"Ajanta Pharma Limited Q4 FY22 Earnings Conference Call"

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MANAGEMENT: **MR. YOGESH AGRAWAL – MANAGING DIRECTOR**
MR. ARVIND AGRAWAL – CFO
MR. RAJESH AGRAWAL – JOINT MANAGING DIRECTOR

Moderator: Ladies and gentlemen, good day and welcome to Ajanta Pharma Q4 FY22 Earnings Conference Call. As a reminder, all the participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the 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 to all of you. With me, I have Mr. Rajesh Agrawal, our Joint Managing Director and Mr. Arvind Agrawal – our CFO.

I am glad to inform you that in the financial year 2022, we have returned Rs. 436 crores to the shareholders against Rs. 251 crores in the financial year 2021 in the form of dividend and buyback. So, this reiterates our commitment to the shareholders to return the free cash flow in excess of the business requirement. Further, the board of directors have approved in today's meeting the issue of bonus shares in the ratio of 1 share per every 2 shares held, subject to the approval of the shareholders.

Coming to the results:

They are already there with you, and I am happy to share with you that the year has witnessed a strong growth momentum across all our major markets. I will take you through the business-wise performance during the quarter and for the year, along with comparison of previous year's for the same period. Let us start with the emerging market's branded generic business.

First, I will touch up on Asia:

During the quarter, sales were Rs. 263 crores against Rs. 174 crores, posting a 50% healthy growth, and for the whole year, the sales was Rs. 813 crores against previous year's Rs. 712 crores, posting a growth of 14%. The smart recovery in the growth was in line with our expectation and is the result of our continued effort to strengthen our brands in these markets. Coming to Africa, during the quarter, the sale was Rs. 136 crores against Rs. 99 crores, posting a healthy growth of 37%, and for the full year, the sale was Rs. 587 crores against Rs. 413 crores, posting a 42% growth. Asia and Africa put together contributed to 43% of the total revenue for the financial year 2022. Our exports to these markets were Rs. 398 crores against 273 crores, a growth of 46% during the quarter and Rs. 1,400 crores against Rs. 1,124 crores, a growth of 25% during the year.

Moving to the US Generics:

US contributed 21% to the total revenue for the financial year 2022. We registered sales of Rs. 168 crores against Rs. 173 crores, posting 3% degrowth during the quarter. For the financial year 2022, the sales were Rs. 696 crores against Rs. 637 crores, posting 9% growth. Lower growth in Q4 and financial year 2022 was due to increased competitive intensity leading to higher than anticipated price erosion on the base business. During the financial year 2022, we launched 3 new products and filed 8 ANDAs. We received 2 final and 1 tentative approval and 20 ANDAs are awaiting approval with US FDA. We are poised to file 10 to 12 ANDAs in the financial year 2023.

Coming to the Africa institution business:

This business contributed 6% in total revenue for the financial year 2022. We registered sales of Rs. 50 crores against Rs. 80 crores, posting a degrowth of 38% during the quarter and Rs. 206 crores against Rs. 271 crores, posting a degrowth of 24% for the financial year 2022. As we have mentioned earlier, the institution business remains unpredictable.

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

Rajesh Agrawal: Good evening to all of you. Let me now discuss some of the key highlights of the India business with you:

India business contributed 30% in the total revenue for FY2022. Sales stood at Rs. 245 crores against Rs. 218 crores, posting a growth of 13% during the quarter and was at Rs. 982 crores against Rs. 813 crores, again posting a healthy growth of 21% for FY2022. This includes sales from trade generics of Rs. 30 crores during the quarter and Rs. 117 crores for the whole year FY2022. We have launched 16 new products in FY2022 with 4 first-to-market products in the country.

Our performance has been satisfactory which was on the back of new product launches, market share gain, and price increase. As per IQVIA MAT March 2022, we have posted a healthy growth in all therapeutic segments and exceeded industry growth across therapies. We have three of our brands appearing in the top 500 in IPM now.

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

Arvind Agrawal: Good evening to all of you 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.

You will understand that FY2021 witnessed higher profitability due to Covid impact. Hence, FY2022 comparison with previous year will not be an apple-to-apple comparison.

Let me take you through the key financial highlights for the quarter and full year:

It was an excellent quarter and year with 15% growth in revenue for the Q4 and 16% for the FY2022. Total revenue stood at Rs. 870 crores against Rs. 757 crores in Q4 and is at Rs. 3,341 crores against Rs. 2,890 crores in FY22. EBITDA for the quarter stood at Rs. 207 crores against Rs. 259 crores. For FY2022, it was Rs. 929 crores against Rs. 999 crores. EBITDA was 24% for

Q4 and 28% for FY22, lower than previous year due to normalized expenses on both R&D and marketing after the post-COVID and increase in input cost and freight expenses. During the quarter, PAT was at Rs. 151 crores against Rs. 159 crores, down 5%. For FY22, it stood at Rs. 713 crores against Rs. 654 crores, up 9% due to reasons mentioned earlier. PAT for the year is at a healthy 21% of Revenue from Operations.

Material cost was higher in Q4 and FY22 due to increase in API prices and US price erosion. We are still witnessing upper trend in a few API prices which may impact gross margins going forward. R&D expenses were at Rs. 59 crores against Rs. 39 crores last quarter and Rs. 204 crores against Rs. 139 crores for the whole year. R&D expenses stood at 7% of revenue which will continue at this rate going forward.

Other expenses reached normalcy as all the activities are at pre-Covid level. With our continued focus on branded generic business, we will be allocating higher resources on product registrations, team, and launch of new products.

Other Income stood at Rs. 116 crores in FY22, mainly contributed by forex gain of Rs. 73 crores.

Income tax stood at 22% for FY22 against 27% in FY21 and expected to move slightly higher going forward with some of the facilities phasing out their tax exemptions. We incurred CAPEX of Rs. 154 crores in FY22. Our net fixed asset turnover has improved to 2x in FY22 compared to 1.8x in FY2021. CAPEX including maintenance CAPEX for FY2023 is estimated to be about Rs. 200 crores. We have reduced the inventory levels to 88 days against 98 days in previous year with supply chain returning to normalcy. Receivable levels increased to Rs. 113 crores a day in March 2022 from 95 days in previous year but they are all in normal routine nature.

With these highlights, I open the floor for questions & answers.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Just on domestic formulation business where the growth was quite robust for FY22 and at the same time given that you will have the NLEM-linked price hike upcoming in FY23, what kind of growth can be anticipated in this segment?

Rajesh Agrawal: Overall for domestic, we are looking at mid-teens and more importantly, our ambition is to grow faster than the market and the subtherapeutic segments. With mid-teens growth, I think we should be growing faster than that. That is our aim.

Tushar Manudhane: Secondly, on the gross margin front where we have seen a sharp dip quarter-on-quarter as well as year-on-year basis, how do you see this raw material pressure in the near term, maybe over the next 3 to 6 months?

Arvind Agrawal: Tushar, I think here I would like to explain. This quarter if you see, the COGS is about 28%. Now, out of this 28%, 1.5% is one-time charge. We had sent 1 product to US with the expectation of good flu season 2 years ago and now it is nearing expiry. So, we have written it off in this quarter. That is one-time impact which is about 1.5%. And there is another 1.5% impact because of the price erosion in the US. So, total 3% of this higher cost of COGS is only because of this reason. 1.5% is one time. So, it is not going to be there. Another 1.5% will remain because that is the price-erosion impact, but we are expecting that going forward, we should be able to increase our branded business component higher in the coming years because of which we should be able to recover. Our guidance of that 25% overall COGS is something which remains with 75% gross margin.

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

Rashmi Sancheti: Sir, again on gross margins; you said 1.5% impact comes from the price erosion in the US and 1.5% the product charges and the remaining everything comes from the high raw material prices?

Arvind Agrawal: Yes, you are absolutely right.

Rashmi Sancheti: That means the impact is quite high, right?

Arvind Agrawal: Yes, you are right.

Rashmi Sancheti: So, what I want to understand is despite a very strong growth in the branded business segment in Asia as well as Africa and India where normally the gross margins are pretty high, this was not able to offset it?

Arvind Agrawal: It will get off-setted. But the numbers have to get in for that purpose because for the quarter it will have a major impact, but once you are taking the whole year, you can see that the whole year margin is still 75% in spite of 28% in the quarter. So, that is something which definitely has balanced out.

Rashmi Sancheti: So, if I just reduce 1.5% from quarter 4 for the raw material impact, rest can be the new base for quarter 1 FY23 and Q2 FY23 or we should see raw material cost which is reported for the entire FY22?

Yogesh Agrawal: Yeah, I think that would be the correct way to look at it. The whole year normalized at 25% which offsets that one-time impact of 1.5% of the product write-off and also factors in the price erosion. So, going forward, 25% in the current visibility what we have on the raw material and packing material prices is what we are looking for the next year.

Rashmi Sancheti: How much is the price erosion we have seen in FY22 versus FY21 in the US market?

Yogesh Agrawal: It has been quite high. Traditionally, we have seen around 10% price erosion, but it has almost been to the tune of 18% plus/minus.

Rashmi Sancheti: Any expectation that it could soften down in FY23 or do you believe that it would still remain in double digit?

Yogesh Agrawal: No, we believe that it should again normalize to the 8% to 10% price erosion going forward.

Rashmi Sancheti: Sir, normally our run rate for product launches is around 5 to 6 every year, but this year we have just launched 3 products during the year in the US market. What is the reason behind that and what are we guiding for FY23 and FY24? The next question is that is this kind of growth which we have seen in both Asia branded and Africa branded, will we be able to sustain it or is this something that we are seeing some one-off supplies?

Yogesh Agrawal: Two parts. Let me take the US part first. In the US, the launches could not be done because there are a number of products under approval with the FDA. And as you are aware, the FDA has still not resumed the regular inspections. They are still doing the inspections either for cause or mission critical. We have been pursuing with the FDA and the FDA stand still remains that they have not opened the regular overseas inspections. Until the time that doesn't resume, our number of ANDAs which are awaiting approval doesn't get approval. This scenario is not only to Ajanta, I think this is across all the companies like us who are waiting for the FDA to start inspecting. As that starts to happen, we will again hopefully come back to the launches of 5 to 8 products per year. That was the first part on the US.

Second, on the branded generic, we have been guiding that because of the headwinds which we see in the US market, larger focus, attention, resources are being diverted towards the branded generic business in India and the emerging markets. And you have seen the growth which we have posted in the current year. Going forward also, we do not give the guidance region-wise but we believe that on a blended basis, we should be able to deliver the mid-teens to high-teens growth in these markets.

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

Kunal Randeria: Sir, is it fair to assume that the kind of price erosion that you have mentioned is maybe specific to Ajanta perhaps 2 or 3 products? because some of your peers who are operating in the US, they have been saying that the price erosion has been fairly stable now for the last 2 quarters.

Yogesh Agrawal: In general, I think most companies have seen aggressive price erosions and I think most companies in their earning calls or otherwise, they have mentioned that the price erosions have been twice of what we have witnessed in the normal years. Again, company to company, it may vary depending on the product portfolio. But in general, our take is that the price erosions have been fairly aggressive but which are stabilizing now.

Kunal Randeria: Just to take this point forward, these kinds of erosion obviously cannot be sustainable, right? So, at some level, the companies will have to start downsizing their portfolios. Because once they will start downsizing, I guess the erosion should also then start coming down.

Yogesh Agrawal: That's a good question. We are not at that inflection point. Case-to-case basis and product to product, they keep getting added and dropped. But I don't think on a materialistic basis where I can say that there will be any drop off of any products.

Kunal Randeria: Sir, when I look at your balance sheet, the receivables have gone up quite sharply. Is there any kind of pressure from emerging markets?

Yogesh Agrawal: For what?

Kunal Randeria: Your receivables.

Yogesh Agrawal: No, receivables have gone back to the pre-Covid levels. If you see pre-Covid times also, our receivables were around the same levels. I think during the Covid time, there was a lot of efficiency which was coming including expenses. I think this is a normal level. There are no exceptional elevated levels there.

Arvind Agrawal: It was 111 in the 2020, now it is 113. So, we are at the same level.

Kunal Randeria: The product Chantix that we had discussed in the past, is the approval held back because of want of inspection or some other reason?

Yogesh Agrawal: Unfortunately, there are different components to it. So, I think we will not be able to give you a product-specific insight. At the best, we can say that it is still under review with the FDA and we are hoping for the earlier approval than later.

Kunal Randeria: Sir, you have over Rs. 320 crores of cash in your books. Just wondering are you open to acquisitions and if so, what kind of company or brands do you think could fit into your company?

Arvind Agrawal: Yes, we are looking at the brand acquisition for quite some time now, and in the market, every investment banker is aware that we are looking for the brands. Our preference definitely will be India because we understand it better way and also we feel that here we can add value by acquiring a brand. So, we are open for it. We are looking at all the deals which are happening in the market, but we are still not getting the brand for valuation which we feel is right. That is where I think we are waiting but otherwise, we are definitely open.

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

Abdulkader Puranwala: Sir, my first question is with regard to your field force rationalization what we had done earlier. Are we entirely done with it at 2,800 or is there any further scope for us to rationalize it further?

Rajesh Agrawal: Yes, we are completely done with that and we don't see the scope or the need to reduce the field force any further. As a matter of fact, going forward, as and when we feel it is important and the productivity increases, then we will again come back in the mode of adding medical representatives wherever necessary.

Abdulkader Puranwala: Sir, my next question is on the margin front wherein you said the gross margins would be close to 75% ahead. I just wanted to hear your brief commentary on how it could look on EBITDA and considering that some bit of an operating leverage would also be there on the business because of the Guwahati plant and the utilization level improving. If you could guide us something on the EBITDA margin front as well, it would be a little helpful.

Arvind Agrawal: I think we should be able to retain the EBITDA margin of the current year. For the whole year, we have done about 28%. I think going forward also, we should be able to maintain this EBITDA margin.

Abdulkader Puranwala: In your earlier commentary, you have mentioned that nearly 50% to 60% of your branded generic portfolio is under some sort of a price restriction. Now that the prices of your raw materials are increasing, how soon can this be passed to the customers within the geographies of India, Asia, and Africa?

Rajesh Agrawal: For India, we have the eligibility to increase the price based on the NPPA guidelines, so we are able to comfortably pass that on. And of course, as you have seen, all the NLEM products also there has been an increase of 10.5% in the last year because of the WPI linkage. That also, we have taken for all the brands that were under NLEM, and our NLEM brand portfolio is not more than 20% in the domestic. So, it is for the international markets also, as and how we have the opportunity, we are able to pass on the price increases, but at the same time, we take a very granular approach and look at each brand and the other competitors' pricing also because we don't want to be completely out of range. It is a very meticulous process that we follow and then take a decision based on that.

Abdulkader Puranwala: Any color on which months or which quarters exactly the price hikes have been taken earlier or you would like to take a call going ahead as well?

Rajesh Agrawal: For NLEM brands in domestic, it happens every year in April as per the NLEM and NPPA guidelines. That's common to the whole industry. So, we have taken it last month, which will start to impact us maybe May or June as the inventory exhausts of the old pricing. For the other brands, it is based on a yearly cycle. Again, as I said, it is hard to tell you on the company-wide basis because every brand may have a different cycle and also different competitive pressures and the competitor MRP is also equally important for us to make a decision.

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

Ankeet Pandya: I hear you where you said that for the non-NLEM portfolio, this is an annual exercise and you will have to wait to see how the competitor behaves. But the cost which is the API cost, etc., has gone up equally for you and your competitor, and as we understand, Ajanta is one of the leading brands in most of the therapies that you are present in. So in majority of the cases, it is the leader who initiates the price increase and the followers follow. So, you would already have a fair estimate as to what kind of price increase you will be able to take in 80% of your India portfolio which is not covered by NLEM. Would you like to guide us as to what percentage price increase you will be able to take?

Rajesh Agrawal: You are right in a way that wherever we have market leadership, we are in a position to command the pricing. But at the same time, we are also price leaders in most of the molecules that we have been first to launch or where we hold a significant market share. So, we are already at the price point where competitors are a little bit lower than us or maybe at max along with us. So, what happens is we will have to evaluate based on the indirect competition also.

To answer your 2nd question, the maximum price increase that we can take is 10% for the whole year on any given brand as per the NLEM and NPPA. NLEM is of course linked to WPI, and NPPA guidelines restrict us to take not more than 10%. That's an exercise that we undertake and then we increase the prices as and how we find it appropriate.

Ankeet Pandya: Secondly, when it comes to let us say Asia or your Africa branded sales, would the dynamics be similar? I know the NLEM concept doesn't apply there but as if they dictate prices, but what kind of price increase will you be able to take in your branded markets?

Rajesh Agrawal: For Asia, some of the countries actually follow a similar method like NLEM like Philippines has a list of essential medicines but of course, we don't have any of the brands in that particular list. But we are able to pass on the pricing because as you know, the inflationary price pressures are being faced by all the competitors across the globe. This is a common practice now in the last 6 months or 9 months that we have seen that companies are very comfortable taking price increases across the globe in every segment and every country. We are also doing the same, and as I explained earlier, we take a very-very meticulous and on-the-ground approach and look at each brand and then take the price increases.

Ankeet Pandya: So, at a bucket level, let us say on the Asia business, would the price increase be in high single digit or low single digit or low double digit? Because the cost inflation clearly reflects more than that.

Yogesh Agrawal: Let us look at the company level only; that is the better way. We don't give out the margins on a region-wise basis. As we said, for the 3rd quarter, the 3% extra cost which we have seen against our typical 24% or we have guided 25% and we have seen 28%. What we said is 1.5% is because of the one-time inventory write-off and 1.5% is because of the price erosion. If you remove that 3%, then we are at 25. Next year what we are saying is that going forward, this 1.5% price erosion is here to stay, but we are going to recover this by increase of the business from the branded generic business which also includes the price increases which will have a higher margin. This is how our plan is to recover this 1.5% and we are giving a guidance of 25% COGS and 75% gross margin for the whole company. I think it will be too difficult and not possible for us to give you region-wise price increases and the timelines on when it is going to happen. It may not be relevant also to go so granular.

Ankeet Pandya: Just one last question. Out your total COGS is Rs. 100 – how much is the API cost and how much is the cost of formulation? I understand you also buy finished goods for some businesses. If you could give us a rough split of how much is your finished goods purchase, how much is formulation cost, and how much is purchase of API and other key starting material?

Arvind Agrawal: The purchases of stock in trade is about Rs. 136 crores out of the total material cost of about Rs. 832 crores. So, we are talking about around 15% to 16% of the total material cost which is being purchased directly. They are called traded goods. That is the component. Balance everything is with the in-house material, APIs, and packing material and consumables which are going to be consumed there.

Ankeet Pandya: But out of the balance Rs. 700 crores, how much is our third-party purchase of API or raw material if you could just zoom into that number a bit?

Arvind Agrawal: We purchase the entire API from third party. As I said, out of Rs. 832 crores of total cost for the year, Rs. 136 crores is for the direct purchase from a third party finished goods.

Ankeet Pandya: So, out of the balance Rs. 700 crores, there will be some cost of conversion of API to raw material, right?

Arvind Agrawal: No, it is only raw material and packing material and consumables. The manufacturing cost sits in the Other Expenses.

Ankeet Pandya: The power and fuel and all that?

Arvind Agrawal: Yeah.

Ankeet Pandya: So, Rs. 700 crores entirely is basically third-party purchases?

Arvind Agrawal: Yes.

Moderator: The next question is from the line of Bino Pathiparampil from InCred Capital. Please go ahead.

Bino Pathiparampil: Just a couple of questions from my side. First, a follow-up on Chantix. I can see there are some tentative approvals on the US FDA website whereas I don't see that you have a tentative approval. Would you have to wait for those guys to launch the product before you launch or you think you can go along with them on day 1 if you get approval in time?

Yogesh Agrawal: Unfortunately, I am not able to give you a more detailed answer on this. There are different components associated with this product. There are many touch points. One is Pfizer, the exclusivity, the FDA approval. So, I think I will have a limitation in giving you more visibility on this product.

Bino Pathiparampil: Have you done any settlement yet or no?

Yogesh Agrawal: Yes, we have the raw materials and packing materials ready with us. So, the day we get the product approval, within 60 days, we will be able to reach the inventories to the US market. The good part about this is Pfizer has come back; Apotex I think ramped up this thing. I am not sure Apotex or some other company. The good part is that the market which was at risk of melting or becoming nonexistent is back up again. That's good news because unit-wise the market is again back to the pre-nitrosamine challenges. So, for any new generics which are coming in, there will be a bigger pie from which they can take a share.

Bino Pathiparampil: I guess Endo is the one who has launched what you mentioned, right?

Yogesh Agrawal: Yeah.

Bino Pathiparampil: Do you have any sort of settlement with the Pfizer yet or that's open?

Yogesh Agrawal: As I said, I will have some limitations in giving you visibility on this. Some matters are on confidentiality agreement, sub judice, and prejudice.

Bino Pathiparampil: Another question about the Africa institutional business. What is the outlook for coming year?

Yogesh Agrawal: We continue to give the guidance of a flattish nature. What we have done in the current year, we should be able to do that kind of business next year also.

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

Alisha Mahawla: Sir, my question is with respect to the branded business in the emerging markets. We have obviously seen very strong growth this year and we are talking about achieving a mid- to high-teens growth on top of this. Is my understanding correct?

Yogesh Agrawal: That's correct, yeah.

Alisha Mahawla: Can you break down into what will be the growth drivers or why are we expecting this business to achieve such high growth on such a high base?

Rajesh Agrawal: Growth drivers are the same as they were. I think new brand launches, gain of market share, and price increases and also we are undertaking expansion wherever we feel it is appropriate in terms of adding the numbers of the medical representatives in every country; this is what will drive the growth, and we are reasonably confident that we should be able to achieve these objectives.

Alisha Mahawla: With respect to our margins, we just called out earlier that we are expecting it to be at about 28% level, but with improved utilization at Guwahati, we were expecting this to be closer to 30%. Is there a reason why we were expecting that we won't be closer to the 30% mark in the near term?

Arvind Agrawal: Basically, I think the price erosion in the US is impacting us to some extent plus also we are now investing on the next phase of growth for the next 4 to 5 years by investing more on the product registrations and for the people, etc., because of that, it is a conscious call that we are taking. We would like to really work on that. We are talking about higher resources allocation for the branded generic business. Because of that, we expect that it should be somewhere around 28%.

Yogesh Agrawal: Just to add on what your question was, the fact as we said that we are adding more resources, attention, focus on the branded generic business, that is what is increasing the expenses also because we are adding people, we are increasing the promotion, and some R&D expenditure also because we are putting a lot of thrust on developing new products filing, the registration. So, this is kind of slightly elevating the expenses resulting into still being able to maintain a 28% EBITDA which is still a very healthy EBITDA to have. This is primarily looking forward for the next 3 to 5 years' growth.

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

Nitin Gosar: Two questions on R&D. R&D now is around Rs. 200 crores for the year. Dollar denominated number could be around $27 million. Could you help me understand where are we investing? Predominant growth if it is coming from branded generics, then why the investment is so high for R&D?

Yogesh Agrawal: Almost I think it is 50% to 55% for the regulated markets – US – and around 45% odd is for the India and the emerging markets.

Arvind Agrawal: Nitin, I think you are trying to ask is that the R&D expenditure is high according to you in terms of the branded generic business. That's what you are trying to say right?

Nitin Gosar: Yeah.

Yogesh Agrawal: Or is this compared to the previous year? The previous year or the last year is not a like-to-like comparison.

Arvind Agrawal: Yes, because previous year you can see that because of Covid, the R&D was almost not working for 6 months. That is why the expenditure was lower, but if you see a year before, I think our expenditure was almost about Rs. 140 crores. So, I think we are talking about consistently investing on the new product registrations and new product developments even for the emerging markets and India also.

Rajesh Agrawal: Just to add to that, R&D is what has given us the edge to be able to launch all the new brands in India as well as in the international markets. And most of these formulations, we have been the first. In that sense, we have been investing reasonable amounts in the R&D which has helped us to gain a competitive advantage in the market.

Nitin Gosar: What should be the ballpark understanding on US market R&D investment like $13-14 million and we are doing filing of around 10 to 12 a year. How should we gauge the investment ratio? Is it moderate according to you?

Yogesh Agrawal: We have titrated our ANDA filings and we are looking to file 10 to 12. Current year, we ended up filing 8 but there are some products which got skewed towards the end of the year and we are expecting a larger filing in the Q1. So, next year, instead of 10 to 12, it could be higher than that also. In terms of percentage, as I said, you can estimate around 55% to be for the US regulated market of the R&D spends and 45% is for India and the emerging markets.

Nitin Gosar: Second question is with regard to working capital. Arvindji, you mentioned we are going back to the pre-Covid days on debtor days. If I were to take a combination of inventory, debtors, and payables, we have gone to almost a level where we have not seen this something for the last 7-8 years. Our understanding of earlier 5 years was anywhere between 3 to 4 months and now we are surpassing 5 months on working capital. What are we trying to do out here? Why is it going up and what can result it to come down ultimately?

Yogesh Agrawal: First, for the inventory, slightly, last year we had ramped it up because of the Covid uncertainties and that was a conscious call taken not to be stocked out of the market which we are now pruning down slowly and currently you have seen from 98 it has already come down to 88 days and maybe there is some scope to taper it down further. Second, there are some inventories which got built up because of the new product launches expected for the US market. That also got added up and we didn't get the ANDA approval, so that also slightly elevated. I think other than that, there is no concern on the receivables. I think it is 100-110 maybe at the end of the quarter the billing occurred which is resulting into slightly higher outstanding, but there is nothing to be concerned about. I think these are very normal levels.

Nitin Gosar: Only if I were to see numbers in the last 4 years, it has moved from 120 days to 128, then 145 and now 160.

Yogesh Agrawal: Our total working capital, right.

Arvind Agrawal: Nitinji, I think I mentioned last year also the same thing. I again repeat that the US business has got definitely higher inventory and high receivables. That is something which we explained last time also that that is the cycle which is there in that particular market and we strategically have placed higher inventory for that particular market plus also the cycle there is a little longer because of the chargebacks, etc., which I explained last time. If you are comparing 4 years back, then our US business was very small. Now, the US business is higher. So, naturally, to that extent it has gone up.

Nitin Gosar: So, we should consider this number as a steady state number 160 days?

Arvind Agrawal: Yeah, I think this is a steady state number. As MD said, there may be some scope for improvement but nothing major really.

Moderator: The next question is from the line of Harsh Varia, an individual investor. Please go ahead.

Harsh Varia: I was seeing on the FDA website that Ajanta got an ANDA approval for generic Bystolic in March, and I also remember like last time you guys said that we cannot get approvals unless FDA inspects our facilities. Does that mean there was some kind of inspection at our facility?

Yogesh Agrawal: There was no inspection. It was an FDA's call which they feel under their review that they can approve the product without having to go for the factory inspection. It is purely during the review cycle the call was taken by the FDA. So, there could be approvals which may be received without the inspection also and there are a lot which get tied up with the inspection. To answer your question, no we have not had the inspection of our facilities from the FDA.

Harsh Varia: My last question is about domestic trade generics. I have seen that this business has scaled very well. I think it is already up to Rs. 170 crore levels. What is Ajanta's strategy in this business division?

Rajesh Agrawal: The overall strategy in this is we are trying to focus more on specialty as against just general product range that is there and we have gained a tremendous acceptance with the trade and also with the pharmacists, chemists, and the patients and that is what has given us the traction and the growth that you see crossing Rs. 100 crores in this year.

Harsh Varia: Are the gross margins similar to the branded generics in the trade generics division?

Rajesh Agrawal: No, gross margins are much lower as you can expect; they are much lower. But yet they are lucrative enough for us to be able to operate in it.

Harsh Varia: Can you give a broad range of gross margins that this division might be making? Is it similar to the OTC gross margins of 55% to 60%?

Arvind Agrawal: We don't give the individual gross margins for the division-wise.

Moderator: The next question is from the line of Surajit Pal from BOB Capital Markets. Please go ahead.

Surajit Pal: As you have mentioned that you are also getting into non-pharma business in API segment. Could you throw some light on your plan and how aggressive you are getting into that and what could be the approximate revenue going forward?

Rajesh Agrawal: No, I think there is some misunderstanding. We are not getting into non-pharma or in API business at all. We are very firmly entrenched into formulations and that is what our core strength is and we will like to build on that itself.

Surajit Pal: Do you think that current level of marketing expenditure or the other overhead cost, we would maintain at the same level or do you expect that there will be growth further?

Arvind Agrawal: I think it will be at the same level barring the normal inflation; definitely that will creep in, but otherwise, it will be almost at the same level.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Yogesh Agrawal for closing comments.

Yogesh Agrawal: I just want to thank all of you for joining this call. If there are any questions which are left unanswered today, please feel free to reach out to our Investor Relations team. Once again, thank you for joining us today.

Moderator: On behalf of Ajanta Pharma, that concludes this conference.