



IOL CHEMICALS AND PHARMACEUTICALS LIMITED

IOLCP/CGC/2022
22nd February 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 nine month ended 31st December 2021

Dear Sir,

In continuation to our letter dated 3rd February 2022 regarding intimation of Schedule of analyst/ investors conference call – Q3 FY22, please find attached herewith the transcript of Earnings Conference Call organized by the Company on 8th February 2022 post declaration of audited financial results for the quarter and nine month ended 31st December 2021.

This is for information and record.

Thanking You,

Yours faithfully,
For IOL Chemicals and Pharmaceuticals Limited

Abhay Raj Singh
Vice President & Company Secretary





“IOL Chemicals and Pharmaceuticals Limited Q3 & 9M FY2022 Earnings Conference Call”

February 08, 2022



ANALYST: MR. MONISH SHAH – ANTIQUE STOCK BROKING

MANAGEMENT: DR. SANJAY CHATURVEDI – CHIEF EXECUTIVE OFFICER - IOL CHEMICALS AND PHARMACEUTICALS LIMITED
MR. ABHAY RAJ SINGH – VICE PRESIDENT & COMPANY SECRETARY - IOL CHEMICALS AND PHARMACEUTICALS LIMITED
MR. PARDEEP KHANNA – CHIEF FINANCIAL OFFICER - IOL CHEMICALS AND PHARMACEUTICALS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to IOL Chemicals and Pharmaceuticals Q3 & 9M FY2022 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the 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 Lizaan. Good afternoon everyone and welcome to IOL Chemicals and Pharmaceuticals Limited’s Q3 FY2022 results conference call. Today on the call, we have with us Dr. Sanjay Chaturvedi - CEO. Mr. Pardeep Khanna – CFO, Mr. Abhay Raj Singh – VP and Company Secretary. I will now hand the call over to Dr. Sanjay Chaturvedi for his opening comments. Thank you and over to you Sir!

Sanjay Chaturvedi: Thank you Monish. Very good afternoon to everyone. Thank you all for taking the time to participate in this earnings call. I trust you had the time to read the earnings document. I am certain that you will have many questions but before we take up these questions I would like to shed some light on the industry what is our business, the kind of what are my own perspectives in the performance of the quarter and subsequently my colleague, Mr. Pardeep Khanna, our CFO, will provide a lot more granular details on the financial performance.

So let me begin with saying that our non-ibuprofen pharma business have performed well better compared to the prior period and contributed about 17% to the quarterly revenue for the company and overall about 37% of our revenue in the pharma segment now comes from non-ibuprofen. During the Q3 IOLCP has filed four DMFs with US FDA we got six products’ GMP certification from MOH Russian Authorities. Additionally we also got approval from the Korean FDA for two products this quarter. All these regulatory approvals will enable the company for increased market penetration and add value to the business. The margins have been on stress on account of continuous volatility in the chemicals pricing and lower volumes of the ibuprofen business. Overall the Q3 results show significant improvement from Q2. Our sales grew by a modest 3% but our PAT numbers grew by 29%. With this I would like to hand over to my colleague, Mr. Pardeep Khanna, our CFO who will be talking more in detail. Over to you Mr. Pardeep!

Pardeep Khanna: Thank you Dr. Sanjay. Good afternoon to all and warm welcome to IOLCP 9 months and Q3 FY2022 earnings call. I will take you through the highlights for the Q3 and nine months ending financial year 2022.

The total revenue for the quarter increased by 3% to Rs.564 Crores as compared to Rs.548 Crores in Q2 of FY2022. In Q3 of FY2022 the EBIDTA was at Rs.68 Crores and in nine months ending financial year 2022 was at 238 Crores. Similarly EBITDA margin in Q3 of FY2022 was at 12.1% and 14.6% for nine months. Depreciation for the quarter was Rs.11 Crores and Rs.32 Crores for

nine months ending FY2022. Profit after tax for Q3 of FY2022 stood at Rs.40 Crores and Rs.130 Crores for nine months ending FY2022. The PAT margin for the third quarter was 7.1% and for nine months for FY2022 was at 8.4%. With this I would now request the moderator to open the forum for question and answer session. Thank you very much.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Br Vora from Third Eye Realty and Consultant Private Limited. Please go ahead.

Br Vora: Good afternoon and thank you for the opportunity. My first question for you is do we have any clarity on what the capex plans for the year and ahead?

Sanjay Chaturvedi: So far we have spent about 116 Crores and this is in line with what we typically do in a year and going forward we do expect that we will be spending about 150 Crores or so annually.

Br Vora: My followup question will be why is there no large scale capex plan even though the company has over 300 Crores on the balance sheet and ample access to get fund growth is being compromised due to distribution of dividends and not reinvesting back into the business?

Sanjay Chaturvedi: I think it is an excellent question you asked let me give you two data points and begin to answer that. The first data point I am going to give you is that if you look at the API business what matters is the cumulative capex rather than quarterly or year-on-year capex. Last several years we spent over 400 Crores of capex, many of those assets are still waiting to be fully utilized so rather than jump in and create more assets we are taking a relook at what kind of portfolio we want to have for the future so what you will see in the coming years is the existing assets that have already been deployed being utilized more effectively and then the new assets that we put into place will be for some of the new products that we are considering.

Br Vora: For the existing assets what utilization level are we working at right now?

Sanjay Chaturvedi: So I would say that any number from 65% to 75% is good depending on which asset, which block, which product.

Br Vora: Thank you for answering the question.

Sanjay Chaturvedi: You know a question that you have not asked for let me talk about that. Once we achieve asset utilization in excess of 80% that is the point at which we would look at deploying new assets.

Br Vora: Is that for all of the molecules or is that only for the other API side?

Sanjay Chaturvedi: That is for all of the molecules that we have. See on ibuprofen particularly we already have the world's largest capacity. Today we are not actively thinking about expanding that capacity we are thinking of expansion in new molecules to actually derisk the company as you know ibuprofen is

our bread and butter business we will continue to be world market leaders in ibuprofen API, but our investor expect us to derisk the business away from ibuprofen and that is the direction that we are taking.

- Br Vora:** Okay.
- Moderator:** Thank you. The next question is from the line of Chintan Chheda from Quest Investment Advisors Pvt. Ltd. Please go ahead.
- Chintan Chheda:** Good afternoon Sir. Thanks for the opportunity. Sir my first question is can you just give the split between the volume and price growth for ibuprofen over second quarter?
- Sanjay Chaturvedi:** I would say broadly the volume in the Q3 was about 10% more than in Q2, pricing continues to be stable or somewhat negative so ibuprofen I think we have bottomed out in the business and both in terms of volume and in terms of pricing.
- Chintan Chheda:** Just wanted your view like what are the pricing trends that we are seeing for the new contract in ibuprofen?
- Sanjay Chaturvedi:** I would say that most of our business is in a combination of domestic and semi-regulated market that is where the contracts do not really exist. The contracts are applicable primarily for the regulated market and in those markets we are expecting annual contracts in the range of \$11 and \$11.5 a kilo.
- Chintan Chheda:** The RM for ibuprofen like your IBB how are their price trends.
- Sanjay Chaturvedi:** IBB is fairly stable, there was I think in Q2 and Q3 a slight run up in manufacturing cost and I would say that rather than raw material pricing it was more a function of energy pricing the utility costs have gone up.
- Chintan Chheda:** Okay Sir that is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Shaikh Mohammed from Aman Investments. Please go ahead.
- Shaikh Mohammed:** My question is among the API we have in pipeline any other products we are planning to launch this quarter or this year means you have mentioned clopidogrel, paracetamol, fexofenadine, apixaban among them?
- Sanjay Chaturvedi:** I would say we are already having products developed, validated, existing capacities, the focus is on utilizing these capacities rather than launching new products right now. Yes we do have a portfolio of new products under development I do not anticipate any of the new product launches in this quarter, but towards the later part of the next year yes certainly we are looking at some of

the products and rather than give you the specific which product the list that we have shared with you are the products under development it will be from amongst that list.

Shaikh Mohammed: My next question is are you expecting further improvement of margin in next quarter or upcoming quarters?

Sanjay Chaturvedi: Next quarter as in Q4 we expect a slight improvement in margins and for the next year we certainly expect an improvement in margins because as the business derisks itself away from being one product company we will see an expansion in margins.

Shaikh Mohammed: Sir my next question is if we see the margins it has shrunk a lot in the last two quarters and that is mostly from chemicals side so are you planning to demerger chemical and pharma business?

Sanjay Chaturvedi: No we do not plan to demerger the chemicals and the pharma business, these two business are closely interlinked even though they are very separate in terms of the manufacturing footprints, many of the customer base is common, many of the chemistries are common, we share the utilities so we do not plan to demerger the two business but having said that one is to fundamentally understand that specialty chemicals and pharma are very different types of businesses with very different values and drivers. Let me explain in elaborate on that for just a few minutes. On an average specialty chemicals as an industry will run out 10% to 15% margins whereas the API industry will run at like 15% to 25% to 30% gross margins, so what that also means is that the amount of capex required to generate an asset that will give you revenue is different in the two industries. In the PPI industry typically for every Rs.100 that you deploy in capex you will build between Rs.100 and 200 of business over a sustained period whereas on the API side sorry this was the number for the API side. On the chemical side for every Rs.100 that you are deploying you can create up to 300, 400 even Rs.500 business although at a much lower profitability level, so it is a question of philosophy rather than what is a better quality business, both very good businesses.

Shaikh Mohammed: My next question is last quarter concall I have asked regarding the cash reserve utilization you told that we will be coming out of the plan in December or January, actually I have called in your customer relationship officer also but he told there is no information regarding that so what is the capex?

Sanjay Chaturvedi: I will give you an update on that. We are in the final stages of deciding where to deploy the capital and of course this new wave of Omicron has delayed some of our decision making because a lot of our employees were out for a sustained period so I would expect that sometime this quarter we will finalize our plans and maybe by next quarter give you an update.

Shaikh Mohammed: Thank you. Sir another question is I think this quarter we have achieved the highest revenue in terms of upper side, but if you see in the bottom side it has shrunk a lot so when we see record number of profit?

- Sanjay Chaturvedi:** What you are asking me is to do actually gazing into the crystal ball, if I had visibility into what is going to happen to raw material pricing, what is going to happen to logistics, what is going to happen to fuel cost I would give you a very clear answer. What I would leave you with is the following. As an industry if I look at the API industry 15% to 20% EBIT numbers are sustainable. Investors who are looking for EBIT numbers of 30% and beyond in the API industry are not sustainable I hope that answers your question.
- Shaikh Mohammed:** Yes, thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Zain Banihali from Odyssey Capital Management. Please go ahead.
- Zain Banihali:** Sir my question is regarding the raw materials and on that front how much of our dependence is on China for the raw materials?
- Sanjay Chaturvedi:** I would say the short answer to that question is we do not have a lot of dependence on China. We have certainly on Metformin we buy some raw material from China DCDA whereas on ibuprofen I have almost no dependency on China. When I look at my other chemical business which is a significant part of my overall portfolio I am importing certain raw materials but none of them are from China.
- Zain Banihali:** Okay so will it be right to say that the increase in shipping prices has had an impact on our margins?
- Sanjay Chaturvedi:** Yes.
- Zain Banihali:** To what extent would that be?
- Sanjay Chaturvedi:** I am trying to deconvolute in my head between chemicals and pharma but I would say it is fair to say a small single digit percentage points is attributable to logistics and shipping cost.
- Zain Banihali:** The question is in future will it be possible for us to be less dependent on exports and be more self sustainable so to say?
- Sanjay Chaturvedi:** I wish I could give you a very clear answer on this because the reality of business cycles is much more complex. They say that the fluttering of the wings of a butterfly in Indonesia causes a typhoon in the US. We live in a global interlinked economy it will be very hard to create a business where we are making 100% of products in India for the Indian market based on Indian raw materials, so in fact I think that may perhaps be a higher risk business, so having a level of interdependence is really a true reflection of what global businesses are like and we will continue to have that interdependence.

- Zain Banihali:** Thanks Sir. My second question would be what percentage of our revenue is coming from metformin?
- Sanjay Chaturvedi:** Probably I would say 37% of the pharma business, roughly 16% to 17%.
- Zain Banihali:** Will it be right to say that after ibuprofen, metformin is the second biggest revenue generator for us?
- Sanjay Chaturvedi:** Yes.
- Zain Banihali:** As we see that we are decreasing our dependence on ibuprofen so will that go to metformin and that share will increase our dependence, not dependence, but will we see an increase in the revenue percentage from metformin in future?
- Sanjay Chaturvedi:** No, not really because I think the way I would frame this is I will see a relentless focus on ibuprofen with diversification into a portfolio of other APIs that derisk the entire organization. I will not move away from ibuprofen and risk the organization on metformin I would actually derisk the overall organization and it is not just metformin, it is metformin, it is clopidogrel, it is pantoprazole, it is levetiracetam, and it is a host of other products that I am commercializing.
- Zain Banihali:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Anupam Agarwal from Lucky Investments. Please go ahead.
- Anupam Agarwal:** Good afternoon and thank you for the opportunity. I just want to continue from the previous participant. If I see FY2024 what sort of sales mix do we see between chemicals, ibuprofen and other APIs?
- Sanjay Chaturvedi:** Let me begin by saying that the chemicals business is unique in the way that the topline of the chemicals business to a large extent depends on the raw material pricing, so on the chemicals business the big product in our portfolio is ethyl acetate, a big component of that price is determined by whatever is the raw material price for acetic acid and ethanol and let me tell you that acetic acid prices had been highly, highly volatile so rather than just talk about this year I will give you historical perspective. Historically acetic acid prices have raised all the way from Rs.30 a kilo to Rs.85 a kilo. When the price of acetic acid is in the range of Rs.30 a kilo my ethyl acetate prices are in the 60s whereas when the pricing of acetic acid touches Rs.80 to 85 a kilo the price of ethyl acetate touches Rs.125 to 130 in the market, so it is hard for me to predict but I will tell you directionally what we are doing, directionally I have a finite capacity which is roughly about 1 lakh 8000 tonnes for ethyl acetate and I am running that to pretty much full capacity. So the revenue of chemicals business is based on what the raw material pricing would be. On the other hand I am strategically putting a lot of focus in growing the pharma business for IOL. So directionally where we want to grow is at least 60% of our portfolio should be from the pharma

whereas 40% should be on the chemical side, but because of the volatility in raw material pricing today the answer seems to be flipped.

Anupam Agarwal: What is the current price of acetic acid and ethyl acetate at current situation versus if you will compare it to Q2?

Sanjay Chaturvedi: Currently ethyl acetate is in the range of about I would say 100, 100 plus, acetic acid is perhaps in the late 60s and ethyl acetate continues to be 115, 110, this is really so volatile that it is changing on a weekly basis so I am not trying to be evasive I am just trying to hedge and answer that captures and reflects the true volatility of the raw materials.

Anupam Agarwal: If I have to breakdown the 1 lakh 8000 tonnes what volumes are we doing on contractual basis and what is in spot basis?

Sanjay Chaturvedi: We do not have any contracts as such on the ethyl acetate what we have is long term customers who give us share visibility in terms their volume offtakes.

Anupam Agarwal: Coming on capex what sort of capex do we see coming on stream let us say by the end of FY2023 for us to see the next level of growth in FY2024 from the pipeline, which are the products do we see clear visibility that we will be launching them let us say next year and potential revenue coming from those?

Sanjay Chaturvedi: I would say you asked me three or four questions in there the first one is really about capex on a sustained basis we will do about 150 Crores of capex year-on-year. Your second question was what are the products on which this will be deployed so all the plans that we are now building are actually multiproduct fungible facilities, so we will be building multiproduct API facilities to derisk the overall organization because you know as well as I do that certain API state business and then because of variety of reasons that could be market related, regulatory related or raw material related the particular API falls out of favor, so we are trying to ensure that we built every API plant to manufacture handful of API and then also derisk that, so within if you look at our new product portfolio the new capex that we deploy will be to support the products that are in the pipeline.

Anupam Agarwal: In the earlier concall I was going through the notes you mentioned that the new products that we enter into will largely be backward integrated as well so how are we on that?

Sanjay Chaturvedi: We are well on that journey, so the way we launched products is through an iterative process. We develop a product where we buy certain KSMS from the outside and then test the market. Once the commercial uncertainty is addressed at that point we put up plans in motion to backward integrate. Our objective is to add topline and once the topline is addressed we derisk the business by backward integration and then enhance the bottomline. So this is really on a case-by-case basis and the level of backward integration that we do changes from product-to-product. So it is very

hard for me to give you one straight answer and say I will backward integrate in half my portfolio to three steps, in some products I will backward integrate to five steps and some I will backward integrate to only two steps and there are certain other products like Metformin backward integration is not an option I will continue to be like every other Metformin player where we all buy DCDA from China.

- Anupam Agarwal:** Last question, the cash on balance sheet in nine months?
- Sanjay Chaturvedi:** The cash on balance sheet that I have in nine months is roughly around 350 Crores.
- Anupam Agarwal:** Thank you, that is all from my side. Thank you so much.
- Sanjay Chaturvedi:** Welcome and good to have you back.
- Moderator:** Thank you. The next question is from the line of Mayur from Profit Mart Securities. Please go ahead.
- Mayur:** Thank you for the opportunity. Can you share your thoughts on a demand forecast and how do you see Q4 now?
- Sanjay Chaturvedi:** Q4 we expect to be similar to Q3 slightly marginally better both in terms of demand as well as profitability. In terms of demand next year we do see a slight increase compared to this year by about 10% or so and I am specifically talking about Ibuprofen.
- Mayur:** Thank you so much Sir!
- Moderator:** Thank you. The next question is from the line of Chirag Fialoke from Ratna Triya Capital. Please go ahead.
- Chirag Fialoke:** Good afternoon. Thanks for the opportunity. My question is just around the global perspective on ibuprofen I just want to understand given the fact that we are market leaders and at this level of pricing our margins are at least slightly below what we would want them to be, how is the supply side taking this overall and given that we are the large part of the supplier do we have any influence on price from that perspective or is it that our cost curve is very different from the new plants that have come up I am just trying to understand what the scenario is on the supply side?
- Sanjay Chaturvedi:** Let me talk both about the demand side first and then the supply side. On the demand side the demand is pretty stable, there was a dip in the market this year and it is actually inching it way forward. On the supply side there is a little bit of a shakeup in the sense but overall if you look at the high level headlines the demand side is stable, the supply side numbers are stable, but the players on the supply side has changed somewhat in terms of relative ordering and what I mean by that is happy to say IOL continues to be the numero uno player in this category for this product. Our supply side is consistent at 12000 tonnes a year. Our demand side has gone from

650 tonnes per month to about 750 to 800 tonnes and we continue to be stable. BASF is certainly back in the market because BASF is back in the market it is putting pressure on other players that are not sufficiently backward integrated and I suspect that some of the smaller players that you have in India that has capacities in the range of 50000 tonnes a month will continue to operate and play a niche role for limited supply to limited customers.

Chirag Fialoke: Got it, that was very helpful and clear. Just on the BASF the new plant the additional capacity that you have seen **(inaudible) 32:33** significantly different from what we have just given that they are newer or broadly that the cost curve remains similar across the new capacities and the capacities that we have?

Sanjay Chaturvedi: The new plant that you are alluding to is the plant at Bishop. This is the BASF North America plant. So at that plant they have added capacity and they have actually released a very nice video I would encourage you to go see that on YouTube it clearly articulates that it is a fully automated plant given that it is a very automated plant in the western world we can use our best case guests to figure out what the capex of that plant would be and I think this is a substantial capex that they have undertaken and given their cost position and given our cost position and customer base and current capacity we are very competent and confident to take the head on in this competition.

Chirag Fialoke: One part will be capex but I am actually interested to know **(inaudible) 33:42** do you think there is substantial advantage or do you believe that it is probably not there?

Sanjay Chaturvedi: We believe that they are at somewhat of an advantage at terms of opex but the reality of the business is that it is capex plus opex, so when you put that together and then combine the fact that for many other parts of the world they need to shift their products from US and give in where supply chain situations and logistics are. We are very confident of competing with them.

Chirag Fialoke: Okay, thank you so much Sir. Thanks for the opportunity.

Moderator: Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Thanks for the opportunity. So firstly can you also highlight what is the spread of prices between regulated and semi-regulated markets, is that widened or more or less stable?

Sanjay Chaturvedi: It is stable and as a general rule for commodity APIs there is hardly any difference in pricing between regulated and semi-regulated market.

Tushar Manudhane: So even for semi-regulated market it would be more or less at \$11 or \$11.5 per kg kind of a pricing for ibuprofen?

Sanjay Chaturvedi: Yes there are some differences certain customers the overall difference is almost never more than 10%.

- Tushar Manudhane:** With this supply side continuing either with the addition of capacity or by the new player entering and assuming that the demand would be more or less single digit would be 6% to 7% so what kind of gives confidence that pricing will remain stable or will have better volume offtake going forward?
- Sanjay Chaturvedi:** There are two things I would stay to that. One is that the pricing has bottomed out if you look at the Q2 profitability numbers of all the ibuprofen players they were about the lowest that they have been in a pretty long time. Second point I would say is that there is a reorientation in the market players in the industry, there are roughly four major players with a handful of small players. What is happening is that one of the major players which is BASF has expanded their capacity and we are the major player from India is softening their ibuprofen business and the smaller players are very niche players so the Chinese supply to a fixed set of customers, BASF is present mostly in regulated markets and so we occupy a very nice position both in the domestic market as well as the semi regulated market and now with our approvals in the regulated markets we are penetrating that as well.
- Tushar Manudhane:** Interesting and how is the supply demand scenario for the metformin as a product?
- Sanjay Chaturvedi:** Metformin I would say there is certainly in many ways almost an overcapacity in India, but having said that when you look at molecules like metformin and ibuprofen these are like giant molecules in terms of volume that even 4% to 5% growth in volume is sufficient to add to the market and absorb the capacity of new players.
- Tushar Manudhane:** Okay and the pricing if you could shed some thought on that?
- Sanjay Chaturvedi:** Pricing for metformin has certainly gone up, if you look at DCDA pricing which is the key ingredient and raw material that molecule had gone from like \$1200 to \$1400 a tonne up to about \$4500 even more than \$5000 a tonne and now that is stable at about \$3500 or so.
- Tushar Manudhane:** Thanks a lot Sir.
- Moderator:** Thank you. The next question is from the line of Chockalingam Narayanan from BNP Paribas Mutual Fund. Please go ahead.
- Chockalingam:** Thanks for the opportunity. Now question is with regards to the other pharma products so you mentioned that now almost more than one third of the pharma business is coming from the other products outside ibuprofen so if you could kind of talk about the other products which are key there and what sort of revenue levels or volume levels that you are currently operating at?
- Sanjay Chaturvedi:** I think I am happy you are asking that question because that is the kind of very significant business achievement that we have done this quarter. Let me give you a historical perspective, last year the non-ibuprofen business contributed less than 200 Crores to the revenue of the company, this financial year is going to contribute something in the range of around 350 Crores

now for less than 200 to 350 Crores is a significant jump and this is not just one product it is a basket of products it has clopidogrel, fenofibrate, it has lamotrigine, it has pantoprazole, metformin, so I would not encourage you look at this as one product you look at this as a portfolio of product and what I would encourage all the investors of IOL to do is take a step back and look at the 30000 foot view. The 30000 foot view is how the company has evolved over a two or three year period rather than what are the number this quarter what are the number that are going to be next quarter. So what we have achieved is we continue to grow both the chemicals and the pharma business and within the pharma business what is driving the growth is actually the non-ibuprofen part of the pharma business. While we continue and manage to maintain our leadership position in a bread and butter business which is ibuprofen, so I hope that gives you a better perspective of what we are doing so over the quarters roughly if I look at overall non-ibuprofen business Q1 gave about 12% of our revenue came from non-ibuprofen. This quarter 17% of our revenue has come from non-ibuprofen and it is 17% of higher number so overall pharma as the previous gentleman pointed out more than a third of the business is now coming from non-ibuprofen and we continue to grow this business and our expectation is that next year more than 40% of the total pharma revenue will come from non-ibuprofen.

Moderator:

Thank you. The next question is from the line of Bob from Falcon. Please go ahead.

Bob:

Regarding ibuprofen is the issue primarily won us inventory or has the molecule lost any market share?

Sanjay Chaturvedi:

I am not sure I understood what you meant is it is a question of inventory or has the molecule lost its sheen that is what you said?

Bob:

I understand over the year or so there was overstocking right due to COVID and because of that the volumes and prices dropped but are there any other fundamental factors that play such as paracetamol gaining market share over ibuprofen?

Sanjay Chaturvedi:

There are a couple of these factors working in tandem one is clearly there was a lot of overstocking that was in the previous financial year and the Q1 of this financial year. Having said that on quarter-by-quarter we continue to see kind of growth so Q2 which has pretty much bottomed out, we have added significantly in Q3 in terms of volume and we are confident that in Q4 we will grow this more modestly and with the new approvals that we have with certain customers next financial year promises to be a little better. In terms of competition from paracetamol, yes there is certainly competition from paracetamol and I think there are two factors that played into this one was research report that came out from a group of French doctors that indicated that COVID management was better through paracetamol and ibuprofen. Six months later they retracted that report but by then paracetamol had already kind of flurried the market so that damage was already done, but I think going forward both paracetamol and ibuprofen will continue to play a role in COVID management.

- Bob:** Okay, thank you.
- Moderator:** Thank you. The next question is from the line of Zain Banihali from Odyssey Capital Management. Please go ahead.
- Zain Banihali:** Thank you for the opportunity. My question is on the customer front.
- Sanjay Chaturvedi:** On what front I could not hear that?
- Zain Banihali:** On the customer front, so will it be right to say that most of our customers especially in the chemical business we are in a long-term contract with them?
- Sanjay Chaturvedi:** No, we do not have long-term contracts then what I would say is we have a very solid relationship with these customers for several years for almost a decade we have been doing business with them so we have a very good understanding of what their demand is, what kind of offtake will they do so we do not have long-term agreements with them, but we have a long term relationship with them and we said directly to customers not traders.
- Zain Banihali:** In event of the price hikes how successfully are we able to pass on the price hike to the customer and how much time does it take what is the gap duration?
- Sanjay Chaturvedi:** Typically we are very fair, open and transparent in the way we do business with our customers because especially talking about the chemicals business is that correct?
- Zain Banihali:** Yes the chemical business.
- Sanjay Chaturvedi:** On the chemical business if you look at raw material acetic acid which is the key import I have to import that material months in advance and I have to keep sufficient stock and inventory within my facility so I have a very, very open visibility as to what the pricing of ethyl acetate is going to be based on my procurement of acetic acid and that is something I negotiate months in advance with customers. So it is not that I am doing spot business but because I know what price I am buying the raw material at I have a fairly good visibility that a material I book or a ship today will land in two months it will take me another week or so to get into my facility I will convert that within a few days and so it will reach my customers, so typically there is a phase lag of two to three months and I have a pretty good visibility that what I am buying today based on this what will be the price of ethyl acetate two to three months from now and based on that I do my order booking.
- Zain Banihali:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Manish Munda an individual investor. Please go ahead.

- Manish Munda:** As you said we have no growth on ibuprofen business that way can you say that we do not have any pricing or competitive advantage in that segment?
- Sanjay Chaturvedi:** You are talking about ibuprofen?
- Manish Munda:** Yes.
- Sanjay Chaturvedi:** No, I do have a competitive advantage by competitive advantage is my skill, my competitive advantage is my experience, my competitive advantage is the talent and the team, my competitive advantage is my level of backward integration, my competitive advantage is the relationship I have with customers and it is really all of these things put together that gave me an edge it is very hard to quote a dollar value to each of the competitive advantage enumerated.
- Manish Munda:** But we do not have pricing power?
- Sanjay Chaturvedi:** Pricing power in commodity APIs is almost unheard of. You only have pricing power when you are a monopoly and you are right in your assessment that ibuprofen is not a monopolistic business.
- Manish Munda:** Now second question is we are especially backward integrated with many of our products so once we backwardly integrate with the acetic acid prices that is quite fluctuating as you said?
- Sanjay Chaturvedi:** So you say why do not we backward integrated with?
- Manish Munda:** Acetic acid prices that is regularly fluctuating.
- Sanjay Chaturvedi:** See acetic acid is a product that comes from two different manufacturing processes one you get it from alcohol which is actually a more expensive process and the other is from methanol route and methanol is not readily available in India, so ability to backward integrate into acetic acid is financially not a viable option for any of the Indian players.
- Manish Munda:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Gagan Thareja from ASK Investment Managers Pvt Ltd. Please go ahead.
- Gagan Thareja:** Sir on your chemical business because of the price movement itself you would have had some strong growth if you could just dealing it year-to-date chemicals growth into volume and price, one and second if you could also give us some idea of the spreads on the chemical business this year compared to last year for the nine months period?
- Sanjay Chaturvedi:** There are couple of questions you asked me in there, the first one you asked me about volume growth, volume versus last year is more or less flat, I am running my asset at pretty good asset

utilization so there is really no scope for me to add to that except may be a few percentage points. Second question you asked me was about the financial performance of this year versus last year on the chemicals business. That the topline is certainly a lot more this year and that has to do only with the pricing. Then you asked me the third question was about the spread. You know last year the spread was about in the Rs.20 a kilo range right now it is in the Rs.15 a kilo range. I hope that answers your questions.

Gagan Thareja: When you say Rs.15 is it as of today or is it the average value of the spread through the year?

Sanjay Chaturvedi: This is the average value of the spread through the year, nine months.

Gagan Thareja: Thank you. As you sort of move into the next year while one cannot get a clear understanding of how pricing will move obviously once the winter Olympics are through it is a reasonable inference that some of the capacity in China which is out of circulation will come back and there will be some sort of easing of the supply chain distortion that we see. Keeping that as a baseline scenario would it be reasonable to surmise that pricing would soften further in the chemicals business and if that happens would it be reasonable to surmise that spreads would also soften a little bit or you saying that it is out of line?

Sanjay Chaturvedi: I would say that what you are saying is spot on with the Olympics ending and perhaps some of the capacities coming on stream and easing off logistic issues there will be some easing of raw material pricing when that happens yes there will easing of some topline for our business as well because as the raw material price comes down the price of ethyl acetate also softens, but I think the spread does not change as much, it will be a few percentage points so in other words I think the indirect question that you are asking me is, is there a potential for us to lose top lines if the prices soften and the short answer is yes there is a potential for us to lose topline but we will not lose bottomline in absolute numbers. Let me also add that we have plans in place to evaluate and introduce new products and that is what we will do to make up for any potential fall in topline and that should only add and supplement my existing bottomline number, has that helped?

Gagan Thareja: Yes, that helped Sir. Also if I take a five year view of your business and as it evolves and the salience of your pharma business increases and within the pharma the salience of non-ibuprofen business further increases would it be again reasonable surmise that higher gross margin business is increasing in salience and therefore keeping apart the short-term volatility in a five-year period the blended margin should be on an upward trajectory and if that is the case can you maybe give us some idea of where the salience of pharma could be headed and consequently where the blended margins could be headed?

Sanjay Chaturvedi: If I did not do any better I would actually say that you have been dropping into our strategic plan, conversation, and five-year plan that we are making so you are actually spot on I think five years from now it would be fair to say that ibuprofen would actually be a minority part of the overall pharma business and you are also right on in saying that not only will it derisk the company from

just one product in the API portfolio but the other businesses as we move more into the regulatory market this whole API business is really about capacity manufacturing and technology coming together and you start the business typically by domestic less regulated markets and as the quality of customers and quality of markets improve the margins also improve. What also helps in improving the margins is better asset utilization so I would say that for all the other APIs over a five-year period if I say that all the new products that are introduced run at asset margins of at least 70% or so with at least respectable numbers coming from regulated markets it is fair to say that the margins will improve and I do believe whether it is a five-year plan or a three-year plan we will get to 20% plus EBIT levels overall as a company.

Gagan Thareja: Finally Sir would this changing sales mix have some impact on your working capital as well or you think that is not a possibility?

Sanjay Chaturvedi: It will have some impact but not a significant impact; my working capital will be pretty stable.

Gagan Thareja: Thanks a lot for your answer. I will get back in the queue.

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

Ranveer Singh: Just I wanted some clarity you said that volume growth has been flattish y-o-y or q-o-q?

Sanjay Chaturvedi: Can you repeat your question please?

Ranveer Singh: There is two pricing the spread you said from 20 kg the spread has improved so I believe that y-o-y pricing has been better and volume has been flattish that is what you said on year-on-year basis?

Sanjay Chaturvedi: You are talking about my chemical business and specifically for ethyl acetate within the chemical businesses is that correct?

Ranveer Singh: Yes.

Sanjay Chaturvedi: What I meant was my volume is fairly flat year-on-year my spread has actually gone down from about 18, 20 to about 15.

Ranveer Singh: Okay now this spread has come up to 50?

Sanjay Chaturvedi: 15.

Ranveer Singh: Secondly on ethyl acetate price you said this would be roughly around 100 to 110 so what was the price last year?

Sanjay Chaturvedi: Last year the price was ranged from around Rs.65 to Rs.70 a kilo.

- Ranveer Singh:** For Metformin the price you mentioned 4500 to 5000?
- Sanjay Chaturvedi:** That was the price I had given for DCDA, the raw material for Metformin.
- Ranveer Singh:** What was the price last year from DCDA?
- Sanjay Chaturvedi:** Metformin prices have gone up and that is really due to the run up in RMC pricing. Today I would say in the domestic market Rs.320, Rs.350 a kilo is the existing domestic price for metformin and last year this price was in the Rs.210, Rs.205 range.
- Ranveer Singh:** You mentioned BASF adding capacity but what kind of capacity they have added?
- Sanjay Chaturvedi:** They have added about 5000 tonnes.
- Ranveer Singh:** Okay so I thought because 5000 tonnes anyway that was supposed to come up but I thought that this is bigger than this, so this is also 5000.
- Sanjay Chaturvedi:** Yes.
- Ranveer Singh:** Fine and that is all from my side.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for the closing comments.
- Sanjay Chaturvedi:** Thank you very much. I thank all the participants and I would leave you with a message that your company continues to demonstrate good business performance despite some very strong market headwinds. We continue to invest for building a stronger future through our capex, churning of the product portfolio, increase the regulatory filings and the approvals as well. Q4 you should expect a slightly better performance than Q3 and over the next year also we will add to our portfolio of chemical products we are evaluating what for us to add, parallelly we will grow the non-ibuprofen API business substantially and with the increased penetration into the regulated market for all our APIs will help enhance profitability. So with that thank you all for joining and have a wonderful day.
- Moderator:** Thank you. Ladies and gentlemen on behalf of IOL Chemicals and Pharmaceuticals Limited, that concludes this conference call. We thank you for joining us and you may now disconnect your lines.