

“IOL Chemicals & Pharmaceuticals Limited Q4 & Full Year FY-21 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to IOL Chemicals & Pharmaceuticals Limited Q4 & Full Year FY21 Earnings Conference Call hosted by Antique Stock Broking 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. Anubhav Adlakha from Antique Stock Broking. Thank you and over to you, sir.

Anubhav Adlakha: Good afternoon everyone. Hope everybody is safe and healthy. Thank you for joining us on the IOL Chemicals and Pharmaceutical Q4 and Full Year FY21 earnings call. Today we have with us Dr. Sanjay Chaturvedi - Chief Executive Officer and Mr. Pradeep Khanna - CFO with us from the senior management. We will begin the call with opening remarks from the management followed by an interactive question-and-answer session. I will now hand over the call to Dr. Chaturvedi for his opening comments. Thank you and over to you, sir.

Pradeep Khanna: I am Pradeep Khanna, Chief Financial Officer, IOLCP. Good afternoon, everyone. Thank you for taking time to participate in this earnings call. It gives me immense pleasure to introduce Dr. Sanjay Chaturvedi, who has been appointed as IOLCP's Chief Executive Officer. Dr. Sanjay has been actively a part of the specialistic chemicals and pharmaceuticals industry for over 25 years.

Dr. Sanjay brings a demonstrated track record along with the functional expertise in P&L, sales, marketing, strategy, manufacturing and R&D in the USA and India. He was involved in several key roles at various leading organizations. Thank you and over to Dr. Sanjay Chaturvedi.

Sanjay Chaturvedi: Thank you, Mr. Khanna for your kind words. Good afternoon, everyone. I hope everyone you and your loved ones, your families are doing well, keeping safe and in good health in these trying pandemic times. I am delighted to have accepted this position in March of this year at IOLCP. Clearly, many of you know the company. And you have also had a chance to read the earnings document and I look forward to answering any questions you have.

But before we take up the questions, I would like to shed some light on the business and kind of share my perspective on the performance for the year gone by and my colleague, Mr. Khanna will then provide you a lot more granular details of the financials. So, I also want to spend some time on not just the financial numbers, but on the story behind the financials. So, clearly, you know that IOL Chemicals & Pharma is one of the leading API players and bulk drug

manufacturers. We have been leading players in certain products in the specialty chemical segment as well.

So on the pharma side, we are the largest producer of ibuprofen. We have installed capacity of about 12,000 metric tons. And we are a player with complete backward integration for all the major chemicals that are required to produce ibuprofen. And what I want you to read in this story is that going forward, how does one leverage a backward integration position into other APIs as well. Coming back to ibuprofen, we currently hold about 35% world market share. On the chemical side we are one of the top producers of ethyl acetate. And we are delighted to inform you that in Q4 of last year, we expanded our capacity from 87,000 metric tons to 100,000 metric tons in ethyl acetate.

As you may already know, ethyl acetate has a wide application beyond pharma. It goes into ink industry, packaging, adhesives, and surface coatings. So this really de-risks our business away from pharma a little bit and helps us get a footprint into other industries as well. We are also the second largest producer of isobutyl benzene, which is a key intermediate for ibuprofen and we hold about 30% market share. I am delighted to inform you that we have successfully installed new manufacturing facility unit eight to manufacture ibuprofen derivatives and some other pharma products.

We are in the process of setting up two more manufacturing unit facility, unit 9 and unit 10. Unit 9 will be primarily for Gabapentin with a capacity of over 600 tons and some other pharma products and unit 10 will be used for manufacturing multiple pharma products.

So the installation of both these units is on schedule and all the full CAPEX will be met through internal accruals. Delighted to inform that we have a real state of the art R&D facility, which is approved by Department of Scientific and Industrial Research, DSIR. And this has equipped with all the modern equipment and analytical tools to research on the pharma API side. Coming onto the financials, the headline is yes, it was very challenging year during COVID times and yet, we managed to deliver 4% growth.

On our top line we grew from Rs. 1,910 crores in FY20 to Rs. 1,991 crores in FY21. Our EBITDA grew from Rs. 590 crores to Rs. 616 crores and this is really a remarkable achievement during COVID times, but the most remarkable achievement was really our PAT, which grew 23% from Rs. 361 crores to Rs. 445 crores. This was largely attributed to a lower financial cost.

So, in this global chemicals and pharma supply chain we continue to take advantage of new opportunities when they present themselves. In conclusion, let me deliver a very clear message that IOL Chemicals and Pharma is very well geared with the right infrastructure, with the right tools, with the right team to deliver any opportunity that is available in the market that requires skilled dedicated manpower, expansion and leverages our world class facilities. So, with this, I would like to hand over to my colleague, Mr. Pradeep Khanna, the CFO who will be talking more in details. Over to you, sir.

Pradeep Khanna: Thank you Dr. Chaturvedi. Good afternoon, everyone and warm welcome to IOLCP quarter 4 and full year 2021 earnings call. I will take you through mentioned highlights for the quarter ended March 31, 2021. Total revenue for the quarter increased by 4% to Rs. 466 crores as compared to Rs. 447 crores in quarter 4 of financial year 21. For financial year 21 it has been higher by 4% to Rs. 1,991 crores as compared to Rs. 1,910 crores in the same period last year. In quarter 4 of financial year 21 EBITDA was Rs. 117 crores as against Rs. 1.42 crores reported in the fourth financial quarter of the preceding year.

EBITDA margin in quarter 4 of financial year 21 has dropped to 25% from 32% in quarter 4 of 21. For financial year 21 EBITDA has increased by 4% to Rs. 616 crores as compared to Rs. 590 crores in the same period of the last year and EBITDA margin was stagnated at 31% during financial year 21 and financial year 20.

Depreciation for the quarter was Rs. 10 crores while the finance cost declined by 48% from Rs. 2.8 crores in quarter 4 of financial year 20 to Rs. 1.4 crores only in quarter 4 of financial year 21. Profit after tax for quarter 4r of financial year 21 stood at Rs. 75 crores as against Rs. 90 crores during quarter 4 of financial year 20.

For the whole year 21 our PAT stood at Rs. 445 crores as compared to Rs. 361 crores in financial year 20. PAT margin for quarter 4 was 16% as compared to 20% in quarter 4 of financial year 20. In financial year 21 PAT margins increased to 22% from 19% in financial year 20.

With this I would now request the moderator to open the forum for question answer session. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Manish Poddar from Nippon India AIF. Please go ahead.

Manish Poddar: So can you help me with few questions? So first is, let us say can you talk about, let us say, the EBIT margin for ibuprofen for Q4 of this year versus the base year? How much would that number be?

Sanjay Chaturvedi: Are you talking about the EBITDA for only ibuprofen or for the pharma sector?

Manish Poddar: For only the ibuprofen so let us say ibuprofen sales were roughly Rs. 170 crores in this quarter versus Rs. 250 crores, I am just trying to understand let us say what sort of EBIT margin given that you give EBIT by segments. So I am just trying to understand how does EBIT stack up there?

Sanjay Chaturvedi: Okay, so for ibuprofen, our EBIT dropped a little bit, and it is for that end of quarter, it was around 40%?

Manish Poddar: And how much would be that in the base quarter?

- Sanjay Chaturvedi:** About 44%.
- Manish Poddar:** So would it be right, let us say then the other segments let us say the other pharma segments, you incurred a loss during this quarter. Because if you take a 40% margin, and let us say Rs. 65 crores is the EBIT for the pharma division, and the 40% on the Ibuprofen numbers give a loss for the other farmer division. So despite their contribution increasing, you incurred a loss there?
- Sanjay Chaturvedi:** So rather than look at it as a loss, we are looking at as a cost of entering the market. The plant is not, even the asset utilization is not full on these plants. And as those volumes pick up, and we start ramping up and getting more and more approvals into customers, that financials will improve.
- Manish Poddar:** Okay, and this margin, let us say this \$4 margin contraction in ibuprofen, is that largely a function of your lower capacity utilization? Or are you witnessing any inflation on the raw material side?
- Sanjay Chaturvedi:** So I think it is a combination of factors. One is of course there is a softening in the demand. So what we experienced in the last year was that Q1 and Q2, customers picked up a lot more volume, whereas there was a softening in the volume in Q3 and Q4. But more than that, there was also a bit of softening in the prices as well. So it was a combination of the two factors that resulted in the situation.
- Manish Poddar:** Would you be able to help me with the utilization level in Q4 for Ibuprofen?
- Sanjay Chaturvedi:** Yeah, so Ibuprofen level on an average, our utilization is between 70% and 75% for Q4.
- Manish Poddar:** Okay, and just one final one from my side is that how do you look at the growth for Ibuprofen in FY 22? And what is the stable sort of EBIT margin should one see for FY22 or FY23 going ahead?
- Sanjay Chaturvedi:** Okay, so, I think let me answer this question in two ways. One is Q1 of this year, the softening of the volume continues, but we expect that to pick up in the later quarters. So in terms of our asset utilizations, we expect our asset utilization for ibuprofen to be 90% and above, for this year. Speaking of prices, yes, they already softened, so we expect stable price of ibuprofen without going down any further.
- Manish Poddar:** Okay, sorry, just the full year of capacity utilization what was that for FY21?
- Sanjay Chaturvedi:** I am sorry, I was not able to hear what you were saying. Can you repeat your question please?
- Manish Poddar:** I am trying to understand let us when you said 90% should be the utilization for FY22 what was this full year number for FY21?
- Sanjay Chaturvedi:** That was around 75%, 80%.

Manish Poddar: So we are looking at roughly 15% growth with stable margins. That is how one should look at it.

Sanjay Chaturvedi: Yes.

Moderator: Thank you. The next question is from the line of Rajesh Mehta from Family Wealth LLP. Please go ahead.

Rajesh Mehta: So my question is what are the new products that we are looking at, and how much of the new products add value in terms of revenue?

Sanjay Chaturvedi: Okay, so I would say, let me give you the headline first, okay, and the headline is that we were historically an ibuprofen company, that last couple of years have diversified into other APIs as well. Okay, if I look at what are the other APIs that we have commercialized, we have molecules like Metformin, we have Clopidogrel, we have Pantoprazole. Now we are going to be doing Valsartan.

So we have a couple of other molecules have been added into the mix. If I look at FY2021, which is the year gone by compared to the previous year, there was a substantial growth in the non ibuprofen business that we did. And we expect to continue that trend going forward this year as well.

Rajesh Mehta: And one more question. So like, if we look at the current product wise segmentation, we noticed that the share in the chemical segment is higher. So, can you give us a rationale behind that? Or is it going to be sustainable or is it just a one off that has happened? And if the management can give a guidance regarding the path ahead for the product split?

Sanjay Chaturvedi: Okay. So, in Q4 of last year it was a bit of an aberration. Two things happened simultaneously. One was a softening in the demand and the prices for ibuprofen. And simultaneously, we expanded our capacity on ethyl acetate from 87,000 tons to 100,000 tons so we got a positive volume variance, we got a positive price variance, and therefore, that is more of an aberration where the chemicals business seems a lot more than the pharma business.

But let me also add a bit of color to that, that if you look at trend lines should never be judged quarter by quarter, they should be judged over a substantial period of time to really figure out where the company is going. So if you look at FY17-18 for example, and you compare what have we accomplished over a four or five year period, what we have accomplished is that in five years, the product portfolio of the company has morphed from roughly 50:50 to almost 60:40, 60% being pharma.

Moderator: Thank you. The next question is from the line of Ashish Thavkar from Motilal Oswal Asset Management. Please go ahead.

- Ashish Thavkar:** Sir, on the ibuprofen the current price is \$12 to \$13. If you could help us understand, is there a downside to these prices and particularly the capacity expansion by BASF in Germany, how is that shaping up?
- Sanjay Chaturvedi:** So I would say is there an opportunity for a downside? I think the short answer is, yes, there is an opportunity for a downside to every product in the world. Okay. But given our experience in ibuprofen, we feel that these prices are fairly stable. The prices this year are anywhere in Q4 reduced by about \$1 or \$1.5. And these are we expect these to be stable prices.
- Ashish Thavkar:** And so, other prices vary different between the regulated markets and the non reg ones?
- Sanjay Chaturvedi:** Not that different, maybe by a few percentage points, but unlike other products where you see huge difference between regulated and semi regulated prices that is typically not the case in commodity products.
- Ashish Thavkar:** And any update on like, we were about to set up a multipurpose plant for fenofibrate, Lamotrigine and UDCA's, so any update on that?
- Sanjay Chaturvedi:** Yes, so we are going to be commercializing in the next quarter, this plant so that is when the commercials will also start rolling out soon thereafter. So, unit eight we have already commercialized and that is the plant that we will be doing Levetiracetam and Valsartan and 9 and unit 10 will be commercialized in the next quarter, the commissioning is in the next quarter.
- Ashish Thavkar:** Okay, so in terms of capital allocation this pharma and especially the API and the chemicals business, where are we putting money?
- Sanjay Chaturvedi:** So, we are really putting money onto the pharma API side of our segments. We have already put about more than Rs. 20 crores for unit 8. We have allocated around Rs. 60 crores for unit 9 and about Rs. 30 crores of CAPEX for unit 10. So, this is all already allocated for and that brings the total to about Rs. 112 crores.
- Ashish Thavkar:** Okay. So, this is which the CAPEX which is already done. So any plans over the next as we continue to de-risk or diversify our portfolio? Next 12 to 24 months, any like CAPEX program you can share with us?
- Sanjay Chaturvedi:** Yes, we will consistently be deploying CAPEX of about Rs. 100 crores plus year-on-year to generate more products and more facilities.
- Moderator:** Thank you. The next question is from the line of Ashish Rathi from Lucky Investment Managers. Please go ahead.
- Ashish Rathi:** Sir, if you could just specify to us what is the pricing quantified in terms of ibuprofen? I understand it was around \$13, \$14 earlier for export market, is it the same or is it any different now?

- Sanjay Chaturvedi:** So currently, it is stable at about \$12, \$12.5, pretty stable at that level.
- Ashish Rathi:** And for domestic?
- Sanjay Chaturvedi:** It is more or less the same. If I look at the broad range of what we offer in the market, it is really between \$12 and \$13, when in certain regulated markets where we have large volume contracts, it could be a bit higher there, because we are contractually bound to pick it up. But the typical price difference between India and other markets is almost never more than \$1 here or there.
- Ashish Rathi:** And we have been talking of a softer demand in 3Q and 4Q and it is visible in the top line growth that we have seen. What could be the reason for this? Would you attribute it to COVID? And you expect this to come back? And what kind of numbers in terms of growth rate you expect? The reason for the softer demand and the growth rate also?
- Sanjay Chaturvedi:** Yes, so I will tell you two things happened for the softening of the demand. The first was if you look at the entire year, it was more or less the same demand as the previous year, maybe slightly more. But the challenge was that there was volatility in the demand. In the first two quarters, the demand was much higher but in the subsequent two quarters, the demand was less. Is this a structural shift? No, this was not a structural shift. Part of it was, there was a media article that talked about in terms of pain management, ibuprofen not being very positive for COVID management.
- That report turned out subsequently to be not true based on scientific evidence. But that was also part of the reason why the demand softened, because while the demand for ibuprofen softened, the demand for other pain management products went up. So is that a permanent shift? I do not think so.
- Ashish Rathi:** So what kind of outlook we should look for ibuprofen growth say in FY22?
- Sanjay Chaturvedi:** So we are looking at roughly improving our asset utilization from 80% to 90% plus, and fairly stable prices.
- Ashish Rathi:** So, that is approximately 10% growth?
- Sanjay Chaturvedi:** Yes, 10% to 15% growth, yes.
- Ashish Rathi:** Okay. And another thing is on the cash generation. We are generating now Rs. 300 crores to Rs. 400 crores cash every year in terms of operations, we have around Rs. 350 crores plus cash sitting in the balance sheet. What is the plan ahead? I understand now it is Rs. 112 crores of CAPEX, I mean, you have done Rs. 112 crores of CAPEX to say Rs. 100 crores per year Rs. 300 crores per year going forward, but that is still a fraction of what we are generating. Any plans around distribution of cash or other utilizations?

- Sanjay Chaturvedi:** So, we plan to use that cash for a combination of both long term and short term initiatives for the company. We have a lot of very exciting future plans for the company in which we will see that we will be deploying CAPEX. This is yet to be frozen. So there are several options on the table. But clearly, we understand that investors are interested in not sitting idle cash on the balance sheet. So we will deploy that to deliver good growth for the company.
- Ashish Rathi:** You want to increase the dividend as well in the process?
- Sanjay Chaturvedi:** I did not hear, I did not catch that your voice was not audible?
- Ashish Rathi:** Do you wish to increase the dividend payout?
- Sanjay Chaturvedi:** That is we are considering that. This year we have already you know our earnings per share have been around Rs. 76. We have declared Rs. 40 and then Rs. 20. So 20% total dividend Rs. 6. So, I think that is on that we are open to all things a combination of rewarding the current investors for short term benefit versus long term benefits.
- Ashish Rathi:** Okay, and one more question with your permission if I may. The drop in gross margin, especially if you could elaborate on that because there is a big drop quarter-on-quarter and year-on-year? If the prices have been stable, the gross margin demand, the gross margin ratios seem out of place?
- Sanjay Chaturvedi:** Okay, so gross margin we think we will continue that trend. Q4 was certainly lower compared to the previous year. But if I look at the overall year, we had a fairly healthy growth margin for the year. And we hope to keep those numbers this year as well.
- Ashish Rathi:** But why the volatility in Q4?
- Sanjay Chaturvedi:** You will always have volatility in commodity products. Commodity products, by the very nature tend to be more volatile than others. And what we need to do is manage the price and the volume to reduce that volatility. And so far, if I look at our ibuprofen business, almost half of that business is contractual. And we will be maintaining those contracts for this year as well. So that is how we hope to curb the volatility.
- Ashish Rathi:** Sure sir, I understand I appreciate what you are saying but I am saying for the last 10 quarters or so your gross margins were at 40%, 45%, including the last three quarters, including Q3 where it was a softer quarter with 44%. This quarter it has come down by 500 basis points. And this has not happened in the last nine quarters. So this is not like regular volatility, as long as you know, as far as I can see on the numbers?
- Sanjay Chaturvedi:** I am so sorry Ashish, I am not able to hear what you are saying. It is very poor quality audio.
- Ashish Rathi:** My question was that in the last nine quarters, we have seen the gross margins to be around 45% consistently. There is barely any volatility, like you mentioned in commodity companies or

commodity supplies. But this quarter there is a 500 basis point drop. In the last nine quarters it has been at 45% only. So there is no volatility per se. But this quarter the 500 basis point is something that I thought we could have an explanation for.

Sanjay Chaturvedi: Okay. So, it was really a result of destocking. So the very high growth margins that you saw 45% plus gross margins for the initial quarters was really when customers were picking up a lot more ibuprofen than they typically pick up. And what happened in the last quarter was destocking, whereas the volume had suffered. And our end customers were simply eliminating the excess stocks that they had purchased in the previous quarters.

Moderator: Thank you. The next question is from the line of Venkat from 3Sigma Financial Service. Please go ahead.

Venkat: My question is more from the broader side since you joined the management so is there any change in the direction of thoughts? Whether you wanted to continue to remain a commodity company or you wanted to get into some specialty business where the margins could be higher and what you call there is some amount of predictability in all these aspects?

Sanjay Chaturvedi: The short answer is, yes, we are evaluating more and more products and it is not just a question of evaluating the products. You have clearly seen that trend. If I look at our pharma business, the non ibuprofen business is certainly growing faster than the ibuprofen business. So that clearly means that we have a clear intent along with the ability to execute that stated intent of growing in pharma and growing the non Ibu part of pharma more than the ibuprofen part and we will continue that journey and more and more products will be added to the portfolio.

So as I said, unit eight has already been commercialized and we are planning to commercialize unit 9 and 10 in the next coming quarters. So you will hear of more products coming out from our table.

Venkat: Coming to unit 8, which is Gabapentin, which you are planning for like, 600 what you call tons per annum and all that. So again that is getting into a commodity mode. So, is this the direction you are looking even the new products that you are going to bring those come into some kind of commoditizing product that is already capacity available for Gabapentin within the country as well you know there is some large players. So, is it the direction that are you plan to continue or rather IOLCP is planning to continue?

Sanjay Chaturvedi: We have a two pronged strategy Venkat really when we look at new products. So, when you talk about a commodity product, unless we are sufficiently backward integrated and get the efficiency of scale and backward integration, we will not enter the product. And that sort of product Gabapentin would be. Whereas we also have a range of other products like UDCA, lamotrigine, fenofibrate and others, where we are focusing on the technology innovation, more than just the price.

- Venkat:** Sir, my second question is lots of companies were complaining about supply chain, particularly for the quarter ended March 31st. So they are complaining about the higher supply chain costs, did you incur similar stuff or did you have some different strategy that you are able to work on, because that was not mentioned in the call so far?
- Sanjay Chaturvedi:** Yes, so we have not mentioned that specifically, because we expect this is not a structural shift, but a temporary blip. And like everybody else, we also experienced slightly higher costs for the quarter.
- Moderator:** Thank you very much. The next question is from the line of Vijay Ajmera from Sushil & Shah Company. Please go ahead.
- Vijay Ajmera:** I just wanted to understand what sort of revenue addition are we looking at, given the CAPEX that we have already done?
- Sanjay Chaturvedi:** Okay. So this is really an iterative process and based on the CAPEX that is already done, we do envision us getting maybe Rs. 200 crores plus Rs. 220 crores additions, but will all of that happen in one year, typically it takes one or two years for that products to get approved, and all that revenue to build in. So, on the CAPEX side that we have deployed, we talked about Rs. 112 crores, you can expect at steady state, it will add Rs. 200 crores plus top line to the business. But at a general level, our visibility is about 15% growth this year versus last year.
- Vijay Ajmera:** And what sort of margins are we looking at on these new products since these are specialties?
- Sanjay Chaturvedi:** One really needs to look at what scale of asset utilization are you in the new products. So clearly, in the early years, it would be lower asset utilization so the margin would be lower. But certainly we do expect that at steady state, these will have gross margins of 40% region to deliver an EBITDA of at least 25%, 30%.
- Vijay Ajmera:** And this will happen over a span of the next two years for the foreseeable one year, we are still looking at Rs. 60 crores, Rs. 70 crores?
- Sanjay Chaturvedi:** It would be hard to give that number. I could give Rs. 60 crores and then get crucified for doing Rs. 50 crores. So, I do not know what is the number to give, but directionally, that is where we will go. Whether that will happen see the thing about customer approvals is it does not happen quarter-by-quarter so, a customer may give me an approval, but the business may pick up in the subsequent quarter. So I think what is more important is directionally where we are going rather than exactly what is the number we will hit this quarter and the next quarter.
- Vijay Ajmera:** Just one more question on the chemical side. Are we diversifying in to the chemical space because currently we are still getting most of the revenue from ethyl acetate and two backward integrated chemicals? So what is our trajectory on the chemical side?

Sanjay Chaturvedi: So you rightly pointed out that there are certain chemicals in which we are backward integrated, and that business capacity is not something we plan to expand. That will really depend on our own captive consumption and whatever is the balance we sell that into the merchant market.

On the ethyl acetate side, we have given our clear intent we expanded capacity from 87,000 tons to 100,000 tons. So the increase in business as you see on the chemical side is really a result of capacity expansion. Then having said that, the price for ethyl acetate has also gone up in the market so we are enjoying that benefit as well.

Vijay Ajmera: Just one question which is slightly generic in nature, and not company specific. Do we have any larger idea to get into the CRAMS space although it is a very specialized area of business, but do we think that we have the R&D or the investment idea to get in to the CRAMS business, CRAMS CDMO?

Sanjay Chaturvedi: So, I would say, Vijay right now, we are evaluating a lot of adjacencies and growth platforms and area for the company. And CRAMS is certainly one of them. As and when we finished our due diligence and decide on what direction to take, we will certainly share those plans with you.

Moderator: Thank you very much. The next question is from the line of Abhishek Kapoor, an individual investor. Please go ahead.

Abhishek Kapoor: I have two questions. One first question is, are we looking for the approval of API from USFDA or other agencies which are under development?

Sanjay Chaturvedi: Yes, for certain products we are.

Abhishek Kapoor: Okay, and in any of the existing products, except ibuprofen?

Sanjay Chaturvedi: Yes, so we have four US DMFs. So, clearly those products are under approval at some US customers and as and when that volume picks up, you will see an improvement in the financials in the non-Ibu side of the pharma business.

Abhishek Kapoor: And one more question. The APIs, which are under development, are these kind of me too products or these are you are doing some innovation in the process basically, because I know one of the chemicals telmisartan there are many manufacturers in India, other I am not aware of?

Sanjay Chaturvedi: Yes, so clearly the whole generic game itself is a process innovation game. So, it would be unfair for me to say that, we are not doing process innovations, we certainly are and that is exactly a combination of process innovation and backward integration is what will get us the right cost position to successfully play these molecules. So, we are looking at process innovations.

So, the molecule is a me too molecule in the sense, yes, it is a generic molecule, and the molecule has been generic for a while. But what we bring to the table is our technical competency, our ability to scale up and our ability to backward integrate along with process innovation.

Abhishek Kapoor: Okay, is there any product, which is in demand, but there are not many suppliers in India, out of these products, which are under development?

Sanjay Chaturvedi: Not too many of these. I would say for most of the products that we have taken up in the first scope of diversification beyond ibuprofen, we purposefully took products where the market uncertainty was low. In other words, there should be a significant market and what we bring to the table is a certain scale and quality and backward integration.

And since COVID, clearly a lot of end customers are talking about de-risking themselves from China. And if you provide a platform to de-risk from China, with backward integration, we believe that will be a winning strategy going forward.

Moderator: Thank you. The next question is from the line of Lok Bhatiya from AUM Fund Advisors. Please go ahead.

Lok Bhatiya: My questions have been answered.

Moderator: Thank you. The next question is from the line of Anupam Agrawal from Lucky Investment Managers, Please go ahead.

Anupam Agrawal: So, firstly, I want to ask you the question on working capital. Our top line has grown by a modest 4% but our inventory has gone up by 55%, 57% for the year from Rs. 190 crores to Rs. 295 crores. Can you just elaborate a bit there?

Sanjay Chaturvedi: Yes. So, on the inventory side, it has gone up as I said, the plants are Firstly running and they were the softening in the demand. So, our inventory of the product piled up, but again, this is a short term, not a structural shift, and we have material at the pool. So, once all of that clear, you will see the inventory coming back to the normal levels.

Anupam Agrawal: What sort of inventories you expect going forward?

Sanjay Chaturvedi: So, I think around if I look at I am just looking at my data to see how much material whatever we have in transit and import it is about Rs. 111 crores right now the total material we have in port and in transit.

Anupam Agrawal: So secondly, if you could just quantify the asset utilization for our key molecules in the pharma space, ethyl acetate, Metformin, Gabapentin, Pantoprazole, Clopidogrel? For the full year that will be?

Sanjay Chaturvedi: I am sorry, I could not hear your audio was not very clear. Can you repeat the question please?

- Anupam Agrawal:** Sir, if you could just quantify the asset utilization for each of our molecules ethyl acetate, Metformin, Gabapentin, Pantoprazole, Clopidogrel?
- Sanjay Chaturvedi:** So, rather than give you break up of all the asset utilization, I would say, at a general level, the high lasted asset utilization is, as close to 100%. In fact the reason we expanded capacity was because we were crossing the asset utilization beyond 100%. In terms of ibuprofen, our asset utilization was at about 80%. And this year will be at about 90%. If I look at some of the other products ranging from what APIs they are the asset utilization ranges from roughly 40% to 70%.
- Anupam Agrawal:** So you mean to say 70% is peak in those plants?
- Sanjay Chaturvedi:** No, 70% of capacity.
- Anupam Agrawal:** Okay. And at peak we can do about 90%, 95%?
- Sanjay Chaturvedi:** Yes.
- Anupam Agrawal:** Okay. Sir, I just want to clarify one comment about pricing of ethyl acetate, you mentioned you enjoyed certain benefits. Is it because of acetic acid prices going up and you could pass on the prices or was there some other function?
- Sanjay Chaturvedi:** Yes, I would say broadly, raw material prices going up and successfully passing on that cost increase to end customers.
- Anupam Agrawal:** You were able to pass on completely or is there some absorption that you have divide to your end as well?
- Sanjay Chaturvedi:** No, we were able to pass on that price increase almost completely.
- Moderator:** Thank you. The next question is from the line of Manish Poddar from Nippon India AIF. Please go ahead.
- Manish Poddar:** Just two data keeping points. One is, would you help out let us say Ibuprofen margins for the full year, let us say FY20 versus FY21, EBIT margins?
- Sanjay Chaturvedi:** I would say they would be more or less consistent with each other.
- Manish Poddar:** So it will be 40%, that was the number for Q4 so that is how one should look at it?
- Sanjay Chaturvedi:** Yes.
- Manish Poddar:** Okay. What is the outlook let us on this ethyl acetate segment? What sort of growth and let us say what sort of margin should one build it let us say given that you are running already at full utilization in Q4 so what is the sort of growth which one expect given I believe now the margins

are healthy, that is why you are running at you are operating that facility. So what is the outlook up here?

Sanjay Chaturvedi: So I would say traditionally, we are the margins in that business had been 8% to 10%. Currently, they are between 14% and 15%. Our asset utilization clearly is very high, we have expanded capacity. And once the new additional capacity is fully utilized at that point we are currently in the midst of evaluating options in terms of what other products to do, both on the pharma API side as well as the chemical side.

Manish Poddar: So let us say you did about, let us say Rs. 830 odd crores sales in FY20 to FY21 and let us say Rs. 250 crores was the quarterly run rate. So you can do about Rs. 1,000 crores in this capacity so already at 82% utilization for full year. So do you expect let us say utilization to be lower for this year, with margin stabilizing in that 8% to 10% in that? Is that how one should look at it?

Sanjay Chaturvedi: No, we expect the asset utilization to be similar as last year with the expanded capacity.

Manish Poddar: Okay. Just one thing, is there an internal target let us say for all these new products, let us say from a two year or three year per se let us say you know, you want to have an absolute Rs. x sales or let us say, I do not know you look at from EBITDA point of view, is there an internal target, which you can probably call out?

Sanjay Chaturvedi: So, I have an internal target. I do not have an external target, unfortunately. But what I will tell you Manish is our intent is few years ago we were 50:50 between chemicals and pharma. Today we are roughly 40:60; with 60 pharma. If I go a few years out our intent would be to be 70:30 where 70 will come from pharma.

Manish Poddar: Okay and large part of this let us say this is only Rs. 100 odd crores CAPEX so like you earlier mentioned, this remaining part of CAPEX you will utilize either for let us going either inorganic or for any CRAMS or any sort of other things, but not let us say give it back to the shareholders in the form of dividends?

Sanjay Chaturvedi: So all options are on the table. I do not want to say no to not giving it to shareholders, but we are yet to phase that.

Moderator: Thank you. The next question is from the line of Ritika Agarwal from Value Quest Investment Advisors. Please go ahead.

Ritika Agarwal: Sir, my first question is on ibuprofen pricing that you expect it to remain stable going ahead. So, what we are hearing is BASF has already resumed its US plant and is also commercializing a new plant in Germany. Also Solara has just recently expanded capacities so, what makes us confident of pricing not dipping further as pricing from last year of \$18 has now come down to \$12?

Sanjay Chaturvedi: So Ritika thank you for asking the question. I think the \$18 pricing is of sporadic shipments that you will see. On a stable basis the pricing last year was around \$13 to \$14. And this year, we expect that to be about \$12. So, this softening, that we see is a result of the new plant that BASF has already started. And having said that, it is unlikely that they will bring all of that capacity into India because it is you are manufacturing it in a different geography and one has to factor in with enhanced logistics costs.

Does it really make sense to be transporting these products back and forth across long distances? And the most important thing one must consider in a product like ibuprofen is what will you do about backward integration. We are placed very well, because we are backward integrated into isobutyl benzene, whereas some of our other competitors are not. So I think the price has come down, but we do believe that this pricing level would be stable going forward.

Ritika Agarwal: Okay, and secondly, what kind of additional capacities are you adding on ibuprofen with the unit eight?

Sanjay Chaturvedi: So unit eight has not really ibuprofen it is ibuprofen derivatives. So, that would be a modest capacity addition, it is more for certain customers who are looking at differentiated products, so one should not look at it as creating a whole new Ibu line. So, if I look at the CAPEX that the company is deploying, it is really more in non Ibu products, than in Ibu products.

Ritika Agarwal: Okay, so would it be correct to say, no material ibuprofen capacity on 12,000 metric tons that we are adding for our company?

Sanjay Chaturvedi: That is correct.

Ritika Agarwal: And lastly, just on intermediate pricing. You have already commented on that. But has the EBIT margins falling down by 400 basis points, in any case related to intermediate prices going up?

Sanjay Chaturvedi: Well, I think it is more a question of the overall volume softening and the price of softening for ibuprofen. We expected higher overhead and shipping costs. So all of that went up that that resulted in lower EBIT margins.

Moderator: Thank you. The next question is from line of Sunil Jain from the Nirmal Bang Securities. Please go ahead.

Sunil Jain: Sir, my question relate to ethyl acetate. If you see the other player who are in your competition they had done very good margin in this product in this quarter. And they were also backward integrated. So what is the difference between them and us?

Sanjay Chaturvedi: I think the one difference that you will see between them and us is certainly one is the capacity part, but more importantly the geographic location. So they access, they sell primarily into the Western and the southern region, whereas what we are selling is a lot into the northern region, and also now it is the southern region as well. So, the enhanced logistics costs that we have may

make it prohibitive to I cannot make ethyl acetate where I am, and transported all the way to maybe Chennai, for example.

Sunil Jain: So, you mean to say the pricing in your area of selling is lower as compared to the southern market?

Sanjay Chaturvedi: No, what I am saying is the pricing, you will see that these are all commodity specialty chemicals is really a commodity market. So, the pricing remains same for different suppliers. All suppliers are going to there is a narrow band in which these prices will operate. What will differentiate you is your operating efficiency in terms of margins.

And operating efficiency can come from a combination of manufacturing, sourcing, logistics, and all of these put together.

Sunil Jain: Yes, but even if you see, last quarter to this quarter, there is no improvement in the chemical margin. So you were inefficient in last quarter as well and this quarter as well. So but there should be some improvement from last quarter to this quarter. Am I correct?

Sanjay Chaturvedi: I am not sure when you said that there needs to be an improvement because, as I said we are running the specialty chemicals business at about 12% to 15% net margin, which I believe is very healthy for that kind of product line.

Moderator: Thank you. The next question is from the line of Manish Srivastava from Amala Management. Please go ahead.

Manish Srivastava: So I actually wanted to take on further on that a ethyl acetate question. Obviously, we have an adverse logistics costs situation, which is why our margins could be a bit lower than our competitors. But the business has been doing very well. I can see from your numbers, this quarter last quarter your return on capital was in mid 30s. And is it primarily because of pricing?

Where do you see pricing sustaining? I can see the prices have improved a lot in last two quarters from about like say mid Rs. 50 a kg to mid Rs. 70 a kg. What do you think will happen on that side? And if the price is correct, like do think this sort of margin we are earning is sustainable? Or how do we play there?

Sanjay Chaturvedi: I think this is the kind of business where you will have stable prices and stable profits, and then have one or two quarters maybe a year of high prices and very high profits. And we are in that cycle now. Do I see us continuing with 15% profit level or profitability level in ethyl acetate, the answer is, no. It may continue for another quarter or two.

You have to look at long term trends of prices. So in ethyl acetate, historically the price has been in the Rs. 65, Rs. 70 band. And currently we are in the Rs. 80 plus band. So, will it come back to Rs. 70, Rs. 75 levels? Yes. But it is hard to predict when it will.

- Manish Srivastava:** Sir, what do you think are sustainable sort of margin levels here in ethyl and return on capital that the company should be targeting in this business?
- Sanjay Chaturvedi:** I would say 8% to 10% is sustainable margin for this kind of business.
- Manish Srivastava:** At around Rs. 65, Rs. 70 rupee pricing 8% to 10% margin is what you think is tenable?
- Sanjay Chaturvedi:** Yes.
- Manish Srivastava:** Fair enough. And you would look to add capacity here because even at those levels, your return on capital would be significantly excess of the cost of capital that like I would think that at those levels also, you will end up with about 20% plus solo return on capital. So do you look to add capacity there in that business? I think you have just added some but do you think that whatever that is a business which you would want to grow or the focus will be squarely on pharma side and diversifying the pharma product pool?
- Sanjay Chaturvedi:** We are in the process of evaluating certainly growth opportunities on the pharma side. We are parallelly also looking at growth opportunities on expanding our specialty chemical portfolio. And once those molecules are frozen in, we will have to take a call what is a better return on capital? Is it are we are we better off adding capacity on ethyl acetate or should we be adding different product lists into our portfolio?
- Manish Srivastava:** One small clarification on Metformin also you are running at that 40% to 70% capacity utilization, or that is higher?
- Sanjay Chaturvedi:** So that is slightly higher than that. We are running that at about 60% for now.
- Moderator:** Thank you. The next question is on the line of Ashish Rathi from Lucky Investment Managers? Please go ahead.
- Ashish Rathi:** Just wanted to check on capacities only. So Metformin, what is the capacity right now in terms of tons per annum?
- Sanjay Chaturvedi:** So on Metformin, my capacity utilization is currently about 60%. And I have a installed capacity of around 11,000 tons.
- Ashish Rathi:** That has been significantly ramped up, it seems?
- Sanjay Chaturvedi:** Yes.
- Ashish Rathi:** So there was a ramp up of around 5,000 to 6,000 tons this year, is it?
- Sanjay Chaturvedi:** Yes, we ramped up about 7,000 tons.

- Ashish Rathi:** And that has come to 60% phenomenon and kind of pricing that we enjoy in Metformin are we also like, sort of so what are we doing here? We are supplying the Metformin formulations or we are supplying it to APIs, what are we doing here exactly?
- Sanjay Chaturvedi:** We are supplying the API.
- Ashish Rathi:** And the key customers would be domestic here?
- Sanjay Chaturvedi:** Yes. Right now it is domestic, we are under approval from some export customers.
- Ashish Rathi:** Okay. And Pantoprazole what is the capacity now for us?
- Sanjay Chaturvedi:** Pantoprazole I have 210 tons plus capacity that I have currently running at about 40% asset utilization.
- Ashish Rathi:** Okay and Fenofibrate?
- Sanjay Chaturvedi:** So the fenofibrate product is actually in a multi product facility. And I think it is hard to give individual capacities for these molecules. But that particular unit is running at a 70% plus asset utilization.
- Ashish Rathi:** I believe it is around 180 MTPH when we first started it. Is that correct?
- Sanjay Chaturvedi:** Yes. So, if I do only Pantoprazole, if I do only pantoprazole that unit, I can do about 180 tons but I am doing a combination of one or two products. And so I am balancing out the capacity of both the different products and their combined asset utilization is running at about 74%.
- Ashish Rathi:** I am asking this 180 MTPH is if you do standalone only say Clopidogrel in that unit. That is what you are saying?
- Sanjay Chaturvedi:** Correct.
- Ashish Rathi:** Okay, but since you also do fenofibrate along with say Clopidogrel here you end up doing much lesser than that. So like a 50:50 utilization if we do for the plant for both of these products, then you will end up doing 90, 90 for each. Is that the way to interpret it?
- Sanjay Chaturvedi:** Yes, so I mean, if I do 50:50 then I will do 90 Clopi and 90 and fenofibrate and clopi put together
- Ashish Rathi:** And sir, in Gabapentin how is the pricing environment? If you could help us understand what are the prices for Gabapentin now?
- Sanjay Chaturvedi:** So the prices for Gabapentin continue to be fairly stable at about I would say broadly \$40 to \$50 levels.
- Ashish Rathi:** Okay. And capacity, you said 600 tons what you plan to do?

- Sanjay Chaturvedi:** Yes, that capacity, I do not take that in isolation, because we can do other products in that plant as well.
- Ashish Rathi:** So next year, say FY22 what is the kind of total Gabapentin that we can do in terms of sales?
- Sanjay Chaturvedi:** So right now I would say, only for if I look at it from a Gabapentin perspective, I would be running that at an asset utilization of about 30% to 40%.
- Ashish Rathi:** And the total capacity 600?
- Sanjay Chaturvedi:** No.
- Ashish Rathi:** The capacity is how much?
- Sanjay Chaturvedi:** So the installed capacity is 600 but because I will be making other products there as well I would have it is hard to de-convolute between two, three different products.
- Moderator:** Thank you. The next question is from the line of Kiran Kumar, an individual investor. Please go ahead.
- Kiran Kumar:** I just wanted to know, how much amount did we spend on the CAPEX for FY21?
- Sanjay Chaturvedi:** We spent Rs. 112 crores.
- Kiran Kumar:** Okay, so we have a chunk of cash sitting on our balance sheet and how are we planning to deploy the same going forward?
- Sanjay Chaturvedi:** So, we are looking at a couple of different growth ideas. And once we take our decision on how to move forward on those, we will do a combination of that and figure out ways to reward our investors.
- Kiran Kumar:** Okay, that is it from my side. Just wanted to add that the investor presentation also looks much better than the last quarter.
- Moderator:** Thank you. The next question is from the line of Sayantan Bhowmick from PineBridge Investments. Please go ahead.
- Sayantan Bhowmick:** I was wondering if you could share the non-ibuprofen sales for the year and for the quarter if it is possible?
- Sanjay Chaturvedi:** So I would say broadly, my non-Ibu sales let us take it for the year because this is a work in progress, I would say overall, it is about 10% of my total revenue.

- Sayantn Bhowmick:** Okay and when we look at new products, so would we be largely focused on scale or would we also look at smaller sized higher value? How are we thinking in terms of new products? Is it largely a scale play?
- Sanjay Chaturvedi:** So there are multiple lenses through which you can view new products. One is new to the world and new to us. Then the second is scale. The third is a type of chemistry that it uses, then you can look at, what kind of backward integration can be achieved. Then you can look at what kind of process innovation is possible.
- And then last but not the least you look at what is the kind of competition out there. Can we really compete with those players and make a meaningful indent into end customers. So, clearly we have no desire to be in products where we would not get a meaningful market share in terms of global market share.
- Moderator:** Thank you. The next question is from the line of Suhani Doshi from Lapis India Capital Advisors. Please go ahead.
- Suhani Doshi:** Just one question. Can you give us the volume breakup for ibuprofen for FY21? Volume growth over FY20?
- Sanjay Chaturvedi:** In terms of percentage or you want the actual volumes?
- Suhani Doshi:** Both would be good?
- Sanjay Chaturvedi:** So I think you have to looking at this past year versus the year before that, right?
- Suhani Doshi:** Yes '20 and '21?
- Sanjay Chaturvedi:** Yes, it was more or less flat.
- Suhani Doshi:** Can you give me the absolute volume in terms of sales?
- Sanjay Chaturvedi:** It is about 9,400 times.
- Suhani Doshi:** And this ethyl acetate expansion came on stream in Q4, is it?
- Sanjay Chaturvedi:** No, we did that in Q4, but the production started only now.
- Suhani Doshi:** Okay, so there was no additional capacity revenues in Q4 revenue further?
- Sanjay Chaturvedi:** No.
- Suhani Doshi:** And sir, hat is the overall growth of ibuprofen market as in over the last three, four years as a global growth?

- Sanjay Chaturvedi:** So overall ibuprofen as a market is growing at about 4% globally.
- Shani Doshi:** Okay, and any new capacity expansions that you know of coming up globally?
- Sanjay Chaturvedi:** No, I think BASF has already expanded their capacity. Other than that there is no other meaningful player with size and scale.
- Moderator:** Thank you. The next question is from the line of Shanti Patel, an individual investor. Please go ahead.
- Shanti Patel:** My simple question is what is the proportion of ibuprofen sales to total revenue for the year 2021? And what will be the proportion in the coming year? That is number one? And number two, what is our return on capital employed and return on equity? And whether the same will be maintained in the subsequent year? That is the coming year?
- Sanjay Chaturvedi:** You asked two or three questions in there. Your first question was around?
- Shanti Patel:** Sales of ibuprofen to total sales last year that is 2021?
- Sanjay Chaturvedi:** So I think overall, if I look at ibuprofen sales as a function of total revenue, it is around 60%.
- Shanti Patel:** And will it be same in the coming year also?
- Sanjay Chaturvedi:** I am not able to hear what you are saying, sir?
- Shanti Patel:** Will it be the same proportion in the coming year that is 2021-22?
- Sanjay Chaturvedi:** I am sorry, Mr. Patel, your audio quality is very, very poor.
- Shanti Patel:** But I am at the right place.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I will now hand the conference over to the management for closing comments.
- Sanjay Chaturvedi:** So, thank you all for this opportunity. I hope we have been able to answer most of your questions and you got a sense of not just how the company performed in the past year, but certain direction in terms of what we are going to achieve this year. And more importantly understand that what is the transition that we are going through.
- We continue to be focused on specialty chemicals and pharma. Within pharma, we are de-risking ourselves away from ibuprofen and launching more and more products, and that part of the revenue continues to grow. This past year, we delivered on the non ibuprofen pharma business 10% of the total revenue, and this year going forward, that will be certainly a higher number than 10% maybe around 15% or so, is what we want to deliver for this year.

And over the next couple of years really transition the company that historically have been 50% pharma, 50% chemicals; more into 70% pharma and 30% chemicals. Within that 70% of pharma, a disproportionate number coming from your non-ibu products.

So I hope this gives you the confidence that, you are in the right hands. We will maintain our EBIT margins, we will continue to grow our overall base business as well. And every quarter I look forward to engaging with all our investors and giving you a more keen sense of where we are going as an organization. Thank you very much.

Moderator:

Thank you very much. On behalf of IOL Chemicals and Pharmaceuticals Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.

Note: This transcript has been edited slightly for the purpose of clarity and accuracy.