"Ajanta Pharma Limited Q3FY22 Earnings Conference Call"

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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 Q3FY22 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, please signal an operator by pressing '*' then '0' on your touchtone 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.

Yogesh Agrawal: Good evening, everyone, and welcome to all of you. On the call today we have with me Mr. Rajesh Agrawal - Joint Managing Director and Mr. Arvind Agrawal - CFO.

As you are aware, the company has announced the buyback of Rs. 352 crores including taxes. With this, the buyback and the dividend of Rs. 82 crores paid during the previous quarter, the total outflow to the shareholders for the financial year stands at Rs. 434 crores. So, this reiterates our commitment to the shareholders to return the free cash flow in excess of the business needs.

Let me come to the results now, which are already there with you. And I am happy to share that this has been another exciting quarter for us. We have been able to achieve continued growth for the Q3 in major business segments.

Let me take you through business wise performance for the quarter and nine months along with a comparison of the previous year for the same period.

Emerging Markets Branded Generic Business:

As you are aware, this business spreads across Asia and Africa continents, and it contributes 41% of the revenue. Our exports to this markets were Rs. 361 crores against Rs. 285 crores, a growth of 26% during the quarter. And nine months sales were Rs. 1,002 crores against Rs. 851 crores, a growth of 18%.

This was for the overall emerging market branded generic. Let me split it further in Asia and Africa for you.

Asia:

In Asia during the quarter, the sales were Rs. 194 crores against Rs. 196 crores posting 1% degrowth. So, practically they were stagnant. And for the nine months sales were Rs. 551 crores against Rs. 537 crores, posting 3% growth. The growth was lower in the nine months due to the supply chain disruptions, some unpredictable and uncertain lockdown and certain restrictions that were imposed in our market. But I can assure you that we have all the required elements in place and we are optimistic to pick up the growth in coming quarters in Asia.

Africa:

Moving on to Africa, during the quarter the sales was at Rs. 167 crores against Rs. 89 crores posting a very healthy growth of 87%. And for the nine months sales were at Rs. 451 crores against Rs. 314 crore posting a robust growth of 44%.

Overall our growths are significantly higher than the market growth. However, during the quarter, the growth of 87% looked a bit more elevated due to a lower sales base of the previous year corresponding quarter.

U.S. Generic Business:

U.S. contributed 22% in our revenue. We registered sales of Rs. 166 crores against Rs. 161 crores, posting 3% growth during the quarter. And for nine months sales were 528 crores against Rs. 464 crores, posting 14% growth.

In Q3, pricing pressures were continued and they were higher than the anticipated on the base business resulting in lower growth. And for the nine months, we launched three new products and filed three new ANDAs. We are looking to file 10 to 12 ANDAs during the year. So we are hopeful to file another 7 ANDAs in the last quarter.

We have received one final and one tentative approval during nine months from the U.S. FDA.

Africa Institution Business:

The business contributed 6% to our overall revenue. We registered sales of Rs. 36 crores against Rs. 77 crores posting a degrowth of 53% during the quarter. And Rs. 156 crores against Rs. 191 crores posting degrowth of 18% for nine months.

As I have expressed before, institution business is more unpredictable and lumpy in nature and it can have high variability from quarter-to-quarter.

So with this now, I hand over to Mr. Rajesh Agrawal, our Joint Managing Director, who will take you through India business.

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 30% to the overall revenue of the group. Sales for India business stood at Rs. 260 crores as against Rs. 220 crore, posting a healthy growth of 18% during the quarter. And it stood at Rs. 737 crores against Rs. 595 crores posting a healthy growth of 24% during the first nine months of FY2022. This includes sales from trade generic of Rs. 30 crores during the quarter and of Rs. 87 crores in the first nine months of FY22.

Our performance has been satisfactory, which was on the back of new product launches, market share gain and also price increase. As per IQVIA MAT December 2021, we have posted a healthy growth in all the therapeutic segments and exceeded the industry growth rates across therapies. We have launched 16 new products in the nine months of FY22 with 4 first to market products. Field activities and its expenses are normalized and back to pre-COVID levels.

With this I now hand over to Arvind Agrawal - CFO to take you through the financial performance.

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

Key Highlights:

It was an excellent quarter with 12% growth in revenue at Rs. 838 crores against Rs. 749 crores. During nine months FY22, revenue was Rs. 2,471 crores against Rs. 2,133 crores, a growth of 16%.

EBITDA for the quarter stood at Rs. 240 crores against Rs. 242 crores for nine months, it was at Rs. 731 crores against Rs. 739 crores. EBITDA was 29% in Q3 and 30% in nine months of revenue from operation and saw a marginal degrowth. The impact was due to two aspects, one was the normalized expenses on both R&D and marketing and also increase in input costs and freight expenses. These are the two major things which have really impacted our EBITDA margin, which we have already talked about.

During the quarter PAT was at Rs. 192 crores against Rs. 177 crores, up 9%. And in 9 months, it stood at Rs. 561 crores against Rs. 495 crores, up 14%. PAT was 23% of revenue from operations.

Material cost was in line with our expectations. However, we continue to see the material prices going up as a result of global inflation.

R&D expenses was at Rs. 51 crores against Rs. 40 crores for the quarter and Rs. 145 crores against Rs. 100 crores for nine months of FY22. R&D expenses stood at 6% of revenue which was in line with our pre-COVID level.

Other expenses have reached normal level as all the activities are at pre-COVID level now.

Other income stood at Rs. 78 crores in nine months of FY22, mainly contributed by FOREX gains of Rs. 49 crores.

Income Tax stood at 21% in nine months of FY22 against 27% in FY 2021 and expected to be around this level for the year.

We incurred CAPEX of Rs. 116 crores in nine months of FY2022 against full year projection of about Rs. 200 crores.

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

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

Tushar Manudhane: Just a clarification on other expenses wherein the freight cost have continued to be at higher level but then the activities are back to pre-COVID level. So Rs. 250 crores on a quarterly basis, is that a steady rate to go with or there could be further changes on an absolute basis?

Arvind Agrawal: I think on absolute basis, we can consider the rate of about Rs. 250 levels. Rs. 247 is the current amount, so Rs. 250 levels should be the normal level.

Tushar Manudhane: So then, from Rs. 230 levels to about Rs. 247 on a sequential basis is the increase that has happened.

Arvind Agrawal: Yes.

Tushar Manudhane: And secondly, on the U.S. sales with the slowing of filing as well as launches, do you see further price erosion, and to what level basically it would be impacting the U.S. sales?

Yogesh Agrawal: Good question, but unfortunately, very difficult to make any prediction from that. So we have seen some aggressive price erosions in last nine months. We believe that they should stabilize at some point in time. But the question is, when and how much is yet to be determined. So very difficult to point a finger on that number there.

Tushar Manudhane: How many approvals do you expect in the next three to six months?

Yogesh Agrawal: Again, very difficult, we have a number of ANDAs awaiting approval, awaiting the facility inspection. We have the complete response from the FDA saying that will come for the facility approval and then approve the ANDA. A bit unpredictable right now when they will start the inspection and start giving the approvals.

Tushar Manudhane: And just lastly, what could be the outlook on the institutional anti-malaria business in terms of order book?

Yogesh Agrawal: Institution is again a bit choppy, current scenario we have seen. I think the global funds are not that much with the agencies. The countries are not donating as much. So difficult to put a number there. I think already we have seen in this quarter there's a significant drop, but we have been able to recover that loss with some other businesses from India and the emerging market branded generic.

Moderator: Thank you. Our next question is from the line of Abdulkader Puranwala from Elara Capital. Please go ahead.

Abdulkader Puranwala: Would it be possible for you to break your India growth in volume, price and launches?

Rajesh Agrawal: I think yes, we can do that. Maybe at some point if you can get in touch with the Investor Relations Team, CFO can share the information with you.

Abdulkader Puranwala: And in terms of the launches, so far you have said that you have launched some close to 16 products. So what is the target for this year in terms of launches, and which therapies should we expect these launches to be?

Rajesh Agrawal: We don't have a target specifically set for every year, we take it as it comes. For the current year, I think more or less whatever brands we had to launch, we have launched them already into the market. There may be a couple of more which may get launched between Jan and March. And as of now as it stands, it's mostly into cardiology, anti-diabetic segments where we have introduced and there have been some products which we brought in which have been to pluck the gap in the therapy areas in which we operate.

Abdulkader Puranwala: Lastly on the tax rates point, I missed the remarks Arvindji. So would the Tax rate remain at 17% or the nine-month level of 27%?

Arvind Agrawal: Around 21%. Because nine months if you see is about 21%. So, we are expecting that rate to be there for the whole year.

Moderator: Thank you. Our next question is from the line of Nakshita Mehta from Credent Asset Management. Please go ahead.

Nakshita Mehta: So, I see you have come up with a buyback. I just wanted to know what are our plans with that capital? Are we planning some kind of CAPEX? If you can just give some light on that?

Arvind Agrawal: No, because we don't need this particular money now and that is why we have announced the buyback. So it is something which we are giving back to the shareholders. So, practically we are not raising the money, we are returning back to the shareholders.

Nakshita Mehta: But, even so, is there any CAPEX or anything that we are coming up with?

Arvind Agrawal: This year, we have given the guidance of about Rs. 200 crores CAPEX which is happening as we go along. And from next year onwards, we have given the guidance that maintenance CAPEX which will be there of about Rs. 100 to Rs. 150 crores.

Nakshita Mehta: So, this CAPEX would be in terms of in India or it would be overseas?

Arvind Agrawal: It will be only in India.

Moderator: Thank you. Our next question is from the line of Ranvir Singh from Sunidhi Securities. Please go ahead.

Ranvir Singh: Just a few clarifications, here on India business currently, we have 2800 field force, earlier it used to be 3000. So, have we curtailed 200 field force?

Arvind Agrawal: Yes, in fact during the COVID there were some of the people which were in Q1, if you remember, we have said that we have reduced the numbers by over 200.

Ranvir Singh: So, current sales productivity has obviously sequentially good improvement there. So is this sustainable or can we expect this going further up?

Arvind Agrawal: Practically the normal growth which we are expecting in the India market, that will remain. We are not expecting any major addition to the field force in India.

Rajesh Agrawal: And just to add to that, and the whole objective is to increase the productivity. And we are not looking at further optimizing the field strength. I think this is an ideal number and we will build on the productivity for the next whole year.

Ranvir Singh: And another aspect I see of that four major portfolio, pain management has been growing strongly for last few quarters. So, is there a deliberate strategy to focus on or this market itself is driving this segment?

Rajesh Agrawal: This is a deliberate strategy, this segment we have been operating for a few years now. And we have very good products with us at this point. And we are the market leaders in those including Febuxostat which itself is over Rs. 50 crore brand for us at this point. So, that also is growing in a double-digit growth rate.

Ranvir Singh: So, can you give some guidance or just a ballpark that where pain Management segment is going to be in terms of percentage of sales, let's say for two, three years?

Rajesh Agrawal: Honestly, it's not a specific target that we take in the sense that to the domestic business we want pain to contribute X percentage versus cardiology versus ophthalmology. It will primarily be dependent on what opportunities we get in hand and how we can maintain the market leadership. But pain is a very important therapeutic segment for us. And we have a very strong presence in each of the molecules that we have in the brand portfolio. We have the market leadership positions in those.

Ranvir Singh: In U.S. business that filing has been stagnant and now in Q4 everything is looking like bunching up, out of 10 target filing. So was there any challenges there in filing or that was already scheduled for Q4, which earlier we guided?

Yogesh Agrawal: No, it just happened to be that way. When we kick started the R&D after the lockdown, it took little time to get the momentum back. So by the time we got the momentum back and all activity started, the bioequivalence, the para bioequivalence and all those things. It just so happened that bunching is happening in the Q4. But this is one year where this bunching is happening. Next year onwards, we feel the filings would be more spread out during the whole year, because now we have got all the momentum in place now. So there are a lot of products which are at a advance stage of development, manufacturing, maybe taking exhibit batches and things like that. So next year we should see the more evened out kind of filing.

Ranvir Singh: And any indication on number of launches in FY23 or in Q4?

Yogesh Agrawal: I don't think you will get that answer from anyone in a convincing way. When I say, anyone is any pharma company., Because as I shared with the earlier caller, it's very unpredictable because of the inspection primarily. So once the inspection opens up, you can expect a good number of launches to come through because the approvals will then just line up. And two of our facilities are USFDA approved. So even if they come to one facility, there are a number of ANDAs from each facility which are awaiting so once that inspection happens then hopefully number of ANDAs will get cleared. So right now it is more of a wait and watch kind of scenario.

Ranvir Singh: But we already have a few products approved but not launched so of that 41, 42 approval.

Yogesh Agrawal: They are some tentative approvals, which is available in the public domain also. Some of them are there. Some we are expecting approvals in maybe Q4 or Q1FY23.

Moderator: Thank you. We will take our next question from the line of Aditya Khemka from InCred Asset Management. Please go ahead.

Aditya Khemka: Firstly, on the India portfolio, could you inform us of how much of a portfolio is NLEM?

Arvind Agrawal: It is 15%.

Aditya Khemka: My next question is that given that this time, WPI is north of 10% and likely the Government will allow you to take anything up to 10% price increase in your NLEM portfolio. And your cost have also gone up because API prices have gone up, and contract manufacturers must be asking for a higher price for the product. What kind of price increase do you think you can take in FY22, given that WPI will be north of 10%?

Rajesh Agrawal: Surely, so WPI stands at maybe 10.4% odd at this point. And I think, in a way you have answered your own question, that we would look to maximize the price increase that's permitted by the Government authority. So that would be again 10% odd, because if you look at the past, even though now it may look 10% plus, but if you look at the past two years, it's also been in very low single digit. You would remember last year was something like maybe or a year before last was half a percent. So there has been accumulated pain in the industry, I suppose that. So we would look to maximize it.

Aditya Khemka: So would that imply like a 9% to 10% price growth across the portfolio NLEM and non-NLEM.

Rajesh Agrawal: I think NLEM for sure, non-NLEM is very competitive and market scenario based. We cannot be much higher than the other competitors. But when it comes to NLEM, as we would have seen all the market leaders have similar pricing which is pegging the NLEM permitted price. So in that case, yes, we should be looking at increasing at 10%. There is a bit of a confusion at this point because NPPA mandates that we cannot increase more than 10%, whereas the WPI has arrived at 10.5%. So, we would really need to tread that carefully and see because we don't want to get caught in the crossfire there.

Aditya Khemka: I think NLEM mentioned WPI or 10%, whichever is lower.

Rajesh Agrawal: So there you go, so that's what it is we just want to be very careful. We will work it out through some of the consultants and only then move ahead.

Aditya Khemka: And again, just to reiterate, we will do it on your NLEM and non-NLEM portfolio. But non-NLEM drugs are driven by competitive forces.

Rajesh Agrawal: That is correct.

Aditya Khemka: What was the impact on the gross margin we have seen because of inflation of this raw material. Are you already experiencing some impact on gross margins because of this?

Yogesh Agrawal: We are experiencing and that is already factored in. So the number which you see for the current quarter is concrete. We are not giving the breakup in each head on, what is the increase on the freight or the raw materials and the price erosion. But there have been impact, which has adversely, but fortunately, we have been able to mitigate that with our branded generic business, which is in India and emerging market, which is a higher margin. But we have seen all these components impacting our gross contributions and gross margins. If it wasn't for these, then I think our performance would have been even slightly better than what it is now.

Aditya Khemka: India, obviously, we know the regulatory framework, and we understand how you can increase prices and how much you can increase prices. Can you help us understand the regulatory framework, if at all on the emerging markets side, where you have other branded generics basically? In those market how does it work with price increases? How easy it has to pass on inflation and cost or how difficult it is, if you can just talk about that a little bit?

Yogesh Agrawal: So different markets, they have different regulations, just to simplify for you and all the callers. I would say around 60% to 65% of the countries where we have businesses, they have price control, so the prices are fixed. And about 35% to 40%, we are free to price the product. We can do the changes in the price increase or decrease them.

Aditya Khemka: This is within the branded generic bucket?

Yogesh Agrawal: From branded generic bucket, yes.

Aditya Khemka: So wherever there is price fixing by the Government there, will they take into account the inflation in cost that you are facing or is that something, what has been the trend so far, I mean, for the last two, three years, how has been the pricing moving in those markets?

Yogesh Agrawal: Some countries, they have agreed, they accepted that this inflation is a global phenomenon and freight and all the components are going up. So they have given some relaxation. But some countries, they have still not yet yielded to the request of the industry. So the efforts are on directly representation to the various authorities or through some bodies, associations, and things like that. We feel that at some point in time, they will have to yield to some level, the question is when and how much. So we have to just wait and watch.

Aditya Khemka: How easy would it be or how difficult would it be to pass on this cost pressure in the U.S. market?

Yogesh Agrawal: That's a wishful thinking, in the U.S. is very different, as you all know it's a very competitive. I don't think there is a possibility of passing on the price increases in the U.S. market exists. It's driven by the competition. So I think that is the nature of the game which we are playing, we have to live with that. The only way you can do is try to increase your market share, but that also has its own risks, if you try to disrupt the applecart that can also sometimes, not work in your favor.

Aditya Khemka: Absolutely, increasing volume means increasing capital employed and increasing capacity. So that obviously is another different risk altogether. So if I were to sort the markets in terms of ease of passing on cost inflation, it would be India followed by certain branded generic markets, which have regulatory frameworks, which don't have regulatory framework, followed by certain branded markets, which have a regulatory framework, followed by the U.S., is that the order you would go with?

Yogesh Agrawal: Yes, absolutely, I think you have got it perfectly in the correct order.

Aditya Khemka: Just one question different from all of this. In terms of margins now in the U.S., would you still say you are at the corporate average, below the corporate average, above the corporate average?

Yogesh Agrawal: No, we are not sharing those final details. But overall, as we have shared in the last quarter we are profitable at EBITDA and PAT level also, in the U.S. So that doesn't change in this quarter as well. So, we still are doing alright with our margins.

Aditya Khemka: And given where your profitability is now for the U.S. and for the Indian market, and for emerging markets, what is the best use of your capital? Would you want to increase capacity in U.S.? Would you want to launch more products in India or launch more products in branded generic markets exports?

Yogesh Agrawal: Let me put it other way around. I think nothing has stopped us from launching more products or expanding in the branded generic business, whether it is in India or emerging markets. And we continue to remain very aggressive in all our markets. India already Rajesh has shared with you. Emerging markets, you can see the growth which we have been posting in Africa and certainly Asia and other territories. So, there are very robust plans, which we have there.

And I have shared before also, U.S. we are treading very carefully because the investments are very high in the ANDA filing. So, you have to be very judicious on the product selection, on how many products we want to file. So, we already curtailed our ambition in the U.S. for the ANDAs which we are going to file, earlier we were expecting 15 to 18, which we have now dropped down to around 10 plus. So, we are being very careful with the investments which we are making in the U.S.

And in terms of capacity, if you say manufacturing capacity, we have adequate capacities for all our markets, whether it is India or branded generic emerging markets, or including U.S., whatever ANDAs which we are filing from both the facilities. As and when we can get them to the launch, we have adequate capacity. So, there is no particular CAPEX, which we are looking to add other than the routine maintenance CAPEX for next three to four years, at least, the visibility which we have, in the existing business verticals. If we open up in a new vertical, that's a different ballgame.

Aditya Khemka: So in the foreseeable three to five years do you think -- you putting more capital to work in the U.S. barring the ANDA which you would file. Do you see yourself allocating more capital to the U.S. in the next three to five years?

Yogesh Agrawal: No.

Aditya Khemka: Economics of the market isn't working in our favor, right?

Yogesh Agrawal: Exactly. So as I have told you, our more optimistic and more clients and the thing is in the branded generic business whether it is India or emerging markets and we are treading carefully in the U.S. being selective in the ANDA filing. So naturally, the capital allocation will be higher on this market, branded generic business as compared to the U.S.

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

Kunal Randeria: Just trying to understand the U.S. pricing pressure a bit more, especially with regards to Ajanta's portfolio. So does it look higher because we have not had new launches this year? Or has your base business erosion been much higher than what it was in the previous years?

Yogesh Agrawal: I don't know if the higher is in relation to what, we don't have any figure from the competition. We just know generally what has been the price erosion which is on a double digit. So in fact, I would say that we are one of the more insulated companies in the U.S. business what we have as compared to some of our competitors, where their base business got more adversely impacted than us. So relatively we have done better. So we have done a decent job in protecting our market share, maybe that was at the cost of reduced margins. But in absolute amount, or let's say in the number of tablets, if you say we have done a pretty good job of defending our business.

Kunal Randeria: Would it be fair to say instead of two launches or three launches that you have done in 9 months, had you done 7 to 8 launches the erosion would have been substantially lower?

Yogesh Agrawal: Yes. So in the U.S., the business growth is a direct function of the new product launches, which you will get in the market. Because the existing business though the scale up can happen, it's not very predictable on how much market share, you can increase. It depends on any competitor having a supply challenges, constraints we are able to make place for with that new customer there. And the new products are always the growth drivers. So that one major important growth driver for the U.S. that was taken away from us. And we had to make, do with whatever products we had, not only this thing, but we had to defend the existing business, which we have. So once the new product launches comes in, hopefully next year, we should be able to start posting the growths in U.S. again.

Kunal Randeria: And just a follow-up on this in 2018, 2019, you had seen a lot of larger U.S. focused guys withdrawing from the molecules in the U.S. because they couldn't cope up with the price erosion. Because you know, it didn't make a lot of economic sense to be in the market. Have you started to see it in the market now?

Yogesh Agrawal: No particular pattern emerges like that. There have been on and off people coming in, and then going out. So I think if I try to guess, I would be speculating, which I don't want to do. But we haven't seen some major players saying, declaring that okay, we are going to exit from 50 ANDAs or 20 ANDAs or 100 ANDAs. Selectively if it becomes unviable for them, they feel their capacities are better utilized for some other markets. All those factors, then there are, we have seen that people withdrawing the products from the market there.

Kunal Randeria: And just as a clarification in the domestic business, has a trade generic contribution gone up?

Rajesh Agrawal: Yes, certainly it has gone up, the trade generic business is growing. And therefore contribution is marginally going up. But as you would see it's again, a very, very small percent of the total business.

Kunal Randeria: So just it means that branded is growing comfortably in low teens, right, that would be fair to assume.

Rajesh Agrawal: No, branded is growing much more as we have reported, it’s growing in higher teens.

Kunal Randeria: And just one more question for Arvindji, your employee cost have gone up around 20% on a year-on-year basis. If you could share some of the reasons behind it, and next year onwards, should we assume that it would be more like high single digit, 10% kind of growth?

Arvind Agrawal: See, yes, we have added some people in R&D and some other areas. So definitely, this is because of that reason. And going forward, I think it should be normal, because now we have almost filled all the vacancy which were there.

Yogesh Agrawal: There was also some facilities which got added, our Guwahati facilities have been continuously operationalizing each line so as and when the new blocks get added. But now they are all fully baked in. So what numbers you see, they are the normalized going number. And as I said, it should go into that increment percentage of yearly increments what you should say from the next year onwards.

If you already see, I think, for the quarter wise, you can see a trend we are at a similar number of Rs. 160 crores plus, minus, for last three quarters. So you can already see a trend that it is already established, the base is established around there.

Moderator: Thank you. Our next question is from the line of Nitin Gosar from Invesco. Please go ahead.

Nitin Gosar: Over last three to four years if one has to see as a company, our rank is improving in IPM. But if one were to take a therapy specific call cardiology is not showing a substantial improvement. In fact, cardiology is where we have given away a couple of ranks. What's your analysis? Is there any product gap? Or are we not able to service the whitespace that we used to service earlier? How should we see this getting addressed going forward?

Rajesh Agrawal: In cardiology, primarily, what has happened is, if you look at the drop that you may see, is a bit deceptive and if you look at it, that that's happened in the last maybe less than two years and that is primarily because there have been a lot of COVID driven products in cardiovascular, which have grown substantially in the last year. And in which Antiplatelet therapy is right, so every COVID patient was being prescribed that after COVID recovery, anti-thrombosis. So you see, that is where the growth has come from. If I look at it in a more granular manner, in each sub-therapeutic segment in which we are present, then I don't see a major market loss. There may be a couple of brands where we may be slightly growing slower than the rest of them the industry growth or the sub-therapeutic segment growth, but all in all, it's not a major concern for us.

Nitin Gosar: And you did mention about domestic business ex of generics growing at higher double digit. Would it be fair to assume that generic business would have been more like growing at 30% to 40% for us right now?

Yogesh Agrawal: Current quarter it is at 17% growth. And last quarter was 14% growth and the current quarter is 17% this is for the trade generic; I am talking about. So nine months is 33%, but last two quarters is what I have given the figures, 14% and 17%.

Nitin Gosar: Another question is with regard to capital allocation; I totally appreciate Management's call to give back cash to the shareholders. But does it also mean that there are no adequate inorganic opportunities in India market? Or are we not so eager to assess any of them for certain reason?

Yogesh Agrawal: No, we are very much interested and agile on that front. And as you might know India is one of the markets where these inorganic opportunities, we would be interested in, because now U.S. doesn't make sense to make those kind of capital allocation for that. But we haven't been able to get a compelling case. We didn't find any good quality assets so far, let's put it that way, which has a good synergy with what businesses which we have.

Nitin Gosar: And for these assets that we would have evaluated, how much bearing valuations would have on them to decide either way?

Rajesh Agrawal: The valuations have a major role to play. It's all on what value you get it at, right. So for example, if you are getting it at a much higher valuation than what one would expect then that leaves zero room for any bad year or downside, and you are paying upfront 10-year worth of the business. So that's a bit scary for us. And that's one of the reasons why we have been very careful with proceeding forward with the inorganic opportunities in the domestic market.

Nitin Gosar: On the Asia branded business, I totally take the point is, the growths over here has been fluctuating over a period of time, you tend to grow at a certain CAGR rate. But would you help us understand more in granular, which all countries you are seeing growth and which all countries you are currently witnessing certain degree of stagnation?

Yogesh Agrawal: So we are not sharing those country wise, granular data, but overall blended basis, this is what it looks like, what the figures which you have seen.

Nitin Gosar: And would be past four, five-year history be good enough for us to go by or there has been certain change in the growth?

Arvind Agrawal: Yes, I think that is something which definitely is the guideline, which you can certainly take it.

Nitin Gosar: And one last question is on the margins outlook. In past we have always said as a company we will like to settle around 31, 32 if the assets were to operate at right utilization level. At today's juncture, do we see any kind of material change in the outlook for the margin trajectory or how should we see this?

Arvind Agrawal: We always talked about the margin level to be around the level which is existing today. If you see my nine-month EBITDA margin that is somewhere around 30%. So anything around that is something which is definitely possible.

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

Tushar Manudhane: Just on this NLEM led price hike, want to understand given the fragmented nature of the industry. So, will the 10% will be kind of possible price hike or we will wait for the other players how do they react and then accordingly take the call.

Rajesh Agrawal: No, we would not wait for other players. As a matter of fact, honestly, I would be surprised if any of the leading companies which are almost our size or larger than us would not take the maximum permissible price rise, in the NLEM branch. So in that sense, we would not be waiting, we would be putting it into effect in the month of April itself.

Tushar Manudhane: Given that such kind of price hike in NLEM and in which case non-NLEM also looks lucrative from the pricing perspective. But at the same time given that we have a high base of FY21 so would we be still growing at a healthy, double digit in India business, next year?

Rajesh Agarwal: Maybe it's a bit early to say, we would like to comment on this maybe start off the year, sometime in April, see how the next three months also go. There have been a lot of ups and downs in the Indian pharma industry, because of COVID and whatnot. So what we are seeing at the top level, at a blended average is not a fair view to look at it so. I would still like to reserve the comment for maybe another quarter.

Moderator: Thank you. Our next question is from the line of Ranvir Singh from Sunidhi Securities. Please go ahead.

Ranvir Singh: On the R&D side, for 4th Quarter, can you give some outlook because 4th Quarter lot of filings would happen in U.S. So what would be the R&D expense?

Yogesh Agrawal: I think it would be around the same level, but could be slightly elevated because of the ANDA filing cost, which are going to come in.

Ranvir Singh: So full year it should be in the range of 5% to 6%.

Yogesh Agrawal: Yes, full year, we expect it to be around 6%.

Ranvir Singh: And secondly, on margin outlook, because the branded business is anyway going strongly and I assume that branded business especially in India has higher margin. So, still the margin outlook for nine months would be in that range going forward or even for FY23. And even if we assume that price increase will also happen from April. So, in that scenario, also, the margin would remain same or we can expect some scope to improvement from here?

Arvind Agrawal: I don't think there will be any improvement because of the price increase of NLEM etc., because it is a small portfolio of 15%. So, we need to see how the other portfolios behave and how it will happen. But I think what we are talking about is mixed basket, and mixed basket definitely there is price erosion in U.S. which we have to accept, there will be very less number of approvals which will be there. So, all those aspects also will have the influence on the margins. So, we are expecting this margin to be around sustainable.

Ranvir Singh: So, just help me understand like, currently, the raw material prices or other input prices has already increased. Even in that increased scenario we are making the kind of EBITDA margin currently we have. So going forward when we increase price of the final product and obviously, already input cost has increased and that is already reflected in EBITDA margin. So still, we will not see an increase in EBITDA margin there?

Yogesh Agrawal: Yes, so I think it's very unpredictable, this global inflation where does it stop, if it remains at the current level or the U.S. price erosion as Arvindji has said, how aggressive it goes into the next year and how do we factor those two components and the other thing. But as I said, there is always 1% plus or minus possibility does exists, depending on various combination of the product portfolio, which we do next year.

Ranvir Singh: And institutional business, this quarter has been if you compare last several quarters has been lowest. So I believe that though lumpiness is there, but still can you give some ballpark annual number, which we can expect, although I can understand there would be some volatility there, but can we reach near about the annual performance we have in the last year on an average basis?

Yogesh Agrawal: No, it will not be there to the last year's level. So already in nine months, we have seen there is a degrowth in the institution business and quarter also there could be some degrowth there. So very difficult to put a number on that.

Moderator: Thank you. Our next question is from the line of Abdulkader Puranwala from Elara Capital. Please go ahead.

Abdulkader Puranwala: Just want to have your thoughts on, so what could be the new geographies for growth. I mean as we discussed earlier on the call that U.S. is something where you are not comfortable allocating your capital and on the branded generic side due to inflation scenario, the margins are coming under pressure. So do you plan to diversify yourself within the geographies, what you are currently? And if so, what would be the preferred location where you will try to or the preferred markets you would like to tap into?

Yogesh Agrawal: No, I think probably will have to correct the perspective. We have said we are careful in the making the capital allocation for the U.S. So that's where the U.S. stands. Africa Institution business has already become 6% to 7% of the entire organization. So moving the needle there, doesn't really impact the whole organization performance on a whole year basis. So I think that is slowly at one point in time that was a very big part of the business for Ajanta. Slowly other businesses became big and this became smaller. So this became a much smaller component there. So actually, Africa Institution is not such a major, it's not going to be impacting the overall performance of the organization in a significant way.

Other than these two, we have discussed that we are very bullish on the branded generic business whether it is India or emerging markets and that continues to be the outlook that those are the areas where maximum costs are being put in. And those are going to be the verticals which will drive the growth of organization.

Abdulkader Puranwala: And just finally, would you still maintain your mid-teens growth outlook for the branded generic business?

Yogesh Agrawal: Yes, teens should be doable, I think probably somewhere, low teens to mid teens is the outlook we can, I think look at.

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

Yogesh Agrawal: Thank you, everyone for joining onto this call. So if you have any more questions, you can reach out to our Investor Relations Team. And look forward to seeing you in the next quarter call then. Thank you.

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