"Mankind Pharma Limited Q2 FY24 Earnings Conference Call"

November 01, 2023

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MODERATOR: MR. ALANKAR GARUDE – KOTAK INSTITUTIONAL EQUITIES

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY24 Earnings Conference Call of Mankind Pharma Limited hosted by Kotak Institutional Equities.

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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Alankar Garude from Kotak Institutional Equities. Over to you, Mr. Garude.

Alankar Garude: Good morning and good afternoon, everyone. On behalf of Kotak Institutional Equities, I would like to welcome you all to the 2nd Quarter FY24 Earnings Conference Call of Mankind Pharma.

I would now like to hand over the call to Mr. Abhishek Agarwal – Head of Investor Relations to introduce the senior management and take the discussion forward. Over to you, Abhishek.

Abhishek Agarwal: Good afternoon, everybody and a very warm welcome to our Q2 FY24 Earnings Conference Call.

On the call today, we have Mr. Rajeev Juneja – Vice Chairman and Managing Director; Mr. Sheetal Arora – Chief Executive Officer and Whole-time Director; Mr. Arjun Juneja – Chief Operating Officer; Dr. Sanjay Koul – Chief Marketing Officer; Mr. Ashutosh Dhawan – Chief Financial Officer; and Mr. Prakash Agarwal – President (Strategy).

We will begin with the opening comments from Mr. Rajeev Juneja providing an overview of the quarter, followed by comments from Mr. Sheetal Arora; Mr. Ashutosh Dhawan will share key financial highlights, and then we will leave the forum open for Q&A.

I hope you had a chance to access the investor pack shared yesterday. However, I would like to re-emphasize the fact that certain statements made during today's call may pertain to future expectations and plans. A comprehensive disclaimer regarding these forward-looking statements can be found in our investor presentation and the press release uploaded on our website.

Now, I would like to invite Rajeev sir to share his comments.

Rajeev Juneja: Good afternoon everyone. A very-very warm welcome to our Quarter 2 FY24 Earnings Call.

Today, I'll walk you through the overall performance of Mankind and our vision and how we intend to grow in future.

We will start with the overview:

In this quarter, we have reported steady performance, as our revenue grew by 12% year-on-year during the quarter. EBITDA grew by 15% year-on-year to Rs. 686 crores with a margin of 25.3%. PAT grew by 21% year-on-year to Rs. 511 crores. Our domestic business grew 7% year-on-year at par with IPM growth versus outperformance earlier due to the delayed acute season. According to IQVIA, Mankind secondary sales growth was 5% for the quarter, which is at par with IPM-covered market growth. Mankind lately started – this is a very important point – supplying to modern trade and e-commerce channels and has witnessed robust growth, although we understand that IQVIA does not capture this data in their reports.

Our chronic segment share increased to 34% in Quarter 2 FY24 as compared to 32% last year versus 28% in FY18. We continue to see higher growth in chronic as compared to IPM. We remain committed to increasing our presence in chronic therapeutic areas, as it presents stronger growth opportunities given the rising prevalence of chronic diseases due to lifestyle changes and rising income levels in India. We are rapidly expanding our product offerings with these very important initiatives towards the well-being of people in the country. This reiterates our vision of providing international quality API products at affordable prices, which is accessible by everyone. In our consumer healthcare segment, we maintain a dominant brand leadership in the respective categories with four of our brands ranking No. 1 in their respective categories. We are consistently performing better in all the product categories whilst maintaining our dominant market share. We are confident that this segment will continue to deliver healthy growth, thereby further expanding our market share.

On the R&D front:

We remain committed towards consistent product innovation, novel drug delivery systems, and strategic partnerships with innovators to strengthen our product offerings. Our successful launch of dydrogesterone reiterates our commitment to being a science-based Company. I am elated to share that we have recently commissioned India's first fully integrated facility catering to dydrogesterone at Udaipur, Rajasthan during the quarter, which will further bolster our position. I am glad that our past strategic choices in various aspects of our business are showing success, and we have strong confidence in our ability to consistently surpass industry growth in future as well.

We will persistently strive to attain leadership positions in recognized whitespaces, specifically in key chronic therapies by means of in-house research and development, acquisition, as well as inclusion of externally licensed products. Furthermore, we are committed to maintaining our established brand dominance in both our pharmaceutical and consumer business.

With this, I will hand it over to Sheetal who will provide more details on our business performance.

Sheetal Arora: Welcome to today's Investor Call. I am pleased to provide you with an update on our Domestic Operations and Consumer Healthcare Segment.

Let's begin with our domestic business revenue which reached Rs. 2,529 crores in the 2nd Quarter of the financial year 2024, reflecting a year-on-year growth of 7%. This quarter, our growth was impacted by the delayed acute season, affecting not only anti-infectives but also related sub-therapies like respiratory, cough, cold, gastro, vitamins, and more. Additionally, regulatory restrictions on certain products and a rise in competition in dydrogesterone have had an adverse effect on our quarterly performance. As you may be aware that our acute product contributes 66% of our sales compared to 63% in IPM. Hence, the delayed acute season has adversely impacted on our overall quarterly performance. Our chronic business registered a growth of 10% this quarter outperforming the IPM chronic growth by 1.1x and IPM CVM chronic growth by 1.4x.

With our focused approach, we achieved a year-on-year increase of 150 bps in our chronic share to reach 34% in Q2FY24. In contrast, IPM chronic share increased by only 70 bps to 37% in the same period.

We are seeing signs of recovery in the acute segment from September 2023 onward and noticing visible growth in September and October 2023. And the same is evident in our MAT September '23 performance wherein our secondary sales have registered a growth of 13.7% versus IPM growth of 10.3%.

Additionally, on a QoQ basis, we have maintained our market share of 4.4% in Q2FY24 and our market rank of 4 in value terms and prescription rank of 1 during the quarter. Our higher prescription share reflects the superior quality and deep penetration of our products. In fact, our prescriber penetration has also increased from approximately 81% in Q2FY23 to around 83% in this quarter.

I am happy to share that Panacea revenues continue to show a healthy growth of 30% during the quarter.

In our consumer healthcare business, we generated revenue of Rs. 193 crores in Q2FY24, indicating modest growth of 2% year-on-year basis due to initiatives taken towards the optimization of channel inventory and implementation of IT tools aimed at facilitating software consolidation. However, all our key brands have demonstrated healthy growth across various brand categories and continue to maintain their market share, as evidenced by mid-teen growth in secondary sales. We are in the process of launching multiple products with substantial growth potential, and the focus is to transition more and more products from Rx to OTx to OTC. And we are confident in sustaining strong growth in this segment as we move ahead.

Thanks to our team's dedication, passion, and customer-focused approach. I have full confidence that we will not only thrive, but also reach significant milestones in the upcoming quarters. We eagerly anticipate the continued trust of our customers in our products and we wish to emphasize our unwavering commitment to enhancing their quality of life.

Before I hand over to Ashutosh Ji – our CFO of the Company, I would like to highlight some facts. Despite of modest growth in Q2FY24 in our EBITDA margin, EBITDA has grown by 15% YoY; gross margin has increased by 270 bps; Panacea revenue has grown 30%; chronic share has increased by 150 bps; and during MAT September '23, we have once again outperformed IPM by 1.3x.

Now, I will hand over to Ashutosh Ji who will provide further insights into our financials.

Ashutosh Dhawan: A very good afternoon, and I thank everyone for taking out time and joining us on this Quarterly Earnings Call. I hope all of you would have received our Financial Results and the Press Release.

Let me give you a brief of the "Financial Highlights" of the performance during Quarter 2 FY24:

Revenue from operations has increased by 12% on a year-on-year basis to Rs. 2,708 crores as compared to Rs. 2,425 crores in the previous period last year. EBITDA has grown by 15% on a year-on-year basis to Rs. 686 crores with a margin of 25.3% as compared to Rs. 594 crores with margins at 24.5% during last year in the same period. There is an increase in margins of 0.8%. This increase of 0.8% is largely driven by a 2.7% increase in gross margins from selective price increases taken in the previous quarters, stable API prices and favorable sales mix changes. The gross margins are now at around 69.5% level, as compared to 66.8% in Quarter 2 FY23. However, this gross margin expansion has been offset by an increase in employee cost by 0.6%, and the balance is on account of increased advertisement campaigns and other expenses.

R&D expense for the quarter was at 1.9% of sales, which is lower than R&D spend of 2.2% of sales, as incurred during Financial Year '23. The depreciation and amortization expenses for the quarter increased to Rs. 96 crores as against Rs. 79 crores last year. This is on account of higher capitalization during the latter half of FY23, along with commissioning of the Udaipur plant which has been capitalized within this quarter. Our effective tax rate for this quarter was at 20.3% as compared to 21.6% in Financial Year '23. PAT for the quarter was at Rs. 511 crores, representing a growth of 21% year-on-year basis and 3% on quarter-on-quarter basis. With diluted EPS of Rs. 12.5 per share of Rs. 1 paid, the cash EPS, i.e., the EPS adjusted for non-cash items like depreciation and amortization, was at Rs. 14.9. Our net working capital days were 44 days as compared to 45 days in the Financial Year 2023. The CAPEX, including capital work in progress, was at Rs. 114 crores in Quarter 2 Financial Year '24 and cash flow from operations were at Rs. 481 crores.

The Company has a healthy net cash position of Rs. 2,159 crores as of 30th September '23 versus Rs. 1,366 crores as at 31st March '23. The return on capital employed excluding cash increased to 28% on a 12-month trailing basis as compared to 25% in Financial Year '23. The return on equity, ROE, ex-cash increased to 24% on a 12-month trailing basis as compared to 23% in Financial Year '23. For Financial Year '24, we expect to incur Rs. 550 crores to Rs. 600 crores in the CAPEX and EBITDA margins are expected to be in the range of 24% to 26% as mentioned in our previous interactions.

With this, I would like to conclude our opening remarks, and we will be happy to address any questions that you may have, please.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

We will take the first question from the line of Kunal Dhamesha from Macquarie. Please go ahead.

Kunal Dhamesha: First one on the other expenses which have increased meaningfully on a QoQ and year-on-year basis. And you also alluded that there were some advertisement campaign expenses. But how should we look at for future quarters? Are this level of expenses going to sustain or the campaigns are going to be seasonal and should come down?

Management: As we mentioned that the spike in the other expenses on a quarter-on-quarter basis as well as if we compare it to last year is primarily driven on account of the advertisement campaign which we carried out, especially in this quarter. We expect these campaigns and these expenses to normalize in the H2. And we would also like to draw your attention that we have given the guidance of having the EBITDA margin in the range of 24% to 26%. Currently, if we look at H1 our EBITDA margins, they are at 25.5%.

Kunal Dhamesha: Sir, shouldn't then the margin guidance be a little bit higher? Because even with the higher cost, we are running about 25% and if the other expenses go down in the second half, shouldn't the margin guidance be more or should be higher?

Management: You have a point. If we look at the H2, it is normally softer as compared to H1. If we look at our H2 of FY23, we reported the EBITDA margin close to 21% or so. Currently in H1, we are at 25.5 and if we take a base of 21 which we reported last year H2 and our gross margin has improved by 2.3%, on the 21%, that 2.3% plus some rationalization on the other expenses, we expect it to be in the range of 24% to 26%.

Kunal Dhamesha: Sir, one more question on trade receivables which have almost kind of doubled from the March level in September. Any particular reason for that?

Management: Trade receivable is the factor of what is that particular month's sale has been. If you look at our March month's sale, that is lower as compared to the sale which has been registered in the current September month.

Kunal Dhamesha: Did exports also play a role here?

Management: Yes, exports also have a bit higher trade receivable if we compare it to the domestic sales. That has also marginally contributed towards an increase in the trade receivables.

Management: Basically, what has happened is, if you see the last quarter's numbers of the previous year, always the 4th quarter numbers in terms of sales are softer. Once you see the trade receivables of that quarter, they always tend to be on the lower side whereas Q2 numbers are much higher than the Q4 numbers of last year. That's why there is a jump in the trade receivables. However, there is an increase in export sales, but that has contributed very marginally to these increased receivables.

Kunal Dhamesha: And the last question is probably for Rajeevji. Now that we have almost around Rs. 2,200 crores cash, what is our capital deployment priorities, and have we given a thought to the dividend policy? Where are we on that?

Rajeev Juneja: The point is we just want to preserve cash keeping future opportunities in mind. We feel that we are in the process of having something in the near future, I mean long-term future. If we are unable, then we will think of going for dividends. However, at any given point in time, we are always very optimistic because being a cash rich Company, we would like to have a mindset bent towards the acquisition side. Apart from that, whatever other expenses are required for expansion in terms of office and factories and R&D, that is there.

Moderator: We will take the next question from the line of Neha Manpuria from Bank of America. Please go ahead.

Neha Manpuria: My first question is on the OTC business. Sheetalji, I think you mentioned that there is obviously optimization of inventory and certain IT tools that we have implemented. Is that all done? Should we start assuming the growth improved from the next quarter onwards? Also in the OTC, is there some seasonality? Because, if I look at your numbers last year, it seems like the first half seems to do much better than the second half or is that not the case?

Management: First of all, OTC is very very dear to us. This is one particular division which has given a lot of name and fame to Mankind. Whatever people know about Mankind; even yesterday, somebody said that Mankind has given this much of extra profit. We have built this Company from scratch.

And if you look at the last 3 years, '21 to '23, our growth CAGR is 17%. We have always grown very fast. One more thing I just want to add here. The efficiency and productivity of our sales force in the last 3 years has increased by 30%. So, we are in the process of adding a few more products, adding a few more people. For example, one product we acquired from Panacea, Nimulid, we are in the process of launching that next month. HealthOK has come from Rx to OTx to OTC. We want to just work more on that. So, we want to have one more division in this OTC side. When you start doing something like this, you just go to recheck everything. When Sheetal talked about a number of things, being a modern Company, certain IT systems have been put, certain stockists consolidation has taken place. Apart from this, we are going for premiumization of products to increase the margins on this side and we want to maintain market hygiene in that. Going forward, we expect around a single digit growth this year. And hopefully from January onwards, the process of making it 2 divisions and launching more aggressively, OTC Mankind will yield better growth in future next year.

Neha Manpuria: And on the domestic formulation business chronic we are doing pretty well from the numbers that you have indicated. The acute part, from the commentary it seems that part of the acute season which wasn't captured in the 2nd Quarter will probably come through in the third quarter. Therefore, on a full-year basis, we won't be as weak as we have seen the quarter to be. Is that a fair assessment or do you think this season is a lost season and therefore now the focus is in terms of maintaining the chronic growth momentum that we are seeing?

Management: If you have watched the last 3-4 years, we are living in a very different world. Even the season has become very dynamic. Look at during COVID times, acute segments sold more.

Second time, chronic sold more. One year, it was a better growth in acute. Second year, it was better on the chronic side. We are absolutely right when we say that there is a shift in the seasons. Even right now, the last month the growth is fantastic, around 25%. That really gives us confidence that we will do what we basically projected in our initial commentary.

Sanjay Koul: When you talk about acute segment, it majorly involves anti-infectives, antiallergics, and cough syrups. We should see a spurt during this season when we have a season of viral infections. What has happened is if you look at the growth of these 3 segments consolidated, in July over last year – I am talking about last year July – growth was 11%. This year July growth was -5%. Last year August growth was 12%. This year August growth was -2%. Last year September growth was 1%. This year September growth was 12%. This clearly shows that the season came late in the month of September. And one more thing we need to understand when you talk about anti-infectives, antiallergics, and cough syrups, along with these, there are allied therapies which also get prescribed on the same prescription. These include vitamins, minerals, and nutrients as well as GI drugs.

Overall, there was an impact on the acute segment, more so in Mankind's case because anti-infectives, antiallergics, and cough syrups contribute 24% of our overall sales versus 17% of industry.

Management: And if I can add to it, if you see our MAT performance of September '23, we have registered a growth of 13.7% versus IPM growth of 10.3%.

Neha Manpuria: Ashutosh sir, on the gross margin expansion that we have seen, let's say, the export benefit which you have mentioned several times, that is only probably for a few quarters and therefore goes away and also the fact that acute was weak. Should this be at a more normalized level of what we saw in the first quarter or is the 69.5% to 70% that we are seeing sort of sustainable?

Ashutosh Dhawan: As per the earlier guidance, which was given, it should be upward of 68%. And if you look at the expansion in gross margin year-on-year of 2.8%, broadly, it is a factor of increase in the price element which is the combination of sale price increase as well as rationalization of the API costs. Both put together has given us a benefit of close to 2% or so and the balance has been towards the favorable sales mix which has contributed to the balance difference.

Neha Manpuria: So, we are still maintaining the 68 plus percent growth….?

Management: It is basically not one-off because of the export business. This is mostly because of the domestic business and because of the price increases and the reduction in COGS.

Moderator: The next question is from the line of Chintan Sheth from Girik Capital. Please go ahead.

Chintan Sheth: A couple of questions. If you can, talk about the discontinuation of a few products. What is the impact on our sales during the quarter? And to add to it, what are our plans in terms of new product launches going forward? You mentioned one of the products in the OTC you are planning from the Panacea basket. If you can talk about that in terms of what is the pipeline, we are expected to see over the next 12 months or so?

Management: Are you talking about the product which was discontinued because of restrictions?

Chintan Sheth: Yes. The press release mentioned that softness in acute is also one of the reasons because a few products are being discontinued. If you can talk about what is the impact and what is the reason? Whether those products will come back on our table or not?

Management: What we have done is as such, if you ask me, we started having the sales of those products captured in the month of September only, which was the first month, we reached to 50% of what we were doing. And since I have the data for October as well, we are 80% of what we were doing with the earlier composition because we expanded by launching different SKUs which are not restricted and we have reached at par in terms of the number of bottles sold and 80% in terms of value concerned of what we were doing earlier. Having said that, there will be some price erosion.

Management: Let me explain this. There is one product, it was cough syrup; we have changed the formula of that. And we hope that by the end of the year, we will reach around 70% of what we were doing. That's the No. 1 answer of the product. When you say discontinuation, it's not discontinuation. Because certain restrictions came, we changed the formula. And we will reach to, this year only, 70% of what we were doing last year. What was your second question?

Chintan Sheth: New launches.

Management: You are talking about the Nimulid side. We will be launching the Nimulid in the month of November only. We were just finalizing whatever is to be required to bring some kind of a USP in our product; we have done so. Again I can reiterate that OTC is a dear kind of division to us. We are just working on this component, expanding on this in such a manner that we maintain the same kind of aggression and more dominance in more new products; like HealthOK, we shifted from our Rx to OTx to OTC. We want to just work on it. We want to launch this Nimulid. Also, why this infrastructure we are developing is because in future we feel if some acquisition happens, which will happen hopefully, then we have everything ready for that. That's the reason.

Chintan Sheth: And the question on the competition you highlighted during the earlier comment in the dydrogesterone formulation. If you can speak about what we are sensing in that segment and elaborate on it?

Management: We have a leadership position in dydrogesterone as per prescriptions are concerned. Of course, because of competition, we have lost a little bit of share, but we already have plans in place where we will be coming up with some very innovative, basically, line extensions first time in India that is going to give us edge and which will be very difficult to replicate by other players in the market. So, we believe that in the coming 6 months to 1 year, we will be doing much better ahead of the competition because of those new SKUs which will be first time in India.

Moderator: We will move on to the next question which is from the line of Rashmi Shetty from Dolat Capital. Please go ahead.

Rashmi Shetty: First question is related to other expenses. What I want to understand is that all your new expenses which are coming from the Udaipur plant have already been expended in Q2 or it is going to be increased from Q3-Q4 onwards?

Management: Rashmi, if I have understood your question correctly, you want to understand what will be the impact of Udaipur plant expenses. Yes?

Rashmi Shetty: Yes, correct.

Management: In this quarter, Udaipur plant, the capitalization was done. During the quarter, that impact is not there. But in the overall EBITDA, it will be value accretive because there will be reclassification from the COGS to the other expenses with regard to the Udaipur plant expenses.

Rashmi Shetty: And related to the consumer health segment, you mentioned that you will be doing some launches from Jan month. If you can just give more color on it whether there would be a line extension of our major brands, or you will be launching a completely new category to cater it? And related to the consumer segment only if you can also give more color on what is our rural and urban split.

Management: Whenever we think of OTC, we are very careful. 1) We will be launching, as I mentioned, Nimulid which we acquired from Panacea. It's quite a known name and that's one reason we are coming with a rubefacient in this. 2) We have one product, HealthOK, which we shifted from our Rx to OTx to OTC division. We want to just launch a few more variants in that, more line extension to that, and aggressively want to promote that. 3) We said that we just want to create this infrastructure in advance so that in future, acquisition will happen because we have time and again said that we are looking for chronic side and consumer OTC side products to acquire. For that sake, we are doing it.

Rashmi Shetty: Sir, for this year, I understand that the growth will be impacted in FY24, but in FY25 and FY26, how should we look at this consumer segment growth? Will it come back to the mid-teen sort of growth?

Management: We feel the kind of growth we were doing in the past, we will reach to that, if I say, double digit and onwards.

Rashmi Shetty: Sir, on the exports side, how many quarters more we will see this one-off opportunity coming in? And whether this one-off opportunity is coming from 1 product or several products? And is it arising from the shortage of opportunities? If you can give some color on these things.

Management: We feel that this one-off opportunity will last for about 1-2 quarters. It's very difficult to predict when will others launch this product but it is coming from one single product. However, we have other new launches in the pipeline to compensate for last quarter's one-off opportunity.

Rashmi Shetty: Sir, overall, how do we see export market growth?

Management: The overall export market growth would be double digits, mid-teens.

Rashmi Shetty: This you are saying excluding one-off opportunity.

Management: Correct.

Rashmi Shetty: And lastly one question related to the US market. If you can give the total number of products that has been commercialized till date.

Management: The total number of products that have been commercialized so far are around 25 products.

Moderator: The next question is from the line of Dheeresh Pathak from White Oak Capital. Please go ahead.

Dheeresh K. Pathak: Sir, I am referring to slide #14 and slide #15 of the deck. If I look at slide #15, what you are showing is that in acute for Q2, market grew at 7 and we grew at 4.9 due to underperformance in gastro and VMN. I don't know if you have already explained it, but please explain that why in acute it is lower than the market, and even in chronic, slide #14, you are showing only 1.1x growth of the chronic outperformance versus if you see, we have had much higher multiplier growth versus the market chronic growth rate. Why this quarter both on the chronic side, the outperformance is lower and on the acute side in gastro and VMN and in overall, why have we done lower than the market?

Management: When we talked about the acute segment where there is tremendous impact of seasonality, we were referring to anti-infectives, antiallergics, and cough syrups. We generally depend upon the season; when I say season, it is viral infection. 1) The issue with acute segment in Mankind is the contribution of these 3 therapy areas is around 24% versus 17% of IPM. Having said that, the season came in September only. And I explained just 15 minutes back only. It is very well explained if you look at the last year growth pattern of these 3 segments in July-August-September versus this year July-August-September. Last year growth was 11%, 12%, and 1% respectively for July-August-September. I am talking about IPM. This year, it was -5%, -2%, and 12%. That clearly shows that there was a very strong season in the month of September, but July and August were not having the same seasonal impact where anti-infectives, antiallergics, and cough syrups shall move. 2) There are some allied therapies which also get prescribed along with these 3 therapies such as GI, vitamins, minerals, and nutrients. These segments also got affected because of the delayed season.

Dheeresh K. Pathak: That explanation I understood, but what I am not able to understand here is that this delay of the season or the seasonal impact is going to impact the market also, right? But if you are showing this data correctly – maybe there is some issue with the data because here we are showing the market in gastro grew 8.4 and we grew only 5.3. VMN market grew 6.9 and we grew 2.3 whereas in anti-infectives we have done better, more than 2x the growth of the market. So, either we are not showing like to like or this is maybe not the covered market growth is what you are trying to show. Is that the right interpretation? Because, the season impact would have impacted the market also, right.

Management: Absolutely. But you have to take into cognizance the fact that contribution of these 3 therapy areas for Mankind is 24% whereas for IPM it is 17%. So, it will have less impact on IPM vis-a-vis Mankind. That is what I was trying to convey. For Mankind, these 3 segments contribute 24% of total sales. For IPM, these 3 segments contribute 17%. That is why the impact is more in Mankind in comparison to IPM. There is one more part which you need to take into consideration is when we compare with IPM, IPM anti-infectives include injectable brands. Injectables contribute 40% of the total anti-infective portfolio in IPM. For Mankind, it is less than 1%. So, injectables saw a good growth. If I look at the CVM growth, then in anti-infective orals, we are having 2% growth whereas CVM of anti-infective is having a degrowth.

Management: And if you see the chart on the same page, anti-infective IPM growth is 1.7% versus Mankind growth of anti-infective is 3.5%.

Dheeresh K. Pathak: That's why I am saying, my feedback would be that in this slide, next time when you show, instead of showing the IPM, if you show the covered market growth rate of the IPM where you will make like-to-like adjustments like you just explained, there will be a better representation to understand how you have done versus the market.

And if you can also explain, sir, on Slide #14 thats why the outperformance on chronic side is not what we are typically used to seeing. We are used to seeing 1.4x to 1.5x growth of the market.

Management: For chronic also, let me take you through from Q1. Please look at chronic from Q1 lens, then Q2 and H1. In Q1, IPM has grown by 10.4% and Mankind has by 17.3%. In Q2, IPM has grown by 9.1% and Mankind has grown by 9.8%. Now, please make a note of consideration last year. Last year also, IPM was 11.3% and Mankind was 11.3%, the same growth. I am talking about last year's Q2. This year Q2, Mankind is 9.8% and IPM is 9.1%. Last year in the 2nd Quarter, IPM grew by 11.3% and Mankind grew by 11.3%. Having said that, the chronic share in case of Mankind increased in the 2nd Quarter by 1.5% versus 0.6% in the case of IPM. And if you look at H1, then, IPM grew by 9.8% and Mankind grew by 13.4%. So, 1 quarter cannot give basically a complete picture. We have to look at H1, we have to look at 12 months. That gives a better understanding and picture of the performance. I showed you the quarter this year of chronic versus quarter last years are pretty similar. Last year also, IPM and Mankind behaved similarly. This year also, IPM and Mankind in Q2 behaved similarly.

Dheeresh K. Pathak: One last clarification. This dydrogesterone molecule you include in chronic or you include in acute?

Management: Acute.

Moderator: The next question is from the line of Rahul Jeewani from IIFL Securities Limited. Please go ahead.

Rahul Jeewani: Sir, can you please explain this quarter-on-quarter improvement which we have seen in gross margins? And particularly given the fact that our chronic revenue share declined during the quarter sequentially – 1Q of chronic revenue share was 36% which came down to 34% – but despite that, we have seen expansion in gross margins on a sequential basis. Are price increases largely a contributor to that quarter-on-quarter gross margin improvement?

Management: Rahul, as you mentioned, yes, there is an increase of 2.7% in gross margin quarter on quarter. And if you look at the breakup of this 2.7%, around 2% is the factor of price. Price is the combination of the sale price increase that we had taken in the previous quarter and some rationalization on the cost front as well, and the balance is towards the favorable mix which has driven that portion. And chronic is one factor and in the acute also some of the products have a good margin. There the mix has been better, which has given us the sales mix beneficial of around 0.7% or so.

Rahul Jeewani: Sir, this 2.7% which you are referring to is on a YoY basis. I am asking on a sequential basis that sequentially also our gross margins have improved despite a lower chronic share. So, what is the driver of that sequential gross margin improvement?

Management: Basically, the main driver of the gross margin quarter on quarter is the price increases and the rationalization of API prices. We have taken price increases in certain products and mix sequentially come as per what the regulatory system allows us. That has increased these gross margins quarter on quarter.

Management: In Q1, it was not a full reflection; in Q2, there is a full reflection. That's one. And also in anti-infectives, a little softer growth versus chronic. If you see chronic, it is 34%. That also gives you a little extra gross margin. So, it's a factor of both.

Rahul Jeewani: Can you call out the rep number for the quarter and our productivity?

Management: What number?

Rahul Jeewani: The sales rep number.

Management: It largely remains the same. Around 12,000 is the field rep, around 3,000 is the managers; around 15,000 is the total number.

Management: 15,563 is the precise number which comprises both the field force as well as the managers, the consolidated number. And if you compare it to the last quarter, there is hardly any increase. The last quarter was also 15,350.

Rahul Jeewani: On the export business, while you indicated that the one-off opportunity might sustain for some period, but on this high base of FY24, do you think that you will still see growth on the export business in FY25 or would we see a decline going into next year?

Management: As I said before, there are several products which we have filed. Those products will get approval in due course. And we have already launched these products in different quarters in the past. So, we see a mid-teen kind of growth going forward.

Rahul Jeewani: So, on a reported basis, you are pointing to a mid-teens growth next year?

Management: Correct.

Moderator: We will take the next question from the line of Kunal Dhamesha from Macquarie. Please go ahead.

Kunal Dhamesha: On the M&A front, let's say if we do some deal, what would be our comfort in terms of leverage? While we have strong cash flow, but are we kind of looking for bigger targets or would it be more tuck-in, then what would be our comfort level with deleverage?

Management: We are a very conservative Company. Leveraging, we basically try to not go for, honestly. Not very big we will ever go. Major would be the kind of a Company we can chew and swallow. Again, on the lines of chronic and on the lines of consumer side, that's also a point plus they should really add some kind of a value in Mankind. That's also very important. Why to just bring something which duplicates your products? We cannibalize our own products. So, we just try to keep everything, keeping future opportunities in mind as well.

Kunal Dhamesha: And second one on the prescriber penetration which has increased for us on a year-on-year basis to now 82.7%. Within that increase, what type of doctors it is coming from? Is it general physicians, specialists, or super specialists?

Management: If you look at the increase in prescriber concentration, we launched single specialty divisions in the last 1.5 years. We have 10 single specialty divisions. It is because of these single specialty divisions, we have been able to add more consultants in the areas of oncology, cardiology, diabetology, neurology, and respiratory. The prescriber base increasing is skewed towards consultant's ex GPs, not family physicians but other than family physicians.

Kunal Dhamesha: And the last one on the advertisement campaign that we are running for the DMF grade API quality. What are some of the internal metrics that we are tracking for the success of that campaign and what are the benefits that we have realized till now and what are we expecting?

Management: These are very intangible and long-term strategies. Somehow it is to bring world-class kind of products to India at Indian prices. That's the point. We always believed in long-term things as well as short-term things and it's quite important for us. And we will see in the future we assume good traction in the products we have brought in the DMF side.

Moderator: We will take the next question from the line of Madhu Prashant, an individual investor. Please go ahead.

Madhu Prashant: My question is the acquisition you are taking, is it on debt or is it fully cash?

Management: We are not taking on any acquisition right now. There are various opportunities that we are evaluating. Once something fructifies, we will go forward with it. It will be mostly our own funding.

Madhu Prashant: If I say you believe in debt-free. Is it okay to say that?

Management: Debt-free, yes. We are a net cash Company with about Rs. 2,000+ crores of cash balance.

Madhu Prashant: In the future, is there anything that you believe to take a debt in long term as well as in short term?

Management: These are futuristic statements. If we take any acquisition, we will come back to you.

Madhu Prashant: Recently, I saw in The Hindu newspaper, that there is an increase in non-communicable diseases. Is there any focus of Mankind Pharma on that?

Management: Focus is on increasing the chronic share. As we already have a large acute share, so increasing focus in chronic and consumer business.

Madhu Prashant: My last question is, as Pfizer has Viagra kind of a thing, is Mankind Pharma also focusing on that?

Management: We already have MANFORCE, a similar composition like Viagra.

Madhu Prashant: Any new segment for a future perspective?

Management: We will come back to you.

Moderator: Ladies and gentlemen, due to time constraints, that was the last question. On behalf of Kotak Institutional Equities, that concludes this conference. We thank you for joining us. And you may now disconnect your lines. Thank you, members of the management.