# "Ajanta Pharma Limited Q2 FY-22 Earnings Conference Call"

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**Moderator:** Ladies and gentlemen, good day and welcome to the Ajanta Pharma Q2 FY22 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' then '0' on your touchtone telephone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Yogesh Agrawal, Managing Director of Ajanta Pharma Limited. Thank you and over to you, sir.

**Yogesh Agrawal:** Thank you. Good evening, everyone and welcome to all of you. With me, I have Mr. Rajesh Agrawal, our Joint Managing Director and Mr. Arvind Agrawal, our CFO.

So, friends, it is very heartening to see that we have crossed 100 crores of vaccination in India. And we feel humbled that in a small way we could also participate in this cause of supporting the vaccination for the underprivileged through our CSR initiative.

I will now come to the results. As it is already with you, I am happy to share that this has been a wonderful quarter for us. We have been able to achieve continued growth for the Q2 2022 in all the business segments.

I am also happy to share that the Board of Directors have approved the interim dividend of Rs. 9.50 per share, just like the last year. Let me take you through the businesswise performance during the quarter and also the half year ended September 21, along with the comparison of the previous year same period.

I will begin with the emerging market branded generic segment. This business spreads across Asia and Africa and contributes 40% to our revenue. Our exports to these markets were Rs. 350 crores against Rs. 294 crores, which is a growth of 19% during the quarter.

And for the first half it is Rs. 641 crores against Rs. 565 crores, which is a growth of 13%. Let me just break it down further for all of you. Asia, during the quarter, the sale was Rs. 191 crores against Rs. 180 crores, which is the growth of 6%. And in the first half, the sales were Rs. 357 crores against Rs. 341 crores, which results into the growth of 4%. In Asia, the growth was slightly lower than our expectation, but we can discuss about these results going forward in the Q&A.

In Africa during the quarter, the sale was Rs. 159 crores against Rs. 115 crores, which is posting a healthy growth of 39%. Just to note that the growth was exceptional as some of the dispatchers got preponed due to some expected logistic concerns, so they were slightly elevated than we would have otherwise seen. Nevertheless, even if we remove that the growth were quite healthy.

In the first half of the year, the sales were Rs. 284 crores against Rs. 225 crores. Posting the healthy growth of 27%. So, from the emerging markets, now I shift gears to the US generics. US has contributed 23% to our revenue. We saw the sales of Rs. 194 crores against Rs. 154 crores, posting 26% growth during the quarter. And in the first half of the year, the sales were Rs. 362 crores against Rs. 303 crores, posting the growth of 20%.

This growth it comprises of both gain in the market share in the existing products, and three new launches, which we have done during the first half of 2022. We have filed two ANDAs and we are expecting to take the total tally for the whole year in excess of 10, which looks very much possible and doable.

We have received one approval, each final and tentative, which means 2 during the first half of the year. Shifting gears to the Africa institution business, this business contributed 7% to the overall revenue. We registered sales of Rs. 66 crores against Rs. 51 crores, posting the growth of 29% during the quarter and Rs. 120 crores against Rs. 114. crores, posting growth of 6% during the first half.

With this, now I handover to Mr. Rajesh Agrawal, our Joint MD to take you through the India business. Thank you and over to you, Rajesh.

**Rajesh Agrawal:** Thank you. Good evening to all of you. Let me discuss some of the key highlights of India business now. India business contributed 30% to the overall revenue of the group. Sales stood at Rs. 248 crores as against Rs. 202 crores posting a healthy growth of 23% during the quarter.

And for the first half, it stands at Rs. 477 crores as against Rs. 375 crores last year same period there by posting a growth of 27% during the first half. This includes sales from trade generics of Rs. 30 crores during the quarter and Rs. 57 crores during the first half of the current year.

Our performance has been satisfactory, which was on the back of the new product launches, market share gain and price increases. As per IQVIA MAT, September 2021, we have posted healthy growth in all the therapeutic segments and exceeded the industry growth rate across the therapies.

We launched 5 new products and out of which 3 were first to market in Q2 of the current year. Total 10 in the first half, out of which 4 were put first to the market. With normalization in field activities, we are seeing marketing costs reaching pre-Covid levels.

With this, I will now hand it over to Mr. Arvind Agrawal, CFO to take you through the financial performance. Thank you and over to you, Arvindji.

**Arvind Agrawal:** Thank you very much, sir. Good evening, to all of you and 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 an excellent quarter with 24% growth in revenue at Rs. 885 crores against Rs. 716 cores. During the half year, revenue was Rs. 1,633 crores against Rs. 1,384 crores, growth of about 18%.

EBITDA for the quarter stood at Rs. 263 crores against Rs. 274 crores during the quarter. And as you know, this was something, which was, you know, the pre-Covid level thing has come back. During half year, it was at Rs. 483 crores against Rs. 497 crores. EBITDA was 30% of revenue from operations and saw a marginal degrowth due to normalized expenses on both R&D and marketing post-Covid.

During the quarter, PAT was Rs. 196 crores against Rs. 170 crores up 15% and was 22% of revenue from operations. During H1, PAT was Rs. 370 crores against Rs. 318 crores, up 16% and was 23% of revenue from operations.

Material costs moved up significantly during the quarter due to sharp increase in new API prices and also some price erosion in the US market. Going ahead this and business mix will determine the movement in this cost. R&D expenses was Rs. 49 crores against Rs. 29 crores last year for the quarter and Rs. 94 crores against Rs. 60 crores for the half year. R&D expenses stood at 6% of revenue, which was in line with pre-Covid levels.

Other expenses have reached normal level as the activities on marketing and R&D are at pre-Covid levels. Depreciation increased by 11% on account of new ophthalmology block at Guwahati, operationalized in Q3 of FY2021.

Other income stood at Rs. 62 crores in H1 FY22 mainly contributed by Forex gain of Rs. 38 crores. Income tax stood at 23% in half year against 27% in FY2021 first half and expected to be around this level for the year.

We incurred CAPEX of Rs. 65 crores in first half of this financial year against full year projection of Rs. 200 crores. We have improved in inventory holding period to 90 days from 98 days in March 21, while receivables remained at the same level of about 95 days.

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

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

**Tushar Manudhane:** Sir, just on the gross margin front we have seen sequential good drop even year-on-year basis to almost about 74%. So, if you could just explain the reason for this and the outlook for the gross margin going forward?

**Arvind Agrawal:** See as I mentioned just now, and we earlier also talked about it, the gross margins would be about 75%, plus minus 1%. And this is the impact of the higher API prices, which you are seeing increasing in the past two quarters, and also some erosion in the prices in US. So, both these factors and plus also a little bit of product mix.

All these put together is taking the gross margins little down, but this is in line with what we discussed in Q1 call. So, I think about 75% is something around plus minus 1%, you can take as the guidance.

**Tushar Manudhane:** Sir, is the increased Africa branded generics also dragging gross margin a bit?

**Arvind Agrawal:** Not really. Because branded business margins are still intact.

**Tushar Manudhane:** So, it has got to do only with the US generics and the raw material cost increase?

**Arvind Agrawal:** Yes.

**Tushar Manudhane:** Just that the intensity of raw material increase is becoming higher, so will they have further meaningful impact in the upcoming quarters like 3Q maybe or 3Q and 4Q?

**Yogesh Agrawal:** It is difficult to predict that. I think, currently from what the raw material prices are prevailing we believe this is the gross margins we can look at, if they stabilize at this, which the outlook needs to be that it should stabilize at this.

So based on the current situation, we feel these are sustainable gross margins. If there are any increase or decrease in the raw material prices going forward, that can have a plus or minus impact on the gross margins.

**Tushar Manudhane:** Got it. And secondly on these other expenses, which then being on quarter-on-quarter basis as well. Last time we had indicated we would be somewhere around Rs. 200 crores plus minus a couple of percentage points. But now it is almost Rs. 230 crores. So, where do we see this run rate going?

**Arvind Agrawal:** I think for other expenses, this is the range which can be there. In some quarter it can be Rs. 230 crores, some quarter it can be Rs. 215 crores, but this will be the range. I think you can consider somewhere around Rs. 225 crores as the normal range now.

**Tushar Manudhane:** And just lastly, I missed on the number of new launches first to market for India?

**Arvind Agrawal:** Total we have launched 5 products in this quarter, out of which 3 were first to market.

**Moderator:** Thank you. The next question is on the line of Manish Poddar from Nippon India AIF. Please go ahead.

**Manish Poddar:** Sir, just wanted to get a number. Could you probably help me with trade generic sales in the base quarter? Let us say Q2 FY21 and let us say first half of FY21?

**Arvind Agrawal:** You are asking for previous year, right?

**Manish Poddar:** This year is Rs. 30 cr. and 57 cr. , how much was last year?

**Yogesh Agrawal:** Last year was Rs. 24 crores in the Q2. And for the first half it was Rs. 43 crores.

**Moderator:** Thank you very much. The next question is from the line of Saket Bansal from Opulent Capital. Please go ahead.

**Saket Bansal:** Yes sir, I want to know more about like how much of our API is still outsourced from China or we are dependent on China?

**Arvind Agrawal:** See our API dependence is almost 100%. We do not manufacture except some small thing which we produce in our plant, but otherwise everything is outsourced. The dependence on China is very less. We do not import directly from China, but yes, our suppliers are dependent on China to some extent, but that is something which is really, you know, we cannot estimate exactly. But one thing is for sure that our dependence is only on Indian industry most of the time.

**Saket Bansal:** Okay. So, you mean to say we are not backward integrated in any of the drugs, right?

**Arvind Agrawal:** No.

**Saket Bansal:** Okay, and sir, in terms of capacity, like do you think when we would need a next set of big gross block?

**Yogesh Agrawal:** Right now, I think we have built enough capacity to propel the growth for the foreseeable future. Yes, for sure I think three to four years visibility, which we have on the estimated growth. We do not see that we will require to add any more capacities. Our existing facility should be able to take care of that, possibly up to five years also.

**Saket Bansal:** Okay, and also I want to know about the yearly R&D estimates. Like how much of the percentage of the sales you are estimating will go into R&D?

**Arvind Agrawal:** I think you can consider 6%, which was the trend even earlier also, pre-Covid and now also it is hovering around 6%.

**Saket Bansal:** Okay. You talked about in US there is a price erosion. How much price erosion do you see in your products?

**Yogesh Agrawal:** We are not giving out the details to that level, but we have seen in last two quarters there has been some aggression in the market, which is kind of tapering down and stabilizing to the regular levels. But I think there was some elevated aggregation which was there in the market, which resulted in this price delusions.

**Saket Bansal:** At least you can give us some figure, like a lower digit, lower single digit, higher single digit, something, something to work on?

**Yogesh Agrawal:** No, it is very difficult to put those kind of numbers, so I think I would like to stay away from giving those kind of numbers.

**Saket Bansal:** Okay. Sir, you also talked about there was lot of products were pre-order came in Africa business or some other markets also. So, how should we look in the normalized?

**Arvind Agrawal:** In normalized sense, I think you should consider about high teen should be the normal growth, which should be there in that market.

**Yogesh Agrawal:** I think we see decent traction in Africa, so I think it is slightly elevated than as we said because of the pre-shipments which we have done for some other stocks which were ready and so as to see that we do not have any distractions going forward. But I think going forward also we should be able to deliver healthy growth.

**Saket Bansal:** Okay, and in terms of Asia business, what was the reason of this dip?

**Yogesh Agrawal:** So, Asia, we have seen some markets like India, the growth has been fluctuating month-to-month but overall if you say cumulatively YTD there has been a growth. Market is growing at 18%.

Some markets like Africa also we have seen the growth has revived back. But in Asia so far still we have seen that either markets are at the same level or there is a small decline in the market year-over-year.

So, despite the fact that markets may have degrown by 4% to 2%, we still continue to post the high single digit growth in these markets. We are hopeful that as the things stabilize, all the supply chain and the demand start to revive back, the overall market should grow and start to revive back. With this, then we should be also able to post the growth higher than the market.

So, basically it is a market which is still reviving. It is taking some time and as the market revives right, we should be hopefully able to do better than the market.

**Moderator:** Thank you very much. The next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

**Nimish Mehta:** My question is more industry steps take. So, we have seen good amount of growth in the domestic market despite the fact that the last year we had COVID phase. So, what do you think is driving this growth and what do you think is likely to be the outlook of the entire market? I mean just your viewpoint that could be very helpful.

**Rajesh Agrawal:** The second COVID waves that hit the country and if you look at the MAT growth rate which stands at 18% so that propel the growth rate this year again. And you see some bit of reflection of the second wave into that 18% growth. In my view, this should taper off a little bit in the coming two quarters. And with that, I think that should be hopefully the new normal. Unless we have a third wave and then again there are some tailwinds for COVID related products.

So, that is the larger view that I have. Of course, this 18% is not sustainable over the next 12 months to two years. I think it should taper off for sure.

**Nimish Mehta:** Is there a reason to believe that trade generics have also driven the growth or has contributed significantly to the overall market growth, and do we say that I mean, is it fair to assume that this can be the new norm for trade generics as well? How should we look at it?

**Rajesh Agrawal:** You know, interestingly, in this growth rate when IQVIA works out the growth rate, they do not add up the trade generic growth or the degrowth into it. So, this is pure pharmaceutical, the branded generic piece of it, including the hospital thing. Trade generics, they do not capture.

So, that is Part A. Part B, trade generics has posted robust growth for us. Of course, we have outpaced the market growth, but market also has grown pretty strongly and again in trade generics, the COVID related products just took off. They were just flying off the shelf.

So, again it remains to be seen what happens in the next 12 months, maybe a year to two years and see if this growth trend continues or there also, we see the growth rates normalizing a little bit.

**Moderator:** Thank you. The next question is from the line of Rajat Shrivastava from InCred AMC. Please go ahead.

**Rajat Shrivastava:** Sir firstly, you have guided for Rs. 200 crores of CAPEX. So, may I know where this is directed towards and how much of this is maintenance and how much is growth CAPEX?

**Arvind Agrawal:** See about Rs. 100 crores is maintenance CAPEX and another Rs. 100 crores as we mentioned earlier, it is for the new office premises, which we are building in Andheri, Mumbai.

**Rajat Shrivastava:** Alright, and secondly sir, on the MR productivity front. Do you think there is still scope to improve MR productivity from here? Or are we looking to add more MRs?

**Rajesh Agrawal:** No, we are not looking to add to the MR strength. I think we have a very optimum coverage in each specialty and regarding the productivity improvement, yes, for sure there is enough scope in each specialty and that is what our focus is for the remaining of the year where we would like to increase the productivity across all teams.

**Rajat Shrivastava:** Alright, and sir, for US how many filings and launches are we looking at next year onwards?

**Yogesh Agrawal:** As I said, during the current year we have already filed 2 products. We are hopeful to file 8 in next six months. We are looking to cross 10 filings in this current year. Next year we are going to aim to file in excess of 12 ANDAs.

**Rajat Shrivastava:** Alright. And sir, when does the tax benefits on the Guwahati plant they go away?

**Arvind Agrawal:** That will be 2026.

**Moderator:** Thank you very much. The next question is a follow up from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

**Tushar Manudhane:** Sir, just a clarity on this Africa branded generics. You mentioned some one off, but adjusting for that, how much would be the steady state growth?

**Yogesh Agrawal:** I think for the quarter our steady state growth right for the quarter it is 37%. I think around 10% to 12% was because of the pre-shipments and I think around mid-20% was probably the normal growth for the quarter.

**Tushar Manudhane:** Then how do you see this market like you very much mentioned about the Asia industry. If you could also elaborate on Africa branded segment?

**Yogesh Agrawal:** So, Africa we are optimistic. As I said, it is all linked with the how the markets revive back and Africa we have seen the markets have bounced back pretty strongly. So, overall, there is a good tailwinds and we are able to capitalize those tailwinds better than the others.

So, if the growth continues in the market then I think we should be able to outpace the growth hopefully and that too in high teens we should be able to deliver the growth.

**Tushar Manudhane:** And just secondly on institutional anti-malaria. Now that vaccine is also in place of course basically it is still not that great but it kinds of derived that the institutional antimalaria business can have a risk with you know further development of vaccine?

**Yogesh Agrawal:** Yes, so that is a welcome development which has happened that malaria vaccine is in stage of approval and things like that. But having said that, we believe that it will take some time. In fact, lot of time for the entire program to be rolled out to the level where it will have a very significant impact.

We have seen in the current COVID situation itself how much time it takes for the vaccination implementation where the question is of the pandemic and here for malaria it is not a pandemic. It may take much, much longer. I would feel I do not think that this vaccination will have an impact on the anti-malaria market, private or institution.

For next three to five years, I do not think it will have a significant impact on that. How fast the governments or the global UNICEF and USF they are able to procure and roll out the vaccine in Africa that will determine what kind of impact it will be there on the private market.

So, very difficult to kind of take a gauge on it right now, but I think it is still futuristic to see that this will have any substantial impact on the anti-malaria products.

**Tushar Manudhane:** You made Rs. 120 crores approximately in first half, so any guidance you would like to give for full year for anti-malaria business?

**Yogesh Agrawal:** Unfortunately, that is one business, which is beyond our control because it depends on various factors of malaria incidences in those countries. The funds which are available and number of things. So, very difficult to give a gauge on that. I think I would like to refrain from giving any kind of numbers on there.

**Moderator:** Thank you very much. The next question is from the line of Aditya Khemka from InCred AMC. Please go ahead.

**Aditya Khemka:** So, for the cash that we are accumulating on the balance sheet, we have historically said that we are judicious with our CAPEX, and we are judicious with our inorganic strategy. So, just wanted an update. Anything in the marketplace have the valuation expectations come down? What kind of assets are we evaluating, etcetera?

**Yogesh Agrawal:** So, this is, I think we have discussed on various con calls and various meetings. So, this is continuously on. Our antennas are always up to see what business is out there, what kind of assets are there which can add value to our business, or we could add value to them. So, you know more than us that it is very difficult to time something like this to happen. We are always on a lookout, and that is as broad as I can tell you on this.

So, we will see what kind of opportunities come through and if it makes sense, then as you know, we have a healthy balance sheet and free cash flows to take care of those opportunities. As we speak right now there is nothing under advance or mature stage which we can tell you. We cannot kind of give any kind of guidance that there is something cooking.

So, let us see. If there is a free cash flow available on the book, we will take a call at appropriate time how to deal with that and how to go about distributing to the shareholders.

**Aditya Khemka:** Sir, a question specific to ophthalmology in India. So, you know, the general impression or the general what we read in Media report says that since COVID, obviously because of lockdown and increased usage of online mediums, there is an impact on the eyesight, you know, the general consumer and therefore ophthalmology as a disease might just see a spike.

Just wanted to check with you as a, you know, sort of a leader in that segment. Are you guys also seeing better traction in ophthalmology compared to what historical growth rates have been there in the segment?

**Rajesh Agrawal:** There is a better traction, but it is not primarily because of Covid. The black fungus and all of that what we read had a very small role to play for a very specific drug. Overall, that is not what has driven the segment as such. Primarily, it is because of the initiatives that we have taken due to which we have been able to post such a robust growth over the industry growth rates and we have taken the lead over the competitors in all of those marketing initiatives.

The segment as such has grown also because there was a lot of, you know, elective surgeries, cataract surgeries, which were just getting delayed because of Covid first wave and second wave and what not. Where now patients are far more comfortable going into a hospital and getting those cataract surgeries done and due to which all the products related to ophthalmology are seeing far better growth rates than what we have seen previously.

**Aditya Khemka:** Sir, one last question. So, in the India business, other than cardiology, dermatology, and ophthalmology, which should be our largest area after these three?

**Rajesh Agrawal:** It is pain management where we are doing exceptionally well for the last 2, 3 years.

**Aditya Khemka:** And in pain, any particular type of, you know, are we targeting any particular type of pain product or are we across the spectrum?

**Rajesh Agrawal:** No, we are in a very small segment of pain. It is led by our lead brand Feburic, which is Febuxostat. It is a hyperuricemia product. And followed by that we have an anti-rheumatology product, Iguratimod. So, these two are the lead brands into that segment.

**Moderator:** Thank you very much. The next question is from the line of Harsh Beria, an individual investor. Please go ahead.

**Harsh Beria:** Hi, can you share a broad range of the gross margins that you are making on your US portfolio?

**Yogesh Agrawal:** Unfortunately, we do not share the segment wise margins of different verticals.

**Harsh Beria:** And would you say that the US operating margins are now in line with the corporate level? Or are they still lower?

**Arvind Agrawal:** That is what so, you know, we cannot give that specific answer to these questions because it is the business mix of the branded generics, generic and India. So, I think institution also, you will appreciate that it will be a little difficult for us to give out that kind of thing. Only what we said earlier also that US is profitable since 2019 and it is doing well.

**Moderator:** Thank you. The next question is from the line of Aashita Jain from Edelweiss. Please go ahead.

**Aashita Jain:** So, I just wanted to confirm are you confident of launching Standex in H2 in the US?

**Yogesh Agrawal:** That is one of the ANDA, which is under approval with FDA. And as you know, there have been some shifts in that product. So, we have seen some volatility in that segment. We are awaiting the approval for that product.

Let us see when we get the approval. We are ready to launch the product as we get the approval for that product.

**Aashita Jain:** So, we are ready for the launch?

**Yogesh Agrawal:** Yes absolutely. Just waiting for the FDA approval. And we will see how that comes through.

**Aashita Jain:** Okay, and just on the second one, just wanted to confirm you said something on the high teens growth. Is this on for the FY22 outlook? Just confirming?

**Arvind Agrawal:** Yes, for the US market.

**Moderator:** Thank you very much. The next question is from the line of Rishi Singhal, an individual Investor. Please go ahead.

**Rishi Singhal:** I just wanted to know that why are you not buying back shares rather than giving the dividend? Is it not more tax efficient and also accretive in the long term? The growth is now tapering of Ajanta Pharma to around about 15%. What is your view about this, sir?

**Yogesh Agrawal:** So, dividend policy is separate than the capital allocation for the excess cash which we may have. As an organization, which had a very sound track record of giving dividends, we continue to follow that policy. And in excess of whatever is there, last year also, we had given the buyback which was a more efficient way of giving out and this year also depending on what kind of cash flows we have, we will see at appropriate time.

Then accordingly, if there is no particular use, which is identified for the free cash flow in terms of any asset acquisition then naturally the next logical route will be to do a buyback. So, I think you can stay tuned to hear more on this front, maybe hopefully next quarter or so.

**Rishi Singhal:** Okay sir, I get your point. And sir, one more thing. Is the rise of these what can you say Dotcom type of marketers, is there any scope for you to do some exclusive tie ups or something like that to push this growth or something like that?

**Rajesh Agrawal:** No, it is what the industry is doing is exactly what we are doing. Most of the companies are able to supply and so are we to lot of these online pharmacies and that is the best that any of the pharmaceutical company can do in the industry.

**Rishi Singhal:** Okay sir, so you do see these online pharmacies are going to have what you can say price erosion in effect like US and India in the long term?

**Rajesh Agrawal:** No, I do not see that. Why would that result into a price erosion? And it is maybe premature to even comment on that at this point. The market is still evolving. It will take quite some time to get there. So, I do not see as of now it is, we are neutral in terms of price impact to the company.

**Moderator:** Thank you. The next question is from the line of Gagan Thareja from ASK Investments. Please go ahead.

**Gagan Thareja:** My first question is related to your launches of Dapagliflozin and Rivaroxaban. I think a lot of companies did that once those products went off patent in India. Could you give us some idea of you know what has been the scale up for you in in those products?

**Rajesh Agrawal:** Dapagliflozin we are doing fairly well. Of course, we have not been an antidiabetic driven organization. So, in that sense we have had a strong connect with the physicians and the cardiologist, and they are prescribing our brand. And Rivaroxaban is a specialty product. We saw a huge demand for Rivaroxaban because of the second wave of Covid.

But that is, again getting normalized and we are driving all the marketing initiatives to perform and to continue to build that brand going forward.

**Gagan Thareja:** Okay, but would you be able to give some idea as to the salience of those two within your current India sales?

**Rajesh Agrawal:** It would be quite small actually, because (a) they are new launches, (b) Rivaroxaban is in a very, very small segment and not only us, but as a matter of fact, no company would probably be expecting it to become a mega blockbuster because the segment itself is very small.

So, that is not the blockbuster brand that we are betting upon.

**Gagan Thareja:** Okay, and if I sort of, you know, trace back your domestic sales trajectory for a five-year time span. Historically, it has been around 10% CAGR. Is there any reason for us you know you stepped up your market launches in the last two years, but should we therefore assume that you know you are now in a position to maybe step up the domestic sales trajectory from what has been the case in the last 5 years?

**Rajesh Agrawal:** It looks like, yes, we have put in a lot of hard work and efforts into the last 2-3 years. What do you see as a CAGR for the last five years has been an effect of our slow growth into the dermatology segment where we had lots of challenges. And as I have shared my views previously also on the investor calls, we have been doing well in derma as you would have seen in quarter two also, we have grown much, much faster than the industry growth rates.

So, we are very hopeful that we will be able to outperform the segment growth and the industry growth going forward in the remaining half of the year, as well as in the next year.

**Gagan Thareja:** And pertaining to the African markets for your branded generic sales, can you give us some assessment of your position in the Anglophone, African markets, and the Francophone markets? I think the West Africa is your largest market in Africa and probably a market where you are already, you know, at the 4th or 5th position and it is a market which probably is now growing at 4% or 5%.

So, if you had to think about it with a 5-year time frame in mind, how would you think of growth in these two separate markets in Africa and what would your strategy be in in both of these?

**Yogesh Agrawal:** So, as you rightly said, Franco Africa is bigger piece of business for us, but having said that, we have started to put a new thrust on the Anglo Africa market. We believe that there is business to be done there and brands to be built. By next three to five years, we are looking to put in more initiatives and more products, more people, and more brand building exercise in Anglo Africa as well.

So, it is small, but we are hopeful that we can be able to build that into a decent size business in next three to five years.

In the Franco Africa also, we are growing quite nicely, and we see that we should be able to sustain our growth momentum going forward. As I always say the growth drivers which are there, a combination of new products, existing brands growing, existing people, productivity increasing and addition of people.

So, I think in all these 3, 4 aspects we feel confident that we have enough ammunition to keep us busy in next 2, 3 years. That is the visibility which I have right now. So, we feel confident of doing a good work here.

**Gagan Thareja:** And would the current mix, the 80:20 French, Africa versus the Anglo African market for you?

**Yogesh Agrawal:** We are not giving those kind of break ups. So, you can just consider Africa as one right now. I think it does not really matter so much between the 3, 4 countries and the other 13 countries.

**Gagan Thareja:** Okay, and from a working capital standpoint how does you know the African, Asian and the US markets compared to the Indian market? If you could give you know some idea of how it stacks up across these markets?

**Arvind Agrawal:** As far as branded generic business is concerned, the inventory levels are almost at the same level in all the emerging markets. In terms of the receivables, it is little higher as compared to the Indian branded generic business. However, in US both inventory and debtor's receivables both are at the higher level compared to the branded generics.

That is for sure, and that is what we mentioned earlier also, that USA is different, you know, completely different market where these parameters are totally different and we want to be sure that we are taking care of every customer and every order. So, because of that the inventory levels are little higher there.

**Gagan Thareja:** And since your U.S. markets are growing faster, and you know the Indian piece and maybe even the African piece as of now is growing very healthily. Does that sort of that sales mix does it change and therefore does it have some impact on your working capital as you go ahead?

**Arvind Agrawal:** Not much. If you have seen in this quarter and half year, we have improved on both the parameters. That is the inventory and receivables. So, both the pieces we have really could do much better than what we have done in last financial year.

So that is there I think we will continue to strive for, and we do not foresee any major increase in the working capital because of this product mix or business thing from the region.

**Gagan Thareja:** And, as far as your sales force in Africa is concerned, do you envision any addition there or you think that with your current sales force you can adequately meet the next three years requirements there?

**Yogesh Agrawal:** No, there will be additions. That is keep on happening on a regular basis and that will continue to happen next few years.

**Gagan Thareja:** Could you give some idea as to the current sales force base in that market and what are you planning to add there?

**Yogesh Agrawal:** I think those are some bit too much of our details and trade secrets, which I am sure you would not like us to share on such platforms. But we are looking at different number. We are one of the sizable companies. From India, we are having one of the largest field presence in Africa.

**Gagan Thareja:** And finally, I mean in principle you have, as you said, you know adequate capacity to see off the next five years of growth and you are also saying that you do not really need to add to your MR sales force base in India. As you ramp up utilization and as your sales in India grows without any addition to the MR base, you know, it seems fairly logical that your margin trajectory should improve and improve substantially.

Would I be right in that semis, like maybe three or four years down the line, you know, the margin improvements could be significant or maybe in the order of 250 to 300 basis points, if not more?

**Arvind Agrawal:** See margin is a combination of lot of factors. As you have seen in this quarter, margin gets impacted because of the API prices. Margin gets impacted because of the erosion in the US market and, you know, like the overall product mix into different regions. So, whether it is India or the other markets, that is not going to really impact too much on the margins. Margins are something which are going to be, you know, certainly, we are expecting that the margin should improve going forward.

There is no doubt about it, but how much it will be is difficult to say at this stage, but we are very confident that we will improve the margins.

**Gagan Thareja:** And you will also be seeing a reduced tax rate as your utilization rates in those facilities goes up, right?

**Arvind Agrawal:** Certainly, but again, as you know, for Dahej facility, the 100% deduction is going to go away from next year onwards. So, naturally that will be only 50%. So, there will not be any major change. But yes, there will be an improvement.

**Moderator:** Thank you. The next question is a follow up from the line of Saket Bansal from Opulent. Please go ahead.

**Saket Bansal:** Sir, I want to understand about the US business. How do you see in FY23?

**Yogesh Agrawal:** Again, I think US and Africa institution businesses are 2 verticals where we have a tough time to answer your question. I wish things were in my control. As I told you, it is a function of existing products, what kind of market share we can improve. Second, it will be a function of what kind of approvals we get.

And as you know, right now, the USFDA is not doing inspections. So, ANDAs, which require facility inspections are just waiting with the FDA. We will have to see when the FDA resumes inspections, or if they do not, then are they going to find any other alternate ways of reviewing the facilities and approving it.

So, I think you have to excuse me for US business it is linked with the new product approvals. If we get the approvals, we are for sure in a position to execute very well. We have very good customer connect and customers have come to depend on us for a very consistent supply. So, we enjoy very strong equity with the customers. So, from that front we are very confident that we can execute well.

I think it will be just linked on what kind of approvals we get with the FDA for next 12 months or 24 months. And having said that, I have already shared that current year we are looking to file 10 ANDAs.

And next year we are looking to file in excess of 12. I think realistically it can go up to 15 ANDAs also. So, all those ANDAs as and when we get the approval will result into the sales and profits for the organization. So, I think I can just give you a directional answer rather than anything specific.

**Saket Bansal:** The ANDA approval is slow this year, right?

**Yogesh Agrawal:** Yes, not only for Ajanta, but overall, from the overseas facilities it is slow depending on FDA. If they feel they need an inspection for those products, then they are putting it saying that they will come for the inspection and then approve. And there are other products which are maybe simpler. The FDA may give approvals for that. So, it is very difficult to predict the approval rate right now.

**Saket Bansal:** Do the plant also need to get approved, sir? Is it like that?

**Yogesh Agrawal:** Yes, Yes it is a pre-approval inspection for the ANDA which we have filed. FDA does the pre-approval inspection for some product. Sometimes they may waive it depending on the compliance history and the complexity of the product or manufacturing challenges. But there are lot of times when they will say that they will inspect the facility and then approve. This is what the situation is.

**Moderator:** Thank you. The next question is a follow up from the line of Rishi Singhal, an individual investor. Please go ahead.

**Rishi Singhal:** Sir, I just wanted to ask. It will be not very sensible, but what I can see around in my colonies and everywhere the pace of increase in population of pets is much, much higher than increase in the humans. So, is there any chance that you are going to enter into vet drugs?

**Yogesh Agrawal:** No. We have no plans. We are very focused on our business which we are doing. I think we got a good skill set in this business, so we do not intend to go into the veterinary business.

**Rishi Singhal:** Is it a very different ball game?

**Yogesh Agrawal:** I would assume so. I think the doctors are different. The products are different, it is a different segment itself altogether. You need to have different customer connect and customer relationship activities there. So, you will need to build our expertise there, which we do not have.

Clearly, the companies who are in that space they may be having a very strong hold on that so.

**Moderator:** Thank you very much. As there are no further questions, I would now like to hand the conference over to Mr. Yogesh Agrawal for closing comments. Over to you, sir.

**Yogesh Agrawal:** Thank you everyone for joining this call. If there are any further questions that remains unanswered today, you can reach out to our Investor Relations team. I wish everyone and all your families Happy Diwali in advance. Thank you very much for joining us today.

**Moderator:** Thank you very much, members of management. Ladies and gentlemen, on behalf of Ajanta Pharma that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.