. 972 crores against Rs. 838 crores, posting 16% growth. In nine months, total revenue stood at Rs. 2,861 crores against Rs. 2,471 crores, posting growth of 16%. The breakup of revenue has already been discussed by MD and JMD, in their speech. COGS continued to be at 28% for both Q3 FY 23 and nine months FY 23, in line with Q2 FY 23. US price erosion and INR appreciation against Euro have adversely impacted COGS to the extent of around 1% each. As the Euro-INR exchange rate has come back to the earlier levels of Rs. 88 odd in December '22, we expect some relief in COGS in Q4 and expect it to be around 26%.

Personnel costs have seen increase of 19% in Q3 and 17% in nine months FY23. Out of this, about 10% was towards increments to existing teams and balance towards increased team size across international field force, production, and R&D. As part of focus on Branded Generics business, we have scaled up our international MR strength by 50% over previous year, which will yield dividends in years to come.

Other expenses saw a sharp jump during the quarter on account of the following. For earlier two quarters, we had a foreign exchange gain and it continues to be so in nine months FY23. However, we incurred a forex derivative loss in Q3 of Rs. 37 crores, and nine months, it is Rs. 43 crores due to sharp movement in USD and Euro. This loss is part of other expenses, whereas the gain are reflected in other income. And that's why you must have seen, I have given you adjusted EBITDA also in the results which we have given to you in the presentation.

Though the logistic cost is witnessing downward trend, but it still remains higher compared to pre-COVID level. Further, the requirement of reefer containers in some of the markets continues to keep freight cost at a higher level. In US, the early arrival of full-blown flu season took everyone by surprise. And to meet the market demand so that small babies and children get treated, we sent sizable quantity by air due to which we saw additional freight expenses of about Rs. 16 crores.

In Q3, as part of the increased focus on Branded Generics business, the selling expenses were higher by about 100 basis points, which also yielded results of superior performance of Branded Generics business across India and emerging markets. R&D expenses was at Rs. 61 crores against Rs. 51 crores for the quarter, and it was Rs. 174 crores and against Rs. 145 crores for the nine months, an increase of 20% over previous year. R&D expenses continue to be at 6% of revenue. Higher R&D expenses were mainly towards Branded Generics verticals across India, Asia, and Africa in the form of new product development and its registration fees.

With the above impact on COGS and other expenses, EBITDA margin saw a dip during Q3 and stood at Rs. 170 crores or 17% of revenue from operations. For nine months, EBITDA was at Rs. 588 crores or 21% of revenue from operations. Impact of COGS was 2%, unrealized hedge loss of 4%, and incremental freight of 2%, as explained above, which if excluded take the EBITDA to 25%. As some of the impacts are one-time in nature, we expect EBITDA to improve as per last guidance of 25% plus in coming quarters.

Other income was at Rs. 108 crores in nine months, mainly contributed by a forex gain of Rs. 88 crores without adjusting the unrealized hedge loss of Rs. 43 crores, which is taken for the India other expenses. There was a net gain in forex transaction of Rs. 45 crores in nine months after adjusting unrealized loss. This reaffirms our prudent and robust hedge policy. Income tax stood at 20% for Q3 and 21% for nine months. We expect it to remain at around the same level for full year FY 2023.

Profit after tax in Q3 was at Rs. 135 crores against Rs. 192 crores, 14% of revenue in nine months. It was Rs. 466 crores against Rs. 561 crores, 16% of revenue. We incurred CAPEX of Rs. 115 crores in nine months FY 23. Capex, including maintenance capex for the FY 23, is estimated to be at about Rs. 150 crores. With these highlights, I open the floor for the question and answer. Thank you.

Moderator: We have a first question from the line of Nikhil Mathur with HDFC Mutual Fund.

Nikhil Mathur: Just to understand the margin performance better in this previous quarter. So, you mentioned that there is a Rs. 16 crores impact from additional freight costs for air shipment. There is 2 percentage points of negative impact on account of currency from gross profit, right?

Arvind Agrawal: Yes.

Nikhil Mathur: So, anything else apart from these two line items take a one-off in this quarter?

Arvind Agrawal: For the quarter, if you see that unrealized hedge loss, which is there, that is almost about 4%.

Nikhil Mathur: That is fine. That you have separately mentioned. That is over and above the equipment, right?

Arvind Agrawal: Yes. So, of the COGS impact is about 2%. US price erosion and Euro appreciation that is 1% each. Then 2% is freight, 4% is unrealized hedge loss. So, all put together, you are talking about almost 8% of the things which are there in this.

Nikhil Mathur: Sir, second question tied to this is that you might have also benefited from positive operating limit benefits in the US because of the growth on account of flu. But if, let's say, from $32 million of this quarter, US sales this goes back to $23-$24 million, what we're doing in the previous two quarters. Wouldn't there be a negative operating deleveraging in coming quarters and hence, whatever margin benefits you're talking about that might get negated by this?

Arvind Agrawal: Not really, actually, because as you said, it is right that it was a one-off thing which was there for flu season. That will go away. But certainly, that expenses of Rs. 16 crores and all that also will not be there. So, to that extent, I think we should be able to protect our EBITDA margin as such.

Nikhil Mathur: Sir, I mean, if I do all these adjustments, our current quarter EBITDA margin is 25%, right? So unless in the coming quarters, if your gross margin moves up, it would be difficult to maintain 25% right?

Arvind Agrawal: You're right, absolutely right. And that is what we expect that our gross margin should really improve. That's what I mentioned in my talk that gross margin should improve definitely by 2% at least.

Nikhil Mathur: And sir, the 50% sale force addition, has it been done in Asia and Africa?

Arvind Agrawal: Both.

Nikhil Mathur: And can you remind me when this exercise commence, when did the expansion started and then when it ended?

Yogesh Agrawal: It just started during the year. there was no particular timeline like significant one that we can say. But it kept on happening during the year.

Nikhil Mathur: Okay, all through nine months, this is, expansion has happened?

Yogesh Agrawal: Yes, absolutely.

Nikhil Mathur: And sir, was when the last time when such kind of an expansion was done in the branded Asian-African market?

Yogesh Agrawal: So this is, I think, in absolute number, this is the most aggressive expansion we have done. In the previous also percentages may have been there, but the absolute numbers were not so significant. So here, I think one of the most aggressive expansions we have done so far.

Nikhil Mathur: All right. And then typically, how much time does it take for an MR to recover his/ her cost - one year, two year, how much time does it take?

Yogesh Agrawal: So typically, we see that the second year is the time when they start performing and third year is a year when we actually see the good benefits on they start to blossom. So, we have to give at least a year, when they start becoming really productive.

Nikhil Mathur: So fair to assume that there is significant of margin pressure sitting in the P&L because of exceptional expansion has been, right?

Yogesh Agrawal: Correct. So as our CFO mentioned in his comments, the employee cost, which has also gone up. So, there was employee cost, which got expanded because of all this addition of the people also, which currently is sitting in the P&L, but we start to see the benefits of that in the second year from now.

Moderator: We have a next question from the line of Rashmi Sancheti with Dolat Capital.

Rashmi Sancheti: On this Africa branded business, can you give the growth in 2024 and whether we are seeing any lower growth in Franco Africa or in the English-speaking countries? What kind of challenges are you seeing in those branded markets? And also, if you can give that the field force, how much have you added? So, what is the total field force? Is the expansion completed or we are still doing it?

Yogesh Agrawal: So, as we mentioned that the growth for the nine months is around 1% to 2%. That is primarily because of the 6% impact on the currency. So, if you add that, then the growth goes up to around 9%-odd, in the constant currency basis, which we feel that going forward now since the Euro has bounced back to the levels of 88. Assuming it stays there, we are looking at, I think, that growth to come back again.

And the growths are there in both the markets, Franco and Anglo. Of course, Franco is the bigger tree of the business, and Anglo is smaller. So, for the field force expansion, unfortunately, we'll not be able to give you the market-wise breakup but there has been aggressive expansion in both the geographies, actually.

Rashmi Sancheti: I mean Africa branded business; we are performing in the market growth rate?

Yogesh Agrawal: Yes. If you see the IQVIA data, we are outperforming the market.

Rashmi Sancheti: I mean both Asia and Africa branded business, in this expansion will be, to what time period?

Yogesh Agrawal: So no, as we said, this expansion kept on happening during the year. And we believe that we are towards the tail end of the expansion process. This expansion was also done on back of a lot of new products which we launched. As I mentioned in my opening comments, we launched around 30 new products across different geographies. And naturally, the existing teams could not absorb those products, and it's natural that's when you create a new teams, and that was the entire strategy to begin with. So both put together, I think that where we've seen the expansion. So, I think a good part of the expansion has towards the tail of it now.

Rashmi Sancheti: And sir, my second question is that on EBITDA margin, as you all have guided that in the quarter 4, we should do 25%. We should come back to the 25% EBITDA margin. What is your outlook on FY '24 where the cost is also normalizing. Most of the expansion is also done so, your investments will also come down. Your COGS and everything would also improve, freight costs will also come down. Also, how do we see in FY '24?

Arvind Agrawal: See, this what I mentioned was about FY '24 only, not about Q4. Because Q4 also, it will be a little soft only because the effects are going to take some time to give the positive benefit there. But for FY '24, we have mentioned that we should be somewhere around 25%.

Rashmi Sancheti: So, in quarter 4, if you're expecting the soft then, are we downgrading our overall FY '23 guidance from earlier 24% to 25%, to now at a much lower level?

Arvind Agrawal: Yes, almost about 21%, 22%, you can say.

Rashmi Sancheti: And finally, on the US, since now the Dahej, we have already received the EIR, are we expecting any launch in the quarter 4?

Yogesh Agrawal: Yes. We are going to have one launch in the Q4. And all going well, we should be able to launch around four to five products next year.

Rashmi Sancheti: Sir, and finally, on price erosion, how much is the price erosion, whether it is in very high double digit currently? Or it has normalized now and getting reduced. If you can comment on that?

Yogesh Agrawal: No, it has definitely cooled off now. It is quite in control. So definitely not in double digit. It is in the single digit. The mid to high single digit is the price erosion, which we are seeing now.

Moderator: We now have next question from the line of Kunal Randeria with Nuvama.

Kunal Randeria: Sir, on the US front, any benefit, when if products from import alerts or serious commodity -- some of your competitors have got?

Yogesh Agrawal: No, not really. We scanned the companies which got the import alert, but we have very few product overlaps actually. So, we didn’t get any significant tailwinds because of that.

Kunal Randeria: So I think a lot of questions have been asked on the margin side, but if I however fair, to look at other expenses, right? This quarter, excluding your forex loss, and excluding the R&D, you get somewhere around Rs. 240 crores of other expenses. See, prior to COVID, I have seen that this other expenses has grown at almost like a 20% CAGR, right? So, while the field force expansion and all, I understand, I just want to get some sense on the next two to three years, how will these expenses will grow? Because I think this is something that's driving your margin down.

Arvind Agrawal: See, in fact, the other expenses, if you remove the effect of this quarter for the hedge loss of Rs. 37 crores and that extra freight of Rs. 16 crores to the US, I think then it is absolutely normal. So above 280-285 range or 280-290 range is something which is quite quarterly, that should be the run rate which we are talking about. And of course, normal inflation, whatever are there next year, that will be there in any case.

Kunal Randeria: So now, let me put it this way. On a base of Rs. 280 crores, growing at maybe 8% to 9% a year. Is that a fair way to look at this?

Arvind Agrawal: Absolutely.

Kunal Randeria: And just one more from my side. So, Asia branded is obviously a big chunk of the business. Now you are also have presence in CIS markets, but I believe Philippines, Iraq would be a major chunk of your business. And since you have been in top five in Iraq and move to top 15 in Philippines, should we sort of assume that to grow faster in the market will be difficult and the next leg of growth has to come from CIS markets, or is there enough space to grow in Philippines and Iraq too?

Rajesh Agrawal: Yes. In the Philippines, there is enough space to grow. Of course, last year, we have had a low single-digit growth rather current year. The primary reason being last year because of COVID, we had seen an exceptional amount of surge in the pharma market growth and as well as we posted a very healthy growth. So this year is just averaging out. But next year, we are expecting to come back into double digit, maybe lower 'teen growth rates. So, there is enough headspace to grow in these markets. We also have good product launches, which are in the pipeline, which hopefully will come in any time in Q1, Q2, which will drive the growth further.

Yogesh Agrawal: Particularly for Africa and other West Asia markets also, there is a good enough headroom for us to grow and again, coming back to the earlier comment I made, we have launched a lot of products during the year and added a number of big field size also.

So, increasing the market share from existing products, getting the market share from the new product and increasing the productivity, new people. All other put together in existing market, there is enough headspace for us to keep growing for the next few years.

Kunal Randeria: Just add on this, maybe in some of the bigger markets, what would be the steady state growth let say Iraq, Philippines or Franco Africa, market growth rate?

Yogesh Agrawal: Are you saying market growth?

Kunal Randeria: Yes, market. I mean what pace is the market growing?

Yogesh Agrawal: They are growing at different levels. I think Philippines is around the...

Rajesh Agrawal: It must be single-digit 8% to 9%, maybe. I would have to check latest. So we are at par or faster than the market.

Yogesh Agrawal: Africa is in the low 'teens. I think Iraq is in fact de-grown in last year. But we are, of course, posting higher than the market growth.

Moderator We have next question from the line of Aditya Khemka with InCred Asset Management.

Aditya Khemka: Just to understand the raw material cost trajectory, so I understand the one-offs that are there and that's absolutely fine. My question is more pertaining to the raw materials that we acquired, the API that we buy from outside. The pricing then the spot market prices seem to indicate a significant drop from the peak prices that were there, let's say, three months, six months earlier.

However, I do understand that you maintain inventory and therefore, the higher cost inventory must be getting consumed. So, my question to you is, is the high-cost inventory impacting the entire quarter that we reported, the December quarter? Or was the high-cost inventory a partial impact in the December quarter and partially you were able to consume lower priced inventory.

Arvind Agrawal: No. I think as far as the inventories are concerned, so far, there is no major benefit which we have seen. But definitely, going forward, we should see that benefit in the coming quarters. This quarter, there was no benefit at all.

Aditya Khemka: This quarter, your entire inventory that you consumed was the higher cost raw material?

Arvind Agrawal: Yes.

Aditya Khemka: And sir, you mentioned expansion in field force in India and Asia. So, this is a 50%; 50 or one-five? I couldn't catch the number.

Arvind Agrawal: It is 50% for the emerging markets, not for India.

Aditya Khemka: 50% field force expansion for Asia and Africa.

Arvind Agrawal: Yes.

Aditya Khemka: Sir, what drove the decision to expand field force in Asia and Africa? I mean what is our productivity there? And what are we hoping to achieve by hiring more people?

Yogesh Agrawal: So as I mentioned, we have made a number of launches, around 30 products were got launched in this market. And as you know, that in the pharma market, our team or a particular MR can handle only so many products. And in fact, this was designed that these are all good products, which can be built into the big brands. So, to be able to do justice with these products and these brands, we have done this field expansion. And that is where we are looking that I think going forward in both these markets, Africa and Asia, we should be able to expand or consolidate our positions in various therapeutic segments of GP specialty like cardiac, diabetes, ophthal, pedia, so on and so forth.

Aditya Khemka: Right. Also, just one last question on the US business, so obviously, you've seen some growth sequentially and I'm assuming a majority of that sequential growth is done through sales in this past quarter. In summation, the price erosion is mid-to-high-single digit. So that's a relief from the US situation. But is the entire delta in the current quarter versus the last quarter coming from Tamiflu, or is there any other products where competitor might have gone out and you have gained market share, etcetera?

Yogesh Agrawal: No, I think the most part is Tamiflu only Oseltamivir.

Aditya Khemka: Okay. And the forex loss that you reported Rs. 37-odd crores. So, was it primarily related to pound or was it also, some of it is related to the dollar?

Arvind Agrawal: It was both Dollar and Euro. But again, Aditya ji, you have to understand that this is the MTM loss. So, this is only derivative loss, which is there. And actually, there is a gain also, which has gone to the other income. It is only because of the accounting policy that you need to show it in the other expenses separately and other income separately. But otherwise, overall, for the nine months, we have got a Rs. 45 crores net gain in forex.

Aditya Khemka: Which implied sir, that we partially hedge our exposure, right, in terms of our receivables and sales. So, what percentage of our receivables do you hedge?

Arvind Agrawal: 70% to 80%.

Aditya Khemka: 70% to 80%, both in the Euro as well as the Dollar, is it?

Arvind Agrawal: Yes.

Moderator: We have the next question from the line of Nitin Agarwal: with DAM Capital.

Nitin Agarwal: Sir, on the India business, I think we've done pretty well for the nine months as well as for the quarter. I think this quarter, particularly, we are much ahead of the market. So, are there any specific molecules there, which has sort of led to this growth? Or its been like a very broad-based growth for the business?

Rajesh Agrawal: No, it's a broad-based growth, which is very healthy for us. It's not led by one particular product. The growth is across segments. Dermatology, we are growing more than 3x to 4x the market growth rate. We've been putting in lot of hard work in restructuring the whole derma segment for us, and we are now gaining the traction in it. Cardiology, we are growing much faster as well. Ophthalmology, even though we are number two in the entire domestic market, we are still growing at par with the market, 14%. So, it's a broad-based growth, which is good for us.

Nitin Agarwal: And sir, so from this growth in India, while it is broad-based, is it again largely driven by volumes for the existing portfolio? Or is it, again, I mean, on the new product launches are playing a larger role in this growth for you?

Rajesh Agrawal: It's a very healthy mix for us. Volume growth is 6%, whereas industry volume, if you look at, then IPM is reflecting minus one, either a stagnant or a de-growth. And then, of course, price growth is at par with the industry. And new product launches also is at par with the industry. So, for us, it's a very, very healthy mix of the composition of the entire growth rate.

Nitin Agarwal: And so there's no reason to expect that this sort of these trends should change for us in the coming quarters? I mean given that the growth is extremely well spread out across various parameters?

Rajesh Agrawal: Yes, hopefully not. I don't see any strong headwinds as such. And so next year forecast remains early teens, low teens for us. So, we will be outpacing the market hopefully.

Nitin Agarwal: And sir, do you foresee any disruption in the market because of the NLEM revised price introduced in the market in the last quarter?

Rajesh Agrawal: Yes, it's been unfortunate that the price revisions have taken place. Of course, 12% of our entire domestic portfolio is covered under DPCO and NLEM products, and we have had two major revisions in there. But not hopefully, we are quite confident looking at the WPI index until December. And as per our internal calculations, that the entire erosion that has happened will be recovered coming starting April. So, the impact is only going to be for the fourth quarter, that's all.

Nitin Agarwal: So sir, just help me understand it a little better. So, I think the new prices got induced in Q4, so which are lower by about 10-odd percent versus the previous prices. And I guess we'll get a WPI linked price hike all over again in starting April, which will sort of compensate for whatever reduction happened in Q4?

Rajesh Agrawal: Exactly. That's what's going to happen.

Nitin Agarwal: And is this leading to some sort of volume pressure also in terms you're not pushing enough material, trade not willing to take on enough because there's a uncertainty around the pricing, which is there right now?

Rajesh Agrawal: No, not at all. It's a very transitory one-week or 10-day kind of a disruption that happens. But nothing at all, honestly. I mean, it's perfectly fine. It's just that we have to basically suspend the sales of old MRP until the new price is sold and that takes about seven days to 12 days for the turnaround to happen. Except for that, there is no issue whatsoever.

Nitin Agarwal: And you see this situation being for the entire industry? Or you think it could be players who have a larger share of the DPCO products could have a larger impact on this transition in just your assessment?

Rajesh Agrawal: Yes, in my view, companies who have more products exposed to NLEM products may have got impacted in a larger way compared to what we have. So, there is no doubt in that.

Nitin Agarwal: And sir, secondly, on the international business that you talked about it. In Asia, obviously, you've got these two large markets, Africa is a fairly bit spread-out market for us, diversified market base. Now when you look at the growth for the next three to five years, it is largely what growth for you is primarily going to be a function of growth in the existing markets? Or you really need to diversify into newer markets, grow into newer markets to maintain the double-digit growth you've been doing over the last several years now?

Yogesh Agrawal: There's going to be a combination of both. We still feel that we have a lot of products under registration in each of these markets under various therapeutic segments. And as and when they keep coming to the market, we'll be bringing those products to the market. So, it's going to be a combination in the existing markets, we see that there is opportunity and potential to keep growing for the foreseeable future. And in the new markets, we are now putting more thrust on Anglo-Africa, two countries in particular, Uganda and Kenya. And in Central Asia, also, we are putting more thrust.

So, these all put together there in the excess about $3 billion-odd market. So, a good number of product registration costs, which we've incurred in the current year has gone into the product registration in these markets as well. So, we believe that next year onwards, we should start getting approval, and we should be start to build the teams there and bring them to the market. We know it takes about 18 months odd for the team to really stabilize and start yielding the results. But these are the new markets which we are adding. In next three, four years, we believe that they will also start contributing in a meaningful way to the entire sales at P&L of the organization.

Nitin Agarwal: Basically, these markets should also continue to grow hand-in-hand in the India sales that we're doing in all on the branded side in general, on a very broad basis?

Yogesh Agrawal: Absolutely. The way to look at our business now, I think should not be classified as India exports. Let us look at as a Branded Generics business, which has spread across different geographies, whether it's India, Africa, Asia, or Central Asia now. So, this is a one big bucket because the whole approach towards that is same of having the sales force and generating the demand and building the brand. So, I think we see that in all our Branded Generics business vertical, we see a good potential to keep growing in our existing geographies as well as these two new markets, which I talked about.

Nitin Agarwal: That's great, sir. And the last bit on the US, where does US now fit in with this sort of thought process, which you've got a very, very solid branded-generic business with whatever has happened in the US business over the last couple of years. I mean, how are you looking at -- I mean, as you -- is there any change in the way you've been looking at investments in the US going forward?

Yogesh Agrawal: So absolutely. We are very careful about the spend which we are doing for the US business now. So, when we had the products, so we went through multiple filters to evaluate and select each of the product that does it make sense to spend money on that and bring them to the market.

And after that, whatever products we are working on, that is a much shorter list than what we had earlier. So, the chances of these products proceeding whenever they are filed and they get the approval are much significantly higher. So, we are going in a very, very cautious way on what spend we do for the US market, what are the risks which are involved and what are the returns we are looking at.

So, there'll be more calibrated approach towards the US, a very selective product portfolio, which we are building next two years. And as we said, I think the large expansion or opex is happening towards the Branded Generics business.

Nitin Agarwal: Sir, have you go on a tablet for the Varenicline product?

Yogesh Agrawal: Still a work in progress. Let's see, hopefully if all going well in next year, we should be able to launch the product.

Moderator: We have next question from the line of Bino Pathiparampil with InCred Capital.

Bino Pathiparampil: So just a quick question on this forex loss accounting. So, if you have a derivative gain from the rate you instrument, that comes in other income. Is it right?

Arvind Agrawal: Yes.

Bino Pathiparampil So isn't it logical that a derivative loss is set off against that rather than coming in other expense?

Arvind Agrawal: That is what exactly I was arguing with the auditors. And they are saying as per accounting standards, IAS standards, where you can't do that, the loss has to be put in other expense only. So that is why you are seeing in other income, there is a huge money, which is sitting on the gain, and there is a loss which is getting in the other expenses. So, it is absurd, but this is what it is.

Bino Pathiparampil: So, for the full year also, when you compute, if there is a net gain, still it will be divided as gains on top and losses in our expenses. Is that correct?

Arvind Agrawal: Because see, what happened is in the earlier two quarters, the loss was hardly anything. It was just about Rs. 6 crores. So, it didn't really matter. But this quarter, it was Rs. 37 crores additional. So that really made a whole change. So otherwise, it was always gain-gain. So, for nine months, net gain is Rs. 45 crores but Rs. 37 crores has gone down and Rs. 43 crores and another Rs. 88 crores has come up. So that's how the whole breakup is.

Moderator: We have the next question from the line of Alisha Mahawla with Envision Capital.

Alisha Mahawla: Two questions. One, the MR strength that is increased by 50% for the Branded Generics. Are we done or looking at increasing the strength even more now?

Yogesh Agrawal: For now, I think we believe that this will be the strength going forward. There would be a minor increase here and there, but nothing significant.

Alisha Mahawla: So the employee expenses we've seen in the current quarters should at base go up only marginally now?

Yogesh Agrawal: Correct. That's right.

Alisha Mahawla: And coming to your margins. If I see FY '22, we did about 31.5%, nine months is 20.5%. And even I do understand there is going to be a bit of forex gain, there has been some forex derivative loss also and largely the amount is getting set off because in H1, we had almost Rs. 60 crores of forex gain, against that we have Rs. 37 crores of forex loss. So assuming, that is going to set on, what has made to a muted 10% decline in EBITDA margin also because we started the year, saying that, we could be closer to 28%. And now even for next year, we are only exceeding by 25%?

Arvind Agrawal: Yes. I think 28% is something which is really a little far now at the moment. But as we mentioned, mainly COGS itself, if you have seen, there were two aspects. One is the US price erosion and one was the Euro appreciation. So, this 1%-1% impact is there, definitely on the COGS itself. So that 2% is something which I assume that next year, at least it will taper down. It may not be there to that extent. So that benefit should flow in.

Then the freight cost. Now freight cost is something which is about 2%. Now this freight cost, looking at the current scenario, we are feeling that this also should taper down and that benefit of 2% also should flow into next year. So that 4% clearly will flow in from there. And this unrealized hedge loss, which I was mentioning, that also is about 1%. We feel that there will be a gain from there. So practically, about 5% positive flow should be there in EBITDA margin from current EBITDA margin of about 21%.

Alisha Mahawla: So where is the balance 5% gone and the price erosion that we're talking about, if I compare to full FY '22, the price erosion, then also was quite significant in the US market, almost high single to double digit, which is, in fact, if anything, eased-off in the last quarter. So, in nine months, I want to believe that the impact would be relate on the little basis slightly less. And despite that, which is helping us reach 25%, so where is the balance 5% of the margin?

Yogesh Agrawal: So, what I think CFO was telling is that we'll recover 2% from the freight. So, it is still significantly higher. There is 1% freight combo, which is still going to sit in there. And the cost also, which we are recovering, it was higher. So still that cost of one, US price erosion is we can't recover that. So that is there now. It's staying with us. So that impact will continue at 1% price erosion, 1% freight. And similarly, I think another 1%. So that's why we feel now that 28%, this is 3%, which is unrecoverable now.

Alisha Mahawla: 1% from freight, 1% from price erosion, 1% from forex.

Arvind Agrawal: Yes. Not from forex from other expenses.

Yogesh Agrawal: Sorry, this 3% will get continued. We are not able to recover that.

Alisha Mahawla And that's why instead of 28%, we will be talking 25% for next year.

Yogesh Agrawal: 25% plus, yes.

Moderator: We have next question from the line of Tushar Manudhane with Motilal Oswal Financial Services.

Tushar Manudhane Just to know this forex gain, how much is it in other income?

Arvind Agrawal: Total for nine months, it is Rs. 88 crores.

Tushar Manudhane: So mean time, as for the Derma therapy, there has been a sharp growth compared to IPM. So, if you could call out anything in particulars here in India markets?

Rajesh Agrawal: In particular, in the sense, it's a broad-based growth. All the brands are doing exceptionally well. We are focusing on larger opportunities that we have, moisturising creams plus any other brand that we have. And in the earlier two years, as you would remember, just pre-COVID maybe in COVID also, we have taken a hit in Dermatology. But we have done a lot of good customer relationship management activities, which is yielding the results, and we are growing rapidly in this.

Tushar Manudhane: And secondly, on the gross margin part, leave aside the currency impact. So, 72%, 73% is something to look forward, right?

Arvind Agrawal: Yes. I think, yes, 73%, 74%, yes. I think 73% should be possible.

Tushar Manudhane: So just recently, how much of the raw material price reduction have you witnessed in the recent past? Is there any reduction in the raw material cost on an absolute basis?

Arvind Agrawal: Not really, very less. And also, in fact, there is an increase in the excipients prices sharply in the recent past. I think little pressure is continuing there.

Tushar Manudhane: So effectively then gross margin largely remains stable and so the operating leverage with higher change growth is what we need to write the EBITDA model. That is the line of thought, right?

Arvind Agrawal: No. That's why I said we should be able to get about 2% definitely in gross margin. That's what I have mentioned to you because, especially this year, we had that inventory write-off in the first quarter and then like this US RMPM cost increase. So, to some extent, I will definitely recover plus Euro appreciation. All that put together, 2%, definitely benefit will be flowing in next year.

Yogesh Agrawal: Also I think if you are saying that US next year will be flattish and the Branded Generics business will go up. So that change of composition percentage also will impact our cost. So, all put together, I think we should say right now the current year is around 28%, what we are looking at. So we should be able to, I think, recover 1.5%. Surely, I think around 1% to 2%, which we will be able to recover next.

Tushar Manudhane: Yes. Understood. Forex gain in the other income for the quarter?

Yogesh Agrawal: Yes. Rs. 31 crores.

Moderator We have next question from the line of Abdulkader Puranwala with Elara Capital.

Abdulkader Puranwala: So most of the questions are answered. So just on the promoter front. If you could tell us what is the current percentage of the promoter holding, which is a pledged, as on today?

Arvind Agrawal: Yes. See as far as pledges are concerned, we have already removed the pledges for almost about Rs. 430 crores. That is already released. So now from 14%, we have come down to almost about 7% and whatever amount we have raised, out of that, 66% has already been utilized. Balance about another 22% is going to be utilized in the next two months, when the loans will fall due and then the pledges will be getting released. So practically, I think about 80% plus amount will be used for the pledge removed.

Yogesh Agrawal: Or for**,** simple calculation for you. More than 50% of what the pledge was their pre-raised will get removed. So, 50% pledge will probably remain.

Abdulkader Puranwala: And so my next question was on the CAPEX loss that we have recorded in the quarter. So how that currency euro has been stabilized. In the next quarter would we, again, record 37 crores or an equivalent amount on a fixed gain into the other income or how the content could go?

Arvind Agrawal: No, no. It is a combination of both euro and dollar. So, it will depend on both the currencies. So, we only hope that now that we have booked this Rs. 37 crores, there should not be much of loss there, but there can be, again, if the dollar also behaved in that direction.

Abdulkader Puranwala: And maybe if you could share what was the working capital in terms of number of deals for the 9-months on the net as balance.

Arvind Agrawal: 9 months, we don't have the balance sheet, so I may not be able to help you on that. But 6 months we have seen definitely that inventory, we have improved, but debtors have gone up a little bit.

Moderator: We have next question from the line of Vishal Manchanda with Systematix Shares.

Vishal Manchanda: On your branded emerging markets, would you be able to share what would the Ajanta's market share and ranking in your key markets like Philippines, Iraq and Franco Africa?

Yogesh Agrawal: We are significantly high up in the ranking. We are in some markets, we are in top 5, in some markets we are in top 10. So, we are fairly high. And as I shared earlier, I think our growth rates are definitely higher than the market as well. But I think that's only one part, yes. So I think that's where we are.

Vishal Manchanda: And you have been kind of improving ranking in these geographies?

Yogesh Agrawal: Yes. Absolutely.

Vishal Manchanda: And second one, in your India brand, in how many categories would your brand be kind of number 1 or number 2?

Rajesh Agrawal: In India?

Vishal Manchanda: In your Indian branded market, so whatever brands you have launched?

Rajesh Agrawal: Majority of our brands are in the top 5 in respective subtherapeutic segments. And we are market leaders in most of them 1, 2, 3. So in majority, I would say, more than 70% of the brands, we are in the top 5.

Vishal Manchanda: And just one final one. Recently, we've seen a few transactions on the Dermatology side, one was Curatio and other the Glenmark brand divestment. So, would Ajanta have evaluated these opportunities?

Rajesh Agrawal: We evaluated the Curatio transaction. We were also on the cap table until it crossed our expected valuation and therefore, then we left it that back. So, we are evaluating acquisition opportunities which are within our focused therapeutic segments. And as and when we have the opportunity and the right valuation, we will move forward with it.

Moderator: We have next question from the line of Aditya Khemka with InCred Asset Management.

Aditya Khemka: Sir roughly 10% to 12% of the topline comes from the U.S. on an annual basis?

Arvind Agrawal: No, it is 22% currently.

Aditya Khemka: And what percentage of our capital employed will be US, if you can just ballpark it?

Arvind Agrawal: It will be very difficult, Aditya, because the problem is that we are using all our facilities for all the markets. So, it is not that it is only for that market. So, it will be very difficult to say that capital allocation is for that. But as MD mentioned earlier also that our capital allocation to Branded Generics, we are increasing, but US, we are very cautious about any allocation further.

Aditya Khemka: And sir, on the price increases, what was the average price increase that we took in India now that almost a year has passed by, the WPI increase was 10.77 but we have a lower NLEM portfolio. And non-NLEM anyways every year is up to 10%. So, what was the average price increase that we took in India is there?

Rajesh Agrawal: Average price increase, apart from NLEM, we go for anywhere between 7% to 9% price increase provided that the market has the appetite for the higher pricing. Some of the products are already at a very mature product lifecycle. And the industry competitors also don't take a price increase within that. So, if it's optimally priced, then we refrain from taking price increases.

Overall, as a growth percent, 3% of our growth has come from price increases, whereas industry from the growth perspective has recorded 2% from the price increase.

Aditya Khemka: But is the 3% too low, sir, because 7% to 9% on the non-NLEM similar on the NLEM.

Rajesh Agrawal: 3% of the growth breakup. So, if we have grown at 14%, 3% of that growth has come out because of the price increases.

Aditya Khemka: Yes. But that would imply that on a total portfolio basis, the growth that you were able to take in your brands is only 3%, am I right?

Rajesh Agrawal: Yes, sure.

Yogesh Agrawal: Yes, cumulates yes, all aggregated together, 3%, that's right.

Aditya Khemka: Yes. My question basically here is that in an environment where raw material prices were going up, gross margin was under pressure, and you could have taken a 7% to 9% price increase, you chose to rose 3%. That essentially indicates that our competitors also did not take it, and we didn't want to be too far from our competitors in terms of pricing.

But then that also brings me to question whether our brand equity is as strong as one would like it to be because if the brands are strong enough, sometimes higher pricing does get absorbed, am I right?

So, I'm just trying to understand your assessment of where your product brand equity lies in terms of your portfolio brand equity right? Obviously, some products will have more than equity somewhat a less. But is it that the majority of our brands are like on certain scale of bad equity that there if you take price increases reduce decisions. Is that where you stand?

Rajesh Agrawal: No, a couple of things. A, the price growth of industry is 5%, whereas Ajanta price increase growth is 6%. So, we are still higher than the industry, but we have recorded a 6% growth due to price increases.

B, it is not necessarily dependent on the price; on the brand equity at all. It is basically whether we have touched the threshold of that particular molecule, and if the pricing is optimum, then there is really no scope for us and neither is there any scope for the competitors to increase, which is also reflected in the IPM price increase growth of 5%; so, we are still better placed, I think.

Aditya Khemka: Yes. So, if it's 6 and 5%, then I understand. So that makes more sense. Last question for me. So, if you are already cautious on the US business and we see that we are not going to allocate or we are going to be very cautious to allocate more capital on the US business. My question to you is why do we do the business for what exists. I mean, in your calculations, have you worked out that had you first to the US business scrubbed it, would your margin, topline, absolute EBITDA, absolute profits, would that look similar to what we report today or would that look better or worse?

I mean, is this something which I keep wondering when I try to do some of these calculations, but obviously, I don't know the numbers that you do. So to me, it seems that it's not giving us much PAT, I mean it may be giving us some EBITDA on top line, but it doesn't seem that it's giving us any material PAT or any material cash flow?

Yogesh Agrawal: Yes. So, it's a bit complex question what you're asking. The whole scenario deteriorated in one year. And we have a lot of work in progress for the new products, which are awaiting approval and in the R&D, which are at advanced stage. So, I think one has to take a very rationalized and a calibrated view. This is not like a switch on and off. You can switch on today and tomorrow, you can switch off.

So, one has to be taking a very cognizant and long term and a mature view. So, what we are doing is we are rationalizing the spend, as I said, we're being very selective on the spend. On the products also, we are putting more rigor that what are the products, which makes sense for us to continue or which are eating up more capital and which we are there.

So, we're going in a very systematic and very thoughtful way about approaching the current situation, current scenario. Be rest assured that all our focus is there to see that money works to the maximum, but in a very proper and thoughtful way.

Moderator: As there are no further questions from the participants, I would now like to turn the call over to Mr. Yogesh Agrawal for closing comments. Over to you, sir.

Yogesh Agrawal: Thank you, everyone, for joining for this call. In case if there are any other further questions that got remain unanswered, please reach out to our Investor Relations team. Thank you so much.

Moderator: Thank you, sir. On behalf of Ajanta Pharma, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.