"Ajanta Pharma Limited's Q3 FY '24 Earnings Conference Call"

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Moderator: Gentlemen, good day and welcome to Ajanta Pharma Q3 FY '24 Earning Conference Call.

As a reminder, all participants' 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 this conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded.

I now 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 everyone and welcome to this Earnings Call. With me, I have Mr. Rajesh Agrawal – our Joint Managing Director, Mr. Arvind Agrawal – our CFO and Mr. Rajeev Agarwal – our AVP (Finance and Investor Relations).

I hope that the Results are already there with you. We will take you through the business-wise performance for the Q3 and 9 months of the current year along with the comparison of the previous year's same period.

I am pleased to inform you that the Board of Directors has approved the second interim dividend for the current year. Each share of Rs. 2 face value will receive a dividend of Rs. 26 amounting to the dividend amount of Rs. 327 crores. In Q1 of this year, the Board of Directors had already approved the dividend of Rs. 25 per share having a face value of Rs. 2 amounting to the dividend of Rs. 315 crores. Hence, for the 9 months of the current year, the Company has given the dividend of Rs. 51 per share having a face value of Rs. 2 and the total dividend payout for the 9 months stands at Rs. 642 crores, which is 96% of the cash flow from the operations for the period. The dividend yield works out to 2.42% based on the closing price of 30th January 2024.

Moving on to the business:

Our three verticals of the business - Branded Generics, US Generics and Institution Business in Africa:

Generated total revenue of Rs. 1,105 crores against Rs. 972 crores, posting a growth of 14% in Q3 and Rs. 3,155 crores against Rs. 2,861 crores posting a growth of 10% in the first 9 months.

During the 9 months, 71% of the total revenue came from Branded Generics business, which is spread across India, Asia and Africa. The sales stood at Rs. 755 crores against Rs. 666 crores posting 13% growth in Q3 and Rs. 2,230 crores against Rs. 2,065 crores posting 8% growth in 9 months.

Let me now take up international business:

I will first start with the Branded Generics business in Asia and Africa, which contributed 40% in the total revenue.

Let's begin with Asia:

In Asia, our presence spans across the Middle East, South-East Asia and Central Asia, encompassing around 10 countries. During Q3, sales were Rs. 292 crores against Rs. 227 crores, posting a healthy growth of 28% and in 9 months, sales were Rs. 776 crores against Rs. 719 crores, a growth of 8%. We launched 15 new products during 9 months of the current year in the region. Growth during Q3 was higher due to some of the supplies, which got spilled over from Q2 to Q3. However, on a full-year basis, we estimate the growth to be low double-digit figure.

Let's move to Africa:

Africa branded business is spread across 20 countries. During Q3, sales was Rs. 155 crores against Rs. 145 crores, posting 7% growth and in 9 months, sales was Rs. 472 crores against Rs. 458 crores, growth of 3%. We launched 5 new products during the first 9 months of the current year in the region. Our performance in the secondary sales continues to exceed industry growth and remains into the teens.

However, due to rationalization of the inventory by our distributor, our primary sales growth for the first 9 months has been lower. As the rationalization is completed now, we are confident of posting mid-teen growth in the coming years in Africa.

Let us now talk about other two verticals of international business

US Generics:

US Generics contributed 23% to the total revenue in Q3 with sales of Rs. 252 crores against Rs. 266 crores posting a degrowth of 5% and in 9 months sales were Rs. 703 crores against Rs. 631 crores with a growth of 11%. Q3 degrowth is attributed to last year's higher flu season as mentioned in our earlier Earnings Call.

In 9 months, we filed 6 ANDAs and expect to file about 2 ANDAs in the rest of the year. We received 6 final approvals and launched 4 ANDAs during 9 months of the year and expect to launch one more product in Q4 of the current year. We have 44 products on the shelf and 22 ANDAs are awaiting approval with USFDA.

Moving to Africa Institution:

This business contributed 6% in the total revenue, which comprises of anti-malarial products. In Q3, sale was Rs. 86 crores, against Rs. 31 crores, posting a healthy growth of 179% and in 9 months, sale was Rs. 188 crores, against Rs. 141 crores, posting 33% growth. High growth seen in Q3 was a result of preponement of few supplies of Q4. This business remains unpredictable due to the reliance on procurement of the agency's funds and schedule.

I now invite Mr. Rajesh Agrawal – our Joint Managing Director, to take you through the India Business.

Rajesh Agrawal: Thank you. Good evening to all of you. I am delighted to share key highlights of India Business with you. Our performance has been excellent on the back of increased volumes, price increase and new product launches.

India Business contributed 31% in the total revenue. In Q3 the sale was Rs. 308 crores against Rs. 294 crores, growth of 5% and in 9 months sale was Rs. 982 crores against 888 crores, posting healthy growth of 11%. India Business includes revenue from trade generic of Rs. 38 crores in Q3 of both the current and previous year and Rs. 120 crores against 109 crores in 9 months.

In 9 months of the year, we have launched 13 new products including 4 first movers. Our medical representatives' productivity has shown marked improvement aligned with our revenue growth while maintaining consistent MR levels.

We continue to outpace the IPM by 200 basis points with Ajanta growing at 12% surpassing IPM growth rate of 10% as per IQVIA MAT December 2023. This trend extends to most of the therapeutic segments we are in, where our growth has consistently outpaced the segment growth.

However, in cardiology, our growth was lower to IPM due to price revision in one of our major products in December 2022. In the covered market, we continue to be fourth largest in IPM and among top 10 in all our therapeutic segments. As per IQVIA MAT December 2023, we have 4 brands in the top 500 brands list.

In our sales breakdown, cardiology contributed 38%, ophthalmology contributed 31%, dermatology contributed 22% of our India business with remaining 9% coming from pain management.

I now invite Mr. Arvind Agrawal – CFO, to take you through the "Financial Performance." Thank you and over to you, Arvindji.

Arvind Agrawal: Thank you. Good evening and warm welcome to the third earnings call of FY2024. On this call, our discussion includes certain forward-looking statements, which are projections or estimates about future events. These estimates reflect management's current expectations about the future performance of the Company. These estimates involve a number of risks and uncertainties that could cause our actual results to differ materially from what is expressed or implied. Ajanta does not undertake any obligation to publicly update any forward-looking statements whether as a result of new confirmations, future events or otherwise.

When you look at the consolidated financials and provide year-on-year comparison. The key financial highlights for Q3 and 9 months for FY2024 are as follows:

Total revenue in Q3 stood at Rs. 1,105 crores against Rs. 972 crores, posting 14% growth. In 9 months, revenue was Rs. 3,155 crores against Rs. 2,861 crores, a growth of 10%. Our gross margin came at 73% in Q3 and 75% in 9 months and same is in line with our guidance. We hope to close the year at about 75%.

Personnel cost increased by 20%, part of which, about 9% is on account of rebooking of related expenses from selling expenses as explained in earlier earnings call and balance was regular annual increments and additions.

R&D expenses was 5% of total revenue. In Q3, expense was Rs. 52 crores against Rs. 61 crores in 9 months. It was Rs. 157 crores against Rs. 174 crores.

Other expenses stood at Rs. 266 crores in Q3. Reduction is about 22% over previous year same period. In 9 months, it stood at Rs. 792 crores, reduction of about 12% from previous year same period. Reduced international logistics cost contributed favorably of about Rs. 34 crores in Q3 and Rs. 79 crores in 9 months. Compared to average of FY2023, we expect logistic cost to move up significantly in Q4 due to Red Sea crisis and higher marketing expenses in Q4 which will increase overall other expenses by about 7% over Q3.

EBITDA margin was at 28% in both Q3 and 9 months. EBITDA stood at Rs 314 crores against Rs 170 crores in Q3 and in 9 months, at Rs 894 crores against Rs 588 crores. This positive performance was attributed to the combined benefits of improved gross margin, reduced logistic cost and stabilization in US price erosion.

However, as mentioned earlier, higher other expenses in Q4 may see EBITDA little lower than the 9-month average. However, we are revising our full year guidance to 27% (+/- 1%) for the full financial year 2024.

Other income was at Rs 14 crores in Q3 and Rs 49 crores in 9 months, which includes Forex gain of Rs 4 crores and Rs 19 crores, respectively.

Income tax stood at 28% for Q3 and 27% for 9 months. For FY2024, tax is expected to be around 27%.

PAT in Q3 was at Rs 210 crores against Rs 135 crores and in 9 months, it was Rs 613 crores against Rs 466 crores, 19% of revenue from operations. You will be pleased to note that PAT for 9 months for FY 2024 has crossed full year PAT of FY 2023. We incurred CAPEX of Rs 80 crores in 9 months FY 2024. CAPEX including maintenance CAPEX for FY 2024 is estimated to be at Rs 125 crores, against our earlier estimate of Rs 150 crores.

ROCE and RONW continues to improve and be comparable with the best in the industry. ROCE stands at 30% and RONW at 23% at the end of December 2023. In 9 months, FY 2024, we have generated a healthy cash flow from operations of Rs 669 crores with cash conversion ratio of 75% and free cash flow of 346 crores with 56% PAT conversion.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Rashmi Shetty from Dolat Capital. Please go ahead.

Rashmi Shetty: So, on this Red Sea impact which you mentioned that it is going to impact the EBITDA in quarter 4. Is this something that is going to impact the supplies in Asia and Africa sales in quarter 4?

Yogesh Agrawal: No, not significantly. I think whatever guidance we have given for each of the regions, we should be able to meet that guidance. So, overall, we have seen there is a little bit increase in the transit time of the shipment. By 10 to 15 days it has increased. But we are going to wait and watch and monitor the situation. Maybe the inventory working capital may increase a little bit because the product will be sitting in transit for a longer time than the earlier months. But I think for the next quarter, we are okay to deliver the numbers what we had given the guidance so far.

Rashmi Shetty: For Asia business, low double digit you have given for this year, right? And for FY '25 and '26, how should we look at this thing? How should we look at the growth in the next two years? And we had increased our MRs and everything in Asia branded and Africa branded business. So, is it something that from next year we can expect that the growth should be better because of the improving MR productivity?

Yogesh Agrawal: Yes, absolutely. Africa, as I said in my opening remark comments, because of the inventory rationalization by our distributor, our primary sales were lower. But actually, when you see our secondary sales, they were in the mid-teens. So, there is no issue as such. And Asia also, I think for the 9 months or for the whole year, we are guiding for the low-teens. So, going forward also, we expect around the low-teens to mid-teens number for Africa and Asia.

Rashmi Shetty: And one last question on Institutional business. What is really changing in the entire business? Is it that the procurement agencies have now picked up the orders for anti-malarial sales? And how should we actually see this for the next two years?

Yogesh Agrawal: See, the Institutional business is very unpredictable, which is what we have been saying always. This period is pretty much when most of the orders come typically. So, the quarter wise it can get skewed. As I said in Q3, we had a higher dispatch as compared to the next upcoming quarter. So, very difficult to give any kind of outlook on the Institutional business. It depends on how much funds they get, what is the malaria season, what is the requirement? There are so many variables which are beyond our control. So, we take it as it comes. I think, going forward, we can expect it to be a flattish kind of growth for Institutional business.

Moderator: Thank you. Next question is from the line of Sudarshan Padmanabhan from JM PMS. Please go ahead.

Sudarshan Padmanabhan: Sir, my question is in terms of strategy, you talked about the impact in the cardiovascular segment. Given that we have cash in hand and we have also been in the industry for such a long time that we can expand the footprint, etc. So, can you talk a little bit more about what we can do to improve the growth specifically in the cardiovascular space, which has been a little lower than what we had expected?

Rajesh Agrawal: Couple of things. One is new product launches. So, we have a good set of products that we have launched in the subtherapeutic segments in which we are present also. And second is just to gain market share by way of increasing more CRM activities, which is what now our focus is. And with these two things put together, we should be able to once again record faster growth compared to the industry and also go back to the growth rates that we were posting in the previous quarters and the previous years. So, we don't need to really launch newer divisions as such as of now. We have enough divisions for these brands that we have. Increasing the productivity will be the major focus.

Sudarshan Padmanabhan: Sir, with cash in hand, and I think a lot of companies are buying brands and making acquisitions. Do you think as a strategy you would be looking to acquire certain brands, work on brands or certain divisions to accentuate your already strong presence in the domestic market?

Rajesh Agrawal: Certainly, we are always on the lookout for suitable brand acquisition targets and also opportunities. And if there are any such opportunities and deals that are present in the market, we have been evaluating them and then deciding if they are really apt for our business. So, we are out there looking for acquisition targets. It's not that, that's not one of the focus areas in terms of growth levers. Inorganic growth is most welcome for us. We are happy to look at that.

Sudarshan Padmanabhan: And sir, one final thing before I join back, is as the previous participants spoke about Red Sea, I mean, this, specifically this year we have seen very strong improvement in the operating expenses. Number one is, going forward, I mean this 27-28% margins that we have been doing this year, how do you see the sustenance of it and is there a risk in terms of transportation costs moving up substantially with this issue with the Red Sea? What can one look at in terms of steady-state rates in the next 18 months, not necessarily in the next 3 to 4 months?

Yogesh Agrawal: I think overall the freight costs can go up, if at the current rate, what we have seen, the last rates what we have dispatched, the freight can go up by half a percent overall, so which can translate into around 30-35 crores increase cost as compared to current year. So, that is the impact based on the current freight rates which are going. Any up or down can increase or deteriorate the margins accordingly. So, other than that, as I said, the inventory working capital may slightly increase. For example, if the US, our transit time was 50 days, it can go to 65 days. Any other markets also. So, 15-20 days we are seeing the increase in the transit time. So, that's all about logistics. Anything else you want to know?

Sudarshan Padmanabhan: So, more or less, it should be plus or minus around this margin base. You don't see this around this?

Yogesh Agrawal: Yes, at this point in time, we don't see as materially impacting. Whatever is there, I think we should be able to manage in our growth.

Sudarshan Padmanabhan: I guess, one final thing if I may squeeze in. With respect to the US market, we have seen our peers talking about lower price erosion and actually reporting good numbers. One, we have Chantix and number two, are we seeing a similar kind of improvement? I know that this is not necessarily the prime focus of the business, but it's more opportunistic is what I am trying to understand here.

Yogesh Agrawal: So, what is the question?

Sudarshan Padmanabhan: So, with respect to the US, when do we expect Chantix to be launched? And are we also seeing the base business erosion being lower and at some point, of time benefiting ourselves in terms of sales growth and the market?

Yogesh Agrawal: Yes, absolutely, the price erosion has slowed down. In the current year, we are seeing at the normal levels, which was pre-COVID levels of the high single digit. So, we see that currently the US market conditions are quite favorable. Chantix is a moving target. We were hoping that we would get the approval anytime and we are hoping to launch in this Q4, but I think the way it looks right now, we are looking at the Q1 of the next year launch for the Chantix.

Moderator: Thank you. Next question is from the line of Dr. Amant Kumar Singh, an individual investor. Please go ahead.

Aman Kumar Singh: Just wanted to ask two questions. One is on, have we taken the impact of launch of anti-malarial vaccine in Africa? So, like, what impact it is going to have on our business? So, if you can just say that.

Yogesh Agrawal: We are not in the vaccine business. So, we have seen the GSK and I think one more vaccine which is there. It is very slow in the rollout in Africa, and it is going to take a lot of time for the vaccination to happen. Also, the efficacy of the vaccines is significantly lower as compared to the other vaccines which are being there for the other elements. So, overall, I think next 3 to 5 years we don't see the vaccines to be having a meaningful impact on the anti-malarial market in Africa.

Aman Kumar Singh: Another question is that what Sudarshan was actually asking the same thing. We have so much cash which we are actually giving back to the shareholders in terms of a very hefty dividend, but can't this cash be deployed in a more meaningful manner by either organically expanding or inorganically expanding the business?

Yogesh Agrawal: No, definitely. That's always the outlook and the objective. So, the only way we can use the cash is only for the acquisitions and right now whatever we have seen, scanned the businesses and markets, the acquisition can happen only in the branded generic space primarily, though we are open to any other acquisitions also, but right now we don't have any candidate for which we would like to keep the cash in the Company. So, we thought the cash flows were pretty strong. They'll continue to be strong and if we have a good candidate, we will have enough cash to make the acquisition. So, I think it's all about finding the right candidate, I think that's of prime importance and that's very difficult to time.

As Rajesh said, we are always open and willing to look at the targets there. It has to make sense for us two, three ways which is very common generic, which I will be telling you, it has to fit in our product portfolio. It has to be the sunrise molecules. It has to be newer molecules and it has to be reasonably priced, which we feel good about it. So, after putting three, four filters, we are very willing to look at the new acquisition candidates.

Aman Kumar Singh: So, just last question. I mean, just assumption. So, do we expect in future that whatever is the dividend yield for this year, we expect a similar kind of a yield for at least coming one or two years?

Yogesh Agrawal: Depends on what kind of CAPEX plans we have and what is acquisition candidates. If not, then last year also, our dividend payouts including buyout, both put together were very sizable and current year also is in the similar ratio. So, I can give you a directional outlook that if there is no use for the money in the Company, of course it will be paid back to the shareholders.

Moderator: Thank you. Next question is from the line of Harsh from Bandhan AMC. Please go ahead.

Harsh: Just in terms of the cardiac performance, sort of repetitive in nature, but just to understand the last two, three quarter underperformances, I mean, one sense is the NLEM impact. But if one were to look at the overall molecule structure per se, let's say Metoprolol and the other statin families, would you say that there is some level of market share loss across statins, or would you say that majority of the impact continues to be at the NLEM level?

Rajesh Agrawal: So, the major impact is because of the NLEM price reductions that have happened, but also as you have correctly pointed out, the competitive intensity in the marketplace has increased dramatically as we see in the last one odd year. So, there is some small bit of maybe insignificant market loss happening in statin **(Inaudible) 28:47** combinations and some of the other combination products in which we are present.

Having said that, we have gone through this before in other specialties also and we have stepped up our efforts by way of the CRM activities that we can do in an effort to regain the market share.

Harsh: And in terms of the addition to the field force, just qualitatively, if you could help to understand where is the new field force in terms of the contribution of productivity, combined with the fact that in the international space we are targeting a more focused approach. So, on that spectrum, how should we see things?

Rajesh Agrawal: So, you need to know about the productivity of the MR in the domestic or international?

Harsh: International space, the addition that we have made to the field force. Where are we qualitatively on the spectrum of productivity, combined with the fact that we are taking a more focused approach to the specialty in the international market?

Yogesh Agrawal: Very broad question. So, yes, we made significant additions in the international market, for which last year we have seen the productivity dipped a little, but as they are getting more productive and they are getting more in the maturity curve, we are seeing the productivity to bounce back up current year, and next year of course it will go further up as well.

Harsh: And lastly, the volume growth for the India market, could you help us understand the volume versus value spread on a Y-on-Y basis?

Rajesh Agrawal: Would you like to know the breakup of the growth in terms of volume, price and new product?

Harsh: Yes.

Rajesh Agrawal: So, the volume growth for Ajanta is 4%, whereas for the industry it is 2.6%. These are MAT December figures. So, Ajanta is growing at a healthy 1.5x the growth rate of the market growth in terms of volume. The price growth, IPM is at 4.3%, Ajanta is at 3.9%. As you would already understand this is due to the NLEM impact that we have had to undergo, and on the new product, again, we are superior compared to the industry. IPM is at 3%, whereas Ajanta's contribution of new product growth is 3.7%.

Moderator: Thank you. Next question is from the line of Kunal Randeria from Axis Capital. Please go ahead.

Kunal Randeria: Sir, the last two or three quarters, we have seen that your R&D has been annualizing at close to 200-220 crores, now that the U.S. outlook is slightly better than what you had envisaged a year, year and a half back, are you planning to increase your R&D in filing going ahead?

Yogesh Agrawal: Yes, next year filing will be higher. Current year we had given the targets for 6-8 ANDAs, and we will be meeting our target for the current year. We will be filing 8 ANDAs for the current year. Next year we are taking the target of 8-12 ANDAs. So, the filing will go up. Correspondingly, there will be an incremental increase in the R&D cost. Not very significant, because we have gone through a very significant exercise of cost optimization across the organization, including R&D and manufacturing, because of which we see that certain benefits will come in. So, there will be a marginal increase in the R&D spend, but probably percentagewise it should remain around the same of the current year.

Kunal Randeria: And then since you have to rule your R&D from the past peaks, just want to understand what's the thought process behind product selection?

Yogesh Agrawal: For which markets?

Kunal Randeria: U.S.?

Yogesh Agrawal: U.S., three, four things. One is the complexities. When the products are P2, the landscape is pretty much known. The fact is, if it's limited competition in a P2 where the patterns have expired, means it is a complex product. So, we have to take a calculated bet on how many of such complex products we want to have in the pipeline. Then we look at the P3 products and we do the modeling, seeing that between the delay-release, extended-release, controlled-release, challenging products. Then we do a certain modeling, and we select the products from there, depending on the competitive intensity we estimate it to be. There are certain P4 products which we feel good about getting into filing those P4. So, there are various lenses for each of the pattern certification filing which we do. So, it's a quite intense process which it goes through.

Kunal Randeria: And out of those 10 products that you will be filing, how many would be P4?

Yogesh Agrawal: I don't have that data with me right away. Maybe, I think, Rajeev can probably give you later.

Kunal Randeria: So, my second question is see, in India, you are not expanding your sales force, right? And in Africa and Asia, I believe already expanded. So, from an OPEX perspective besides the normal inflation, there doesn't seem to be a lot of other OPEX that you would be doing. Also so what is the risk to your margins going to 30% in a couple of years' time? So, I am asking Ajanta specific risk. Something like a freight is like a problem for the entire industry. So, what's the risk?

Yogesh Agrawal: US price erosion is one unknown variable, which is there, which you have seen in the past last year impacted very significantly. Current year, the environment is very stable and our current margin also reflecting our U.S. performance current year also. So, that is one variable. Second could be Institutional business, any flexible, any variables variance in that. So, these are the two primary things.

Other things, as you rightly said, other branded generic business is pretty predictable. The growth percentages may vary, but they are pretty predictable. So, as we have guided and we have always been guiding, last year also our margins shrank. And we are going to guide on that current year we should bounce back to 26%. And current year we are faring much better than our guidance what we had given. We have revised our guidance to 27% now. Going forward also, we believe that in the coming year, they should inch up. How much and which year? Difficult to say. We don't want to give that much of forward-looking outlook, but it should continue to grow.

Kunal Randeria: And just last one, if I may. So, your productivity, PCPM in India would be around 4 lakhs or slightly thereabouts. So, given your portfolio, what do you think is the optimum level after which you would maybe look at sales force expansion?

Rajesh Agrawal: No. So, this productivity is on a blended basis for the entire India business. But if you look at the individual marketing teams, the teams are on varied levels. And if you look at specialties, also, for example, the benchmark in cardiology, in terms of productivity cannot be the same benchmark in ophthalmology, clearly because of the smaller size of market and smaller, lesser business and prescription potential. So, so on a blended basis hard to say. We really don't benchmark in a way that if we touch this particular productivity that we would like to expand. We are constantly scanning the opportunities that are present. And as and when we feel that there is one in present and we can capitalize on that, then we will certainly look at expanding by way of adding more MRs either by launch of new divisions or by adding them in the existing teams.

Kunal Randeria: Just trying to restate my question. So, all the four divisions that, I mean, four therapies you have, which ones do you believe are close to optimum? And which would be maybe still some distance away from that?

Rajesh Agrawal: I think opthal we are doing reasonably well, because we are the second largest Company. And also in terms of productivity, we are very competitive with the largest Company and the third largest Company. So, that's the benchmark. In cardiology, we have enough headspace to grow. Our productivity is much lower compared to some of the other likewise competitors. And so it is in derma and pain, I think we have a long way to go in both of these segments. So, this is what it is.

Yogesh Agrawal: And just to close in on your field expansion, there will be a marginal field expansion, not a substantial one as we have done in the last two years. But going forward, that continues to be a marginal field expansion will continue to happen across the organization, blended basis, India and overseas. Because we have continuously new products being launched. It will not be as significant, but there will be continuously some percentage of field expansion will continue to happen.

Kunal Randeria: But India, you haven't done any expansion in the last three or four years, right?

Yogesh Agrawal: In India, no. It was primarily in the international markets.

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

Tushar Manudhane: Sir, just on the India business clarification, what kind of growth we can anticipate for FY '24, given that Q3 FY '24 was a bit softer?

Rajesh Agrawal: I think a couple of things. One is, it's hard to predict right away, because the IPM, which you would have seen the data of, the growth rates of the IPM has been a bit inconsistent in the past six months. We have had growth rates of 4%, 5%, then suddenly 17%, then again 8%. So, it's been a bit inconsistent. We are in touch with IQVIA. We are also monitoring the prescription data from the consulting agencies to really be able to predict for the coming year.

However, for Ajanta, our aspiration will be to outpace the market growth rate, especially the covered market growths. We are still about to enter into our next year budgeting sessions and all of that. So, we have no particular outlook which I can primarily share with you at this point. It's a bottom-up process. It takes some bit of time, but we should be out with our guidance in the next quarterly investor call, hopefully.

Arvind Agrawal: But FY '24, we are talking about low-teens.

Rajesh Agrawal: FY '24, we stick to our original guidance, which was low double-digit, 12 to 13%.

Moderator: We got disconnected from the line of Mr. Tushar. Moving on to next participant. Next question is from the line of Harsh Bheria, an individual investor. Please go ahead.

Harsh Bheria: It's really good to see that we are coming back to our 30%, almost 30% level. My first question is regarding our emerging market business. So, if I see correctly, we have launched about 20 products in 9 months and maybe 10 products this quarter itself. So, in that case, when we are launching so many products, why are we only expecting low double-digit growth in this market going ahead?

Yogesh Agrawal: It's a combination of mature brands where the growths are slightly lower, and the new brands, the growths are very on a higher side. So, a combination of all that put together, that's where we are estimating it to be the low-teens to mid-teens growth.

Harsh Bheria: My second question is about our Indian market share, but in our covered markets. So, we do give our IPM rankings, but we are obviously not present in all therapies. So, in our covered market, what is our market share or what is our IPM rank?

Rajesh Agrawal: Overall, as a Company in the covered market, we are 4th ranked in the covered markets that we are present in across all specialties. And then there are rankings are different as compared to different, so for an ophthalmology in the covered market, we are ranked 1st, and so on and so forth. I think you would find that in the Investor Presentation also. In cardiology, we are 10th ranked in the covered market. In ophthalmology, we are No. 1. In derma, we are number 2 in the covered market. Pain management, we are 11th ranked in the covered market.

Harsh Bheria: My final question is about the ophthalmology division. We have seen very good growth coming back in this division. So, what is the difference between the No. 1 player and between Ajanta at this point?

Rajesh Agrawal: So, by way of prescriptions, if you look at the total number of prescriptions, we are already number 1 and we have been consistently 1st ranked, highest prescription generating Company in the country for quite some time. This is by way of sales, the No. 1 Company has brands which have been built over decades, which are hard to really catch up upon in a short span. So, therefore the difference. But that's not really the only thing. What's most important is by way of prescriptions, we are able to generate far more prescriptions in there. And in ophthal, our growth rate is by far faster than the segment growth. Primarily, we are one of the companies which is driving the growth rates of the segment in this particular segment.

Harsh Bheria: And on this note, I have a final question which is about our prescription generation. Can you also share the figure as to how many of our own medicines are prescribed on a per prescription basis? Is this something you are comfortable sharing?

Rajesh Agrawal: We have not been giving out this data as such. It's very integrated data that's perhaps best left with the Company.

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

Tushar Manudhane: I was actually referring for FY '24 that we have grown by 10-11% for 9 months and we are talking about 12-13% for full year of '24. So, does it mean that we will grow at a healthy rate of 13-15% for Q4?

Rajesh Agrawal: No, we don't anticipate growing at 15% for Q4. Our guidance was low, double digit. So, we could be landing by the end of the year at about 11 to 12% growth rate. So, our aspiration is to cross 15% for Q4. That is what our aim is. All the efforts are towards that. So, you are right in a way.

Tushar Manudhane: And secondly on EBITDA margin, whereas the guidance is of 27% +/- 1 and 9 months we are already at 28. So, does it mean that we would be much lower in terms of EBITDA margin for Q4?

Arvind Agrawal: Not much lower. That is why we said 27 +/- 1%, basically because 1 is the higher freight cost, which is coming in now. So, the benefit which we got in earlier quarter, that will not be there and also some more filings and other expenses are there. So, because of that we are expecting it to be a little lower. So, overall for the whole year we are expecting about 27% +/- 1%.

Moderator: Thank you. Next question is from the line of Gagan Thareja from ASK Investment Managers. Please go ahead.

Gagan Thareja: For the tax rate, this and next year, what should we sort of pencil in?

Arvind Agrawal: I think the current rate is about 28%, right? 27.9%, so 28% around. And I think we expect the same rate to continue for the next year also.

Gagan Thareja: And in terms of working capital, you indicated that transit times are rising due to Red Sea. Does that have any impact on working capital for you?

Arvind Agrawal: Slightly, it will be increasing. Fortunately, we have been able to manage working capital quite well as you must have seen in the ratio that we have brought down inventory to 68 days. So, it may again go up to about 80 days like last year. So, that can be there. That is possible as MD also guided. You know, because of these delays in the delivery, I think there can be some increase on that count.

Gagan Thareja: You know, this year on the NLEM products, the WPI link price increases are of the order of 12% or so. WPI now is a very weak negative territory. For the next year, if WPI remains where it is and you are not given any exemption from WPI link increases, what impact does it have or how does it protect for your India sales?

Rajesh Agrawal: WPI, as per our calculations until December, looks at nearly the same 0.01% on the negative side. So, let us just say that it is the same. So, yes, it is going to be a neutral impact. We will not be able to recover some of the input costs that incrementally are incurred by all companies. So, that is a regrettable part, but it will remain exactly the same as what it is. So, there is no negative impact in some sense.

Gagan Thareja: Yes, I get that. I am just trying to understand what part of your India sales in percentage terms?

Rajesh Agrawal: 12% of our domestic portfolio is covered under NLEM exposure.

Gagan Thareja: And finally, sir, if you could just restate your FY '24 full year guidance for the Asia and Africa business? I missed that. I mean, you would have given some number, right, at the start of the call, I think.

Yogesh Agrawal: For the Asia, full year will be the low-teens. Africa full year will be mid to high single digit.

Moderator: Thank you. As there are no further questions from participants, I now hand the conference over to Mr. Yogesh Agrawal for closing comments.

Yogesh Agrawal: Thank you everyone for joining this call. In case there are any questions are left unanswered, please reach out to our Investor Relations team. Thank you for joining.

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