



# “IOL Chemicals and Pharmaceuticals Limited Q3 & Nine Months FY'21 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day, and welcome to IOL Chemicals and Pharmaceuticals Limited Q3 & Nine Months FY'21 Earnings Conference Call hosted by Antique Stock Broking Limited. As a reminder, all participant lines will be in the listen-only mode, and there'll 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 'star' and '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. On behalf of Antique Stock Broking and ITI Capital, I would like to thank you all for joining us on the IOL Chemicals and Pharmaceuticals Q3 and Nine Months FY'21 Earnings Call. Today we have with us Mr. Vijay Garg -- Joint Managing Director, Mr. Abhay Raj Singh -- AVP and Company Secretary and Mr. Pardeep Khanna – CFO.

We'll 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 "Mr. Garg for his Opening Comments." Thank you. And over to you, sir.

**Vijay Garg:** Thank you. Good afternoon, everybody. Thank you for taking time to participate in this earning 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 documents which we have shared earlier.

Before we take the questions, we would like to throw some light on the business and share some perspective on performance during the quarter and nine months. IOLCP is one of the leading API Manufacturers in India and is a significant player in the field of Commodity Chemicals and Speciality Chemicals. IOLCP, as all of you know, is the largest producer of Ibuprofen in the world with an installed capacity of 12,000 MTPA.

IOLCP is the only company which is completely backward integrated for all the major chemicals which are required to produce Ibuprofen. IOLCP presently hold around 35% of the total world market share in Ibuprofen. Along with Ibuprofen, IOLCP is also among the top producers of Ethyl Acetate with an installed capacity of 87,000 MTPA.

Our company is also Second Largest Producer of Isobutyl Benzene, which is the key intermediate for Ibuprofen and hold around 30% of the global market share. Ethyl Acetate has wide application like in pharmaceutical industry, packaging industry, adhesive, surface coating, etc. Company has its R&D facility, which is approved by Department of Scientific and Industrial Research and equipped with all the advanced analytical instruments.

Now, I will share with you the “Major Quarterly Numbers.” Our revenue was Rs.521 crores for Q3, as compared to Rs.515 crores in last year same quarter. EBITDA margin for the quarter was Rs.165 crores in this quarter compared to Rs.163 crores in the same quarter last year, this is around 1% growth on year-to-year basis. Our PAT for the quarter was Rs.115 crores as against Rs.98 crores last year, this is higher by approximately 17% In the global chemicals and drug supply chain, IOL continues to take advantage of newer opportunities as and when they are present to themselves.

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 skills 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. Over to you Mr. Pardeep Khanna.

**Pardeep Khanna:** Thank you, Mr. Garg. Good afternoon, everyone, and warm welcome to our IOL Q3 and Nine Months Financial Year 2021 Earning Call. I will take you highlights for the quarter ended 31st December 2020. Total revenue increased by 1% to Rs.521 crores as compared to Rs.515 crores in Q3 of financial year 2020. For nine months of financial year '21 it has been higher by 4% to Rs.1,525 crores as compared to Rs.1,464 crores in the same period last year. Our nine months performance have been impacted by the nationwide lockdown in the initial part of a year. In Q3 of financial year '21 EBITDA was higher at Rs.165 crores as against Rs. 163 crores reported in the third financial quarter of the preceding year. EBITDA margin has significantly been consistent at 31.7% this year compared to Q3 of financial year '20. For nine months of financial year '21, EBITDA has increased by 11% to Rs.499 crores as compared to Rs.448 crores in the same period of last year, and EBITDA margin was 32.7% compared to 30.6% during nine months of financial year '20. Profit after tax for Q3 stood at Rs.114.8 crores as against Rs.98 crores during Q3 of financial year '20. Depreciation for the quarter was Rs.10 crores, while the finance cost declined by 60%, it is Rs.1.5 crore in Q3 of financial year '21.

Coming to the “Segmental Performance in Q3 of Financial Year 2021,” the revenue from Chemicals stood at Rs.219.9 crores as against

Rs.193.9 crores in Q3 of financial year 2020, thereby increasing by 13.4%. This segment has achieved a stellar performance on account of market demand and operational efficiency. This segment contributed to 41% of total revenues. EBIT stood at Rs.32.35 crores with EBIT margin at 14.7%.

In the Drugs segment, the revenue came at Rs.303.7 crores in Q3 of financial year 2021. EBIT for the segment came at Rs.118.5 crores, translating to margin of 39%. The financial position of the company is stable and underlie 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. We will now begin the question-and-answer session. The first question is from the line of Alankar Garude from Macquarie. Please go ahead.

**Alankar Garude:** Sir, my first question is, if you could give some color on the current pricing trends in Ibuprofen, and what would be your broad expectations over say the next six to 12 months, that would be helpful?

**Vijay Garg:** Ibuprofen pricing are stable for the December quarter. So, we have not seen any kind of correction happening in the pricing as far as Ibuprofen is concerned. Though the sale came to stagnancy because of the stocking in first two quarters by various customers, so that way I would like to answer your question, the Ibuprofen prices are stable as of now.

**Alankar Garude:** And with the gradual scale up of BASF facility and then even the German facility which could come on stream this year, how do you

look at the supply/demand dynamics within Ibuprofen say over the next one to two years?

**Vijay Garg:**

See, as far as the BASF, German facility is concerned, though they have made an announcement in the past that it will come in '21, but now there is not even a single customer is saying that they are coming up in '21, not even any announcement by the company we have heard. But yes, sales has come down because of the lockdowns because if you see initially there was lockdown in China, then in India, Europe, US, UK, so, now from last six months, Europe, UK, and US, most of the economies are under lockdown. So, that is why the sales has come to a correction which is happening in the sales. We don't foresee any kind of the oversupply in Ibuprofen in coming one to two years.

**Alankar Garude:**

My final question is given that we are completely backward integrated in Ibuprofen, how big an advantage is it, I mean, if you could broadly quantify the benefit, it would be really helpful?

**Vijay Garg:**

As far as cost is concerned, definitely, because we are completely backward integrated, if you see our lowest cost raw material, which is going into, it is like in the range of Rs.50 to Rs.60 Kg and our output is around Rs.1,000 Kg. So, if you see overall value addition is really high. As far as competition is concerned, our broad calculation says that our cost is lower by around you can say 15% to 20% in case of raw materials.

**Moderator:**

Thank you. The next question is from the line of Ajay Sharma from Maybank. Please go ahead.

**Ajay Sharma:**

I just want to check what is the reason for the margin decline for the Drugs segment in Q3. The margin dropped quite a bit.

**Vijay Garg:** In Q3, the major drop is, in the previous question also I mentioned, due to COVID, customers have done panic buy in the first and second quarter of this year. So, now, they are consuming their stocks. Along with this with the improved condition in health and hygiene and the lockdown in the various countries in Europe, UK and Latin America, the demand is not much. Because of that shortage in demand, we have lost our around you can say 10% sales volume in Ibuprofen. So since Ibuprofen is a major profit-making product, so that is the only reason. Though in this quarter we have done very good sales in terms of you can say in chemicals segment; our sales has increased by 5%, and the margins has also increased drastically.

**Ajay Sharma:** What is the capacity utilization or sales volume for Ibuprofen and Metformin in Q3?

**Vijay Garg:** Overall in nine months, we have done around 80% of the capacity utilization in Ibuprofen whereas in Metformin it has just touched around 50% of the installed capacity.

**Ajay Sharma:** On the API pipeline which you have, so which are the key products you expect to commercialize over the next one or two years? And also, Metformin, where do you see that in terms of capacity utilization going forward, do you think that will also become a big contributor?

**Vijay Garg:** Metformin, we have already commercialized which has increased to the utilization of 50% with the total installed capacity of 11,000 MT, we have touched around 5,500 MT till this time average of the nine months. Next product which is a growing molecule for us is Clopidogrel. Clopidogrel, we have an installed capacity of 180 tons. So, this year, we are targeting around 140 tons of Metformin of the sale which is around 77% to 80% of the capacity utilization. Our next product is Pantoprazole. In pantoprazole, we have an installed capacity

of 180 MT. So, in this 180 MT, we already had reached 120 MT of our sales. So apart from this, we have in pipeline Fenofibrate, then Lamotrigine, Ursodeoxycholic Acid, these are the three more molecules which are available on the shelves. So, in these also, Fenofibrate we are doing in multi-purpose plant, so there the capacity utilization for that plant is around 90%. These are the new products available with us. In totality we have done Rs.141 crores sales in nine months. So, we are targeting around Rs.180 crores to 200 crores sales turnover this year.

**Ajay Sharma:** Any plans of increasing capacities in any of the molecules?

**Vijay Garg:** Yes, in a way we can say we are planning to increase the capacity, we have a plant which we call the FLU which is a multi-purpose plant wherein we will be manufacturing F for Fenofibrate, L for Lamotrigine, and U for Ursodeoxycholic Acid. So, this plant we have designed to manufacture 150 MT of Fenofibrate, 140 ton of Lamotrigine and 96 ton of also Ursodeoxycholic Acid. This is a multi-purpose plant. So we will be increasing the capacity of these three products in this plant.

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

**Varun:** This question is regarding the drug segment. In the previous call, we had mentioned we would like to target somewhere around 30% revenue within the drug segment from other products, that is non-Ibuprofen products. So quick calculation means that on a full year basis, this would be somewhere 450 to 500 crores full year revenue. Just some clarification on when we think we can achieve this target.



**Vijay Garg:** Very valid question and even this question is very near to our heart also because we are targeting much more revenue from other than Ibuprofen. Like I mentioned this year we are targeting around Rs.200 crores. So in coming two years time my expectation is that we'll be able to achieve our target like we are increasing our clientage in all our products, if you see Metformin we have increased the capacity as I mentioned, in Fenofibrate, Clopidogrel, even Pantoprazole, Lamotrigine, Ursodeoxycholic Acid, we are witnessing demand in these products. So, to answer your question in coming maximum three years time we'll be able to achieve the 500 crores target from other than Ibuprofen product.

**Varun:** Second question is regarding the chemicals segment. This time the EBIT was somewhere around 13%, 14% margin. Sir, this is because of better realization from Ethyl Acetate?

**Vijay Garg:** Yes, along with Ethyl Acetate, IBB has added but major returns come from Ethyl Acetate margins.

**Varun:** IBB, how much is being sold in the external market?

**Vijay Garg:** Around 25% we're selling in external markets, 75% is the captive potential.

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

**Nimish Mehta:** This question is more on the business model. You mentioned that in Ibuprofen we have the least cost in comparison to other players. So, is it only because of the backward integration we have or we also have some differentiated process or some R&D in process chemistry we have achieved this?

**Vijay Garg:** This is a combination of various things. So one, as I mentioned 15% to 20% is on account of you can say the backward integration, wherein we are getting those margins vis-à-vis our competition. Apart from this, our R&D along with the new product development, one team we have dedicated for the improvement of you can say process cost in the existing product like we have not dedicated the entire R&D team for the new developments. One set of people is dedicated for the improvement in terms of you can say raw materials. So, it's a mix.

**Nimish Mehta:** What I'm trying to understand for example, when you select a new product, you select purely based on our ability to backward integrate or before you start you're sure of process which is also lower cost than others? So, is it a capital-intensive business model or do we have R&D also before we select the product, that is what I am trying to understand?

**Vijay Garg:** No, we are always going with the R&D. The selection criteria I broadly share with you is based on R&D. We are into generic space, all our products are generic products. So, our marketing team is going to the market, they are collecting a few names of the products which are in generic space and sold in higher numbers or there is demand/supply gap. From that the product goes to our R&D. So in R&D, we have two criterias for the product selection; one is no doubt first and foremost is the raw material cost. And the major thrust we give that first; non-China dependent intermediate should be there. So our first target is that the product which we select or whichever R&D manufacture, any intermediate should not be dependent on China, second is on environment concern, the product should not be a highly polluting product. So this is the selection criteria for all our products. Our RM cost is also the major part.

**Nimish Mehta:** Actually I may follow-up, but I think I should take it offline. No issue. Thank you very much for that.

**Moderator:** Thank you. The next question is from the Keshav Kumar from RakSan Investors. Please go ahead.

**Keshav Kumar:** Sir, in an interview on a public news channel a day before you said that there has been a correction in Ibuprofen prices due to a demand and supply gap. But to the first part participant, you were telling that the prices remain fairly stable in the first quarter. So, could you clarify whether it's a dual impact of the prices falling as well as volumes in this quarter?

**Vijay Garg:** Yes, you are right, in Zee business interview, I have mentioned. I have mentioned in the previous question that for the quarter we are able to sustain, no doubt there is a correction because demand has come down, because of lockdowns, all pharmaceutical products, which are used in FLU or antibiotics, you can say general elements, the demand is low. So, we are able to sustain, the reason is the long-term commitments which our customers have done. So, this is an ongoing process like 60% to 70% of our customers are giving us long-term orders. So though market there is a correction but we are able to maintain.

**Keshav Kumar:** Could you give a delta between the prices that were in Q2 and Q3?

**Vijay Garg:** You can say \$1.5 to \$2 delta is there like correct spot prices. Though market has touched around \$18 to \$20 but we were at \$14 to \$15. So, the correction which is happening is on the spot market. So, we do very less business on spot market, most of our businesses on long-term basis. So, spot market has come down to you can say \$13, \$14 which will be settled at say around \$12 to \$13.

**Keshav Kumar:** You said that you will be commercializing Gabapentin in Q1 FY'22. What would be the gestation period to go to full capacity? And also sir, what would be your target for FY'22 Gabapentin revenues?

**Vijay Garg:** We are targeting our Gabapentin to start in June or July. So, as you know, gestation period is around one and a half year at least because major quantities will go to the regulated market. We have already started the process and we have a few anchor customers as well. So, it will take around one and half years to stabilize the sales.

**Keshav Kumar:** So what would be your expectation in the first year as in how much revenues coming from the Gabapentin?

**Vijay Garg:** Gabapentin next year itself we are hopeful to achieve around 30% to 40% of the installed capacity. So that will be going to the non-reg market only.

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

**Ashish:** Sir, on this Ibuprofen, some of your peers are putting up capacities. Do you feel that there is an excess supply of Ibuprofen now in the market and that is the reason why the prices are holding on the low side of the band?

**Vijay Garg:** No, it is not because of the excess capacity. This is as I mentioned is because of the stocking done by our customers, the panic buying was done in Q1 and Q2. So, now people are using the stocks. This correction is largely because of that. If you see, presently, in pharma space, most of our sales are to the regulated customers or blue-chip companies, minimum two years time is the gestation period for any product to be commercialized.

**Ashish:** On a contractual basis, the contracts that we have with the customers are \$13 to \$14. In the last five years, what was the bottom pricing?

**Vijay Garg:** If you see five years back, it was in the range of \$9.

**Ashish:** So just playing devil's advocate here, do you feel that the prices can revert back or something has changed on the ground which makes you believe that \$13, \$14 could sustain?

**Vijay Garg:** This year \$13, \$14 will sustain I mentioned, but next year, the correction will happen, so our target is around \$12 for the next year.

**Ashish:** On Ethyl Acetate, how big is that portion for us because the reason why I'm asking is obviously Laxmi Organic is one of the bigger players in the market, so is there a scope for also a player like you to keep on gaining and expanding this business?

**Vijay Garg:** Yes, all the top players like Laxmi, Jubilant, Somaiya 87,000 is our installed capacity. We are targeting around further increase in the capacity. Our full-fledged target is around 1,20,000 MT maybe next year we'll reach. Actually speaking, this is a green solvent and the demand is increasing day-by-day, because people are coming out of petrochemicals based solvent and are switching to the green solvents like Ethyl Acetate.

**Ashish:** What is the capacity addition that we are doing here?

**Vijay Garg:** You can say from 90,000 to 1,20,000, around 33% increase will be there.

**Ashish:** But the margin profile or the realizations in this business could be far, far lower than what we are doing currently, right, if I'm not wrong, 8% to 10% is the kind of EBITDA margins in this business?

**Vijay Garg:** This quarter I would say we have touched around 17% whereas in past year, you're right, it was in the range of around 8% was the number. When we increase the capacity, this will help our company in two manners; first is like with the increased capacity, negotiation power will come to us, second is that most of the capacity expansion will be with a very little CAPEX.

**Moderator:** Thank you. The next question is from the line of Sayantan from Pinebridge Investments. Please go ahead.

**Sayantan:** If you could just break out how much we'll be investing in the Ethyl Acetate expansion? And also if you could break out how much we are investing for the Gabapentin and what is the capacity we are planning there? And lastly, I have more of a suggestion. I understand we are looking for all processes, which are green and cleaner and non-polluting. I would request you to share some details in your annual report in terms of efforts we made in terms of reducing our carbon footprint and what the efforts we're putting in, in that direction, if you can put additional details on an annual report that will be helpful because these days ESG is becoming a big concern, so, I would request you to share some additional, I understand company already does it, just need to put more of that in the annual report and disclose a little bit more data on that.

**Vijay Garg:** Thank you very much. Your suggestion is very well taken and my team is along with me listening this and even on personal ground also I would request my team to incorporate your suggestion in times to come in our annual report and definitely will do sir, we are in the process and wherever some external help is required to assess the data, we will do that, definitely we will include this in our annual report. So, on the question front, like Ethyl Acetate maximum to my mind is that

debottlenecking and adding some equipment we will be investing around Rs.10 crores not more than that on Ethyl Acetate to increase the capacity by 30%. So, as far as Gabapentin is concerned, we are coming up with a plant which is having capability to produce 600 MTPA, around 50 tons a month will be the capacity. The CAPEX which we are targeting is around 60 crores for this Gabapentin.

**Moderator:** Thank you. The next question is from the line of Shanti Patel from Shanti Patel Investments. Please go ahead.

**Shanti Patel:** With this all expansion, etc., what will be our approximate turnover for the year '21-22 and what will be the percentage of PAT?

**Vijay Garg:** '21-22 we are targeting around 2,400 to 2,500 crores for top line with a PAT in the range of 20%.

**Shanti Patel:** Our debt will go up or go down in next year?

**Vijay Garg:** No, no, we are a debt-free company sir and we will remain debt-free. All the expenses are going from the internal accruals.

**Moderator:** Thank you. The next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.

**Tushar Sarda:** You have guided for 20%, 25% growth for next two, three years. With lower volume of Ibuprofen and also likely falling prices, does this guidance remain or do you think we will grow at a lower rate?

**Vijay Garg:** With this correction coming in Ibuprofen, so we are targeting around 15% growth, so like I mentioned for '21-22 we are targeting 2,400 to 2,500 crores revenue. Definitely, correction will come but at the same time we are going to increase our capability in Ethyl Acetate which we have already done and in the process maybe within a quarter time we'll

be increasing the capacity, may be in a phased manner, our total target is 30%, maybe 20% growth you will see in the running quarter and along with that the revenue increase, the new products will happen.

**Tushar Sarda:** What about profits?

**Vijay Garg:** PAT are we're targeting in the range of 15%.

**Moderator:** Thank you. The next question is from the line of Paresh Jain from Bajaj Allianz Life Insurance. Please go ahead.

**Paresh Jain:** On Ibuprofen, do you sell in the spot market or is it completely all long-term contracts?

**Vijay Garg:** Around 70% long-term understanding is there, 30% is on the spot market.

**Paresh Jain:** The realization that you said of \$13 that was for this particular quarter, right, for Ibuprofen?

**Vijay Garg:** Yes.

**Paresh Jain:** And how has the realization been in the last nine months versus these nine months?

**Vijay Garg:** I don't have the exact numbers for last year, but it's in the range of \$14 to \$15, last year it may have touched \$15 and this year it may be \$14.5, 70% of the business we are doing on long-term basis and our spot market is in real term it is in the range of 10% to 15%, in 30% also 50% is it is the understanding where we don't have any paperwork done, but you can say in other terms, we are clear that these customers are dedicated to us. This year, it's not more than say half a dollar.



**Paresh Jain:** In the last three to four years, how has the pricing been on the contract side for you on the Ibuprofen market?

**Vijay Garg:** Five years back, in the range of \$9, it was around 50 to 60, then after this shortage start happening, we enter into the contract with the long-term customer or the blue-chip companies, which are very big names you can say in the pharma space. So, there also we are on a yearly basis. So, that way to answer your question is like it was in the range of \$9, then \$11, then \$14, \$15, this is the range in the 70% range covered.

**Paresh Jain:** What gives you a confidence that cannot come down back to \$9?

**Vijay Garg:** See, it will not come to \$9 but say in two to three years' time it will come in the range of \$11, like all big companies, they are not ready to sell, like the companies who has increased the capacities or capabilities is majorly because of the price rise.

**Paresh Jain:** Just to put things a little bit more clearer; for next year FY'22 you will benefit from the Gabapentin capacity coming up right, and the ethyl acetate facility coming up, is that correct?

**Vijay Garg:** Next year we will not be benefited because of gabapentin capacity. Next year from other products. I want to mention here is that any pharma product which you want to sell in regulated markets, minimum time you require gestation period is two years. After six months to one year we are selling in northern market from where you will not get much margins and much volumes. So that way we are not expecting benefits coming from Gabapentin. But yes, the product which we have launched two to three years back like Clopidogrel, Pantoprazole, even our FLU is coming up like where we will be manufacturing Fenofibrate, Lamotrigine and also Ursodeoxycholic Acid.

**Paresh Jain:** The contract prices that you said, when are they annually reset, is it like in April or January or is it spread across the year with different customers?

**Vijay Garg:** For most of the overseas customers it was happening in the month of November, December. During CPHI, we started the dialogue and then we were finalizing in the month of December. But overseas customer it has already been finalized and domestic yes it's a March cycle.

**Paresh Jain:** And for overseas you finalize at \$12 for this year Jan to December now?

**Vijay Garg:** Sorry, sir, this number can't be disclosed.

**Paresh Jain:** And what percentage of the sales come from the regulated market for Ibuprofen?

**Vijay Garg:** Percentage of sale if I see 50:50 for us for Ibuprofen and from the regulated market 50% comes.

**Paresh Jain:** I did not get. What was the earlier 50%?

**Vijay Garg:** Total say 10,000 tons we are going to sell, so from that 10,000 tons, 5,000 tons will be from the regular spot and 5,000 will be from the domestic and around 2500 tons to 3000 tons we are selling in the regulated market.

**Moderator:** Thank you. The next question is from the line of Rajkumar, individual investor. Please go ahead.

**Rajkumar:** What is the receivable days?

**Pardeep Khanna:** Average 30 days is the number for the receivable.

- Rajkumar:** Regarding your company's website, it looks a bit old fashioned, like I don't know, if you want to continue that way or you want to like to improve now because we are moving into overseas business?
- Vijay Garg:** Within March you will find a very good and elaborated with the latest tools and techniques used for the website... it's already in the process for development sir.
- Moderator:** Thank you. The next question is from the line of Vishal Manchanda from Nirmal Bang Institutional Equities. Please go ahead.
- Vishal Manchanda:** On Ibuprofen, can we reach our theoretical capacity of 12,000 tons per annum?
- Vijay Garg:** For coming year, definitely no, but yes, with this correction happening after that we have reached to almost all the big pharma customers in the US as well where we have already got many ANDAs under approval or got approved. So, once this correction happens, so, maybe in '23 we will be able to achieve the full capacity sir.
- Vishal Manchanda:** There is no technical constraint in terms of achieving that 12,000 tons?
- Vijay Garg:** There is no technical constraint. All the constraint, which was there say maybe two years, three years back, now, those constraints are not there, because we have reached from big to small customers, most of the customers has approved us.
- Vishal Manchanda:** When you said your costs are lower by 15% compared to competitors, do you just mean at the raw material level or you mean at the EBITDA level would be...?
- Vijay Garg:** No, no, it is on raw material level.

**Vishal Manchanda:** So, you also get the benefit of scale on top of that?

**Vijay Garg:** Definitely, that is on account of you can say raw material cost because of backward integration, along with that we have 12,000 MT installed capacity at a very less CAPEX. So, that way the additional margins will come from the scale.

**Vishal Manchanda:** On the multi-purpose plant wherein you are going to manufacture Fenofibrate, Lamotrigine and other APIs, is that ready and up for commercialization?

**Vijay Garg:** We are targeting May, June will be for this FLU multi-purpose and June, July for Gabapentin. Both the plans are under construction.

**Vishal Manchanda:** So, you are able to start commercial revenues in FY'22?

**Vijay Garg:** For multi-purpose product, yes, we will be, but for Gabapentin '22 we'll be doing the commercial production, some quantity will start, but not the full capacity, but for FLU it will be full capacity because all the products are commercial, so, we have to show just a changeover to our customers.

**Moderator:** Thank you. The next question is from the line of Keshav Kumar from RakSan Investors. Please go ahead.

**Keshav Kumar:** There is news that BASF has resumed Ibuprofen production. Has that impacted the past quarter, is that also contributing to oversupply in the market?

**Vijay Garg:** BASF has started their plant maybe nine months back. This correction is not on account of BASF. All these players are facing the same problem. This is majorly because of the overstocking by our customers.

**Moderator:** Thank you. The next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.

**Tushar Sarda:** What I understand from whatever you have said on the call so far is that next year, there may be a drop in price of Ibuprofen and volumes let's assume are constant. So, Ibuprofen actually will degrow and other pharma products will grow by around 100, 150 crores and some part of growth will come from ethyl acetate. Can you talk a little more on ethyl acetate business in terms of what is the raw material, whom do you sell to, how do we compare with competition, that will be helpful?

**Vijay Garg:** Ethyl Acetate, you have asked about the raw materials. We are using two raw materials; one is ethanol which we are importing from US and second is acetic acid which we are importing from various countries like Malaysia, we are importing from China, some quantities we are buying from India as well. As far as ethyl acetate is concerned, for next financial year, we are targeting a growth of 30% in ethyl acetate. So, ethyl acetate, we have very vast reach like we are present pan India, number one, number two per month around 20% goes in exports as well. We are present in pharmaceutical market, we are present in lamination, we are present in solvent industry, wherever the applications of ethyl acetate are concerned we are present, and with this present capacity we are always oversold by you can say one or two months. So, that is the reason which is forcing us to increase the capacity. So, along with this, as you have also mentioned that we are targeting around 200 crores additional revenue from the new products. So, this will compensate or rather both things put together we'll be achieving our targeted numbers of 2400 to 2500 crores next year.

**Tushar Sarda:** In the past, the company had difficulty due to fluctuation in prices of ethyl acetate. So how do you hedge against this risk going forward?

**Vijay Garg:** In the past, what has happened was totally different from what the market or what the scenario for ethyl acetate is today. If we go to the history, in the past we were totally dependent on Indian suppliers for ethanol. So, ethanol, Government of India came up with a policy to mix it with the petrol and diesel. So, all of a sudden, all these suppliers started giving it to the petroleum companies, where they were getting around 50% higher prices than whatever we were. So, now this scenario has completely changed. If you talk all the manufacturers I would say in India or in China or anywhere like one thing is clear that this product is not importable product in India from China or anywhere because one is the 7.5% duty, second is the freight and all. And along with that, all these manufacturing countries are importing now ethanol either, majorly it was coming from USA, now it has started coming from Brazil. So these are the two destinations. So, entire world is completely competitive. So, today scenario is totally different from what has happened in 2014. So please be rest assured sir, your company is now having the scale where we are able to compete with the global players.

**Tushar Sarda:** Ethyl Acetate sold in contract basis or is it the spot market?

**Vijay Garg:** It's not a yearly contract, but yes, monthly contracts along with spot, because this is a commodity chemical sir.

**Tushar Sarda:** But you will have enough measures in place to ensure that you're adequately hedged and price fluctuations don't hit us adversely?

**Vijay Garg:** Yes, because we are doing two to three months contract for the ethanol as well as the ethyl acetate.

**Moderator:** Thank you. The next question is from the line of Alankar Garude from Macquarie Group. Please go ahead.

**Alankar Garude:** A couple of questions. Number one, you mentioned about Ibuprofen pricing being in that \$12, \$13 range as in FY'22 and it could possibly come down to say about \$11 in the next two to three years. So, is there a further risk to this number assuming the BASF German facility comes onstream in say 2021?

**Vijay Garg:** Just to answer your question, BASF has announced \$12.5 for the German facility and we have not heard from anybody or from the company BASF when they are coming up with that facility. So, I don't foresee any kind of further correction in the prices of Ibuprofen.

**Alankar Garude:** When you mentioned your expectation of pricing being about \$11 in the next two to three years, it factors in any risk coming in from higher capacity addition from any of your competitors?

**Vijay Garg:** Yes, everything we have covered. So, we are speaking on the conservative side.

**Alankar Garude:** Second question is I wanted to know generally what is currently say the pricing differential between regulated and semi-regulated markets for Ibuprofen?

**Vijay Garg:** Around \$2.

**Alankar Garude:** Is it safer to say given that almost 70%, 75% of our Ibuprofen sales are to semi regulated markets, if you increase the contribution of regulated markets, then possibly we could look at a slightly higher number than the numbers which you mentioned?

**Vijay Garg:** Yes,, my entire marketing team is focusing on the export sales. Our target is regulated market only.

- Moderator:** Thank you very much. The next question is from the line of Dhaval Sanghvi, individual investor. Please go ahead.
- Dhaval Sanghvi:** Sir, I have some broader question from a vision perspective, let's assume FY'24, do we anticipate doubling of the revenue or what would be our vision?
- Vijay Garg:** We're targeting around 20% to 25% growth on year-to-year basis. But because of this correction, our target is around 15% for the next year. So we are confident that with the product pipeline and with the new products revenue growing, so we'll be able to sustain 15% to 20% growth rate in coming four to five years.
- Dhaval Sanghvi:** If we consider four to five years, what would be our percentage of our share from Ibuprofen versus Non-Ibuprofen?
- Vijay Garg:** We are targeting around 30% revenue from Ibuprofen, balance 70% will come from the other chemicals or new pharma products.
- Dhaval Sanghvi:** Our blended margins will still remain the same?
- Vijay Garg:** Not of today, but if we get any good opportunity it may increase to 20%.
- Dhaval Sanghvi:** Based on the PLI scheme that government has announced, I understand that we are currently not looking, but anything in the R&D that may be attributing towards that we may be thinking on?
- Vijay Garg:** For the PLI scheme, thrust area there is antibiotics and the fermentation products. So presently, our R&D is not focusing on those. But yes, with the kind of surplus cash available, if any opportunity we get, so definitely, we can explore.





**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.

**Vijay Garg:** We really thank all our shareholders and the consulting companies for participating in this call. And I would like to thank the service provider, Richa, Arnav and Mr. Mahajani for their help in assisting us for this conference call. Thank you very much once again and have a great day.

**Moderator:** Thank you very much. On behalf of IOL Chemicals and Pharmaceuticals Limited and Antique Stock Broking Limited that concludes this conference. Thank you for joining us. You may now disconnect.

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