



**“FDC Limited  
Q2 & H1 FY2023 Earnings Conference Call”**

**November 15, 2022**



**FDC TEAM:**

**MR. NANDAN CHANDAVARKAR - JOINT MANAGING DIRECTOR**  
**MR. AMEYA CHANDAVARKAR – CEO-INTERNATIONAL BUSINESS & EXECUTIVE DIRECTOR**  
**MR. SANJAY JAIN - CHIEF FINANCIAL OFFICER**  
**MS. VARSHARANI KATRE - COMPANY SECRETARY AND COMPLIANCE OFFICER**  
**MR. MAYANK TIKKHA - AVP - BUSINESS DEVELOPMENT & COMMERCIAL EXCELLENCE**  
**MR. HARSHAL JAIN - MANAGER- CORPORATE STRATEGY**



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**Moderator:** Ladies and gentlemen, good day and welcome to FDC Limited's Earnings Conference Call for the quarter and half year ended September 30, 2022. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the brief highlights on the financials from the management. Should you need assistance during the conference, please press "\*" then "0" on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Ms. Varsharani Katre, Company Secretary and Compliance Officer of FDC Limited. Thank you and over to you Madam!

**Varsharani Katre:** Thank you. Good afternoon everyone and welcome to all of you. Glad to connect with you all for this quarter and half year ended earnings call. We have already disseminated the financial results for the quarter and half year ended September 30, 2022 and the investor presentation as well. Now I would like to introduce the FDC team present in this earnings call. We have with us Mr. Nandan Chandavarkar - Joint Managing Director, Mr. Ameya Chandavarkar – CEO-International Business & Executive Director, Mr. Sanjay Jain - Chief Financial Officer, Mr. Mayank Tikkha - AVP - Business Development & Commercial Excellence, Mr. Harshal Jain - Manager-Corporate Strategy.

We will begin the earnings call with the highlights of financial result of the company by Mr. Sanjay Jain – CFO followed by an interactive Q&A session. There might be certain forward-looking statements. These statements are subject to certain risk and uncertainty since they are based on certain assumption and expectation of future events. I would request all the speaker participant to restrict their queries to five minutes only and avoid repetitive queries to save upon the time. With this I shall now hand over to Mr. Sanjay Jain – CFO. Sanjay over to you.

**Sanjay Jain:** Thank you Varsha. Good afternoon all. I briefly take you through the financial results for the quarter and on half year ended on September 2022. To begin with on the revenue side, the revenue growth on Y-o-Y basis is at 12% for September 2022



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quarter and 11% on a half yearly basis. This growth has been contributed by all the business vertical for the quarter as well as half year.

On the domestic formulation business, company has continued its growth trajectory and it has given a growth of 6% in spite of the higher base of the last year when we have achieved a growth of 45% over its last year on half yearly basis and also to be noted that in the last year in the year 2021-2022, the sales included certain product which are related to the COVID therapy which are not there in the current year so if we want to have a like to like comparison on a growth basis, this growth would have been somewhere 11 to 12%. The growth in the current financial year has largely been driven by major brands like Electral, Enerzal, Zocon, Simyl MCT Oil. They all grew by double digit growth rate. We are also happy to inform you that our brand Electral has become the first FDC brand to cross 350 Crores mark on Mat September 2022 basis.

On revenue from export business which is up by 68% on Y-o-Y for formulation business and 31% for the API business on a quarterly basis and on the half yearly basis it is up by 48% for the formulation business and 28% for the API business. The increase in the formulation business is largely on account of the increased supplies to our US customers which are four times higher than the last year six months. This growth is also supported by the other geography as well. On the other income on half yearly basis it has reduced on account of the overall reduction in the treasury side as compared to last year as this year we have paid out buy back amount as well as some of the capex expenditure which are going on at our plants and our corporate office.

Now coming to the gross margin which have been impacted in this current quarter by 2% on account of the elevated price of raw and packing material which has an impact of 23 Crores in absolute terms for the quarter. However, with the inflation getting stabilized and supply chain getting normalized we may see some kind of respite in the elevated cost level going forward which can be seen in the current gross margin improvement from the current Q2 versus immediate Q1. This cost levels can be



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further relieved with the increase in our sales price as we have taken the price hike on our scheduled formulation at around 10 to 11%, which will have a positive impact on our margin going forward.

On the employee cost which is maintained at 20% of our revenue and which is marginally lower compared to the last year same period owing to the increased revenue base however in absolute term, it has increase on account of newly launched division in our domestic formulation business and as well as on account of the annual appraisal factor.

On the operating expenses which has gone up or increased which are mainly on account of the increase in the sales and marketing expenses as well as in the manufacturing and logistic cost. So these costs have increased with the increase in the overall revenue base of the company. With this the overall EBITDA margin now stands at 18% as against the last year. I will now hand over to Varsha to take the proceedings further.

**Varsharani Katre:** Thank you Sanjay so now I request moderator to initiate with the Q&A session.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Ajay Sharma from Maybank. Please go ahead.

**Ajay Sharma:** Hi thanks for the update. I just wanted to check on your comment regarding the price increase on your scheduled products 10 to 12% and was not the price increase supposed to be effective from April and then the benefit was supposed to flow through in Q2 but we have not seen really the gross margin improve so much so what are you saying is the benefit going to come in Q3 onwards or you saw part benefit in Q2 and the balance will come in Q3 if you could clarify.

**Sanjay Jain:** So from the regulation perspective, the schedule formulation can be made effective for a price increase from April 1 but with the practical implementation of increase in the freight that can go up to end April or the first or second week of May. As regards



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to the non-scheduled formulation these are easy to increase 10% on a moving average basis on 12 month period and as you said there is pressure on the margin so if you look at our margin as compared to Q1 there is an improvement in the margin however since the increase in raw and packing material prices are more than the increase in freight price increase that is why there is a pressure on the gross margin but having said that going forward since the prices are now getting stabilized and the full price benefit which will be available in the coming quarter so there will be some kind of stabilization in the gross margin.

**Ajay Sharma:** So my question was on this full price benefit so has not the price increase for the scheduled products already fully available in Q2 and then for non scheduled also.

**Sanjay Jain:** For scheduled yes and for non scheduled it is moving every year. Every month there are certain products that are eligible for the price increase.

**Ajay Sharma:** So when you are saying full price benefit you are talking about benefit from the non scheduled products price increase is it.

**Sanjay Jain:** Full price benefit from the scheduled formulation.

**Ajay Sharma:** But scheduled should have come through in Q2 itself right because if the price increased happened by April, May should not you have got the benefit in Q2 itself. The scheduled for all the benefits has come in Q2 that is my question basically or do you expect further benefit in Q3.

**Sanjay Jain:** So that benefit will continue in Q3 and Q4 as well.

**Ajay Sharma:** And then how much of the export incentive which you recorded in the first half the profit share.

**Sanjay Jain:** So on the first half we recorded 32 Crores.



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**Ameya Chandavarkar:** No that is not profit share that is just the sales. He is asking a specific question on profit share.

**Sanjay Jain:** That is 32 Crores first half.

**Ajay Sharma:** Okay and lastly you talked about domestic business and new division can you expand on that what division is that and also on what is your status on new ophthalmology launches in US.

**Mayank Tikkha:** Hi this is Mayank Tikkha I will explain you the domestic front of new division so what Sanjay mentioned earlier we have launched this financial year a division called Zocon which mainly caters to our dermatological range of products. Now Zocon is the flagship brand in our kitty for last 15 to 20 years so we have carved out a separate division to create this niche within the FDC family so the expansion size of this new division was approximately 500 odd people which we undertook in this financial year.

**Sanjay Jain:** What was your question on the US side.

**Ajay Sharma:** New launches.

**Ameya Chandavarkar:** We have not scheduled any right now but you are saying remaining this financial year right.

**Ajay Sharma:** Yes.

**Ameya Chandavarkar:** So nothing scheduled it is going to be the existing products that we keep selling.

**Ajay Sharma:** Because you had some fillings right so you have not got anymore approvals on the ophthalmology products is it.

**Ameya Chandavarkar:** There is one product which we are waiting to launch but we have not scheduled it yet.

**Ajay Sharma:** Okay thank you so much.



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- Moderator:** Thank you. The next question is from the line of Neelam Punjabi from Perpetuity. Please go ahead.
- Neelam Punjabi:** Hi thank you for taking my question so my question is on the domestic business. We have seen that our secondary sales have grown at 13.5% YOY during Q2 FY2023, but the reported revenues have only grown at 6.4% YOY so what is the reason behind this slower growth on the reported side.
- Sanjay Jain:** There will be always a gap between our primary sale and secondary sale. The reason could be between the supply that has happened from our side and the supply that has happened from the secondary side.
- Neelam Punjabi:** But directionally the growth should be on similar lines right so I still did not understand why the difference.
- Mayank Tikkha:** So you are talking about the financial numbers and the market numbers.
- Neelam Punjabi:** Yes the IQVR number growth.
- Mayank Tikkha:** IQVR number will never reflect the kind of growth and the kind of volumes what the financial do show because there is a huge inventory out there in the market which is what for almost for one month say sometimes it becomes 1.5 times also. If I take you back to last year because of COVID upsurge in the market was of very, very high side. The demand levels have gone very high and that is why the stock inventory in those times at the market front was huge which was not normal as compared to the traditional pharma business so this is leading to the gap in IQVR reported numbers and our internal reported numbers which is also true for other companies also. If you look at some other companies also these gaps are there across.
- Neelam Punjabi:** Got it. I was referring to your investor presentation and there you have shown growth on the prescription side and for first half for overall FDC you all have shown a



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51% growth. I was not being able to understand if you can please explain this slide to me.

**Mayank Tikkha:** Before I claim 51% for FDC you look at the IPM growth also. The IPM growth is 47%. Now why this is coming I will tell you because last year the sales were very high, the secondary sales, but because of the restrictions due to COVID the prescription sale has gone down so this year it is a normal scenario and that is why not only FDC even the IPM is showing a very high robust growth in terms of prescription so I would say this slide has to be read in that fashion that IPM is growing by 47%, FDC is ahead and growing by 51%.

**Neelam Punjabi:** Got it. Understood. This is very helpful. Could you provide the breakup of your growth during the quarter between volume, price and the product introduction?

**Mayank Tikkha:** If you want I can share right now on a MAT reflection not for the quarter. MAT our volume growth is 5.9, price growth is 5.3 and new product is 1.4. The total reflected growth is 12.6.

**Neelam Punjabi:** Next my question is on the PCPM so fee for productivity for the quarter standing at about 3.5 lakh per MR per month which is largely flat on YOY basis and at the same time our fixed cost including staff cost have gone up significantly so also the industry is running at an average of 6.5 lakhs of PCPM. What efforts are we taking to take this up and do we intent to get to the near industry level PCPM.

**Mayank Tikkha:** So as I explained in my previous reply the PCPM is always reflecting of the expansion. Now if you look at the last two, three years trajectory FDC has moved in terms of page sale. If I remember correctly our last year first half PSPA was almost 3.75 to 3.8 but yes as I said we expanded in the month of January last year almost 550 people were inducted into the system now why this has been done. This is just to diversify our portfolio and to work on our strength areas. In my last call also probably we explained that we are not only now focusing on antibiotic ORS but also on dermatological, nutraceuticals and cardiometabolic basket for this there was a definite



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need for us to expand because the current divisions are saturated and cannot handle more products so again it is an elective choice that we made just to work on our top lines because our last year basis was quite swelled up because of our antibiotics and ORS sales going up so we took a conscious call of inducting one more division into the field having said this we are very confident that we are moving in terms of PHPM over a period of time and this year we will try to match what we reflected last year during the up surge of the COVID itself.

**Neelam Punjabi:** That is helpful but in the near term do we have target to get where the industry is.

**Mayank Tikkha:** So again there is a gap in the industry. I do agree with what you are saying. Many of the companies are higher. Peer groups are operating at a higher but what we are concentrating right now is a journey toward that PHPM now if you look at our trajectory in the last 3, 4 years yes we have shown great improvement over there but it is the work on go which continues as we move forward.

**Neelam Punjabi:** Okay. Thanks I will get back to the question queue.

**Moderator:** Thank you. The next question is from the line of Uttam Purohit from Perfect Research. Please go ahead.

**Uttam Purohit:** My question was regarding the medical representative like how has the growth of MS been from last couple of years and when do we expect the contribution start adding to the top line.

**Mayank Tikkha:** So you are talking about the new division.

**Uttam Purohit:** Overall.

**Mayank Tikkha:** So as I said we inducted almost 550 additional people last year. Yes the contributions are there because again it was not only a new division we have diversified our portfolio into various segments. As of now most of the divisions are contributing yes one of the division that is Lumina which has Azithromycin is the only division which is



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slightly on a non performance mode. This is mainly attributed to the Azithromycin upsurge last year what happened.

**Uttam Purohit:** Okay that is all from my side. Thank you.

**Moderator:** Thank you. The next question is from the line of Yagnam Pathak from Centrum Broking. Please go ahead.

**Yagnam Pathak:** Thank you so basically if you can reveal the absolute impact of the raw material. So what was the figure that you were stating, Value added raw material.

**Sanjay Jain:** 23 Crores.

**Yagnam Pathak:** Okay that is thank you.

**Moderator:** Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

**Prakash Agarwal:** Hi thanks for the opportunity. Good afternoon. Just wanted to check if there was a comment made on the price hike so you mentioned the price hike has been fully taken for scheduled and non scheduled drugs or it is yet to be taken.

**Sanjay Jain:** We have taken.

**Prakash Agarwal:** So Sir why is the gross margin not reflecting. I understand cost have increased but since majority of the business more than 50% is India there should have been a gross margin positive impact but we could not see that so what is missing here.

**Sanjay Jain:** I explained in the initial conversation that the increase in raw material in certain material price are higher than the increase in the sale price so that is why the overall gross margin looks on the lower side as compared to last year but again at the same time if you look at the gross margin of Q2 and you compare with the immediate previous quarter which is Q1 you will see some kind about 1% improvement in the



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gross margin because from the Q2 we have started taking the full benefit of price rise.

**Prakash Agarwal:** Okay and how do you think this will pan out in Q3, Q4 given that the volumes etc., will also increase and prices might be moderating is there any colour there.

**Sanjay Jain:** So with the prices getting stabilized and the sales price which had a full impact on the overall margin we had a more stable margin going forward and then the increase in trend which we saw in the first two quarters.

**Prakash Agarwal:** So you are saying it will stabilize not increase, gross margin is what I want to understand.

**Sanjay Jain:** Unless we see a drop or correction in the raw material and the packing material prices.

**Prakash Agarwal:** Which currently you are saying is stable but not corrected to some extent?

**Sanjay Jain:** Yes.

**Prakash Agarwal:** If you could just also help us with some of the key launches that you are planning for this year?

**Mayank Tikkha:** So we have not planed major launches this year. It is only a line extension. Yes one launch has been done very recently in our cardio diabeto portfolio. That is the Sitagliptin. Once it came off patent. A couple of line extensions for our Enerzal has been planned already and Enerzal Zero has already been launched in the pet bottle. The powder formulation is on the way so yes couple of line extensions are there. If everything goes as per our plan we might come up with one more liquid formulation similar to what is there in Enerzal Electral kind of a category which we are planning to launch somewhere around January or February.



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- Prakash Agarwal:** Fair enough and lastly just wanted to understand the deviation versus AICD point which was showing mid teen kind of growth versus what you have reported so why such a big divergence?
- Mayank Tikkha:** So I explained in my previous reply this is majorly because of a high inventory front in the market place which happened during the COVID period. Since the demand levels were very high and the off takes were high the secondary and tertiary level so obviously the stock inventories went very high during those COVID times which are now getting stabilized so obviously the market reflected growths across the board and across the company that on a higher side as compared to what the internal numbers do reflect but these are going to stabilize as we move forward because last year COVID was on the dropping side as we moved into October and November kind of a scenario so may be in the Q3 probably these numbers would come very close to each other.
- Moderator:** Thank you. We have the next caller from the line of Amit Doshi from Care PMS. Please go ahead.
- Amit Doshi:** Sir our export numbers have again now started coming back so if the export should contribute to a better margin profile or it is otherwise? Can you clarify?
- Sanjay Jain:** On our export business it is largely contributed by the US market and we all know the margin in US are quite high as compared to any other market so the export is more related to the US market obviously there will be an improvement in the margin.
- Amit Doshi:** Okay so our export bifurcation does not include US significantly?
- Sanjay Jain:** It is.
- Amit Doshi:** Okay so then margins why it is again only the raw material cost is the reason?
- Sanjay Jain:** Yes as of now...



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- Amit Doshi:** Historically if you see our margins have been 20% to 22% type of a range? Now post COVID the fall which has come when are we likely to see those levels back?
- Sanjay Jain:** So as of now since the prices of all the raw and packing materials are on the higher side so unless those gets corrected to some extent till then we have to sustain at the current gross margin level only.
- Amit Doshi:** Okay fine. Okay thank you.
- Moderator:** Thank you. We have the next question from the line of Samarth Singh from TPF Capital. Please go ahead.
- Samarth Singh:** So on a half year basis our operating expenses to sales have gone up by about 350 basis points so this refers to the line items that are there?
- Sanjay Jain:** Yes so mainly because of the sales and marketing expense which just now we disbursed that we have launched recently our new division Zocon where we added close to 550 odd people so because of that there is an increase in the overall sales and marketing expense along with their travelling allowances which is one of the main reason for the increase in the other operating expenses for the first half.
- Samarth Singh:** Okay so freight is no longer having an impact on the operating expense?
- Sanjay Jain:** So there is also an increase on the freight cost both on the domestic as well as international but the impact is not as high as on the sales and marketing expenses.
- Samarth Singh:** In Q1 we had two one offs? One was the Rs.15 Crores mark to market on our international instruments and the other one was some sort of accounting for promotional expenses that comes depending on the receipt of the material so have those two sort of both been nullified on a half year basis?
- Sanjay Jain:** Yes so the first one what we said is Rs.15 Crores the mark to market that completely got reversed in the Q2 and secondly what you said on the receipt basis the same



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reason why the sales and marketing cost has gone up because there are some advance procurements as compared to the same period last year by about Rs.10 odd Crores.

**Samarth Singh:** I mean these advance procurements are going to continue for the rest of the year? I just increase to marketing expense for the new division correct?

**Sanjay Jain:** No this advance procurement going forward in the Q3 and Q4 will get rationalized so that it will be more comparable to the previous financial year.

**Samarth Singh:** And you said it was Rs.10 Crores for the half year right?

**Sanjay Jain:** Yes for the first half versus the last year first half.

**Samarth Singh:** Okay that is it from my side. Thank you Sir.

**Moderator:** Thank you. The next question is from the line of Jayant Mamania from Care PMS. Please go ahead.

**Jayant Mamania:** Good evening. Sir as previous speaker said during the last 10 years the margins were around 23% operating margin? During the last six months it has come down to 13% from 17% in March 2022 just wanted to understand that in case of Enerzal, Electral and DP we have category so is it that to protect our market sale we are not increasing the price or there is a regulation which is not allowing us to raise the price?

**Sanjay Jain:** So Electral and Enerzal both are on the price control and whatever the upper limit is allowable under the scheduled drugs we are taking that effect into our sales price. Enerzal of course is not under price control and as far as the margins contribution which we saw in the previous years so at that time the prices of the raw material and packing material were not that high as compared to the last year or so, so which has an impact on the overall gross margin close to 4% to 5% in the last one year period.



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- Jayant Mamania:** So if the raw material prices subside so will there be rise in our operating margins say in the next four quarters?
- Sanjay Jain:** If it does, yes?
- Jayant Mamania:** Okay so can you tell us how is the competition in the case of Electral?
- Sanjay Jain:** Sorry.
- Jayant Mamania:** Who are our competitors in the case of Electral?
- Mayank Tikkha:** So Electral we already shared in our presentation we enjoy a 74% market share but our direct competitors apart from our own brand are Velite and Prolite these are couple of brands which are majorly there. Velite holds approximately 13% of market share.
- Jayant Mamania:** Okay thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Rajat Setiya from Ithought PMS. Please go ahead.
- Rajat Setiya:** Thank you for the opportunity. Sir basically as of our size we can see that we are number one in almost six of the top 10 products that we are selling and we enjoy a very high market share of up to even 75% so which is quite commendable and speaks volumes about the execution capabilities of the management team and congratulations for that Sir my question is for these six products the end category of these six products and market at what rate is that growing?
- Mayank Tikkha:** So again these six products are very diverse but to answer your question yes we are trying to expand the market itself as you said we are in a leadership position over here but if I can share the growth numbers for these couple of brands for H1 Electral has shown a growth of 30.5%, Zifi has shown a growth of 11.1%, Enerzal has grown by 37.9%, Vitcofol has grown by 14.6%, Zifi CV has shown a growth of 15.7% and Zifi



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O has not shown a growth. It is stagnated so out of six, five are in high double digit growths and this probably is driving our way forward in the market place.

**Rajat Setiya:** Sure and so are we gaining market share wherever we are below 50% are we still gaining market share?

**Mayank Tikkha:** So we have shared in our presentation in Electral we are maintaining our market share because I hope you will understand we enjoy a 74% market share in Electral. For Zifi we have definitely grown up if you look at in September 2020 on a MAT basis we were 23.9% which now has moved to 24.7% on a MAT basis. Here also we are more or less maintaining our market share on a high percentage which is very close to 25%. If you look at Enerzal also we are maintaining a market share of almost 42% plus. As far as other products are concerned yes in Zifi CV we have increased the market share and Zifi O also we have increased the market share. If you want the details Zifi CV our market share now stands at 49.3% and Zifi O our market share stands at 14.6%.

**Rajat Setiya:** Sure. Thanks for this and Sir of the overall domestic portfolio how much of our sales is actually under the price control list and an EM list?

**Sanjay Jain:** So it is around 46%.

**Rajat Setiya:** Okay alright. The other question is about the decline in margins that we have seen over the last probably five to six quarters so is it all this decline has been all because of rising raw material costs and other operating cost or there has been some pressure on the realizations also?

**Sanjay Jain:** No, mainly on account of the increased prices only.

**Rajat Setiya:** Mainly on increased prices okay and Sir finally we have D2C products also so what is the contribution from there at the moment?

**Sanjay Jain:** So that is very insignificant as compared to our overall revenue.



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**Rajat Setiya:** That is an area of focus?

**Mayank Tikkha:** Not exactly. We are working on this with a couple of brands only that is Enerzal and Electral but from a marketing standpoint we are still dependent on our prescription business for these products.

**Rajat Setiya:** Okay alright Sir. Thank you so much. Wish you all the best.

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

**Sajal Kapoor:** Thanks for taking my question. Sir any details you can share around our proposed expansion into nutraceuticals/functional foods?

**Mayank Tikkha:** Yes so two years back we had come up with our separate vertical which is Neuritica. As you know that we had our food basket where the leader brand was Simiden which was marketed by couple of divisions across the board so we did consolidate our nutraceutical products in that one vertical so that was the new division which we launched two years back. I am glad to tell you that there were a couple of brands which were having a lot of potential in the market place but we could not do justice in the past. The last two years this division definitely has moved up from a roughly a volume estimate of Rs.32 Crores two years back. This year we would be touching somewhere around Rs.68 Crores to Rs.70 Crores from this portfolio itself. Just to mention couple of brands as I said Simyl MCT was our flagship brand. Mumum was one brand which we have from a long period of time have been doing really well. This is an infant formula and also our flagship brand Jefferige which is in protein market is also doing very well so yes we are focusing directly through this division on the nutraceutical products. Apart from this couple of brands has also been launched into functional foods and into various other divisions catering to the respective specialties covered by those divisions.



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**Sajal Kapoor:** Excellent Sir there is humongous growth run rate ahead in these areas. Glad to hear all that update. Secondly the annual report mentions about CE Mark Ophthalmic medical devices in Australia and other markets? To me that is definitely a sign of confidence but do you not think we are rather late entrant in this space? Any color around this CE Mark Ophthalmic medical devices please?

**Ameya Chandavarkar:** Sure this is Ameya Chandavarkar. So we had these products. I think you are referring to Hypromellose and some of the products that we intend to launch as key products so we already have these products and so it is just a matter of filing these products in certain markets where the incremental cost is only a filing cost and a registration cost and then we can continue manufacturing and supplying these products so you are right that may be it is not going to change our P&L or balance sheets, but it will add through our basket of products that we sell in international markets.

**Sajal Kapoor:** Definitely and if I could ask one quick question on this Latin America and the Middle East which are relatively newer markets for us but we are growing very well. If our annual report the latest annual report is anything to go by so it will be helpful if you could share from direction over there and may be if you can share medium terms say three to five year kind of vision in terms of sales and operating margins where you want to be as traditionally?

**Ameya Chandavarkar:** So you mentioned Latin America and Middle East in both these regions currently sales basis is quite low so we can grow much faster. There is a lot for us to do in general in exports and international business. Specifically in these two regions we are currently registering more products. We have a decent business in Peru. We are doing business in Chile so it is a matter of time where I think from this year we will probably end at about Rs.200 Crores to Rs.220 Crores of international business formulation we are targeting by end of FY2025 to be with our two subsidiaries in the range of about Rs.450 Crores to Rs.500 Crores and with heavy margins.

**Sajal Kapoor:** Right and in terms of the consolidated vision let us say a five year vision where as an organization would you like to be in terms of sales and margin?



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**Ameya Chandavarkar:** So now are you talking about overall as a company.

**Sajal Kapoor:** Overall yes at the company level overall including the domestic and the international?  
Any broad brush guidance would be helpful?

**Ameya Chandavarkar:** Yes so if you look at the last two to three years if you can may be to an extend discount for the pandemic so we have been in the high double digit range right of growth so 15% to about 20% and that is really what we want to continue to deliver and get back to the earlier margins. There have been a few questions on margins so the goal will of course be to revert to margins that we enjoyed may be a few years ago and then also grow the topline so overall we will work on productivity. We are looking at CAGR for the next three to five years of at least 15% to 18%.

**Sajal Kapoor:** That is very helpful detailed inputs and good to hear your thought process around that and wish the entire team the very best. Thank you.

**Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

**Saket Kapoor:** Good evening Sir and thank you for the opportunity. Sir firstly if you could give us the impact of seasonality in our sales number when we look at our revenue profile what shall one factor into the seasonality aspects barring last year COVID factor has been articulated taking that also aside our June sales were Rs.493 Crores whereas for September it is down to Rs.446 Crores?

**Mayank Tikkha:** So yes the seasonality is there because broadly we operate with ORS energy drink and antibiotics so ORS energy drink definitely our products which outperform during the summer season and the heat around and antibiotic peaks are also during the Q2 typically so what we have seen up till now or if you look at our trajectory in the last couple of years back we were dominated by our antibiotic sales where traditionally we were peaking during the Q2 itself and because of our Electral business which was predominately a push element created by us from January onwards we did see high



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quantum coming in the Q4 but moving forward during the COVID period as the demand went up and we also changed our strategy over a period of time typically the Q1 and the Q2 are the peak quarters for us. Q3 becomes a lean season because neither of our ORS energy drink or antibiotic has the seasonal trend over there and Q4 again gets supported by the Electral push element so our endeavour over a period of time is to mitigate this seasonality part of it by diversifying our portfolio and create newer avenues for our existing brands in the off season scenario also so what we have done is successfully in the last two years that two quarters we have mitigate the seasonality. Only the third quarter you will see that there is a fall in overall volumes as we move forward.

**Saket Kapoor:** Okay so taking my next question Sir so the H2 will look linear than what H1 has been so that is the business setup for the organization?

**Mayank Tikkha:** Yes H1 is always on a higher side. H2 would be lower and this majorly is because of the antibiotic sales which goes down across the board.

**Saket Kapoor:** Okay Sir and Sir other aspect was about this packing material part of the story. I think the Rs.23 Crores is the figure you mentioned for the Q2 so for the first half what was the total impact just from account of increased packaging cost?

**Sanjay Jain:** So first of all this Rs.23 Crores is taking into account the raw material and the packing material both.

**Saket Kapoor:** Okay so the raw material it is related to our product what we produced directly? That is not a pass on or a pass on with a lag affect?

**Sanjay Jain:** So we are into the regulated price. We have regulation on the pricing side so on a scheduled formulation we can increase to the extent of 10% only.

**Saket Kapoor:** Correct Sir. That is all from my side. Okay Sir I got the point that H1 would be heavier always and now we are taking steps so that this seasonality aspect can be narrowed



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down going ahead so by when can Sir we expect this to be narrowing down in terms of revenue and definitely on the bottom line?

**Mayank Tikkha:** So as I said this process is already on. If you look at the comparative numbers for the last two years we have tried to narrow it down but again beyond a point it would not be possible as I said the market of the antibiotic is such that the Q3 always will be lean so if you technically grow on all aspects on a quarter-on-quarter basis that percentage of deviation might remain constant. I hope you understand. If I was to do Rs.100 sale that percentage will remain the same because you try to grow in each quarter equally looking at the opportunity which is available so that percentage might not change but yes we are trying to get some significance out of each quarter and each month for some of our products and that is the whole endeavour what we have taken in the last two years and as I said our new divisions which have been carved out are not catering to only antibiotic and ORS or energy drink. These are diverse portfolios. As I mentioned nutraceuticals, cardio diabeto and Zocon which we did discuss this is in the derma field so now these product ranges do not have seasonality.

**Saket Kapoor:** Correct and what is the amount of capex we have done for H1 and what is lined up for H2?

**Sanjay Jain:** So as of now up to H1, the one is our corporate office that is going on. Second, we have the fourth line for the ophthalmic at Waluj and the third major one is at Singer so these three are the main capex that is going on and for the balance, our same capex will continue.

**Saket Kapoor:** How much have we spent Sir as of now for H1 and what is left to be spent for H2?

**Sanjay Jain:** So in terms for the office in terms of suite value close to Rs.70 odd Crores already we spent including the premium and all and on the operational capex side another Rs.40 Crores to Rs.50 Crores we already spent.



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- Saket Kapoor:** I did not get you Sir? Total spending is Rs.70 Crores for H1?
- Sanjay Jain:** That is for the office building and another Rs.40 Crores to Rs.50 Crores for the operational capex budget for the Waluj and the Sinnar.
- Saket Kapoor:** Okay so Rs.120 Crores in totality?
- Sanjay Jain:** Yes around that yes.
- Saket Kapoor:** Rs.120 Crores will be spent for the total year as a whole? You have given the whole year guidance?
- Sanjay Jain:** No so there are a few budgets for all the capex so the capex will be spent over a period of time which will not be restricted to this financial year. It can spill over to the next financial year as well.
- Saket Kapoor:** Sir Rs.70 Crores is on the corporate office or any other facility that we are building?
- Sanjay Jain:** It is for the corporate office including R&D.
- Saket Kapoor:** Where it will be housed Sir?
- Sanjay Jain:** It is in Mumbai only Andheri West.
- Saket Kapoor:** Okay and the date of commercialization?
- Sanjay Jain:** Around close to two years.
- Saket Kapoor:** Thank you Sir and all the best.
- Moderator:** Thank you. The next question is from the line of Mohammed Patel from Care Portfolio Managers Private Limited. Please go ahead.
- Mohammed Patel:** Can you please break up the revenue growth for Q2 and the prize growth volume growth in the new products?



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**Mayank Tikkha:** So I did mention the volume growth is 5.9%. The prize growth is 5.3% and the new product is 1.4%.

**Mohammed Patel:** This is for the MIT basis right?

**Mayank Tikkha:** Yes.

**Mohammed Patel:** I want Q2 FY2023 if you can give?

**Mayank Tikkha:** Q2 are not handy with me. We will share with you.

**Mohammed Patel:** Okay and my second question is you said the CAGR of 15% to 18% for the long term vision, so is the sales CAGR or profit CAGR just wanted to confirm?

**Mayank Tikkha:** We will target topline as well as bottom line to be in that range.

**Mohammed Patel:** That is it from my side. Thank you.

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

**Neelam Punjabi:** Thank you so much for the follow-up. Sir, long term our target of 15% to 18% you just mentioned topline as well as the bottom line, given over the last couple of years, our fixed costs have increased at a faster pace than the topline and we understand that you are investing in your marketing and field force to grow, but can we expect the incremental growth going forward to translate into better profitability growth and margin expansion?

**Ameya Chandavarkar:** That will definitely be the goal, eventually we will have to focus on productivity, we will have to focus on margins, yes, that is definitely our goal.

**Neelam Punjabi:** Perfect, thank you and Sir, in our domestic business, we have seen that the WPI is at 11% to 12% during the 10 months of calendar year 2022, sir, we are planning to take another level of price hike in our scheduled formulations in 2024 itself?



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**Mayank Tikkha:** If that is available as per the reports we are working on it quite similar to what we did this time couple of major brands are there like Electral, Zifi, we will definitely like to go ahead with that.

**Neelam Punjabi:** On the export business, we had seen a very healthy growth during first half and Q2 we have hit Rs.75 Crores in terms of overall exports topline, was there any one-off during the quarter or is this the sustainable days going forward?

**Ameya Chandavarkar:** No one-offs and it should be sustainable.

**Neelam Punjabi:** Perfect and Sir, how is the Electral launch in the international market that you had highlighted in the previous call, how is it progressing?

**Ameya Chandavarkar:** Again nothing extraordinary to share status quo, so growing slow and steady.

**Neelam Punjabi:** Sir, on the working capital side, working capital days have increased from 59 days in FY2022 to about 67 days if I take the trading 12 months revenue, so what are the reasons behind this?

**Sanjay Jain:** As we just discussed that the prices of the raw material packing material increased to a significant level, so basically the overall fund that gets locked up in the inventory will be substantially higher than the normal inventory, so that is the reason one plus over the last trading 12 months or the first half of the current financial year, the component of the exports is significantly higher than the last year and since is the credit period in the exports are higher than the domestic, so to some extent that will also contribute to increase in the working capital.

**Neelam Punjabi:** Sir, are we planning to sustain at the current level or would we see further increase?

**Sanjay Jain:** It is very close to peak, I do not think so there will be any further increase on our working capital cycle.



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**Neelam Punjabi:** Lastly on the Waluj plant, so the four lines that we are putting this was completed November 2022, have we seen any delays there?

**Ameya Chandavarkar:** Where did you got this date? November 2022, you have got a date that we are going to complete the project.

**Neelam Punjabi:** Couple of years back you have had put up the press release that this would be completed in 24 months, so that is how I just told.

**Ameya Chandavarkar:** There is a significant delay there, so it will take another two years for commercialization. As of now, that is what we believe. It will take about two years for it to start manufacturing for commercial. Harshal is also here, I would like him to add.

**Harshal Jain:** Neelam, we had mentioned that will be completing the project by November 2022 and what sir mentioned is that we will commercialize the facility for U.S. business. We are planning in the next two years in that way and the project is a bit delayed and will be completing in the next quarter.

**Ameya Chandavarkar:** I think the date you probably have is date of installation, not commercial production.

**Nandan Chandavarkar:** Its date of commissioning. By the time you have approvals for the U.S. it will take 18 months at least that is the minimum.

**Ameya Chandavarkar:** So, there is a slight nuance there.

**Nandan Chandavarkar:** Footprint is already ready which is finished with the factory acceptance and it will be shift I think sometime on January 2, we expect a month from there by the time mention the plant and from there by the time we do the qualification and get approvals from the U.S. we are looking at around 18 months.

**Neelam Punjabi:** Got it, okay, understood, very clear. Lastly on the medical representative to about 3600 and you said that 550 people we have put up further derma division, could you



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provide us split for the other divisions as well, Cardio, Diabeto, Nutra, ORS, what is the MR count in each of the divisions and others?

**Mayank Tikkha:** We would not like to share. This is too minute to share with the market.

**Neelam Punjabi:** No worries. Perfect. Thank you so much.

**Moderator:** Thank you. We have the question from the line of Ajay Sharma from Maybank. Please go ahead.

**Ajay Sharma:** I just wanted to check on the math for the price increase right for the scheduled product, if I look at your first half revenues for domestic right, last year it was like Rs.700 plus Crores out of which 46% is under price control, it is like about Rs.350 Crores, so if I take 10% price increase on that, it is like almost Rs.35 Crores which should flow through to your topline as well as EBITDA and you have offset of Rs.23 Crores on the cost, I am just wondering why is the price increase is not able to offset the raw material and packing cost increase?

**Sanjay Jain:** In terms of percentage, increase in the raw material prices are much higher than the price increase which is there for the sales price.

**Ajay Sharma:** But then let stuck with the price increase, what is the benefit in having price increase in the scheduled products, is not it around Rs.35 Crores for the first half?

**Sanjay Jain:** You meant the first six months, the price benefit?

**Ajay Sharma:** Yes.

**Sanjay Jain:** It could be around Rs.40 Crores to Rs.45 Crores, it is not available for the entire six months, it is available somewhere around in May period onwards.

**Ajay Sharma:** Let us say, what is the net benefit, this should be closer to Rs.30 Crores right for the first half?



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- Sanjay Jain:** Yes.
- Ajay Sharma:** But you said you had the cost increase of was taken over from the raw material and packing, was that Q2 or that was first half?
- Sanjay Jain:** That is for Q2.
- Ajay Sharma:** Okay, so Q1 would have been similar right?
- Sanjay Jain:** By and large.
- Ajay Sharma:** Basically you are saying about Rs.45 Crores additional cost where the prices increase is Rs.30 Crores, is that maths?
- Sanjay Jain:** I will explain to you, in terms of the quantum margin, so if you look at Q2 current year versus Q2 last year, this incremental margin of about Rs.21 Crores and Rs.21 Crores is the incremental margin, Rs.30 odd Crores had come from the price increase which largely from the schedule as well as the non-schedule products. This Rs.30-odd Crore has been offset by close to Rs.23-odd Crores on account of the raw material and packing material prices, but at the same time, there has been a positive contribution on the export formulation side also about Rs.15 Crores, so if you net it out all the three items it will be Rs.21 Crores positive.
- Ajay Sharma:** This is the absolute increase in the gross profit?
- Sanjay Jain:** You want to work out on the company basis there is a drag on the overall margin by close to 2%. If you do the mathematics on that side also, the reason will be more or less similar lines.
- Ajay Sharma:** Okay, understood and just broad topline question, basically right now your company is one of the only domestic pharma company which is seeing this kind of margin pressure, maybe if you look at the MNCs or even other domestic companies, they are not seeing this kind of margin pressure and partly because you have higher price



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control range I think, but basically where is the management missed the trick like over the last so many years I think you have not really grown your portfolio. You continued to rely on your antibiotics, Zifi, Enerzal and Electral and not really expanded the portfolio basically that is what is causing this kind of situation, so I am just trying to understand where was the management failure on that account and also what is the guarantee that, what are the investments you are making would really contributed topline and improvement margin, because we as shareholders we do not want to see a situation where you continue to invest, but the margins continue to remain depressed and it just keeps remaining a future story instead of seeing the current results, if I could get some perspective on that?

**Sanjay Jain:**

I do not know from where the data you are referring to. You are saying the margin pressure is not there on the other company, the data which we are looking at for the Q2 this year versus the Q2 last year, there has been a substantial increase in the overall material consumption level, so I am not saying in terms of the absolute, I am saying in terms of the percentage as well. I would not like to name the companies, but there are seven to eight companies out of 10 where the margin pressure is on itself.

**Ajay Sharma:**

It is not the magnitude, I think if you see the profit decline for FDC is quite steep compared to if you look at the Abbott, you look at Aries all these companies I would say the top domestic focus companies, do not have export component really, but besides that, the question was more in terms of how we ensure that whatever investments you are making translate into better topline and what is the kind of timeframe management is looking at to continue to invest before we see the results?

**Mayank Tikkha:**

Regarding the second part of what you said, you are partly right that historically we were dependent on control price molecules like Zifi and Electral, but if you have tracked our progress in the last couple of last years, we have deliberately moved ahead from there and as I said couple of launches, new divisions, what we have carved out are in a different category, so as I said in the last couple of calls also that



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now apart from antibiotics we are focusing on Nutraceutical, cardio diabeto basket and ophthal, so these are couple of new categories which we have already present, but we are now trying to make ourselves strong and I hope you will appreciate on that front that Zocon and Nutrica division which we did talk about, are significant progress in this direction. Obviously, it would take some time for us to make ourselves impactful as I shared in my last reply to one of the questions when we carved out Nutraceutical vertical, overall portfolio volumes were around Rs.30 Crores to Rs.32 Crores and we are confident this year we will be closing somewhere around Rs.68 Crores to Rs.70 Crores, so this is a significant movement in the direction, we expect this to continue in the future and probably if I can say so as of now though it is very early to comment, we are looking at a Rs.100 Crores basket from Nutraceutical portfolio itself. Apart from this when we did our restructuring during the launch of Zocon, we talked about carving out of vista division which now independently focuses on the cardio and diabeto basket, so what I mean to say is that where the deliberate attempt to move away from the dependence of antibiotic and ORS. Having said this, these two verticals are our strengths, so apart from Zifi, Electral and Enerzal we have also built a significant market for our own products like Zifi CV and Zifi-O which I did share where we are enjoying a high percentage of market share and the market size of Zifi CV today on the IQ data front is touching almost Rs.75 Crores, so when you say the management failed, I would say the management did realize this, but yes during COVID times, some of our plans were not able to execute well in 2020 especially, but if you look into the last financial year and the current financial year, we have progressed far ahead on these plans.

**Ajay Sharma:** That is great. Just hope that these can translate into better profitability going forward. Thank you so much.

**Moderator:** Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to Ms. Varsharani Katre, Company Secretary for closing comments. Thank you and over to you mam.



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**Varsharani Katre:** Thank you everyone for joining this earnings call of FDC and expressing your views. In case, if you have any concerns please reach to us on [investors@fdcindia.com](mailto:investors@fdcindia.com). Thank you again. Over to you moderator.

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of FDC Limited that concludes today's earnings call. Thank you all for joining us and you may now disconnect your lines.