



IOL CHEMICALS AND PHARMACEUTICALS LIMITED

21st May 2024
IOLCP/CGC/2024

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 31st March 2024

Dear Sir,

Pursuant to Regulation 30 read with Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached herewith the transcript of Earnings Conference Call organized by the Company on **16th May 2024** post declaration of audited financial results for the quarter and year ended 31st March 2024

This is for your information and records.

Thanking you.

Yours Faithfully,
for IOL Chemicals and Pharmaceuticals Limited

Abhay Raj Singh
Sr. Vice President & Company Secretary

IOL Chemicals and Pharmaceuticals Limited

Q4 FY24 Earnings Conference Call

May 16, 2024

Moderator: Ladies and gentlemen, good day and welcome to the Q4 and FY24 Earnings Conference Call of IOL Chemicals and Pharmaceuticals Limited.

From the management we have Mr. Pardeep Khanna – Chief Financial Officer, Mr. Abhay Raj Singh – Senior VP and Company Secretary and Mr. Rakesh Mahajan – Advisor; Finance and Strategy.

We also have the Investor Relationship team from Adfactors. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Darshan Mankad from Adfactors PR for opening remarks. Thank you and over to you.

Darshan Mankad: Good afternoon everyone. We welcome you to the 4th Quarter and Full Financial Year '24 Earnings Call of IOL Chemicals and Pharmaceuticals Limited. Before we begin the earnings call I would like to mention that some of the statements made during today's call might be forward looking in nature and hence it may involve risk and uncertainties including those related to the future financial and operating performance of the company. Please bear with us if there is a call drop during the course of the conference call. We would ensure the call is reconnected the soonest. I hope you all have gone through the Earnings Presentations which are available on the stock exchange and the website.

I now hand over the call to Mr. Abhay Raj Singh for his opening comments. Over to you Abhay, sir.

Abhay Raj Singh: Good afternoon, everyone. First of all I would like to thank you all for joining us for the Q4 and FY24 Earnings Call of IOL Chemicals and Pharmaceuticals. Hope you all have gone through the Results and the Investor Presentation available on our website as well as the exchanges. Before we dive into the financial performance on Q4 and FY24 and open up the floor for the Q&A session, we would like to briefly touch upon the economic and industry outlook.

The global economy is poised for a positive trajectory with major election uncertainties resolved and the likelihood of Central Banks in the West implementing rate cut in the latter part of 2024. As for the latest IMF projections the world economy is anticipated to sustain a growth rate of 3.2% throughout 2024 and 2025. The advanced economies are experiencing a gradual acceleration from 1.6% in 2023 to 1.8% in 2025. Also global inflation is forecasted to exhibit a steady decline from 6.8% in 2023 to 4.5% in 2025. These advanced economies are expected to realign with their inflation targets more swiftly compared to evolving market and developing economies. These dynamics collectively underscore a promising outlook for global economic resurgence though India is said to remain the fastest growing among major economies in 2024 with growth projections of 6.8% and 6.5% for 2024 and 2025 respectively.

The nation is poised to benefit from enhanced capital flow, stimulating private investment and a resurgence in exports. Moreover an anticipated increase in the number of middle to high income households with augmented disposable income is anticipated to propel overall private consumer expenditure growth. In regard to medicine, global spending on medicine using list prices grew by 35% over the past few years and is forecast to increase by 38% through 2028. While global use of medicines grew by 14% over the past few years and a further 12% increase is expected through 2028 bringing annual use to 3.8 trillion defined daily dose as per IQVIA.

In the 4th Quarter of the fiscal year 2024, the Indian Pharmaceutical sector experienced traction particularly in the US and the most international markets. The growth in the US market was fueled by stable pricing, lower competition and introduction of specialty and niche products despite the traditionally subdued performance in the domestic market during Q4. Growth was primarily driven by chronic therapy, API price hike and launch of new products. However, Q4FY24 witnessed pricing pressure due to excess market capacity and elevated freight cost following the Red Sea crisis despite demand being intact.

We continue to expect tailwinds growing into Indian API players over the longer horizon through improvement in realization. In regard to Specialty chemicals, the persistence slowdown in demand is seen in Q4FY24 and now it is seen to be a bit more prolonged. In Q4FY24 the segment showed subdued performance amid inventory overhand and poor spreads. It is expected that this segment could witness a sequential and gradual recovery by end of this year, but long term structural growth narrative remains intact for the sector.

With this update, I now handover the call to my colleague, Mr. Pardeep Khanna, who will brief you about financial performance for the 4th Quarter and full year 2024.

Pardeep Khanna:

Good evening everyone and thank you for joining us today to discuss our performance for the 4th Quarter and year ended 31st March 2024. I will take you through standalone financial highlights for the 4th Quarter followed by the full year 2024. The total income of the company in the 4th Quarter of FY24 stood at Rs. 511 crore as against Rs. 596 crore in the fourth financial quarter of the FY23 and Rs. 529 crore in the previous quarter ended at the December 23.

EBITDA for the quarter was Rs. 58 crore as against Rs. 104 crore in the corresponding quarter of FY23 and Rs. 53 crore in the previous quarter ended December 23.

EBITDA margin for the quarter declined by 620 basis point to 11.3% as against 17.5% in the corresponding quarter of FY23; however, slightly improved by 130 basis point as compared to previous quarter ended December 23.

Net profit in 4th Quarter of FY24 was Rs. 28 crore as against Rs. 65 crore in the corresponding quarter and Rs. 23 crore in the previous quarter ended December 23. With easing of input costs on year-to-year basis, EBIT margin for the pharmaceutical segment was at 13.22% in Q4FY24; while EBIT margin for the Specialty Chemical segment was 0.48%. For the full year total income stood at Rs. 2,163 crore as against Rs. 2,243 crore in FY23.

EBITDA for the FY24 stands at Rs. 262 crore as against Rs. 252 crore in FY23. EBITDA margin improved marginally by 90 basis points to 12.1% as against 11.2% in FY23 and the net profit for the FY24 stood at Rs.135 crore as against Rs.140 crore in FY23. However, the net profit margin improved slightly by 10 basis points. The exports for the FY24 grew by 7% to Rs. 679 crore as compared to Rs. 634 crore in FY23.

The CAPEX for the FY24 was Rs. 246 crore as against Rs. 239 crore in FY23. So with this, we open the floor for a question and answer session. Thank you very much.

Moderator: Thank you. We will now begin the question and answer session. We have the first question on the line of Divya Agarwal from Five Com Family Office. Please go ahead.

Divya Agarwal: Just wanted to know about the ibuprofen prices and the trends in the ibuprofen in terms of demand, supply, and the capacity in the international as well as the domestic market?

Rakesh Mahajan As regarding ibuprofen prices, it has remained stable in last quarter as well as quarter before that. Demand is also at optimum level and we are running at 85% to 90% capacity. Even the global demand is optimum.

Divya Agarwal: Maybe in terms of the prices of ibuprofen, can you help me with that?

Pardeep Khanna: The prices has ranged between \$10 to \$11.

Moderator: Thank you. We have the next question from the line of Aman Jain from Arihant Capital. Please go ahead.

Aman Jain: I had a couple of questions, so first one was, what is the volume growth that we have seen in the non-ibuprofen segment for the full year?

Rakesh Mahajan: In non-ibuprofen segment, our volume has increased from 10% to 15% in terms of capacity for most of the products including Paracetamol, Metformin and Clopidogrel.

Aman Jain: What was the export mix in the non-ibuprofen segment in the year when compared to FY23?

Rakesh Mahajan: We have got some approvals in the European market and other regulatory markets since April 2023. Our export for Metformin has substantially increased by around 60% from the last year. Similarly, our Paracetamol export has increased by 10%.

Aman Jain: I also wanted to understand, so there has been a major decline on year-on-year basis in the EBIT margin in the Specialty and API segment., Can you just throw some light on that? And what was the major reason behind that?

Rakesh Mahajan: There was a mismatch between input prices and the final price of chemicals, especially Ethyl Acetate. The volatility by the Chinese player in the **raw material** of this alcohol and Acetic Acid was there, which impacted the mismatch. But from the last one and a half quarter the prices are stable and we hope that this sector will remain healthy in upcoming two-three quarters.

Moderator: Thank you. We have the next question from the line of Chirag Salot. Please go ahead.

Chirag Salot: Sir this new Gabapentin that you have started, how will the rate be in future?

Rakesh Mahajan: As regard to Gabapentin, we have already informed to the stock exchanges that management has decided to change that project into the multi-product plant and for Gabapentin we will produce only on the campaign-based basis and will not have a dedicated plant. We have converted that plant into the multi-product plant.

Moderator: Thank you. We have the next question from the line of Jainam Ghelani from Svan Investments. Please go ahead.

Jainam Ghelani: So I can see that on quarter-on-quarter basis and year-on-year basis, our other expenses have increased considerably. Could you give some color on this please?

Rakesh Mahajan: So other expense includes selling and distribution expenses and insurance cost. Due to the Red Sea crisis, the prices of the freight has been increased substantially along with the insurance cost for our exports and imports both. That resulted in increased expenses and the redistribution costs, ultimately leading to rise in combined other expenses.

Jainam Ghelani: Could you mention the volume and value growth for APIs year-on-year basis please?

Rakesh Mahajan: Last year, ibuprofen was around 75% capacity, but this financial year we have increased the capacity by 10% to 85%. For Paracetamol, we were running at 80%-81% last year; but this year

we have achieved around 95% capacity. For Metformin the capacity at 95% and for Fenofibrate; we were running at around 20%-25% last year, but this year we reached 45%-50%.

Jainam Ghelani: But what I wanted to understand was that what was our volume growth during the year overall? And what was the pricing decline for the whole year?

Rakesh Mahajan: The volume growth I just explained to you product-wise. The prices, especially Paracetamol prices reduced by more than 35% to 40% during the year. Similarly, prices of Metformin also reduced by 20%-22% during the financial year. Even Ethyl Acetate prices were down by around 10%. But all these are correspondent with the reduction in **raw material** prices also.

Moderator: Thank you. We have the next question from the line of Rohan from Turtle Capital. Please go ahead.

Rohan: So my question is, if we can see that our balance sheet size has increased, and that is due to the investment in PP&E and fixed assets, so with the current capacity and CAPEX, what can be the scenario 3 years from now in terms of topline? And what could be the margin scenario?

Rakesh Mahajan: As you know we are on an average spending about Rs. 200 crore on CAPEX from the last two years and this year too, we have incurred huge amount on the infrastructure, atomization and land. Our growth CAPEX will remain around 40%-45% and we hope that this will result into increase in the topline. along with the automation infrastructure improvement and environmental system installation. Our bottom line will be also see impact in upcoming 2-3 years .

Rohan: So can you give me a ballpark figure about what could our topline look like in FY28 or FY29? 4 years - 5 years out there?

Rakesh Mahajan: For the existing products, it may go up by 12% to 13% every year we expect to touch Rs. 3,000 crore.

Rohan: And what could be the margins?

Rakesh Mahajan: Our target is around 14% to 15% for EBITDA and we hope to achieve it

Moderator: Thank you. We have the next question from the line of Tara Kaur from Fund Star Capital. Please go ahead.

Tara Kaur: So question related to guidance for FY25 like what is your guidance for EBITDA?

Rakesh Mahajan: As you know, this FY24, we have been able to touch 12% EBITDA margins, which was an exceptional year in terms of mismatch of input and output prices, but we are targeting around 14% to 15%.

Pardeep Khanna: In the current market situation, we expect slight decrease in the top and bottom line and we hope EBITDA should increase and it should be between 12% to 15% in the FY25.

Tara Kaur: And what will be the guidance for sustainable gross margin you can expect for FY25?

Rakesh Mahajan: It may be around 20%-25%.

Tara Kaur: And CAPEX?

Rakesh Mahajan: CAPEX on an average of around Rs. 150 crore to Rs. 200 crore all from the internal accruals.

Tara Kaur: Can you also give guidance for R&D for FY25?

Abhay Raj Singh R&D?

Tara Kaur: Yes, sir.

Rakesh Mahajan: Usually our R&D expenses are around 7% to 8% of API segments and it will increase to maybe 1% or 2% because we recently hired many skilled professionals. And as of now, the number of R&D people is 125.

Moderator: Thank you. We have the next question from the line of Mandira from Investo Investor. Please go ahead.

Mandira: I believe that you were planning to launch Sitagliptin and by when do you plan to launch it?

Rakesh Mahajan: We have developed the Sitagliptin in our R&D. It is already validated and approved by Indian Patent. But as of now, we have not planned for the exact date of launch. It may not be in the current financial year.

Mandira: I have a couple of questions. How much is the increase in exports we are expecting from non-ibuprofen products in FY25?

Rakesh Mahajan: As of now, the export portion product depends on the different products and other things and it contributes around 17% to 18% of our existing non-ibuprofen segment. We hope with our recent approvals and various client visit to our plant which we have got recently it may be 25% to 30% of non-ibuprofen segment.

Mandira: And what is the revenue and margin guidance for Specialty Chemical segment for this year?

Rakesh Mahajan: It will remain in the single digit not in double digit.

Moderator: Thank you. We have the next question from the line of Manish Maheshwari from Work Family Office. Please go ahead.

Manish Maheshwari: This Barnala unit that we have got an approval for, what is the kind of revenue that we are envisaging for the 10 units that we have got an approval for? And when is it that the revenue will start showing in the income statement in our books?

Rakesh Mahajan: Approval for which product?

Manish Maheshwari: Recent approval that came in for Barnala Unit?

Rakesh Mahajan: All our plants and all units are located at Barnala itself since very beginning. We are not getting the exact question which you want to clarify.

Abhay Raj Singh: Mr. Manish, we are having 10 manufacturing facilities, which all are located at the same location. Because we are having the multiple plants for different products, all these put together are 10, but are situated at the single complex and the campus. I think you are talking about the ANVISA announcement we shared recently. ANVISA approved all our 10 plants, though all are located in the single location. Existing revenue is coming from all these product plants. The difference is that now all these products also got approved by ANVISA, Brazil. With this, we will now be able to explore the Brazilian market for these non-ibuprofen products

Manish Maheshwari: So that is already flowing in the business, right?

Abhay Raj Singh: Yes that is correct. But this approval came from Brazilian authority for the non-ibuprofen products.

Manish Maheshwari: Can you help us with some guidance for FY25 in terms of revenue, profitability, EBITDA etc.? What is that we are envisaging in terms of?

Abhay Raj Singh: Considering the current market situation, we expect upside of 10% to 12% in Revenue. EBITDA we are hopeful that we can achieve 12% to 15% margin.

Manish Maheshwari: How about profit?

Abhay Raj Singh: This is I am talking about the company as a whole.

Manish Maheshwari: So you have given revenue and EBITDA, I am talking of PAT as well. You have a guidance can you also guide for PAT?

Rakesh Mahajan: PAT will remain around 7% to 8%. Last year it was around 6%.

Manish Maheshwari: And sir, what will be the contribution of non-ibuprofen?

Abhay Raj Singh: Non-ibuprofen contribution for this financial year is around 40% of the API portfolio.

Manish Maheshwari: What is the outlook on the ibuprofen business?

Rakesh Mahajan: Ibuprofen has a stable demand also with 3% to 4% global growth rate. We are running at 85% capacity utilization.

Moderator: Thank you. We have the next question from the line of Deep Chitalia from 9 Rays EquiResearch. Please go ahead.

Deep Chitalia: The guidance which you have given of 10% to 12% in FY25, sir, what will be the contribution from ibuprofen business? And what will be the contribution from non-ibuprofen business? And, sir since Paracetamol capacity is operating at 95% utilization, so sir, will it create any hindrance for volume growth next year?

Rakesh Mahajan: Your first question, our revenue growth for 10% to 12% is for company as a whole, both Pharma and Chemical segments. Last year, we have added one product in the chemical sector that is Acetic Anhydride. It will also contribute to some share in our revenue. As percentage wise, we think around 10% to 12% growth in ibuprofen; around 40% to 45% in non-ibuprofen business and balance will be in chemical segment.

Rakesh Mahajan: For Paracetamol, we are already running at 95% capacity and we are thinking about extending of this Paracetamol in this financial year.

Deep Chitalia: What will be the capacity increase in Paracetamol segment in terms of percentage?

Rakesh Mahajan: It will be in five digits.

Moderator: Thank you. We have the next question from the line of Tara Kaur from Funstar Capital. Please go ahead.

Tara Kaur: So my question is what is the current export and domestic mix for non-ibuprofen product for this quarter?

Rakesh Mahajan: It is around 80% domestic and 20% in exporting non-ibuprofen segment, which we are expecting to increase in this financial year to around 30%-40%.

Tara Kaur: How much is the effect on margin due to increase in logistic cost from Red Sea crisis?

Rakesh Mahajan: For export in the regulated market will give us some hedge on the profitability also.

Tara Kaur: I think we are halfway through Q1, FY25, is there any improvement which we have observed in API and Specialty Chemical segment till now, which you would like to highlight?

Rakesh Mahajan: Chemical is a stable business as of now and we are getting good queries and number of queries and business from domestic and export for non-ibuprofen segment also.

Moderator: Thank you. We have the next question from the line of Amit Mehendale from RoboCapital. Please go ahead.

Amit Mehendale: I was looking at operating cash flow for the year, which is quite healthy. I just had some questions around it. How do we plan to use if I look at current year? We have generated about Rs. 250 crore cash flow prior to working capital and if I look out 2 years, 3 years out that will be about Rs. 700 crore, Rs. 750 crore, Rs. 800 crore type of a number or even more, so what is the plan to use that cash? I mean some color on CAPEX? And how does that tie up with the Rs. 3,000 crore revenue aspiration that we have?

Rakesh Mahajan: As regards the cash balance, you go through the cash flow we have incurred some money in the CAPEX and out of that some was incurred on the land also. The land is for our future extension at new location in the Punjab itself. We are in the process of acquiring more land which is around 30 kilometers from our existing location. After getting a whole land which we have thinking about, there may be increase in the revenue by setting up new plants and that money will be used for incurring a CAPEX at our new location.

Amit Mehendale: And that factor doesn't consider the Rs. 3,000 crore aspiration, right? I mean, that CAPEX will be instrumental in achieving that number?

Rakesh Mahajan: Rs. 3,000 crore in 2028 is from the existing products only.

Amit Mehendale: New CAPEX and new plants, that will essentially be over and above the Rs. 3,000 crore?

Abhay Raj Singh: Absolutely. This Rs. 3,000 crore is what we are looking from the existing facilities at different location for the existing products.

Moderator: Thank you. That was the last question. I now hand the conference over to Mr. Rakesh Mahajan for closing comments. Please go ahead.

Rakesh Mahajan: This is Rakesh Mahajan. Thank you very much for joining us today. It was pleasure discussing our 4th Quarter and fully year FY 2024 performance. The company continues its focus to diversify revenue and geographical base. Going ahead, our former non-ibuprofen segment will embark on export to various countries post recent approvals and certifications in key regulated market which will further boost our revenue and profitability. Moreover, we are optimistic of recovery in the Specialty chemical segment this year. Thank you once again for attending the call. Look forward to keep interacting. Thank you very much. Have a nice day.

Moderator:

Thank you. On behalf of IOL Chemicals and Pharmaceuticals Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.