"Ajanta Pharma Limited's Q2 FY'24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Ajanta Pharma Q2 FY2024 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 call, please signal an operator by pressing '*' then '0' 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. A very 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, our AVP Finance and Investor Relations.

So, friends, I hope that the results are already there with you. We will take you through the business wise performance for the Q2 and H1 for the year along with the comparison for the previous year same period.

So, our three verticals of business -- Branded Generics, US Generics and Institution Business in Africa -- it generated the total revenue of Rs. 1,028 crores against Rs. 938 crores, posting a growth of 10% in Q2 and Rs. 2,049 crores against Rs. 1,889 crores, posting a growth of 8% for the first half.

During the year, 73% of the total sales came from the Branded Generics business, which is spread across India, Asia and Africa. This business exhibits assurance, sustainability and potential for the long-term growth. The sales stood at Rs. 743 crores against Rs. 711 crores, posting 4% growth in Q2 and Rs. 1,475 crores against Rs. 1,399 crores, posting 5% growth for the first half.

First, let me take you through the international business, and I will start with the Branded Generics business in Asia and Africa, which contributed to 40% of the total revenue.

So, let's begin with Asia. In Asia, our presence spans across the Middle East, South East and Central Asia encompassing about 10 countries. During the Q2, the sales was Rs. 230 crores against Rs. 251 crores, degrowth of 8% and in the first half sales was Rs. 484 crores against Rs. 492 crores posting a degrowth of 2%. During the first half, we launched seven new products in Asia region.

During the quarter, there were some supplies which got pushed out from the current quarter to the next quarter, adversely impacting the quarter numbers. However, on the full year basis, we are confident of posting a low-teen growth.

Let me move to Africa. Africa business is spread across 20 countries. During the Q2, sales was Rs. 157 crores against Rs. 146 crores, posting 8% growth, and in the first half sales was Rs. 316 crores against Rs. 314 crores, posting 1% growth.

During the last 4-5 months, we've seen the slowdown in overall market in Africa, hence correspondingly, our growth rates also got impacted. However, in the last few months we've seen the growth coming back in the market and coupled with various initiatives we have taken over the last 12-months or so, we are looking to deliver low-teen growth for the full year.

Let us now talk about the two other verticals of the international business. I'll move to US Generics. So, US generics contributed 22% to the total revenue. In Q2, with the sales of Rs. 237 crores against Rs. 185 crores, we posted a robust growth of 28% and the first half sales was Rs. 451 crores against Rs. 364 crores posting a very healthy growth of 24%. Going forward, for the next two quarters, we expect the revenues to be at a similar level.

In the first half, we have filed five ANDAs and we expect to file about three ANDAs for the rest of the year. We have received six final approvals and launched two ANDAs during the first half of the year and we expect to launch around three to four products more during the rest of the year. We have 42 products available on the shelf and 21 ANDAs are awaiting approval with the US FDA.

Let me take you through the Africa Institution business now. This business contributed 5% of the total revenue which comprises of anti-malarial products. In Q2, the sales were Rs. 37 crores against Rs. 33 crores, posting 14% growth, and during the first half sales were Rs. 102 crores against Rs. 110 crores, posting 7% degrowth. As we have been guiding in all our calls, this business remains unpredictable due to reliance on the procurement agencies, funds and the schedules.

I now invite Mr. Rajesh Agrawal – our Jt. MD to take you through the India business. Thank you and over to you.

Rajesh Agrawal: Thank you. Good evening to all of you. I'm delighted to share the 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 33% in the total revenue. In Q2 sales was Rs. 355 crores against Rs. 314 crores, growth of 13% and in H1 sales was Rs. 674 crores against Rs. 593 crores, posting a healthy growth of 14%. India business includes revenue from trade generics of Rs. 45 crores against Rs. 38 crores in Q2 and Rs. 81 crores against Rs. 71 crores in H1.

In the first half of the year, we launched 10 new products, including four first time in the country. Our medical representative's productivity has shown marked improvement aligned with our revenue growth while maintaining consistent MR levels.

We continue to outpace IPM by 400 basis points with Ajanta growing at 14%, surpassing the IPM growth of 10% as per IQVIA MAT September 2023. This places us as the third fastest growing company in the IPM. This trend extends to most of the therapeutic segments we are engaged in, where our growth has consistently outpaced the segment growth.

In the covered market, we continue to be fourth largest in the IPM and among top ten in all our therapeutic segments. As per IQVIA MAT September 2023, we have four brands appearing amongst top 500 list. In our sales breakdown, cardiology contributed 39%, ophthalmology contributed 31%, dermatology contributed 21% of the India business and remaining 9% came from pain management segment.

With this, I invite Mr. Arvind Agrawal, CFO, to take you through the financial performance of the company. Thank you and over to you, Arvind ji.

Arvind Agrawal: Thank you very much. Good evening and a warm welcome to the Second Earning Call of FY 2024. We will look at the consolidated financials and provide year-on-year comparisons. The key "Financial Highlights" for Q2 and H1 FY2024 are as follows:

Total revenue in Q2 stood at Rs. 1,028 crores against Rs. 938 crores, posting 10% growth. In H1, revenue was Rs. 2,049 crores against Rs. 1,889 crores, a growth of 8%.

Our gross margin came at 75% in line with our guidance. The continued favorable shift in API prices and normalization of the Euro against INR resulted in this improvement, which is expected to persist for whole of FY 2024.

Personnel costs increased by 19%, part of which about 8% is on account of regrouping of related expenses from selling expenses as explained in earlier earning calls, and balance was regular annual increments.

R&D expenses was 5% of total revenue. In Q2, expenses were Rs. 50 crores against Rs. 59 crores, and in H1 it was Rs. 105 crores against Rs. 113 crores last year.

Other expenses stood at Rs. 259 crores in Q2, reduction of about 12% over previous year same period. In H1, it stood at Rs. 534 crores, reduction of about 5% from previous year same period. International logistics cost has returned to pre-COVID level, contributing favorable impact of about Rs. 20 crores in Q2 and Rs. 45 crores in H1. This works out to about 2.5% and 3% for the Q2 and H1 compared to average of FY 2023. We expect higher marketing and R&D expenses in the next two quarters, which will increase overall other expenses in H2.

EBITDA margin improved to 28% in both Q2 and H1. EBITDA stood at Rs. 291 crores against Rs. 196 crores in Q2 and in H1 at Rs. 572 crores against Rs. 418 crores. This positive performance was attributed to the combined benefit of improved gross margin, reduced logistic cost and INR depreciation against Euro. However, as mentioned earlier, higher other expenses in H2 would limit EBITDA in the range of our guidance of about 26% for FY 2024.

Other income was at Rs. 21 crores in Q2 and Rs. 43 crores in H1, predominantly driven by Forex gain of Rs. 13 crores and Rs. 23 crores, respectively.

Income tax stood at 29% for Q2 and 26% for H1. For FY 2024, tax is expected to be around 25%.

PAT in Q2 was at Rs. 195 crores against Rs. 157 crores, 19% of revenue and in H1 it was Rs. 403 crores against Rs. 331 crores, 20% of revenue from operations.

We incurred CAPEX of Rs. 46 crores in H1 FY 2024. CAPEX including maintenance CAPEX for FY 2024 is estimated to be around Rs. 150 crores which also includes part of new corporate office.

There was good improvement during H1 FY 2024 in working capital days from March '23. Inventory stood at 71 days against 80 days and trade receivables at 103 days against 104 days.

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 September 2023.

In H1 2024, we have generated a healthy cash flow from operations of Rs. 399 crores with cash conversion ratio of 70% and free cash flow of Rs. 350 crores with 89% PAT conversion.

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

Moderator: We will now begin the question-and-answer session. We'll take the first question from the line of Yash Goenka from Awriga Capital Advisors LLP. Please go ahead.

Yash Goenka: How do you see US business turning out in the next three to five years as we intend to reduce the capital allocation, but in H1 our sales are up by 22%?

Yogesh Agrawal: So, US business, the market landscape is changing… evolving from what it was 12 months back. We've seen the price erosion to be stabilizing to the normal levels. In fact, there have been shortages which are reported in the US market. So overall the environment is changed and it is looking quite positive in the US. So, our outlook still remains that, as we have not taken any knee jerk reaction or decision back then, we don't intend to do anything on the similar line. Our outlook remains to be filing around eight ANDAs plus/minus going forward for the next two to three years. Our outlook is that I think the market should hopefully remain at the similar level of the price erosion and its most stabilized.

Yash Goenka: I wanted to ask on working capital levels. So, compared to past trends, is the higher working capital level now attributable for the US business?

Arvind Agrawal: Yes, earlier whatever working capital increase was there, was mainly because of the US. But as you are seeing now, the inventory levels are coming down, even the debtors' level are also getting stabilized. So, hopefully now we are not seeing any major increase in the working capital limit.

Moderator: The next question is from the line of Rashmi Shetty from Dolat Capital. Please go ahead.

Rashmi Shetty: So, just on the R&D expenses, last quarter you mentioned that 6% of R&D which we are going to be spending by FY24, but your first half is just 5% of sales now. Is it that in the subsequent quarters, the R&D will be very high or do you feel that it would more or less remain at this 5% level?

Arvind Agrawal: It will depend, of course, like the projects are on. So, naturally there will be some expenditure, but what is happening is that in the beginning of the year, we have brought a little bit of focus on cost optimization. So, we are able to get out of the same money, the same work or a little more work. Because of that you are seeing this little softness, but we expect this to maybe little go up, not much.

Rashmi Shetty: So probably it's fair to say that for FY24, R&D guidance should be around below 6%; between 5% to 6% sort of?

Arvind Agrawal: Yes, absolutely right.

Rashmi Shetty: And going ahead in FY25 and '26, it should increase, or it should remain more or less in the same range.

Arvind Agrawal: More or less in the same range.

Rashmi Shetty: Sir, on your other expenses, do we have any Forex as a part of the other expenses or you have Forex income which is coming in the other income part?

Arvind Agrawal: Yes, Forex loss is not there in this quarter. In H1, there was Rs. 1 crore, otherwise, there is no Forex loss in the other expenses. Last year it was there, this year it is not there. So, that's why you are seeing other expenses getting reduced.

Rashmi Shetty: Will this be the new base or you feel that other expenses will be high in Q3 and Q4? As you mentioned that your marketing expenses will be high, so like how many basis points from this excluding R&D, your other expenses is 20% of sales, so by what quantum it should increase in the subsequent quarter if the additional marketing expenses come?

Arvind Agrawal: Honestly, that much granularity I will not be able to give you now, but what I can only say is that it will be little higher as compared to what we have seen this trend in the last two quarters.

Rashmi Shetty: So, sir, will you be upgrading your EBITDA margin guidance for FY24 from the earlier levels of 25%?

Arvind Agrawal: Yes, that's what I mentioned in my call just now that we are expecting now to be around 26%.

Rashmi Shetty: Annually, how much expansion we should expect for every year because the business is like back on track and all the markets are doing well for us. So, in FY'25-26, what is the kind of number that we can build in?

Arvind Agrawal: Will be difficult to give you any number as such. One thing which we can only say is that it will improve certainly.

Rashmi Shetty: And sir, on your Asia branded business, you mentioned the guidance for loss in growth while in Africa branded business, since now we are doing flattish growth in first half and you also mentioned slowdown in the industry growth, for the full year, are we maintaining our guidance of high single digit growth or here we can see some kind of challenges coming in?

Yogesh Agrawal: No, in Africa, we are seeing the revival. I think we will bounce back to the growth. So, for the whole year, we are very optimistic to post low-teen growth. So, we'll cover up in next two quarters.

Moderator: We'll take the next question from the line of Harsh Bhatia from Bandhan AMC. Please go ahead.

Harsh Bhatia: Just one or two questions from my side. Firstly, in terms of the India growth, could you help us understand the bifurcation between volume, price and reductions for the second quarter?

Arvind Agrawal: So, as far as volume and value is concerned, price increase is almost the same as par with the industry. Only, the volume has gone 3x. So, the industry has grown at 2%, we have grown at 6% in terms of volume. So that is what is the biggest advantage which we have. So, as far as price and new product is concerned, it is same as 3% and 5% in line with the industry.

Harsh Bhatia: The price is 3%?

Arvind Agrawal: New product is 3%, price is 5% and volume for industry is 2%, ours is 6%.

Harsh Bhatia: One clarification, in terms of the US business in the first quarter as well you mentioned that the sales would largely be sort of range-bound for the next two, three quarters. Second quarter is slightly higher as well. So, should we assume this to be sort of a relevant base for the next two quarters? And again, on this, the assumption is ex of Chantix?

Yogesh Agrawal: Yes, I think we should be able to deliver the numbers on the current quarter basis going forward for the rest of the year.

Harsh Bhatia: But this would again not be inclusive of the expected launch of Chantix.

Yogesh Agrawal: Everything is factored in this. It's a mix of whatever, the new launches, market share loss, increase, all put together, I think we look reasonably comfortable to post the number what we have done for this quarter going for the next few quarters as well.

Harsh Bhatia: One last clarification on a broader perspective. If you look at these three, four therapies in the India market, would it be fair to work with the assumption that at the gross margin level, the cardiac would continue to be the highest gross margin provider purely from the India market perspective, if at all we are disclosing therapy wise?

Arvind Agrawal: No, we are not disclosing therapy wise margin. So, that will be difficult. But one thing which we can definitely tell you is that every segment is contributing almost at the same level. It's not something which is much different. Only the thing is cardiology has got more contribution; 39% of the sales is getting contributed by cardiology. That's the only thing which is there.

Harsh Bhatia: So, you meant that the operating margin level, it wouldn't be anything significantly different?

Arvind Agrawal: Yes, wouldn't be different.

Moderator: We'll take the next question from the line of Abdulkader Puranwala from ICICI Securities. Please go ahead.

A Puranwala: Sir, firstly on the Asia Branded business, so in your opening remarks, you mentioned that there was some lumpiness due to which there was a spillover from this quarter to the next quarter. So, would it be possible to quantify what was the spillover, and also, we would be on track on the mid-teen growth adjusted for the spillover in this particular quarter because H1 itself if you see the business had not grown much, so what gives us the confidence of the mid-teen growth in this particular segment as well?

Yogesh Agrawal: So, we're talking about Asia, not Africa, where the spillover happened for this quarter to the next quarter. Let me tell you in another way. As I said before, the Asia for the whole year, we look comfortable in giving the guidance of posting the low-teens growth. So, next few quarters would be making up of whatever we have not done in this quarter. So, that is I think comfortable guidance we can give. And Africa also, I think on the same lines, we are looking to post the low teens to mid-teens growth for the whole year.

A Puranwala: Possible to quantify the spillover?

Yogesh Agrawal: No, unfortunately, I can't give the exact breakup number, but you can do the math, it's not very difficult.

A Puranwala: Secondly, on the India business. So, the 10 new products what you've launched in the first half, I mean, which are the therapies these are catering to, are these existing for or you are entering into few new therapies as well?

Rajesh Agrawal: They're in the same therapy, existing four therapies. And most of them are cardiovascular, diabetic segment only, and there are few in derma and one in ophthal.

A Puranwala: On the bookkeeping side, the tax rate for this quarter was slightly higher and for the whole year as well we are guiding for almost 25%. Any particular reason you would like to highlight for the rise in the effective tax rate?

Arvind Agrawal: Basically, I think for the quarter it is because of the dividend which we got from the subsidiary. So that is the major reason for the quarter that it has gone to 29%. But in the other quarters, it is not going to be, then it will come down to that extent and overall, 25% is basically because the profitability has gone up as compared to last year, so naturally the tax rate also has gone up.

Moderator: The next question is from the line of Bharat Celly from Equirus Securities. Please go ahead.

Bharat Celly: So, we have been referring to that there has been some change in the US structurally. So just I was trying to get a sense that how the overall market is shaping up, whether you are seeing that people are ready to pay higher price considering the shortage in the market or the volume growth has been more of leading the growth?

Yogesh Agrawal: Yes, it's a combination of all the things. The customers are valuing the consistent supplier of high quality with high compliance rates over the prices of reducing by few cents or few percentages, this is getting valued much higher than before we have seen. In line of that, Ajanta is positioned extremely well to take advantage of such situations. So, I think there was a combination of things, as we know COVID the supply chain became the center of focus for everyone. So, product availability was at an all-time high, there were no inspections, so there were - disruptions because of the FDA inspection. So, all in all, I think the market has gone back to the pre-COVID level where inspections have started. That is causing some disruption in the market. And because of the COVID experiences now the customers are seeing more value working with the companies having a very high compliance rate. There's a combination of all of the things. I think it's kind of thing that the market is kind of stabilizing and getting better now.

Bharat Celly: When the customer is coming to you, are they asking for a longer duration contract or these are more of a shorter-term contracts till the time new players who are calling new supplies also join in?

Yogesh Agrawal: It's a mix of both, product-to-product basis where there are uncertainties on the product. Customers wanting to lock up for the longer duration contract so that they are assured of the products. We've seen in the last few years there have been huge disruption, some of the major products which are let's say for the flu, last year was a big shortage of the product and that created a lot of disruption in the market, a lot of patients didn't get the products, a lot of children, they were suffering. So, on a product-to-product basis, the customers are looking to do a longer-term partnership with the supplier.

Bharat Celly: Sir, actually what we have seen over the past is that whenever there is a shortage, probably six months or nine months down the line, new supplies come in the market. So, are you foreseeing any sort of similar trend to emerge this time or it will be more of a permanent lock which we are referring to?

Yogesh Agrawal: It's very difficult to predict so far in the future, but what we are seeing is the pre-COVID kind of market scenario is coming back. So pre-COVID also, we were on a similar scenario where product-to-product because of various reasons; there were supply disruptions creating the shortages, there was a company who is at the right time and the right place, they would benefit from that. So, we're seeing the similar kind of scenario. I think it's very difficult to predict too far away next two years, three years how it is going to pan out. But we remain optimistic. We believe that the worst is behind us. The market has stabilized to great extent. There's a realization all across from the supply side, buyer side to value the partnerships more over the price. We see I think there is some kind of structural mind shift which is occurring in the industry.

Bharat Celly: Sir, when we refer to probably that we are getting back to pre-COVID levels, so what sort of price erosion we are seeing, either it is between 4% and 5% or it is high single digit and how do you see it going forward?

Yogesh Agrawal: High single digit is what we are seeing, and we would like to believe it would remain in the similar vicinity going forward also.

Bharat Celly: So, a high single digit sort of a number which we are answering for this?

Yogesh Agrawal: Yes.

Bharat Celly: Just wanted to understand on the India business. So, we have almost like 10 products contributing almost like 60% of our revenues in the domestic business. So just wanted to get a sense that when we are looking at almost like 13% growth for the domestic business, what sort of growth the top 10 products have seen over during this same duration?

Rajesh Agrawal: There's been a very healthy growth actually, including brands like MET XL even though we were impacted due to the price reduction that happened by NLEM, but the volume growth is very healthy and the other brands also in the top ten, Cinod and the family extensions, they've also posted robust growth. So, all in all, we've posted robust growth in the top 10, otherwise we would not have achieved 6% volume growth in our core product portfolio as against 2% volume growth of the industry. So, it is very positive.

Bharat Celly: Actually, what we are seeing is that our growth in IPM has been laggard when you look at in a cardiac division and our focus has been largely pertaining to four therapies largely. So, how do you plan to outgrow the market growth over a longer duration? Here I'm referring to probably five, six years. Considering our focus has been largely four, so are we looking to get into newer therapy areas to keep growing and outpacing the market?

Rajesh Agrawal: So, cardiology has not been a laggard. We have been growing faster. Only what you see in the last six months, as I've mentioned, the largest brand in cardiovascular for us MET XL has got impacted because of the price reduction that NLEM has done. If you normalize that, then we are growing at par or faster than the cardiac segment growth rate. Secondly, to answer your question on the therapy, I feel that we have a long way to go in the existing four therapeutic segments itself, like the way we have bounced back in dermatology in the last two years. That's again because we have had a sharp focus on the current four segments. I feel there is a lot to be done and we are not exploring any other specialty to enter into. It is mostly diabetic, that we have also increased our trust, which also goes hand-in-hand with the cardiology segment in which we have a strong presence. So, beyond that, no, we are not exploring anything else. But, even in these four segments that we are present, if we are able to outpace the sub-therapeutic segments of each of the specialty in which we are present, I think we would have done a good job and there is a lot of headroom for us to keep growing in that.

Bharat Celly: Just wanted to understand, what's our ranking in the derma division at this point?

Rajesh Agrawal: In the covered market in dermatology, we are ranked third and overall, I think our rank is 16.

Moderator: We'll take the next question from the line of Kunal Randeria from Nuvama. Please go ahead.

Kunal Randeria: Are you seeing any kind of structural shift or softening of the branded pharma market in India maybe because a lot of companies are launching their own trade generics? There has to be some level of cannibalization happening at least on the volume front.

Rajesh Agrawal: Very hard to say that because we don't have any kind of data to prove it. It may be happening, but at a very negligible or minuscule level, this is my presumption. So that may not be the prime reason for any kind of slowdown. Yes, we have had couple of soft months or the IPM previous month, month before last have been quite soft. I think now that we begin, forget October, October typically may not be the strongest month because of the festivals that take place in the country all across in north and east. But November to February should be strong four months and until March also maybe a strong five-month period in which we could see good amount of recovery because from IQVIA we don't see any major reasons why the IPM will slow down dramatically. Their forecast still remains high single digit or very low double digit.

Kunal Randeria: So, it will be fair to assume that in the next three to four years you expect the market to maybe grow at around 10% kind of growth?

Rajesh Agrawal: Their forecast is, let's say 8% and 9%. So that's what IQVIA is saying for the next three years.

Kunal Randeria: Second question was in Asia Branded business. Now, I think the last few years you have been trying to again enter new markets and maybe diversify away in Philippines and Iraq. So maybe can you walk us through on some of the markets that are doing well for you or the new market that you're targeting in Asia?

Yogesh Agrawal: So, we don't give the country wise breakup, but in general, as I said, the 10 countries block in Asia which are spread across Southeast Asia, Middle East and Central Asia. Some of the countries are mature for us. Despite being mature, we are doing good where we are posting decent growth. Some of the countries are particularly in Central Asia, we're building that business. So, all the various countries are in the different block of the maturity. But overall, I think we see a good headway growth for us to grow in the Asia market. I think Asia, also the big part of focus is getting shifted from acute to chronic. So, a good part of our business in the Asia is coming from the chronic, that's also a very good high-quality business to be in.

Kunal Randeria: And maybe now since you have a fairly big player in Iraq and the Philippines, means, what's the kind of competition, is increasing over there, I just want to understand a bit more, is there trade generic kind of thing happening, so just your outlook around how some of these markets you see in the next three to four years?

Rajesh Agrawal: In both of these markets, there is a high amount of competition. There are all sorts of multinationals that are present just like the way in India, and more importantly, the local companies themselves very competitive and very strong. In the Philippines, for example, you have the likes of United Laboratories, which controls more than 12% of the market share and so it is in Iraq, all the companies from in and around GCC countries, also. So, competitive pressure is very high in these countries. Having said that, we are quite confident with the kind of competence that we have built over the years, the understanding of the market and the team that we have in these countries. To be able to withstand, there could be one quarter or two in which there may be some kind of drops that may happen, but that is not to say that's going to continue for a very long period. I think that's a very natural thing to have. If we are alone in the market with any particular brand and suddenly you have 5-10 competitors, naturally, the first six months we will see some pressure happening, but over a longer period, we are able to quite successfully defend our position and retain our leadership positions.

Moderator: We will take the next question from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: So, just on the capacity utilization currently at different plants?

Arvind Agrawal: Should be in the range of about 60% to 65%.

Tushar Manudhane: So, effectively, that would trigger more CAPEX maybe in the next 12 to 15 months?

Arvind Agrawal: No, not really, because I think we are still comfortable for next two years, after that maybe we may have to start thinking and waiting back on the drawing board, but otherwise I think immediately there is nothing which is a major. Some small additions will keep on happening, which is normal CAPEX but nothing really major.

Tushar Manudhane: So, particularly for Asia, Africa geography, if you could share how much is outsourced from the local manufacturers there?

Yogesh Agrawal: We don't have the breakup off hand on plant wise territory, right. But overall I think you can see the sense, as Arvind ji was saying, we have done our forecasting for next two to five years in terms of what growth and capacities and new product launches. And with that planning also, we know what CAPEX to do at what point in time. So, as Arvind ji said, in a near future, we don't see a big CAPEX outlay coming up, maybe after a year, year and a half or two years, we may have to get back to the drawing board and see again how the forecast looks with the growth and what capacities we need. But I think the clear visibility which we have is next 18 to 24 months there could be some line additions here and there, but nothing of a very significant CAPEX.

Tushar Manudhane: Lastly, on the OPEX side. Apart from the increase in the marketing expenses, which probably would offset decreasing the international logistics cost, any other factor that can further increase this aspect maybe in FY25?

Arvind Agrawal: Not really, because there is nothing which is known to us. And I think all the expenses are at the level which are at pre-COVID like what logistic cost, etc., we're seeing. Unless the situation worldwide gets into some problem, etc., then in that case what happens, we really don't know. But today, at least as far as our planning or our expectation goes, I think we are going to be on the similar line.

Moderator: We'll take the next question from the line of Aman Kumar Singh, an individual investor. Please go ahead.

Aman K Singh: My question is related to our growth pattern what we have seen in Africa. I think our Africa business is going down both on the institution front and even at the larger continent front. What can be the probable reason for it?

Yogesh Agrawal: I don't know from what data you are making that statement because if you see in 2019 our Africa sales was 317 crores and last year we did 560 crores. So cumulatively, we have delivered a CAGR of 14% which is mid-teens and which is what we've been guiding. Current year as I told you, during the quarter also we posted not a very bad number, it was 8% growth despite the markets going down. And as I've shared for the whole year, we are looking to deliver the low teen growth against the mid teen growth which we had guided at the beginning of the year. So, I think we are fundamentally very, very strong. We have all the building blocks in place of having right product, right team, right people, right training. So, I think the story should not be seen in one quarter or two quarter, it should be seen in a longer horizon of few years and in the last five years we've delivered a 14% CAGR growth, going forward also, we feel very confident of delivering similar kind of growth for next two to four years. So that's where the position is. Don't have to worry about the growth, don't look at one quarter of the number. I think in the long-term story, we are confident of delivering all the numbers of low teen to mid teen.

Aman K Singh: One thing I just wanted to point out. When we have a little bit of cash on our book, why don't we deploy this cash more meaningfully by doing some lateral acquisition or something that will help our company to go further. So, this is the suggestion I wanted to put forward.

Arvind Agrawal: Your suggestion is well taken and every time I am mentioning that we are looking for acquisitions. Unfortunately, the valuations and the product qualities which are coming to the market, they are not getting satisfied at our preliminary level. So, because of that we are not able to do any acquisition. Otherwise, we are definitely scouting, and we are there always for any deals which are happening in the India market.

Moderator: We'll take the next question from the line of Harsh Beria, a professional investor. Please go ahead.

Harsh Beria: My first question is on our India operations. So, in the past few years, most of our growth premium over IPM has come due to higher volumes in our India Branded business. Can you give a bit of color around this -- have we expanded our distribution network or are we going into smaller cities, so some color of why we are able to grow higher on volumes in India?

Rajesh Agrawal: No, we have not expanded in terms of the number of reps and therefore there is no expansion in smaller villages or smaller towns. This is primarily coming from the same markets in which we are operating. Essentially, it is the increase in MR productivity, that is driving the volumes. The increase is taking place because of the sharper focus on customer relationship management activities that we have been conducting in the last two, three years and of course being very competitive at a basic level to fight back and retain the market share. So, that is what is contributing on one is the retention and two is the growth in terms of volumes.

Harsh Beria: My next question is about our trade generics business in India. I think in the past calls, you guys had guided for 10%, 12% growth, but we continue to see very high growth of 15%, 20% in this division. This is not something I'm complaining about, but we also see a lot of other companies entering into this segment.

Arvind Agrawal: I think from Rs. 38 crores, we have gone to Rs. 45 crores in this quarter, 15% growth for the first half.

Rajesh Agrawal: Some part of it may be better than what we were actually aiming for, which is a good thing to happen. And, of course, we are doing better than most of the companies in the market, again, primarily because of the product portfolio that we have. Well, as you said, we are not complaining either. Hopefully, this growth rate continues even though we have set out to achieve a growth rate of low double digit, but mid-teens is always welcome.

Harsh Beria: Also, my next question is about the US operations. Given that the US has grown at a faster pace in recent times. To see that the US required higher working capital investments, especially in terms of maintaining inventory near the customers? Have you seen any change in this trend where we do not have to invest so much into inventory?

Yogesh Agrawal: No, not really. But it only depends on how efficiently you have your entire working capital managed, how many days, if you have a consistency in the production output, you can have a lower inventory in the front end and that has been in the last 12 to 18 months we've been striving for that. And that is where you see that despite the sales growing up, the number of days inventory remains the same for us for the first half, though the US has grown pretty robust, which requires the highest working capital level. No, I think generally the outlook remains the same. You need to have a decent amount of inventories to be able to encash the opportunities which market throw up at time, you need to have a decent inventories at the facility - here in the RMPM. So, US remains to be a high working capital market, but there's a trade off on what you want to keep and how ready you are to encash the opportunities if they come to your way.

Harsh Beria: What is the kind of price erosion we see in our base portfolio in the US currently?

Yogesh Agrawal: High single digit.

Harsh Beria: My last question is about the Emerging Markets. So, we have seen a lot of companies facing pressure on FOREX exchange, especially in the last few quarters. But, for some reason Ajanta hasn't seen that. So how have you managed our FOREX so well that we haven't seen any large FOREX losses? I think we have actually made net FOREX gains over the last year and quite systematically across quarters, so how have we managed to accomplish this?

Arvind Agrawal: Simply the discipline. You see, we have a FOREX policy in place which is approved by the board of directors and we follow that very, very strictly. And that is what has really helped us to manage it very well, because see, ultimately it all depends on how you will get levered with the movements in the FOREX. Sometimes you take a call, which may not be a very disciplined way. But I think we have been very disciplined, and we have been able to really maintain that discipline all throughout and that is helping us to really manage our exchange risk very well.

Harsh Beria: Our policy has been to maintain 75% of our receivables hedged and keep the remainder as open. Is that our policy?

Arvind Agrawal: 50% is minimum, which our policy prescribes. More than that will depend on how we really see the market and how we predict that market is going to move. Depending on that, we take the call.

Moderator: The next question is from the line of Ankush Mahajan from Axis Securities. Please go ahead.

Ankush Mahajan: I joined the concall in a latter part. Sir, as we have seen in the PPT in the Indian business, the cardio division is showing some decline. So, what is the reason and what is the outlook for it? And related to this, our US business, the growth is there, it's a quite commendable growth and what are the reasons behind it?

Rajesh Agrawal: For the cardiac business, it is not showing a decline, it is growing slightly lesser than the cardiology segment in India. The reason is only because our lead brand MET XL which contributes the majority to the cardiovascular business for Ajanta, there has been a price reduction done by NLEM in the month of March, which is what is affecting us because if you normalize the price of MET XL and calculate as per the previous old price which was prevailing until March, then we are growing at par with the segment growth rate or slightly better than the segment growth rate. So, honestly, I don't see any reason for us to worry about it. These growth rates will bounce back next year once this price becomes the base price as such. So that's what the reasons are.

Ankush Mahajan: So, any competitiveness that we are losing market share in cardiology?

Rajesh Agrawal: As far as the company cardiovascular segment is concerned, no, we are not losing market share, there may be one or two brands where the market share may be going up or down. But nothing that worries us largely.

Ankush Mahajan: A very strong growth in the US market. So, what has contributed to it, sir?

Yogesh Agrawal: So, it's a combination of two, three things. One, we've seen the price erosion to be normalizing, which we've said. We've had a number of good launches and we've done fairly well in those launches. We've increased the market share for a number of our products. So, a combination of all the three things has resulted into it and a very high level of supply compliance, our fill rate is one of the highest in the industry. So, the combination of all these three, four things have resulted into a very good set of numbers for the quarter and for the first half.

Ankush Mahajan: When we are going to launch Chantix?

Yogesh Agrawal: Chantix is still work-in-progress. So, as I shared with you in the last conference call, it could be Q4 or Q1 of next year. Still, we are awaiting the final approval from the FDA. We believe we are at advanced stage, we've met all the requirements whatever they've asked for. So now, it's just to wait and watch again. And once we get a go ahead, we should be able to hit the market very, very quickly because we've seen there are some other competitors who also have got the approval so that the name of the game will be who can come to the market first.

Ankush Mahajan: So, any update on this Topiramate?

Yogesh Agrawal: No, we've settled it under confidentiality. We have signed the confidentiality agreement. So, I think we are not able to share the launch date of the product.

Moderator: We'll take the next question from the line of Harsh Beria, a professional investor. Please go ahead.

Harsh Beria: I have a question about the diabetes franchise in India. So, recently we have seen a lot of patented products going off patent. So, can you talk a little bit more about our diabetes product offerings and how have we managed to gain incremental market share in these new products that have come into the market?

Rajesh Agrawal: You are absolutely right. There are many molecules that are going off patent, every company along with us also are launching the same molecules and same combinations. There are the typical SGLT2s, there are DPP-4s that are being launched that are combinations with that, there are combinations with Metformin. So, our product portfolio will pretty much be similar to what other companies are also launching in the diabetic segment. Since we have had a late start in antidiabetic, for us, it's increasingly more difficult to gain market share. But having said that, we have started on time I still feel, and we have a long way to go in the segment. So, I think in the next couple of years we hope to have some kind of a meaningful presence at least within our own sales contribution, it should have some meaningful contribution to our internal sales. So that is what the aim is.

Harsh Beria: So, in the past, Ajanta used to do a lot of these clinical trials within India to launch to bring to market newer products. How is that segment proceeding? So, earlier we used to have a very large proportion of our new launches as new product approved or as first-to-market in India. How is that strategy panning out?

Rajesh Agrawal: In the last three to five years, the regulatory requirements of the Drug Control General of India has become very, very stringent. Getting approvals have been increasingly difficult in the last three years. We still have new product first time through the market like for example in cardiovascular, we have had a triple drug combination product that we have launched in Q2, which is the first-time product in the country and for which we have conducted clinical trials. So that's the regulatory requirement of the country if it's a first- time product, but all the new launches that we are making along with many other industry players have a combination of both internal new product development and approval as well as sourcing it from other channel partners, in which case then either they do it, but clinical trials or then we partner with them to conduct the trials. So, that is how it is.

Harsh Beria: So, Ajanta is a formulation company which doesn't have much backward integration in terms of API. We have presence in the Institutional segment as well as Generic-Generic segment. Despite that we maintained one of the highest gross margins that are seen in the industry, which is close to 75%, 80%. How do we do that?

Yogesh Agrawal: It's an outlook of the business, right? We said the strong focus on the branded generic business, 73% contribution, which is there in US, we've been very selective in the product portfolio. So, outlook has been not necessarily to just build the volumes at the cost of the margin. So that's a discipline which we have followed for I think over a decade, and I think yes, that's the result we're trying to continue posting I think slightly above industry EBITDA margins or PAT margins.

Moderator: Ladies and gentlemen, as that was the last question for today, I would now like to hand the conference over to Mr. Yogesh Agrawal for closing comments. Over to you, sir.

Yogesh Agrawal: I want to thank each one of you for joining this call. If there are any questions which got left out or remain unanswered, please feel free to reach out to our Investor Relations team. Once again, thank you so much for joining. Bye.

Moderator: Thank you, members of the management. Ladies and gentlemen, on behalf of Ajanta Pharma, that concludes this conference call. We thank you for joining us and you may now disconnect your lines.