



## IOL CHEMICALS AND PHARMACEUTICALS LIMITED

07<sup>th</sup> June 2022  
IOLCP/CGC/2022

**National Stock Exchange of India Ltd.**

Exchange Plaza, Plot no. C/1, G Block,  
Bandra-Kurla Complex, Bandra (E)  
Mumbai - 400 051

**Security Symbol: IOLCP**

**BSE Limited**

Phiroze Jeejeebhoy Towers,  
Dalal Street  
Mumbai – 400 001

**Security Code: 524164**

**Subject: Transcript of Earnings Conference Call, post declaration of audited financial results for the quarter and year ended 31<sup>st</sup> March 2022**

Dear Sir,

In continuation to our letter dated 30<sup>th</sup> May 2022 regarding intimation of Schedule of analyst/ investors conference call – Q4 & FY22, please find attached herewith the transcript of Earnings Conference Call organized by the Company on 01<sup>st</sup> June 2022 post declaration of audited financial results for the quarter and year ended 31<sup>st</sup> March 2022.

This is for your information and records.

Thanking You,

Yours faithfully,  
For IOL Chemicals and Pharmaceuticals Limited

  
Abhay Raj Singh  
Vice President & Company Secretary





# IOL Chemicals And Pharmaceuticals Limited Earnings Conference Call- Q4 FY22

**June 01, 2022**



**MANAGEMENT:**      **DR. SANJAY CHATURVEDI – EXECUTIVE DIRECTOR & CEO**  
                                 **MR. PARDEEP KHANNA – CFO**  
                                 **MR. ABHAY RAJ SINGH – VP & COMPANY SECRETARY**

**MODERATOR:**      **MR. MONISH SHAH – ANTIQUE STOCK BROKING**

**Moderator:** Ladies and gentlemen, good day and welcome to the Q4 and FY22 Earnings Conference Call of IOL Chemicals And Pharmaceuticals Limited hosted by Antique Stock Broking. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Monish Shah from Antique Stock Broking. Thank you and over to you, Sir.

**Monish Shah:** Thank you, Rutuja. Good afternoon, everyone and welcome to IOL Chemicals And Pharmaceuticals Limited 4Q FY22 results conference call. Today on the call we have with us, Dr. Sanjay Chaturvedi – CEO, Mr. Pardeep Khanna – CFO, and Mr. Abhay Raj Singh – VP and Company Secretary. I will hand the call over to Dr. Sanjay for his opening comments. Thank you and over to you, Sir.

**Sanjay Chaturvedi:** Thank you Monish. A very good afternoon to everyone joined on the call. Really appreciate you all taking the time to participate in this Earnings Call. I trust you had the time to read the earnings document that we have shared. I am certain that many of you are going to have questions, but before we take up those questions, I would like to shed some light on the industry, what's our business, what's our own perspective in terms of performance for the quarter and the year, and subsequently my colleague, Mr. Pardeep Khanna – our CFO will provide a lot more granular details on the financial performance.

So, let me begin by saying that, our non-Ibuprofen pharma business has performed well compared to the prior period and is now contributing about 20% to the quarterly revenue for the company and overall, about 35% of the revenue in the pharma segment. During the Q4, we filed one DMF with the USFDA, whereas for the entire year we filed about four DMFs, four new DMFs with the USFDA. In addition, we also filed three CEP applications with EDQM. During the financial year 2022, the company got additional approvals from Korean FDA for two products and six products got approval from the Russian regulatory authorities. All these regulatory approvals will enable the company for increased market penetration and add value for the business in the export markets. It gives me great pleasure to update that the company has filed three patent applications in FY22.

Now, coming to the financial performance, I am pleased with the performance of the non-Ibuprofen business compared to Q3. On an aggregate basis, our revenue grew 11% for the year. However, the margins had been under stress account of continued volatility in the chemicals pricing and on account of higher input costs in raw materials

and energy for the pharma segment coupled with lower volumes in our flagship product of Ibuprofen. Our IBU business is expected to see volume uptick in 2023 and that will be stable pricing. I am optimistic on our pharma segment as a whole as capacity for other potentially large products are ready. With improved business mix with the pharma segment, we expect our growth margins to improve hereon.

With this I would like to hand over to my colleague, Mr. Pardeep Khanna, our CFO who would be talking more in detail. Over to you Mr. Pradeep.

**Pardeep Khanna:** Thank you Dr. Sanjay. Good afternoon to all and welcome to IOL's quarter four of financial year 2022 earnings conference call. I will take through the highlights for the quarter four and financial year 2022. The total revenue for the quarter increased by 3% to Rs. 573 crores as compared to Rs. 555 crores in quarter three of financial year 22. In quarter four of financial year 22 the EBITDA stood at Rs. 50 crores and for full financial year 22 it was at Rs. 288 crores at a revenue to Rs. 221 crores. Similarly, EBITDA margin in quarter four of financial year 22 was at 8.6% and 13% for financial year 22. Depreciation for the quarter was Rs. 11 crores and Rs. 43 crores for the full year. Profit after tax for quarter four of financial year 22 stood at Rs. 28 crores and Rs. 166 crores for the whole year. The PAT margin for the financial year 22 was at 7.5%.

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

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Dhaval Shah from Svan Investment. Please go ahead.

**Dhaval Shah:** Sir, a couple of questions from my side. First being, could you explain us what happened on the chemical business which led to report a loss on that the EBIT level? Also, your outlook going forward over the next two quarters on the chemical side. What expansions are we having there and what sort of growth can we see? And also how is situation in terms of the raw material which will impact the margins on the chemical front? And secondly, on the drug side, you had shared in our last conversation, you had shared about the non-IBU business progressing well. And also, you had shared some overall EBITA which you see for the FY22. So, do you still stand by that number what you had shared? These are my two questions.

**Sanjay Chaturvedi:** So, let me first address Dhaval your query on the chemical side and within chemicals you had two queries in there. The first one was about what happened to the profitability level and what is the view going forward? So, in terms of profitability as you know that our primary product ethyl acetate depends on acetic acid which comes entirely

from exports. Now, there has been a lot of volatility in the acetic acid pricing and really it comes down to at what price do you book your import. So, rather than look at profitability for the chemicals business on a transaction-by-transaction basis or a month-by-month basis, one has to understand that when we place the order for the raw material, it takes at least two months before that raw material gets used in our facility. So, one should look at the average profitability in terms of quarters or years rather than month-by-month, because it's very hard to get the timing right.

**Dhaval Shah:** Agreed. Like in previous quarter we have had gains and now it's kind of normalizing. Yes, I agree there. In other companies like Jubilant Ingrevia or Laxmi Organics or some other companies making the same product, they also had a big blow on the profitability. But we going under and reporting a loss is something, so did we have a large amount of inventory, our high-cost inventory sitting compared to what policy those large companies follow, from that angle I wanted to understand.

**Sanjay Chaturvedi:** So, overall let me reiterate the message that on an annual basis, we will continue to make 6% to 8% EBITDA on the chemicals business. Having said that, no, it was not a question of having a large amount of inventory, but it was really a function of us buying acetic acid and by the time we used that acetic acid the price of ethyl acetate had actually come down. So, it ended up a situation, a flip situation where the raw material price was much higher. On the contrary, if you compare it to some of the previous quarters where we have had situations where the price of ethyl acetate went up and the acetic acid, we had bought happened to be at a lower price, there you will see our EBITDA numbers were well beyond 8%. So, I think I want to look at this as an average of what we do rather than a quarter-by-quarter. So, the message I want to leave you with Dhaval is the business is not under threat. The margins are, there is no structural factor as a consequence we should be concerned about long-term average EBITDA margins for the chemicals business.

**Dhaval Shah:** Got it. Could you give us breakup of the chemical business, what all products are there, any sort of breakup which can help us the chemical business understand better?

**Sanjay Chaturvedi:** So, primarily we have ethyl acetate and IBB (Iso Butyl Benzene) MCA and a few others that add, but the way to think about it is the Pareto principle, 80%-85% of our revenue comes from ethyl acetate.

**Dhaval Shah:** Okay, 80%-85% is ethyl acetate. And there is also inter-segment which is there which is being used on the drugs division. So, IBB is something which should be going in the drugs division, correct?

- Sanjay Chaturvedi:** Yes. We also sell some IBB outside.
- Dhaval Shah:** Okay. And this ethyl acetate is completely sold out, so that will be consumed within the company, what percentage would be that?
- Sanjay Chaturvedi:** Ethyl Acetate is all sale into the outside market whereas IBB is a combination of what I use, but what I am using is not really counting as a sale into the chemical division because that gets accounted in the value chain and gets counted as Ibuprofen.
- Dhaval Shah:** True. Now, in terms of next three-year outlook in terms of the capacities what we have in the chemical business today, and three years down the line, what is the change is going to happen?
- Sanjay Chaturvedi:** Okay. I think the two points I will highlight here; one is my existing capacity is about 1 lakh tons of ethyl acetate and over the next couple of years, I will have marginal expansion of this by maybe 20%-25%, and that will be all through minor modifications of the plant. I will not be adding a new ethyl acetate plant where I am currently, that's one. Second, we are in the process of identifying new products where for which we will be adding capacities and that should come online sometime around next year. So, my chemicals business will grow. Most of that growth will come from non-ethyl acetate products that we have identified.
- Dhaval Shah:** Okay. And those products would be used as solvents, intermediates, feedstock by your consumer, what those products would be?
- Sanjay Chaturvedi:** These would be products that basically go into a similar customer base to what I have today. So, I don't have to reinvent the wheel in terms of having a new sales channel. The idea is to leverage my existing commercial infrastructure in terms of my commercial footprint in terms of manufacturing, in terms of supply chain, in terms of commercials, in terms of sales and distribution, but basically add to the product portfolio to service my existing clients.
- Dhaval Shah:** Okay. And by when would these new products come on stream and the commercial production will start?
- Sanjay Chaturvedi:** This would be functional; the CAPEX is being put on the ground as we speak. It will take us about one year or so. So, I think you can expect commercial activity by the end of this financial year or early next year.
- Dhaval Shah:** Okay. So, we should start seeing the numbers in FY24.

- Sanjay Chaturvedi:** Yes, absolutely.
- Dhaval Shah:** Okay. Now, so what sort of growth will this give to our chemicals division?
- Sanjay Chaturvedi:** It should add, see, there is a thumb rule to remember is if you want to have a significant growth in a business that business must grow by at least double digits, 10% to 20%. So, that is a kind of figure that we are targeting initially, and the idea is to add that kind of growth in a sustained way. So, I don't want a situation where I add, 10%-20% for the first one year and second year there is nothing. So, think about it in terms of double-digit growth coming every year.
- Dhaval Shah:** Okay. With this new expansion which you are undertaking plus the debottlenecking which you will do for the ETAC plant.
- Sanjay Chaturvedi:** Absolutely. Absolutely. So, between the two activities, you can expect a double-digit top line growth with enhancement in bottom line as well, because needless to say, the new products that we launch will have EBITDA number that are certainly higher than 6% to 8%.
- Dhaval Shah:** Great. And as on today, I think in the last 1-2 days again there has been some increase in ethyl acetate pricing. So, are we better than Q4, for Q1 2023 are we better than Q4 in ethyl acetate business I mean for chemical business as a whole?
- Sanjay Chaturvedi:** Yes, we are certainly better because we had bought acetic acid when the prices went down.
- Dhaval Shah:** So, we should be back to 6% to 8% EBITDA margin in Q1?
- Sanjay Chaturvedi:** It would be preliminary for me to say whether we will be back to 6% to 8%, but we will certainly be in the positive single digits.
- Dhaval Shah:** Okay. Now coming on the drug side, so FY23, we are expecting around Rs. 500 crore non-Ibuprofen, around Rs. 750 crores Ibuprofen revenue. Is my assumptions correct?
- Sanjay Chaturvedi:** Yes. More or less, you are in line with where we would be.
- Dhaval Shah:** Okay. And you mentioned IBU in this fourth quarter our volumes were less. So, is that due to the more inventory in the channel or any reason particularly you want to point out?

- Sanjay Chaturvedi:** So, see, the overstocking that had happened in the previous year is still not been from our key accounts, the lead customers have still not been eliminated, but now we see that number picking up. So, whether it happens in this quarter or next, when will full recovery happen, the jury is out there, but we have clearly bottomed out in terms of volume demand as well as pricing.
- Moderator:** Sorry to interrupt you Mr. Shah, may I request you to please re-join the queue.
- Dhaval Shah:** Yes, I will join the queue.
- Moderator:** Thank you. The next question is from the line of Rohit Suresh from Samatva Investments. Please go ahead.
- Rohit Suresh:** I just had a couple of questions on IBU. The first one was if you could highlight how is the demand in the regulated markets? I understand you said for the previous question, in the previous question you said that the volumes have bottomed out. But if you could just indicate over the next one year, how do you see the volumes in the regulated market?
- Sanjay Chaturvedi:** So, I think the volumes, I don't want to talk about only the regulated markets, let me give you a broader picture of where the volumes are. So, if you look at our assets were running roughly at about 70% or so asset utilization, slightly higher, we should add a few percentage points to it certainly in these coming quarters. So, if I look at, do I predict that we will sell to full capacity? Perhaps not, but certainly at a higher capacity and asset utilization than what we sold in the previous year.
- Rohit Suresh:** Sir, and my second question was on the BASF facility that they had announced couple of months back that they would shut it. So, has there been any in terms of volumes in the market has that impacted the volumes. Have we seen any price increase due to that?
- Sanjay Chaturvedi:** No, we have not seen any addition of any additional products coming from BASF capacity and all that BASF has manufacturing from our understanding is still in their US facility and they are not manufacturing...there are no API manufacturers in Europe.
- Rohit Suresh:** Great, sir. My last question, do you see the prices of IBU increasing over this year maybe in the second half once the over stuffing issue gets solved?
- Sanjay Chaturvedi:** Most certainly because this is, if I look at, one is the price, the other is the input cost. Input cost of all the raw materials has gone up, energy costs has doubled, the situation in Russia is certainly not helping. So, when input costs go up, the final product prices also go up, it might be a phase lag. So, we don't know at this point whether that phase



lag is going to be one quarter or two quarters, but most certainly this is the lowest level of Ibuprofen crisis that we have seen in the last couple of years. So, the only way to move is up now.

**Rohit Suresh:** So, sorry, just one final question. How much have we been able to pass it on the input side? Have you been able to pass on more than 70%-80% or are we still working on that right now?

**Sanjay Chaturvedi:** So, right now we are still working on that. That continues to be a challenge. And our cost that we were able to pass along is actually a small fraction of what our costs have gone up. And that is the reason for the decline in profits that you see.

**Rohit Suresh:** Thank you so much sir and I wish you all the very best.

**Sanjay Chaturvedi:** Thank you very much. Appreciate your points, Rohit.

**Moderator:** Thank you. The next question is from the line of Monish Shah from Antique Stock Broking. Please go ahead.

**Monish Shah:** Just wanted to check in non-IBU business which products are contributing to the growth, if you can highlight a couple of names.

**Sanjay Chaturvedi:** So, Metformin, Clopidogrel, Pantoprazole, Levetiracetam these are some of the products that continue to be from products in our portfolio.

**Monish Shah:** Okay. Understood. And given that we have good capacities in Metformin, do you think the realizations have improved and you have been able to take some price increase as well this fiscal?

**Sanjay Chaturvedi:** So, there are two ways to look at this Monish. One is there is certainly a distinct difference in pricing between the export market and the Indian market. And when there was a unique situation earlier this year where the India prices were actually higher than export prices, okay? That has reversed and come back to the normal situation where India prices are now significantly lower than export prices. Having said that Metformin is one of those unique APIs where, as they say, we are in the same storm and in the same boat, we are not even in different boats. Every manufacturer is buying DCDA from China. So, you know there is no backward integration. And till that happens, the only profitability leverage that you have here is whether you are selling into the export markets or not and whether within the export markets, you are selling into the regulated markets or not. So, if you look at the leading four or five Metformin players, the players with higher profitability are the ones that have disproportionate sale coming from

exports into the regulated markets. So, now that we have filed the regulatory papers and we are in the approval process, it will still take us a few more quarters to get there. But needless to say, we have set up capacities and we are ready to break that challenge.

**Monish Shah:** Okay. Understood. So, do you think your gross margins will improve maybe in second half of 2023 onwards once your non-IBU contribution is growing faster? Is that how we should look at it?

**Sanjay Chaturvedi:** Yes, certainly.

**Monish Shah:** Okay. The last question, any view on raw material availability and lead times with China reopening now?

**Sanjay Chaturvedi:** It's again too early to say whether the lead time will go down or not. I think the availability of raw materials was never a challenge. The challenge was in timely deliveries and the pricing. So, I am hoping that, with China back on some of these prices will start to deescalate and we are already seeing early signs of that in some of the KSMs that we buy from China. But I think it's still very early to give a verdict that, yes, this is the direction that this will continue to move for the long term, because this is a very recent phenomenon.

**Moderator:** Thank you. The next question is from the line of Ranveer Singh from Sunidhi Securities. Please go ahead.

**Ranveer Singh:** My question was related to acetic acid procurement. The pricing has been volatile for quite some time even in the last year also. So, what is our strategy to hedge this? Whether we are accumulating inventory at a particular price or for a period, so if you could give more detail on it.

**Sanjay Chaturvedi:** So, this is a very tricky question, Ranveer, because if I look at acetic acid sourcing, number one, there aren't too many options to get into formula-based pricing, as is typically done in several chemicals. Second, our volumes of manufacturing are significantly high, and we need to carry slightly larger inventories than other of our competitors primarily because we are slightly removed from the port. So, if I factor all of those things in, we try to carry inventories that are slightly higher than industry averages. So, this does two things for us. Number one, a) the amount of working capital that we deploy for this goes up higher than competition. Number two, the other thing that impacts us is really higher volumes that are required, the normal. And the way to mitigate this risk is by having an assurance of demand. And we do that by getting into relationships with some of our strategic key accounts where I know account A is going to buy X volume from me every month and every year and every quarter. And also,

now we have started to look at some of the exports because the export price realization in this is somewhat better. That will still take us a few quarters to achieve the kind of potential we want. But ultimately, there is no silver bullet for acetic acid sourcing. It just comes down to, keeping your ears on the ground, having very credible market intelligence and making what I call educated predictions and guesses about which direction this is going to move. So, you also don't want a situation where you end up sourcing months and months of acetic acid only to realize that the price went in the other direction. It's like sometimes you will come out ahead. Sometimes you will be in the red, but on an average, what we aspire for and what we promise is we will be in the 6% to 8% EBITDA range.

**Ranveer Singh:** Okay. Is it possible to split the ethyl acetate business geographically? How much is in India and some of the export market?

**Sanjay Chaturvedi:** It's too early for us to say that. I think by the end of this year, once we have some significant revenue, we will be able to provide that split.

**Ranveer Singh:** I am talking about ethyl acetate which is 80%-85% of your chemical business.

**Sanjay Chaturvedi:** Yes. I am talking about ethyl acetate. My ethyl acetate business primarily is still domestic. I have very little coming from exports, and you are asking me whether it's possible to split that 85% number between exports and domestic. It's mostly domestic for me right now.

**Ranveer Singh:** Okay. Got it. Just last one on Ibuprofen side, Ibuprofen from last year to this year is roughly Rs. 320 crores kind of revenue. So, the run rate what we have achieved in Q1, so that is something we should take forward or we can see uptick from here also?

**Sanjay Chaturvedi:** So, we will see an uptick from here. You are talking about Q1 of this new financial year, not the previous financial year, correct?

**Ranveer Singh:** Yes.

**Sanjay Chaturvedi:** Yes. So, you are asking me for a prediction of going forward, how is the run rate of Ibuprofen going to be.

**Ranveer Singh:** Yes.

**Sanjay Chaturvedi:** So, I would say that for Ibuprofen, we should expect that my Q1 should be similar to what Q4 was last year, but Q2 onwards that volumes will start to increase.

- Ranveer Singh:** Okay. That's it for my side. Thank you.
- Sanjay Chaturvedi:** Thank you very much, Ranveer.
- Moderator:** Thank you. The next question is from the line of Chirag Fialoke from Ratna Traya Capital. Please go ahead.
- Chirag Fialoke:** Just wanted to understand, could you share broadly what volumes we did for Ibuprofen this year? And what kind of decline that we saw approximately? Can you give us a broad ballpark number?
- Sanjay Chaturvedi:** You are talking about how much Ibuprofen we did at FY 21-22 versus the previous year?
- Chirag Fialoke:** Yes, sir.
- Sanjay Chaturvedi:** So, I would say we declined by a few hundred tons or so, maybe almost 1000 tons for the year.
- Chirag Fialoke:** Almost 1000 tons. So, if my calculation is correct that probably we were closer to say 8000-8300 tons?
- Sanjay Chaturvedi:** Yes. In that range. Absolutely.
- Chirag Fialoke:** Okay. Great. Sir, forgive me if this is repetitive, but in terms of pricing, we have been talking about the pricing floor for a last few quarters now, and I understand that is little bit of an external circumstance for the company, given that it's an issue related to overstocking at customer's end, but could you help us understand what gives you more confidence right now to believe that this is the floor and nothing in terms of pricing and volumes that there is no more sort of couple of quarters left of pain. Just as an investor I would love to understand what gives you confidence to believe that or is it that for a few quarters you still are unsure, but obviously in the medium to longer term this will reverse.
- Sanjay Chaturvedi:** So, the early signs that we have received from our customers in terms of some overseas customers where we do long-term contracts, we see a sense in the positive direction. But is it one or two customers or the whole trend is there, it's early to say that it is a trend. I think by Q2 we will have a much clearer understanding of that with the direction that this is a strategic shift that has happened, or it was an aberration. But I will say this, in terms of the number of players that are supplying Ibuprofen API, that number is few and far in between. Several of those players have either lowered their

capacities or are not backward integrated and therefore, their cost positions are certainly higher than what our cost position is. And then the prices that have come down would, while they have challenged me and put a pressure on my business, they put a lot more pressure on other businesses that are not backward integrated. So, what will happen is those businesses certainly have other products at a larger scale than what I have. So, what I expect any normal business will react is they will start to focus on products that give them more profitability. And so, once that demand supply cycle gets upset again, the only way for the prices to move is forward.

**Moderator:** The next question is from the line of Anupam Agarwal from Lucky Investment Managers Pvt. Ltd. Please go ahead.

**Anupam Agarwal:** Can you give us some clarity on the Paracetamol press release that came out a few months back, if you can help us understand the kind of capacity we are putting in and what is the kind of volume and pricing we anticipate?

**Sanjay Chaturvedi:** Okay. We've currently put in a capacity of around 1800 tons a year and we expect to take this to about 3,600 tons by the end of this year.

**Anupam Agarwal:** Have you started the running this plant already sir?

**Sanjay Chaturvedi:** Yes. We are running this plant, but that's at the 1800 tons capacity level.

**Anupam Agarwal:** All right. I mean, have you booked any sort of revenue in 4Q from Paracetamol?

**Sanjay Chaturvedi:** Yes. We started to book revenue for Paracetamol.

**Anupam Agarwal:** Understood. One question on the balance sheet, there's a Rs.185 crores jump in the other non-current assets. Can you help us understand that figure?

**Sanjay Chaturvedi:** Could you repeat your question please?

**Anupam Agarwal:** On the balance sheet consolidated balance sheet, there's a Rs.185 crores jump in other non-current assets. Can you help us understand what that line item is?

**Sanjay Chaturvedi:** The FD that was in the short term has been moved into long term.

**Anupam Agarwal:** And that is sitting in other non-current assets?

**Sanjay Chaturvedi:** Yes.

- Moderator:** The next question is from the line of Jaspreet Arora from Equentis PMS, please go ahead.
- Jaspreet Arora:** My question was around the profitability swings that has happened in the last financial year in the pharmaceutical division. If you could just, so I'm referring to as a mental break up Rs.460 crores in F21 dropping to Rs.160 crores in F22. If you could help understand the bridge between the two, how much of this I think you mentioned volume decline was about 10% odd, just correct me if I got that understanding or maybe slightly higher. If you could help understand the bridge. Basically, how much was it by volume decline, how much cost push and how much was the price realization factor, which I believe would be very large part.
- Sanjay Chaturvedi:** Okay. Broadly you're talking specifically on the pharma side Jaspreet.
- Jaspreet Arora:** Yes, correct. Pharma I'm taking the full financial year, so that takes into account all that monthly, quarterly variation.
- Sanjay Chaturvedi:** Okay. So, couple of things, number one, if I look at my pricing in Ibuprofen, there was a significant difference in the weighted average price for the two years. The way to think about that is let's say I do 9,000 tons and the price difference is, let's say Rs.50, right there you have a Rs.45 crores impairment sitting on about 8 to 9,000 tons. All of it is coming not only from your top line, but significantly from the bottom line, so that is one. Second is I actually sold almost a thousand tons less than what I sold in the previous year,
- Jaspreet Arora:** Which is how much 12% loan?
- Sanjay Chaturvedi:** In terms of percentage it could be 10 to 12% range. But the way to think about that is at average prices of 11, \$12 or so that straightaway adds another 85 crores negative on your top line. Then the additional impact of this is because your asset utilization has gone down, your average cost of manufacturing goes up, so you get a further hit on your bottom line and then your input costs have gone up, your energy costs have gone up. You get those like a triple whammy.
- Jaspreet Arora:** That's correct. The logic what I was trying to understand, sir, I understand there is a 10, 15% volume drop and I'm sure because of that, there would be a negative DD cost, which is on the fixed cost side. It could be another 10, 15%, right and add to that maybe there would be the cost push. Right. So, this was the price swing. Let's say average, if you can help understand even the average realization for '22 and '21, that will also help just to understand the price difference, how much that led to the swing.

- Sanjay Chaturvedi:** I think if I look at just Ibuprofen, my price difference in that between Rs.80 to Rs.100 per kg, the price difference in the two financial years.
- Jaspreet Arora:** So, what was it in 2022 and what was it in 21?
- Sanjay Chaturvedi:** In absolute terms I'm looking at we've basically gone from about, \$12.5 or \$12 to about &1.5 less.
- Jaspreet Arora:** \$12 moving to \$10 are you saying?
- Sanjay Chaturvedi:** 10.5 to 11.
- Jaspreet Arora:** This is FY22?
- Sanjay Chaturvedi:** Correct.
- Jaspreet Arora:** And versus 12 in FY21?
- Sanjay Chaturvedi:** Actually, previous year was between 12 and \$13. This year has been between 11 and \$11.5. This I think continues to be stable today. Even in this new financial year, we continue to be at this pricing level.
- Jaspreet Arora:** I'm actually not able to reconcile this, we have to take it off. The related things on slide 9, 19 sorry, 19, the segmental EBIT which we you have shown on the both the drug side as well as the chemicals side. The drug side, that's more like a stable business where we have been there for long, the pricing at 14% and then we had that super cycle going up to 43 now back to **(Inaudible) 37.27**, Prior to this, I think we have been there in that mid to high double-digit range in terms of EBIT margin, **(Inaudible 37:44)** fair to assume that the next two or three years, it will oscillate again between that mid to high double digit and at least for the foreseeable future.
- Sanjay Chaturvedi:** The guidance I would give is that except our chemicals business which is primarily high lasted to be in the 6 to 8% EBITDA range for this year as well. Next year, the size of the business will improve along with the EBITDA margin as well, because the increased EBITDA will come from the new products that we add. On the pharma side you can expect that the top line of that business will grow by at least 10% and there will be a margin expansion and the margin expansion will happen on two fronts. Number one, I continue to improve the quality and the size of the non-Ibuprofen APIs, and I will continue to improve the quality of the Ibuprofen business through increase in volume as well as higher percentage of that sale coming from export market.

- Jaspreet Arora:** Okay. And this outlook obviously doesn't include any (**Inaudible**) 39:07 realization, whatever happens realization that is over and above this?
- Sanjay Chaturvedi:** Yes.
- Moderator:** The next question is from the line of Aditya Shah an individual investor. Please go ahead.
- Aditya Shah:** Just one quick question I had on the expected margins on the API non-Ibuprofen business. Sorry if I missed, I am not sure if you have answered that?
- Sanjay Chaturvedi:** My current margin in the non-Ibuprofen business are actually in the single digits and that's primarily because while I have set up the capacities, my asset utilization still continues to be low. As I improve that asset utilization and as I get approval for regulatory authorities, as well as customer audits into the export markets that EBITDA margin will improve.
- Aditya Shah:** Any expectations let's say on a consistent level, three years out, or maybe two, three years out what it is, and also what is the utilization level currently and let's say last year?
- Sanjay Chaturvedi:** In terms of the asset utilization, I would say we brought it to about, in the range of 50%, 60% range and in the next year or 12 to 18 months, we should take that to the 75% plus 80% level, that's one. Second you talked about the EBITDA margin. The EBITDA margins currently for the non-Ibuprofen side are in the single digits and that will certainly go into double digits this year.
- Aditya Shah:** Got it. And sir, how do we plan on winning out, these customers when you go to place, when once you get the approvals and you go to get the orders from these customers? I'm assuming there would be new customers for you as well. Is this just a pricing question or how does that go?
- Sanjay Chaturvedi:** There are kind of two ways to think about this problem Aditya, the first is my lowest hanging fruit in terms of customers is where I don't have a customer acquisition cost, and these are customers who already do business with me in Ibuprofen. So that's where I'm expanding, my focus is on expanding the non-Ibuprofen portfolio, that's one. Second is when I go and do this business in regulated markets as and where I get approvals, pricing is certainly important, but not the only determinant. After all the end customer is buying the API from you. They are looking at not just reducing their costs, but actually, minimizing the risk. They would much rather buy API from manufacturers who understand scale and who are backward integrated and have a long



track record of not fair-weather suppliers. If you look at us as an organization, we've been around for more than three decades, if you look at our history and track record, the businesses that we are in we don't go in and out of businesses we are there, we are strategic partners for the long term. Third point being that we go in with after we have the scale, we do backward integration. If you look at Ibuprofen, just as an illustration, we are certainly the only ones that completely backward integrated and all the way we buy toluene. Now, if I look at Paracetamol, the new product that we've come in, we are manufacturing our own tap. All the other products that I have, whether it's a clopidogrel or pantoprazole or levetiracetam, we have very strong technology development programs in place. The intent is very clearly to manufacture our own intermediates. When you put a high-quality front-end team, along with strong regulatory and quality management capabilities, you go and attract the quality of customers that you want to attract. Our whole philosophy Aditya is very clear that, we will do few things, but we will do them well.

**Aditya Shah:** As of now any plans to stop adding new products, but look for utilization increase or is it still some time till you have the portfolio you want to have?

**Sanjay Chaturvedi:** On a lighter note, Aditya I will have investors this year and I have to have investors next year as well. So, I can improve the asset utilization and that will only get me to a point. So, for example, if I borrow from my experience of ethyl acetate, my ethyl acetate plant is currently running at, 90-95% asset utilization. I've kind of hit a limit in what I can grow that, unless I do some minor debottlenecking and improve that. But that minor debottlenecking will only add incremental value. I need to add more plants and more products to grow that. The same philosophy holds good on the pharma side as well. Once my pharma assets are all running at 80% and above, I have no option, but to add more products and more plants.

**Aditya Shah:** So still, we're on the track to add in more products to our portfolio with the focus on backward integration engineering.

**Sanjay Chaturvedi:** Absolutely. With a focus, not only on backward integration, but with a focus on adding quality of products that have the capacity to give me 25% plus EBITDA margin, because that's the only way I can improve, that will pull up the overall EBITDA margin for the company.

**Aditya Shah:** Understood, understood. Any range in terms of, let's say percentage of current fixed assets that you have, that you would look to invest every year, it will give a sense as to what kind of revenue volume growth you would be looking at?

- Sanjay Chaturvedi:** Yes. So, I would say that historically we've spent on an average about 150 crores annually on CAPEX, this year we'll be going at about 250 crore level. I think that will go into a combination of both chemicals and pharma and that should give growth to both the business segments.
- Moderator:** The next question is from the line of Monish Shah from Antique Stock Broking, please go ahead.
- Monish Shah:** Just two questions. One is, can you share any outlook on exports and domestic mix in pharma business?
- Sanjay Chaturvedi:** Okay. In terms of exports, we are currently at about between 25, 30% of our revenue comes from exports and with a focus of growing the export market, both for chemicals and pharma, our intent is to take that to 35% level.
- Monish Shah:** Okay. Any guidance that you would like to give for EBITDA margins or EBIT margins for pharma business once your Ibu volumes pickup and also non-Ibu contribution improves, so anything for FY24, 23, you would like to share?
- Sanjay Chaturvedi:** You know if you look at our EBITDA margin that we delivered in this previous financial year, it was at 13% for the year. Our intent is to take that to 15% plus this year.
- Monish Shah:** Okay. And that will improve on 24FY?
- Sanjay Chaturvedi:** Oh, absolutely. If I look at, my three-year journey, four-year journey, I intend to take the average EBITDA margins from 13% to between 18 to 20%.
- Moderator:** The next question is from the line of Ankit Sharma from CIL Securities, please go ahead.
- Ankit Sharma:** Just one question regarding the profitability point of view, previous year the profit of the company was 445 crores. Now the profit has been decreased to 166 crores. So just wanted to know whether like FY22 would we be able to achieve 445 profitability or so?
- Sanjay Chaturvedi:** Your question is, will we be able to achieve the profitability level that we got in the year prior to this one?
- Ankit Sharma:** Yes, exactly.

**Sanjay Chaturvedi:** The short answer is no. Before I just say no, I want to give you a little bit of background and a flavor of where the industry is. Okay. As an average API industry and I mean API industry will operate at an EBITDA margin of the median number is around 15%. Okay. There will always be lean seasons and there will be periods of excesses, profitability that come from one-off. If you look at a lot of the companies that enjoy high levels of profitability, because they had favipiravir or molnupiravir that came you know during the COVID times, all that business has gone away now. Don't look at a quarter-by-quarter profitability. I would really urge all the investors on this call to look at the growth journey and the story and the underlying strong fundamentals that IOL offers that will give profitability in a sustained way. What we've done from the profits that we received in the preceding years. See during the early part of COVID, there was a lot of overstocking. In addition to that, overstocking it was a perfect opportunity because the capacity for some of our competitors were not in place. Therefore, the prices had gone up to irrational levels. Therefore, what we've done from the profits is we are going to be reinvesting that profits to be growing in a sustainable way. I would much rather promise my investors 18, 20% EBITDA level, then show a yin-yang between 30, 35% back to 10% and then back to 30%, because that story is not sustainable.

**Moderator:** The next question is from the line of Shaikh Mohammad Ayaz an individual investor, please go ahead.

**Shaikh Mohammad Ayaz:** Thank you for the opportunity, sir. I've heard a few interviews of yours on CNBC TV18, in that you told that we are going to deliver 15 to 20% of margins. What was in terms of pharma and chemical or pharma and chemical both or in terms of pharma only?

**Sanjay Chaturvedi:** Our intent was to deliver overall 15 to 20% margin for the company as a whole, because on a lighter note I am the CEO of the company and not the CEO of the pharma division. We like to look at the company overall as a whole. What happened was you know, we did not achieve that 15% number because of all the reasons that I outlined earlier in the call, but that is our intent. We have a path forward to deliver that number.

**Shaikh Mohammad Ayaz:** But in that same call, the anchor also asked you whether you are going to return to single digit return or not. You told no, we are going to diverge to 15% to 20% margins in the EBITDA level. When we see the results, it was less than 10%. I think in June quarter, December quarter, it was I think September quarter the margin was around 10% last quarter it was 13%. Now it has been back to 9%. So, what is the future now? What is the margins you are going to deliver in upcoming quarters?

**Sanjay Chaturvedi:** You know there has been volatility, as I said in the EBITDA numbers and that volatility comes from volume volatility, it comes from raw material pricing volatility, but having defied all these headwinds we have delivered a double digit 13% EBITDA number for the year. Going forward we will continue to deliver double digit EBITDA number.

**Shaikh Mohammad Ayaz:** Another question was your chemical division revenue contributed 50% of the revenue, but this quarter, it was in loss in terms of bottom line. Even in last quarter it was not performing, but when we see other chemical companies, they are performing very well. You don't think you need to improve a lot in chemical division?

**Sanjay Chaturvedi:** I will answer that question Mohammad in two different perspectives. One is, as you see, our chemical business is primarily based on one product and that product that we have, relied at least the key raw material of acetic relies entirely on imports. Therefore, the ability to manage profitability becomes challenged when you have a single product with RMC dependent on imports. So, what we are doing is, we are actually de-risking this particular division by adding more products. I talked about that in the earlier part of the call. So, in the coming quarters, you will hear about the new products that we will be launching, and they will de-risk the entire chemicals business, a) because I will be adding more products beyond my current portfolio and the products that I add will be at higher profitability levels than what is I last stated. So that's how I hope to de-risk the division of chemicals.

**Moderator:** The next question is from the line of Dhaval Shah from Svan Investment, please go ahead.

**Dhaval Shah:** On the other APS, like clopidogrel, pantoprazole and levetiracetam, you mentioned you'd be manufacturing or intermediate as well. Like for paracetamol, you started manufacturing pap, and it created that you have achieved a stabilization of the quality, while many others were trying in our country, and they were not able to get that. Likewise, in this, the other three products what time would you be going for the backward integration, or have you already started with it? If you could throw some color on it and also whether the three-year perspective, the API business by FY25 if we take a view on what product like a product breakup, if you would share that, what's your thought, like how much would it be IBU, how much will be Metformin? When you see company in FY25 may be backward integration?

**Sanjay Chaturvedi:** Sure. There are actually quite a lot of questions that you've asked me within what you've said. I'll pick out the two key themes of what you asked. Number one, you asked me that over the next three years, how do I see the split of the pharma portfolio? Needless to say, ibuprofen with certainly become less than 50% of my total pharma

business. Again, if I talk about the philosophy and the strategy of what we do, we come into products at scale. What I mean by that is, if I look at my Metformin capacity, my Metformin capacity is perhaps one of the largest in the country today. If I look at my clopidogrel capacity one of the largest if not in the country, perhaps one of the largest in the world. What happens as a result of that scale is that I am investing in business development activities to improve that asset utilization at scale, once that commercial risk is addressed at that point I will go after the manufacturing risk and will backward integrate. Backward integrate in product when your asset utilization is 20-30%, it does not make commercial viability. You asked about the scale in terms of timing, when we would have backward integration in other products, so they are on different stages, some backwards, some intermediates are at development stage, some intermediates are at validation stage. But I think over the next two to three years to 2025, that you mentioned in key of the products that we have in the non-ibuprofen portfolio, wherever possible, we would have achieved backward integration.

**Dhaval Shah:**

Great. What do you mean by scale as an investor, how should we understand and keep a track that the company has achieved scale? You mentioned Metformin, you are largest in India. So, would you be definitely looking at scale at a global level or India level, because these are like a semi-commodity or commodity kind of APIs, if we put it semi-commodity it would always be good to compare it on a global scale if I'm not wrong? How should we understand the scale of the product?

**Sanjay Chaturvedi:**

We also like to look at business from the global perspective and let me start with Ibuprofen flagship product where, the world's capacity is about 35,000-36,000 tons, where our installed capacity is 12000 tonnes. That is significant scale. If I look at Metformin, now here, I have to take India perspective because there are several Metformin manufacturers in China as well, who have the benefit of being backward integrated in terms of having locally available DCDA. So, when I look at other players of Metformin in India, their capacity is certainly smaller than mine. I have scale, if I look at clopidogrel, the other players of clopidogrel have capacities that are again, lower in volume than what I have. That's really what I mean by scale. One thumb rule to remember when you think about scale, is, are you going to end up with meaningful capacity? And who's the next competitor to you. That's how will like to think about scale.

**Dhaval Shah:**

And once you achieve that commercial utilization of the plant...

**Sanjay Chaturvedi:**

That's when we backward integrate to and that really gives the kick in the margins as well. What happens is if I have to sell hundreds tones of a product, I will first sell 70-80 tons in India itself, where I know the margin is challenged I will not have more than

5% EBITDA margin there, but once I achieve that scale, parallelly I get to get qualification into export markets and then I try to move that business out of the 80-90 tons, maybe 20-30 tons into exports and parallelly begin activities for backward integration. I get margin expansion on the sales realization, and I also get margin expansion on the cost of manufacturing,

**Dhaval Shah:** Got it. With this business plan, you are confident of around at least achieving like 15, 16% kind of EBITDA margin at the company level in '23 and then gradually add 1, 2% every year.

**Sanjay Chaturvedi:** Absolutely.

**Dhaval Shah:** Okay sir, got it. Great, thank you very much.

**Moderator:** Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Dr. Sanjay for closing comments.

**Sanjay Chaturvedi:** Once again, thank you all for taking the time out of your busy schedules for this. I would like to reiterate the message that, yes, this previous financial year we had, despite, very strong headwinds, the company continued to demonstrate good business performance in line with other API players. We continue to build a stronger and a much more sustainable future through our investments in CAPEX, product portfolio and increased regulatory filings. This year, we've made significant investment in leadership, training and development and we've also hired critical talent in the industry and over the next year or so, IOLCP will activate portfolio of chemical products as well. Parallelly we will grow the non-Ibuprofen API business substantially and improve the quality of the API business. Increased penetration into exports and regulated markets will help enhance the bottom line and improve both our market presence and the overall brand of the company. Thank you all and have a great day.

**Moderator:** Thank you. On behalf of Antique Stock Broking that concludes this conference. Thank you for joining us. And you may now disconnect your lines.