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Dear Sirs,

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith transcript of our Conference Call which was held on Thursday, 13th Ferbuary, 2025 to discuss the Company's Q3 FY25 earnings and business update..

Thanking you

Yours faithfully
For Ipca Laboratories Limited

Harish
Pandurang
Kamath

Digitally signed by Harish Pandurang Kamath
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Harish P. Kamath
Corporate Counsel & Company Secretary

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"Ipca Laboratories Limited

Q3 FY25 Earnings Conference Call"

February 13, 2025

MANAGEMENT: **MR. AJIT KUMAR JAIN– MANAGING DIRECTOR – IPCA LABORATORIES LIMITED**
MR. HARISH KAMATH – CORPORATE COUNSEL AND COMPANY SECRETARY – IPCA LABORATORIES LIMITED

MODERATOR: **MR. NITIN AGARWAL – DAM CAPITAL ADVISORS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Ipca Laboratories Q3 FY '25 Earnings Conference Call hosted by DAM Capital Advisors Limited. 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 call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is been recorded.

I now hand the conference over to Mr. Nitin Agarwal from DAM Capital Advisors. Thank you, and over to you, sir.

Nitin Agarwal: Thank you, Muskan. Good afternoon, everyone, and a very warm welcome to Ipca Lab's Q3 F '25 Post Results Earnings Call hosted by DAM Capital Advisors Limited. On the call today, we have representing Ipca Lab management, Mr. Ajit Kumar Jain, Managing Director and Mr. Harish Kamath, Corporate Counsel & Company Secretary. I will hand over the call to Mr. Jain to make the opening comments and then we'll open the floor for questions. Please go ahead, sir.

A.K. Jain: Thanks, Nitin and DAM Capital for organizing this call. Today's call and discussions and answer given may include some forward-looking statements based on our current business expectations. This must be viewed in conjunction with risks that pharmaceutical business face. Our actual future financial performance may differ from what is projected and perceived. You may use your own judgment on information given during the call.

The domestic formulation business has delivered around -- a growth of around 13% for the quarter. On MAT December '24, Ipca is ranked as 16th company as per IQVIA and its fastest growing among the top 20 players. Ipca continued to improve its market share. There is an 11 basis point improvement in market share in this particular quarter from 1.95 MAT market share at December '23 to 2.05% on MAT December current financial year.

Six brands of the companies are among the top 300 brands in the country. And both on acute and chronic market segment, we are delivering better growth compared to the market. Overall pharma market in this quarter has grown by around 7.4%. IQVIA is tracking our growth at 11.4%. On acute segment, market has grown by around 6%. Our growth is tracked by IQVIA as 8.7%. And on chronic segment, IPM growth is around 9.7% and in this period, we have grown by around 17.1%.

Overall, our formulation business has delivered a growth of around 6% for the quarter and API business has also delivered a growth of around 12% for the quarter. If you look at our standalone Q3 FY '25 EBITDA margin, it is at around 24.25% as against 18.52% in Q3 FY '24. There is an improvement of almost around 5.73%. If you look at 9 months basis, we have delivered an EBITDA of around 23.14% as against previous year 9 months of around 19.55%.

There is an improvement of almost around 3.59%. And overall guidance for the year was around 21%, but for whole of our financial year our EBITDA is likely to remain in the range of around 23% to 24%. Overall, on consolidated EBITDA margin basis for Q3 FY '24 is at around 19.87% as against 16.1% in Q3 FY '24. There is an improvement of around 3.77%. And if you look at 9 months basis, it's around 19.18% as against 17.34% in the previous financial year. There is an improvement of almost around 1.84%.

As against overall, our guidelines was around 18% for the year. As against we are delivering around 19.18%. And hopefully, 19.18% to 19.5% this is the range in which the overall consolidated margins would remain for the current financial year. So both on standalone and consolidated EBITDA margins are better than our guidelines for FY25.

Having given the broad numbers, now I'll request participants to ask questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Surya Narayan Patra from PhillipCapital (India) Private Limited. Please go ahead.

Surya Narayan Patra: Congratulations for the good set of numbers, sir. My first question is on the gross margin, sir. So I think the positive surprise in the quarter, what we are witnessing is in the gross margins. And if I see this is one of the highest ever gross margin number that we have seen for the quarter. What is driving this and how sustainable is this one, sir?

A.K. Jain: See, gross margin this particular quarter was exceptionally high mainly because the overall, let's say, turnover in this quarter has grown by around 10%. Material cost, there is a significant reduction, against 10% growth, material cost has come down by around 5%. So that is the impact.

And that impact is mainly -- we don't see any kind of reduction in the material pricing. More or less pricing are more or less here and there. There is hardly any change. So it's a certain kind of product mix improvement that is there, that has helped us with a better gross margin. And one another factor which has happened that last year in the same quarter, our ROW market business was very low.

It was around INR104 crores-or-so. And this year, it has grown by almost around 50%. It's only because some shipments here and there has happened in last quarter and that has resulted in the lower. But in this particular quarter, that number has come high. So that has also added to the -- overall to the margin because there, our margins are better, and it's the highest as a company as a whole in any business line.

So that has also helped in overall better margins in the current quarter. But there is a significant improvement is there. If you look at each quarter by quarter, our material cost ratios are continuously improving. If you look at the number on a standalone basis, in quarter 1 material cost ratio was around 28.9%, in quarter 2 it was around 29.59%. This quarter, it has come to around 27.62%.

And overall, for the 9 months, it is at 28.73%. So more or less, for the fourth quarter also, it will remain around 28.73% that's the kind of broadly around that 28% to 29% is the -- what is the overall. So -- and last year, for the first 9 months, this ratio was around 32%. So if you look at 9 months versus this, so there is almost around improvement of 3.37%. And so that improvement is there in overall in the current financial year.

So it's largely because of better product mix and our -- overall, if you see that our chronic portfolio has done well, we are delivering much better growth now, and we are beating the market on -- continuously on chronic also. So that is also helping overall in the margin improvement.

Surya Narayan Patra: Okay. And is it fair to believe, sir, even the turnaround for Unichem, that is also kind of playing role in the gross margin improvement here in the consolidated level?

A.K. Jain: Talking about standalone side, as far as Unichem is concerned, last year, around same time, they were having around 5% EBITDA margin. And now their EBITDA margin has also improved to almost around close to 12%. So that is also helping in consolidations to deliver the better margins.

Surya Narayan Patra: Okay. Sir, the second question is on the U.S. business front, sir. So could you give some color about the kind of the progress on the product launches from our portfolio, although now it has been included in the Unichem portfolio. And now considering the integration of this U.S. business in Unichem. So how should one monitor the progress of our U.S. business in Unichem? Because -- or in the light of that, are you going to give an upgraded guidance for Unichem, sir?

A.K. Jain: As far as Ipca portfolio in Unichem is concerned, let's say -- I would say that we have shipped around 4 products till now and almost around 7 to 8 products are in pipeline. So -- and mostly, the stocks has gone in the current quarter and end of last quarter. So nothing meaningful has happened as far as the overall consolidated numbers are concerned.

We have made shipments from here, but it will take some time for the market bidding and all that. So that process has just started. We have started winning some kind of the bids and all. So in the coming quarters, that will start reflecting. But right now, U.S. business doesn't have much of impact as far as our overall business is concerned currently because hardly any meaningful number has come so far, yes.

Surya Narayan Patra: Okay. Just last one question from my side. About the institutional business, in the light of all these funding issues by the agencies. So how should one think about the injectable business that we are having which was a kind of a promising business and a futuristic business opportunity what we're targeting through hormonals, so how should one think those potential business and the existing business in the institutional side?

A.K. Jain: As far as institutions are concerned, it's by and large, antimalarial business only. And I think in current scenario where U.S. has abruptly stopped the U.S. aids to the various programs. So we are still assessing their -- the impact of that. So currently, we have not heard from any institution any kind of cancellation of orders. But we have calculated our internal number that what kind of business on a year basis we were doing with, where the aids were given by the U.S. aid to the concerned donor.

So that business is around INR40 crores, yes. So how much of that will impact, right now it's difficult to say, but yes, that is the number which we have, which is relating to the U.S. aids business. And we didn't even know how much U.S. aid is giving funds to the global fund. So if global fund is also receiving the U.S. aid and how global fund will thereafter take up, that number is not known to us. So I will not like to comment on that. But there would be some U.S. aid to the global fund. So that is not known to me right now.

Surya Narayan Patra: Sure, sir. Thank you.

Moderator: Thank you. The next question is from the line of Shiva from Purnartha Investment Advisors. Please go ahead.

Shiva: Firstly, congratulations on a great set of numbers, essentially with respect to the margins. My first question is with respect to generics. This quarter, there was a slight bit of weakness. Could you just say any particular reason or what was the reason behind that kind of slightly lower numbers in generics?

A.K. Jain: By and large, this lower generic numbers are mainly because of South Africa. We were doing a business of around INR120 crores in South Africa in a year. I think this year, the number maybe around INR40 crores-or-so. So there will be almost around INR80 crores kind of -- INR75 crores to INR80 crores kind of decline in South Africa business because of some tender orders are lost and all those kind of things are there.

But we are working on next year's plan, and there will be significant improvements are likely to be there in South Africa business in the next financial year. But in current financial year, that's the one reason that which has overall impacted our overall generic number.

Shiva: And with respect to Unichem, obviously, there was a steady progress and the margins have done way better than expectation. So I just wanted to understand for the next 1 year how are you looking at -- because the margins have improved better than what we have expected during the acquisitions time. So how are you looking at Unichem's growth and margin for the next 1 year or what are the kind of the levers that have you played and what are left, if you could give more color to that?

A.K. Jain: So right now, all the improvements, which is coming is basically the improvement in operations all. It's synergetic benefits and your -- extending the product range to other markets and other developed markets and all. That's a little long-term game. So right now, it is basically all improvements what we could brought about in the overall in Unichem's operations and buying efficiencies we have created, that is what is reflecting in their overall margin.

And we are also asking our U.S. team to be a little more aggressive and all, and we are monitoring that part. And we see a much better business which is coming now in U.S. also.

And overall, it's basically improvement in operation that has got the results right now and a long way to go, I would say that, the margin will keep on improving as far as Unichem is concerned.

A lot of work is happening on API side. It's in work in progress because the API efficiencies are one where it will also reduce the captive consumption cost and also right now, Unichem is not able to sell the APIs to, let's say, the Indian market or other markets where the -- more of the price-sensitive markets and all that is because their overall production cost is higher.

So they are mostly consuming the API for their own production for U.S. and all. So once we start improving efficiencies on that and all. So that will also bring a lot of continuous improvement. And these improvement numbers will start reflecting in the next 1 or 2 quarters because one of their -- the bigger plant, which is likely to be operational maybe in the next quarter somewhere.

So that will start reflecting after a quarter-or-so once the regulatory approvals and all start coming in, filing happens from there and some kind of -- once they start captive consumptions of those materials, the cost of API production will go down. So there will be continuous improvements will happen in Unichem's operation further.

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

Tushar: Sir, just extending your comment now with backward integration of Unichem's formulations and subsequently, chronic share increasing in India formulation business. Qualitatively, at least, if you could share, compared to FY '25 consol EBITDA margin, what kind of margins one can think for FY '26?

A.K. Jain: So right now, the budget exercise is going on. So once the budget numbers are finalized and overall -- so normally, we give those kind of guidelines along with our -- the first quarter -- last quarter results. So around that time, we will give the guidelines. But I would say that the margins are improving and will continue to improve, but the guidelines we will be able to give along with our annual results.

Tushar: Sir, secondly, just on the API products portfolio level, is the inventory now more or less getting normalized at industry level or we are still seeing pricing pressure?

A.K. Jain: Right now, we have not noticed any kind of pricing pressure. Somewhere some solvent prices have moved, other solvent prices have come down. I think on the chemical side, there are hardly any kind of movement. And intermediate side, we have seen slight improvement in few, but we have seen reduction in many more.

So overall basis, I would say this is a neutral. And I don't foresee that in next 2 quarters also, there could be any kind of further improvements in the overall, let's say, increase in the prices. So more or less the similar trend will continue.

Tushar: And just lastly, the effective tax rate, how much you think about for full year '25?

A.K. Jain: Overall tax rate for us is 25%, but some kind of disallowances on CSR and also on the marketing cost and all wise, I think overall tax will remain around 27% to 28% kind of thing.

Tushar: All right. Thank you. That's it.

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

Nitin Agarwal: Sir, on the generic business, sir, can you provide an update on the EU and the U.K. market? How have they sort of done so far in 9 months and how are you looking at it going forward?

A.K. Jain: Overall, U.K. was also very fiercely competitive market. So overall, I think U.K. numbers are muted more or less in the line with what we had previous year 9 months. So it has not grown. EU numbers is -- we had good growth in EU. So around 14%, 15% is the overall growth there. But overall, South Africa is a little down, and also Australia and New Zealand numbers are down.

Australia numbers are down mainly because of some supply chain issues on ACI, which we were using for formulations. So now that issues are resolved. So in this quarter, Australia numbers have improved, and I think overall in next quarter also those numbers will improve. So that's the broad reason for overall lower growth on generic side.

Nitin Agarwal: And then looking forward, is the U.K. business, how are you look -- because we were expecting a turnaround in the business that I think is coming slower than expected, so how are we looking at the business now, sir, when you look at -- take a 2-year view on the business?

A.K. Jain: Let's say, I think second quarter was very bad. But third quarter onwards, the prices have again started improving there and business has started improving overall. And I think we have a lot of launches also in pipeline. So I think in U.K. numbers, we will see around 15% to 17% kind of overall growth in next financial year.

Nitin Agarwal: And sir, Europe will continue to grow at these double-digit growth rates?

A.K. Jain: Yes.

Nitin Agarwal: And then lastly, on branded formulations, what was -- what drove such high growth this quarter?

A.K. Jain: It's only, let's say, last quarter -- last year on the same quarter, the number was very low because the shipment in that quarter was low. And now it has come to the normalized level. So this quarter's number is broad -- more or less is similar to the plus/minus 5%, 7% compared to the other quarter.

So more or less, that impact is a onetime impact because the number of last quarter -- sorry, Q3 number last year was low, so it's appearing to be high growth. But overall, on this promotional market business, we are looking for around 8% to 9% growth for the whole of the financial year.

Nitin Agarwal: Okay. And sir, lastly...

A.K. Jain: And gross number is looking muted is also because of your depreciation of rouble.

Nitin Agarwal: And then lastly, on the API business, sir, how should we now think about the API business going forward?

A.K. Jain: 8% to 10% growth.

Nitin Agarwal: And sir, the newer capacities in both Dewas and all, Dewas have come through now, they are -- you start using the Dewas capacities?

A.K. Jain: Yes, Dewas capacity we have started already, yes. But capacity utilization is around 35%, 40%. So it is still too -- because a lot of regulatory approvals has yet to come and inspections are pending. So once that happens, then capacity utilizations will pick up.

Nitin Agarwal: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Surya Narayan Patra from PhillipCapital (India) Private Limited. Please go ahead.

Surya Narayan Patra: Yes, sir. So this is an extended question about APIs. In fact, sir, API export particularly, that was one of the key earning driver also for us for a longer period of time because of our cost effectiveness there. But if I see that, okay, during the COVID period, the kind of run rate, what we have been seeing even after 4, 5 years, we have not touched that number.

So obviously, there was the issues post the impurities in the couple of key APIs, what we've seen from the U.K. side, post that we have seen there is a kind of a moderated performance only. So if you can give some sense of what is currently -- or which are the key products which are currently the drivers? And going ahead, what should drive the growth for us?

Whether it is a new product or it is a new capacity that will drive the APIs? Could you give some sense about the API portfolio as a whole and the export market particularly?

A.K. Jain: Let's say, on COVID period, the major -- the API business buildup was around chloroquine and hydroxychloroquine because they were required for COVID and that has also came with good pricing and all. So that has given overall high numbers around that time. And subsequently, we have faced the problem on certain business. So that has resulted in overall lower growth and also, we were carrying higher inventories and -- which were at higher intermediate pricings and all.

And pricing has slashed down to around from $100 level to almost around $40, $50 level now. So around $50 now. So that has also resulted in overall turnover number coming lower on that account and prices of intermediates also of those API has significantly declined.

So that has resulted in overall lower number. And overall portfolio-wise, we are also adding the APIs and also on portfolio approach now all these things are of things of past, we also lost a significant business in Iran. We were doing almost around INR75 crores, INR80 crores kind of business in Iran.

And today, that business is 0. So that has also resulted in overall lower -- because they don't have dollars or currencies to pay and therefore, that market, we are not able to sell anything right now. So that business has also come down. So that consistent business what we have on Iran is no longer there with us. So that has also impacted overall business. And now since portfolio is also increasing and we have Ratlam capacity, by and large, the incremental capacities will be used for our U.S. captive consumptions and all.

Dewas capacity is available and all that will result in around 8% to 10% kind of overall API business increase. More specific numbers I'll be able to give after the -- along with the fourth quarter number, where -- after our annual budget exercise is complete, and we will be able to give the proper guidelines on that.

Surya Narayan Patra: Is the Sartans still kind of the largest product segment for our API business, sir?

A.K. Jain: Yes. Individual number-wise, yes, this is giving the highest growth, yes, highest overall number. But -- and we are also seeing that with even volume numbers going up, overall, your sales number is not moving up. Some market prices have started moving up. But overall, on a mix basis, I would say that number is still muted, yes.

Surya Narayan Patra: Okay. Just on the U.S. business side, from the perspective of Unichem, now since they are having the integrated operation at their end, so we know that pre-acquisition, it was loss-making business because of the whatever, kind of not so significant integrated portfolio as well as not so complex generic products there in the portfolio.

So here onwards that Unichem as a whole, it's a kind of significant chunk of the consolidated business. So going ahead, what is the strategy there for the U.S. business on a consolidated basis and how should one think about that, particularly regards to U.S.? Also considering the concern of the tariff and all that, so how should one really position about Unichem's larger portion of the business, which is U.S.?

A.K. Jain: So if you look at Unichem business, the product portfolio is of the order products only, and they are continuously launching 3 to 4 kind of new products every year. And probably in the next few years, at least 5 to 6 kind of launches can happen year-on-year on Unichem's portfolio, and Ipca portfolio also the launches would happen.

With consolidation with Unichem the business overall, so what kind of expenditure -- duplicate expenditure was there that we have already eliminated and that benefit has started coming because standalone Bayshore was having this again marketing operations and cost, and they were not able to recover those costs because business operation around that time and when we were not having FDA approval.

So that cost was a burden. So that cost has gone up -- gone out now because Unichem already has those kind of people and they don't need to hire additional people to do the Bayshore and also Ipca business. So that is resulting in overall in operational cost decrease for us.

Surya Narayan Patra: Okay. And just last one, sir, about the subsidiaries. How do see you their performance...

Moderator: Sir, I just request you to rejoin the queue, please.

Surya Narayan Patra: Sure.

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

Gagan Thareja: Sir, the first question is on the gross debt levels. If you could give out the gross debt levels and how should we think of it going ahead?

A.K. Jain: Overall, I think gross debt is around INR900 crores in the balance sheet for Ipca standalone. And we have almost around INR600 crores of cash. So net of cash, we have around INR300 crores kind of debt overall, cash what is available with us. And I think next financial year, practically that number will become nil because debt repayment and all, overall cash holding and if you see, net debt would be practically zero.

Gagan Thareja: Sir, this is on the standalone level, on the consolidated level?

A.K. Jain: Standalone level.

Gagan Thareja: On the consolidated level, what could be gross debt be?

Harish Kamath: Consolidated level, there are hardly any borrowings in Unichem. It's not a -- maybe less than about $12 million, $13 million -- $30 million overall.

Gagan Thareja: All right, sir. And on -- can you also give the salience of Zerodol and its line extensions in your domestic portfolio? And how have -- how has that franchise grown for you year-to-date? And what do you think of that particular brand going forward?

A.K. Jain: Overall, if you look at the pain portfolio, overall for the first 9 months of current year, on pain portfolio, we have grown by around 14%, which includes osteoarthritis and rheumatoid arthritis both. So in both the market segment, we have leadership and that portfolio has grown by around 14%. So that portfolio continues to do very well for us. But certain markets like antimalarial this year has not grown, so practically zero growth on there.

Antibacterial have just grown by 1%. Cough and cold has grown by 4%. So these are the portfolios where we have lagging. Our cardiovascular portfolios are now doing better. Our urology, then dermatology and nutraceuticals and also gastrointestinal portfolio, they are doing better. So overall, we have around -- if you look at first 9 months of current year, on overall portfolio, we have around 12% internal growth.

Gagan Thareja: Okay. And on the subsidiaries, if you could give some flavor of the subsidiary performance both at a P&L level and also at a balance sheet level, if some details can be given out?

Harish Kamath: Except Pisgah and our associate company Krebs, other all companies are profitable as on date. Bayshore, as Mr. Jain has said, we were incurring losses because of administrative costs that has gone from the -- our books now. So only Pisgah and Krebs are little cause of concern. Other than that all subsidiary and associates, there are profit in the consolidated level.

Gagan Thareja: Okay. All right. But potentially, there would be room for further improvement in margins in all of those?

Harish Kamath: Yes, definitely, definitely. Everywhere, there is potential room to improve margins. Especially Pisgah, we are working on long-term plan and all, it should turn around in a couple of quarters.

Gagan Thareja: Okay. Thank you, sir. I will get back in the queue. Thanks for taking my questions.

Moderator: Thank you. The next question is from the line of Pulkit Singhal from Dalmus Capital Management. Please go ahead.

Pulkit Singhal: Congrats on a good set of numbers. My first question is on the U.S. portfolio for Ipca that's going to be marketed by Unichem. What is the potential revenue opportunity for you over the next 3 to 5 years as per your own estimation, a rough range?

Harish Kamath: See, before our U.S. FDA issue started, maybe in the year 2012-'13, when exchange rupee-dollar was about INR60, we did about INR250 crores formulation business with about 10 products. So out of those 10 products, we have just manufactured and shipped 4 products. Few other products are on the verge of getting manufactured. So gradually, we will build our business through Unichem on those initial products, which were earlier selling in the market -- in the U.S. market. .

And we have very good cost benefit because of backward integration, our own API and all. In most of those APs, I'm also maybe one of the largest manufacturers in the world.

Pulkit Singhal: Understood. So the level you crossed, let's say, INR100 crores or INR200 crores of size, what kind of percentage margins are then recorded at Unichem level for the marketing?

Harish Kamath: Unichem, whatever -- see, earlier also we were doing business through marketing partner. Those marketing partners are now replaced with the Unichem. There is a formula for sharing profit, for sharing cost of distribution, everything is on paper. It will be beneficial to both Unichem as well as Ipca.

Pulkit Singhal: Yes. I'm just trying to understand what is the dilutive effect it has because Unichem is at...

Harish Kamath: We have not spent any money for doing business. Whatever plans earlier we were manufacturing U.S. products, they were as good as not manufacturing anything. Then we started gradually using them for other markets like Europe and all. In spite of that, their capacity utilization was very less.

Once we do progression in our U.S. business through Unichem, whatever overhead recovery will also improve. That will also indirectly benefit me as well as my API additional production. So all those benefits will come over a period of time as and we go on improving our U.S. business.

Pulkit Singhal: Understood. And when it comes to Unichem's own facilities, I think they are at 50% to 60% utilization. Is my understanding correct?

Harish Kamath: That is also gradually improving. Goa, too, which was newly commissioned, there also they have started gradually ramping up the production. So all-round improvement is there in the Unichem productivity also. That is also one of the reasons why operating cost is coming down because of higher production. So all verticals, wherever operational efficiency can be encashed, everything is being worked on.

Pulkit Singhal: Understood. And sir, in how many years do you see that you would be almost fully utilizing the Unichem facilities...

Harish Kamath: So next 4 to 5 years, I don't think they will need any further capacity other than routine capacity improvement plans and all. And whatever API they want to produce going forward that capex is already happening at Pithampur API site. Formulation, they have adequate capacity available. So API there were a little bit bottlenecks, which are being now addressed.

Pulkit Singhal: Thank you for answering my questions. All the best.

Moderator: Thank you. The next question is from the line of Tushar from Motilal Oswal Financial Services. Please go ahead.

Tushar: Sir, just again on Unichem, given that they are also now primarily into U.S. business and Ipca also has. So any thoughts on sort of merging Unichem along with Ipca?

Harish Kamath: No, no. There is no currently any such plans. But the product folio of Unichem and Ipca except few products which are common, rest are all different products. And as Mr. Jain has said, we are already having a plan to take their products to other markets they were hitherto not present, Australia and New Zealand, most of the Europe and also ROW market, that action plan is already on, product registration, document generation, all work is happening.

Tushar: And of course, the business-wise integration is very much happening, but then why to have 2 separate listed entities?

Harish Kamath: We have not thought on that so far. Just we are trying to now consolidate and improve Unichem performance. That is our focus.

Tushar: And sir, just secondly on domestic formulation, if you could share price volume new launches data for the quarter and for 9 months?

A.K. Jain: See one particular reason for not taking up consolidation is also because we are looking for a strategy of hedging. If anything happens to Ipca or anything happens to Unichem like we have burned our fingers in past, so we don't want that situation to have. And therefore, we are keeping quality and manufacturing everything separate. And -- so in the event of anything happening, you can produce product utilizing other capacities and all.

So business disturbance doesn't happen. And therefore, currently, there is no such idea of merging both of them. Because at the top of the mind of management is always there, that it should operate as a hedging for each other.

Tushar: Sure, sir. Sir, if you could address the domestic formulation questions, price volume, new launches.

Harish Kamath: Pardon, Tushar, what was your question?

Tushar: Sir, price volume and new launches for the quarter?

Harish Kamath: Most of the growth was because of volume. New launches are hardly anything. Price may be overall 5% to 6%, not more than that. And as you recollect, last year, there was hardly any price increase in NLEM products.

Tushar: Understood. That's it. Thank you.

Moderator: Thank you. The next question is from the line of Shiva from Purnartha Investment Advisors. Please go ahead.

Shiva: And with respect to margins at standalone level, just wanted to understand going ahead, how do we -- I mean, are there any other, as you said raw materials, we did not get much of but you're saying it's only by the mix. So how do you look at going ahead? Is there any other operational levers at standalone level that we can show any improvement or you feel these kinds of more improvement will be slower?

Harish Kamath: Other than material cost, there was some increase in manpower cost because of addition of people. So as you recollect, the last 1, 1.5 years, we have added a lot of people in the domestic market. Now they are slowly becoming productive for the company. So going forward, there will be some benefit out of growth or they will bring. So overall, our guidance stays going forward also maybe next 3, 4 years, 100 to 150 basis point margin improvement should come.

A.K. Jain: See, normally, our material costs used to be around 20% of overall sales. Currently, it is around 21.5% or near about, it's largely because of addition of people. And a lot of those additions, which we have made in the past are yet to become productive. They are -- because it takes time, somewhere in normal therapies, it takes around 3 years' time.

Chronic is sometimes it takes a little more. So some of the people have -- a few divisions has become productive in very second year. But on chronic side, whatever numbers we added, that is yet to become productive. And as their productivity moves up, we'll have overall good set of numbers.

Currently, in current financials, we are seeing that permanent productivity has gone up by almost around 20,000, on an average on a total around 6,700 people. So that's overall productivity improvement in the field. And this productivity improvement will keep on happening because we have added a significant number of people in last few years.

Shiva: Okay. So to understand correctly, if there is no much change in the raw materials, the most of the production or the margin benefit will flow through from the employee cost is what you're saying?

A.K. Jain: Yes, employment cost also will happen, then overall -- since once U.S. business pick up, then capacity utilizations will also help in overall better improvement...

Shiva: Operating leverage. Okay. And you're saying about the MR. So if you could just give some details about the present MR and what is the productivity at an overall level and the 4 divisions, like 2 years ago, we made additional 4 divisions, how are their productivity?

A.K. Jain: Overall, I think we have around 6,700 people currently. And overall productivity per month is around 4,45,000.

Shiva: 4,35,000, for this quarter?

A.K. Jain: 4,45,000.

Shiva: This is for this quarter?

A.K. Jain: Yes, up to 9 months current year.

Shiva: Okay, 9 months. Okay. And how does that compare to the last year?

A.K. Jain: It was around 4,25,000 with 6,300 people. Currently, 6,700 and 4,45,000 per month.

Shiva: Okay. And what do you -- once they settle down what kind of number do they hit, I mean the new divisions? How will that look like once they settle down in 1.5 year 1 or 2 years?

A.K. Jain: Productivity each year, even if there is 300, 400 people additions will continue to have around 25,000, 30,000 average productivity improvements will be there, on a continuous basis. In terms of current improvement, what we are seeing in current year, that improvement will continue even after addition of people.

Shiva: Understood. And how is your initial experience? I mean you said that you've sent it to U.S. market last quarter, how was the initial feedback and how are you finding it right now in this quarter in hand?

Harish Kamath: See, Unichem team has already started bidding for the products in which we have a cost competency. So slowly and steadily, they are gaining orders. But it will take time because there are already other players in the market and the sellers are already tied up with other people. So it works on contracts, 3 months, 6 months. So as and when people come for bidding that time we participate. So there will be some gestation period from the day the goods is received and your sales commence. And then there will be a gradual progress quarter after quarter.

Shiva: And the growth guidance you're sticking with the guidance that you've given?

Harish Kamath: Yes. So it is in line with whatever we are expecting.

Shiva: Okay. Thank you. I will get back.

Moderator: Thank you. The next question is from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: On the EBITDA margin front, I think on a standalone basis, you are already 23%, 24%. Would it be fair that presume the domestic business margins are materially higher, if you can give some color given the fact that the employee productivities are rising, raw material prices have come down. Qualitatively, if you can talk about the profitability or EBITDA margin for the domestic business? And what are your expectations on that going forward?

Harish Kamath: See, Mr. Jain has already explained, the major reason for this number is because of product mix change. So if you see business wise, there is hardly any change in whatever we have been telling from the beginning gross margin-wise. So only business-wise, there are different margins and when the margins better business improves, the overall EBITDA and gross margin improves, it is that way.

And wherever there is better margin, those businesses, we are growing year after year. For example, domestic and branded formulation business, ROW market. Typically, they have the highest margin in the company's overall top line.

A.K. Jain: If you look at, let's say, current year, antimalarials has not grown. We have lowest margin in antimalarial. Antibacterial is also a low-margin business, that has not grown. It's just 1% growth. Cough and cold is also generally a low-margin business because it's all bottle packings and that cost of packaging is high on the products, so that business has just grown by 4%. All other products margin, business has grown faster and better where margins are better. So that is also reflecting in the overall EBITDA margin.

Saion Mukherjee: Yes. So basically, sir, what I was trying to get at is the fact that -- I mean, if I look at 23%, 24% margin, your business has API, institutional on the lower side and ROW India business are probably higher than the company average. So I'm just wondering if it is significantly higher or marginally higher than where you -- where standalone margins are, particularly for the domestic business?

A.K. Jain: Domestic margin will further improve. As the productivity improve, margins will keep on improving and margins are definitely higher.

Saion Mukherjee: And sir, the other question I wanted to ask is now since the businesses have stabilized on a growth path, what are the new areas the management is thinking about investing whether it is

India or U.S. if you can share any plans that you want to -- that you can share at this point on new initiatives that you are taking?

A.K. Jain: See, the new areas at number one is, let's say, we are leaders in pain management. And as far as the orthopedics and dentals are concerned, we have significant leadership there on those kind of products. And now we are trying to leverage those relationships and now started a new division called Flexicare for adding the people -- adding the product for which are used by orthopedics for other indications because pain is one area, but they prescribe a lot of other products.

So gradually, we are ramping up. Right now, division is -- we have just added around 150 people. Recruitment of people is going on. So maybe another 200 people will be added in. I think next year that division will be end, we expect that turnaround and faster which should reach to the breakeven point because we have a strong relationship in this therapy area.

So we should be able to -- so we are leveraging those relationships. So that one area we are looking at. Another area we're looking at cardiovasculars, now we have started beating the market growth and significantly compared to the market and all. And this is the further time for us to further consolidate our offering in the market.

So next financial year, we will, again, adding 1 more division with around 300 people in cardiology. Then another area is dermatology that we have done well and build the business on dermatology in the last few years. And we are missing on cosmetic dermatology. So we have lined up the products -- a lot of products under development and all.

And I think one more division we will add in next financial year, from there in the mid of the next financial year on cosmetic dermatology. So wherever areas, like say, urology, we are doing well. So giving us almost around 20% kind of 22% kind of growth. So some people additions will happen in urology area. So all these therapy areas where we are continuously consolidating, which are the high-growth areas for us. So we are further investing on those areas. So that's a continuous journey.

Saion Mukherjee: And anything on the U.S., sir, in terms of ANDA filing across Unichem and Ipca? Any product category segment? And how should we think about the research and development expenditure, what is it now and how much can increase?

A.K. Jain: Let's say, our business philosophy is that we, by and large, use our captive product for the ANDA developments and all. So now last, I think, 10, 12 years, Ipca has not filed anything but right now, there are a good number of product pipelines, which are there under development and all. So I think every year, we should be able to now file 5, 6 kinds of Ipca ANDAs, so Unichem will also continue to do that kind of number. And more or less, it's going to remain from, let's say, captive API. Some of the products we may outsource also.

But broadly, so it's not that we have to file end number of products because our strategy is to always keep backward integrated products for forward integrations and all. So more or less, we are not changing that strategy. So it will remain in that line.

Saion Mukherjee: And R&D spend, sir?

A.K. Jain: Currently, both Ipca and Unichem put together, it's around 3%, 3.25% kind of R&D cost. That cost is likely to move to around 4%.

Saion Mukherjee: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Harsh Bhatia from Bandhan Mutual Fund. Please go ahead.

Harsh Bhatia: Sir, in the second quarter, you had mentioned that there was some U.S. sales at Ipca level that was shipped out, but not booked. Have we booked those sales this quarter?

Harish Kamath: Sorry, you're not audible now, Harsh. What was your question?

Harsh Bhatia: So we were saying that there were some U.S. sales in second quarter that were not booked, they were shipped out, but not booked in the second quarter. Those sales have been booked in the third quarter?

Harish Kamath: You are not audible.

Moderator: Sir, I just request you to rejoin, please. The next question is from the line of Bharat from Equirus. Please go ahead.

Bharat: So sir, we have done phenomenally well in the past years in domestic business. So how do you see this business behaving as compared to IPM in the at least next 2, 3 years, if you talk a bit about it?

Harish Kamath: So more or less, whatever our growth, 1.5x IPM growth, hopefully, we should continue with that coming few years.

Bharat: And how big our pain management therapy would be in the overall business?

Harish Kamath: About 52%.

Bharat: Sir, somewhere the largest product would be Zerodol and if I'm not wrong that product is almost INR750 crores, INR800 crores...

Harish Kamath: In spite of that, the pain therapy has grown by 14% in the 9 months of the current financial year.

Bharat: Are we calling out how big is Zerodol for us at this moment?

Harish Kamath: So 2 Zerodol SKUs are amongst the top 300 selling -- 3 SKUs, top 300 selling brands in the country.

Bharat: Right. So are you expecting pain management to stay at almost like at 13%, 14% growth going forward as well? Is it possible to...

Harish Kamath: Yes, definitely, unless pain management grows 13%, 14%, I can't grow 1.5x the market growth. So that is almost 52% of my overall business.

Bharat: But what is driving this growth in the overall pain management? If you could talk and how this growth will be maintained? Because we'll be covering large part of the market, doctor access will be also one of the foremost when it comes to the pain management. So how we are looking to maintain this growth going forward as well?

A.K. Jain: Let's say, not only osteoarthritis product, but rheumatoid arthritis products are also growing faster. And if more penetration of disease presence in the country is very high. It's all we had to create enabling more number of rheumatologists practicing in the market and taking those rheumatologist to the other areas and educating doctors and all.

So rheumatology portfolio, is last 10, 15 years, also, we have seen continuously it's growing 1.5x the market growth. And we don't foresee next 5 years also that growth rate can come down. Significant work is still to be done to make all these therapies available in any nook and corner of the country.

And as far as the pain is concerned, Zerodol is continuously growing. Even in this market, also it is growing faster than the overall IPM, it's almost around 1.5x the market is growing. And we don't see any kind of problem in growing this therapy also in next 3, 4 years at current pace.

So we are not seeing any kind of challenge. And as far as the new product offerings are concerned, there are not much on particularly on osteoarthritis side. On rheumatoid arthritis side, yes, there are a lot of opportunities and of the new patented products, and we are working on everything of that. So we are keeping our complete hold on that kind of things, and we will continue to add the new product portfolios as and when the patent expiry happens and all.

So we -- and also, we are further augmenting our ortho offering by addition of new divisions, which we are currently in the process of doing that so that we can leverage those relations in the -- particularly in ortho segment. So that segment will continue to remain focus for us, and we will -- we don't foresee any kind of difficulty in growing this business. In fact, it will grow faster than the overall company growth.

Harish Kamath: And every major product I'm selling in pain category, I'm the market leader and my growth is higher than the market growth.

Bharat: Okay. Sure. Thanks a lot, sir.

Moderator: Thank you. As there are no further questions from the participants, I will hand the conference over to the management for closing comments. Over to you, sir.

Harish Kamath: No, more or less most of the areas we have covered in the con call. I don't think there is anything further to be added. Thank you. Thank you all the participants. Thank you very much.

Moderator: Thank you, sir. On behalf of DAM Capital Advisors Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.