



“IOL Chemicals and Pharmaceutical Limited
Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the IOL Chemicals and Pharmaceuticals Limited Earnings Conference Call. 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 would now like to hand the conference over to Mr. Nitin Tiwari from Antique Stock Broking. Thank you and over to you Sir!

Nitin Tiwari: Thank you Janice. Good day ladies and gentlemen. Thank you for joining us on the IOL Chemical and Pharmaceutical Q2 and first half earnings call. Today, we have with us Mr. Vijay Garg - Joint Managing Director, Mr. Abhay Raj Singh – AVP and CS and Mr. Pardeep Khanna – CFO.

We will begin the call with opening remarks from the management, followed by interacted questions and answer session. I will now hand over the call to Mr. Garg for his opening comments. Thank you and over to you Sir!

Vijay Garg: Good afternoon everyone. Thank you for taking time to participate in this earnings call. I hope all of you and your families are safe and in good health in this pandemic times. I trust you all have had an opportunity to run through the document which we have shared earlier. Before we take the questions, we would like to throw some light on the businesses and share some perspective on performance during the quarter.

Ladies and gentlemen, IOL Chemicals and Pharmaceuticals is one of the leading API bulk drug manufacturers and is a significant player in the field of commodity chemicals and specialty chemicals. IOLCP is the largest producer of Ibuprofen with an installed capacity of 12,000 metric tons per annum with complete backward integration of all the major chemicals which are required to produce Ibuprofen.

IOL presently holds 35% of the world market shares in Ibuprofen. IOLCP is also among the top producers of Ethyl acetate with an installed capacity of about 1 lakh metric tons per annum. Our company is also the second largest producer of isobutyl benzene which is the key intermediate for Ibuprofen and hold around 30% global market share.



In our API portfolio, we have Ibuprofen, we have Metformin, we have Clopidogrel, we have Pantoprazole, we have Fenofibrate, we have Lamotrigine, we have Ursodeoxycholic acid and many other APIs with significant presence across all major therapeutic segments. IOLCP's commodity segment and specialty chemicals segment include manufacturing of Ethyl acetate, Isobutyl benzene, Monochloroacetic acid and Acetyl chloride.

Ethyl acetate have wide application like pharmaceuticals, ink industry, packaging, adhesives, surface coating etc. Our manufacturing facilities are spread across 88 acres of land which is situated in Barnala in Punjab. The R&D facility of the company is approved by Department of Scientific and Industrial Research and is equipped with all the advance analytical instruments.

To meet the power requirement of the company, company has captive power generation plant with an installed capacity of 17 megawatt which serves the full requirement of the power required by the company. Apart from this, we have power connections from state electricity board backed by the DG sets. We are having zero liquid discharge facility which is having the approval from the Ministry of Environment and Forest and Punjab Pollution Control Board. All the adherence has been taken care of for all the regulatory requirement with respect to pollution.

We have recorded double digit growth in both the business segment. On consolidated basis, I will share with you the numbers, the revenue were 538 Crores in Q2 compared to 452 Crores in the last year same quarter. I would say that this is fairly remarkable achievement during this COVID times.

EBITDA margins was 175.8 Crores in this quarter compared to 136.3 Crores in previous quarter, so previous year I mean this is higher by 29% on year-on-year basis. This was significantly propelled by the chemical business which allows the company to report higher growth in EBITDA and revenue.

Our PAT for this quarter was 127 Crores as against 87.7 Crores last year higher by approximately 45%, apart from growth in EBITDA, this was further increased on account of lower financial cost. The PAT was increased because of lower financial cost. In the global chemicals and drug supply chain, IOL continue to take advantage of newer opportunities as and when they present themselves. As the world continue to reduce dependence on China, this has been working very well for IOL as well.

In conclusion, let me highlight that IOL Chemicals and Pharmaceuticals is very well geared up to take up and deliver any opportunity which is available in the market with its skilled and dedicated manpower and high-tech world-class facilities.

With this, I would like to hand over the call to my colleague, Mr. Pardeep Khanna, who is CFO of the company. Mr. Pardeep Khanna please.



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Pardeep Khanna:

Thank you Mr. Garg. Good afternoon everyone and warm welcome to IOLCP Q2 and first half of FY2021 earnings call. I will take you through financial highlights for the quarter ended September 30, 2020.

Total revenues for the quarter increased by 19% to Rs. 538 Crores as compared to Rs. 452.4 Crores in Q2 of FY2020. First half of FY2021, it has been higher by 6% to Rs. 1003.9 Crores as compared to Rs. 948.5 Crores in the same period last year. Although the financial performance for the period has improved for the first half of the year, one must take cognizance of the fact that our facilities were not fully operational for the six months period as was the case last year. In Q2 of FY2021, EBITDA was higher at Rs. 175.8 Crores as against Rs. 136.3 Crores reported in the first financial quarter of the last year.

EBITDA margin has significantly expanded to 32.7% in Q2 this year compared to 30.1% in Q2 of the last year. In first half of FY2021 EBITDA has increased by 17% to Rs. 333.7 Crores as compared to 284.2 Crores in the same period of the last year and EBITDA margin was 33.2% in first half of FY2021 compared to 30% of total in first half of previous year. Profit after tax for Q2 stood at Rs. 127 Crores as against 87.7 Crores during Q2 of FY2020. Depreciation for the quarter was Rs. 8.8 Crores while the finance cost declined by 82%. It is 1.1 Crores in Q2 of FY2021.

Coming to the segmental performance in Q2 of FY2021, the revenue from chemical stood at 205.5 Crores as against Rs. 163.8 Crores in Q2 of FY2020. Thereby increasing by 25.4%. This segment has achieved a stellar performance on account of market demand and operational efficiency. This segment contributed to 36.8% of total revenues. PBIT stood at 22.9 Crores with EBIT margin at 11.1%.

In the drugs segment the revenue claim at Rs. 335.9 Crores in Q2 of FY2021 owing by 14.3% on year-on-year basis. This segment delivered growth due to increase in volume of new products along with existing products.

With its EBIT at Rs. 140.1 Crores as against 120.4 Crores per year. Its margin had been in line at 41.7% compared to 41% in the preceding year. The financial position of the company is stable and enjoy a very healthy liquidity position with adequate cash and bank balances.

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

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Sudhir Bheda from Right Time Consultancy. Please go ahead.

Sudhir Bheda:

Good morning Sir and hearty congratulations for delivering the consistent result for last 8 quarter to 10 quarters and also congratulations for holding the conference call. I have been witnessing to



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your growth in last 2.5 years and your company has from the -400 Crores of debt to now 300 Crores cash positive which is the great achievement and again we are very happy as a shareholder. My question is the concern of the investors are the heavy concentration of your profit portfolio to the Ibuprofen. See 80% of the profit is coming from that segment Ibuprofen alone, so going forward how you want to derisk yourself from portfolio total concentration by developing new APIs and venturing into new formulations or new API and I would like you to throw some light on your great product UDCA this is I am believing that you are the second company in the world to manufacture this product. That is all from my side and thank you for giving me the opportunity.

Vijay Garg: Thank you Mr. Bheda, thank you for asking this question. Mr. Bheda in various platforms we have mentioned this and since you have asked this question, I would like to answer, the company was dependent on Ibuprofen you are right but if you see in last three year's growth, we have added seven products in our portfolio, we have added Metformin, we have added Clopidogrel, we have added Pantoprazole, we have added Fenofibrate, Lamotrigine and Ursodeoxycholic acid. If I share the numbers, the numbers are really encouraging in last three years it was only Ibuprofen, Ethyl acetate and specialty chemicals from where we were getting our revenue. We have grown substantially, last year we have recorded around 24 Crores from the new products, this year till date we have already achieved around 47 Crores in first six months.

Sudhir Bheda: It is net profit or turnover?

Vijay Garg: Turn over from new products I am saying, so we are targeting a growth in our new product portfolio, so my expectation is that it will reach up to 300 Crores may be in one year or two years' time because all our product which we have launched has reached to substantial levels where we are getting very good revenues, so we are targeting that in times to come our dependability on Ibuprofen should decrease, we are targeting in our pharma segment as 30-70 may be in short term and 50-50 in long term for the dependence on the Ibuprofen I mean in turnover terms we are expecting that it should decrease to 50% in coming two years to three years.

Sudhir Bheda: Great Sir and UDCA if you can throw some light on this great product?

Vijay Garg: UDCA we have started two years back. #we have mastered the technology to manufacture UDCA because in India very few people are manufacturing UDCA lot many companies has tried but they were not able to sustain but I would like to mention that your company has the capability to produce UDCA on commercial terms, presently we are producing it in a multi-purpose plant, shortly we are planning to have the capacity to ramp up and manufacture this product in new multipurpose facility at our site. So, we are targeting, we have very good hopes in UDCA. The product is widely expected by the customers.

Sudhir Bheda: So how much turnover can come from UDCA, can you throw some color on that and profitability?



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Vijay Garg: All the products we are targeting around 20% profit as far as the UDCA is concerned may be in times to come, we are planning to have a new plant, once the plant is in place, I will be able to throw light may be next call or some other time.

Sudhir Bheda: Thank you Sir.

Moderator: Thank you. The next question is from the line of Ashish Thakkar from Motilal Oswal AMC. Please go ahead.

Ashish Thakkar: Thanks for the opportunity and congrats for the good set of numbers. My question was on Ibuprofen so off lately Aarti Drugs even Solara, they have announced capacity expansion for some of these products, so if you could help us understand what is the demand supply scenario currently globally as far as Ibuprofen is concerned and, in your expectations, or in your experience would things change materially because now BASF is making a re-entry into the market?

Vijay Garg: Thank you for participation. On Ibuprofen, you have mentioned Aarti Drugs and Solara, Aarti we have not listened from anywhere even we on the competition front on the other products we are in touch with Aarti or we have never come across that Aarti is coming in this product, yes you are right, Solara, is planning to have a facility in Vizag because they have an existing facility in Pondicherry, so, what we are foreseeing is that the total demand on global demand first I will talk, total demand global demand is around 34,000-36,000 tonnes, to be very precise, we are producing around 12,000 metric tonne which is around 33% to 35% of the world market share. Solara is planning to have around full-fledged may be in two years to three years' time may be their announcement says that they are coming up with 7,000 to 8,000 tonnes similarly China is having around 5,000 tonnes all the three companies put together similarly BASF they have a plant of 5,000 tonnes, so if we see the demand supply with all even BASF starting the full-fledged we do not foresee any kind of over supply of the Ibuprofen, so to answer your question, our expectation is that this demand and supply gap will be there in two years with these listing capacity or with whatever we are hearing in the market, so we do not foresee any kind of over supply of the Ibuprofen.

Ashish Thakkar: Okay and in your like as far as this Ibuprofen manufacture process is concerned, we still have only one process of manufacture in Ibuprofen or there is alternate process as and when the competition comes we can come out with a new cleaner and greener process?

Vijay Garg: We have a complete backward integration for the manufacturing processes. Our process is very green process like wherever the pollution was or wherever the threats was there related to environment in past you can say 10 to 12 the company has concentrated on our R&D has lot of working on that and we have converted by and large all the products or the buy product into the main steam products, so we do not have any kind of threat, we have only one thing in mind that if something happens say Chinese supplies are stopped, we are importing only one sodium metal



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which is used in very minimal quantity from China, for that also we have alternative process like we have the complete indigenous Ibuprofen available if need arises.

Ashish Thakkar: Okay, fair enough, that is very helpful. On the upcoming portfolio like you have like Gabapentin, Dextromethorphan, so all these very good complex niche molecules that you have added to your portfolio but given the global competitive scenario like we are aware that even Divis is there in molecule so how do you plan to position yourself in the global market whenever it comes to marketing these products?

Vijay Garg: Gabapentin, all big companies like even Divis, Hikal or all who soever is in Gabapentin, they have their dependence on China for CDA which is one of the intermediates coming from China and that is a highly polluting intermediates but I would like to mention here that your company is coming up with a novel technology, where in we are not producing that CDA and our process is totally new process wherein we will have no pollution so that will be our USP going forward.

Ashish Thakkar: Okay and Sir would you also be targeting US market?

Vijay Garg: Yes, that will be our first target.

Ashish Thakkar: Okay and Sir just one last question from my side, any capex for the next two years where you would be guiding for the investors?

Vijay Garg: We have planned around 150 Crores to 200 Crores capex every year for the various products like Gabapentin, Dextromethorphan which are the portfolio products we have available, we have lined up 150 Crores to 200 Crore every year.

Ashish Thakkar: Okay and are you willing to raise debt for this capex?

Vijay Garg: No, we are doing all the capex from the internal accruals.

Ashish Thakkar: Okay, that is very helpful. Thanks for thew answer and all the best.

Moderator: Thank you. The next question is from the line of Shri Hari from PC Securities. Please go ahead.

Shri Hari: Thanks for the opportunity and congrats on a good set of numbers. On Metformin, you have recently announced a capacity immediately so I would like to know all that is faring and I would like to know the extent of backward integration projects for this product and second if you could please talk capex plant for the current fiscal and FY2022? Thank you.

Vijay Garg: Metformin as far as the product is concerned, two years back we have started this product with the 350 metric tonne of the production capacity per month. You can say within one year of launch, this product was so successful that we were running out of the product in the market



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place, so that is why company has again rethink of investing and rebuilding the capacities, so presently we like two quarters back only we have started our new plant where we are going to manufacture 7,200 metric tonne per annum of Metformin, so as far as the positioning is concerned, as far as the quality of the Metformin is concerned, we are now a very well established player in the market for Metformin. Regarding your query about the backward integration, Government of India has launched Profit Linked Incentive scheme PLI scheme, one of the intermediates that is called DCDA that intermediate is in the scheme, so we are waiting for the results to come and I am quite hopeful that some of the big companies will definitely come up with DCDA, today we and all the companies whosoever is manufacturing Metformin is dependent on China.

- Shri Hari:** Okay, so incentive manufacture in DCDA?
- Vijay Garg:** Sorry?
- Shri Hari:** Do you intent to manufacture DCDA under the PLI scheme?
- Vijay Garg:** Presently no, we are evaluating. Our R&D is working on the process.
- Shri Hari:** Okay, I wanted to know the contribution of Metformin during Q2 and first half?
- Vijay Garg:** Contribution of?
- Shri Hari:** Contribution to change with the share of space of Metformin?
- Vijay Garg:** The full-fledged it will be 100 Crores per annum. Last year we have a revenue of 100 Crores and this year with our full-fledged capacity we are expecting around 250 Crores of topline coming from Metformin.
- Shri Hari:** Okay, so 100 Crores in FY2020 and you expect 250 Crores in this current fiscal?
- Vijay Garg:** No, previously we have 100 Crores, last year we have received 100 Crores with the new facility, we will be able to with the 11,200 tonnes sales we are expecting around 250 Crores of revenue.
- Shri Hari:** That is in the current FY2021?
- Vijay Garg:** May be it will take one year or so, presently we are operating at total capacity of say around 70%, once we achieve like we are under process for qualification at various customers, so once we get through may be in six months to eight months so we will have the revenue of 250 Crores.
- Shri Hari:** Yes, could you share the numbers value terms Metformin?



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- Vijay Garg:** First half Metformin numbers, we will share with you, presently I do not have the exact numbers available.
- Shri Hari:** Okay and the capex regarding for 2021 and 2022?
- Vijay Garg:** Capex same 150 Crores to 200 Crores every year we are planning. In the first half, we have already done 47 Crores or 48 Crores in six months. We will cross 200, this year we will be doing around 125 Crores to 150 Crores.
- Shri Hari:** Yes. On the dividend you have announced 40% of interim dividend, so could you just tell me what is your dividend agenda?
- Vijay Garg:** We have already announced in this board meeting 40% dividend we have announced in this.
- Shri Hari:** What is your payout ratio that you have in mind?
- Vijay Garg:** This thing we will consider in the board and let you know.
- Shri Hari:** Thank you.
- Moderator:** Thank you. The next question is from the line of Niresh from Wealth Credence. Please go ahead.
- Niresh:** Good afternoon. I just had one question that apart from USA, we plan to expand to some other geographical regions?
- Vijay Garg:** Yes, we are there in Europe, we are there Latin America, we are there in CIS countries, Russia everywhere we are selling our products. It is very precise in we have mentioned in our presentation as well, we are present in around 80 countries.
- Niresh:** Yes, but apart from those are we trying to expand somewhere else to?
- Vijay Garg:** We are everywhere in the world Sir.
- Niresh:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Ranvir Singh from Sunidhi Securities. Please go ahead.
- Ranvir Singh:** Thanks for taking my questions. One question on Ibuprofen what I understood earlier that whatever demand supply gap for last few years was due to that BASF closed their plant. But still you have now increased the capacity to 12,000 metric tons, Solara has also now increased capacity earlier they had some 5,000 metric tons so, just for closing down 5,000 metric tons was the reason for demand supply gap or you see that demand has tremendously increased during this



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past few year because if I tally this number earlier because your expansion has also been in last one year. Solara is still doing this but still there was market existing so that gap is continuing for last few years or you see that gap was widened in last one year or two years?

- Vijay Garg:** What we see is the demand is increasing for Ibuprofen earlier also five years back when BASF was operative three years down the line, they are not operative whatever gap is there it has increased demand we do not foresee any kind of increase in volume demand supply gap will definitely be there because of increased demand.
- Ranvir Singh:** Okay, so it was the demand driven gap that is what you are saying?
- Vijay Garg:** Yes, it was demand driven gap along with demand driven it was the shut down by the company.
- Ranvir Singh:** And how is the pricing now for Ibuprofen do you see the pricing strength going up or down?
- Vijay Garg:** Pricing are stable now.
- Ranvir Singh:** Okay, despite this gap continuing price is not seeing any up mode?
- Vijay Garg :** No, the prices are stable now.
- Ranvir Singh:** Okay, and this Ibuprofen or even the Metformin are we integrated fully from intermediate or KSM level?
- Vijay Garg:** We are not fully integrated for Metformin, all are dependent, but as far as Ibuprofen is concerned, we are completely integrated.
- Ranvir Singh:** Okay, and are we importing anything from China right now?
- Vijay Garg:** For Metformin we are importing one intermediate.
- Ranvir Singh:** Nothing for other products?
- Vijay Garg:** No. Ibuprofen also we are importing but as I mentioned in my earlier answer, we already have the alternative for that.
- Ranvir Singh:** Okay.
- Vijay Garg:** Only one Sodium metal we are importing that too that is used in very minimal quantity.
- Ranvir Singh:** Okay, thanks a lot and all the best.



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Moderator: Thank you. The next question is from the line of Nitin Raheja from AQF Advisors. Please go ahead.

Nitin Raheja: Good afternoon Mr. Vijay Garg and congratulations. We have seen your company over last few years consistently show good numbers and more importantly with the cash flows you have been paying off your debt all of which is very, very promising. Based on the confidence levels that you have shown it does seem to that in the next few years the company will generating very, very strong cash flows in excess of Rs.400 Crores plus per year your capex is only Rs.150 Crores-Rs.200 Crores that you mentioned. My question is Sir, is that for reasons that we do not know the market is not valuing us in line with a lot of other API companies due to our single product focus. My question is would you consider using this core valuation and strong cash flows to give an increased promoter holding beyond 42% where you are and this would actually send out a very, very positive signals to the market in terms of your confidence level?

Vijay Garg: Thank you very much for your question Mr. Raheja. As you mentioned our cash flows are really strong, we are using the maximum cash generated by the company in past three years we have cleared all the debts. Presently what we have plans in our minds is like we are doing capex to the tune of Rs.150 Crores to Rs.200 Crores along with that we are not going to have any kind of finances from the lenders like for the new products whatever the working capital requirement apart from the capex we are planning to meet from our existing internal accruals along with that we have plans to share the profits with the investors. So, apart from that presently we do not have any answer to your question so we will take up with the board and come back to you.

Nitin Raheja: Yes, because the way I see it is the most appearance on peoples mind I have been with regard to the fact that it is a single product company so on and so forth. But based on the confidence levels that you have talked about in terms of the new products and the contribution coming in the next two years or three years intolerant think to send out the messages what would be done with this surplus cash you already have close to about Rs.300 Crores of cash sitting on your books and you would be generating more over the next few years. So, I would actually make send out a signal to the market in terms of the promoter confidence as such and the low valuations that you are trading at.

Vijay Garg: Thanks for your suggestions Sir, definitely we will take it up internally this is a very valid point you have raised from the investor point of view, so we will definitely consider and take up this matter your suggestion is very well taken Sir.

Nitin Raheja: Thank you Sir.

Moderator: Thank you. The next question is from the line of Jaspreet Singh Arora from Equintis PMS. Please go ahead.



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Jaspreet Singh Arora: Thanks for the opportunity Sir. This Rs.150 Crore-Rs.200 Crores capex would mean what kind of expansion across our product categories in Ibuprofen and other from what number to what number?

Vijay Garg: We are planning to come up with the Gabapentin, we have planned to come up with 600 metric tons per annum capacity and Fenofibrate we have a plan to increase the capacity to 12 metric ton or you can say around 140 metric ton of Fenofibrate, 60 metric ton of Lamotrigine and around 60 metric ton of UDCA. These are the products where we have already done the launching. So, our plan is to come up with the two to three plants every year this will be in terms of like we have mentioned our future products as well in our future products if you see the list contains few products like, Levetiracetam, Losartan Potassium is there. So, there are four to five more products in our pipeline which we have already reached up to the pilot stage level. So, what we are doing is we are developing the product in our R&D and then we are taking it for the commercial launch so, in our pipeline product if you see Gabapentin, we have already planned for the capex then future is Losartan, Albendazole, Folic Acid, Fexofenadine, Dextromethorphan, Valsartan and Levetiracetam. These are the eight products which are in pipeline for which we will be doing capex in coming two year to three years.

Jaspreet Singh Arora: So, a large part of the capex is directed towards these new products you are saying?

Vijay Garg: Yes, large part goes for the new products and to some extent goes for the debottlenecking of the existing Like, Ethyl Acetate we are doing some debottlenecking let us see how much we will be able to increase the capacity with this debottlenecking.

Jaspreet Singh Arora: What kind of EBITDA margins would these products be able to generate a ballpark range based on which you are doing the capex?

Vijay Garg: Generally, as a company policy we are concentrating with 20% to 25% of EBITDA margins, for the product selection one of the criteria is this.

Jaspreet Singh Arora: Okay, and just second question is on the margins that we have done in first half which is about 8.5% in chemicals and 43% in the drugs side. What is your sense on the sustainability of these margins let us say in the next couple of quarters how do you see the risk to these margins?

Vijay Garg: We are very confident to sustain the number which we have achieved Sir.

Jaspreet Singh Arora: Sir, you are saying a couple of quarters or do you think that, my larger question was that there was a bit of volatility in the past that is not several years back but I am sure the company was at different scale and size and integration so on and so forth therefore may be an aggregate level of 32% margin may not go down below a certain threshold. I was just trying to understand what is that rock solid base that you would have set for the company at an aggregate level below which you do not expect the margins to fall let us say even two years down the line?



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- Vijay Garg:** To answer your question, for us the margins are very much sustainable both in API and Chemicals. With the increased operations and scalability, the margins are increasing, and the increase is happening because of increase in operational efficiency and scale of volumes. We do not foresee in coming few quarters where there should be any dip.
- Jaspreet Singh Arora:** Okay, got it. Thank you so much sir, and congratulations on a good quarter and thanks for starting the process of having a conference call request you to please continue doing that even if it is half yearly and also to look into some of the suggestions made by the earlier participant I kind of agree with that. Thanks a lot sir, and best wishes for your quarters ahead.
- Moderator:** Thank you. The next question is from the line of Dhara Mehta from Nirmal Bang. Please go ahead.
- Dhara Mehta:** Hi! Sir, good afternoon. Where do you think in the age of IOL you think it is the capacity we are sitting is or you think it is the manufacturing cost versus our competition is putting our new facilities in China and in India and in America?
- Vijay Garg:** IOL stands alive in capability to produce at the lowest cost coupled with the volumes. If you see all our product selection in first phase or phase-I is of the volumetric product. To answer your question, it is mix of both, capability to produce low cost products along with the volumes.
- Dhara Mehta:** Fair enough Sir. Thank you and Sir if you can highlight how are your contracts formed as in the pricing is on a long-term basis are these contracts on long-term basis or are, they for like six months, seven months, one year. If you can give me the same on the IBA front Sir?
- Vijay Garg:** Most of the business we are doing on long-term basis like it is a mix of long-term and short-term. But majorly we are doing on long-term basis.
- Dhara Mehta:** Sir, major when you say it is 70% if I may ask or is it less than 50%?
- Vijay Garg:** These numbers I will not be able to disclose but company is doing the mix of long-term and short-term for the sustainability.
- Dhara Mehta:** Sure Sir, and where will your capacity utilization stand today in the Ibuprofen space?
- Vijay Garg:** Ibuprofen we are at 90%.
- Dhara Mehta:** Okay, alright. Thank you so much for your reply and best wishes there.
- Moderator:** Thank you. The next question is from the line of Charulata Gaidhani from Dalal and Broacha. Please go ahead.



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Charulata Gaidhani: My question pertains to Metformin, there was some NDMA issue that was highlighted by the US FDA was there any impact on IOL?

Vijay Garg: Thank you for highlighting this, this was a very big issue madame in US, Europe everywhere but let me mention here or let me give the confidence to all the worthy investors. We have tested our product on various scales with various methods available in as far as European Pharmacopeia is there or US is there our product is free from NDMA like wherever the customer demand the EUGMP has already fixed the norms and our products which we are selling in the market is very much below that limit. Even for the testing company has invested in LCMS which is a very advanced equipment for testing this NDMA impurity, at the PPM levels rather PPB levels. To answer your question in precise we do not have any kind of problem as regards to NDMA.

Charulata Gaidhani: Okay, and Metformin is currently standing what percent of revenues?

Vijay Garg: Presently it is around 5%-6% going forward with the new facility it will be around 10%.

Charulata Gaidhani: Okay, thank you. All the best.

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

Nilam Punjabi: Thank you for taking my question. Congratulations for some great set of numbers. I wanted to know what for the volumes of Ibuprofen that be sold for the quarter and half year of FY2021?

Vijay Garg: In the half year we have sold around 5000 tons plus of Ibuprofen.

Nilam Punjabi: Okay, and as pharma segment EBITDA margins have dropped Q o Q any particular reason for the same?

Vijay Garg: No, EBITDA margins has grown up it is sustained rather. It has not gone down.

Nilam Punjabi: Just one last question from my end. In chemicals we have seen a good growth during the quarter, so how much that was pricing led and how much was volume led?

Vijay Garg: I do not have the exact numbers but mainly this is because of volume, maximum is coming with the volumes around 70% comes with the volume.

Nilam Punjabi: Okay, thank you.

Moderator: Thank you. The next question is from the line of Keshav Kumar from Raksan Investments. Please go ahead.



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- Keshav Kumar:** Hi! Thank you, Sir for taking my question. Most of my questions have been answered I just wanted to touch upon a few things. When you say that you plan to decrease your dependence on Ibuprofen to 50-50 in future. What is the timeline for that, what is the medium timeline?
- Vijay Garg:** We are targeting around three years.
- Keshav Kumar:** Alright, Sir.
- Vijay Garg:** For the pharma two year to three year passes like in approval itself.
- Keshav Kumar:** Alright Sir, and secondly for Pantoprazole what would be the gestation period for you to go to full capacity?
- Vijay Garg:** Around you can say last year we have started it generally we are taking three years because after launch of the product it took lot of time for the approvals and all. So, we generally take two and half year to three years as far as gestation period for any product.
- Keshav Kumar:** Sir, what would be the topline contribution for Pantoprazole?
- Vijay Garg:** Topline contribution will be around full-fledged Rs. 150 Crores approximately.
- Keshav Kumar:** Lastly, are you in the process of **(audio cut) 50:19** to make use of the PLI scheme directly?
- Vijay Garg:** We are evaluating presently though we have indirectly we were having but directly presently we do not have, we have not applied for any but under evaluation is there.
- Keshav Kumar:** All right. Thanks a lot.
- Vijay Garg:** Thank you very much Mr. Keshav.
- Moderator:** Thank you. The next question is from the line of Ujwal Shah from Quest Investments. Please go ahead.
- Ujwal Shah:** Thank you for taking my question. My question pertains to Ibuprofen, so what kind of growth rate and demand are we seeing currently for Ibuprofen and in terms of pricing did we see quarter-on-quarter decline in prices for Ibuprofen from 1Q or from 0Q what it is presently?
- Vijay Garg:** Thank you Mr. Shah for your question. See, if we global scenario, the market reports which are available by the various researchers is like we are hearing around 2% to 3% growth in Ibuprofen on global basis, as far as pricings are concerned so we do not foresee any kind of decline in the pricing. So, presently we are maintaining the pricing in six months we are maintaining in the



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range of USD 15 to 16 whatever pricing we have maintained so it will be the same number for the year as well.

Ujwal Shah: Sure Sir and when we enter newer products and we have already larger clear present in the segment, how do we position ourselves for our products in the market, one is that the market demand is there and we target those but we might be actually acquiring market share as well, so what are our selling point when we enter newer products, so what things you keep in mind when you do to ensure that our products gets that kind of market expected.

Vijay Garg: This is very good question Mr. Shah. I will be able to answer partly because some part comes under confidentiality so just to answer your question, see our production selection is based on the fact that in our portfolio all the products are the growing products, wherever there is a growth we are selecting those products for our future launches so our strategy always is like first we take the growth part in the market place, whatever the growth we want to place our product in that and second is like we are the largest producer of Ibuprofen in the world, we have very good relationship across the globe with the customers and customers are by and large the same for all the products. So, we leverage on the relationship along with the growth part, so it is a mix of everything.

Ujwal Shah: Sir, in your initial remarks you did mentioned about China plus strategy playing out, so in the list of products that you mentioned where do you see actually that playing out mid-way if you can throw some light on that that is all from my side. Thanks.

Vijay Garg: Our next upcoming product as I mentioned Gabapentin, we are not dependent on China, so all our products like levetiracetam so majorly we are going with the basic chemicals and we generally have the availability apart from China from other countries as well if it is not available in India. So, that is our strategy.

Ujwal Shah: Sure Sir. I was actually mentioning where China actually is one of our competitors and where actually the customers would now start looking at India as compared to China so any of your top five or top seven where China actually has a good market share and where this strategy can play out.

Vijay Garg: Okay, got it. See, by and large all products are available in China, if you see Gabapentin maximum goes from China, if you see Fenofibrate comes from China, Metformin comes from China, so China is present everywhere so that will give us lot of benefits in times to come.

Ujwal Shah: Great Sir. Are you hearing from the customers who are actually procuring from China or actually now thinking you as a customer, are we seeing that kind of an enquiries as of now?

Vijay Garg: Sir, on this forum I will not be able to speak on this particular subject sorry.



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Ujwal Shah: Thank you.

Moderator: Thank you. The next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: Thanks for the opportunity and congrats for a great performance quarter-over-quarter. Lot of the questions have been answered, I just actually wanted to know the strategic direction related to the product selection that you just mentioned, besides the factors you mentioned growing product in customer relationship, I mean is there a core technology around which we select products, which allows us to be the least cost and also most integrated left with green technology, Sir anything like that that we need to understand, that will be very helpful for us to know.

Vijay Garg: Thank you Mr. Nimish Mehta for your question. Mr. Mehta, as I mention I want to elaborate on that also, see our production actually is always based on three-fourth end, one is like I mentioned that our product should be environmental friendly, our working is always on the selection of the product which should be environment friendly number one, number two like we want our product should be such that it should have some growth in the market place like 3% to 5% or in some products maybe more than 5%, moreover for the competition we always go with these lowest stage available like we do not have a policy where we manufacture from N-1 or N-2 or N-3 so we try to go as early as possible like we wanted to go with the basic source so that makes us more competitive and less dependent on imports. So, that is the strategy which is giving us very good results for the launch of the products and sustainability of the product Mr. Mehta.

Nimish Mehta: Understood. This is very helpful, is there an expertise around a technology that helps you do this?

Vijay Garg: We have a DSIR approved R&D center where almost all 50 scientists are working round the clock for the development of the product along with the cost reduction.

Nimish Mehta: Lastly, is this the same strategy that we used for our specialty chemical product selection or is there a difference there?

Vijay Garg: Yes, same strategy we are using for both, for chemical, pharma, even for commodity chemicals we tried to implement the same strategies.

Nimish Mehta: Understood. Thank you very much.

Vijay Garg: Thank you Mr. Mehta.

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



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- Anupam Agarwal:** Good afternoon. I just had one question. You allocated to Rs. 150 Crore to Rs. 180 Crores capex, can you quantify at peak utilization let us say two years to three years down the line, what sort of revenue potential we can have on that?
- Vijay Garg:** See, if we see in last two years to three years we have generated a revenue with the capex around say our CAGR is 34% if you analyze for five years it is coming 34% no doubt it has come from the price increase as well but 50% approximate number I am talking is from the growth so whatever we have grown in terms of volume it is either because of the debottlenecking or with the new capex setting up of the new plant, so whatever the volume has grown is from the capex only which we have done in last two years.
- Anupam Agarwal:** Sir, I was asking about asset turn, Rs. 150 Crore of capex would lead to what sort of asset turn?
- Vijay Garg:** Asset you are talking sorry I am not able to get your question.
- Anupam Agarwal:** Asset turn Sir, Rs. 150 Crores of capex would lead to what sort of asset turn?
- Vijay Garg:** I am not able to get your question Mr. Agarwal, can you be in touch with Mr. Abhay, asset I am not able to get, Rs. 150 Crore we are doing capex, Rs. 150 Crore will be the asset only.
- Anupam Agarwal:** No, how much revenue we can build, 1.5 times, two times?
- Vijay Garg:** Okay, it will be around two times. It is double the, whatever the cost would, two to three times will be the revenue.
- Anupam Agarwal:** Sir, coming to like we are expanding into newer products, we have both set of products in pipeline, what sort of working capital would we need going forward, is it going to be at the current company level or we will have to keep more inventory newer products or if you can just throw some light on this?
- Vijay Garg:** For the inventory levels we are not going to have any kind of facilities from the lenders so whatever surplus cash is available so we will be doing the working capital from the available cash to wherever there is requirement for the inventory increase or the raw material stocks we are doing based on the analysis or based on the commercials. So, it will be on the surplus cash only.
- Anupam Agarwal:** Understood Sir. Thank you so much and congratulations and Happy Diwali.
- Moderator:** Thank you. The next question is from the line of Varun Basrur from AQF Advisors. Please go ahead.



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- Varun Basrur:** Good afternoon Sir. Thanks for taking my question. Sir, considering what we have said today about expansions in the capex to happen in, what kind of revenue target is in mind, it will be in the next three years.
- Vijay Garg:** I am not able to hear you; can you repeat your question Sir?
- Varun Basrur:** So, what I was asking is, what kind of revenue target is there in mind over the next three years considering everything that you have said today regarding the capex we need and what was the contribution of Ibuprofen will be?
- Vijay Garg:** We are targeting revenue growth of 15% to 20% in times to come, so every year our target is around 15% to 20% growth in revenue.
- Varun Basrur:** Okay Sir and what will be the Metformin global market size, the API global market size?
- Vijay Garg:** Around 90000 ton to 1,00,000 ton to the best of my knowledge.
- Varun Basrur:** Thank you. The next question is from the line of Umesh Gupta from Ambit Wealth. Please go ahead.
- Umesh Gupta:** My question is regarding Ibuprofen license trend. I think few months back in one your interview you mentioned the spot price was about \$18 so I wanted to know what has been the trend in the last three months and four months and what is the current spot price the average if you could tell?
- Vijay Garg:** See, what has happened in my interview I had mentioned about the spot price not the spot or the opportunity price which was \$18 but since all the operators are available with the product in the market so the spot buying is almost all out now so we see the price consistency of \$15 to \$16 which was the in part or in the six months.
- Umesh Gupta:** So, did you realization has come down in Q2 from Q1?
- Vijay Garg:** No, it is the same. We are sustaining it.
- Umesh Gupta:** Q3 is similar to Q2?
- Vijay Garg:** Yes same, our expectation is same, so we are confident to that.
- Umesh Gupta:** So, new capacity or the existing capacity of BASF coming up has not resulted in decline in your contract prices?



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- Vijay Garg:** No, not at all because majorly we have on the long-term basis all our big customers so we do not foresee any kind of, BASF has started if you see three months to four months back so we have not seen any kind of impact till date and we foresee that it will not be there in the future as well.
- Umesh Gupta:** You mentioned that you are working at 90% capacity in so is it the optimum capacity utilization or there is a scope to increase 200% of beyond 100%?
- Vijay Garg:** The scope of increase is there, still many companies our trials are going on so once those started will reach to the maximum levels.
- Umesh Gupta:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Ranvir Singh from Sunidhi Securities. Please go ahead.
- Ranvir Singh:** Thanks for taking my follow up question. Sir, this Ibuprofen, you said in this quarte you have sold 5000 metric tons.
- Vijay Garg:** In six months in this last two quarters.
- Ranvir Singh:** Secondly, if I talking about five years revision, do you have any plan to forward integrate or going to formulation or CRAMS or you want to stick to the current business model in API, if you could throw some light on this?
- Vijay Garg:** See, presently whatever we have planned we are into specialty chemicals, we are into chemicals so presently we are concentrating all our energies on increasing our API portfolio and intermediates for the APIs or you can say increasing in terms of commodity chemicals so presently we do not have any plan but if any opportunity comes we are open for any kind of the opportunity available in the market place.
- Ranvir Singh:** Thank you.
- Moderator:** Thank you. The next question is from the line of Shanti Patel from Shanti Patel Investments. Please go ahead.
- Shanti Patel:** Thank you very much for good set of numbers Sir. My first question is, what will be the turnover of the country when all these products are fully developed and commercialized and number two, what is our PAT margin today and will it be consistent when the turnover will reach to the optimum level when the expansion plans are completed?
- Vijay Garg:** Mr. Patel thank you very much for the question. The answer to your question is like company has envisaged a growth of 15% to 20% year-on-year basis so this growth will come from whatever at



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this time we are having, next year we will be having three more products. So, we are adding products to our portfolio, to answer to your question, you can very well calculate on the basis of the growth of the company, so we are targeting 15% to 20% growth. Presently we are operating at 19% PAT so we are quite hopeful and confident that we will sustain this profitability along with the growth whatever we have targeted.

- Shanti Patel:** No Sir, that is right, but that 15% to 20% growth will continue up to how many years 30 years?
- Vijay Garg:** We expect every year scenario for the company.
- Shanti Patel:** I agree with you, but when all these products which you are talking about will get implemented and our sales ratio will be approximately 50:50 which you are talking about at that point what will be the total expected turnover of the company?
- Vijay Garg:** I think at that time it will reach up to Rs. 2800 Crores plus minus.
- Shanti Patel:** Rs. 2800 Crores okay and our PAT margin will go down or go up or will be consistent with what it is today.
- Vijay Garg:** Our target is to sustain.
- Shanti Patel:** Okay, what in the PAT margin today?
- Vijay Garg:** 19%.
- Shanti Patel:** 19% or 20% approximately?
- Vijay Garg:** Yes.
- Shanti Patel:** Thank you very much.
- Moderator:** Thank you. We take the next question from the line of Nitin Raheja from AQF Advisors. Please go ahead.
- Nitin Raheja:** Sorry, I have one more question. You mentioned about Metformin and you said that in the last year you did Rs. 100 Crores and you expect that to go up to Rs. 250 Crores, so just wanted to understand from you, is that happening because of the market growing or is it because you are capturing market share and if that is so where are you capturing this market share from Sir?
- Vijay Garg:** See, Metformin is a high growth molecule, we are getting some share from the market growth as I mentioned in the previous question that around 90,000 ton to 1,00,000 ton is the requirement so if we say minimum growth is 5% so 5000 tons is the requirement which is increasing every year so



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we are concentrating on grabbing the market with the growth along with that we like Metformin as mentioned we have very good relationship with the customers, lot many customers who are already with us, they want to increase your portfolio so we are getting margins or you can say shares from them also. It is mix of both increase in market share and from the existing market.

- Nitin Raheja:** Okay and in your view over the next two years to three years or even longer, which would be the number two product in terms of size after Ibuprofen for you?
- Vijay Garg:** As of today, my expectation is Metformin but going forward what we foresee is like then Gabapentin will also come in line with that.
- Nitin Raheja:** Okay and that would be how big in terms of the opportunity Sir?
- Vijay Garg:** It will not be second, but it will be third, our expectation is to add full volume it will be around you can say around Rs. 150 Crores to Rs. 180 Crores.
- Nitin Raheja:** I mean in terms of profitability how would you rank these products of course Ibuprofen is number one in terms of margins?
- Vijay Garg:** Like profitability we are targeting initially whatever product new launches are there so we are targeting around 20% EBITDA margins so this product will also be in line with that.
- Nitin Raheja:** Thank you Sir.
- Moderator:** Thank you. We take the last question from the line of Sushant Sharda from Athena Investment. Please go ahead.
- Sushant Sharda:** Thank you for the opportunity and congratulations on excellent set of numbers. I had couple of questions. First, also congratulations on your incursion in MSCI India Domestic small cap index. So, it seems your policy is to have high value low volume products in terms of new products, is that right so what will be the asset turnover of these products and what are the margins that we expect on these products?
- Vijay Garg:** Sir, to answer your question the asset turnover is two times of the assets today. So, to answer your question on the MSCI Mr. Mahajan will be able to throw some light.
- Rakesh Mahajan:** Yesterday 10th of November MSCI has changed the index and we come in small index for MSCI domestic India and which will be implemented from the 30th of November-2020.
- Sushant Sharda:** Yes, I know that that is why I said congratulations on inclusion in the index. It is a great achievement. I had visited you company in April-2018 unfortunately Garg Saab I could not meet



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up with you, but I met with the MD. I would like to visit the plant can that be organized, and I am sure lot of other investors will also be interested in visiting the plant?

Vijay Garg: Sir, for the information of the worthy inventors and you, I want to mention that because of COVID all the visits are on hold sir.

Sushant Sharda: No, after COVID Sir, whenever the situation permits?

Vijay Garg: After COVID definitely we will plan something.

Sushant Sharda: Okay, thank you Sir, and I hope you continue to compound that 15%-20% for next few years.

Moderator: Thank you. We would take the next question is from the line of Tushar an individual Investor. Please go ahead.

Tushar: Thanks for taking my question and congratulations on a great set of numbers. Because we had a slow Q1 because of COVID and if I see the first half the overall growth has been just 5% and for the next half are, we are expecting a more acceleration in terms of growth to achieve our overall 20% growth in the full year. How are we planning that way?

Vijay Garg: Yes, sir because of first quarter number was not that good because of everything was on halt after 22nd of March. We are quite hopeful that we will achieve numbers rather we expect this year will be around 15% to 20% number will definitely be achieved.

Tushar: Okay, for the next few quarters.

Moderator: Thank you. Next question is from the line of Pratik Chaudhary from Samarthya Capital. Please go ahead.

Pratik Chaudhary: Sir, you said that the overall global demand for Ibuprofen is around 34,000 ton to 35,000 tons what is the current is the supply balancing with demand as of now or is there 1,000 ton or 2,000-ton shortfall that we have right now?

Vijay Garg: If you see presently because of start-up of all the products some gap is there that is why market is stable. But with the full-fledged running of all the plants it will be like gap fulfilled nothing will be not over, not less.

Pratik Chaudhary: Okay, and this BASF for they were supposed to come up with their Germany plant in 2021, what is the capacity that they are coming up with?

Vijay Garg: From last one year-one and half year we have not heard about Germany plant.



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- Pratik Chaudhary:** Has that plant being shelved or have played on a re-think on that?
- Vijay Garg:** For us no news is a good news Sir.
- Pratik Chaudhary:** Okay, and there is the Bishop plant in US which they had what is the capacity expansion that they did?
- Vijay Garg:** They have not done capacity expansion their plant was shut down because of some safety issue, what was available in the marketplace or we are hearing from the customers 5,000 tons is the capacity.
- Pratik Chaudhary:** Okay, and Sir for this UDCA product that you spoke about what is the range of selling price for that product?
- Vijay Garg:** Range will be in the range of Rs.18,000 to Rs.20,000 per Kg for ROW market and for the regulated market prices are much higher.
- Pratik Chaudhary:** You said around Rs.20,000 per Kg?
- Vijay Garg:** Yes.
- Pratik Chaudhary:** Okay, thanks a lot. That is, it from me.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for closing comments.
- Vijay Garg:** Thank you very much. Thank you, all the investors for joining IOL Chemicals and Pharmaceutical Call. In case you have any question left out or you need any further clarification I would request you to be in touch with Mr. Abhay Raj Singh, who is the Company Secretary and Mr. Pradeep Khanna, who is the CFO of the company. They would be pleased to reply to all your queries. With this I would conclude, I wish a very happy Diwali and Prosperous New Year. Stay Safe thank you very much.
- Moderator:** Thank you. On behalf of IOL Chemicals and Pharmaceuticals Limited, that concludes this conference. Thank you all for joining you may now disconnect your lines.

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