"Ajanta Pharma Limited Q1 FY22 Earnings Conference Call"

July 29, 2021

MANAGEMENT: **MR. YOGESH AGRAWAL - MANAGING DIRECTOR, AJANTA PHARMA LIMITED**
MR. RAJESH AGRAWAL – JOINT MANAGING DIRECTOR, AJANTA PHARMA LIMITED
MR. ARVIND AGRAWAL - CFO, AJANTA PHARMA LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Ajanta Pharma Limited Q1 FY22 earnings 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 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: Good evening and welcome everyone. With me, I have Mr. Rajesh Agrawal, our Joint Managing Director and Mr. Arvind Agrawal, our CFO. Before we move on to the business, our thoughts and prayers are with everyone who suffered the effects of the second wave of Covid and especially to those who have lost their loved ones. Recognizing that vaccination was our best bet to an early return to the normalcy, we started the vaccination drive across all our locations starting in March. This covered not only Ajantaites but also their family members and I am happy to say that over 80% of our Ajantaites have been vaccinated with at least one shot. As we speak, national vaccination program is also progressing well and we are hopeful that going forward, the situation will only improve from hereon.

Coming to the Results:

They are already there with you and I am happy to share that this has been an exciting quarter. We have been able to achieve continued growth for the Q1 FY2022 in all the business segments except institution business in Africa. I will take you through the different business-wise performance during the quarter for different business verticals. Starting with emerging markets, this business which spreads across Asia and Africa contributed 22% and 17% respectively to our total revenue. Our exports to these markets were Rs. 291 Cr against Rs. 271 Cr, a growth of 7%. The growth was lower on the back of slowdown in a few markets due to the second wave of Covid and resultant supply chain disruptions.

Moving to the US generics:

US contributed 23% to our revenues. We registered the sales of Rs. 168 Cr against Rs. 149 Cr posting 13% growth. This growth comprises of both gain in the market share in the existing products and 2 new launches. We filed 1 ANDA during the quarter and we are moving towards filing a total of over 10 ANDAs during the financial year.

Moving to the African institution:

This business contributed 7% to the overall revenue. We registered the sales of 54 Cr against 62 Cr and saw a degrowth of 13% during the quarter.

With this, now I hand over to Mr. Rajesh Agrawal – Joint Managing Director to take you through the India business. Thank you and over to you, Rajesh.

Rajesh Agrawal: Good evening to all of you. Let me discuss some of the key highlights of the India business with you now. India business contributed 31% of the overall revenue of the group during the quarter. India sales stood at 229 crores against 174 crores posting a healthy growth of 32% during Q1 FY22. Institution business was at Rs. 27 crores. Overall, we are satisfied with our performance. As per IQVIA MAT June 2021 figures, we have posted a very healthy growth in all the therapeutic segments and exceeded the industry growth rate in most of the therapies. Our growth can be attributed to all 3 factors during the year, which are increase in the market share, new product launches, and also in a small way increase in the prices of some of the products.

During the quarter, we have launched 5 new products in the country out of which one has been first to market. With renewed growth in the business and undertaking field optimization exercise, our MR productivity has improved substantially. There was some impact on the field activity during the month of April and May across the nation where our field colleagues were working from home. However, they remained strongly in connect with the key customers in their own territories.

With this, I would now like to hand it over to Arvind Agrawal – CFO to take you through the financial performance. Thank you and over to you, Arvind.

Arvind Agrawal: Good evening to all and a warm welcome to this earnings call. For ease of discussion, we will look at the consolidated financials and provide year-on-year comparison.

Let me share key financial highlights with you:

It was indeed a satisfying performance for Q1 with 12% growth in the revenue to Rs. 748 crores against Rs. 668 crores. EBITDA was at 220 crores against 223 crores and was 29% of revenue from operations. It saw 1% degrowth during the quarter over previous year same period due to increased expenses on both R&D and marketing which was very small last year due to Covid restrictions. PAT was at 174 crores against Rs. 148 crores, up by 18% year-on-year. PAT was 23% of revenue from operations. Material cost remained at the same level of last year's and it may vary depending on the business mix and increase in a few API prices. R&D expenses were at Rs. 45 crores against Rs. 31 crores, saw an increase of 46%. R&D expenses stood at 6% of revenue. Other expenses were in line with previous 2 quarters.

Depreciation increased by 10% on YoY basis because of the new ophthalmology block at Guwahati plant. Other income was Rs. 33 crores mainly contributed by forex gain of Rs. 25 crores. With increased level of production from all the three new manufacturing facilities, rate of income tax has declined as expected from 27% in 2021 to 21% this year. We incurred CAPEX of Rs. 27 crores during the quarter against full year projection of Rs. 200 crores.

With these highlights, I open the floor for the question and answers.

Moderator: We will now begin the question & answer session. The first question is from the line of Rashmi Sancheti from InCred Capital. Please go ahead.

Rashmi Sancheti: Sir, one question on US business. We are seeing a quarter-on-quarter decline. Is it something that we are seeing price erosion in our existing products or what is the exact reason for it?

Yogesh Agrawal: There is a very slight decline which is of 3%, so not such a significant which can be a cause of worry. We haven't lost any substantial business or accounts. So, there is no cause of worry there.

Rashmi Sancheti: Sir, on US business, will we be able to do at least 19% to 20% CAGR over the next 2-3 years?

Yogesh Agrawal: We are not giving any forward-looking guidance for any of our businesses. That's all I can say right now.

Rashmi Sancheti: Sir, guidance on the product launches in the US like for this particular year, how many launches we have planned?

Yogesh Agrawal: We have already launched 1 product during the quarter which will see the ramp-up. Going forward, we expect maybe 2 to 3 product launches during the year.

Rashmi Sancheti: So, just around 4 to 5 product launches we are planning for FY22?

Yogesh Agrawal: That's right. These are all subject to of course FDA approvals coming through on the times which we have estimated.

Rashmi Sancheti: Sir, another question on bookkeeping. There is spike in staff cost this particular quarter as well as the Other Income is also pretty high. If you can explain the reasons behind it, and finally the tax rate guidance for the full year.

Arvind Agrawal: For the forex income, this Other Income of 33 crores, this consists of 25 crores of forex income which is because of the rupee depreciation during the end of quarter.

Rashmi Sancheti: And, sir, related to staff cost?

Arvind Agrawal: Staff cost is normal absolutely because it is just a 1% increase which is normal increments which have been provided during the quarter.

Rashmi Sancheti: Finally, on the tax rate guidance?

Arvind Agrawal: In terms of tax rate, I think it should be in the same range or a little bit higher going forward.

Rashmi Sancheti: In the sense, 21% to 22%.

Arvind Agrawal: Yes.

Moderator: The next question is from the line of Abdul Puranwala from Anand Rathi. Please go ahead.

Abdul Puranwala: Congratulations on good set of numbers. On the India front, this 32% growth. How should we look at for the full year and especially on the cardiology side, if we look at the MAT data, cardio, our growth has been slightly lower as compared to market. Any comments there?

Rajesh Agrawal: Two things. Second part, on cardiology, the industry has grown at 15%, our growth is 14%. So, again it's almost the same I would say, but nonetheless the industry growth in cardiac has primarily been driven by the anticoagulants which were a function of the second wave of the Covid in the country. If you take that out, then the cardiac segment growth is far lesser than what you see at 15% and in that sense, our 14% is far better than the IPM cardiology growth. On the other aspect of 32%, well of course, all of us know that last year Q1 was a subdued base in the domestic and the current year first quarter growth rates are not sustainable for the rest of the year, but nonetheless we are confident of surpassing the industry growth rate for the whole year in all our respective therapeutic segments.

Abdul Puranwala: My second question is again on the staff cost. The staff cost on an annual basis, there is an increase of 16% and if I refer to your presentation, it says that the MR count has come down by close to 200 MR. Any reason why the staff cost would have still gone up. Going ahead, would there be any benefit because of this rationalization in MR.

Arvind Agrawal: The cost has gone up mainly because if you remember last year we operationalized our ophthal section in Guwahati which was not there in 1st and 2nd quarter. We operationalized it in 3rd quarter. So, naturally that cost has come in and because of which there was an increase, and then of course, this year's annual increment has come. That also has increased the cost. As far as your second question is concerned, in terms of rationalization, that component will be small, but yes, there will be some benefit which may come in, but it can get offset by some other increase in the R&D area.

Abdul Puranwala: That was exactly my next question. So, how should we see R&D as a percentage of sales? What are we budgeting for this full year?

Arvind Agrawal: I think around 6% what we have achieved this quarter, the same percentage you can consider.

Moderator: The next question is from the line of Saket Bansal from Opulent Investment Advisor. Please go ahead.

Saket Bansal: Sir, my question is on the US business. Are we seeing any kind of a higher price discount this quarter? And in terms of number of launches also, earlier we were guiding a higher number of launches. Do we see a kind of change over there also? because now the guidance is only 3 to 4 launches.

Yogesh Agrawal: I will reply to the second part first. The number of launches is a function of how many ANDAs we are able to file during the year. Last year, because of the Covid, our R&D was most impacted where 4 to 5 months, we were not operating. So, last year, our ANDA filings have been one of the lowest for us and resultant the products coming out for the launches are less. As the entire chain of ANDA filing is getting streamlined, R&D operating, biocenter, facilities, so we expect this ANDA filing to go up this year. So, maybe a year or so, there could be some gap in the number of launches coming in the market.

The first part of the question was on the price deflation. It is very difficult to pinpoint. It is very different for every product and every customer. I wish I could give you a general answer that X percent is what we are seeing the price deflation, but there is nothing which stands out obviously to me.

Moderator: The next question is from the line of Aditya Khemka from InCred Asset Management. Please go ahead.

Aditya Khemka: This India business the way we have seen this growth in this quarter obviously because of bad days, going forward, do you think we will be able to consistently beat the market growth in the India business and what is your understanding of what the market growth could be.

Rajesh Agrawal: It's very hard to predict, but I would safely presume that the IPM (Indian pharma market) should grow between 11% and 12% maybe 11% and 13%. This is not counting any third wave and what not. If we have a third wave, then the Indian pharma market will grow again in substantially higher rate. So, the normalized growth should be between 11 and 13 and we are reasonably confident of doing better than the therapeutic segment growth rates. We have all the levers in place. We are fairly confident as we go into the year.

Aditya Khemka: Sir, could you also talk about what are these levers? Why do you feel you can grow faster than the market? What is it that we are doing in the marketplace?

Rajesh Agrawal: Primarily we have very good customer connect initiatives and we are able to bring our brand at the top of the mind recall for the KOLs and our field has been very active whether it was Covid or non-Covid. We have had some excellent marketing initiatives and webinars. This gives us the confidence that we should be able to do better than the market and some of the competitors.

Aditya Khemka: On the capacity utilization side, where are we when it comes to our capacity utilization, especially for the regulated markets? And how much CAPEX will we need for the next 3 years?

Arvind Agrawal: I think as we guided earlier, Adityaji, the CAPEX going forward for the next 3 years is something which is going to be maintenance CAPEX only and the capacity utilizations are hovering somewhere between 60% and 70%. So, we have sufficient capacity for the growth to be taken care of in the next 3 years.

Aditya Khemka: Just one last question. In terms of then, what do you do with the cash flow that you make? because you are doing only maintenance CAPEX and there is no debt, so what would you do with the cash flow over the next 3 years?

Arvind Agrawal: I think you have seen it in the past and I think we will do the same thing because if there is any requirement, we will keep that. Otherwise, in the past also, the board has taken the decision to return to the shareholders at appropriate time. The board will decide about that but I think that's what broadly we can say.

Aditya Khemka: Sir, I have one more question. On the inorganic side, any aspirations? I know domestic business you have been looking at several alternatives. Nothing has materialized. So, what is stopping you from doing something inorganic on the India side or is it that you are not getting a better fit or is it that you are not getting the right valuation or is it both? Can you talk a bit about capital deployment on the India side?

Arvind Agrawal: We are definitely there in the market and we are continuously evaluating all the proposals whatever are happening all the deals which are happening in Indian market. The only thing which is there is we are very clear that we would like to be a value picker. Just for the sake of numbers, we don't want to buy some brand or do acquisitions. Whenever the valuations are appropriate, we are definitely looking at it and bidding for it, but wherever the valuations are not really suitable, we are not going very aggressively on that.

Aditya Khemka: Any benchmarks on valuation you would like to share with us, sir.

Arvind Agrawal: Very difficult Aditya, because these are the things which really depend on what product we are talking about, what category we are talking about, what segment we are talking about, strategically how it fits into our entire portfolio, everything will depend.

Aditya Khemka: I understand that. The reason why I asked that question was because the cash which you are not utilizing has been getting 4% interest income.

Arvind Agrawal: I know. I can understand that.

Aditya Khemka: And our cost of equity is not below 12, right?

Arvind Agrawal: Yes.

Moderator: The next question is from the line of Omkar G. from Shree Investments. Please go ahead.

Omkar Ghujardare: My question is regarding pricing pressure in the US market as well as the other developed markets. Are you facing anything of that sort?

Yogesh Agrawal: US market as I said earlier, there is nothing which stands out. It is a normal pricing pressure which we have seen. But then it varies for product to product and customer to customer where you are there. There is nothing which I can give you a particular percentage. And in other markets, we haven't seen any significant price erosions. So, there is no cause of concern in the emerging markets.

Omkar Ghujardare: The second question is on the kind of growth you can do in the next 2-3 years, both on top line as well as on the bottom-line front. What can you do?

Yogesh Agrawal: As we have shared earlier, we are not giving any forward-looking guidance. Our aspiration is to grow faster than the markets which we are in, and looking at our track record, we feel fairly confident of doing those kind of growth.

Omkar Ghujardare: Would you be able to hold these kinds of margins which you are currently doing?

Arvind Agrawal: Yes, certainly. I think the margins which are there currently, that definitely can be held.

Moderator: The next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: My first question is actually on the US markets. At least I see some of the interesting launches that might happen. One of them if you can talk about a product Chantix, are we likely to launch it? Why I am asking is because we see some shortages in the US which might help us benefit out of it. Any guidance on that would be very helpful.

Yogesh Agrawal: We are awaiting the approval for that product. It is at an advanced stage of review. We are in touch with the FDA and let us see when the approval comes. As the approval comes, we will be ready to take the product to the market.

Nimish Mehta: The litigation part and all that is settled, right? It's just launch up on approval?

Yogesh Agrawal: On that part, I would not like to comment since the matters are all sub judicial.

Nimish Mehta: The other thing I just wanted to know, again, in the domestic market, how many products are we likely to launch and any guidance on how many would be first to market? And I would assume that that still remains a strategy, right, for the company to grow? If not, then I would like to get an update on that.

Rajesh Agrawal: We are planning to launch between 4 to 5 new products in the country in the next 2 or 3 quarters. And yes, hopefully we should be able to launch more new products for the first time in the country but even if we are second or third, it is still meaningful for us because the market sizes are very large and being second or third player, still we can gain a large market share. Even though the effort will be to be first in the country but even if we are second or third, it is still well and good for us.

Nimish Mehta: How many total launches are we targeting?

Yogesh Agrawal: As I said, between 4 and 5 is what we have planned so far.

Nimish Mehta: That would be first time, right? I am talking about the total launches.

Yogesh Agrawal: I am talking about total as well.

Nimish Mehta: So, all of these would be first time launches in the market?

Yogesh Agrawal: No, within 4 and 5, there will be a few first times and there will be a few which may not be first time in the country.

Moderator: The next question is from the line of Kunal Randeria from Edelweiss. Please go ahead.

Kunal Randeria: Sir, my first question is actually an extension of the previous participant's question. Last year when there was a lot of disruption in the market, you made 21 launches, I think, five of which were first time. So, now that you are saying you are going to launch a total of 4 to 5 products in this year, I am just wondering, are there not enough other opportunities or line extensions that you are looking at? Even on a slightly longer-term basis, let us say over the next 3 years, if you could just share some plans on your launches please?

Rajesh Agrawal: To answer your first part, last year since we have already introduced more than 20 products, those products need a lot of nurturing in the current year. As we all know, pharma has been on a roller coaster ride starting last April and there has been no predictability, not enough continued connect in the field on and off. That's what we have faced. So, in the current year, we would really like to nurture those brands. They are real big opportunities and we would like to take up all and launch only the products where we feel are absolutely necessary to come into the market in the current year.

Looking at the current year - second part of your question - we have already introduced 5 new products in the country in the first 3 months. The visibility right now is between 4 and 5 going forward. However, as opportunity presents itself, we will not shy away. We will have to balance nonetheless the brand-building activity of the products introduced last year vis-a-vis the new brands that we are going to introduce in the current year. I hope that, kind of, gives you more clarity.

Kunal Randeria: Something similar to expect in the next 2 or 3 years?

Yogesh Agrawal: Again, I would not like to really share any guidance on the new product forecast for the next year or year after that. Going forward is what the visibility I can give you at this point.

Kunal Randeria: Second question, sir, last time you had mentioned there were some logistic issues in some of your Southeast Asia markets. This quarter I think there has also been a severe Covid wave in that region. Has it also impacted your business or you expect it to impact some business in the coming quarters?

Yogesh Agrawal: Not really. As a matter of fact, the logistics in the current year has been very smooth in the second wave in some parts of the world. And in the other parts, of course, lessons have not been learned and we have had disruptions. It really depends on country to country, and that's where it is. We feel there are lockdowns in isolated countries which have impacted the supply chain a little bit on and off. Not as significant as last year, but nevertheless, it is not perfectly 100% fine. We hope that once this second wave kind of irons out itself, it should improve.

Kunal Randeria: As of now, field force and all 100% active in those regions?

Yogesh Agrawal: You are talking of India or international markets?

Kunal Randeria: Not India. International branded market.

Yogesh Agrawal: Most places where there are no restrictions, field is on but on and off, there are some guidelines which are published by the government. We honor that, and putting the safety of our people first, for those times, we are keeping out people away, but majority I would say it is operative, a small percentage which is maybe getting some disruptions.

Kunal Randeria: Sir, my last question is that in the US I am sure that you could file and maybe launch a lot more products in the 10 to 12 that you sort of file annually. So, I am just wondering any particular reason why you aren't filing a lot more.

Yogesh Agrawal: We have to be very selective in the US with the current scenario of limited customers, various other pricing challenges on what kind of product selection we do, the cost of filing the product is also very high. So, we have been judicious and selective in selecting the products and that is the reason you see that our filings are to the numbers of what I am telling you. It is basically the quality over quantity.

Moderator: The next question is from the line of Nitin Agarwal from DAM Capital Advisors. Please go ahead.

Nitin Agarwal: Sir, on the exports of branded formulation export business, for the last 6 odd quarters if I can see, our revenues have been around 300 crores and all in those markets - that's across Asia and Africa. How do we go from here on? The bases that we form now from hereon, do we grow with launching largely new products or do we see opportunities for us to meaningfully grow volume share in the current portfolio? How do we grow from here on?

Arvind Agrawal: I think the growth guidance cannot be given but one thing which just now our MD mentioned earlier also that every market where we are present in, we are definitely going to surpass the growth of these markets in which we are there. That is something which we can be confidently speak, but putting any number is going to be very difficult because every market has got its own dynamics and it is varying market to market. So, there is no fixed number which we can assign to any of the growth markets.

Nitin Agarwal: I wasn't looking at number. I was looking more in terms of directionally what will drive our growth in these businesses? It's going to be new product launches or do we see scope for volume growth in our certain products itself?

Yogesh Agrawal: It is both. Our aim is to increase the market share in the products which we have already launched. Second is, the new products also will come in. So, it is going to be the function of both.

Nitin Agarwal: In general, over the last few years - I presume - all of these are largely developing markets. Developing market economies have been hit hard by various reasons and Covid being the latest.

So, at a very broad level across all of these markets, what is the general market outlook like in terms of the kind of growth markets can really do, i.e., pharma markets can go ahead across these geographies as a very broad thumb rule?

Yogesh Agrawal: At a broad level, I think now the uncertainty is behind us. So, there is a lot of certainty, people have learnt how to handle the current situation which we are in. So, now in most of the market, we see the growth reviving back. We are optimistic that the growth should continue and probably if anything it could only improve from hereafter.

Nitin Agarwal: Sir, in any of the markets where we are present in, we don't face any challenges on? We are getting to a scale where growth is difficult from thereon? We don't see issues in any of the markets that we are in?

Yogesh Agrawal: No, we feel that there is enough headspace for us in each of the markets where we are there to continue our growth momentum.

Nitin Agarwal: Arvindji, on your cost, I think you have done a very solid job on cost optimization on our expenses over the last couple of years. Is there some more scope left to optimize the cost base or this is where you think this is the normalized cost base of staff cost and other expenses where we are at today?

Arvind Agrawal: I think now it is normalized to a great extent except the last year Covid thing if you remove, then in the last 3 quarters - this quarter and 2 quarters before - this is absolutely normalized cost.

Nitin Agarwal: We don't see much opportunities for cost reductions from here on?

Arvind Agrawal: Not much.

Moderator: The next question is from the line of Rajat from InCred Asset Management. Please go ahead.

Rajat: Sir, I was saying that you posted gross margins of around 77% which are largely flat both on YoY and Q-on-Q basis. When I compare it to your peers, they are seeing steep contraction in gross margin. You had also mentioned earlier that you haven't taken any major price hike. So, I was just trying to connect the dots, how you are able to sustain the gross margins.

Arvind Agrawal: I think it is the equation of the product mix mostly. The major thing is the product mix - how the entire sales or revenue is made up of. You can see very clearly this time that maybe India business has grown substantially. So, naturally you will have that benefit but then there are other businesses which have not done that well. So, it is something which is a combination of different factors which are impacting it, but fortunately for us, I think we are able to maintain this particular level.

Rajat: Sir, on your Guwahati facility, can you tell me how much have you invested in that facility and what are the peak asset turn?

Arvind Agrawal: Guwahati is about 450 crores.

Rajat: Peak asset turnover from there?

Arvind Agrawal: Asset turnover is about 1.5 to 2.

Rajat: Lastly, what proportion of your branded sales is outsourced to third-party manufacturers at the moment and how do you see that going forward?

Arvind Agrawal: At this point of time, it is about 25% and we expect that to stabilize somewhere around 20%.

Moderator: The next question is from the line of Praful Bora from Systematix Group. Please go ahead.

Praful Bora: Sir, just a couple of things. First, on the specific segments of derma and ophthal - these were the most impacted segments last year - now that the field activity is largely normalized, have you seen any sort of a pent-up demand or traction from here?

Rajesh Agrawal: Not really. Most of the sales which is gone is gone. There is no pent-up demand as such but what has happened is let us say elective surgeries which were getting delayed and people were staying away from the hospitals due to the fear of Covid have started to come back. Let us say surgeries like cataract and skin procedures they have started to happen. Because of that, the market is opening up and the market is growing as well and that obviously is getting reflected in the growth rates as we have posted in both of these segments.

Praful Bora: The 200 MR rationalization, has it happened across the company or was it in some specific segments?

Rajesh Agrawal: It has happened across all the therapeutic segments. We have undertaken a field optimization program in which we have tried to re-balance and remove some of the inefficiencies that were prevailing and that has happened. At the same time while we have reduced the 200 count, we have still posted growth rates effectively posting a very high growth rate on the productivity per rep.

Praful Bora: So, in terms of productivity, now that we are done with the rationalization of the field force, how do you see that shaping up going forward?

Rajesh Agrawal: It will continue to improve. And the optimization plan is still going on. So, the productivity will continue to increase going forward in the next 3 quarters.

Praful Bora: When you say the optimization plan is still on, can we see further rationalization here?

Rajesh Agrawal: I am not going into this with a specific number in mind. It will entirely depend on what the plan presents itself to us. If we feel that there is scope without impacting the business in any of the territories, then we will go for it. However, the prime objective will be to maintain the brand growth and retain the leadership position. At that cost, we will not reduce the manpower anywhere.

Praful Bora: Lastly, any other levers apart from rationalization of the field force that you want to highlight in order to improve our productivity?

Rajesh Agrawal: Like I said, we have had a tremendous amount of customer connect activities and that is really helping us and we have been in the market before most of the companies could hit the market, that is again helping us. Of course, our brand launches, as I have shared earlier which we did last year, are starting to gain traction in the current year. With all of these mixes put together, I think we should have a fairly decent show in the current year.

Moderator: The next question is from the line of Susmit Patodia from Motilal Oswal Asset Management. Please go ahead.

Susmit Patodia: Congratulations on a great set of numbers. Sir, my first question is, now that we have spent a few weeks out of Covid, any cost that we have been able to save permanently you think from digitization or daily e-visits or you think everything will come back?

Arvind Agrawal: In fact, it has already come back. So, practically there is no major benefit which we have seen except this rationalization which we were talking about. I think everything has come back already.

Rajesh Agrawal: Slightly maybe on the training, which is still we have not, to keep our people safe. And keeping their safety in mind, we have not had them to travel for training and head office team has not traveled in different parts of the country. Except for that, as Arvindji has mentioned, most of the processes are back.

Susmit Patodia: Sir, my second question is - I don't know if it is a mathematical quirk, but you have grown ahead of IPM, but the rank has not changed from 29. I am just wondering if why is that….

Rajesh Agrawal: Because the gap between 28 and 29 is a little bit higher. It will take time to catch up.

Susmit Patodia: That is the mathematical quirk, but you have been growing quite faster than the IPM.

Yogesh Agrawal: Sure, but we are also relatively in smaller market sizes, especially dermatology and ophthal. And the gap between 28 and 29 is a little bit more. It could take a few more months.

Susmit Patodia: My last question just following from that is, now that most of your CAPEX is behind and the utilizations are also picking up as we can see from the tax rates, what is the next 4–5-year plan? Is there a 5,000 crore or 10,000 crore revenue aspiration? While I understand inorganic may be tough because everyone wants to do it at the same time, but could you invest in new categories just organically itself?

Arvind Agrawal: As far as investments are concerned, I think we have never shied away from the investment both for the product and for the CAPEX. Every time whenever it was essential and when we found that it was something which was necessary for the growth of the business, we did that, but at the moment, I think there is nothing which is really presenting us or preventing us. The R&D, as we said, is continuing to be 6% now that the CAPEX, as we mentioned, only maintenance CAPEX is going to be there for some time now. So, something which is being done continuously and I think we will continue to do what we were doing in the past.

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

Sapna Jhawar: Sir, over the past few years, how have we seen the change in the profitability of our branded markets, especially the African and the Asian markets? We have had a series of rough patches in those markets and we have done a lot of changes also. In terms of profitability, have we seen any material change coming in from those markets?

Yogesh Agrawal: No, we have not done any significant change in these markets. I am not able to relate to you what you are saying. I think more or less it was just a disruption which happened which is getting straightened out.

Sapna Jhawar: I understand that now we are dealing with only the top-notch distributors out there, who mitigate our risk in terms of receivables or should any currency devaluation situation arise again. Just wanted to understand if that is an effective strategy or this is something that is beyond control totally and we cannot do anything to mitigate the risk in those markets?

Yogesh Agrawal: We have always been dealing with some of the better distributors which are there in those countries. I am not able to relate to your question again. There has been no shift as such there. Earlier also, we were adequately protected from the risk and right now also for whatever market risk is there of the currency devaluations or appreciations.

Sapna Jhawar: Also on the US market, right now are we operationally profitable in those markets? If yes, what is our aim there in terms of say EBITDA margins or at the first level even post R&D, how are we situated there?

Arvind Agrawal: We are profitable, that is for sure. But we will not be able to give you any specific guidance because we are not giving any region-wise guidance for the profitability, but for sure that after R&D, we are profitable in our US markets.

Sapna Jhawar: And this is at the net level, sir?

Arvind Agrawal: Yes please.

Moderator: The next question is from the line of Ashish Thavkar from Motilal Oswal Asset Management. Please go ahead.

Ashish Thavkar: Sir, on the US side with just 8 to 10 ANDA launches every year, over the last 3 years we have actually tripled our business from $30 million to $90 million approximately. Is there any plan over the next 3 to 5 years? Can you really double our US base from current levels?

Yogesh Agrawal: As I said, again, the filings in the last year we didn't have a great year because of the Covid. Not only Ajanta, I think most pharma companies, the filings were reduced. As the filing picks up and we get the product approval and we are able to bring to the market, we feel that we should be able to convert them into the numbers and add to the revenues. I am afraid I cannot give you a number on growth percentage or by when we will be doubling but it is a function of when & how much ANDAs we are able to file and the approval cycle for that. But to just answer your question, we have a good product pipeline on which we are working on for filing on the US market.

Ashish Thavkar: Arvindji, 1 question for you on the taxation side, obviously, we were of the expectations that over the next 2 to 3 years, the tax rate should come down to say 20% to 23% based on how our Guwahati operations ramp up, but given that now you guys are guiding for 22% tax rates, is there anything significantly which has changed on the India side?

Arvind Agrawal: Not really. I think basically it is the ramp-up of the production at all the 3 manufacturing plants. everything is picking up quite well. Because of that, the tax rate is definitely what we are estimating.

Ashish Thavkar: Whatever like 1200 CAPEX that you might have done over the last 3-4 years, is it possible for you to segregate how much would be India dedicated production and how much would be the exports one?

Arvind Agrawal: Very difficult, because what you can see is that Guwahati is mainly for India…. Pithampur and Dahej is mainly for export because they are in SEZ. That kind of classification you can always do, but really speaking like even from Guwahati, I am doing some exports. It is not that exclusively I am catering only to the India market. That is difficult but still you can consider that Guwahati is for domestic and other two are for the export markets.

Ashish Thavkar: Just one last question on the US FDA side. We have seen some companies now starting to talk about the possibility of US FDA inspectors physically visiting and auditing the facilities. Would you like to comment on this or give a pass?

Yogesh Agrawal: What we know is right now US FDA maintains the same stand that they are doing only the machine-critical or as-required inspections. Still, they have not opened the onsite foreign inspections and wherever they are doing, they are calling it that remote verification or something like that. That they are doing. So, we are yet to hear any new updates on the FDA on when they are going to start the onsite inspection for the foreign facilities.

Moderator: The next question is from the line of Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: Sir, I would like to understand, has there been any change in your hedging policy or accounting policy? because we have accounted for exceptionally high forex income and other income than we normally do.

Arvind Agrawal: There is no change in the policy at all, we kept the hedging. Earlier the hedging was about 50% and now we have increased it to about 75%. That is something which is definitely there but this particular higher income has come only because at the end of the quarter, this particular rupee depreciation has taken place as compared to what it was during the quarter as such and also in March. It is something which will be effect of that. Otherwise, it's the absolutely normal hedging which we are doing.

Alisha Mahawla: So, it was always a part of the other income head only?

Arvind Agrawal: Always.

Alisha Mahawla: Sir, also with respect to your India business while we have 4 key therapies that we are focusing on, are there plans to enter into any new therapy segment?

Yogesh Agrawal: There is no such plan right now. We would like to dig deeper into the current therapy segments itself.

Alisha Mahawla: And the contribution from these segments should be broadly in line with what it has historically been?

Yogesh Agrawal: More or less, yes, even though cardiology we would like it to go a little bit higher maybe going forward, but the contribution will more or less remain where it is.

Alisha Mahawla: Sir, just one last question. Any plans to enter any other regulated markets of Europe, Canada, or we will broadly stick to the geographies that we currently operate?

Yogesh Agrawal: As we speak, I don't have anything to share with you. So, we will be sticking only to the US market right now.

Moderator: The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Service. Please go ahead.

Tushar Manudhane: Sir, just to understand Asia and Africa branded generics market at the industry level, they would be growing at what rate now with ease of Covid situation?

Arvind Agrawal: I think very difficult to say because at many places the numbers are not available still. So, it will be very difficult to predict anything and especially after Covid, I think there are no strict numbers which we have got for the industry.

Tushar Manudhane: And on a steady state basis maybe?

Yogesh Agrawal: No, we do not have the numbers to share with you at this point in time.

Tushar Manudhane: Secondly, just trying to understand the branded generics market growth including India which is growing at about say 11% to 12% and then US business has been really great for the last 2 to 3 years. As a strategy, how do we look at to take the revenue growth to the next level compared to say 11% to 12% or 13% CAGR which we have done for past 3 to 4 years?

Yogesh Agrawal: We continue to do what we are doing, and that is what is yielding results for us. We have markets where we are already in there and we will focus on those markets and we have a good product pipeline. A mix of all of this will definitely yield into a good revenue growth.

Tushar Manudhane: On this R&D front, 6% of sales can be a number to be taken for full year FY22?

Arvind Agrawal: Yes, I think you can take that.

Tushar Manudhane: On your institutional antimalaria business, would it be possible to give what kind of numbers we can do for FY22 basis orderbook visibility?

Yogesh Agrawal: That's a very unpredictable business. Being an institution business, it is very difficult to put a number on that.

Moderator: Ladies and gentlemen, that was the last question for today. I will now hand the conference over to Mr. Yogesh Agrawal for closing comments.

Yogesh Agrawal: Thank you everyone for joining this call. Please stay safe. In case there are any further questions that remained unanswered today, you can reach to our Investor Relations team. Thank you so much.

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