



“Ajanta Pharma Limited Q4 FY'23 Earnings  
Conference Call”

**May 05, 2023**



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**Moderator:** Ladies and gentlemen, good day and welcome to Ajanta Pharma Q4 FY2023 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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. Thank you, and over to you, sir.

**Yogesh Agrawal:** Good evening, and welcome to all of you. With me, I have Mr. Rajesh Agrawal - Joint Managing Director; Mr. Arvind Agrawal - CFO; Mr. Rajeev Agrawal - AVP Finance and Investor Relations.

I hope that the results are already there with you. We continued our growth in branded generic business which is our mainstay and also outperformed the markets going ahead. However, the year saw severe pressure on the margins with EBITDA going down sharply from 28% last year to 21% this year. This was due to the factors beyond our control like increase in material prices, U.S. price erosion, increase in freight cost etc. We have taken effective steps to contain this impact and are confident of regaining some of the loss margins in coming years.

In spite of pressure on margins, our cash flow generation was quite robust. And hence once again we have rewarded shareholders with the payout of Rs. 479 crore being 81% of the PAT in form of dividend and buyback during the quarter. It reaffirms our commitment to payback any excess cash to the shareholders of the company.

I and our Joint MD will take you through business wise performance for Q4 and 12 months FY2023, along with comparison of previous year same period.

It was overall a good year with total revenue for 2023 at Rs. 3,743 crore against Rs. 3,341 crore posting growth of 12%. As you are aware our business was divided in three verticals: Branded Generics business, consisting of India and emerging markets; U.S. Generics business and Institution business in Africa.

**Branded Generics Business:**

During the 12-month period, 73% of the total sales came from the Branded Generics which is spread across India, Asia and Africa. This business has surety, scalability, and sustainability for the long term. During Q4, Branded Generics sale was Rs. 625 crore against Rs. 644 crore, posting 3% degrowth.

In twelve months, sales was Rs. 2,690 crore against Rs. 2,382 crore, posting growth of 13%. This growth was in line with our expectations and guidances.

To begin with, I invite Mr. Rajesh Agrawal - Joint MD, to take you through India business. Thank you, and over to you, Rajesh.

**Rajesh Agrawal:**

Good evening to all of you.

### **Indian Business**

Let me discuss some of the key highlights of the India business with you now. Our performance has been excellent on the back of new product launches, market shares gain and price increase. India business contributed 32% in the total revenue during twelve months period.

In Q2, sales stood at Rs. 287 crore against Rs. 245 crore posting a growth of 17%. For twelve months, sales stood at Rs. 1,174 crore against Rs. 982 crore, posting a healthy growth of 20%. India business includes revenue from trade generic of Rs. 42 crore against Rs. 30 crore in Q4, and Rs. 151 crore against Rs. 117 crore in twelve months of FY2023.

During the year we launched 23 new products out of which 6 were first to market. Our MR productivity has gone up by 20% against previous year on the back of consistent growth in business without any increase in MR strength.

I am delighted to mention that our overall growth was 2x to the IPM as per IQVIA MAT March 2023, with Ajanta's growth of 16% versus IPM growth of 8%. Even in all therapeutic segments we are present in, our growth was much higher than the segment growth.

In the covered market, we are the 4<sup>th</sup> largest in IPM. In overall IPM we gained two ranks in the last twelve months and stood at 27<sup>th</sup> as of the end of the year. It will be heartening to note that in all our therapeutic segments, our ranking in covered market is amongst the Top-10 with 2<sup>nd</sup> rank in Ophthalmology.

As per IQVIA MAT March 2023 Cardiology contributed 40%, Ophthalmology contributed 31%, Dermatology contributed 21% of our business and the remaining 8% is coming from Pain. Four of our brands are appearing in the Top 500 List of IPM.

Now Mr. Yogesh Agrawal – MD, will take you through the other business performance. Thank you and back to you.

**Yogesh Agrawal:**

Let me now discuss some of the key highlights of the Branded Generics business in Asia and Africa, which contributed 41% in the total revenue during previous year.

### **Asia**

In Asia, our business is spread over the Middle East, Southeast Asia and Central Asia covering about 10 countries. During Q4, sale was Rs. 238 crore against Rs. 263 crore, a degrowth of 9%.

Q4, 2022, was elevated against the rest of the quarters as major countries saw increased demand after pandemic. In twelve months, sale was Rs. 957 crore against Rs. 813 crore posting healthy growth of 18%. We launched 38 new products during twelve months FY2023 in the region. We continue to see mid-teens growth on the back of our robust product pipeline, increased productivity and excellent strategy execution across countries.

### **Africa**

In Africa business is spread over West and East African countries in 20 countries. During Q4, sale was Rs. 100 crore against Rs. 136 crore posting 26% degrowth. The growth was adversely impacted due to the strike in France for pension reforms which led to considerable delays in the supply chain. The situation is slowly improving and we are trying our best to keep up the supply chain going.

In FY2023, sale was Rs. 559 crore against Rs. 587 crore, posting 5% degrowth. The full year degrowth can be attributed to INR appreciation against Euro from previous year by 5%. However, we have seen a reversal of this trend and we hope to see mid to high teen growth in this market again going forward. We launched 8 new products during FY2023 in the region.

### **USA**

This is a second vertical of business and contributed 22% to the total revenue. In Q4, sale was Rs. 197 crore against Rs. 168 crore posting 17% growth. In FY2023, sale was Rs. 828 crore against Rs. 696 crore posting 19% growth. We see price erosion stabilizing and it has come down to high single digit in our existing portfolio.

At the end of 2023, we filed five ANDAs and also received four final and one tentative approval. We have 21 ANDAs awaiting approval with the US FDA.

### **Africa Institution**

This is third vertical of business comprising of antimalarial product and contributed 5% in total revenue. In Q4, sale was Rs. 49 crore against Rs. 50 crore posting 1% degrowth. In 12-month, sale was Rs. 190 crore against Rs. 206 crore posting 8% degrowth. As mentioned earlier, Institution business remains unpredictable and depends on the funds with the procurement agencies.

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

**Arvind Agrawal:**

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 take you through key financial highlights for Q4 and twelve months of Financial Year 2023.

In Q4, total revenue stood at Rs. 882 crore against Rs. 870 crore, posting 1% growth. In twelve months, total revenue stood at Rs. 3,743 crore against Rs. 3,341 crore, posting growth of 12%.

The gross margin was at 73% for Q4, and 72% for the entire financial year. U.S. price erosion, higher material cost, one-time inventory write-off and INR appreciation against Euro for major part of the year adversely impacted it by about 3% in the FY'23. As the Euro-INR exchange rate is back to earlier levels and U.S. price erosion getting normalized, gross margin is expected to rebound to 74% to 75% in FY2024.

Personnel costs have seen an increase of 35% in Q4 and 22% in the financial year. The increase during Q4 was on account of some regrouping of related expenses from selling expenses following the best practices. For twelve months the increase in cost mainly relates to expansion in the international field force by 50% and small addition in production and R&D. All these are the investment for future growth.

Other expenses stood at Rs. 268 crore in Q4 and Rs. 1,124 crore in FY'23. This includes FOREX derivative loss in Q4 of Rs. 22 crore and Rs. 19 crore during the whole year. However, we closed the year with a net FOREX gain which is included in the other income.

Logistics cost has impacted about 2% on EBITDA in the Financial Year 2023. However, it has come back to normal level now and it should really give us a big benefit in the coming financial year.

R&D expenses was Rs. 63 crore against Rs. 59 crore for the quarter and it was Rs. 237 crore against Rs. 204 crore for the whole year, an increase of 16% over the previous year. R&D expenses continue to be at 6% of revenue.

With the above impact on gross margin and other expenses, EBITDA margins saw a dip during Q4 and stood at 17% of revenue from operations at Rs. 149 crore. For twelve months EBITDA was at Rs. 783 crore or 21% of revenue from operations. Going forward, the benefit of 2% each from gross margin and logistic cost is expected to take EBITDA back to above 25% in FY2024.

Other income was at Rs. 99 crore for the year mainly contributed by FOREX gain of Rs. 66 crore without adjusting the unrealized hedge loss of Rs. 19 crore. There was a net gain in FOREX transaction of Rs. 47 crore for the whole year after adjusting unrealized loss. This reaffirms our prudent and robust hedge policy.

Income tax stood at 20% for Quarter 4, and 21% for the whole year. We expect it to remain at around the same level in FY 2024.

PAT in Q4 was at Rs. 122 crore against Rs. 151 crore, 14% of revenue and for the whole year it was Rs. 588 crore which is against Rs. 713 crore last year which is 16% of revenue.

We incurred CAPEX of Rs. 160 crore for the year 2023. CAPEX, including maintenance CAPEX for 2024 is expected to be around Rs. 200 crore which also includes our new Corporate House CAPEX.

We have seen improvement in the working capital cycle, with both inventory and receivables showing a reduction in the number of days.

The ROCE stood at 22% and ROE at 18%. With improvement in the working capital cycle our cash conversion ratio was almost at 99%.

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

**Moderator:** Thank you very much. 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:** First on this employee cost if you could elaborate, this regrouping of related expenses?

**Arvind Agrawal:** Yes, so actually the cost of incentives which are being given to the field staff, that was about Rs. 27 crore for the whole year, it was earlier in selling expenses, but it has been regrouped to be personnel cost. So, that's the small change which is there.

**Tushar Manudhane:** And henceforth it would be in employee expenses only?

**Arvind Agrawal:** Yes, you are right.

**Tushar Manudhane:** So, now that we have reached like we are at 73% gross margin, maybe another 100 bps we are guiding for next year, but just trying to bridge the gap of EBITDA margin of 17% in Q4 FY'23 to almost 24, 25 for FY'24, if you could just explain that?

**Arvind Agrawal:** So, I think 17% includes Rs. 22 crore of the FOREX loss also. So, if you remove that it will come to 20%.

**Tushar Manudhane:** Still from 20% to 25% is the bridge.

**Arvind Agrawal:** As I explained whole year if you talk then you know 2% is freight cost which we are expecting to recoup, and 2% in the COG. So, the 2+2=4% improvement we are expecting from 21% to go to 25%.

**Tushar Manudhane:** And just lastly on this US business in FY'23 it has been done in terms of filing as well as launches, but R&D cost has been sort of I guess similar level as it was in the last year. So, how should one think about the product filing and the growth for FY'24 for U.S. business?

- Yogesh Agrawal:** So, the R&D cost, it should remain on the absolute number on the similar range, so percentage wise it may increase a little bit. And for the filings we are looking to file around 6 to 8 ANDAs next year.
- Moderator:** Thank you. The next question is from the line of Rashmi Shetty from Dolat Capital. Please go ahead.
- Rashmi Shetty:** One question again on the employee cost and the other expense while I can see that because of the regrouping your other expenses has come down, but your staff cost has come up. Can you just explain that this Rs. 24 crore of FOREX loss is sitting in which line item and it is impacting the margins.
- Arvind Agrawal:** It is in the other expenses.
- Rashmi Shetty:** But there would be some FOREX loss, there is some FOREX gain also, which is sitting in above EBITDA or below EBITDA?
- Arvind Agrawal:** Below EBITDA in other income.
- Rashmi Shetty:** And how much is that?
- Arvind Agrawal:** For the current quarter, it is Rs. 25 crore.
- Rashmi Shetty:** And so now what we see is that this staff cost is around 24% to 25% of sales. So, going ahead, when we estimate it should be in this range only, right.
- Arvind Agrawal:** Yes, absolutely.
- Rashmi Shetty:** And does it include the expansion of the field force which has been taken into the international branded business, Asia and Africa?
- Arvind Agrawal:** Actually, because some of the additions we had done during the year, the full year effect will come next year.
- Rashmi Shetty:** And how much that partial cost which is pending would come in FY'24, any ballpark number which you can give?
- Arvind Agrawal:** It will be difficult to give you that number, but I think as you rightly said, as the percentage to this, it should remain in that same range.
- Rashmi Shetty:** 24% to 25%?
- Arvind Agrawal:** Yes, because we have given the guidance of about you know, increase of the sale being in mid-teens, so I think 24% to 25% will be the estimate.

**Rashmi Shetty:** So, from 21% to 25% where we are expecting our EBITDA margin to move, it will majorly come from the gross margin improvement of 2% and logistic cost stabilizing, am I correct?

**Arvind Agrawal:** Yes, you are absolutely right.

**Rashmi Shetty:** Another question is on Africa branded business, I understand that the Quarter 4, we had seen some sort of strike in Franco Africa which you mentioned, for pension reform and that delayed the sale. So, this delayed sales, is it expected to come in Quarter 1? Should we see that Quarter 1 will have deferred sales as well as the sales which is expected to come in Quarter 1, so it would be a very strong growth or it would not be a sales, because lost is lost completely.

Also, in nine months we had seen a very subdued growth in Africa branded business. So, just want to understand more on this steep of the business, because here our supply chain and everything is also pretty strong so what actual problem are we facing in terms of growth?

**Yogesh Agrawal:** So, two parts, one is some part of the business will get pushed out to the next quarter. But some lost is lost, it is difficult to recover. So, we will see some part of the operating spilled over into the next quarter. So one is that and second is on the growth. So, I think if you see the last three years CAGR, we have posted a mid-teens growth. There have been some pipeline filling at times because of the COVID, because of the opening of the COVID some launches of the new products. So, we have seen some strong growth in the previous year, which kind of deferred out in the next year. But overall, on a consistent basis, we are very confident the strength of the business is quite strong. And we don't foresee the challenge in posting mid-teens to high teens growth in Africa.

**Rashmi Shetty:** And how is the Africa pharma industry growing in other respective markets where you are present?

**Yogesh Agrawal:** The industry also is growing in a low double-digit.

**Rashmi Shetty:** So, are we confident that we should see a low double-digit growth once the sales get normalized in FY'24 and FY'25?

**Yogesh Agrawal:** Absolutely we should outgrow the market at least to 1.5x. If the market is growing at low teens, we are confident of posting mid-teens to high teens growth.

**Moderator:** Thank you. We have the next question from the line of Amar Maurya from AlfAccurate Advisors Private Limited. Please go ahead.

**Amar Maurya:** Just to understand this 25% bridge again, if I do like 2% COGS and 2% logistic cost saving, and Rs. 25 crore of FOREX gain then also even if I do this math for this quarter we get 23.7% kind of a margin. So, if you can help us this 25% margin bridge it would be great. And secondly I just missed that employee cost increase, what is the reclassification you did there?



**Arvind Agrawal:** Okay, so first I will take the second question. The reclassification is just that there are certain expenses which were related to employees, which were clubbed as marketing expenses or selling expenses that has been brought to the employee expenses. So, it's just the reclassification from other expenses to employee cost. But if put together it will remain the same, there is no difference at all.

In terms of the EBITDA reconciliation, what you need to do is you need to work out for the whole year. If you see FY'23, we are having EBITDA margin of 21%. Now this 21% as we mentioned earlier also that there were these factors which impacted including the U.S. price erosion, including the raw material price increase and all those kind of things. But out of that, we will be able to recover in COG about 2%, including the Euro-INR appreciation. So, that also is now normal, so that also should help us. So, total we should be able to get a 2% benefit in cost of goods. And another 2% is something which we will get in logistics. So, 21+4 is about 25%. We will not be able to go to 28% immediately, we very clearly told you last quarter also, here also we are saying that we are talking about 25% plus around in 2024 EBITDA margin.

**Amar Maurya:** And second question, like as you are targeting for overall on mid teen kind of a growth so what would be the growth we are expecting from the export business and primarily from the emerging and the regulated market?

**Yogesh Agrawal:** See, the U.S. will be in mid-single digit. And the overall Branded Generics business, we are looking to grow at a mid-teens plus minus kind of thing. So, on a blended base we should arrive at around the mid teen. Africa Institutional business we are looking at a flattish growth.

**Amar Maurya:** So, both Institution and Branded, both overall Africa?

**Yogesh Agrawal:** No, Branded Generics is all put together look at this one bucket, which has India, Africa and Asia. All put together we are looking to grow mid teen. And U.S. will be the mid single digit. And Institution, we are looking at a flattish growth.

**Moderator:** Thank you. The next question is from the line of Kunal Randeria from Nuvama. Please go ahead.

**Kunal Randeria:** In your presentation you have mentioned that the price erosion in the U.S. is now normal. So, just want to understand what you mean by normal?

**Arvind Agrawal:** Normal is about, you know high single digit.

**Kunal Randeria:** And maybe if you can just maybe explain what is driving it, is it maybe some new launches because we haven't done a lot of new launches so I mean have competitors withdrawn from a lot of molecules you were in, or you had some benefits from the few products, if maybe you can just explain a bit more?

**Yogesh Agrawal:** So, we are looking to launch five products during the year. And existing portfolio as we said that I think we are looking, we are estimating that the price erosion should stabilize to the mid to high single digit. So, in combination of the new product launches, and stabilizing of the price

erosion on the existing portfolio, we feel comfortable that we should be able to pose a similar kind of margins on maybe slightly improve it.

**Kunal Randeria:** But in your existing portfolio also have you seen an improvement and is it because competitors have withdrawn or its just that people have become a lot more disciplined than what they were let's say a month, year back or so?

**Yogesh Agrawal:** Right, yes. So, we have not seen significant withdrawals of the players, in product to product there maybe one player withdrawing here and there. But in a market which is five players around, one player withdrawing doesn't have a very significant increase in the market share to any one company. So, we have not seen such big disruptions in withdrawal. We have seen some products, some companies have withdrawn. I think some of the base portfolio we have seen now the price erosion is pretty much hit to the bottom, at least we feel so. So, I think the price erosion should be more disciplined.

**Kunal Randeria:** Second question is on the India business now, you know NPPA has come out with list of products that prices had to be reduced. I think that included Met XL also, a franchise. So, has there been any impact in Q4 or do you expect it in the coming year?

**Rajesh Agrawal:** No in the Q4 there has been impact, in the month of February and March. But it was quite low, insignificant. And now in April, because of the benefit of WPI, we have been able to increase the prices by close to 11%. So, there has been an offset to that extent. The original price reduction done by the NLEM was in the range of 18% for Met XL. And we have been able to gain back around 11.3% due to the WPI. So, the net impact on us and the industry is about the difference of it.

**Kunal Randeria:** And just one last question for Arvindji. Arvindji, I am still not able to understand your freight cost escalation, three years back your freight cost would have been let's say 4% to 4.5% of revenue. Last year it was around 5.5%. And this time around you said there has been a 200 bps increase. So, it just seems that the impact on Ajanta is a lot more magnified than for the rest of the industry. Just want to get your thoughts on this?

**Arvind Agrawal:** It is very simple, you see as far as Ajanta is concerned, we are sending all our material in the refrigerated container, most part of it.

**Yogesh Agrawal:** 70% of it.

**Arvind Agrawal:** See if the proportion of our sales is skewed towards exports so naturally freight plays a very important role in our expenses.

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

**Bharat Celly:** I just wanted to understand on 25% margin. So, I believe a large part of that benefit went into freight which we talked about like 2% point, as well as some part of cost related to key raw

material prices would have actually come down and benefitted in 4<sup>th</sup> Quarter as well. So, from the 4<sup>th</sup> Quarter, going towards a 25% seems a bit of aggressive one largely because we have seen some benefit this quarter, right.

**Arvind Agrawal:** Yes, but then I think you need to consistently see this whole year, you see quarter-to-quarter there can be variation because of product mix, business mix etc. but overall if you see the whole year it is 21% EBITDA margin which you can see. And with that 21% we are very confident that we should be able to recoup about 2% in COG.

**Bharat Celly:** But is it safe to assume that large part of the freight would have normalized in 4<sup>th</sup> Quarter?

**Arvind Agrawal:** Yes, to some extent not in January, but February and March yes, it has come down quite sharply.

**Bharat Celly:** And even the input prices, right.

**Arvind Agrawal:** Input prices, not much but earlier inventory holding was something which was at a higher cost, so the benefit of the reduced prices in that last quarter, I should be able to get only after May or June.

**Bharat Celly:** Second one actually on the U.S. market, we are seeing that there is a sharp decline sequentially. Is there any product which has seen extra competition or is it just general price erosion which has hit us, if you could explain that?

**Arvind Agrawal:** See I think you must have seen in the last quarter where Q3 we have already mentioned that there was major sale of the product Oseltamivir which was \$10 million. So, that is something which has gone away.

**Yogesh Agrawal:** That is a very seasonal product. It comes for the season only. So, if you take that out, we are at a running quarter trend which is what in the previous two quarters which you have seen, in fact it has improved from that. Our earlier two quarters were around Rs. 180 crore so this quarter we have done Rs. 200 crores in fact. So, there is a part of Oseltamivir also and the part of the existing run rate, both put together is Rs. 200 crore now.

**Bharat Celly:** Arvindji mentioned \$10 million relative to that product, right.

**Arvind Agrawal:** Yes.

**Bharat Celly:** During this quarter there was hardly any revenue coming out of that.

**Arvind Agrawal:** Yes, very small.

**Bharat Celly:** Last one, on the India market is it possible for you breakdown your growth in terms of pricing, volume and new introduction if that is possible.

- Rajesh Agrawal:** Yes we have that growth. So, the volume growth is 8% for us. And the price growth is 6% and the growth from new brand launches is 3%.
- Moderator:** Thank you. The next question is from the line of Bino Pathiparampil from Elara Capital. Please go ahead.
- Bino Pathiparampil:** Just a follow up on U.S., any updates on this Chantix product. Has FDA come back regarding the API query?
- Yogesh Agrawal:** Yes so we have filed all the required data information asked by the FDA. We are now given the target goal date of Q2 FY'24. So, if all goes well, we could expect approval and launch thereafter maybe in Q3.
- Bino Pathiparampil:** When you say you look forward to five launches in FY'24, do you include this as one of them?
- Yogesh Agrawal:** We are looking to launch five products around five products; this is one of the five products.
- Bino Pathiparampil:** Any other limited composition product that could be part of that five?
- Yogesh Agrawal:** Yes, there are one or two products limited composition but slightly smaller products.
- Bino Pathiparampil:** We got approval, tentative approval for this Topiramate recently, so is that a near term launch or is it a couple of years away?
- Yogesh Agrawal:** Yes, it is further ahead. It's not in the FY'24.
- Moderator:** Thank you. The next question is from the line of Akshat from Multi-Act Equity Consultancy Private Limited. Please go ahead.
- Akshat:** So, I have this question on employee cost, if you could quantify the amount of regrouping that we have done in employee cost. And whether the entire amount has been done in Q4 or we have done some regrouping in the earlier quarter as well?
- Arvind Agrawal:** No, the entire regrouping was done in Quarter 4. And the amount is Rs. 27 crore.
- Akshat:** So, out of Rs. 224 crore, Rs. 27 crore is the regrouping. So, the balance Rs. 197 crore, just wanted to understand whether the MR addition that we have done, in the exit quarter, full impact of all the MR addition would have come. So, going ahead, the absolute amount of employee cost should not grow significantly.
- Arvind Agrawal:** No, there is some addition still going on.
- Yogesh Agrawal:** Smaller addition, but more or less, I think most of it is baked in into the Q4. What you will see is normal incremental, you know yearly increment cost which will come in now. But current

year we have seen a significant increase in the manpower cost which is over 20% or so. So, I think that kind of increase will not be there.

**Akshat:** My one question was on the COGS; see now we are very confident of recouping 2% gains in COGS. You also mentioned that already in Q4, some of the raw material prices have already corrected and that would already be in the Q4 exit quarter base. So, wanted to understand what gives us confidence to get back this 2% on a full year number, which on a Q4 basis looks like a 3% improvement in raw material cost that we will have to do. So, if you could just break this 3% up in different factors of improvement, how much will we get from price hikes or from a reduction in price erosions, and from raw material cost going down?

**Yogesh Agrawal:** Two factors, one is that there was some inventory which we were carrying, which still was there which we are depleting in the Q4, that was one part of that. And the second part of it is if you see the Branded Generics composition in the Q4 it came slightly lower because of the Africa business being slightly depressed, which is a high margin business for us. So, that one factor also impacted the EBITDA in Q4.

So, next year onwards, once we come back on track on the Branded Generics Africa again to the normal level and the inventory depletion of the higher cost getting through in the Q4. Both put together, we are still reasonably confident and we should be able to bounce back to the improvement, we could take out 2% there.

**Akshat:** This 25% EBITDA that we have been discussing that we are looking more from an exit quarter perspective or from a full year point of view?

**Arvind Agrawal:** Full year point of view.

**Yogesh Agrawal:** And also, it would be important to mention here. I think we have to look at our full year story for the next year. There could be variations quarter to quarter because in the export business, unlike India where the supply chain is very tight and the transfer happens within three days. In export it is a longer logistic lead time for the inventory. But we are talking of all these guidances for the whole year, but I think there could be some variable variations, quarter-to-quarter.

**Akshat:** One last question, if you could elaborate a bit on the Franco Africa issue so that we could understand what has led to a significant decline in the Branded Africa piece?

**Yogesh Agrawal:** It has been the, the export happens through France and because of the pension, that strike which has been going on for a long time, the supply chain has been disrupted there. There has been lot of backlog of the containers being received and forwarded onwards so that kind of choked the supply chain there a little bit, which we are seeing now it's easing out now.

**Moderator:** Thank you. The next question is from the line of Rashmi Shetty from Dolat Capitals. Please go ahead.

- Rashmi Shetty:** Just on U.S. business on the Vivomo approval if you can just update, because we were just waiting for the EIR on the Dahej plant to get the approval so have we received approval on this product?
- Yogesh Agrawal:** Yes, we have received the approval for that. And we are in the process of launching that product, we are at advance stage and our stocks have reached U.S.
- Rashmi Shetty:** So, we are expecting to launch in the 1<sup>st</sup> Quarter.
- Yogesh Agrawal:** Yes, absolutely right.
- Rashmi Shetty:** And how do we see competition over in this particular product?
- Yogesh Agrawal:** It's a good product to have, I think it's going to be positively added to the top-line and bottom-line.
- Rashmi Shetty:** On Topiramate have we settled the litigation or we are still under the litigation.
- Yogesh Agrawal:** No, we have settled the litigation now.
- Rashmi Shetty:** And just last question, if you can give total number of MRs as on FY'23, how much is it in India, Asia Branded and Africa Branded business?
- Yogesh Agrawal:** So, I think India is Rs. 2,800 and Rs. 1,300 in the export markets.
- Rashmi Shetty:** Asia and Africa Branded.
- Yogesh Agrawal:** Yes, all put together.
- Moderator:** Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.
- Tushar Manudhane:** So, this Africa issue is now, just to clarify is it more or less sorted and we will see recovery immediately in Q1 or would be there few more months for the Africa Branded Generics business?
- Yogesh Agrawal:** So, that will ease out, it is by and large streamlined to the maximize extent so we don't expect that going forward in the Q1.
- Tushar Manudhane:** And secondly on the other expenses side, like Rs. 260 - 270 crore with maybe like 4% to 5% sort of year-on-year increase is that the sort of quantum which one should expect for FY'24 or do we see meaningful increase in the other expenses?
- Arvind Agrawal:** This Rs. 268 crore was the lowest actually if you see, the total for the year is about Rs. 1,124 crore.

- Tushar Manudhane:** But then there is this regrouping no?
- Arvind Agrawal:** Yes, so Rs. 1,124 crore is after the regrouping. So, if you really see that Rs. 1,124 crore and then you know like that Rs. 1,124 crore should really go to about Rs. 1,300 crore or so. So, I think we should be talking about what, Rs. 320 crore to Rs. 325 crore.
- Tushar Manudhane:** So, what would drive this increase in other expense?
- Arvind Agrawal:** Basically, I think sales and promotional expenses will be the major one.
- Tushar Manudhane:** Rs. 200 crore almost.
- Arvind Agrawal:** Yes.
- Yogesh Agrawal:** Plus, regular inflationary increases which will be there, overall the cost goes up every year.
- Arvind Agrawal:** Basically, like all the cost are there, administration cost, other manufacturing cost. All those costs are also having an increase.
- Moderator:** Thank you. The next question is from the line of Abdulkader Puranwala from ICICI Securities Limited. Please go ahead.
- Abdulkader Puranwala:** Just if you could clear some outlook on the India business and how do you see volume growth panning of for next year as well as what are the kind of launches you would be doing next year, some color on that please?
- Rajesh Agrawal:** For the launches we won't be able to share the sensitive data at this point. But we have couple of good product launches lined up for the domestic which would be first time in the country. Going back to your earlier one, we are expecting a growth of low double-digit. The industry is expected to grow between 8% to 9% based on the various reports, we are yet to see how the growth is reported for the 1<sup>st</sup> Quarter in IPM. But more or less if it is 8% to 9%, our objective is to grow at low double-digit growth, which would still be much faster than the IPM growth rate. And the composition will again be driven by volume growth as well as the price increases. The new brand launches growth will be little lesser than the previous years.
- Abdulkader Puranwala:** One more question on the margin front, so I get it, we are guiding for 25% kind of EBITDA margin for FY'24, but I mean how do we look at our businesses now in next three to four years is 30% plus kind of an EBITDA margin still you know seem to be achievable on the current set of products or we would settle down on somewhere below that in the next three to four years?
- Yogesh Agrawal:** It should keep on increasing every year with the depth of the business, new product launches Branded Generics composition going up. So, it should inch up more than from the 25%, it should inch up, keep going up every year, we believe. Whether it reaches 30% and when it reaches 30% is to be seen.

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

**Harsh Beria:** I had a question about our employee cost, and it's been 24% to 25% of sales, isn't it a bit too high for the kind of business model we are in like most of our peers in this same line of Branded Generics business, would have somewhere around 19% to 20%. So, my question is, is this because we have invested a lot upfront in the last couple of years and this growing sales this way down to 19% and 20% or will they stay at these levels.

**Arvind Agrawal:** One thing you should remember, one is that as I mentioned earlier also. For the whole year, our employee cost is 21%. If you calculate it is 21% for the whole year FY'23. It is only in Quarter 4 that there was some reclassification and also sales was down because of which you are seeing it as 25%. But actually, for the whole year it is 21%. And we expect this to remain in that range.

**Harsh Beria:** My next question is, there was a lot of discussion on our margin, so it seems from all the commentary that this quarter has seen the lowest possible margins, and going forward, we will start seeing improvement in our margins, is that a correct understanding?

**Arvind Agrawal:** Absolutely correct understanding.

**Harsh Beria:** And my last question is on our U.S. business, so in the earlier quarters we have had discussions about capital allocations. However, U.S. being a slightly cyclical business, now that we are going through, like we have gone through a very bad down cycle. Why are we not being more aggressive on pursuing growth, if we are assuming that prices have bottomed out, and we have good product approvals, why are we not being more aggressive. Like what will take us from the \$100 million run-rate to the next level of \$150 million to \$200 million in U.S.

**Yogesh Agrawal:** Just because of the nature of business, it can go up in short term let's us say assuming if the competitors people pullout the products, there could be a for a short period demand for the products. But then again in two to three years, it becomes like a commodity kind of market. So, again it could be players coming in and the price erosion happening, significantly, so that is the reason.

We are being very cautious on making the capital allocation on the product selection. We want to be sure that the products we select and the money we spend on it, has as reasonably good chance of succeeding and making money. So, that's the only outlook. We are being cautious, be optimistic; not very, you know we are still continuing with our program for filing the products for the next year and a year after, just the numbers have reduced.

**Harsh Beria:** And we want to maintain so as a percentage of our consolidated sales, what is the ideal U.S. contribution for us?

**Arvind Agrawal:** Today it is 22%

**Harsh Beria:** And we want to keep it around that or do we want to take it up to 30%, at some point.



**Yogesh Agrawal:** I think it should remain in the same percentage around maybe a percent few up and down, but it will remain in the same vicinity.

**Moderator:** Thank you. The next question is from the line of Mitesh Shah from Nirmal Bang Securities. Please go ahead.

**Mitesh Shah:** My question is regarding the margins till FY'18 your margins would be above 30% and then been continuously coming down. Actually, you know couple of reasons might be because of the sharp U.S. price erosion and your new plant commissioned, that was dragging the margin, I was expecting that now utilization would be improving, margins would be improving. And going forward also you expect you are normalizing the price erosion. So, why we are not able to expect the 30% plus margins in next couple of years which we have achieved already in '18?

**Arvind Agrawal:** Agreed, we have achieved it, but if you see really, you know in '18, it was 31%, but after that it was 27%, 26%, 28%. So, you know like it is hovering in the range of 27% to 28%, but it is not beyond that. Because as you rightly said as the whole business was rebalanced, the U.S. business came in as a bigger component compared to what it was in 2018. And naturally all these things also have its own impact. Manufacturing facility is like what do you only said, you know that new facilities have come so cost has gone up, all those aspects are there.

So, I think 27%, 28% is something which we are really always being talking about and that's why we gave you elaborate reconciliation from 28% to 21% this year, that 7% very clearly we gave you a very clear reconciliation, how it has happened. And out of that, now we are expecting that at least in 2024 we will be able to recover about 4%. Now balance 3% how we will be able to recover, when we will be able to recover, we are 100% sure that we will recover. The question is, when, you know how fast it can be. And that is something which I think we will not be able to say today, but as MD mentioned it will be continuous improvement every year. We are going to see higher EBITDA margins, year after year continuously, now going forward.

**Mitesh Shah:** I agree with you, but I again fail to understand that the new plant commissioned and after three, four years you are not able to achieve that kind of margins, initially definitely it would be higher cost. And again U.S. I think if you are expecting a single digit kind of growth it would be coming down in a overall contribution and definitely the price erosion are coming down again. That could be some mismatch which I am expecting?

**Yogesh Agrawal:** I think the OPEX cost of manufacturing facilities it is here to stay, 2% increase in the RMPM cost because of the circumstances beyond our of control are here to stay. What can one do about it? What can you do about 2% freight going up? So, these are the cycle which are beyond our control. Earlier we were low on the OPEX, because we are very light asset, we had lot of contract manufacturing that had limitation. And the fact that we put this facilitate to get better control on the quality, supply chain, scaling up of the business of the future, this cost got baked in.

So, I get a feeling that 30% is a wrong benchmark to put. I think we should benchmark us against the industry, where we are still much better, with 28%, 26% EBITDA also, I think we are in the

top tier of the companies. So, I think that will be the right benchmark for you to kind of calculate again sir.

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

**Harsh Beria:** My question was about the M&A opportunities we were looking for in our domestic market, is there any development on that front given how many acquisitions in case we are seeing in the market?

**Arvind Agrawal:** Honestly, we have not found anything so far, though we keep on evaluating every opportunity in the market. We are you know looking actively for that. But honestly, there is no clear opportunity at this point of time, which is there in front of us, but we are certainly open.

**Harsh Beria:** And is it largely because we are more value conscious by purchasing brands or doing inorganic expansion?

**Arvind Agrawal:** Definitely, I think we are not in a hurry to just pay any price just to acquire or to increase the top-line. But we are very conscious about it. We are definitely conservative. The question is, what is the right price? And how we can add value? That is what we really see. And that is what will drive our M&A.

**Harsh Beria:** My next question was about our Trade Generics business so now we are already at Rs. 40 crore plus quarterly run rate. So, this would imply an annual run rate of Rs. 160 crore, is this business line EBITDA positive for us? And how do we see this business going forward, this has been the fastest growing business in our business mix?

**Rajesh Agrawal:** Yes, it is EBITDA positive. And you are right, it has been, it has grown very well. In fact we have outraced, outsmarted everybody else who has been in the segment for far too long. We have done exceptionally well in the last three odd years; we have ramped up the business to this scale of Rs. 150 crore odd. Going forward I am expecting low double-digit growth for the Trade Generics business. Within this business also, our product portfolio is slightly more skewed towards the chronic nature of products as against the industry which is more than 90% acute or around that. We are slightly better placed than that, intentionally so. So, going forward I think the growth rate should normalize. Our objective for the next year is to grow in the low double-digit also, in line with the India business.

**Harsh Beria:** My last question was about our capital allocation, so unless we see very high, very good ROIC, CAPEX plans we will be returning most of the incremental free cash flows that we generate to the shareholders like we have been doing for the last couple of years?

**Arvind Agrawal:** Yes, absolutely right.

**Harsh Beria:** And I would like to really appreciate this viewpoint of management, not a lot of companies do this, and I feel this is a very judicious use of capital, so thanks for that.

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

**Yogesh Agrawal:** Thank you everyone for joining this call. In case if there are any further questions that remain unanswered today, please reach out to our Investor Relations team. Thank you so much.

**Moderator:** Thank you. On behalf of Ajanta Pharma, that concludes this conference. Thank you for joining us, you may not disconnect your lines.