“FDC Limited

Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the FDC Limited Earnings Conference Call for the half year ended September 30, 2023. 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 brief highlights on the financials from the management. Should you need any assistance during the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Ms. Varsharani Katre, Company Secretary and Compliance Officer of FDC Limited. Thank you and over to you, ma'am.

Varsharani Katre: Thank you. Good afternoon everyone. I welcome all of you on behalf of FDC Limited. Glad to connect with you all for this half year ended earnings call. We have already disseminated the financial results for the quarter and half year ended September 30, 2023 and the investor presentation as well.

Now, I would like to introduce the FDC team present in this earnings call. We have with us Mr. Nandan Chandavarkar, Joint Managing Director, Mr. Ameya Chandavarkar, CEO, International Business and Executive Director, Mr. Vijay Bhatt, Chief Financial Officer, Mr. Mayank Tikkha, Vice President, Sales and Marketing, Domestic Strategy, Business Development and Commercial Excellence. We will begin the earnings call with the highlights of the financial results of the Company by Mr. Vijay Bhatt, our Chief Financial Officer, followed by an interactive Q&A session.

There might be certain forward looking statements, these statements are subject to certain risks and uncertainties since they are based on certain assumptions and expectations of future events. I would request all the speaker participants to restrict their queries to 5 minutes only and avoid repetitive queries to save up all the time.

With this, I shall now hand over to Mr. Vijay Bhatt. Vijay ji please.

Vijay Bhatt: Thank you Varsha for the introduction. At the outset, on behalf of management, we wish all the participants a very happy Diwali and a prosperous New Year. While the financial results for the second quarter and half year ended, or the current financial year ended on 30th September 2023, has already been published last week and many of you would have gone through the same.

However, for the benefit of all the participants on the call, let me run through the key financial highlights and the business performance of the first half of the FY24. As you would have observed, the Company has been consistently growing its top line over the past few years and the story continues in the current financial year also, with the consolidated revenue growing at about 9% both in the second quarter as well as in the first half of the current financial year, with a quarterly revenue of INR486 crores and INR1,023 crores respectively. We are happy to inform that for the first time, the Company's revenue has crossed INR1,000 crores landmark in the first half of the current financial year.

Domestic business revenue grew at 6% again both in the quarter as well as in the H1 of the current financial year, with a revenue of INR391 crores and INR836 crores respectively.

Export formulation business grew at 33% in Q2 and 31% in H1 of the current financial year, with a revenue of INR76 crores and INR144 crores respectively. API business also reported a growth of 2% in Q2 and 14% in H1 of the current financial year, with a revenue of INR19 crores and INR41 crores respectively.

While the revenue growth is healthy, what is more encouraging is growth in profitability, which reflects management's clear focus to improve overall profitability. Company reported consolidated EBITDA of INR76 crores, growing at 13% for Q2 and EBITDA of INR198 crores, registering growth of 36% for H1 of the current financial year. The primary drivers of the increased profitability are improved cost of goods sold and relatively low operational expenses during the first half of the current financial year.

Further, the consolidated profit after tax also grew by 35% with a profit of INR70 crores for Q2 and growth of 47% with a profit of INR180 crores in H1 of the current financial year. As you all are aware that Company maintains a track record of rewarding the shareholder in the most efficient way and with the healthy profitability, the board approved buyback of 31 lakh equity shares of INR1 each at a price of INR500 per share. The buyback process and payout was concluded during Q2 of the financial year.

In conclusion, would like to say that the overall performance during the first half of the current financial year is healthy and satisfactory and we look forward to continue the momentum in the coming period.

I now request Ms. Varsha to take the proceedings of the call forward and open the forum for Q&A. Over to you, Ms. Varsha.

Varsharani Katre: Thank you, Mr. Vijay. Now, I would request the moderator to initiate the Q&A session.

Moderator: Thank you very much. We would now begin the question and answer session. Participants present on the audio bridge who wish to ask a question may press * and 1 on their touch-tone telephone. If you wish to withdraw yourself from the question queue, you may press * and 2.

Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Viraj from SIMPL. Please go ahead.

Viraj: Hi. Thanks for the opportunity and congratulations for a good set of numbers and challenging. Thank you for organizing this call and I request if you can make this more of a frequent interaction with investors. So, just got a few questions...

Moderator: Sorry to interrupt, Viraj, but the line for you has a little disturbance and we lost your audio in between a little.

Viraj: Yes, so my question was largely on the domestic business. If you look at H1, the growth has been relatively muted, mid-single digit. So, if you can just give some color in terms of what really transpired and further details in terms of volume, price and new product mix in H1. And second is in relation to the other expenses jump which we saw specifically in Q2. So, was there any one-off or what is it driven by? And I'll just follow it up with a few more questions.

Vijay Bhatt: Thank you, Viraj. I think you have two parts of your questions. One is on the domestic business dynamics in terms of what is the growth in terms of price volume which my colleague Mr. Mayank will take up. And the other part of the question is on the other expense. I will answer that once Mayank answers the first one. Over to you, Mayank.

Mayank Tikkha: Hi, this is Mayank. So, you asked about the domestic front, the internal growth data for volume price and new product and that follows. For the first half, six months, our volume growth is stagnated. Price growth is almost 4.9% and the new product growth is 0.8% and overall we have grown by 5.8%.

Now, if you look at the market dynamics in the current H1, you recall because of the last couple of years upsurge during the COVID period, there are a lot of market corrections which are happening especially in our operational front which is antibiotics and ORS front. If you look at, I hope you might have gone through the market data points of Pharma Trac and IQVIA, the volume growth for the current first half was negative as reported by Pharma Trac starting from April till September. The only positive sign we have seen in the month of October.

So, yes, the industry definitely is hyping up on the price growth for the current financial year and the new product introduction which has been the case with MDG also.

Vijay Bhatt: Mr. Viraj, about your question on the other expenditure in the quarter as well as in the H1. So, at the outset, I think I would like to point out that our pattern of expenditure is strictly not so comparable quarter on quarter. Of course, the bio-wise, yes, we can look at it because the performance do vary based on the seasonality of certain products and all.

Having said that, there are a couple of expenditures which are one-off in nature, particularly in the quarter 2 and some are in the H1 because certain expenditures did happen in the H1 also. So, those one-off type of expenditures are basically investment in nature. We have 2 ANDA'S filed during this first half of the current financial year and as you all are aware, the ANDA filing fees itself are also a big in number.

We also had some of the major repairs type of expenditure, though non-recurring kind of on a quarter-on-quarter basis, but they are scheduled maintenance which do take place annually, coincidentally happened during the quarter 2. Also, there are some of the expenditures on the registration funds and certain fees that we have paid. Both happened also coincidentally during the quarter 2 of the current financial year.

As the nature of this expenditure is non-recurring, particularly quarter 2 and hence, if you see on an absolute basis, probably the number looks a little high or a peck on quarter 2 per se. But overall, as a percentage of the revenue, we do feel that they are kind of an investment of nature expenditure and need for business. If we neutralize this expenditure, probably then the comparable would be better.

So, with this kind of observation, if I have to put a value tag to it, close to about INR9 crores is an expenditure approximately, which are one of kind of non-recurring quarter-on-quarter basis expenditure, what reflected during the H1 of the current financial year. I hope I have answered the questions.

Viraj: Thank you for that. Just few more questions. If you look at the change in our journey in the last 3-4 years and what we talked about in terms of the initiative, say in terms of optimizing in the field and focusing on the core.

If you can probably elaborate on the sales structure, what are the changes we made and what is the incentive program now versus what was earlier. Broadly in terms of the sales structure, the incentive program and other changes, what gaps were there earlier? And the initiatives which we took, which is helping drive better focus on the core, brands and the new product expansion? If you can just elaborate a little more in detail, what kind of changes and initiatives we have changed around these elements?

Mayank Tikkha: You are referring to our earlier discussion in the past. Yes, it is correct that we did lot of operational corrections 3-4 years back, exactly prior to COVID. And what you were quoting from our last call, yes, we did lot of inward focusing on our antibiotic segments, ORS, energy drink and food category of products.

Now, as far as this First half is concerned, we have not made any changes. We are continuing on the same strategic front because as you rightly mentioned, we have been very successful in the last couple of years. And we still feel that that strategy, what we have been following up to now is workable and can still give us very good results, which can be taking FDC to a newer height, which has been the case for the last 2 or 3 years.

So, nothing significant changes. We had launched a couple of therapeutic baskets two years back with our two new divisions which we have introduced two years back. We are continuing on the same trajectory and there is no change at all. So, we continue with the same structure.

Viraj: No, actually my question was largely on two parts. One is, in the changes which we made, especially in the sales and distribution side, either in terms of the incentive program or the sales structure, so we added more than 1,500 MRs. So, how is that distributed across major brands and how are we driving, if at all there has been any change in incentive structure per se?

So, how are we driving better growth? So, that is one part. And second is, in terms of distribution coverage, say for the top 5 or top 10 brands, so what kind of revenue will be coming from Metro and Tier 1, Tier 2 as against beyond? And is there still, I mean, is the growth which we are seeing is primarily from these markets or the expansion beyond these markets is also a leap of art?

Mayank Tikkha: So, yes. So, two years back, what you are referring, we expanded with two of our divisions, two of the therapies which we were targeting was, one was Derma to our Zocon division and Nutraceuticals through our Nutrica division. Now, that was precisely done to focus on these two new therapeutic markets and also that gives us a lot of headway to focus on our existing brands which are majorly in the antibiotic category.

As you know that we call ourselves a major antibiotic Company, but yes, apart from Zifi, we never had a significant market share in any of the antibiotics. So, all these expansions did give us a headroom to focus on already existing antibiotic therapies which we were there. To name a few, we already had Flemiclav in the form of Amoxyclav, Azithromycin, Ciprofloxacin for that matter and we have been doing pretty good since this expansion has taken place.

Now, since we are referring to the geographical front, yes, we had expanded in some of the geographies to be precise. We have expanded in the East which was a weak zone for us and I am happy to share in the last 2 years our progress has been pretty good especially in Bihar, Odisha side and now we have entered into West Bengal also. So, as far as the job is concerned, we already have good strength in North and West.

East and South was slightly a weaker zone for us or rather I can say East was mostly non-operational which we have done now in the last couple of years and we are quite satisfied with the progress what we have made. Coming to the category town class what we were referring, so we have a mixed approach since there are lot of things to be done simultaneously at the domestic front. So, one is that we are consolidating ourselves in the existing markets of the metros namely Mumbai, Delhi, Kolkata, Bengaluru.

We have consolidated ourselves in these markets. We were always strong in the rural category but yes, we have consolidated ourselves now into Town 1 and Town 2 category as per the classification of IQVIA and what I can share with you that our growth rates are pretty decent and mostly ahead of the market in all these town classes which IQVIA defines in their data sets.

Viraj: Okay, just two more questions. We also talked about portfolio rationalization as one of the initiatives we took in last 3-4 years. If you look at, we had a good amount of success for Zifi, Zifi CV, Right? So, if we can just broadly briefly talk about what was the success for that brand and if I look at say from number six to number tenth brands which we have, so the likes of Zocon or Zifi-O or Zifi Infant these are like sub-50, sub-100 crores sales for scale pass right now. So, how are we going about in terms of the go-to market play for these products because the competition intensity is already quite high. So, one is in terms of the learnings from Zifi CV and in terms of our play in these brands, how do we see opportunities for scale-up going forward?

Mayank Tikkha: Yes, so yes, you are right that apart from the top three which is Electral, Zifi and Enerzal, we have seven products in the category of INR50 crores to INR100 crores as per the market data base and probably you are referring to my earlier mentions in the call. Zifi CV was a brand which we were eyeing upon as a road driver apart from Zifi and I am happy to share maybe in the first half, we have done really well. Our market shares have definitely improved in Zifi CV and we control almost 49% of the market in that particular category.

Apart from Zifi CV, Zifi-O also has been doing pretty good and I am happy to share that our growth rate as reported by IQVIA for the first 6 months is 16%. Apart from that, Flemiclavwhich is another antibiotic in our portfolio has significantly shown a growth of 31%. Zipod, our antibiotic again in the category of Cefpodoxime has given us good revenues.

Zefu, again an antibiotic in the Cefuroxime category has shown a growth of 14%. Mum-Mum, our food product which is marketed by our new division Nutrica has shown a growth of 33%. So, these are all very heartening numbers which we are very confident that a couple of these brands surely would be crossing a INR100 crores landmark in the near future.

Moderator: Thank you. The next question is from the line of Vilina Jain from Perpeutiy Ventures. Please go ahead.

Vilina Jain: Hello. So, my first question is regarding EBITDA margins. They have declined on a Q-o-Q basis largely on account of other expenses and other expenses have remained largely volatile. As you explained that there are certain one-offs in this quarter, but what are your expectations on EBITDA margin for H2 FY24?

Vijay Bhatt: Vijay here. Are you done with your question?

Vilina Jain: Yes, I have a couple more questions on the India Business and Export business after this.

Vijay Bhatt: So, on your EBITDA margin, let me answer your specific question on why there is a reduction in the margin. I think you are seeing this margin comparison from Q1 versus Q2 and our submission is that strictly it should not be compared in that sense for two reasons. One, as I mentioned earlier to the earlier participants, that there are certain one-off expenditures also which coincidentally came during the quarter two and hence slightly other expenditures during the quarter two are inflated.

Having said that, the quarter one, if you see historically, is our predominantly the season year and they normalized sale during the quarter one compared to the other quarters of the year is generally high and hence that incremental sale also brings the incremental profitability at the bottom and that's where normally the EBITDA margin of Q1 would generally tend to be higher than the other quarters.

Having said that, the quarter two EBITDA margin is also healthy and on a year-to-date basis, if you see, we are almost close to 19%, slightly marginally above 19% on a consolidated basis which we believe as a trend is reflecting all our efforts in terms of margin improvement and the management is quite focused on improving it. Our request is that let us look at the margin more on a quarter-on-quarter because that would be a better comparison because the pattern of our business doesn't remain the same every quarter and hence quarter one is in that sense strictly not comparable with quarter two. I hope I have clarified your point.

Vilina Jain: So, Sir, what should we look at as a normalized margin for FY24 on an annual basis?

Vijay Bhatt: I think here where we would like to make a specific comment that as a management we have decided not to give any guidance or any forward-looking outlook. We would be quite hesitant to answer this question on the H2 part of the year. The only thing what at this stage we can say is that our focus is very clear in terms of growing the business top-line and growing it with the profitability and the end-of-work will be on and it's an ongoing process and as such I would not like to put any finger on the number or the percentage but just the story of growth momentum we would like to maintain and continue.

So, I think my request to all the other participants is also that let's not put up a question where we will have to comment that it is more like a forward-looking statement because that's something as a policy we would prefer not to comment.

Vilina Jain: Okay, so Sir on the India business, what is the current field force strength in terms of MR count and how many reps have we added over the last 24 months?

Mayank Tikkha: So, we have already given this information in our presentation what we uploaded today in the morning. Our total field force as of now stand close to 4,800 which includes the managers all put together and in the last 12 months we have not made any significant changes to it because we are in a consolidation phase and we will continue like this for another 6 months or so and then we will review the situation how it is.

Vilina Jain: Sure, and on the export business front we have performed extremely well over the last 2 years and FY24 we have already reached a INR400 crores run rate with 25% growth on a Y-o-Y basis. Are there any one-offs which has led to this growth and what do we expect the export momentum to be like going forward for the next couple of years?

Vijay Bhatt: Sure Vijay here madam. I think at the outset let me just say there are no such one-off particularly in a business like an export formulation business. These are all the regular business which keeps happening. Sometimes there are certain orders where in some of the ROW markets where we participate in certain standards but in terms of overall business size that we have today, there are no such one-off things which would be of some relevance for you to know and hence for us we consider that as a part of the routine and normalize. That's the export front story.

Overall, yes your observation is mixed both with the anticipated sale as well as for the current year in terms of my overall revenue for the current H1 of the financial year. Export business trajectory looks very healthy, positive in terms of growth momentum. We have been growing over the past couple of quarters, quarter-on-quarter on a double digit. You mentioned that we would be crossing about INR400 crores.

We would be hesitant to talk about it or comment on it but the H1 is reflecting the efforts of the company. Our presence is also depicted in the presentation that we have uploaded on the website and you can take your time to have a look at it. So overall, this geographical spread is also increasing over the past few years which we will continue to endeavor to increase our footprint in some of the non-US markets particularly the Europe, Asia PAC region, some of the African regions and very soon I think this growth momentum would lead us to a very sizable contribution of the overall export business in our total company's revenue. As of now the export formulation revenue is close to about 13% of the total revenue of the company in the H1.

Vilina Jain: Sure. Thank you.

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

Aditya: Thanks for the opportunity. Okay. Awesome. This is Aditya. So Sir, two questions from my side. Number one, FDC is a mature company. It's a company that has been there in the Pharma market for a long time and we are talking about cost-cutting measures, efficiencies now. So can you talk us through what is it exactly? Where is the low-hanging fruit in terms of cost efficiency and those measures that you are talking about? And how much of a cost savings are you really planning to sort of do? Is it INR50 crores a annum, INR100 crores a annum? What would be the end result of this exercise and how would you achieve that? Can you talk a bit about that?

Vijay Bhatt: Okay. If you say anything like a low-hanging fruit, there is nothing easy in terms of the cost optimization. As we mentioned in the earlier part of the call that we are focusing on the growth and we want to grow. We are a growing company. And hence, at this stage, we believe that we will have to invest in some of the businesses and that's what our momentum will continue on that.

Having said that, there are certain cost optimization efforts and the projects which are on. We would not be in a position to talk any specifics about what are those measures, but there are areas of improvement on the operational fields in terms of our manufacturing activities. We are constantly looking at how to optimize the yields and the operational efficiency part at the manufacturing level, as well as certain activities on the marketing side, as well as on the corporate support expenditures that the whole company is built around.

Overall, there would not be any major thing which we would like to talk about for the first half of the year, but there are expenditures in terms of normal operational expenditure where we have done several steps, we have taken several steps and my operational expenditure is now curtailed and is not growing higher than the growth in the revenue and that's where our focus at present is.

With this, I would also like to make some qualifications that we are focused on investing in business and hence, there are certain investment expenditures in terms of R&D that we are focused on and we would continue to do those kinds of expenditures in the coming period also. So, might be I am not able to divulge any specific information on which type of expenditure, but some of the broad categories of our expenditure, as I mentioned about operational, marketing expense, because these are the areas where one can always try and optimize and we are focusing on those deadlocks.

Aditya: Understood, sir. So, one last question on the capital allocation, right? So, historically, FDC, although, you have had an export business, but it has always lacked focus and we have been more focused on the India business because I believe that is where the return on equity and cash flows are better compared to generic business in the export market but given the commentary that I am hearing on this call, would it be fair to say that whatever cash we generate from the India business, most of that cash broadly will be used to invest in the export markets and if you do so, then do you have any visibility of those export markets generating higher than cost of capital sort of equity returns?

Vijay Bhatt: So, I think your observation is partly true, but not in real sense, it's not. Of course, the company is a domestic centric company. Over more than 80% of the revenue comes from domestic business and the company is built on the domestic business over these years.

Having said that, the export business is also very lucrative for us and because we are growing in the last few years and our base on which we are growing is small at this stage and the growth momentum we would like to say at this stage is, it is a profitable business for us. It doesn't require as such in major way any cross capital allocation export business to generate profit on its own. Because the base is low, the absolute number of that appears to be a little lower.

So, we do not talk more about the profitability of our individual business segment per se, but there is no major capital allocation due that we may need to do specifically for the export business except for the R&D which would be primarily focused on the export business.

Aditya: Understood, sir. Just one follow-up. So, can you sort of help us understand what kind of R&D expense are we looking at and what is your capex budget for the next couple of years?

Vijay Bhatt: So, there are no major capex as far as the R&D type of expenditure is concerned. But yes, there would be more revenue of R&D because companies do have two R&D centers at this stage adequately capitalized and we do not need any major capex on those R&D fronts. But on the revenue front, there would be certain clinical studies, there would be many filing these. So, those type of expenditure would be there. Majorly at this stage, the focus is more on the enterprise and certain registration in the other ROW markets. But primarily, this would be more focused on the US market at this stage.

Aditya: Yes. And sir, what is our right to win in the US market? So, we have seen multiple Pharma companies burn their fingers in the US market. You know, they are over leveraged for the US market. They are very extended working capital, low margins. So, what is our right to win? Where do we differentiate ourselves versus the competitors like Lupin, Dr. Reddy, Cadila who have been in that market for 10 years, 20 years?

Vijay Bhatt: There is no straight formula like right to win. But of course, our strength lies in the ophthal business that we have in the US market. And this business is, we are in this business for quite some time now. We understand this business well. We understand the market sentiments in the US for this business. We are right now doing quite good with our business partners in US. And whether we call it a right to win or we consider that as our strength, we are happy with that.

We will build on this strength as we move forward in the coming period. I hope that is answering the query which you have.

Aditya: Yes, fair enough. Thank you, sir.

Moderator: Thank you. The next question is from the line of Yash Tanna from iThought PMS. Please go ahead.

Yash Tanna: Thank you for the opportunity. My question was relating to the PCPM of Our MR'sYou said in the last 12 months, we haven't added and even in the near future, we are not planning to add. So what is the PCPM? And what is the improvement that we are targeting on this front as we grow our domestic sales?

Mayank Tikkha: Yes. So, yes, we have grown in our PCPM. But as I said, if you look at the last three years, we had two major expansions which brought the PCPM down. As I can give you rough numbers, maybe two years back, we reached to a PCPM of 4 lakhs and then we expanded both the divisions, brought our taken down again to close to 3 lakhs. I'm happy to tell you that this first half, we have recorded a PCPM of almost 3.89 lakhs to be precise. And we are looking forward to take it further as we move forward.

Yash Tanna: Sure. So we are looking to improve this. I'm sorry, did you mention any targeted number, probably by 10%, 12% year-on-year or something like that? I missed that.

Mayank Tikkha: So we have not given any number because as I said to answer the first query, the market is very dynamic. And as I said, though we always expect a very good growth on the market front, that is IPM as well as the CVM front. But as I said in my first reply, this year, unfortunately, the volume growth as reported by Pharmarack has been all negative right from April to September. In such a situation, it is very difficult to predict and to give any guidance about what would be the possible growth. We are keeping our fingers crossed. As I said, October month, though we are not discussing in this call October, but October month, I assure a lot of promise where the markets are coming back to the growth trajectory.

If that happens, we definitely look forward to improvise on our productivity front. But to set a goalpost number would be very, very difficult because as I said, the growth trajectory, though we have not expanded on the market front or the manpower front, but that does not mean that we will not do it in future. Because as I said, there are a lot of gap areas from our operational geographical front where we might have to look at expansion in the future. So we are not giving ourselves any targeted number. But yes, internally, we had do tracking the growth on a quarter-to-quarter basis.

Yash Tanna: Sure, sir. Got that. That's very helpful. Secondly, sir, you mentioned, I think to an earlier participant on growing the brand x-of the top 3 brands. So if you could highlight what is the strategy there? And if we are adding more people in those brands, which are x-of the top 3 or the top 5. And if you have identified a few brands that we are going to focus on and scaling up beyond the INR100 crores mark?

Mayank Tikkha: Yes, so as I said to my earlier reply and also in the past call, we have not made any significant allocation now. We did it two years back. I'm repeating myself to the earlier question that we expanded with two of the divisions and that gave us the headroom to focus on more brands within the same verticals.

So we do not intend to any further allocation on that front. But apart from the top 3, I did mention there are seven brands in the category of 50 to 100 as reported by the market dynamics that is Pharmarac and IQVIA. These seven brands, if you want to name them, these are Zifi CV, Vitcofol, Zathrin, Zocon, Zifi-O, Simyl MCTand Flemiclav.

Mostly these brands are marketed by various different divisions and we have put in resources to the portfolio management what we did two years back. So no further allocations are required. But as I shared to the other panelists that yes, these brands show a healthy growth rate as reported by IQVIA. If you want, I can repeat once again for your benefit. Zifi-O has shown a growth of 19.9%, Flemiclav 27.5%. These are some of the key indicators that we are moving in the right direction.

We did talk about the Nutrica division, one of the brands marketed by that division, Mum-Mum, which we are focusing now, also shows a double-digit growth. And Ocuvir, which is marketed by our derma division, that is Zocon, also has shown a good growth of 30% plus. So this gives us the confidence that these seven brands can be nurtured as future growth opportunities for FDC.

Yash Tanna: Sure, sir. Got it. Thank you and best of luck.

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

Bhavin Savla: Thank you for giving me this opportunity for the question. I have two questions. One is on the pharma and the food division. So, whether any management has any plans to demerge pharma and food division going forward? First is that. Second is, the management has not held con call since last two quarters. So, going forward, what is the plan? Whether this con call will be held each quarter or how it would be?

Vijay Bhatt: So, I will take this question Vijay here. To answer very specific, is there any plan of demerger of any division? Answer to that is, No. There are no such plans. As I mentioned earlier, let's confine ourselves to the numbers which are published and not any futuristic plan. But as of now, answer is, no.

On the con call front, yes, we were away from it in past. But we would like to get engaged with all the investors and the analyst. At least we started with it now and we wish to continue. Probably not every quarter unless there are some specific events which we feel we need to communicate to all the investors. But at least on a half yearly basis, we would certainly like to get engaged. So, this is our half yearly performance data got published and hence we thought let us connect with all the investors. Maybe once the March ends, we may again engage with all the investors.

Bhavin Savla: Thank you. Thank you very much for taking my question. All the best.

Vijay Bhatt: Thank you.

Moderator: Thank you. The next question is from the line of Ravi Purohit from Securities Investment Management Privates Limited. Please go ahead.

Ravi Purohit: Hi, thanks for giving this opportunity. Most of my questions have been answered, just a couple of them. I think, I probably missed the part or was it not very audible earlier about the employee productivity. I think we had a significantly larger number of MRs in the last three years. Some of it is visible, I guess, probably in the sales growth that we've achieved over the last three years, four years as compared to the previous seven years, eight years of our company's history.

And now I think we mentioned that we've not hired or we are not looking to add any more MRs aggressively going forward. So how does this balance of growth in sales versus hiring more MRs work out in the future? Are we looking at increasing productivity of this in MRs base, which we have recruited in the last three years significantly over the next three years to four years? Or what are the areas from where sales growth will probably come for us?

Last four years have been very good. We've kind of delivered better than industry growth. So if we have to continue on this path, what are the areas which will continue to drive this industry beating growth rate?

Mayank Tikkha: I answered this question partially, but as you mentioned that you couldn't hear this because of lack of clarity. So there are two aspects to it. When I say that there are no plans to enhance the salesforce, this was related to the divisionalization, what we did two years back. And I hope you understand that as a growing, although we are a growing organization, but you cannot keep on expanding divisions every year or every second year.

So, we did two divisions in a row, which was mandatory for us because our volumes during COVID had swelled up approximately from a IRN900 crores to a INR1,300 crores- INR1,400 crores. Where we felt there's a need to create a headwind or a leg room to promote more number of brands and that's why we did it. Now we are into a consolidation phase because once you put 400 MRs-500 MRs into the field, you need to give space and time for them to be groomed and be productive, which is the current phase what we are going through for the last one and a half years.

When I say that we don't have any plans in the near future to expand, I mean by divisionalization, which is a /major expansion. Now I did also mention about the geographical expansion and I said that we are too dominant or maybe too focused in the past in the western territories and the northern territories, our weaker areas definitely were east and south.

And I also did mention that, we have started focusing on our penetration into the East through the Bihar, Orissa route and then the West Bengal. So those minor expansions would continue in the near future also, but they would not be any significant and that's why we did mention about that.

As far as the management strategy is concerned, we have to strike a balance between the increase in productivity and also our penetration into newer territories, newer portfolios and also the geographical plan. So, it is a difficult task which we are trying to accomplish as of now. So yes, it would be a mixed bag that at some point of time we might expand, then give us a consolidation phase where we try to bring our PHPM'S ahead and this process will continue for a couple more years and we'll comment on it once we accomplish our roadmap.

Ravi Purohit: So, is new product introduction also a part of growth initiatives? And also if you could throw some more light and color on the foods division. We've been at it for almost seven years- eight years now and now we finally see some traction in the MumMum stage 1 or Simyl and all these categories.

So, if you could just share a little bit more background and history about why did we actually decide to get into these categories, how big are these categories and what is our own play in these categories in the next five years-10 years. Because these are categories with very strong entry barriers.

We've kind of come to a place where we are looking at close to INR100 crores revenue contribution coming from this category. So, if you could just share a little bit more insights into this category and what is your own view over the next five years-six years on this category of business?

Mayank Tikkha: So there are a couple of parts to your question. I'll take the first one first. Yes, as a strategy from 2019 pre-Covid, we stopped launching newer brands because we felt that we are all over the place and there is a need for our consolidation. And I have shared this in the earlier calls that we strategized in such a fashion that we consolidated with antibiotics, ORF, energy drinks, which was all our bread and butter.

Because we were strong but we were not emphatic in those areas also. So last couple of years, we have been and you might be tracking that our flagship brand Electral, Zifi, Enerzal have achieved newer heights and we have made these brands even bigger. If I can share so that as per the IQVIA Refection's, Electral has crossed INR400 crores landmarks, Zifi has crossed INR300 crores landmarks and Enerzal is in between close to INR200 crores.

So, in the last couple of years, we have grown these brands and simultaneously as I mentioned in the earlier answer, the next seven brands which I will not repeat now, I have given those names, which are in the vicinity of INR50 crores-INR100 crores, we have shown a good growth. So, this strategy probably forced us not to go for new launches because that diversifies our focus, which was a prime importance.

Having said this, yes, we have always done brand extension, line extensions to all these brands. Just to name a few, we have come up with what I did mention ZifiCV, Zifi O. We have also now launched which I shared in my last talk also, Electral Z we have launched. Enerzal has been launched in various forms, various packs, even if you are tracking it, you have launched with the pet bottle, which is very, very successful. So when I say that we have refrained from launching new brands, I am talking of the newer molecules. But to our existing brands, wherever the need was there, we have always launched.

Having said this, yes, the market is very dynamic and as I said that with the volume growth in negative, as again reported by Pharmarac for the last five months to six months, we have been reworking our strategy because as you know, for growth there are only three components, one is volume, one is price and one is new products.

So up till now, we have been doing unit growth which has been very very successful. But now since the market forces us to think otherwise because the volume growth has gone negative, so this year we have been focusing on the price growth and also the new Introductions.

So, there will be slight shift in our strategy moving forward. So we will be looking at some new Introductions. Now coming to the last part of your nutritional portfolio, I had shared in the earlier calls also, our major reason for entry into this was we were always present. Our name itself is Food Drugsand Chemicals and we had a long legacy of food brands with Soyal, Pro-Soyal and that extends to Simyl MCT, one of our flagship brands which has a significant market share. But yes, we never had the prime focus on the food products and we realized that this is the time where we consolidate our food basket. And that is probably led to the formation of the Nutrica division.

So it is a very small team but this team is dedicated for the maybe the nutraceutical portfolio. So apart from Simyl MCT, MumMum is one key brand over there along with Zefrich which we are focusing. Having said this, nutraceutical is a very wide field. So apart from the IMS therapies and the protein therapies which we are marketing through the Nutrica division, the food products are also spread out in other divisions. Maybe not in a big way but yes, every division has one or two food brands which we are marketing. I hope that answers all your questions.

Ravi Purohit: So, what I was trying to understand is, how big is the addressable market for products like Simyl and MumMum and all that and what would our aspiration be over the next five year-ten years in those categories of products?

Mayank Tikkha: So again, I would not like to give you any break up of the brand, portfolio size, of the market size. But what I can share is that in our covered market, the Nutrica basket is almost INR2,400 plus crores. And as of now, our market share is 3.9%. So we will be working on this and this is what our operational plan is.

Ravi Purohit: Okay. That's all from my side. Thank you so much. And again, same request as the earlier participants, if you can continue with this con calls as a norm, then as an exception, it will be great.

Vijay Bhatt: Yes, certainly. Noted.

Moderator: Thank you. The next question is from the line of Viraj from SiMPL. Please go ahead.

Viraj: Thanks for the opportunity. I just have three questions. One is, if one has to understand in terms of the investment behind the brands or in terms of the MR team, which we have around 4,800 including the managers, how is the distribution of these two in the top three brands vis-a-vis the next seven? How has that distribution changed in the last two years?

Mayank Tikkha: So partly, I couldn't hear you all completely, but I'll try to answer that. If there are any further gaps, you can ask me again. Yes, we are too dependent on the top three, but yes, there is a definite reduction as we move forward. So I'll give you very broad numbers. Maybe a couple of years back, our dependency on the top three brands were almost to the tune of 50%. And now in the current half, it has come down to close to 40%, 44% to be precise. This is as far as the breakup between the top brands and the other brands are concerned.

But the other question which you asked is the breakup of MRs and the managers across India. I would not like to share much of details over here because that is part of the strategy and I would not like that to be in the public domain. But broadly what I say, our dependency or maybe operational front is majorly West and North—East we are not have much of – we don't have much of operations and we are working on the expansion part of the East, which I mentioned in the earlier answer also. So this is it what I can share as of now.

Viraj: So my question was again linked to the MR productivity. And the reason I was asking is that is a lot of the investment and the MR more focused tops - on the next seven brands. And hence, as they scale up, we should see more productivity and investment or the MR team in terms of the top three is at the optimal level at what it could be. There's no further scope for further reduction. Is the understanding right?

Mayank Tikkha: So I have answered that as far as the MR productivity is concerned and I don't like to repeat that. But as you are mentioning that MR expansion, technically, and my CFO would agree on that is not a major investment because whatever we do, we have not gone into virgin lands. As I said, though we expanded with Zocon and Nutrica, but we always had brands in those portfolios.

And at the start also, if I can give you the numbers, Zocon started with a ballpark revenue of INR100 crores because we shifted our existing brands to those divisions. So it is not like that we start from scratch and it takes two years time to break even and all those things. Even Nutrica division started with a ballpark number of almost INR35 crores because we normally shift as per strategy we normally shift existing brands to the newer divisions.

So getting revenues or making them profitable is not a big issue out there. Having said this, if you consider it as an investment, probably our CAGR, which you might have seen, has shown pretty good reflections. And if I can share with you that we have improved our growth rate significantly.

If I can give you September, MAT numbers of IQVIA, where the IBM has shown a growth of 10.3%, my covered market has shown a growth of 9.2%. My growth of FDC is 14.5%. So we have beaten the market by almost 5%, which is quite significant in these turmoil times. So this is all a result of whatever we did in the last couple of years. And we are pretty happy that it is giving us good results in both in terms of top line earlier and now the bottom line as shared by Mr. Vijay is quite satisfactory.

Viraj: Okay. Two more questions. One on product side. So in the past, we have economically priced our products and we also talked about improving our value proposition. So any colour you can give on what are we doing there?

Vijay Bhatt: We lost your voice in between. If you can repeat your question, that would be good.

Viraj: Yes. So in case of Ophthalmic products, in the past, we talked about economically pricing our products and we also talked about improving our overall value proposition there. So any colour you can give in terms of what are we doing there?

Mayank Tikkha: So probably I shared this in my last call also that yes, FDC had an economical pricing strategy and we have always worked on those principles. Still we try to maintain ourselves on the affordability part of it. But during the COVID era and as mentioned by our CFO, and you might also have tracked with the cost going out couple of years with all this COVID around and the China issue coming in.

We probably have moved on from that strategy because it was not a workable module for us. And if I can share those numbers with you, maybe our price growth have moved significantly up if you compare with our past numbers. If I can share probably the first quarter our price growth was almost 6.1% which is still around 4% or 4% plus for the second quarter.

So we have been increasing our prices but again we are bound by regulation and I hope you are aware of it. We cannot move beyond 10% even if we wish to. And most of the products are also price controlled by the government where we have to look up to them for what they allow at the start of each financial year.

But in general we have moved definitely out of that most economical mindset. We have most of our therapy now in the affordable range. I hope that satisfies your question.

Viraj: Just last question was on Enerzal. Our share is roughly around 40% and if you look at the broader market including the consumer, there are players who have done much better in terms of scale up in last few years. So if you can just -- the question is largely in three parts.

If you can just talk about differentiation either in terms of marketing or position or the product itself for us. What are our plans to gain share? And lastly in terms of the different channels for distribution. If you can give colour where we are with respect to that?

Mayank Tikkha: You are referring to Enerzal right?

Viraj: Yes, Enerzal as a brand.

Mayank Tikkha: So we have always maintained that yes Enerzal has a very large market and the line is very thin between our FMCG, OTC products or maybe OTX what we currently claim ourselves to be. You need to understand that still we are in the pharma space and our model of business still prescription routethrough the doctors. And probably we have shared in our presentation that we do enjoy close to 50% market share in that domain as reported by IQVIA.

But I do agree yes a lot of scope is there which we are working on and both Enerzal and Electral, we have changed slight strategy in the last couple of years. There through Enerzal we are going all out in terms of apart from doctor promotion we have focused on sport activations and any other things if you are tracking that. Similar things have been done with Electral also because we do understand that these are two brands which spill over from the prescription front.

And if I can say so that we are right now in the pharma OTX category with both these brands. The scope definitely lies in the FMCG part of the world but that is a complete different ball game and as of now we have not moved into that category. As far as the distribution channels are concerned we are still into that pharma space.

So our products are available online if you visit any of the online sites may be 1mg, PharmEasy or any of those sites with dispenses any kind of medicated products or medicinal products. All both these brands are freely available though we have not directly worked on through these channels but through secondary sources we get good and handsome business through other channels.

Viraj: Okay and on capex for FY'24 and FY'25 I think, we were also looking to spend towards our new corporate office and R&D center. So how much is done, how much is left?

Vijay Bhatt: So on the capex front actually there are lot of other small and big projects which are going on particularly in this corporate office which is ongoing. We hope that by end of the next calendar year hopefully that corporate office should get ready and the expenditure would spill over till the next financial year also. Having said that, if I have to give some range of expenditure, our regular maintenance capex is about INR50 odd crores annually.

And because of this corporate office going on, work going on and there are some other smaller projects going on at our manufacturing location. The capex for the next 12 to 15 months is in the range of about INR170 odd crores.

Viraj: Okay thank you and good luck.

Vijay Bhatt: Thank you.

Moderator: Thank you. The next question is from the line of Ravi Purohit from Securities Investment Management Private Limited. Please go ahead.

Ravi Purohit: So my question was I don't know if you can quantify but is it fair to assume that exports business is as profitable as the domestic business, less profitable, more profitable. If one were to kind of look at it as like two different segments and if one had to kind of do two separate -- let's say internally you had two separate P&Ls and balance sheets for export and domestic.

You had to draw up a written on capital employed for the export business versus the domestic business. Can you just share some colour on between the two - how is the economics like? Because we've confined ourselves to a fairly small niche of products for the export business. So just wanted to understand how is the profitability or the written on capital employed between the two divisions?

Vijay Bhatt: Ravi, I think it's a very difficult question to answer and because it's not that we don't want to answer but it is very difficult to answer. Because both are independent business, both are having its own dynamics. So if you ask me what is the profitability whether it is good or bad versus the domestic versus international, we would refrain to comment on that.

But export business is a totally different business. It is capital intensive in terms of the manufacturing base you need to have and it has a lot of entry barriers which itself in a way is a premium for those who are already in the market. Because it requires a lot of regulatory compliance competence which the company has.

With that in mind and with the product that we hold, I think the profitability is the result of the product that you sell at the market in which you are. We believe that we are in a good market. We would not like to compare ourselves with the domestic business per se.

And as such our base as of now compared to the domestic business is relatively small. But the business is good, promising. It has a lot of potential for us to grow in the future and hence we continue to focus on it.

We will continue to invest in future and that's where the overall profitability of the company. Because it complements the overall infrastructure that the company holds. So majority of our manufacturing locations are regulatory approved locations and hence for us it gives us an edge.

And in a way it allows us to give us the confidence to enter into many other markets where we haven't tapped in. Or we are in a very small way. And hence it's a very profitable business. Let's not get into the comparison of domestic versus export. But they both are complementing each other in the overall scheme of things. So that's the answer to your question. I hope you understand what we are trying to say on this.

Ravi Purohit: Okay. Thanks a lot. I'll get back in the queue.

Vijay Bhatt: Thank you.

Moderator: Thank you. Ladies and gentlemen, this brings us to the end of the question and answer session. I would now like to hand the conference over to Ms. Varsharani Katre, Company Secretary for closing comments. Over to you, ma'am.

Varsharani Katre: Thank you all for joining the earnings call of FDC Limited and expressing your views. In case if you have any concerns, please reach out to us on inventors@fdcindia.com. Thank you again. Over to the moderator.

Moderator: Thank you. On behalf of FDC Limited, that concludes today's earnings call. Thank you for joining us. You may now disconnect your lines.