



## IOL CHEMICALS AND PHARMACEUTICALS LIMITED

14<sup>th</sup> February 2024

IOLCP/CGC/2024

**National Stock Exchange of India Ltd.**

Exchange Plaza, Plot no. C/1, G Block,

Bandra-Kurla Complex, Bandra (E)

Mumbai - 400 051

**Security Symbol: IOLCP**

**BSE Limited**

Phiroze Jeejeebhoy Towers,

Dalal Street

Mumbai – 400 001

**Security Code: 524164**

**Subject: Transcript of Earnings Conference Call, post declaration of audited financial results for the quarter and nine months ended 31<sup>st</sup> December 2023**

Dear Sir,

Pursuant to Regulation 30 read with Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached herewith the transcript of Earnings Conference Call organized by the Company on 8<sup>th</sup> February 2024 post declaration of audited financial results for the quarter and nine months ended 31<sup>st</sup> December 2023

This is for your information and records.

Thanking You,

Yours faithfully,

For IOL Chemicals and Pharmaceuticals Limited

Abhay Raj Singh

Sr. Vice President & Company Secretary

**IOL Chemicals and Pharmaceuticals Limited**  
**Q3 & 9M FY24 Earnings Conference Call**  
**February 08, 2024**

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**Moderator:** Ladies and gentlemen, good day and welcome to the Q3 and 9M FY24 Earnings Conference Call of IOL Chemicals and Pharmaceuticals Limited.

From the management, we have Mr. Pardeep Khanna – Chief Financial Officer, Mr. Abhay Raj Singh – Senior VP and Company Secretary and Mr. Rakesh Mahajan – Advisor Finance and Strategy. We also have an Investor Relations team from Adfactors PR.

As a reminder, all participant lines will be in the listen only mode. You will be able to ask questions after the presentation concludes. Should you need assistance during this conference, please signal the operator by pressing “\*” and then “0” on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Darshan Mankad from Adfactors PR for the opening remarks. Thank you and over to you sir.

**Darshan Mankad:** Thank you Darwin. Good afternoon everyone. We welcome you to the third Quarter and Nine Months Ended December 31st, 2023 Earnings Call of IOL Chemicals and Pharmaceuticals Limited.

Before we begin the Earnings Call, I would like to mention that some of the statements made during today's call might be forward looking in nature. And hence it may involve risks and uncertainties including those related to the future financial and operating performance. Please bear with us if there is a call drop during the course of the conference call. We would ensure the call is reconnected the soonest.

I will now hand over the call to Mr. Abhay Raj Singh for his opening remarks. We will then open the forum for Q&A. Over to you Abhay sir.

**Abhay Raj Singh:** Thank you Darshan. Good afternoon, everyone. First of all, I would like to thank you very much for joining the third Quarter and nine months ended 31st December 2023 Earning Conference Call of IOL Chemicals and Pharmaceuticals Limited.

As we connect for the first time in this new year 2024, let me wish all of you a healthy and prosperous 2024. Hope you all have gone through the “Results and the Investor Presentation” available on the website of the company as well as exchanges.

Before we dive into the financial performance for this quarter, and open up the floor for the Q&A session, we would like to briefly touch upon the economic and industry outlook:

According to latest IMF outlook, the global growth is projected at 3.1% in 2024 and 3.2% in 2025 whereas India is expected to be the fastest growing economy globally and is projected to grow at 6% to 7% in 2024. Strong domestic demand, government spending on building infrastructure capabilities and higher per capita consumption are major drivers behind the growth projections. The pharmaceutical sector in India is currently undergoing a significant transformation with a strong emphasis on enhancing local value addition. The government policies aimed at promoting domestic production of active pharmaceutical ingredients are expected to positively influence the sector's contribution to the global pharmaceutical supply chain. However, industry stakeholders are advocating for uniform tax implications throughout the value chain to further boost domestic manufacturing.

We appreciate the government's ongoing commitment to promoting healthcare innovation, research and technology as outlined in the recent budget announcements. We also anticipate that bringing the API segment on par with the formulations will definitely create a level playing field. On the profitability front we have observed some margin contraction compared to the previous quarter largely due to lower realizations. The specialty chemical sector as you must be aware has not recovered as anticipated couple of quarters ago. There are still signs of weakness in demand and volatility. However, on the positive front the raw material prices are in control, which has helped the industry in limiting the margin contraction. With China still contributing majorly to the global demand recovery, there is still a concern for higher price realization.

During the last quarter another impediment we witnessed was the rise in the freight and insurance costs due to Red Sea crisis. With the crisis still on, we expect these costs to remain higher in Q4FY24 as well.

With this, I would like to hand over the call to my colleague, Mr. Pardeep Khanna, who will brief you about our financial performance for the 3rd Quarter and nine months ended 31st December 2023.

**Pardeep Khanna:**

Thank you Abhay. Good afternoon everyone and thank you for joining us today to discuss our performance for the 3rd Quarter and nine months ended 31st December 2023.

The total income of the company in the 3rd Quarter of financial Year 2024 stood at ₹ 529 crore as against ₹ 530 crore in the corresponding quarter of financial year 2023 and ₹ 552 crore in the previous quarter ended September 2023. EBITDA for the quarter was ₹ 53 crore as against ₹ 50 crore in the corresponding quarter of financial Year 2023 and ₹ 71 crore in the previous quarter ended September 2023.

EBITDA margin for the quarter marginally improved by 60 basis points to 10% as against 9.4% in corresponding quarter of financial Year 2023 and 12.9% in previous quarter ended September 2023. The net profit in the 3rd Quarter of financial Year 2024 was ₹ 23 crore as against ₹ 24 crore in the corresponding quarter of the last year and ₹ 38 crore in the previous quarter ended September 2023. With easing of input cost year-on-year basis EBIT margin for the pharmaceutical segment was at 12.19% in third quarter of financial Year 2024 while EBIT margin for the Specialty Chemicals segment was 0.43%.. CAPEX for the quarter was ₹ 80 crore as against ₹ 75 crore in the corresponding quarter of financial year 23 and ₹ 82 crore in the previous quarter ended September '23.

The export for Q3FY24 grew 27% to ₹ 180 crore as compared to ₹ 142 crore in the corresponding period of the last year. Export for the nine months period grew 17% to ₹ 504 crore as compared to ₹ 431 crore in the corresponding period of the last year. With this, we open the floor for a question-and-answer session. Thank you very much.

**Moderator:** Thank you. We will now begin the question-and-answer session. The first question is from the line of Deep C from 9 Rays EquiResearch. Please go ahead.

**Deep Chitalia:** Thank you for the opportunity. So, sir my question is, are we seeing any further decline in input cost and improvement in margins ahead in FY25?

**Rakesh Mahajan:** Good afternoon. I think the prices of both input and finished prices are now curtailed and we don't see any further reduction in input prices. It is already bottomed out.

**Deep Chitalia:** Okay, got it sir. And what will be the EBIT margin trajectory for API segment in FY25?

**Rakesh Mahajan:** It will improve because we are expecting some regulatory approvals and increase in our export portion. So, we hope it will be little higher from current level.

**Deep Chitalia:** Okay, sir. And what are the CAPEX plans for the next year and how it will be funded?

**Rakesh Mahajan:** Usually, we incur around ₹ 150 to ₹ 200 crore every year. Since last six to seven years it is entirely funded from internal accruals. For the upcoming CAPEX, it will be primarily from internal accruals only..

**Deep Chitalia:** Okay. So for FY25, the CAPEX could be around ₹ 100 to 150 crore?

**Rakesh Mahajan:** No, around ₹ 150 to 200 crore-.

**Moderator:** Thank you. The next question is from the line of Vivek Jala from JR Investments. Please go ahead.

**Vivek Jala:** What kind of increase in revenue potential are we expecting from Losartan which recently got CEP certificate in European market. And do we have plans to sell this product this quarter itself?

**Rakesh Mahajan:** We have got the CEP in this current week only, but as of now we have not set up any dedicated plant for Losartan. It is being produced in the multi project facility of our company. We are currently doing campaign based manufacturing. Depending upon the demand and validation from customers in coming 2 to 3 quarters, we will think about setting up a dedicated plant or increase the capacity of Losartan.

**Vivek Jala:** Okay, thank you. And just a follow up with the specialty chemical segment, which contributes substantially to your top line and very marginally to your bottom line, but apart from backward integrated chemicals for API, how do you see this business going ahead?

**Rakesh Mahajan:** First of all the major portion of revenue in chemical is from Ethyl Acetate which is not captively consumed. It is only for merchant sale. Other chemicals like Iso Butyl Benzene, Acetic Anhydride and Mono Chloro Acetic Acid are 80% to 90% captively consumed. We are not focusing on the revenue of these products used for captive consumption. These are mostly for self-reliance of our API products.

**Vivek Jala:** Thank you. And just last one, we are seeing sharp reduction in gross margin on Q-o-Q basis could you give some color on it please.

**Rakesh Mahajan:** The major cause of reduction in profitability is the reduction in finished goods prices, especially of Paracetamol. We think the price of Paracetamol has bottomed out and also the input prices have declined in that ratio. So we hope that input prices too have bottomed out and these product price is likely to improve from the next quarter.

**Moderator:** Thank you. The next question is from the line of Neelam Punjabi from Perpetuity Ventures. Please go ahead.

**Neelam Punjabi:** Thanks for the opportunity. Sir my first question is on the other API business. The revenue has been sub ₹ 100 crore this quarter. And we had initially guided for the full year delivering ₹ 500 crore of revenue. So, are we sticking to this guidance because this would imply ₹ 165 crore of revenue in 4th Quarter. So, if you can just give some comments around that?

**Abhay Raj Singh:** Neelamji you are absolutely right that initially we guided for revenue of ₹ 500 crore from non-ibuprofen business. Perhaps we could have achieved the same or maybe a little more than that, but there is a substantial fall in the prices of our non-ibuprofen products, majorly in Paracetamol. So, we are not sure for now that we will be clocking ₹ 500 crore, but we will be achieving around ₹ 440 to ₹ 450 crore for sure.

**Rakesh Mahajan:** Although the quantity of these products are growing, but the major factor affecting absolute revenue is price realization.

**Neelam Punjabi:** Understood. So, sir if you can just give some guidance to us as to how are you seeing this business in the next couple of years, You believe the prices have now bottomed out. So, going forward, what's the kind of growth that we can see in a non-ibuprofen API business?

**Rakesh Mahajan:** The company is targeting as a whole a top line growth of 10% to 12% annually. In regards to ibuprofen we are already on a capacity utilization of 85%. We hope that it will be maintained in next two quarters. Maybe if there is a demand surge, we can scale it to 95%. Along with ibuprofen we are also working for increasing revenue from non-ibuprofen segment, although this quarter and little bit part of last quarter was affected due to price erosion. We are targeting around 25% revenue growth from non-ibuprofen segment in upcoming one to two years.

**Neelam Punjabi:** 25% revenue growth you are talking about for non-ibuprofen APIs?

**Abhay Raj Singh:** As of now the non-ibuprofen business, contributes around 21% to topline. The guidance in revenue growth is for next two to three years for the non-ibuprofen business. We are hopeful of achieving the same, considering that we received CEP. Our export sales are expected to be visible in the first or second quarter of the next financial year, which would help us achieve the revenue growth from this segment

**Neelam Punjabi:** Okay, got it. So for exports of our non-ibuprofen APIs, you are saying from next financial year either in the first or second quarter we start ramping up our exports business right?

**Rakesh Mahajan:** We have already started little bit of exports. We are awaiting the validation of various customers. We have already started the seeding and we hope that within two to three quarters we will start getting commercial orders from them.

**Neelam Punjabi:** And once our exports business starts ramping up, are we anticipating some good increase in our gross margins and if you can just guide us to what kind of levels our gross margin can head towards with increase in export contribution?

**Rakesh Mahajan:** When we start exporting to European countries and other countries, net sales realisation is expected to increase. Among the regulated markets the difference in price varies from product-to-product. In some products there is a marginal difference in margin; but in some products, the margin is higher by 20 to 25%. On an average, we hope to improve on gross margin front, once we stabilize our export business in non-ibuprofen segment.

**Neelam Punjabi:** Okay and for ibuprofen this quarter our capacity utilization was 85% is that what you mentioned?

**Rakesh Mahajan:** Yes.

**Abhay Raj Singh:** So, basically the lower capacity utilisation is on account of being the last month for the calendar year. Globally the overseas markets remain slow on buying side due to holidays. That is the main reason why it was little bit on lower side of capacity utilization. But in the quarter(Q4) and the first quarter of the next financial year usually the ibuprofen quantity sale is better than the third quarter.

**Neelam Punjabi:** Got it, okay. And sir next on our chemical business. So, given we had commercialized our Acetic Anhydride plant, however that has not translated into any meaningful topline contribution yet. So, if you can just comment around that, what's the reason behind it. has it contributed anything to the topline this quarter?

**Rakesh Mahajan:** As you know we have commercialized around two quarters back, but after captive consumption we sell the rest in market. The biggest market for Acetic Anhydride is the agrochemicals. Agrochemicals is already on the downside. You must be knowing that the performance of all agrochemical companies is affected due to pressure from China and they are struggling for good numbers. That is one reason it has not contributed till now, but we are already seeing various customers and approaching various other agrochemical and pharmaceutical companies. We are expecting some pressure for couple of more quarters before it contributes to the top-line.

**Neelam Punjabi:** Understood, okay. If you can just comment around what was the price realization for Ibuprofen, Paracetamol and Metformin that would be helpful.

**Rakesh Mahajan:** The price realization of Paracetamol is down by 35% to 40% in comparison with the last quarter of FY23. Although the prices of major raw materials have also come down. With regard to Ibuprofen it is stable at around US\$10.

**Neelam Punjabi:** Okay, is this \$10 similar across our exports and domestic business?

**Rakesh Mahajan:** That is net realization to the company.

**Moderator:** Thank you. The next question is from the line of Vikas Sharda from NT Asset Management. Please go ahead.

**Vikas Sharda:** Most of the questions have been answered. Just one question, last year in March quarter you had a big bump in the margins. So is it one off or is it a quarterly phenomenon for you?

**Rakesh Mahajan:** In March demand of APIs also increased, and in chemical we got some good numbers because of some operational efficiencies and some good orders from customers. So, we are little bit hopeful that current(Q4) quarter will stabilize.

**Vikas Sharda:** Understood. And from the previous quarter to this quarter, the decline in the gross margins you said it's mainly because of the other APIs?

**Rakesh Mahajan:** Yes, the price realization of non-ibuprofen API's

**Vikas Sharda:** Understood, perfect. And what's your expectation of improving the realization there or what period will it happen?

**Rakesh Mahajan:** The Paracetamol prices primarily have come near to pre-COVID level, demand is still there , but prices are drastically down from last year's price by 35% to 40%. Although we think that the prices are now stabilized and bottomed out. Plus viability for many player may not remain, because we are backwardly integrated for Paracetamol, we maybe have an edge from other competitors and hope so the price will increase.

**Vikas Sharda:** And out of this ₹ 450 crore or so of other API sales that you are targeting this year, how much of that is Paracetamol?

**Management:** It is not more than 10% as of now.

**Moderator:** Thank you. The next question is from the line of Shaikh Mohammad Ayaz an Individual Investor. Please go ahead.

**Shaikh Ayaz Mohammad:** Sir my question is regarding some data I have got from internet regarding export. It was through Arihant Chemical Research and EXIM. It mentions 26% growth year-on-year in export and 9.7% growth quarter-on-quarter. I just want to confirm, whether it's right or wrong?

**Rakesh Mahajan:** Which product?

**Shaikh Ayaz Mohammad:** Overall export data, it is increased by 26.8% year-on-year and 9.7% quarter-on-quarter?

**Rakesh Mahajan:** I have not seen the number, but I have heard that export has increased for the country as a whole. But, I can not comment on it as of now as I don't know the exact amount.

**Shaikh Ayaz Mohammad:** Okay. Sir my next question is regarding, what kind of revenue and margin we are expecting in the next quarter, because your last March was superb. In terms of revenue also, management had given guidance of 10% to 15% growth, but I don't see even 5% increment in the revenue.. I don't think it is possible, but whether it is possible for 1.5% growth which we have achieved last year in FY23. Is it possible to reach ₹ 600 crore revenue in the last quarter?

**Rakesh Mahajan:** As of now considering the current market scenario and geographical uncertainty, that number will not be achievable for this year.

**Shaikh Mohammad Ayaz:** What kind of EBITDA margin we are expecting from next quarter. Why I am asking this is already for Q4 one month and eight days is over and so what kind of improvement you are seeing in terms of EBITDA?



**Rakesh Mahajan:** We understand that there is a little bit improvement but I can't comment on the exact number. Some improvement is expected in EBITDA margins for Q4.

**Shaikh Ayaz Mohammad:** Okay, sir. My next question is Granules India is planning a backward integration of para-aminophenol and DCDA, 100 tonne capacity of DCDA will be commenced by this year end, and how it is going to affect IOLCP and are we going for DCDA plant?

**Rakesh Mahajan:** We are already manufacturing para amino phenol. The existing capacities are totally backward integrated with 100% para amino phenol manufactured in-house. We are not buying it from outside.. DCDA as of now, we are buying entire quantity from China. As per our understanding they are starting with the pilot plant of DCDA and production will commercialize in FY26.

**Shaikh Ayaz Mohammad:** Okay. Sir, there is a Red Sea crisis. Do we see any impact of Red Sea crisis on our exports?

**Rakesh Mahajan:** Yes, Red Sea crisis has impacted delivery time and freight cost. Our delivery time has increased by three to four weeks for export but that is not applicable only to IOL. Entire industry is facing this problem Also, even insurance and freight cost has increased.

**Shaikh Ayaz Mohammad:** So, how are the shipping cost being decided? Are we passing it?

**Rakesh Mahajan:** For already contracted orders the amount is being borne by the company but for upcoming contracts we are negotiating with our customers for passing on these costs to them.

**Moderator:** Thank you. The next question is from the line of Deep Chitalia from 9 Rays EquiResearch. Please go ahead.

**Deep Chitalia:** Yes sir my follow up question is, can you tell us the margins of exports and domestic business separately?

**Rakesh Mahajan:** As we discussed it depends on the product and it depends on the market where we are selling. In the regulated market it is at par for some products; while for some other products, the margin difference is in the range of 15% to 20%.

**Pardeep Khanna:** Generally the price realization in export market is better than domestic market by 10% to 20%.

**Deep Chitalia:** Okay, got it. As you have mentioned that there are eight products in the pipeline to be launched. Wanted to know when these products will get launched and how much revenue we can expect from the very first year?

**Rakesh Mahajan:** We will not launch all the products in one or two years. It will take longer time to set up these plants and first we will start manufacturing them only in multiproduct facilities, then when we see good demand then we will set up dedicated plants. So as of now, we can't comment on the revenue from these products.

**Moderator:** Thank you. The next question is from the line of Hemant from Norasia Trading. Please go ahead.

**Hemant:** What is the plan on the Paracetamol expansion which you were supposed to update us this quarter?

**Abhay Raj Singh:** You are asking about Paracetamol capacity enhancement?

**Hemant:** Yes, capacity expansion.

**Abhay Raj Singh:** We have not given any announcement regarding this. We will update all the stakeholders at an appropriate time. The management consider the market situation and accordingly at a suitable time, update will be shared.

**Hemant:** The reason why I am asking is, because the last few quarters we have been saying that we have been running on 90% capacity utilization. Probably we have a huge runway for growth in Paracetamol API itself. And also we are backward integrated, so I am just trying to understand what are the challenges we are facing and you also have the same customer base for Ibuprofen as well as for Paracetamol. So where exactly we are facing challenges that it's taking so long?

**Abhay Raj Singh:** That is very much correct Mr. Hemant, what you are saying is all strategic. The management is also considering all the things in the same direction you spoke about. But because we have not decided anything on it so far we are not able to communicate any update.

**Moderator:** Thank you. The next question is from the line of Shaikh Mohammad Ayaz an Individual Investor. Please go ahead.

**Shaikh Mohammad Ayaz:** What was the intention behind opening and closing of IOL UK Limited subsidiary?

**Abhay Raj Singh:** At the time when decided to open the UK subsidiary, we were thinking of doing some business from that Company. Now, we think that UK is not that perfect destination and it is also not in EU anymore. So, we have thought of something else and we will let you know at an appropriate time about it.

**Shaikh Ayaz Mohammad:** Sir, this is a last question. What kind of capacity expansion we can expect in the upcoming quarters?

**Abay Raj Singh:** Capacity expansion of what?

**Shaikh Ayaz Mohammad:** Any product we are manufacturing or of the products in pipeline?

**Abhay Raj Singh:** We are thinking of capacity enhancement for various products, but as of now no decision is taken. Anything if I say will be forward looking in nature and we would like to refrain from making any such statements.

**Rakesh Mahajan:** But we are exploring various formats.

**Abhay Raj Singh:** We keep on evaluating various strategies and various options depending on the market situation and demand. Once we decide we will let you know.

**Moderator:** Thank you. The next question is from the line of Vivek Jala from JR Investments. Please go ahead.

**Vivek Jala:** Sorry, are we on track to achieve around ₹ 500 crore revenue in FY24 from non-ibuprofen?

**Abhay Raj Singh:** So, Mr. Vivek initially we were targeting about ₹ 500 crore revenue from non-ibuprofen products this year, but considering the current market situation it looks tough. We will not be able to clock ₹ 500 crore revenue from non-ibuprofen but surely we will be able to do something around ₹ 450 cror.

**Moderator:** Thank you. The next question is from the line of Dinkle Shah, an Individual Investor. Please go ahead.

**Dinkle Shah:** Sir, my first question is, could you just give us a break up of price and volume growth for the current quarter for API as well as the specialty chemical segment?

**Abhay Raj Singh:** Revenue break up?

**Dinkle Shah:** The price and volume growth for the quarter and the break up between API and specialty chemical segments?

**Rakesh Mahajan:** Madam, thank you for the question but let me tell you that the prices of API has decreased during this quarter. So, there is no growth in price of APIs. For specialty chemicals, especially Ethyl Acetate price has stabilized with around 0.5% or 1% rise observed, but the prices of APIs have not grown in the last quarter.

**Dinkle Shah:** But sir my question is in spite of API segment procuring higher margin, but the segment in general has de-grown specially on Y-o-Y and Q-o-Q basis. So any particular reason in spite of higher margin we are de-growing?

**Rakesh Mahajan:** It is only the price that has decreased which is the main reason for de-growth in the profitability of API segment. We hope that it is already bottomed and it will recover over next two quarters.

**Moderator:** Ladies and gentlemen, we have no further questions. I would now like to hand the conference over to Mr. Rakesh Mahajan for closing comments. Over to you sir.

**Rakesh Mahajan:** Thank you everyone for joining us today and discussing our third Quarter and nine months ended 31st December 2023 performance. The company continues its strategic focus to

diversify revenue and geographical base. We are on an intended path of entering regulated markets. So some of our APIs are ones which we have received the approval from the regulators. As discussed, this would help us in expanding the margin and on value for investors and shareholder alike. Thank you very much again for attending this call. Have a nice day.

**Moderator:**

Thank you. On behalf of IOL Chemicals and Pharmaceuticals Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your line.