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August 19, 2024

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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 Wednesday, 14th August, 2024 to discuss the Company's Q1FY25 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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Corporate Counsel & Company Secretary

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"Ipca Laboratories Limited Q1 FY25 Earnings Conference Call"

August 14, 2024

MANAGEMENT: **MR. A. K. JAIN – MANAGING DIRECTOR, IPCA LABORATORIES LIMITED**
MR. HARISH KAMATH – CORPORATE COUNSEL & COMPANY SECRETARY, IPCA LABORATORIES LIMITED

MODERATORS: **MR. NITIN AGARWAL – DAM CAPITAL ADVISORS**

Moderator: Ladies and gentlemen, good day and welcome to the IPCA Laboratories 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

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

Nitin Agarwal: Thanks, Priya. Good afternoon, everyone, and a very warm welcome to IPCA Lab's Q1 F '25 earnings call hosted by DAM Capital Advisors Limited.

On the call today, we have representing IPCA Lab Management, Mr. A. K. Jain – Managing Director; and Mr. Harish Kamath – Corporate Counsel and Company Secretary.

I will hand over the call to Mr. Jain to make the Opening Comments, and then we will open the floor for a quick Q&A. Mr. Jain, please go ahead, sir.

A.K. Jain: Thanks, Nitin, and DAM Capital for organizing this call. Good afternoon to all participants, and thanks for taking out time and joining us for Q1 FY '25 Earnings Call.

Today's call and discussions and answer given may include some forward-looking statements based on our current business expectations that must be viewed in conjunction with the risk that pharmaceutical industry business faces. Our actual future financial performance may differ from what is projected and perceived. You may take your own judgment on information given during the call.

Domestic formulation:

Our domestic formulation business for the quarter has delivered a growth of around 12%. If you look at external data MAT June '24, IPCA is ranked as a 16th pharma Company in IQVIA, and it's the fastest-growing Company among the top 20 players as per MAT June '24. We have delivered market beating growth in both acute and chronic segments and that are recorded by IQVIA for Q1 '25. Overall, IPM in this period has grown by around 9% and IPCA delivered growth of 15%.

On Acute Segment:

IPM growth was around 8%; we have growth of around 12%. And on chronic segment, IPM growth was 11%, and we have delivered around 20% growth as per IQVIA.

The Company continued to increase its market share, the MAT June 2024, our market share has crossed around 2.01% from 1.91% in MAT June '23. And for Q1 '24, our market share has gone up to around 2.17% as against Q1 '23 of 2.06%. So, there is a clear gain of almost around 11 basis points.

On export formulation business, there is a decline of 1% in Q1 '25 from around Rs. 398 crores to Rs. 395 crores. We have faced major challenges in shipping, getting containers timely and some of the challenge also faced on the supply chain side, that has resulted in a decline in the business.

On API Business:

We continue to face some challenges. And in Q1 '25, the business declined by 2% from Rs. 295 crores to around Rs. 287 crores.

On Margin Basis:

If you look at margin or standalone EBITDA margin for Q1 is 22.25% is better than our guidelines of 21% for the financial year. Our consolidated EBITDA margin is around 18.52% is also better than overall guidelines for the year at around 18% for the year. Improvement in the margin are because of improvement in overall product mix, lower input costs as well as lower manufacturing and other costs.

Income from Operations:

If you look at, the Company has delivered a standalone growth of around 5%. It is lower compared to our guidelines of around 10.5% to 11%, largely because of exports that we have discussed above. We expect better growth in line with our projections for Q1 '25 and also for the rest of the year. Consolidation results are not comparable as Unichem results are consolidated from the second quarter of FY '24.

Having given the broad numbers, then I would request participants to ask their questions.

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

Tushar Manudhane: Sir, on the gross margin front, firstly on an ex-Unichem basis, there has been a very healthy win. Is this to do with lower exports? And so as the exports scale up, would we see some rationalization of gross margin going forward?

A.K. Jain: Let's say, our exports also, we have good margins. It's not that except the U.K. where the margins are a little lower, but all other markets also we have got good margins. So, that's the reason for overall...

Tushar Manudhane: So, this kind of gross margin is sustainable for FY '25 per se?

A.K. Jain: If you look at this, the only factor which is there, we have lower gross margin on API side and API business has not grown. So, to some extent, because of this product mix also, there margins could be better. But is largely because of product mix improvement and also because of lower input costs. And also our operating costs remaining in control. If you look at our manufacturing and other expenditure, that has grown by just 2% here. Employment costs may be around 9%, here.

Tushar Manudhane: So, sorry for that, sir. Sir, secondly, on the exports also, do you see revival happening soon or this logistics issue might prevail for a couple of quarters?

A.K. Jain: Logistics issue will take some more time because the ground situation has not improved yet. So, those issues will continue for some more time. But exports certainly will improve. I think the major setback in this quarter, we have faced mostly in one particular geography, Australia, New Zealand, where the business has gone down by almost around Rs. 40 crores, so that is the one, which is, by and large, is relating to some supply chain on the API side that got a little issue. So, we are not able to manufacture those kind of products, supplies may come maybe in this quarter. So, if things start happening again on third quarter onwards from that market. So, that was one major challenge we have faced during this quarter and some export shipments also got a little delayed in the market here because of the shipping issues.

Tushar Manudhane: Understood. And lastly, on API side, if you could just share what would have been the volume growth and the price erosion that would happen in the quarter?

A.K. Jain: Price erosions are now very limited, right? Price erosions were there, but now it's very, very limited. Now it's not, maybe 2%, 3% here and there, but price erosion trend has stopped now. And I would say that the input cost is also not moving up to that extent. There is a marginal improvement here and there in solvents and others. But by and large, your material costs are also very stable here.

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

Aayan: Just wanted to understand the issue on export formulation and API, you highlighted supply issues. So, the guidance that you had given end of last quarter, now with respect to API delivering 6%, 7% growth and generic also double-digit growth. How should we think about that given this uncertainty? And how much it can be recovered for the rest of the year?

A.K. Jain: Yes. The overall guidance if you look at was 10.5% to 11% growth for the year. And I think second quarter we will certainly deliver that kind of growth. And going forward, also that kind of growth will come, but I think whatever deficiency has come in the quarter, that's very difficult to bridge. So, overall, for the year, there could be overall growth of around 9% or so, broadly.

Aayan: Understood. And on Unichem, if you can update on the progress that you've seen. We've seen improvement in gross margins. And the overheads have remained largely flat. So, how are you think about the progress there? And the synergies that you mentioned, both on the revenue and the cost side, where are we with respect to realizing those? And if you can give some color on the future here.

A.K. Jain: So, on the topline side, I think there is marginal pressure on pricing. So, it's not very high. Even looking at that also, the gross margins have improved because we could substantially reduce the lower pricing on procurement side and advantage, we could extent for the overall, combining the volumes of procurement of IPCA and Unichem put together and then negotiating the prices. So, our price negotiation is far more improved. There are certain operating efficiencies has come in their operations, and that is also resulting in the overall better margin side. And on utility side, they have further improved the cost on utilities, and therefore, the manufacturing other expenses have not grown in line with overall business growth and all so that also savings has come. Some of the intermediates, they could reduce the cost of production. And I think that's going to be commercialized in next 2 quarters. So, that advantage will also come. And as far as other objectives of market extensions are concerned, there is every month a review is happening, and lot of work are happening on that line. But I think those advantage would come in the, I think, maybe around 1, 1.5 years from now. Nothing is going to come very quickly because a lot of work are happening, the other compilations are going on. They will be filed with regulators. And once they review and whatever their queries are there, that replied, only after then, we will get the approvals and then marketing preparations, all that. So, it's a 1.5 to 2 years kind of journey. So, that work is continuously going on for extending products to the various markets, whether it's Europe, whether it's a market in Latin America like Chile or whether it's Australia, New Zealand, or those kind of Canada markets. So, everywhere those kind of work are happening. So, that's a little longer term, and that is what will give the real advantage once those benefits start coming in. On API process reduction side, also a lot of work is happening. But again, it may take 1.5 years' time for that to reflect in the results. So, right now, it's basically all low-hanging fruits, that is what we could like, say, operating efficiencies, purchasing efficiencies. And their shipping costs, I think earlier, they were practically almost around 60% of their volumes were going through air and 40% by sea for U.S. market. So, that has been reversed now. It's only 17%, 18% is now going by air. But in spite of that, their freight costs have moved up in this quarter, largely because sea freight has also gone almost around 3x. So, overall, maybe I think in time to come, the situation will ease, and I think what operational efficiencies which we have built up, that will bring even shipping costs and time to come down. So, that will further add to the overall profitability of Unichem.

Moderator: Thank you. Next question will be from the line of Shiva from Purnartha Investment Advisors. Please go ahead.

Shiva: Congrats on strong margins posted. My first question is with respect to Unichem. For the full year, I just wanted to understand, obviously, Unichem posted a great number last year in generics. So, the base has been a little bit on the higher side. And the first quarter, as you pointed out, one was the logistics, which is pulled off. But on an overall level, how do you see the environment of generics in U.S.A. per se? And how do you look at it for Unichem?

A.K. Jain: So, there is not much of pricing pressure. Its only marginal pressures are there. But otherwise, let's say, the U.S. is a good market, and we are not seeing that kind of bloodbath now. So, it's a better time for this generic business overall.

Shiva: And the demand outlook is strong. Do you feel there's a double-digit potential growth? Or how do you look at the overall growth?

A.K. Jain: It's possible to achieve double-digit kind of growth for us, yes.

Shiva: And with respect to MR, obviously, we've added substantial amount earlier. Just wanted to understand what was the productivity of the MR for the full last year? And what is the current strength? And how do you look at the productivity for this year as a percentage of the exact number, what kind of improvement are we looking at?

A.K. Jain: We have close to around 6,500 MRs right now, last year may around a little less than 6,000 around that time. And some more MRs are being added now because 1 more division on pain we are starting now. It may be around the next 2 months' time that the division will be launched in the market. So, in overall productivity, I think around 1st Quarter last year, we had a productivity of 4.21 lakhs. And current year first quarter, it is around, I think, 4.52 lakhs of the productivity for month, but there is a significant improvement from 4.21 lakhs to 4.52 lakhs per month, despite the overall increase in the field staff.

Moderator: Thank you. The next question will be from the line of Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai: Sir, you mentioned the shortfall on the export side, which you have seen in 1 quarter that might not be bridged. So, how do you see the overall export growth for the market? And in terms of profitability at the consolidated level, what are your expectations for FY '25?

A.K. Jain: Overall, I think topline growth, our earlier projection was around 10.5% to 11%. That may remain around 9% for the whole of the year for the Company. I'm talking IPCA as a standalone. And as far as profitability are concerned, I think that it's going to be better than what we have initially projected, what the earlier guidelines we have given last year was for

Q4, around that time the profitability of around 18.5% overall, we have the consolidated margins we have guided. And overall EBITDA for the standalone was guided around 20.5% to 21%. So, there are possibility of further improvement in that because our current quarter margins are better and second quarters are much better quarter. So, it may further exceed that and overall, margins maybe around 0.5 basis point to 1 basis point, it will be higher than what guidance we have given earlier.

Damayanti Kerai: Okay. That's helpful, sir. And my second question is if you can update us on your advancement in the U.S. market in terms of how you're advancing in supplies or in filing for the market? Like I understand, it's slightly longer term to scale up, but nonetheless, if you can talk about the progress which you have seen so far?

A.K. Jain: So, currently, I think, 2 products are launched already there. And I think in this balance period of current financial year, at least 3 to 4 products will be commercialized more. So, around 5 to 6 products will be launched in the current year, and then next year may be another 6 to 7 products may be launched. So, overall, next 2 years, I think we should reach to around 12 to 13 kind of products in the market, yes.

Damayanti Kerai: But this should be helping at least in better utilization of your U.S. plants, right? Although sales will come maybe later on. We will see better sales later. But at this point of time, you are utilizing plants better and that has been...?

A.K. Jain: Utilizing plants better, and that will also improve the overall profitability because most of these products are from captive consumption. So, practically, everything is from captive consumption. So, our API plant utilizations and our formulation plant utilization, that will lead to the overall margins also.

Damayanti Kerai: So, sir, 12 to 13 launches in the next 2 years, cumulatively. And what's the update on the filing part? Are you filing new products or on the existing ANDAs only you are trying to update the dossiers?

A.K. Jain: See, last 10 years, we did not work on U.S. market. So, there is no pipeline for filing in IPCA as far as, so that pipeline is building now, and it takes time. So, a lot of bioinoculant studies and other things are going on. So, once we file, then we will start updating. But still, I think maybe 6, 8 months away from filing anything new.

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

A.K. Jain: We have nothing to add. So, if there are no further questions, we can close this con call.

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