“Ajanta Pharma Limited
Q4 FY ‘24 Earnings Conference Call”
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Moderator: Ladies and gentlemen, good day, and welcome to Ajanta Pharma Q4 FY'24 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone phone. 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, and welcome to all of you. With me, I have Mr. Rajesh Agrawal, our Joint Managing Director; Mr. Arvind Agrawal, our CFO; Mr. Rajeev Agrawal, our AVP-Finance and Investor Relations. Friends, we had a technical slag in uploading the results, so they just got uploaded a short while back, my apologies for the same. But for the benefit of all the listeners who have joined, I will just read out the highlights of the performance of the quarter and the year, and then I will take you through the performance of each vertical, like I always do.

So, for the Q4 FY 2024, our performance highlights as compared to year-over-year are: Revenue from operations are at Rs. 1,054 crores against Rs. 882 crores, up by 20%. EBITDA at Rs. 278 crores against Rs. 149 crores, up 86%; EBITDA stands at 26%; profit after tax at Rs. 203 crores against Rs. 122 crores, up 66%; PAT at 19%. These were the results for Q4.

For the whole year FY 2024, the performance highlights are as below: Revenue from the operations at Rs. 4,209 crores against Rs. 3,743 crores, up by 12%. EBITDA at Rs. 1,172 crores against Rs. 783 crores, up 50% and EBITDA stands at 28%. PAT at Rs. 816 crores against Rs. 588 crores, up 39%, PAT stands at 19%. Cash flow from operations was Rs. 785 crores. EBITDA to CFO conversion of 67%. Free cash flow was Rs. 637 crores; FCF to PAT conversion of 78%.

So with these highlights, now let me take you through the developments happened in the Board meeting and the performance of the quarter and the year. Friends, I'm pleased to inform you that the Board of Directors, in the meeting held today, have approved the buyback of its equity shares at Rs. 2,770 per equity share with a total payout of Rs. 351 crores, including the tax.

With this, now let me move to the business performance. FY 2024 marked a significant milestone for Ajanta Pharma with notable achievement in sales, PAT, and EBITDA. Our strategic approach and focused execution have yielded commendable results, positioning us as a leading player in the pharmaceutical industry. Furthermore, our EBITDA margins have expanded to 28%. It reflects our commitment to operational excellence and efficiency.

Additionally, our PAT margin improved to 19% from the previous year's 16%, demonstrating our ability to enhance profitability while maintaining financial discipline. Our strong cash conversion ratio of 67% enabled us to distribute a significant payout of Rs. 642 crores to our shareholders as dividend, reaffirming our commitment to delivering value to our stakeholders.

Our dividend yield works out to 2.28% based on the closing price of 31st March 2024, which is amongst the best. Our ROCE stands at 31% and Return on Net Worth at 23% at the end of March

2024, and it continues to improve to be among the best in the industry. As we look ahead, we remain focused on sustaining this momentum and driving continued growth with well thought-out strategy and operational excellence. With a solid foundation in place, we are confident in our ability to capitalize on future opportunities and deliver long-term value to our shareholders.

In FY 2024, revenue from operations stood at Rs. 4,209 crores with EBITDA margin, once again, bouncing back to 28% and PAT margin at 19%, from respectively 21% and 16% previous year. This is a significant improvement from previous year. Our cash conversion ratio was equally impressive at 69%, which enabled us to reward the shareholders with highest payout in the financial year of Rs. 642 crores.

Now moving on to business details. We posted a healthy growth of 20% in Q4 and 12% for the year for total business comprising of 3 verticals: Branded Generics, US Generics, and Institution business in Africa. During the year, 71% of the total sales came from Branded Generic, which is spread across India, Asia, and Africa. The sales stood at Rs. 720 crores posting 15% growth in Q4 and Rs. 2,949 crores, posting 10% growth in 12 months. This business exhibits assurance, sustainability, and potential for long-term growth.

Let me now take up international business, and I will start with branded generic business in Asia and Africa, which contributed 40% to the total revenue.

Let's begin with Asia. In Asia, our presence spans across Middle East, South East and Central Asia, encompassing around 10 countries. During Q4, sales was Rs. 281 crores against Rs. 238 crores, healthy growth of 18%. And in 12 months, sales was Rs. 1,057 crores against Rs. 957 crores, growth of 10%. During the year, we launched 18 new products in the region.

Let's move to Africa. Africa business is spread across 20 countries. During the quarter, sales was Rs. 113 crores against Rs. 100 crores, posting 13% growth. And in 12 months, sales was Rs. 585 crores against Rs. 559 crores, growth of 5%. We launched 9 new products during the year in the region. As informed in the previous call that during the year due to rationalization of the inventory by the distributor and the tepid growth in the market, our primary sales growth has been lower in the current year. As the rationalization has completed, we are optimistic of bouncing back to the mid-teens growth here onwards.

Let us talk about our other two verticals of International business now.

I move to the US Generics business. US Generics contributed 23% to the total revenue. This year was very good for us for this vertical due to softening of price erosion, shortages, and ease in API prices. In Q4, sales was Rs. 261 crores against Rs. 197 crores, posting a very, very healthy growth of 32%. And in 12 months, sales was Rs. 964 crores against Rs. 828 crores, posting a very healthy growth of 16%.

Going forward, we expect this business to grow in mid-single digit. Our execution in this market has been flawless and excellent, and we continue to be a preferred partner of choice for the distributors. I'm glad to inform you that during the year, both our manufacturing facilities, Paithan and Dahej, which is catering to the US market, has cleared the US FDA inspection with zero observations. In FY 2024, we filed 7 ANDAs, received 7 final approvals and launched 4 ANDAs. We have 44 products available on shelf and 22 ANDAs are awaiting approval with the US FDA.

I now move to Africa Institution business. This business contributed 6% to the total revenue, which comprises of antimalarial products. During the quarter, sales was Rs. 61 crores against Rs. 49 crores, posting high growth of 23%. And in 12 months, sale was Rs. 249 crores against Rs. 190 crores, posting 31% growth. High growth seen in the quarter was the result of preponement of a few supplies of the next year required by the procuring agencies. This business remains unpredictable due to reliance on the procurement agencies schedule.

Now I invite Mr. Rajesh Agrawal, our Joint Managing Director, to take you through the India business. Thank you.

Rajesh Agrawal: Thank you. Good evening to all of you. I'm delighted to share the key highlights of India business. Our performance has been excellent on the back of increased volumes, price increase and new product launches. India business contributed 31% to the total revenue. In Q4, sales was Rs. 326 crores against Rs. 287 crores, healthy growth of 14%. And in the 12 months, sale was Rs. 1,308 crores as against Rs. 1,174 crores, posting a growth of 11%. India business includes revenue from trade generic, which contributed Rs. 41 crores in Q4 and Rs. 161 crores in the 12-month period of FY 2024 against Rs. 42 crores and Rs. 151 crores in the same period of FY 2023.

In FY 2024, we launched 15 new products, including 4 first movers. We have added about 200 MRs in the last few months, and hence, productivity was similar to previous year. If this increase is removed, the productivity was aligned with our revenue growth. We continue to outpace the IPM by 180 basis points, with Ajanta growing at 9.4%, surpassing the IPM growth of 7.6% as per IQVIA MAT March 2024. 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 Dec-2022.

In the covered market, we continue to be the fourth largest in IPM and amongst top 10 in all our therapeutic segments. As per IQVIA MAT March 2024, our faster growth contributed mainly by volumes and new launches. Volume was about 2x to IPM, and new launches was about 1.4x to IPM. We have 3 brands in the top 500 list of brands. In our sales breakdown: cardiology contributed 38%; ophthalmology contributed 31%; and dermatology contributed 22% of our India business with remaining 9% coming from pain management.

I now invite Arvind Agrawal, CFO, to take you through the financial performance. Thank you, and over to you, Arvindji.

Arvind Agrawal: Thank you. Good evening, and a warm welcome to the fourth earnings call of FY 2024. 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 future performance of the company. These estimates involve 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 obligations to publicly update any forward-looking statement whether as a result of new confirmation, future events or otherwise. We will look at the consolidated financials and provide year-on-year comparison. The key financial highlights for Q4 and 12 months FY 2024 are as follows:

Total revenue in Q4 stood at Rs. 1,054 crores against Rs. 882 crores, posting 20% growth. In 12 months, revenue was Rs. 4,209 crores against Rs. 3,743 crores, a growth of 12%. We expect our overall revenue to grow in low teens for the FY 2025, though Branded Generics will grow in mid-teens as mentioned by Mr. Yogesh Agrawal earlier.

Our gross margin was at 75% in both Q4 and 12 months of the FY 2024 and same is in line with our guidance. We expect it to remain in a similar range for next financial year.

Personnel costs in Q4 was in line with previous quarters with no major variations. In 12 months of FY 2024 increase was 15%, out of which about 4% is on account of recouping of related expenses from selling expenses, as explained in earlier earning calls and balance was regular annual increment.

R&D expenses was 5% of total revenue. In Q4, expenses was Rs. 50 crores against Rs. 63 crores. And in 12 months, it was Rs. 208 crores against Rs. 237 crores. We expect the expenses to remain at 5% going ahead.

Other expenses stood at Rs. 278 crores in Q4, up by 4% over previous year same period. In 12 months, it stood at Rs. 1,070 crores, a reduction of about 6% from previous year same period. Reduced international logistic costs contributed favourably of about Rs. 24 crores in Q4 and about Rs. 100 crores in 12 months compared to average of FY 2023. However, this may see a small increase due to Red Sea's crisis. We expect other expenses remain at same levels of revenue from operations with our efforts towards efficiency improvement across the organization.

We achieved EBITDA margin of 26% in Q4 and 28% in 12 months. EBITDA stood at Rs. 278 crores against Rs. 149 crores in Q4. And for 12 months, it stood at Rs. 1,172 crores against Rs. 783 crores. This positive performance was attributed to the combined benefits of reduction in API prices, reduced logistic costs and stabilization in US price erosion.

Other income was at Rs. 36 crores in Q4 and Rs. 85 crores in 12 months, which includes FOREX gain of Rs. 20 crores and Rs. 39 crores, respectively.

Income tax stood at 27% for both Q4 and 12 months.

PAT in Q4 was Rs. 203 crores against Rs. 122 crores. And in 12 months, it was Rs. 816 crores against Rs. 588 crores, 19% of revenue from operations.

There was improvement during the FY 2024 in working capital days from FY 2023. Inventory stood at 73 days against 80 days and trade receivable at 109 days against 104 days.

We incurred CAPEX of Rs. 160 crores in FY 2024. CAPEX, including maintenance CAPEX for the FY 2025, is estimated to be around Rs. 175 crores to Rs. 200 crores.

In FY 2024, we have generated a healthy cash flow from operations of Rs. 785 crores with cash conversion ratio of 67% and free cash flow of Rs. 637 crores with 78% in PAT conversion.

ROCE and RONW continue to improve and be comparable to the best in the industry. ROCE stands at 31% and RONW at 23% at the end of March 2024.

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

Moderator: Thank you very much. The first question is from the line of Rashmi Shetty from Dolat Capital. Please go ahead.

Rashmi Shetty: Sir, the first question is related to the guidance for Branded Generic market, where you have mentioned, we will be able to do mid-teens sort of growth in FY'25. What are the factors that would drive these mid-teens growth? And is there any risk from Red Sea disturbances, which can erode this growth, if you can highlight that in detail, both in Asia and Africa business. And also if you can guide something on India business.

Yogesh Agrawal: Yes. So the growth which we are anticipating is assuming the growth in various markets continue and we'll get that tailwind, but it is a factor of increasing the market share in the products we have already in the market. There are a number of new product launches, which are scheduled during the year. And there will be some increase in the field size, particularly in the international market, not as much as in India. So all the combination of 3, we feel that mid-teens kind of growth is doable in the export markets. So that was one.

And for the Red Sea, we have taken the corrective measures. Primarily, it has increased the transit time by 3 weeks on an average, depending on different territories. So we are seeing the product is sitting on the sea 3 weeks more than it should. So that may kind of slightly increase our debtors in the next year. But other than that, there are no significant impact of the Red Sea so far. Other thing is the freights have gone up in some of the geographies like West Asia, the freights have gone up substantially. U.S., it has not gone up as much. Africa has gone up. So some markets, we've seen the freight increases. But other than that, I think Red Sea, I think we've been able to negotiate the challenge pretty well.

Rashmi Shetty: Got it. And related to India market, what kind of guidance are you anticipating for FY'25?

Rajesh Agrawal: We are basically aiming to grow at, at least 200 bps, if possible, 300 bps faster than the IPM growth. If the IPM grows at 8%, which is what the forecast is, as we speak, then we are looking at a low double-digit growth between 10% and 11%.

Rashmi Shetty: And on the margin front because of the Red Sea issues and everything, any impact is expected in quarter 1? Or anything you would like to comment for the full year FY'25? From this 28%, is the margin trajectory will be going up or it will remain at a similar level or if you can give just outlook for 2 years?

Arvind Agrawal: See, as far as the Red Sea issue or the freight increase is concerned, I think if it remains at the level where it is today in the month of April, I think the overall increase over previous year will be Rs. 30 crores, that will be the impact. But with that Rs. 30 crores impact, we should be able to absorb that impact. And we should be able to deliver a 28% EBITDA that's what guidance which we have given. If the position improves or some changes happen, in that case that much impact will be there. But otherwise, as far as we are concerned today, we are expecting the EBITDA to remain at the same level of about 28% if the things are as, it is. If we get some tailwinds or some positive things on different side, market side, etc. I think 100 basis point improvement should be possible.

Rashmi Shetty: Understood. And that would be clearly from your operating leverage that could play out from the Branded Generics market?

Arvind Agrawal: Absolutely.

Rashmi Shetty: Got it. And one last question on the U.S. front. What is the outlook related to the price erosion now? Are you seeing that it is still stable? And do you anticipate that this will continue for the entire year? And therefore, in case if it really happens that way, then do you think that your guidance is bit conservative?

Yogesh Agrawal: See, our guidance is based on 2 factors. One is that what will be the price erosion for the existing product portfolio. We are estimating high single digit, maybe 8% to 10% price erosion. We have about 6 new products launch planned for the next year, assuming we get the approvals from the FDA as per the timelines, GDUFA timeline. But most of the approvals are skewed towards the Q3 and Q4 launches. So Q1, we will have one launch; maybe Q2, one; and about four-odd launches will happen in Q3, Q4. So a combination of these two, we are giving an estimate of low mid-digit. If the price erosion doesn't happen as we have factored then or the approvals come earlier when we launch, the possibility of delivering a better performance does exist.

And yes, coming to your question of the price erosions in the U.S., we see that the price erosions have stabilized. They are not as aggressive as what we saw during the COVID period. So we see around 8% to 10% on the base product portfolio as the price erosions are there. That again depends on the product specifics. I'm talking as a general nature where the products are -- and you would have seen in various reports there, again, shortages have gone up in U.S. for number of products. So we expect, hopefully, if the conditions remain same, the price erosion should be in the high single digit to low double digit.

Moderator: The next question is from Aman Kumar Singh, who is an individual investor.

Aman Kumar Singh: Congratulations to the management for doing such a good business in the entire financial year of FY'24. One thing what actually I am seeing is our company is coming back on [inaudible 0:25:34]. In financial year '21, our overall performance was very good in terms of percentages, like the EBITDA margin was nearly 35%. And the PAT margin was about 23%, 24%. So how do we can we go back to that kind of a level in coming years?

Yogesh Agrawal: So I think '21 was an aberration. The margins of not only Ajanta, most of pharma companies got elevated because of the COVID where the expenses reduced significantly, and that improved the margins of Ajanta and number of companies. So I think those margins should be taken as an aberration. That was not the normal. Our normal was around 28% EBITDA, which we were sustaining. And we are confident of delivering that 28% EBITDA going forward also.

Aman Kumar Singh: In PAT margin, can we improve our percentages from currently 19% to at least 21%, 22% in future?

Yogesh Agrawal: 100 bps is possible if things remain favourable. So we should be able to expand by 1%. But right now, we are giving the guidance of the similar as what we have done last year and 1% expansion in the PAT does exist.

Aman Kumar Singh: Okay. I just wanted to ask on historical question. I'm a shareholder of this company right from the inception when it came with the initial public offering way back in early 2000. I would just like to know historically, what was the price at which this IPO was floated?

Arvind Agrawal: It was Rs. 225 for a Rs. 10 share at that time. Currently, if you really work out everything, because it is Rs. 2 share today and the bonus and all that what we have given and the splits whatever we have done, I think should be about Rs. 12 or so.

Aman Kumar Singh: In which year, this IPO came?

Arvind Agrawal: April 2000.

Moderator: The next question is from Tushar Manudhane from Motilal Oswal Financial Services.

Tushar Manudhane: Sir, on the India business at the industry level, the growth seems to be significantly on the downtrend. If you could share your experience in terms of the outlook, not just for FY'25, but maybe next 2, 3 years, how to think about the industry growth prospects?

Rajesh Agrawal: It would be very hard to comment on 2, 3 years. But for the coming year, the IQVIA forecast is in the range of around 8% to 9%. So that is the forecast that we have got from IQVIA, which is what is a respected agency for all of us. So yes, it's been quite an up and down for the India pharma markets. In some months, market has been a bit sluggish. In the other months, it's been very positive. We are actually waiting for it to stabilize to be able to really understand where it's going to go.

Tushar Manudhane: And then secondly, on Asia market, the last 2 quarters, we have seen the phenomenal offtake at an absolute sales level from almost Rs. 230 crores, Rs. 240 crores average quarterly run rate, now we are at Rs. 280 crores, Rs. 290 crores. So if you could shed some more light over here and specifically Asia market, how to think about for next couple of years.

Yogesh Agrawal: So again, the story remains the same, Tushar. We've got good product launches, which came. We increased our market share. So clearly a result of good product selection, good strategy in marketing, good understanding of the marketing landscape, good connect with the customers and a very good execution. We have one of the best supply chain team, which is there and best supply chain. Our products are always available. So we are able to encash the opportunities as they come. So no, I think Asia has panned out quite well for the current year. We look at Branded Generics business of entire global as one bucket.

So we forecasted Africa to be slightly higher, Asia to be slightly lower. I think during the year, Asia outperformed, and Africa was slightly less than what we had projected. But all in all, we delivered a good result for the year. Going forward also, we are very optimistic that Asia and Africa, both, we should be able to deliver the mid-teens to slightly higher than that also possible, that kind of growth. Again, it will be a combination of all, a very good sound execution of the strategy.

And just to add, I think, you'll be happy to know that in Asia, particularly our chronic portfolio is very, very significant. If you see entire Asia, probably 75% to 80% of our product portfolio in Asia is of chronic nature, which is, again, a very sticky business, which gives us a lot of leverage of sustainability, scalability.

Tushar Manudhane: Got you, sir. Sir, just to extend on this, if you could share number of MRs? Where we have added MRs in India as well so total count as we stand at the end of FY'24 and number of MRs in Asia and Africa Branded Generics?

Yogesh Agrawal: So we are not giving out the region-wise split. But in India, our MR stands at around 3,000 around plus/minus 50. And entire total is about 5,000. So we have another 2,000, which are there in the international market. Bulk of it is in Africa.

Moderator: The next question is from the line of Harsh from Bandhan Asset Management.

Harsh: Sir, you made a passing comment that you might be looking at adding to the field force in international markets. So this is over and above the 50% addition that we have done in the international markets? Or I'm not able to understand.

Yogesh Agrawal: That's right. So we are talking on the current year, which we have about 4,900-odd MRs. Overall, we are looking to add about 3% to 4% MR. And most of it will happen -- not most of it, all of it will happen in the international markets of Africa and Asia.

Harsh: Okay. So under the 200 people more or less in the international space.

Yogesh Agrawal: Correct.

Harsh: And if you could help us understand, I think, in the presentation, you have given the segment breakup, India's segment breakup and the performance against IQVIA, but that is at the MAT level. If you could help us understand for the fourth quarter, I'm not able to grasp the data?

Rajesh Agrawal: So we are not comparing IQVIA Q4 versus Ajanta Q4. We have Ajanta Q4 performance. If you wish that too, you can write to the Investor Relations, and we will come back to you on that.

Harsh: Sure, sure. And lastly, how was the overall cardiology performance for this quarter, in particular as compared to the last quarter? Has that differential sort of narrowed down? Or are we still seeing signs of weakness, rather competition anything on your thoughts?

Rajesh Agrawal: Overall, in cardiology for the last financial year, we have grown at 11%, whereas the segment growth is 10%, if I normalize my MetXL price. If you remember, we have taken an over 18% price reduction in MetXL, which is the largest brand for us. And that impact brought the growth down to 4% only. But if I normalize that price, our growth would have been 11%. Now having said that, in Q4, that price impact got nullified by the month end of Jan or sometime in February. So in Q4 in cardiac segment, our growth is 14%.

Harsh: Because of the base getting normalized?

Rajesh Agrawal: That is correct. So Met XL, whatever reduction we took got the inventories and everything got normalized 12-month period got over in January. So we have recorded a growth of 14% in Q4.

Harsh: Against the market growth of -- any rough sense?

Arvind Agrawal: 10%.

Rajesh Agrawal: For the quarter market growth, we don't track as per IQVIA. That's something we'll need to work. But the blended average for the 12 months was 10%. So, it may not have been grossly different for Q4 also.

Moderator: The next question is from the line of Bino Pathiparampil from Elara Capital.

Bino Pathiparampil: First, R&D plan now for the U.S. market, how many ANDAs do you plan to file a year?

Yogesh Agrawal: We are looking to file 8 to 12 ANDAs in the coming year FY'25.

Bino Pathiparampil: Okay. And then this is sort of a level, which should sustain yearly, like run rate wise?

Yogesh Agrawal: Exactly. We have enough product pipeline identified. The next 2 to 3 years is the visibility we have; we should be able to sustain this kind of filings every year.

Moderator: The next question is from the line of Vishal from Systematix.

Vishal: In the U.S., would you be able to give a number as to how on a compounded basis, your prices would have eroded over the last 4 or 5 years?

Yogesh Agrawal: I won't have that number right away with me. As you know, I think last year, the erosions were 20% and upwards, 20%, 25% just a year after the COVID. And current year, we're seeing the price erosions to be in the range of 8% to 11%, again, product specific. Some products are less, some products are stable, some products are slightly higher.

So I think if you reach out to Rajeev, maybe he will be able to help you with those numbers. If you're looking at a 5-year timeline. But I think before the COVID also the price erosions were in the same similar range. And I think long back when the consolidation happened with the customer, that time we had again seen 20%, 25% price erosion. It stabilized and again, during the COVID time, the price erosion happened aggressively.

Vishal: So you mean 8% to 10% on a portfolio level is what we are still witnessing?

Yogesh Agrawal: Correct.

Vishal: But do we still have room to cut prices because having seen erosion for the last so many years, would the business not become unviable if these prices continue to go down every year at such rates?

Yogesh Agrawal: Exactly. I'm saying as an average product-specific there could be price increases also. There could be stable prices. In some products, aggressive price erosion happens where the margins are higher. But at some point, in time, when the margins become bare minimum threshold after that, the price erosion stops. And then some rationalization also happens and that's why you see the shortages in the market because of the company prioritize the products, which are high-margin products over the low-margin products. And that's what leads to the shortages in the market. Yes, but that's the name of the game there. That's how the market plays out.

Vishal: Because if I look at your portfolio, most of the products in your portfolio that you sell in the U.S. would have more than 5 or more competitors, is what is probably the number I come to. I think with that kind of a number, with that kind of competition already in the product my sense is price erosions should moderate for you and high single digit would be an aggressive number.

Yogesh Agrawal: Very difficult to predict something like this. It's your take versus my take. But it is factored in that kind of price erosion. Hopefully, it doesn't happen. It's going to be excellent for us. I think we'll get the tailwinds.

Product which you launched new, that's where you have higher margins, and they are more susceptible for the price erosion. The legacy products, which are there in the market for 3 years, 4 years, pretty much price kind of stabilizes. So the price erosion there happens slower. I think it's the recent product launches, which are more prone to the price erosion.

Vishal: Would you have a kind of number as to what your new product contribution would be to the overall U.S. sales?

Yogesh Agrawal: You can say that's the blended number which I gave you. I shared with you, we are looking to launch 6 products next year, one Q1, one Q2 and most of them are Q3, Q4, another 4. So all compounded is what the number I shared with you, the mid-single-digit growth we are looking at in the U.S.

Vishal: Got it. And do we need to add capacities for the U.S. business for the next 2, 3 years?

Yogesh Agrawal: Nothing significant. It will be incremental, adding one equipment here, two machines in that facility. For next 2 years, we are all right with the existing capacities which we have built.

Moderator: The next question is from Gaurav Jain from ICICI Prudential Mutual Fund.

Gaurav Jain: On the domestic business, if you can help us understand what is the strategy going to be for FY'25 in terms of therapy-wise growth, will it be majorly on the back of cardiac, ophthal, derma that we are targeting this ahead of IPM growth? Or are there other therapies where we expect the growth to be faster. Yes, that's the first question.

Rajesh Agrawal: So we are present only in 4 therapies, out of which 3 contribute more than 90% to the India business. And all of 3 therapies we aim to grow faster than the therapeutic segments. Derma we are aiming to grow fastest within our portfolio followed by ophthal and followed by cardiology. Of course, pain being a smaller portfolio to the total contribution to the company's sales, will still grow. We have a very limited footprint in pain management. Apart from this, we don't intend to enter into any new therapeutic segment in the current year. And the total growth will be coming on the back of all 4 segments.

Moderator: The next question is from the line of Foram Parekh from Sharekhan.

Foram Parekh: Sir, I just wanted to understand, since you have given a good outlook for the next year in terms of branded generics being able to grow in mid-double-digits and U.S. growth also expected to do good because of shortages and all. And also Red Sea crises is not going to have major impact on the cost. So may I understand why the EBITDA margin guidance is still flat despite the good outlook?

Yogesh Agrawal: So a few factors. One is that the expenses are going up. And the second is, we've factored in about Rs. 30 crores, Rs. 35 crores for the current prevailing prices for the freight. So that will heat up a little bit. There will be increase in the manpower as I told you. We are adding 200 people. All this is put for the future growth. So increase in the general promo expenses, increase in the freight, and increase of the people, particularly in the field, I think a combination of that, we are looking at the EBITDA of sustaining at the current level.

Foram Parekh: Okay. But in next 2 years down the line, can we expect that goes up above 30%? I mean, since the base is already now at 28%, so can we have this kind of numbers built in?

Yogesh Agrawal: This, I think, too far off this thing to share you outlook like that. As our CFO mentioned in the current year itself, the possibility of improving the EBITDA by our PAT by 2% exists if all things remain good. I think 2 years is a bit long time for me to comment because we don't know how the price erosions in the U.S. will happen, what kind of product approvals we'll get in various markets, what kind of people we will be adding. But having said that, it should all head into the positive direction only. There is no reason it should go back from where we are right now.

Foram Parekh: Okay. And sir, my second question is on the Indian market. Could you explain about the trade generics segment? Since there are many competitors coming up, so how do you really see the trade generics segment growing in India?

Rajesh Agrawal: The trade generics segment is growing rapidly and so have we. We have grown in the last 5 years. We have scaled the business quite well, especially in the small product portfolio that we maintain. So it's expected to grow at par with the IPM growth rate or maybe slightly more.

Unfortunately, IQVIA does not track the trade generic market very closely or give too many forecasts on that. So it's very hard to forecast where the growth rates are heading.

Foram Parekh: Okay. And sir, can you just elaborate in the trade generics, we have higher contribution towards which therapy?

Rajesh Agrawal: Almost like the industry portfolio. Antibiotics and painkillers contribute significantly to our portfolio also. And then followed by that, we have a large presence in cardiology, diabetology. Of course, gastro also contributes significantly to the overall sales composition of the trade generic sales. So these are the top segments for us.

Moderator: The next question is from the line of Bino Pathiparampil from Elara Capital.

Bino Pathiparampil: You have been in the market to acquire something in the domestic market. Of course, the valuations were beyond what comforts us. How is the situation now? Is there anything happening there or still valuations, or the upgrades are very high?

Arvind Agrawal: See, valuations have tapered down to some extent. But again, it depends on the target to target. Some of the targets have really seen some valuation tapering down, but that portfolio was not very suitable to us; however, if there is a premium portfolio, which we are really looking at, I think, more of the specialty and all that. I think still the valuations are a little high, but there are not many opportunities, so actually seeking in the market.

Bino Pathiparampil: Okay. So for premium portfolios, the valuations have been corrected enough?

Arvind Agrawal: Yes.

Moderator: The next question is from Abdulkader from ICICI Securities.

Abdulkader: Just one question from my end with regards to your India business growth. So earlier when you said you anticipate to grow 200 to 300 bps higher than the market growth of 8%. And your cardiac portfolio is already grew close to 14%. And for next year, you're anticipating in the derma and ophthal portfolio to grow a little faster. So I mean, I'm just not able to reconcile when we look at this growth figures versus the guidance, any reason to be a little optimistic or little conservative here?

Rajesh Agrawal: No, the basic premise, you cannot annualize one quarter growth, and we cannot say because there are lots of pressures, and different quarters have different challenges. So since we have grown 14% in Q4 FY'24, does not allow us the luxury to continue to grow at 14% for the whole year. There will be challenges in between. Overall, as per our forecast, our projections, budget that we have planned, we estimate to grow at about 11%. So if we are able to achieve that, I think it will be a satisfactory achievement especially given that the market itself is growing only between 8% to 9%.

Abdulkader: Understood, sir. And sir, how about the launches for the Branded Generics segment in India? I mean, what are the kind of launches lined up? Any key ones so you would like to highlight?

Rajesh Agrawal: We cannot disclose too much, but we are at par with the day 1 launches that are taking place in the industry, especially in the antidiabetic portfolio as well as in the cardiovascular portfolio. We have 1 or 2 interesting ophthalmic products also lined up and so it is in dermatology. So we have new product pipeline across all the four segments.

Abdulkader: Sure. Lastly, just a bookkeeping question. Apologies because I joined the line a little late. But so what is the tax rate guidance we are guiding for the next year?

Arvind Agrawal: So I think it should remain either at the same level or maybe an improvement of about 100 basis points.

Moderator: The next question is from the line of Shrikant Akolkar from Nuvama.

Shrikant Akolkar: I have 3 questions. First question is on the Institutional business. FY'24 was a good year. So can you comment on this performance and the outlook of this business?

Yogesh Agrawal: As I always share, this is very unpredictable. This is a combination of how much funds are there with the global buyers and what is the outbreak of malaria in the region. So if malaria outbreak is higher and the demand is higher, then these agencies, they procure more. So last year, the procurement has been very good.

Again, our spotless supply chain has enabled us to get the maximum market share for this segment. So combination of good fund availability with the buyers, there was a malaria requirement and our amazing supply chain, combination of that 3 has resulted. And as I said, in current quarter, the order, which was given for the next quarter supplies, we were ready with that.

And there was a demand by the customer, so we could ship that also in this quarter. That's why some of the sales of the next quarter were included in this quarter. Next year, we are estimating it to be probably flattish or maybe slightly grow. Again, there is no guidance given on that because there's nothing in our control there. All control we have is to execute the orders well in time.

Shrikant Akolkar: Understood. And going by FY'24 EBITDA margin performance, how should we see the U.S. margins in FY'24? And if you can comment, which are the most profitable segments in terms of margins for you currently?

Arvind Agrawal: See, we don't give out the margin details segment-wise. But what I can only say is that, as we mentioned earlier also, we are expecting the EBITDA margin to remain at the same level or maximum improvement about 100 basis points in the coming year based on the way the freight rates and the API rates move. 28% is for sure. That is what we are expecting, but provided if there are favourable things on the freight rates, etc., we should be able to improve about 1% on that side.

Shrikant Akolkar: Understood. But if I want to rephrase my question, then is it possible to provide some color on the contribution of U.S. EBITDA to the total EBITDA? If some color, some ballpark numbers should be helpful.

Arvind Agrawal: No, that is something which we don't give out.

Shrikant Akolkar: All right. And last question on the API pricing environment, which we are saying has been easing for last, I think, few months. So if you can talk about what is happening on that part? Is it China selling aggressively? Or do you think it is just prices that have reacted? And how long do you think that these benefits can sustain?

Yogesh Agrawal: Overall, we've seen globally, the inflation has kind of stabilized and kind of reduced, so it had gone up to a level which was unprecedented or unseen, that was not sustainable. So a good amount of it is just cooling off of those rates, which had gone up because of the disruptions in supply chain because of the COVID, the ship got stuck, containers were not moving. The freight rate had ballooned to an insane level.

Some people had to import the materials by air. So now since the supply chain has kind of organized, the freight rate has reduced significantly. That has helped. So the demand also is there. The capacities have come back. So it's a combination of all that. Primarily, the cooling off of the prices, which had gone up post-COVID is what we are seeing right now. We believe, I think, given the current environment, it should sustain at the current levels, the API prices.

Moderator: The next question is from the line of Ankush from Axis Securities.

Ankush: Congrats for a good set of numbers. Sir, we have a plan to launch 5 to 6 products in the U.S. market. Can you provide us some sense what is the total addressable market for these products?

Yogesh Agrawal: We don't give out such granular details. So let's see how the scenario plays out anyway.

Ankush: So any big drug that we are launching in the U.S. market, some kind of sense?

Yogesh Agrawal: Sorry, I'll not be able to share the product specific commentary on this.

Ankush: So sir, just another one is that we have seen that API prices are stabilizing now. So can we see it is bottomed out or the things will be stable now? Chances are more that it could come down further.

Yogesh Agrawal: I think it should stabilize. There's no way to predict how it's going to play out, but we kind of see that it's cooled off quite a bit. But it should probably sustain at this level now.

Moderator: The next question is from the line of Kunal Randeria from Axis Capital.

Kunal Randeria: Just one question. Of the sales force expansion that you have done in your export Branded business in FY'24 and that you plan to do in FY'25, how much of that would be in traditional markets of Philippines, Iraq, and West Africa? And how much would be in slightly newer markets like CIS and maybe other markets?

Arvind Agrawal: It is difficult, Kunal, to give you the territory-wise number, but the total number, whatever we have added in the last 3 years, if you have seen, we have doubled it from 900 to 1,800 and another 200 is something, which we are expecting to add. And it all depends on which territory and how it is moving. So where we are adding the divisions and products, etc. So I think that granular level will be little difficult.

Yogesh Agrawal: And it will be spread across all the 3 geographies, Asia, and Africa.

Kunal Randeria: No, sir, I understand. What I wanted to know is not individual markets, but more like else traditional markets versus your, let's say, slightly newer markets. So if you've added 100, would 60, 70 be from your Asia -- Philippines, Iraq kind of market, something like that?

Yogesh Agrawal: Yes, yes. Correct. That's right. It will be higher towards the existing market of Africa and Asia, where we already have a presence.

Kunal Randeria: Right, sir. And sir, any new markets that you're targeting in Asia and Africa, besides the one that you already present and have a good strong presence?

Yogesh Agrawal: Yes, there are some markets, which our business development team is working on, but they are quite early in the discussions and are making our strategy. So it will be a bit early to talk, but there are 2, 3 more countries, which we are looking at and making our strategy to enter those markets.

Moderator: That was the last question in queue. I would now like to hand the conference back to Mr. Yogesh Agrawal for closing comments.

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

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