"Mankind Pharma Limited Q1 FY24 Earnings Conference Call"

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MODERATOR: **MR. ALANKAR GARUDE – KOTAK INSTITUTIONAL EQUITIES**

Moderator: Ladies and gentlemen, good day and welcome to Mankind Pharma's Q1 FY24 Earnings Conference Call hosted by Kotak Institutional Equities. 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 would now like to hand the conference over to Mr. Alankar Garude from Kotak Institutional Equities. Thank you and over to you, sir.

Alankar Garude: Good morning and good afternoon, everyone.

On behalf of Kotak Institutional Equities, I would like to welcome you all to the first quarter FY24 Earnings Conference Call of Mankind Pharma.

I would now like to hand over the call to Mr. Ravi Agrawal - Head of Investor Relations, to introduce the Senior Management and take the discussion forward. Over to you, Ravi.

Ravi Agrawal: Thanks, Alankar. Good afternoon, everybody. I thank you again for being with us today on our Q1 FY24 Earnings Conference Call.

On the call today, we have Mr. Rajeev Juneja - Vice Chairman and Managing Director, Mr. Sheetal Arora - CEO and Wholetime Director, Mr. Arjun Juneja - Chief Operating Officer, Dr. Sanjay Koul - Chief Marketing Officer and Mr. Ashutosh Dhawan - Chief Financial Officer.

We will begin with opening comments from Mr. Juneja providing an overview of the quarter. This will be followed by comments from Mr. Sheetal on business performance followed by Mr. Ashutosh, who will share some key thoughts on the financial aspects of our performance. There will be an opportunity at the end of the opening remarks to get your queries addressed by the Management.

Before we commence the call today, I would like to remind you that some of the statements made on the call today could be forward-looking in nature and a detailed disclaimer in this regard has been included in the press release that has been shared on our website. I now invite Mr. Juneja to share his comments.

Rajeev Juneja: Thank you, Ravi and good afternoon, everyone and welcome to our Quarter 1 Earnings Call. Let me start by saying that we started this year on a healthy note with a strong double-digit growth in sales and profitability. If you look at our key financial parameters, the revenue grew by 18% year-on-year during the quarter with the domestic business growing at 14% year-on-year.

EBITDA grew 43% year-on-year to Rs. 660 crores with the margin of 25.6%, an increase of 4.5% as compared to quarter 1 last year. PAT grew by 66% year-on-year to Rs. 494 crores.

Our Pharma segment maintained its outperformance against the IPM with the secondary sales growth at 12.5% as against IPM growth of 8.5%. I am happy to share that our chronic segment share stood at 36% during this quarter as compared to 34% last year. This is the highest chronic share we have achieved in our business and to just put in perspective chronic share in FY18 was around 28%. In fact, you will be pleased to know that as per IQVIA, the cardiovascular segment has replaced anti-infective to become the largest segment in our mix in this quarter. This is the testament to our commitment to increasing our presence in more profitable chronic therapeutic areas. These segments have a strong growth profile given the rising prevalence of chronic diseases, due to lifestyle changes and rising income level in India. This would require a more top-down approach, with focus on widening our footprint in metro and Class 1 cities.

Our campaign to promote DMF quality medicines in India, has been truly disruptive and we have seen outstanding response to this initiative. We already have more than 100 SKUs within this initiative currently and we are rapidly expanding our product offerings with this very important service to the country.

In our Consumer Healthcare segment, we maintained dominant brand leadership in respective categories with four of our brands ranked number one in their categories. The secondary sales have been very healthy across most key brands and we expect the full year growth in this business to be at similar level versus last year.

On the R&D front, our successful launch of Dydrogesterone reiterates our commitment to being a science-based company. We are focusing on product innovation, novel drug delivery system and strategic partnerships with innovators to strengthen our product offerings that will give us competitive edge.

I would like to conclude by re-emphasizing our strategic priorities going ahead. We will continue to remain domestic focused; I again say domestic focused, with emphasis on volume led growth through our affordability proposition. We will continue to garner prominent leadership positions in identified white spaces in key chronic therapies through in-house R&D, acquisitions and in-licensed products. Finally, we will continue to aggressively invest in marketing to create and support our dominant brand leadership across our pharma and consumer businesses.

If I just sum up my whole commentary:

I will say that certain points you must need to really understand that Mankind is focusing only in India, number one, number second; we have a mass consumer coverage, 5 lakh doctors we cover. Important point to note that our volume growth, which is 4.3% versus IPM volume growth, which is just 1.4%, we are quite good in that. Chronic share of Mankind has come to

36% versus 34% last year. Cardiac share specifically I will say in Mankind is 13.8% versus industry is 12.6% and of course for the first time, cardiac has outperformed our anti-infectives segment and market share of Mankind has grown 4.4% from 4.2%. Certain initiatives we have taken and that one is that we have launched more than 100 SKUs in DMF, which would be very disruptive in the market because seeing the threat of branded generic in the market, we just want to create a different kind of a category, which is called DMF Grade. Who does not want to have international quality medicines at Mankind prices? Whatever is available in most developed countries should be in India that basically is our focus.

In our new initiatives, we have launched Insulin and in just 2-3 months' time, 7,000 patients have come on our Insulin Nobeglar. In CNS, we are focusing a lot in Respiratory, if you remember very well that we took Combihale from Dr. Reddy's. That is giving us a 30% growth. If you talk about Daffy, we took from Dr. Reddy's again 30% growth. These are growing phenomenally. Our transplant business is also growing at 66% first quarter. Panacea growth in the first quarter is 22%, secondary growth I am talking about, primary is even better. I will reiterate that we will always outperform IPM. Our EBITDA margin would be in the range of 24% to 26%. This is the summary.

Now, let me hand it over to Sheetal.

Sheetal Arora: Good morning and thank you, Rajeevji. Welcome to today's Investor Call. I am delighted to provide you an update on our domestic business with the specific focus on our Consumer Healthcare segment.

Let us begin with our domestic business revenue, which reached Rs. 2,419 crores in the first quarter of financial year 2024, reflecting a year-on-year growth of 14%.

According to IQVIA, our secondary sales growth for the quarter was 12.5% outperforming the industry's 8.5% growth by1.5times. It is worth noting that our historic annual growth performance has consistently been 1.3 to 1.4times the industry growth rate. Additionally, IQVIA reports, that while we maintain our market rank of fourth in value terms, our market share increased to 4.4% in Quarter 1 Financial Year '24 from 4.2% in Quarter 1 Financial Year '23. When we consider CVM, we find we have maintained our second position during the quarter by value. I am also happy to share that Panacea revenue show the healthy growth of 22% year-on-year during the quarter as indicated by IQVIA.

The price and volume growth metric showed we continue to significantly outperform the IPM as far as volume growth is concerned. According to IQVIA, Mankind volume growth for this quarter was 4.3% as compared to IPM growth of 1.4%. This represents an outperformance of 3.2times. This success can be attributed to our wide distribution network, large field force and strong presence among more than 5 lakh doctors making us the industry leader.

We firmly believe that volume led growth reflects the superior quality of our sales since it is driven by prescriptions and is therefore more sustainable. Our prescription share reflects this well, 15.4% during this quarter as compared to 15.1% at the same time last year. In fact, our subscriber penetration has also increased from approximately 81% in Quarter 1 Financial Year '23 to around 83% in this quarter.

I am delighted to share the remarkable progress in our business strategy particularly in expanding our presence in chronic segment. This quarter has been exceptional. Our chronic share is now at all time high of 36% within the company. Significantly, our chronic business has experienced a phenomenal growth of 17% this quarter, outperforming the IPM growth of 10% by an impressive 1.7times.

In our Consumer Healthcare business, we proudly announce that we achieved revenues of Rs. 208 crores in the first quarter of financial year 24 representing a growth of 8% year-on-year and 37% quarter-on-quarter.

Our key brands, Prega News, HealthOK and Manforce condoms have witnessed substantial growth in secondary sales with a remarkable year-on-year increase of 30%, 23% and 11% respectively during this period.

Over the longer term, our compounded annual growth rate has been strong 22% from financial year 21-23 and we are confident of sustaining strong growth in this segment as we surge ahead.

These achievements are testament to our team's dedicated efforts and the effectiveness of our approach. With our team's, passion, commitment and customer centric approach, I am confident that we will continue to thrive and achieve new milestones in coming quarters. We look forward to our customer's continued trust in our product and affirm our dedication to improving in their lives.

Now, I will hand over to Ashutosh ji who will provide further insights into our financials. Thank you so much.

Ashutosh Dhawan: Thank you, Sheetalji. Very good afternoon and I would like to 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 on the "Financial Highlights" for the performance during Q1 FY24.

The revenue from operations increased by 18% year-on-year basis to Rs. 2,579 Crore as compared to Rs. 2,180 Crore in the previous period last year.

EBITDA has shown a growth of 43% year-on-year basis Rs. 660 crores with the margins of 25.6% as compared to Rs. 460 Crore with margins of 21.1% last year in the same period. There is an increase in the margin of 4.5%.

This increase of 4.5% is largely driven by 2.8% increase in the gross margins from selective price increases, which we have taken in the previous quarters, stable API prices and the favorable sales mix changes. The gross margins are now at around 68.2% level as compared to 65.4% in Q1 last year and these margins were 67.2% in Q4 FY23.

The R&D expenses for the quarter were at 2.1% of sales, which has been within the range of 2 to 2.5%, which we had communicated in our last interactions.

The Depreciation and Amortization expense for the quarter were at Rs. 87 crore as against Rs. 78 crore last year in the same quarter. Our tax rate for this quarter was at 20.9% as compared to 21.6% in FY23.

The PAT for the quarter was at Rs. 494 crore, representing a growth of 66% Y-o-Y basis and 68% on quarter-on-quarter basis with diluted EPS of Rs. 12.1 per share of Re. 1 paid. The cash EPS that is the EPS adjusted for non-cash items like depreciation and amortization was at Rs. 14.3.

On a trailing 12 months period, our net working capital days were at 39 days as compared to 45 in FY23. The CAPEX including capital work in progress was at Rs. 111 crore in Q1 FY24. The cash flow from operations has shown a significant increase to Rs. 488 crore as compared to the negative Rs. 161 Crore in Q1 FY23. The company has the healthy net cash position of Rs. 1,727 crore as compared to Rs. 1,366 crore as at 31st March 2023.

The return on capital employed ex-cash basis and return on equity ex-cash basis has shown an increase to 28% and 25% respectively on 12 months trailing basis as compared to 25% and 23% respectively in FY 23. For FY 24, we expect to incur Rs. 550 Crore to Rs. 600 Crore in the CAPEX. The 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 now be happy to address any questions that you may have please.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Kunal Dhamesha from Macquarie. Please go ahead.

Kunal Dhamesha: Congratulations on the fantastic set of numbers. Sir, the first question on our profitability guidance while we have guided for 24% to 26% for this year, would you be able to provide some guidance, let us say two year, three-year down the line where we see because obviously we are growing very fast in the chronic therapies and generally that is where a lot of delta in terms of how profitability could happen, so any color there would be helpful?

Ashutosh Dhawan: So, as we mentioned that the guidance is 24% to 26%, and there are operating leverages, which are available, and we are quite hopeful that going forward we should be able to maintain and increase our EBITDA margins from the existing levels.

Kunal Dhamesha: Would you provide some color as to obviously we have pricing lever etc., but let us say between pricing, operating leverage which could be the major driver for us, not for FY24, but beyond FY24?

Arjun Juneja: So, Kunal, there is increased focus on the chronic business as we mentioned and as you are aware that chronic business has higher gross margins. So, as and when the share of the chronic business continues to increase and it is outperforming the IPM, we expect the gross margins to go up from the current levels. Also at the same time, we have launched about 10-12 new divisions in the last couple of years where their productivity is less than the average productivity of the established divisions of Mankind where we expect the operating leverage to improve upon which will enhance our margins further.

Sheetal Arora: And Kunal I am Sheetal this side, if you see historically in financial year 22, our chronic share was 32%. Now in first quarter it is 36%, there was the jump of 4% in our chronic share. So, definitely going forward it will outperform the market and EBITDA margin will improve.

Kunal Dhamesha: So, just to follow up on that, we have been telling that our chronic could grow very fast and I think we have done that in the past, but let us say over 2-3 years, would you have any internal aspiration as to increase our chronic to certain level as a business mix?

Rajeev Juneja: Basically the aspiration is to become the most admired, most respected institution, that way we basically believe in good karma, good working and we have always done in the past as well. Rest is in front of you. It is always good to have good people, good leadership, good processes, and the right products. So, when you mix up all these four things good things really happen.

Kunal Dhamesha: And last question is on the MR side, how many people would we have employed right now? I think earlier we used to give that in presentation or I might have missed it so?

Sanjay Koul: So, Kunal, this is Sanjay Koul. So, we have an MR count of around 11,000 excluding the managers, 11,000 plus, it excludes the managers and that is the number we have at present.

Ashutosh Dhawan: So, the exact head count for the quarter for the MR is 15,400, which includes the managers as well as the MRs.

Moderator: Thank you. The next question is from the line of Amit Kadam from Canara Robeco Mutual Fund. Please go ahead.

Amit Kadam: Sir, just first question is on the consumer business, this quarter we clocked 8% kind of a growth, historical growth has been quite higher than this; can you throw some light on this? How do we look this segment going ahead and what has led to that 8%, was it some like a high base of last year something like that?

Rajeev Juneja: So, Amit, we always believe that everything has to really happen annually or 2 year, 3 years like quarter to quarter, it is very premature. Having said this, last year, first quarter base was very high and last to last year it was in negative kind of a quarter and last year we had a growth of 25%. That is one reason, but we are very confident that whole year will be doing as we have done in the past. We are very sure about this. Our main products are performing very good, growth is around 18%.

Ashutosh Dhawan: Look at the secondary sales for the consumer business, so that has fared very well. So, that has been more than the industry average, it is only the primary sales which is reflecting lower because of the high base, but on secondary sale basis, all the key brands they have done fairly well.

Amit Kadam: Sir, I am asking you like can you guide something for this year based on our historical run rate for this FY24?

Rajeev Juneja: Same like what we did last year, approximately same like that last year. So, let us say guidance was last year.

Ashustosh Dhawan: So, we will be similar to those levels of last year, which was 17% last year.

Amit Kadam: The second question is on the working capital, we saw remarkable improvement there, almost like we have dropped now 40 days, what has led to that particular thing and how do we see this thing going ahead for the full year?

Ashutosh Dhawan: So, historically, if you see that our working capital days have been closer to 40 days. So, we have been able to bring it down to our historical levels. For the last year and the year before, there was a spike because of supply chain and other issues. So, now we are back to our historical level of 40 days. We have been able to bring down inventory back to our normal levels, historical levels.

Amit Kadam: And just third question, you touched upon insulin and your early success into it, so can you just throw some light on what kind of opportunity, what kind of maybe sales what we can garner in this particular market and what kind of opportunity we can see in this particular segment?

Rajeev Juneja: We launched this Insulin only in the month of May. These are very initial days, but every month we are adding around approximately 2,000 patients. In insulin business, the number of patients you add that becomes your revenue going forward and as per if you compare with other companies adding 2,000 patients every month, it looks quite good to us.

Amit Kadam: And how do we see this thing going ahead like the way we have for…..

Rajeev Juneja: Quite good. So, we already have said that our focus is towards chronic side. Anywhere we get opportunity towards chronic side, we go for it and as you can see yourself that chronic share is continuously increasing. So, we are quite optimistic that we will do quite good in this, and more opportunities will come in different collaborations as well.

Moderator: Thank you. The next question is from the line of Nikhil Mathur from HDFC Mutual Fund. Please go ahead.

Nikhil Mathur: Sir, the question I have is that the exports business has seen a dramatic jump on a Y-o-Y basis from Rs. 51 crores, the company now had Rs. 160 crores, so can you highlight what has driven this?

Arjun Juneja: We mentioned in the past also that we continue to file differentiated products into the US. These differentiated products bring us some good opportunities, but having said that, our focus continues to always be on the Indian domestic market, and we will continue to leverage that.

Nikhil Mathur: Sir, does this jump has anything to do with the shortage scenario that we are seeing in the US because of various reasons? Does it have any role to play here?

Arjun Juneja: It is not because of the shortage scenario. It is just because of the differentiated products that we filed as we mentioned, there are certain ophthalmic, injectables and certain products, which are backed by our own API, which is leading to this phenomenon.

Nikhil Mathur: So, you see this run rate maintaining for the ensuing quarters and the same can be extrapolated coming years as well, growth should be built on what the run rate is in this particular quarter is that how we should look at?

Arjun Juneja: It is very difficult to predict the US market like this because you know how volatile it is. So, it will be very difficult for us to predict how the runway would look like, but having said that, there will be a few months of opportunities that we see going forward.

Nikhil Mathur: And sir, just final question tied to this, sorry to harp on it a bit more, so now we are looking at exports at around 6% of total sales versus 2% last quarter, although they can be quarter-on-quarter variation, so I am not trying to replicate the same mix for the coming quarters as well, but would you like to give some medium-term guidance as to what kind of exports or domestic revenue mix we are looking at let us say 3 years or 5 years out?

Arjun Juneja: I mean, while the export business is growing, but the revenues from the domestic business would contribute more than 90% going forward.

Nikhil Mathur: And one final question, sir, the growth has been pretty strong in domestic despite various secondary agencies reporting data which was looking a bit underwhelming and I think the season picks up in 2Q itself, so can it be safe to say that 2Q is likely to be better than 1Q and the agencies were not properly able to capture the data, would you like to call out? What is the reason there?

Sanjay Koul: So, if I understood you correctly, Q2 always is a bigger quarter in comparison to the first quarter. So, it is solely because of outbreak of basically infections in quarter 2, so it is always a bigger quarter in comparison to the first quarter.

Moderator: Thank you. The next question is from the line of Harsh Bhatia from Bandhan AMC. Please go ahead.

Harsh Bhatia: Just to expand a little bit more on the Human Insulin product, the Nobeglar that you launched in May, just to understand a little bit better in terms of the go-to-market strategy, the pricing aspect because this is a little bit more concentrated market as a whole because we have MNC's operating at that level, right? So, maybe your views on how you are looking at the market, I understand that it has just been 3 or 4 months since the launch period, but maybe a little bit more color would be helpful?

Rajeev Juneja: See, even from last number of years, our aspiration was and is to become a leader in chronic side where it is a cardiac side or diabetes side or respiratory side, or anywhere there is a lifestyle disease problem, you are supposed to be there because that gives us consistency, both profitability and whatever number of prescription you add that gives you growth. So, keeping the same in mind, we have launched, and it is basically Insulin Glargine, not regular insulin. That insulin basically we have launched and as our penetration in bigger cities, topmost doctors, I will not say bigger cities, top of the top doctors is increasing, the response is coming very good. You all know that India is the epicenter of diabetes. So, we feel that we should be very strong here, keeping the same in mind that we took this Panacea because they have product like Glizid. That is one reason.

Arjun Juneja: And also on the insulin front, we are also conducting clinical trials on the Aspart and those trials we expect them to be over in the next 10 to 12 months. So, we are looking forward to launching the Aspart version also next year.

Harsh Bhatia: And the 7,000 patients would be a blended mix of metro, non-metro or the primary orientation would be from non-metro as of now?

Rajeev Juneja: So, it is always a mix, but I will definitely say that more towards metro side.

Harsh Bhatia: And on Panacea Biotech, are we giving out the current quarter run rate because they have given out the growth rate number at the time of acquisition, we analyzed run rate for somewhere around Rs. 200-Rs. 250 crores, but what would be the current run rate?

Sanjay Koul: So, if you talk about the Q1 as per IQVIA, the secondary number is Rs. 75 Crore for Q1.

Moderator: Thank you. The next question is from the line of Bansi Desai from JP Morgan. Please go ahead.

Bansi Desai: My first question is on the impact of ban on our brand Codistar which we had in the month of June, so if you can just call out what could be the potential impact there and did we see any write-off pertaining to that brand in this quarter?

Sanjay Koul: So, what we have done basically, we are building a portfolio in dry cough with a very innovative product that we acquired from Panacea. So we have already launched Dextromethorphan and combination in adults, in pediatrics. Also, we have basically acquired a very innovative mouth-disintegrating tablet from Panacea last year and that also is a game changer. So, we are promoting very aggressively these prescription driven brands to doctors and we believe in the coming months, this business is going to grow substantially.

Ashutosh Dhawan: So, just to close the loop on this with regard to the write-off, it has been negligible in this quarter. It is less than Rs. 10 million.

Bansi Desai: And so fair to assume that a large part of this brand revenue should be kind of recouped with the sales growth in other brands?

Sanjay Koul: In the long run, yes.

Bansi Desai: And my second question is, Rajeev has spoken about having this DMF grade APIs, so what is the longer term plan here, do you see this increase materially going forward as a percentage of our sales, do we see more and more API's which are of this quality and if that is the case, how should we think about cost of manufacturing these?

Sanjay Koul: So, till now we have introduced 101 products in DMF. So, our objective is to introduce 15 to 20 brands every quarter. So, that is what we intend to do, and these products are mainly from semi chronic and chronic therapy areas. I hope I answered your query.

Bansi Desai: And my last question is on the utilization of cash that we are going to accumulate over the next few years, we are generating almost Rs. 2,000 crores plus of cash from operations, while our CAPEX needs are closer to Rs. 500-Rs. 600 crores per annum, so how should we think about deploying this excess cash that we generate over the years?

Ashutosh Dhawan: So, at this stage, we would like to be a bit conservative with regard to the cash aspect. So, the first priority is that wherever any good opportunities are available with regard to M&A piece, so definitely we will be utilizing the cash towards that and CAPEX also around Rs. 500 to Rs.600 crore is what we are planning for this year and we will take a view in the next few quarters with regard to the dividend payout as well.

Bansi Desai: And on the M&A bit, would you be open to acquire brands in the Consumer Healthcare space as well to grow that business?

Rajeev Juneja: Two sides, we are absolutely open, one is consumer side, the second is chronic side. Two places, we are very open. We have said in the past as well.

Moderator: Thank you. The next question is from the line of Neha Manpuria from Bank of America. Please go ahead.

Neha Manpuria: Just going back on the export number, I see in the presentation that we have mentioned, there is certain one-off opportunities to the US, is this what you are referring to in terms of discontinuing for a couple of more months or quarters or is this truly one-off and if you could quantify that if it is meaningful?

Arjun Juneja: It will be difficult for us to quantify these numbers, but this will continue for the next few months.

Neha Manpuria: And second, if I were to look at our cost, both on employee and other expenses, we seem to have seen a fair bit of increase quarter-on-quarter, in the employee cost do we have any one-off, non-recurring payout etc., during this quarter and therefore what is the normalized level we should be assuming and similarly, on the other expense, what is the level of spend that we are looking to incur as we focus on expanding chronic and the Consumer Healthcare business with the growth aspiration that we have?

Ashutsoh Dhawan: So, with regard to the employee cost, if we compare, we have added close to year-on-year basis, if you compare so, we have added close to around 1000 people. Having said that, the MR addition has been less than 5% that is part one. With regard to the one-off, we have launched the ESOP scheme, so in this quarter there is an impact of ESOP cost which has come in as compared to the previous quarters and with regard to the other expenses you have seen a spike because we are investing into new businesses as well. So, that is also getting reflected in the other expense portion.

Neha Manpuria: Sir, on the other expense side, as a percentage of revenue, what would you consider as being given the investments that we have planned, what would be an ideal level of investment from other expense perspective?

Ashutosh Dhawan: So, instead of getting into a quarter-on-quarter EBITDA margin, we have given a broad guidance that our EBITDA margins will be in the range of 24% to 26%. So, we will be able to maintain our costs within that range, so that we are able to maintain that margin of 24% to 26%.

Moderator: Thank you. The next question is from the line of Rahul Jeevani from IFL Securities. Please go ahead.

Rahul Jeewani: Sir, can you talk a bit about the seasonality which you typically see in your India business? So, while 2Q, 3Q could be stronger quarters for us, but do you see a significant sequential decline in fourth quarter?

Sanjay Koul: Mr. Rahul, this is Sanjay Koul. In the last 5 years, our chronic contribution has, if you are talking about Mankind, it has increased from 28% to 35%. With increasing contribution of chronic in the next 5 to 6 years, impact of seasonality will be reduced to some extent. Having said that, if you ask me, this year, yes, there will be definitely some impact of seasonality on quarter-to-quarter basis. Quarter 2 is always going to have more impact of seasonality as compared to quarter 3 and quarter 4.

Rajeev Juneja: But if you look at our track records, the first six months are always 51-52% versus second six months are 48%-49%. That is how we maintain it. So, if you just see as a whole year first 6 months, 51%-52% and rest is last 6 months. That is how we are doing for last couple of years.

Rahul Jeewani: So, that seasonality would imply that the second-half margins also would tend to be on the lower side versus the first half margin?

Rajeev Juneja: As chronic sales increases, that impact goes down.

Ashutosh Dhawan: So, it will be in proportion to the sales seasonality part, but having said that since the chronic portion is increasing, so therefore this seasonality impact is also weaning away.

Arjun Juneja: Also in the second quarter, the sales of the anti-infectives go up where the gross margins are lower, whereas in the latter half of the year, the sale of chronic products is more. So, it doesn't have a negative impact on the gross margins and the profitability as a whole.

Rahul Jeewani: And just on the gross margins, can you talk about the differential in gross margins between the domestic and export business and why I ask that question is, had our export business not grown to the extent which it did during the quarter, so the gross margins would have been higher given that the chronic revenue there has also increased to 36%?

Ashutosh Dhawan: So, Rahul, we have shown a betterment in the gross margins, so there has been an improvement of 2.8% over the last year.

Rahul Jeewani: I was referring to quarter-on-quarter that existed for the COVID provisions of last quarter. If we see our gross margins have remained broadly flat quarter-on-quarter despite some sort of an inch up in chronic revenue share, so would export business be a lower gross margin business for us and if you can quantify what is that differential?

Ashutosh Dhawan: So, directionally, yes, export business do have a lower gross margin as compared to the domestic margin or if you compare it to the chronic margin as we said that the focus is on the domestic piece and to structure the business in a manner and we are confident of maintaining the gross margin around 68% level. So, that should give you the confidence that whatever is the mix changes on an overall basis, we are confident of maintaining it to be around 68%.

Arjun Juneja: And also, to reiterate that more than 90% of the revenues would come and still come from the domestic business. So, the margins of the export business become insignificant and don't have an erosion effect upon the domestic business margins.

Rahul Jeewani: And the last question from my end would be on the ESOP scheme which you referred to, so can you quantify the cost which you will have incurred this quarter and what you need to incur over the next 2–3-year period?

Ashutosh Dhawan: That we can share with you after the call.

Moderator: Thank you. The next question is from the line of Kunal Dhamesha from Macquarie. Please go ahead.

Kunal Dhamesha: So, the question on our campaign on the DMF grade quality, how that campaign has kind of moved for us, what is the response from the healthcare practitioner? Are we seeing whatever new product launches, we have done, probably is there a metric that you would track that growth in these products are 2X or 3X or whatever that be versus the normal product launches, any color there would be helpful?

Rajeev Juneja: Kunal, very interesting question, but that is my favorite side. We are very sure that going forward in coming years, DMF will disrupt the pharmaceutical market because who doesn't want to have international quality purity, 99% plus purity drugs at Indian price, forget Indian prices, Mankind prices. So, this basically helps our marketing team a lot in penetrating, entering topmost doctor's chambers and again, Sanjay has already mentioned that first target basically is what, going for chronic and semi chronic products. We are very hopeful, and it has been mentioned that every quarter we wish to launch 15 to 20 new DMF SKUs. So, you can imagine yourself how bullish are we? We are getting fantastic response. We ran a campaign on Burj Khalifa that really shows our seriousness for this DMF. That really shows our conviction in DMF, but we see in future that on one side the branded generic means DMF brands in coming years. That is the kind of a confidence we have got.

Kunal Dhamesha: Sir, I understand that at this point, since we have just launched the campaign, but at some point, would you start sharing probably the uptake or the revenue from that bucket? I think that would help us understand the impact in a much better way?

Arjun Juneja: So, Kunal, I think these are still early days on the DMF. We just started with the campaign, and we are in the process of launching products, more and more products every quarter and I think at an appropriate time, we will take a call if we wish to disclose the revenue separately or not.

Sheetal Arora: If I can add right now, we are the first company to launch DMF products in India, even the most of the doctors do not know what DMF is. So, lot of marketing campaign we are doing., So in the times to come when the awareness will come, people will know, our customers will know then definitely the impact will be achieved because awareness is important right now about DMF.

Ashutosh Dhawan: Just to add to this, Kunal, it would be very difficult to quantify this as well because some of the old brands or SKUs, they get converted into DMF. So, that is also, already they have sales. So, how much incremental is coming because of this particular action. So, that is difficult to quantify or break it into that because there are multiple factors which go for the increase in the sales.

Kunal Dhamesha: So, that was again my next question because, Sanjay sir said that we are in the process of launching 15 to 20 DMF grade products every quarter, so my question was, probably how many of that would be our existing products and how many could be the new products, not on a quarterly basis, probably yearly basis, 2-year basis?

Sanjay Kaul: So, it will be 80%-85%, our existing range being getting converted into DMF and new products in chronic and semi chronic, we will surely bring in DMF. That will be around 10 to 15%.

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

Tushar Manudhane: Sir, just on this Dydrogesterone plant, as it has been highlighted that it would be commercialized in first half FY24, the operational cost is more or less there in this quarter itself in terms of expenses?

Ashutosh Dhawan: No, currently we have, it is forming part of capital work in progress of the Udaipur plant.

Tushar Manudhane: So, how much this will be added as in the coming quarters?

Ashutosh Dhawan: So, in terms of CAPEX spend till now, we have spent around Rs. 310 crores on the Udaipur plant, which will be getting depreciated in the subsequent quarters. From this quarter, we are hopeful that the commercialization and the capitalization will be getting completed. So, it will be coming in the depreciation.

Tushar Manudhane: And on the operational cost side, sir?

Arjun Juneja: So, on the operational cost side, the plant where Dydrogesterone is being currently manufactured, it will be transferred to the new plant in Udaipur. So, we don't see a significant rise in the OPEX cost.

Ashutosh Dhawan: Rather it will be beneficial on the gross margin or the cost of goods sold.

Tushar Manudhane: And sir, this quarter would have had some impact of these lower prices on account of NLEM as well, correct?

Arjun Juneja: No. As you are aware, Mankind from our portfolio of the products we are the least affected in terms of the NLEM products. So, the impact is very minimal.

Tushar Manudhane: And given that this Dydro OPEX is not going to be significant while this could add for sales, your exports, in which case ramping up given that 2Q is going to be much better as it has been historically, so if I sum up these things 24% to 26% EBITDA margin guidance seems to be conservative, any comment on this? We are already at 25.6% EBITDA margin for first quarter?

Arjun Juneja: I think the reason here is that because of the seasonality impact of Q2 going up and the sales of anti-infectives rising which have slightly lower gross margins and then the chronic sales increasing in the second-half of this year, I think we would like to be consistent with our gross margins as the guidance which we have given.

Moderator: Thank you. The next question is from the line of Nithya from Bernstein. Please go ahead.

Nithya: Just a couple of questions for me, one bookkeeping question, so when you talk about DMF grade, are you referring to US DMF grade or you referring to specifications as laid down by the US FDA and the second is US DMF grade API, I am sure are more expensive, so are you looking at the new products therefore being margin diluted?

Arjun Juneja: We missed the last part of your question.

Nithya: So, the question is, US DMF Grade API is more expensive than non-US DMF Grade API and therefore is your incremental sales therefore margin diluted for you and to what extent?

Arjun Juneja: So, what we are referring to here is the US DMF and the European CEP grade APIs. Yes, the cost of these APIs is slightly higher than the cost of the non DMF grade. So, in certain products there is a decline in the gross margins by one or two percentage points, but we are compensating for that decline by way of price increase which the government allows to the tune of 10% year-on-year, but there are also certain products which we are manufacturing in-house the APIs and filling the DMFs of those products. So, I would say there is not much of a cost impact on the DMF grade products that we are using.

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

Neelum Punjabi: So, my question is on the Dydrogesterone API, could you please highlight what is the potential of Dydrogesterone globally in terms of capacities in terms of tons and what is the annual capacity of Dydrogesterone that we are putting out?

Arjun Juneja: So, we have a capacity of Dydrogesterone manufacturing 400 to 500 kilos per month. So, that would be approximately 4.5 to 5 metric tons annually and the demand for Dydrogesterone globally is somewhere around 4 to 4.5 metric ton and this demand is increasing because this molecule is growing across the globe and as and when new entrants are also launching, the market size is increasing, which we have seen in India itself.

Neelum Punjabi: So, our capacity of 400 to 500 kilo per month is on the expanded capacity, right?

Arjun Juneja: The current capacity that we have, the infrastructure that we have is capable of going up to 400 to 500 kilos a month. Our current capacity is in the range of 200-250 kilos per month.

Moderator: Thank you. The next question is from the line of Alankar Garude from Kotak Institutional Equities. Please go ahead.

Alankar Garude: First question is, has there been any impact of the FDC ban on Codistar in this quarter?

Arjun Juneja: I think this question has already been asked Alankar, but there has been no impact as such on the Codistar ban. We are negating the impact of Codistar by launching newer products in the similar segment under the brand of Codistar itself in the form of Dextromethorphan and also the tablet that we acquired from Panacea, so we see in the next few months, this impact will get negated.

Alankar Garude: And the second question is, can you talk a bit about the trade generics business? How seriously are we approaching this particular vertical? How big is it for us, right now, what is our approach?

Rajeev Juneja: At the moment we are quite serious at this. Our trade generics could be doing around Rs. 200 crore last year. Hopefully this will do Rs. 250 - Rs. 260 crore this year, but we have long-term reason for launching that product that going forward can we shift those some products which become used to customers habit to bring in our OTC side. That is a basically more intangible long-term plan.

Alanakar Garude: And have we invested in terms of any field force dedicated to this or the numbers are quite small at the moment?

Rajeev Juneja: Yes, absolutely.

Ashutosh Dhawan: So, it is close to around 200, which are the salesforce for this business.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the Management for their closing comments.

Ravi Agrawal: Thank you everyone for joining us on the conference call. We really appreciate you taking out time for our earnings call and we look forward to interacting with you going ahead as well. Thank you.

Moderator: Thank you. On behalf of Kotak Institutional Equities, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.

(The document has been edited to improve readability)