"Mankind Pharma Limited's Q3 & 9M FY'24 Earnings Conference Call"

February 02, 2024

MANAGEMENT: **MR. RAJEEV JUNEJA – VICE CHAIRMAN & MANAGING DIRECTOR**
MR. SHEETAL ARORA – CHIEF EXECUTIVE OFFICER & WHOLE-TIME DIRECTOR
MR. ARJUN JUNEJA – CHIEF OPERATING OFFICER
DR. SANJAY KOUL – CHIEF MARKETING OFFICER
MR. ASHUTOSH DHAWAN – CHIEF FINANCIAL OFFICER
MR. PRAKASH AGARWAL – PRESIDENT, STRATEGY
MR. ABHISHEK AGARWAL – HEAD, INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day and welcome to the Q3 & Nine Months FY'24 Earnings Conference Call of Mankind Pharma Limited.

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. Abhishek Agarwal, Head Investor Relations. Thank you and over to you, sir.

Abhishek Agarwal: Good afternoon, everybody. A very warm welcome to our Q3 FY'24 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; 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 on the Business Performance," "Mr. Ashutosh Dhawan will share Key Financial Performance" and then we will leave the forum open for "Q&A."

I hope you had a chance to access the investor pack shared on Jan 31st, 2024. However, I'd like to reemphasize the fact that certain statements made during today's call may pertain to future expectations and plans. A comprehensive disclaimer regarding the same has been provided on "Investor Presentation and Press Release" uploaded on our website.

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

Rajeev Juneja: Thank you, Abhishek, and good afternoon, everyone. A Very warm welcome to our Q3'24 Earning Call.

I'm delighted to share that the Company has witnessed a strong quarterly performance as our revenue grew by 25% year-on-year to Rs.2,607 crores during the quarter, EBITDA grew by 39% year-on-year to Rs.611 crores, PAT grew by 55% year-on-year to Rs.460 crores.

We have further bolstered our net cash position to Rs.2,756 crores and the return on capital employed has also increased to 31% year-on-year in December '23 compared to 23% as on December '22.

Here, I would like to specially highlight a key fact that in this quarter:

We have successfully optimized our working capital days to 42 days in December '23 versus 46 days in December '22.

While Mankind domestic secondary sales growth was 9% for the quarter as per IQVIA, which is 1.1 times outperformance to IPM growth for the quarter. However, we have reported a strong primary growth of 20% year-on-year in domestic business led by robust growth in chronic, recovery in anti-infective and gastro. This basically has happened due to strong growth in modern trade and hospital sales. Our top five therapeutics by sales have outperformed the IPM by 1.5 times.

With the focus efforts of our team, our chronic segment share has increased by 130 basis points to 34.9% in nine months FY24 as compared to 33.6% in nine months FY23. We remain committed to increasing our presence in chronic therapeutic area.

Our market share of our key chronic therapies such as cardiac and anti-diabetic has reached to all-time high exceeding 5% and 4.4% respectively.

In our Consumer Healthcare segment, while primary sales performance has been muted, we have demonstrated healthy growth in secondary, tertiary sales in various brand categories, resulting into market share gain. We remain confident that this segment will regain its strong growth trajectory, propelling further expansion of our market share.

On the R&D front, our focus remains on product innovation, advancing drug delivery system and fostering strategic partnership with innovators to bolster our product offerings.

The successful introduction of Dydrogesterone reaffirms our position as a science-driven organization, committed to delivering high quality solution to meet evolving market demand.

Given a strong net cash balance sheet, we continue to pursuit opportunities in chronic therapies and consumer healthcare business via strategic acquisition and in-licensing opportunities.

With our collective efforts and strategic vision of quality, affordability and accessibility, we are confident to outperform industry growth in the years to come and deliver lasting value to our shareholders.

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

Sheetal Arora: Thank you, Rajeev ji. Good afternoon, everyone. I am pleased to offer “Key Insights of our Business Segments.”

Our domestic business, which accounts for more than 90% of our sales, has demonstrated robust year-on-year growth of 20% reaching Rs.2,400 crores in Q3 FY24. This growth is driven by several factors:

1. We have seen strong chronic growth of 1.5 times higher than the Indian pharmaceutical market. This includes a 16.7% increase in the cardiac segment versus 8.8% for the IPM and a 13.4% rise in anti-diabetes compared to 5.5% for the IPM.
2. There's a notable recovery in key acute therapy. Our anti-infective segment grew by 13.8% against the IPM 9.5%. And our Gastro segment increased by 12.8% compared to 9.3% against the IPM.
3. Our modern trade have continued to experience robust growth. Although, this data is not captured in IQVIA report, that is why there is a bridge between primary and secondary sales. If we adjust our secondary sales growth rate to consider significant increases in modern trade and the withdrawal of key product due to regulatory restrictions, our IQVIA secondary sales growth would also show a substantial increase. Additionally, after adjusting for these factors, our volume growth has also exceeded the IPM volume growth.

We have also analyzed our primary sales volume data, which indicate a 2.3% volume growth in Q3 Financial Year '24 compared to a 1.8% volume decline in IQVIA secondary sales data.

Our chronic business has shown a remarkable growth of 12.2%, consistently outperforming the IPM chronic by 1.3 times and the CVM, IPM chronic by 1.6 times. This underscores the resilience and competitiveness of our chronic segment.

I am delighted to report that our market share has increased sequentially, reaching 4.5% in Q3 FY24 from 4.4% in Q2 FY24. Even our CVM share has also rose to 6.6% from 6.5% quarter-over-quarter.

Additionally, the count of our brands generating revenue of Rs. 50 crores has risen to 39 in MAT December '23, up from 37 in FY23, showing significant potential for further growth.

Our Panacea revenues have continued to show healthy growth of over 25% during the quarter. However, our consumer healthcare business experienced a subdued quarter with the revenues of Rs.159 crores in Q3 FY24, a 5% year-on-year decline due to the corrective actions taken as previously highlighted. Despite this, our key brands continue to show strong secondary sales growth across categories, increasing their market share.

Our export business has shown a growth of 118% year-over-year, led by a strong performance in the US market. With our commitment to a "Healthier Bharat," I am confident that we are on the path to a brighter future.

I would like to conclude by expressing my gratitude to all our stakeholders for their support and confidence in Mankind. Before I hand over to Ashutosh ji to provide a deeper insight into our financial performance, let me highlight a few important points. First, the growth of Mankind is 25% in Q3 FY24 versus Q3FY23. The chronic segment is 1.5x higher than the IPM. The market share of Q3FY24 is 4.5% versus Q2FY24 4.4%. Panacea revenue growth is more than 25%. Export has grown in the tune of 118%. Even the growth of EBITDA is 39%.

Now, Ashutosh ji, please go for the financial details. Thank you so much.

Ashutosh Dhawan: Thank you, Sheetal ji. A very good afternoon, everyone. Firstly, I would like to thank everyone for taking time out for joining us. I hope you would have received our financial results and press release published on 31st of January 2024.

Today, I will take you through the key financial highlights for Q3 FY'24:

During the quarter, our revenue from operations significantly increased by 25% year-on-year basis to Rs.2,607 crores as compared to Rs.2,091 crores for Q3 FY'23. The EBITDA has grown by 39% on a year-on-year basis to Rs.611 crores with the margin of 23.4% as compared to Rs.440 crores with the margin of 21% last year's Q3 FY'23, which is an increase of 2.4% on year-on-year basis in percentage terms. This increase of 2.4% is driven by an increase in the gross margin of 0.7% and the balance is supported by operating leverage being achieved due to strong revenue growth which is 25% on year-on-year basis. In Q3 FY'24, gross margins have increased by 0.7% to 68.3% as compared to 67.6% in Q3 of last year. This increase is on account of favorable sales mix and the price increase effect which was undertaken in the prior quarters.

The R&D expenses for the quarter are at Rs.56 crores, which is 2.1% of the sale which remains within the stipulated range of 2% to 2.5% as we have communicated earlier.

The depreciation and amortization expenses for the quarter increased to Rs.110 crores from Rs.85 crores in Q3 FY'23. This is primarily due to two reasons:

First one is the capitalization effect. As we have capitalized more than Rs.1,000 crores in the last 12 months. Moreover, in this quarter, we have taken an accelerated depreciation on the items capitalized for our research center at Manesar as we have initiated the process of upgradation and expansion of R&D center to support future growth.

The ETR for nine months FY'24 is close to 20% as compared to 21.6% during FY'23.

The profit after tax for the quarter was at Rs.460 crores, which is 17.6% of the sales representing a robust growth of 55% year-on-year basis. Diluted EPS of Rs.11.3 per share of Face value Rs.1/-. Cash EPS, that is cash adjusted for non-cash items like depreciation and amortization was at Rs.14.1.

Further, I am elated to share that during the quarter we witnessed strong cash flow from operations of Rs.667 crores due to operational efficiency resulting in reducing the working capital days from 46 days to 42 days on a 12-month trailing period basis. This led to a healthy net cash position of Rs.2,756 crores. Our strong cash position in the balance sheet provides enough scope for any potential M&A and in-licensing opportunities.

Return on capital employed ex-cash increased to 31% on 12 months trailing basis as compared to 25% in FY'23. This is due to EBIT improvement and cash generation on a trailing 12 months basis.

Return on equity ex cash increased to 26% on 12 months trailing basis as compared to 23% in FY'23 primarily due to an increase in PAT percentage on TTM basis.

The CAPEX including the capital work-in progress was at Rs.324 crores in nine months FY'24. For FY'24, the total CAPEX would be less than Rs.500 crores. Further, we expect to maintain our EBITDA margins for the full year to be in the range of 24% to 26% as mentioned in the 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: We will now begin the question-and-answer session. The first question is from the line of Dr. Kunal D from Macquarie. Please go ahead.

Dr. Kunal D: First one is on our reported growth of around 22% for the domestic prescription business. If I strip out our consumer business and we have mentioned categorically two things, modern trade and hospital sales. So, just like to know are those a big growth factor in this quarter? And if yes, can you quantify those?

Rajeev Juneja: Let me tell you something that we are a very unique kind of a Company and many departments in Mankind are still evolving. In the last few quarters only this modern trade department has become quite organized. Otherwise, what was basically happening, was all the goods were going from our regular stockists. And that's one reason all of a sudden modern trade is growing at a phenomenal pace; it is right now contributing 5%, 6% in our total sales. So, that basically is a major reason that when you look at the IQVIA and when you look at our own sales, there's quite a difference. This is one. The second basically is what we've always mentioned that our chronic growth is much better; it is 1.5 times to IPM, we are growing faster. If you look at the whole as well in chronic side, you will find that two years back it was around 33% in 2022, 34% in FY23 and now it has increased in nine months to 35%. This is the second one. Third basically is, the second quarter was not great. In 3rd Quarter, we have recovered a lot in antibiotics, in gastro, all sort of things have really happened. That's the major reason, plus some sales have come from our other businesses like example agritech. That's the reason when you look at IQVIA growth versus the whole growth of Mankind, there's a difference.

Dr. Kunal D: Just one bit on the sequential compression in the gross margin. Is it primarily on the back of more, I mean, acute kind of also recovering from Q2 to Q3, and maybe some of these newer businesses might have some lower gross margin, is that the correct way to understand?

Ashutosh Dhawan: So, if you see gross margin on a year-on-year basis, there has been an increase of 70 basis points. However, on a quarter-on-quarter basis, there is a dip of 120 basis points and this is primarily because of two reasons. The first one is that we have taken some inventory-related accruals due to slow moving and non-moving items. So, that has impacted negatively. And secondly, the impact is coming because our Sikkim plant was comparatively underutilized for this particular quarter due to shut down on account of flood. So, 10% was the underutilization factor. So, it's a sum total of these two key factors which has resulted in the gross margin compression of 120 basis points on quarter-on-quarter basis.

Dr. Kunal D: And it should come back barring the product mix changes, etc., we expect this to reverse, right?

Ashutosh Dhawan: We maintain to the guidance given that our gross margins will be upward of 68% for the year.

Dr. Kunal D: On the consumer side, we have said that we have taken some distributor consolidation or IT implementation and channel inventory optimization impacting our growth. So, all those are now done in Q3 or we are still seeing those activities continuing?

Rajeev Juneja: Kunal, I mean, we said in the last quarter as well that we are going for optimization, automation and we have taken certain corrective actions. So, this would be completed in Q4 and we hope and are quite confident that next year would be much better.

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

Neha Manpuria: If I were to look at the growth that we've seen in the export business, that of course helps margins quite a bit. And if I look at the approvals, Mankind seems to be getting quite a few approvals in the US. Would you still qualify the US business like you have in the past as one off or we should continue to see this business grow and contribute to margins?

Arjun Juneja: So, our US business if you see, I mean, we have been filing a lot of products in the US. So, until this year and last year, products started receiving approvals and we were launching these products in the market. So, the base was very low in the last year, and that's why we are seeing a significant growth in this year. Also, the one-off product which we have, which is kind of a monopolistic product where there is no competitor in the market is contributing to a major part of this growth. So, we expect some sort of competition to come in this product. We are not sure by when, but going forward in the next year we expect some growth to come in the US market, but it will not be as significant as it was this year.

Neha Manpuria: If I were to strip out the sales growth that we've seen in export market even with some margin assumption, would we have still seen margin expansion in the domestic business because it does not seem that way if I were to just do a basic back-of-the-envelope calculation, it seems like margins have been pretty much flattish this year despite the growth in domestic?

Rajeev Juneja: I mean, look at the efforts of Mankind, in which direction we are moving. We are moving towards the chronic side. So, that basically gives some kind of indication that yes, in chronic side since we're working, we hope that our gross margins will definitely increase.

Neha Manpuria: And would that reflect in EBITDA margin improvement, sir, or that chronic expansion require us to continue to spend on SG&A promotion to achieve the growth rate that we want to achieve for chronic?

Rajeev Juneja: So, why not EBITDA will increase for what we're working actually? I mean we are working for long term things always. So, what is relevant, what is right, we keep doing that. We hope that EBITDA will definitely increase.

Neha Manpuria: You mentioned potential opportunities that you're looking at consumer healthcare and chronic. In consumer healthcare, what are the segments that you would be interested in given the existing portfolio that you have, what are the areas that would interest you?

Rajeev Juneja: Neha, anything which basically is towards pharmacy side would interest us, anything, because we have always seen that we are strong in our pharmacy side. So, we want to just further strengthen that, not any FMCG.

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

Harsh: You made a comment in the initial part of the commentary in terms of the volume growth. Could you clarify a little bit in terms of the Mankind volume growth being 2.3% versus -1.8% as per IQVIA data?

Rajeev Juneja: The point we basically emphasized on and I just said five minutes back as well is that our modern trade and hospital sales department is quite new, it is few quarters old only and that's one reason it is growing at a phenomenal pace. And for your knowledge and for people for understanding IQVIA does not cover that. And that's one reason. When you look at it from IQVIA lenses, you find that our growth is in minus, but once you add our modern trade sales, the growth would be 2.3%. And also one product which basically had a regulatory effect, discontinued, that also was the reason for that.

Harsh: In the presentation, the nine months data that is given, these numbers that you're talking about is on a quarterly basis that I understand, but the presentation Slide #17 that we have given -1% volume growth. Is there a way to sort of understand what would look like post these adjustments on a nine-month basis?

Prakash Agarwal: So, that is as per IQVIA the number that we are reflecting. As adjusted for the product restriction as well as the Modern trade as highlighted by Rajeev ji it's about 2%plus. So, it's outperforming the IPM.

Harsh: Even on nine-month basis, the volume?

Prakash Agarwal: Yes.

Moderator: The next question is from the line of Amay Chalke from JM Financial. Please go ahead.

Amay Chalke: I just had a follow up on the volume and the price constituents. So, basically, going into next year, we will see WPI to be on the lower side, price hike we will get on the NLEM side. So, how do you expect these constituents to change going into next year because the price hike component is around 6% right now, your product component is around 4% which I believe is slightly on the higher side compared to peers?

Arjun Juneja: So, basically, if you see the WPI for next year will be flattish, it will not be negative by a big number, I think it's coming to around 0.02 or 0.03 negative. So, I think WPI will be negative. I mean if you see overall Mankind's portfolio, I think we are one of the only very few companies in the industry where negligible portfolio falls in NLEM whereas products which are outside of NLEM were allowed to take a 10% price increase, and over the last few years we've been miser enough to take this price increase, which we are taking very judiciously in selective products where we don't increase our pricing too much because over the years the tag of affordability which we have maintained, we want to maintain the same tag. However, having said that, I feel that over the next year, we continue to expect a similar price increase what we've seen this year.

Amay Chalke: Don't you think this price hike strategy is a drift from what we have grown over the last 10 years?

Rajeev Juneja: See, I mean the strategy basically is only one that how can we grow and how can we maintain our accessibility image in consumer's mind, because this has been done in the last couple of years working. So, we always want to maintain that kind of image of Mankind in consumers mind. Strategies, whenever there is the opportunity, whenever we see that competitors have increased and we have some kind of a say that in the top ten or top 15 companies, we are the most affordable, we go for that. We basically move as per the overall scenario in the market. random / separately, we don't see like that. It's always been a holistic thinking.

Amay Chalke: In this price hike, is it more towards chronic product, is it more towards acute product, how would you specify?

Rajeev Juneja: It is always more towards opportunity, neither chronic nor acute. Whenever we see the opportunity is there, we don't look from these lenses, we look where it will not affect us, where competitors will not be able to cut our corners. This is how we move forward.

Prakash Agarwal: So, across the portfolio in acute and chronic, we remain 15% to 20% cheaper across the portfolio.

Amay Chalke: Is it possible for you to tell us about the profitability of the acute and the chronic business, if not quantitatively, at least qualitatively, whether the chronic is still in investment phase or how things will move here?

Ashutosh Dhawan: We can give you a flavor around the gross margin front because at the EBITDA level there is an overlap for promoting chronic as well as acute. If you look at the gross margin standpoint, there is a delta of 10% to 12% better margin in the chronic segment on absolute terms basis as compared to acute. Let's say, if acute is giving a margin of 65%, then chronic will be giving 75%, 77%.

Amay Chalke: Yes, but that's very generic for all the companies. If you can give some flavor on EBITDA is it a chronic investment phase because the contribution of chronic business is expected to increase for the next five years, so I wanted to know directionally how it will change?

Rajeev Juneja: Please understand that our Mankind's model is very unique. In what sense that like you see in any pharma companies, they have only chronic division, and here our number of divisions have mixed portfolio, acute and chronic, and some divisions are only chronic which are launched in the last four years' time. So, it's quite difficult for us to really, I mean segregate those. It's always mixed up. And that's one reason whatever you call it, we give this kind of generic answers, they are not separate, separate.

Sheetal Arora: Even if you see only chronic share has improved. If the chronic share will improve, then definitely EBITDA and gross margin is going to improve.

Amay Chalke: Where do you see the exports five years down the line? What are your priorities there? How do you see yourself in terms of geographic presence, manufacturing capabilities on the export side?

Sheetal Arora: Mankind was a domestic focused Company and it will remain a domestic focused Company. 90% of the sale definitely will come from domestic. So, export, we are primarily in US and rest of the world, but we are clear that wherever we can get the opportunity to launch niche brands which are high in profitability, we're going to launch those products. But going forward five years down the line, Mankind main sale will come from domestic.

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

Chintan Sheth: Sir, I have a similar question on the export side. Basically, the current run rate, you said the growth will not be similar to what we achieved this year because of certain opportunities we got. But do we see the positive trend to continue or at least we can maintain or match the revenue trend of this year, continuing going forward in the absolute basis which is around Rs. 200 crores this quarter?

Arjun Juneja: We can assume the positive trend will continue. The growth will not be as significant as it was this year, but growth will be there like high teen, double digit growth will be there in the next year because we are expecting a few new approvals over the next few quarters.

Prakash Agarwal: And the existing products which are launched in the last nine months are also ramping up.

Moderator: We'll take the next question from the line of Sagar Sethi from Sethi Investments. Please go ahead.

Sagar: What about your margin profile going ahead?

Abhishek Agarwal: We have given EBITDA margin guidance of 24% - 26% for the financial year and in nine months we have done 24.8%.

Moderator: The next question is from the line of Dr. Kunal D from Macquarie. Please go ahead.

Dr. Kunal D: Sir, on the chronic business, we have done really well; I think FY'18 or '19 we have 28% contribution coming from chronic, now it is at 35%. Do you believe that even over the next three to five years, such a pace of increase in contribution could continue for us?

Rajeev Juneja: Kunal, thank you so much for asking. I mean, we said we are saying it and we believe that Mankind is very capable of doing fantastic things in chronic side. We are a few years old; we are not 28 years old in chronic side, we are maybe 18, 19 years old in chronic side and in those 18, 19 years we have reached to this particular level. We believe that the future lies here. We are working towards that side and that's one reason you can see from 2018 when our share was just 28%, it has reached 35% in 9MFY24, and we'll definitely do very good. Our ambition is that it should be in line with any chronic side company more than 40% or 50% in the long-term?

Prakash Agarwal: One addition here. Three years back we had this specialty chronic division. So, we launched about 8 to 10 chronic divisions which are ramping up. So, these are focused towards super specialty doctors and these are across cardiac, diabetes, CNS, respiratory inhalers, etc., So, these are still ramping up, I mean, the growth rate is much faster than the Company average growth rate. So, net-net, if you see that would also lead to a market share increase on the chronic side.

Ashutosh Dhawan: And moreover, if you see, we are under indexed in this segment. The IPM is at 38%. So, we are at a below average of IPM. So, that's also gives us some headroom for growth.

Dr. Kunal D: Would you be able to provide the field force number including the primary manager and excluding the first line manager?

Ashutosh Dhawan: So, the total number of field force as on 31st December is 15,900. And if you see the breakup, so around 12,000 is the MR and the balance are the managers.

Dr. Kunal D: One on the depreciation and amortization, which has continued to go up and you have highlighted that we have capitalized Rs. 1,000 crores gross block and that is the reason, but if you see Rs. 110 crores per quarter is it more or less a sustainable number for us?

Ashutosh Dhawan: So, as we mentioned that out of this Rs. 110 crores, Rs. 9 crores is a bit of an inflated number because that's the accelerated depreciation which we took. So, it will be somewhere around Rs. 100-odd crores.

Dr. Kunal D: Last one on EBITDA margin. While you have guided for 24% to 26%, but any let's say medium term guidance or outlook or aspirational target that you have in mind?

Ashutosh Dhawan: So, if you see our nine months EBITDA profile, we are at 24.8%. We have given a guidance of 24% to 26%. And if we continue to maintain the growth momentum, which we are on the path of, we are hopeful that the margins will be getting achieved.

Prakash Agarwal: Just to add the levers here, I mean, I get so many questions on EBITDA margin, but just food for thought, so one is increasing share of chronic that will lead to margin expansion. Second is the new division that we spoke about the super specialty in Mumbai. So, these are under index, and they are growing faster than the Company average. So, that will lead to margin expansion which both these put together also leads to improving MR productivity. If you see last year we were at 5.7 lakhs per MR, we have improved in the last nine months to 6.4 lakhs. If the MR productivity increases, it flows down to EBITDA margins. So, these are three, four key parameters and the last one is brand creation. So, if you see last year we had 36, 37 brands which were Rs. 50 crores, and as the brand sales increase, the incremental effort to market those brands is less. So, margin expansion happens in those brands. We are now 39 in Rs. 50 plus crores brands. So, these are few food for thought that these initiatives lead to margin expansion. So, the direction should be there. Hope this helps.

Dr. Kunal D: Yes. Prakash, thanks for that. And lastly, from your pricing comments, what I understood is, we are currently at 15% to 20% discount, and we would be taking pricing but we would not be taking it on overboard. So, our relative discount would continue vis-à-vis peers. Is that correct understanding?

Ashutosh Dhawan: Yes, correct. The point is that that the price increase growth will be in line or slightly lower than the IPM price increase growth, so that the competitive advantage is maintained. At the same time we will be carrying out the opportunistic price increase wherever opportunities are there, the price increase will be taken.

Moderator: The next question is from the line of Gagan Thareja from ASK Investment Management. Please go ahead.

Gagan Thareja: The first question is, can you quote the share of sales coming from DPC or NLEM?

Ashutosh Dhawan: It's between 14 to 15% is what is under the NLEM.

Prakash Agarwal: and Industry average is around 20% plus.

Gagan Thareja: On the Dydrogesterone facility at Udaipur, can you give us some idea of what sort of scale up we can see from that in the coming year?

Arjun Juneja: So, Dydrogesterone facility was recently started in the last quarter, and the facility is in the process of scaling up, commercial supplies have already started. So, I hope that from the first quarter of next year, the facility will be fully scaled up and would be catering to the domestic and international demands of Dydrogesterone in totality.

Gagan Thareja: Two questions related to that. One, I mean in terms of scale up of sales of Dydrogesterone, would there be a sharp ramp up next year? And second, obviously currently the OPEX is under absorbed and therefore consequently next year would it mean that margins should benefit from the ramp up?

Arjun Juneja: I mean this plant is made to cater to the future demands of Dydrogesterone. And Dydrogesterone is not just consumed in India, it's also consumed outside of India. There are several markets, for example, China, Russia, lot of Southeast Asian markets which are big in consumption of Dydrogesterone. So, this plant is made to cater to the growing demands of India as well as international demands. However, saying that it has no correlation to our sales in India, I mean we were able to cater to the domestic demand in India through our existing plant where Dydrogesterone was previously being produced. But seeing the potential of the product and seeing the growth of the product in the coming future, we started this new plant so that we are prepared well in advance to cater to the expected new demand for the growth in India and the newer markets.

Gagan Thareja: So, for the newer markets there would be an approval process. When do you see yourself being able to position yourself in those markets with sales?

Sheetal Arora: See, newer markets like China, Russia, UAE, if we have just started the approval process, it will take another two to three years minimum. So, by FY27-28 you may see the sales of Dydrogesterone coming in those markets.

Gagan Thareja: And for the tax rate, what should be the budget for the full year this year and in the coming year FY'25?

Ashutosh Dhawan: So, for the nine months period, our effective tax rate is close to 20%, and for the year it should be around 21% or so.

Gagan Thareja: Is there scope to further ramp up Sikkim and therefore also sort of bring down tax rate in FY'25 or does it stabilize at these levels?

Ashutosh Dhawan: So, that's a good question. We have done the capacity enhancement last year. And if you see last year, we were at 22%, this year we are hovering somewhere close to 20%. So, we have taken benefit. Yes, there are levers available, but it all depends on the products being sold out of Sikkim plant and the expansion being carried out. So, we expect it to be somewhere in the range of 20% to 21%.

Gagan Thareja: For the new specialty chronic divisions which you launched in Mumbai relatively recently, can you give us some idea of what's been the PCPM ramp up from these divisions and what timeframe do you see that optimizing or coming to parity with the market average PCPM?

Rajeev Juneja: In the last four years, we've launched many divisions. Quite a lot of divisions. The productivity ranges from Rs.2 lakh to Rs.4 lakh. At different times these divisions have been launched. Some are four years old; some are 3.5 years old. So, in chronic side, once a division crosses Rs.5 crores turnover, then it starts really I mean firing best. So, we hope that as the time will pass, these divisions will do very good, because in chronic side the advantage basically is what, your prescription stays with you and new prescriptions add to your growth. That's one reason we are so bullish about chronic side.

Sheetal Arora: And even if you see the growth of this chronic division, this is much higher than the other general division, some are going in the range of 20%, some are going in the range of 30%. So, going forward, these revenue growth will contribute.

Gagan Thareja: On the consumer portfolio where this year has been weak because of some of the channel consolidation and IT activities that you've undertaken, how should we look at recovery in terms of growth in the coming year?

Rajeev Juneja: We mentioned you a few minutes back again. In the last quarter only we said that we are correcting certain things over there. So, this year will be muted. Next year we expect to really regain the previous kind of a growth… good growth will come next year in consumer side.

Moderator: The next question is from the line of Gaurav Jain from ICICI Prudential Mutual Fund. Please go ahead.

Gaurav Jain: I have a follow up question on the export side. If you can help us understand for the nine month how much is the growth on the base business and how much is the one-off opportunity because I think in the last con call you said that you were targeting for double-digit growth on the base business, removing the one-off. So, if you can clarify that a little better please?

Arjun Juneja: So, I mean, we are on track to… as we said in the last quarter that the newer launches which are there which are getting ramped up. So, there is significant growth in those products and as well as from the one-off business, there is growth. So, I mean, if you really ask me, I mean it's almost like 60% - 40% between the one-off product and the newer launches or the base business.

Gaurav Jain: The growth basically is 60% is from newer launches and 40% is from one-off.

Arjun Juneja: 60% is from the one-off and 40% is from either the existing products or the new launches.

Gaurav Jain: Second question is on expenses. For the nine months, I think our employee cost is up by 19% and other OPEX is up by 15%. Is there any specific reason for this higher increase or do we expect this run rate to continue?

Ashutosh Dhawan: If we talk about the employee cost, on a quarter-on-quarter basis in value terms, it is flat. But since sequentially there is a drop in the sale of around 4%-odd, so that's why in percentage terms it is higher. And if you compare it to last year to this year, yes, there is increase in employee cost because we have added additional headcount of close to around 1,000-odd people at the overall group level and this also includes the impact of the annual increment which is taken, and some ESOP expense also came in. And moreover, on a year-on-year basis, there is a 25% increase in revenue. So, that has also had a variable incentive impact therein.

Gaurav Jain: Will you be able to guide us for FY'25, how should we think about the growth in expenses and employee cost?

Ashutosh Dhawan: See, the endeavor is that the increase in overall percentage basis, the employee cost increase percentage should be lower than the growth percentage of the Company. That's how we try to peg it. And if you look at it in the percentage terms from last year to this year it is lower.

Moderator: The next question is from the line of Rahul Salvi from Franklin Templeton. Please go ahead.

Rahul Salvi: I was looking at the investor presentation. So, I don't know whether this question has been asked by the previous participants, but the domestic business grew by 20% YoY in this quarter and IQVIA reported growth is at 9%. So, can you split the growth between modern trade, hospital sales and the actual primary sales which goes through the channels for our understanding? And the second question is why there is so much difference between reported and IQVIA numbers?

Dr. Sanjay Koul: So, my submission is, you'll get a better understanding about this scenario in case you look at nine-month YTD growth numbers. I'll start with that and then I'll answer your full question. Our nine months growth was 13.4% and IQVIA shows it 9%. Modern trade, e-commerce and hospital business is not captured by IQVIA . It contributes in our sale of 5% to 6% and in growth it contributes by 2%. So, if you look at 2% to 9% of IQVIA, we are very close to 13.4% and then the remaining percentages from new business, which has already been mentioned by Rajeev sir, we are close to that primary number if you compare IQVIA versus primary on nine months basis. So, my submission is, you should look at this growth number on nine months basis rather than one quarter because IQVIA number does not capture modern trade, corporate hospital sales, and there will be discrepancies and our modern trade business has grown in this quarter by more than 35%, on YTD basis by 60%. That is why it has an impact on overall growth numbers.

Rahul Salvi: And modern trade and eCommerce is the same or it's different?

Dr. Sanjay Koul: Modern trade is basically B2C, and E-commerce is brick and mortar, we supply medicines to brick-and-mortar stores.

Rajeev Juneja: Modern trade basically is this Apollos and brick and mortar, and e-commerce is we know what e-commerce is, right. So, we're talking about modern trade and hospitals. Something I just want to mention here is that our modern trade and the hospital department has come up recently a few quarters back. Earlier it was not structured. So, things were happening as it is. But now since it is being supplied from Mankind to these hospitals and as per our understanding, IQVIA does not cover these. That's one reason you are seeing that kind of difference.

Prakash Agarwal: I think from next year it will normalize.

Rahul Salvi: So, that also explains the -1% volume degrowth, which is shown by IQVIA because they are not capturing the modern trade.

Prakash Agarwal: Correct. We will take that offline.

Rahul Salvi: Second question is on export growth. There was a question on that, but did you quantify the one-off and if you're saying that we'll still grow in double digits on the base of this year, which will be around Rs. 650, Rs. 700 crores, so that one-off is a recurring or what exactly do we need to say?

Prakash Agarwal: Rahul, we are not quantifying the one-off. It is a reasonably large part this year. We don't know when the competition on this product will come. But we also mentioned that last year and this nine months there have been few launches, and our product selection is based on the quality of the products with higher margins. So, base portfolio is also growing double digit this year and we expect base portfolio to continue to grow double digit next year as well.

Rahul Salvi: So, there is no visible competitor in this one-off?

Prakash Agarwal: Currently no. It continues as far as this quarter is concerned.

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

Alankar Garude: Would you attribute the strength in the hospital segment, the organized part which Rajeev ji mentioned to the Panacea acquisition?

Rajeev Juneja: No, it's not like that. I mean, see, the point was earlier our regular stockists were supplying, right! So, supplies were already there. But the problem was - goods were coming from one state to second state. So, just to address that problem, we have centralized this modern trade, hospital business department and now things are going straight from our depots to those places so that we can properly distribute sales to the right people. And since it has been done in last couple of quarters, that means around one year and that's one reason we all of sudden didn't see huge sales, which was already there and when it was being done from our regular stockists IQVIA was earlier covering, now it is not. That's one reason. Yes, a certain kind of advantage you get when you get some kind of products from Panacea as well but not very significant.

Alankar Garude: I think as you mentioned in response to the previous question, you expect this outperformance from these newer segments to normalize from next year onwards?

Rajeev Juneja: Newer segment means what? Modern trade. Yes, it will normalize.

Arjun Juneja: Because this year there is a base effect, so that's why.

Alankar Garude: The second question is, do we remain keen on divesting the Mahananda Resort? And also, is the Gurugram residential project completely off the books now?

Ashutosh Dhawan: No, that project is on the verge of completion, the residential project. So, it is coming in the books. And with regard to Mahananda, we would like to re-emphasize that there is no further investment which is going into this particular resort. This is self-sufficient or on self-sustainable mode. And if you look at the EBITDA, that EBITDA is also higher if you compare it to the Mankind EBITDA level. But having said that, we remain committed to our initial position that whenever there are good monetization opportunity, we will definitely explore and capitalize on that.

Alankar Garude: In the previous call, we had mentioned recouping 70% of our FY'23 sales for Codistar. Can you update us on the progress on that?

Dr. Sanjay Koul: Codistar, when it was restricted, the Company was doing approximately Rs. 8 crores per month. So, we are already at the level of Rs. 6 crores per month. We are very close to that, but there has been a steep decline because of price erosion, but unit wise we have improved. So, we believe next year we will reach very close to the number we were last year.

Moderator: The next question is from the line of Rashmi Shetty from Dolat Capital. Please go ahead.

Rashmi Shetty: Just one question is on Dydrogesterone. When we see the IQVIA data, we see that the value share has come down and there are some other competitors also picking up the share which I understand is mainly due to the competition coming in. But in the volume share also, it has slightly come down. So, here also is there any adjustment of modern trade which is not shown by the IQVIA data? And whether really the volume share has come down or we are really picking up in that product? Second question is in case if the trade margin rationalization comes in the future, will there be any impact on Dydroboon sales because that is through clinic, right, and Drogyna is at the chemist level. So, if you can give some picture on it?

Dr. Sanjay Koul: There are two, three questions in this. On your first question, I don't think that Dydroboon and Drogyna are promoted through different channels, both are promoted through trade channels. #1. #2, modern trade definitely has made an impact in overall volume growth. There is no confusion about that because it's not captured by IQVIA. Having said that,because of increased competition, we lost momentum in the first two quarters, but we have taken corrective measures in the 3rd Quarter. And let me share with you, if you look at our Q2 versus Q3, our market share has improved from 16% to 18%. And if you look at the December growth, we initiated corrective measures, some initiatives in early 3rd Quarter which has given us good results. The 3rd Quarter market share is approximately 18% versus Q2 market share of 16% plus if you look at December growth IQVIA, Dydroboon growth was 19% versus industry growth of 17%. So, we are on track for a better performance in the coming month and the next year. I hope I answered your question.

Rashmi Shetty: Yes, sir. Very well. And there won't be any impact in case of trademark and rationalization comes, right, on this particular product?

Rajeev Juneja: Nothing. No, madam.

Moderator: Ladies and gentlemen, we will take that as the last question for today. I would now hand the conference over to the management for their closing comments. Over to you, sir.

Abhishek Agarwal: Thank you everyone for joining us today. We really appreciate you taking time out for the call and we look forward to interacting with you going ahead in the subsequent quarters as well. Have a nice day.

Rajeev Juneja: Thank you so much.

Moderator: Ladies and gentlemen, on behalf of Mankind Pharma Limited, that concludes this conference. We thank you for joining us and you may now disconnect your lines.