



“RPG Life Sciences Limited Q2 FY'23 Post-Results
Conference Call”

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MANAGEMENT: **MR. YUGAL SIKRI – MANAGING DIRECTOR, RPG LIFE SCIENCES LIMITED**
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MODERATOR: **MS. DHARA PATWA – SMIFS LIMITED**

Moderator: Good day ladies and gentlemen and welcome to RPG Life Sciences Q2 FY'23 Post Results Conference Call hosted by SMIFS 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 Ms. Dhara Patwa from SMIFS Limited. Thank you. And over to you ma'am.

Dhara Patwa: Thank you, Michelle. Good afternoon, everyone. On behalf of SMIFS Limited, I welcome you all to Q2 FY'23 Conference Call of RPG Life Sciences Limited. We are pleased to host the top management of the company.

Today, we have with us Mr. Yugal Sikri -- Managing Director and Mr. Vishal Shah -- CFO of the company.

We will start the call with initial comments on the result and then we will open the floor for Q&A. Now, I hand over the call to the management. Over to you, sir.

Yugal Sikri: Thank you, Dhara. Good afternoon, everyone on the call and thank you for joining us on this earning call.

Let me first give you a brief on a couple of points, which is market context, our priorities and where are we on them and these highlights of our performance and then we move over to questions and answers.

In terms of the market, we know that the market is growing at close to about 6.6% if I look at the IQVIA and there are a number of areas which are either positive or not so positive impacting the pharma market growth.

We have seen the volume growth declining in the pharma market. In fact, the IPM MAT Sep'22 data indicates that the unit-wise market is degrowing at (-0.8%). Inflation is high, which is putting pressure on the input costs and logistics costs, etc.,

There is a significant emphasis on domestic formulations. One can see spate of acquisitions happening to beef up the domestic formulations business.

There is regulatory pressure also mounting because of our significant share in the domestic market perspective and in exports. And there are certain developments which have happened which you all are aware of.

On the positive side, the new product class, Biologics, Biosimilars are gaining acceptance, their shares are improving, e-commerce is also gaining foothold, government has put trust on API,, PLI Scheme, etc., is also good for the industry. And also, there are some players who have got

into NCE research or even NDAs are being filed. So, that gives us some snapshot or some positive, some negative on the pharma market.

As far as RPG Life Sciences is concerned, RPG Life Sciences is making use of some of the positive developments which have happened in the industry and are also guarding itself against the odds which we are seeing happening at the marketplace. Now, our growth is significantly higher and consistently higher than the pharma market we operate in.

Now talking about some priorities and some factors of performance. On the people front, who are our major assets to drive our business, we are the only group who has Happiness as the theme, and we have a host of initiatives launched with respect to Happiness, and I'm also happy to share with you that the Happiness score which perhaps we are the only group which measures the Happiness score, our score has significantly improved even versus earlier years. We are also investing a lot on talent development, the development agenda, skill enhancement, etc.,

With respect to cost thanks to various structural initiatives which we have taken, which includes from backend to frontend. On the back end, I shared the last time, we launched the first level formulation reengineering exercise for our old mature products, we did organizational restructuring, we launched a number of small, small projects across the organization to help us identify the cost areas and the cost elements which we need to act upon. And with the result, we have been able to consistently improve our EBITDA margins, which was somewhere around 9% to 10% in FY'19, today, in H1, you have seen close to about 22%-plus, a gain of 12% points in the last 3.5 years.

Profit improvement has also made our cash situation better. A very prudent working capital management has also helped us to improve our cash situation. We have paid our debt as we discussed last time, and we are now sitting on some healthy cash with us, which we want to prudently deploy for our growth lines.

With respect to communities, we operate as a responsible corporate citizen, we're working on reaching medical care. You would have heard under the RPG Foundation; we have launched Portable Fever Clinics in Maharashtra state and that's being expanded to elsewhere. We are reaching with the care to the communities. We are also working on providing education via our Pehlay Akshar initiative, which has trained over 9,000 teachers and over 20-odd labs for students.

On the demand front, thanks to COVID roughly being behind us, we have not only resumed our physical customer connect with a doctor, and thanks to a very-very comprehensive anytime, anywhere doctor support initiative, RPGServ, we have been able to now reach out to over 84,000 + doctors in the country, that's our additional share of voice which is also helping us to improve our demand situation.

On the supply side, the factories are working very well. There are issues because of the geopolitical reasons on the cost front. We are also impacted whether the cost of solvents or excipients or APIs or logistics, impacted but our structural initiatives which we had put in place of our cost management, cost optimization have helped us to part offset the negative impact of the rising input costs.

Let me now spend a few minutes on talking about the performance in Q2 and H1. You would have seen; we have healthy consistent above market double digit revenue growth. On H1 basis it is 19.4% growth, for Q2 on QoQ basis it is 4.5% and YoY basis it is close to 20%19.7%. Similarly, we have healthy consistent double-digit profit growth. The EBITDA up by 20.4%, PBT by 25.3% and PAT by 30.2%. And on quarterly basis, again, our growth on EBITDA is plus 6.5%, PBT plus 7.5%, PAT plus 9.7% and on YoY basis plus 16.8%, plus 20.9% and plus 26.8% respectively.

Our profit growth is consistently higher than the revenue growth. It has helped us to improve our margins. So, I'm happy to share with you that our EBITDA, PBT and PAT, all the three have improved, or has maintained the consistent upward trajectory, which has been going on quarter-after-quarter for the last three-four years, had been maintained. The EBITDA has improved from 22.6% to 22.8%... I'm talking about FY'23 H1, PBT 18.9% to 19.8% and PAT 13.3% to 14%-odd.

Talking about the segmental performance, I'm also happy to share with you that international formulations API, all of the business segments we operate, have registered healthy double-digit growth. Our domestic formulations business which contribute about 55% to our turnover, has grown at 19.6%, international formulations contribute around 19%, had grown at 25.5%, and API, which contributes 16%-17% is growing at around 10%. Here again, in all the three segments, our EBITDA margins are healthy double-digit now. After becoming a debt-free company, as I mentioned earlier, we have a cash surplus, and we have also added to the cash surplus in the H1 of this year. Hedging continues to be under control and healthier zone now. Our expiries have moved to I think one of the industry best situations today.

New products is our thrust area. We have launched a number of new products across the business unit, across the therapy in line with our portfolio modernization or product portfolio transformation strategy, and I'm happy to share with you that in the domestic formulations business, the new products launched in the last three years, today contribute 28% to our domestic formulations business.

We had designed a very comprehensive transformation program for the company, which had six tenets, and I'm happy to share with you that in all the six tenets, we are very diligently working, we are also measuring quantitative the performance of these parameters and discuss with the senior most level every quarter. That's about the brief on the quarter.

In H1, the new products also I mentioned to you, we have three categories of new products in domestic formulations. One was line extensions for the legacy products. I'm happy to share with you that we had identified 24-25-line extensions, we have launched eight-line extensions so far and they contribute close to over 15% to sales.

A number of new product launches in the specialty business have now contributed about 12% of the domestic formulations business. And that's what is actually helping us to ensure that our legacy brands are also growing and also our (Inaudible) 13:42 and the new products contributing to our business performance. This is what is happening on the domestic formulations front.

On the international formulations front, the priority was clearly defined. In international formulations, we will expand our footprint in the RoW market. In the regulated market, we'll focus on the niches which we find profitable, and where we can consistently generate revenue and these niches are in immunosuppressants, complex generics and the products needing special manufacturing conditions, and these are the indeed identified areas, we are developing our product pipeline also accordingly.

For the API business, again, we are working on backward integration of our finished formulations for both domestic formulations and international formulations business, plus identifying new products, new customers and new markets to contribute to our business.

For the sustainable or accelerated growth of the international formulations and API business, we have also worked out plant upgradation plan both for the Ankleshwar plant as well as the API plant at Navi Mumbai and the work is going on in full swing as per the plan. So, I thought let me share with you the entries about various segments, initiatives and sectors performance for the company.

Thank you so much for the patient listening. I'm now open to the questions. With me, I have Vishal Shah, he is our CFO, he was there last time as well.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Aditya Khemka from InCred Asset Management. Please go ahead.

Aditya Khemka: First question, what is our total number of MRs today and how many of these MRs are the hospital channel MRs and how many of them are GPCB?

Yugal Sikri: Thanks, Aditya, for joining. In terms of the number of field force we have over 500 MRs in the country today, and they all cover the OPD doctors and in some category like nephrology, also, the hospitals and clinics. Actually, they are dedicated to the trade business.

Aditya Khemka: But the MRs who call on the hospital doctors would be different from MRs would call on the standalone clinics and chambers, right, I mean -?

Yugal Sikri: That's not in our case, Aditya. For example, we have our nephro business. So, the doctors whether they have their own clinics, or OPDs or they have hospital attachments, they are called by nephro MRs. We don't have a separate team for the hospitals and separate team for the trade doctors because we don't have typical hospital-based products or specific hospital-based products only. Since we have the products which are written by the nephrologists while they visit the hospital, or whether they sit in their own clinic outside as we have the common MRs. As far as the mass business is concerned, I think we don't have a significant hospital coverage there, they are largely OPD or trade doctors.

Aditya Khemka: Can you divide your number of MRs into mass and specialty?

Yugal Sikri: In the mass specialty, I would have a ratio of 20% to 80%; 20% for the specialty, 80% for the mass.

Aditya Khemka: In terms of our MR productivity now, so where do we stand and what is an aspirational target there?

Yugal Sikri: I'm happy to share with you, Aditya, that the MR productivity has consistently improved; the productivity which stood at 3.4 lakhs for the entire domestic formulations business I am mentioning, has moved from 3.4 lakhs to 4.2 lakhs to 4.2 lakhs to 5 lakhs and now in H1 it stands at 5.5 lakh-plus.

Aditya Khemka: And my second question is on the breakup of our domestic revenue growth. So, we have seen some 20%-odd growth. Can you break it up into volume, price and new product introductions please?

Yugal Sikri: In terms of the three components of growth, happy news is that the majority of growth is coming from the volumes, which is 12%-plus. And you'd have seen that the industry, we have around (-0.8%) growth. So, we have 12% growth coming from the volume, around 4.5% from the price increasing and remaining coming from the new product introductions.

Aditya Khemka: And if I ask you the same question for the API business, how would you respond to that, what do you mean price for APIs?

Yugal Sikri: API business, frankly speaking, you know that we are we are in a generic business, we have old mature molecules. Therefore, almost entire growth would be volume growth, whatever we have got in terms of the growth, because the price increases are very negligible.

Aditya Khemka: In your presentation, you wrote that, while the domestic and the API business helped the growth in margins, your international formulations business seems to have been flat or lesser margins than earlier. Can you comment on that? And how do you plan to sort of foster the margins of the international formulations business?

- Yugal Sikri:** The international formulations business, as I mentioned to you, the EBITDA margins are much better now, very, very good, healthy double-digit margins. PBT margins are relatively lower, because you will have the plant depreciation, etc., So, in terms of the margins, I will consider margins significantly good, and that has come from the OPEX, and that's also come from the manufacturing efficiency, though the raw material cost has shown an upward trend. So, that's on the international formulations business.
- Aditya Khemka:** Are we able to sort of adjust our selling prices in international formulations business to gain on the gross margin front because our raw material costs are going up, are we able to pass it on to our buyers?
- Yugal Sikri:** No, no. As I mentioned, it's a generic business and we have mature molecules, that has not been the case. Yes, we have reached out to everyone and where we have got some positive things which have come to us, but has it happened across, no. Gross margins in international formulations business are slightly better compared to the earlier years, largely because of the product mix.
- Aditya Khemka:** But last year FY'22, margin was close to 68%, 69%, you are currently at 65%, 66%. So, if the international formulations margin has improved, then which bucket are we seeing a significant decline in margins, because our overall gross margins are down 200, 300 basis points YoY?
- Yugal Sikri:** We have had an impact in the API and to some extent in domestic formulations.
- Aditya Khemka:** In domestic formulations, despite the 4.5%-odd price increase that we're seeing, our GMs are still down, is it?
- Yugal Sikri:** Slightly.
- Aditya Khemka:** So, this 4.5% price increase which is there on the domestic formulations business, that is obviously so far, because some of our products would not have yet been eligible for a pricing given the 12-months period that we need to spend before we take a price increase. So, by the time we end the fourth quarter of FY'23, we would have been able to take price increases across our product basket in the domestic formulations business. So, my question to you is, would the gross margin of the domestic business by the end of FY'23 will be better or in line with last year's gross margin?
- Yugal Sikri:** Yes, I'm keeping my fingers crossed, Aditya. It all depends upon how the input costs pans out. It is a mix of all the things, that is solvent, whether it is excipient, whether it is APIs, except for the aluminum foil we see some softening, and some solvents, otherwise, the prices have not softened. So, if things improve, I think we should end up with better margins. But if things don't improve, maybe the situation will remain the same.

Aditya Khemka: Some of your raw material costs, which are linked to crude specially solvents, with the sort of marginal decline in crude prices that we've seen, they must have come off. Are you also facing an inventory issue where you might have stocked up on some of these raw materials when the prices were higher and now because you're consuming that raw material, your gross margin is impacted, but now that some of these raw material input costs must have come down, so now that you are purchasing them now, that consumption of the raw material that you're purchasing today will happen three months, six months down the road, I mean, I'm just trying to gauge if that is the case, because some of the companies do indicate that is the case.

Yugal Sikri: Aditya, in our case, I think it has been just the other way round. Last year many of the people had a problem in terms of the gross margin. For us, it is not because of very prudent purchasing we did and so we are not loaded with any of the high price material with us. That is what we have developed in our procurement management. So, that is actually not the case largely, I can share that with you.

Moderator: The next question is from the line of Yogesh Tiwari from Arihant Capital. Please go ahead.

Yogesh Tiwari: My first question basically is, if you can share your thoughts on the current logistic cost compared to the previous quarter, so, what would be the trend like on a quarter-on-quarter basis?

Vishal Shah: The logistics cost, if we compare with the last year also, still we are in the high freight cost trajectory and to an extent it has bit softened. But still if we compare with the pre-COVID period, it is still on a very higher side. So, still we are grappling with the high export logistics cost.

Yogesh Tiwari: But compared to like the current scenario versus Q2, which just got over, has the logistic cost further reduced?

Vishal Shah: Very marginally it has reduced.

Yogesh Tiwari: Since we also have a large international market, so, we had this case in Africa, when there was some unfortunate event in Gambia, so, just want to understand, is there any impact of such events on the business front in those areas?

Yugal Sikri: Yogesh, we have no such impact in these markets as we are not in these markets and this Maiden Pharma's episode has not impacted us.

Yogesh Tiwari: Nothing like an impact on the brand or maybe something like that?

Yugal Sikri: Good thing is that we have a very long relationship with our customers, many of the customers are with us for 15, 16 years. So, they have seen what kind of company we are, what kind of quality controls we have. In fact, we have received growing tributes from our customers for the quality of our dossiers, for consistency of supply. So, yes, you're right in asking this question, because there is a question mark on supply from India, but touchwood for us, since we have long

standing relationship with our customers, and we have got good quality track record, we have not faced these issues and I don't expect these issues to be facing in the near future as well.

Yogesh Tiwari: One question is on the API front. What percentage do we use internally and what is for external sales percentage?

Yugal Sikri: It ranges between 15% and 20% for domestic, rest is the exports.

Yogesh Tiwari: Okay, so 15% to 20% would be consumed internally?

Yugal Sikri: Captive consumption, yes.

Moderator: The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: On international formulations, we have seen a robust growth during the first half. Last year was impacted because of the Malaysia issue. So, what has been the reason for such buoyant growth in the international markets? And how do you see the growth in the international formulations going forward?

Yugal Sikri: There are a couple of factors. One is that it is not Malaysia, we have a major presence in Myanmar. So, the Myanmar market is back, we have seen good demand coming from the Myanmar market. So, that has contributed to this growth, plus what has contributed to the growth is our strategy of new products, new customers and new markets. In terms of the new products, we have had the products like Nicorandil which needs special manufacturing conditions, the export to UK, we also have Sodium Valproate complex generic product, the product exports to UK once again, and we also have our immunosuppressants basket Azathioprine, the export for those products and other immunosuppressants products like Mycophenolate and Tacrolimus, export to the RoW markets. that has together helped us to have good growth, so have made some foray into the South Africa and Thailand markets, that have also contributed to the robust growth of 25%-odd in the international formulations business.

Ankit Gupta: How do you see the growth panning out for us for the next financial year and FY'25?

Yugal Sikri: I expect the growth to continue to be double digit going forward.

Ankit Gupta: And how many products do we plan to launch across the markets over the next two, two and a half years?

Yugal Sikri: In terms of the new products, as I mentioned to you, we have Sodium Valproate Complex Generic, we have Prolonged Release formulation, we have Nicorandil, we also have Propantheline Bromide, we also have Sertraline, these are the new products which we have developed and they are being launched and we have done the registrations in certain markets, so, they are the ones which will contribute. Also, we have identified certain products which are

patent protected products, of course, they are for the long term, their development work has also kicked off in our R&D lab. So, we expect all of these to contribute to our growth going forward.

Ankit Gupta: On the domestic side, the kind of robust performance we have seen over the past two years that has continued even in this financial year in the first half. Can you please talk about like how much of revenue is coming from the new products that we had launched over the past two and a half, three years?

Yugal Sikri: So, as I mentioned to you, close to around 25%-plus contribution is coming from the new products launched since FY'19. And we have launched the three categories of the products; we have launched products in the specialty business, which is into the new therapy area of rheumatology, we have also launched products in the mass business where we have done some launches in chronic portfolio, and we have also launched line extensions for our legacy products. So, under the three categories of the product contribution all put together is 25%-plus.

Ankit Gupta: How many products are in the pipeline to be launched in over the next two, two and a half years, current year how many have we launched and how many do we plan to launch in the second half, and the next financial year how many products are we launching?

Yugal Sikri: We have a very healthy new product grid identified in these three segments as I mentioned; the line extension for our legacy eight-nine products which we plan and chronic portfolio and third is the specialty business in the nephro and the rheuma segment specifically. Number of products, we have about 21-22-line extensions identified for launch, out of which we have launched so far seven- or eight-line extensions. And in terms of the other new products in the chronic space, particularly in the cardiovascular metabolic, neurology, nephrology, rheumatology and oncology space, we have around 40-plus new products identified, and we have launched around nine to 10 products already.

Moderator: The next question is from the line of Ankeet Pandya from InCred Asset Management. Please go ahead.

Ankeet Pandya: I have two, three questions. First, on the expenses side. So, the employee cost for the last one quarter has been lagging the top line growth for FY'22 and even for first half FY'23.

Yugal Sikri: Ankeet, I'm not able to hear you.

Ankeet Pandya: My question is the employee cost for the FY'22 and first half FY'23 has been lagging the top line growth. So, any particular reason for this, is this linked to the field force and of course, there's been rationalization of employees also, so when will that be over?

Yugal Sikri: Ankeet, broadly speaking, our employee cost as percentage to sales overall for the company I can tell you has come down in the last three to four years. If there are any variations now, they are largely to do with some of the vacancies we have for some time and those vacancies get

filled up at different points in time. So, those are the ones which are a little more tactical, might be contributing. Because we have taken some structural measures in organization, from front end to back end, has actually been able to optimize those costs.

Vishal Shah: I agree with you. So, year-on-year, if you see our percentage to sales in employee benefit expenses, because of the structural measures what we have taken in the past that is now the result. So, as a percentage to sales on a YTD basis also is substantially lower compared to the H1 of last year.

Ankeet Pandya: So, can we expect it to be around 20%, 21% for FY'23 and '24 like going forward in that range?

Yugal Sikri: Ankeet, we would like that to be, but the key point, which you need to also understand and appreciate is that RPG Life Sciences has representation in three segments, and you are into manufacturing, you are into selling, in manufacturing, you're also exporting the product. So, therefore, all of these functions, whether it is R&D, regulatory API R&D, formulations R&D, project management, because we are running two projects simultaneously, those costs are there. So, we are taking those costs positively, because we are using all of these resources now to plan for future, whether it is new product grid, or whether it is the project people looking after the new modernization of the two plants, which we are undertaking. So, we would like that to be in the range of 20- 21% or so. But I think that would happen over a period of time when the revenues increase as a percentage I think these costs will also come down.

Ankeet Pandya: On other expenses, how would that be trending going forward, in line with your top line or you have been taking cost saving measures? And with that also, what is your EBITDA guidance going forward?

Yugal Sikri: Ankeet, you would have seen the numbers. Somewhere around three, three and a half year back we used to have 39% OPEX, today, we are at around 30%-31%. There has been a lot of structural changes which have happened either from the organization standpoint or the processes, which have contributed to identifying the cost element which can be eliminated, formulations reengineering exercise, in the plants, manufacturing efficiency enhancement, all of that have contributed. It is not a process which happens once and can be... it's an ongoing process. So, I expect the cost efficiencies to come further going forward which should help us to improve our EBITDA margins further. And it is also dependent upon what's happening in the input costs because of the geopolitical reasons, how long that lasts, how fast the vendors are able to come back to pre-COVID situation, all of those factors are also important for us. But having said all of this, we have decided to benchmark our EBITDA margins, our costs versus the best of the companies in our competitive group, that gives me the confidence that we should be able to improve the EBITDA margins further. The cost element, wherever it is, from front end to back end is being very microscopically seen and the opportunity identification is ongoing. We have even used the services of the external consultant to help us identify more cost elements and their suggestions have also come which are also being implemented basis which I can tell you that if

those external elements which are beyond anybody's control, they get softened, which should be able to improve EBITDA margins further.

Ankeet Pandya: Any number for next 18 to 24 months that you want to at least achieve certain 23%, 24%, 25% margin?

Yugal Sikri: Ankeet, the attempt is to move to those levels. I will not be able to give you the number because I thought that COVID is over and get back the input costs to my normal pre-COVID level. The crude prices came down, but the solvents prices, intermediate prices are still at 20% to 40% more than the pre-COVID level. So, it all depends upon how the situation at the macro pans out. Yes, in principle or as aspiration, we are pursuing these targets.

Ankeet Pandya: Last question is on the balance sheet. So, during this quarter the debtors has increased. So, the strong growth that we have seen in international business, is it linked to that or any other reason or can be considered this as the new base for debtors, any comments on that?

Yugal Sikri: Actually speaking, the debtors which we had last year, were at a very, very, highly lower level, because we went out to our customers and requested them that we are making sure that you get the right supplies and therefore, help us to get the money from you faster. In fact, our debtors situation is certainly slightly higher than the last year, but compared to earlier years, our account receivables are much better, I believe around 12 days or so -.

Vishal Shah: So, it is around 38 days or so, around 10%.

Yugal Sikri: Which was 7% last year, right?

Vishal Shah: Yes, correct, correct.

Yugal Sikri: Before that?

Vishal Shah: It was 15% before that.

Yugal Sikri: 15% to 7% was very unusual. And that was with the special request to some of our big customers we went. As far as the India market is concerned, you know that we are operating at the best level which is 30-odd days. And in the international formulations, with our special request we brought it down from 15% to 7%, which we knew is untenable, and now it is around 12% or so. That's the commentary on the trade receivables.

Moderator: Next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: I have a general question and this is related to the reports that we see in the newspaper that the pharma cost in Europe are going through the roof and hence we see a lot of contract manufacturer in Europe in pharma finding it difficult to continue manufacturing. Has there been a positive

impact of the same on Indian companies or Indian manufacturers or is it likely to happen, any thoughts would be very helpful?

Yugal Sikri: You are also talking about RPG Life Sciences?

Nimish Mehta: Yes, because we are also in in Europe present in manufacturing. Any improvement on that?

Yugal Sikri: As I mentioned, our product portfolio is such, we are in immunosuppressants range, which includes Azathioprine, Mycophenolate, etc., and we also got complex generic product like Sodium Valproate and a product like Propantheline Bromide is a small volume product, but we have API as well as the formulations both. And we also have a special product like Nicorandil, which is not such a high-volume product, but needs special manufacturing condition. So, because of our selection of portfolio, which is with respect to profitable niches, we don't foresee challenges there. Yes, you're right. In Europe, a lot of things are happening. But as far as RPG Life Sciences is concerned, our niche portfolio, which was part of our strategy, and that strategy was because we thought that we need to have some protected niches available, which may not attract large players, but we have a good profitable play there. And that's what we are pursuing and this is which I can share with you that. In RPG Life Sciences, we don't see that kind of impact coming.

Nimish Mehta: The growth that we are seeing is largely because of product portfolio, and not really because of the macro factors, is what I'm hearing.

Yugal Sikri: Yes, this is unique portfolio which we have selected.

Nimish Mehta: In the last call, I think you mentioned you're likely to increase the prices of products in India because of the high inflation rate. So, have we done that or it is still a work-in progress? If I remember correctly and you can correct me, we were to increase by about 7% to 8% in aggregate value for the India portfolio. Where are we on that, some update on that will be helpful?

Yugal Sikri: I can only indicate to you that we are taking price increases permitted to us. We have a tight calendar, which tracks when the year gets over we take the price increases accordingly. So, we have taken the price increases as permitted, which is for the decontrol products in the range of 10%. And for the control products, we have the wholesale price index driven which was as you know 10% or so. So, it depends upon which time of the year that the price increase is taken. And that's what gets inbuilt into the price increases, but very diligently we take the price increases as permitted to us.

Nimish Mehta: I am just trying to understand. The price increases that we targeted for the year has already been taken or are there still products because in the lifecycle management that we still will see price increase in this year?

Yugal Sikri: In case of the new introductions, we decide to keep the price as per the competitive situation. For the existing products, as I said for the decontrol, we have a calendar. So, at a particular day when the one year gets over, for the next batch we take the price increases. So, we have taken price increases for all the products as per the calendar. And as far as the new products is concerned which is a significant contribution now we take the price increase as per the competitive situation. We don't take the price increases; we fix the prices as per the competitive situation.

Moderator: There is a follow up question from the line of Aditya Khemka from InCred Asset Management. Please go ahead.

Aditya Khemka: You also have the decontrol products, what percentage of these products would we have already taken price increase and what percentage of products we are yet to take price increase because of the calendar?

Yugal Sikri: I won't be able to give you that detail now, maybe I can share the details with you later, because I don't have in handy the detail. I only make sure that the calendar is followed, we don't miss the price increase opportunity.

Aditya Khemka: Of your legacy brands, which is still a large chunk of your domestic sales, the pricing of your legacy brands compared to your competitor brands, are you like first quartile, second quartile, third quartile, fourth quartile compared to your larger competitors, I'm not talking about the fringe players, but let's say azathioprine or Naprosyn, your prices in the market, how do they compare to the other large brands in the same therapy area, which quartile would you call yourself out?

Yugal Sikri: Aditya, our pricing strategy in general is competitive; we do not take a very high price also, we don't take a lower price also. Whenever we are launching a new product, we look at the price of the high-volume seller, and then we fix the prices accordingly. So, if I have to say that whether my prices are on the lower side or on the higher side, my prices are in the middle range. And for some of the old products, my prices are even littler on the higher side.

Aditya Khemka: So, doesn't that hinder you from taking this 10% price increase, because if you're already in the middle or on the higher side, then if you take a 10% price increase and your competitor doesn't take it, then you become relatively more expensive compared to a competitor?

Yugal Sikri: Then what comes into play is the existence in the market for a long time. We have products like Aldactone, a product like Naprosyn, a product like Tricaine, product like Romilast, these are the products which are there in the market for 30, 40, 50 years. So, we have a solid prescribing base now for those customers who won't change prescriptions that they're prescribing for years now, whether we have taken a 5% price increase or a 7% price increase, so that's the case now. Whether we take in Azoran, whether we take in Naprosyn, or the brand Tricaine which I just

narrated to you. So, we take the advantage of being in the market and having relationship with the doctor for a considerable time.

Aditya Khemka: If you look at RPG's own history from FY'16 to FY'18, we had the cycle of gross margins where in FY'16 RPG gross margins were like 68%, in FY'17 gross margins were 65% and then in FY'18, the gross margins came back to 67% and that was for various reasons. Do you think we are in a similar situation where given that raw material prices do normalize, we will sort of see the dip in gross margins this year and then next year, if everything normalizes, we will basically be able to go back to be kind of gross margins we were doing in FY'22?

Yugal Sikri: Absolutely, we should be.

Aditya Khemka: And most of this hinges on the resolution of the Ukraine-Russia situation, or some of it also hinges on what happened in China and the commodity prices in China, crude, coal, thermal power, etc.,?

Yugal Sikri: Mix of both factors, but the larger contribution is China.

Moderator: The next question is from the line of Kavita Thomas from First Global. Please go ahead.

Kavita Thomas: I just had the question on the domestic formulations growth, where we are mentioning that our growth has been around 20% compared to 6.6% for the Indian pharmaceutical market. Sir, could you just step further break it up in terms of how was the growth in the first quarter and the second quarter and overall do we see the growth going forward vis-à-vis the domestic formulations market itself?

Yugal Sikri: I don't have the actual growth handy with me for domestic formulations for Q1, Q2 separately. We have a YTD growth of 20% and as I remember, there is a consistency in the growth, I don't see any slowing down or any unexpected increase happening in the growth quarter versus quarter. And I expect going forward in Q3, Q4, the similar growth to be maintained. However, if you wish those details for Q1, Q2, maybe I will get the details and maybe share with you separately.

Kavita Thomas: One more question is on the raw material front which you have already addressed through various questions. But is there any particular other than the solvents or are there any particular raw material costs, which are actually not softening at all and are quite stubborn in terms of not softening at all, are there any such raw materials specifically, we have immunosuppressants as our segment, which is keeping the margins almost flattish?

Yugal Sikri: Except solvents and the aluminum foil, the prices are consistently higher; there have been softening on the aluminum foil prices, there have been softening on the solvent prices to some extent, but whether it is excipients, whether it is the KSM, whether it is API, the prices continue

to be higher, they are not coming down. We are only hoping against the hope that they should come down. That's the situation overall.

Kavita Thomas: Is it again because of increase in fuel prices or electricity prices, what is the excipient come from China, because of which the prices remain still high, why are these prices not softening considering that crude oil prices have gradually softened on account of which solvent prices are also coming down, so, how do we read the situation?

Yugal Sikri: The raw materials which are linked to solvents or brent or the ones which are linked to the metals, I think there have been softening, even though the levels are still higher compared to what pre-COVID level but there has been softening. But there are other KSMs, which are not directly linked to solvent, their prices are up for the same reason, whether it's the geopolitical reason or it is China reason, or any other reasons, but the fact of the matter is they're still higher. And I except maybe the contribution is coming because of the Ukraine war. That's why there's a pressure on supply chain or what is happening inside the Chinese economy and Chinese overall political situation. Maybe it's a mix of factors, but the fact remains that the prices are not coming down. As we go along, I expect that the prices should taper off at some point in time.

Kavita Thomas: But still it's commendable that in spite of these pressures, you have been able to maintain your margins.

Yugal Sikri: Thank you so much. I was talking about the structural cost efficiency measures, like challenging the formulations, challenging the API synthetic process. I think those are very much within our control and those are the measures which have largely contributed to our whatever changes in the margin or the adverse impact which we could mute because of those measures. And that since they continue, we expect our margins to be sustainable or further improve.

Moderator: Ladies and gentlemen, this would be the last question for today, which is from the line of Mahesh Vyas from UTI AMC. Please go ahead.

Mahesh Vyas: Just a couple of questions. First is how much of the raw material are we importing from China? And the second question is how are you looking forward for our business let's say from next two to three years point of view, in the sense that what are the risks coming in apart from the inflationary conditions?

Vishal Shah: We can share it separately.

Yugal Sikri: The second you mentioned, looking forward, inflationary pressures, I expect that the inflationary pressures should taper down, and the input costs should come down. How long it will take? I think it is anybody's guess. At least we have some positive things; as I mentioned, aluminum foil prices are tapering down now, and the solvent prices are tapering down, which is impacting our work. This is also triggered to identify additional vendors for the monopoly or duopoly items which we have had. And the companies are working to develop those particular raw material of

KSM in view of the rising opportunity of China one plus. So, I expect that inflationary pressure should slowly come down. And second, also, we are able to source the raw materials from other vendors, who are also into the fray now. We know for sure that there are vendors who are developing a similar API and the excipient and we are in touch with them. That will also help us to tide over this inflationary change which you talked about.

Maresh Vyas: Just a follow up, are we seeing any risk on our existing product portfolio which we have from let's say two to three years' time horizon?

Yugal Sikri: I miss your question.

Maresh Vyas: Are we seeing any risk involved in any of our product portfolios which we have?

Yugal Sikri: I largely don't see any risk for our portfolios, because of the simple reasons that for the existing products we have the existing relationships with our customers, and our good servicing of those customers, good quality of the products. For the new products, I don't see much risk, because while we selected the new products, we selected the products belonging to growing therapy or the acceptance of the customers or the doctors is improving, and our lifecycle management is ensuring that we get more customers, just to give you an example, for our existing products like Naprosyn, we have around 11-12-line extensions, which is opening the product for new indications, which is opening the product for new customer segments. And for our new products, we have picked up the products from growing therapies like hypertension, diabetes, and we also picked up the products which are newer molecules. We have a range of MAB's available to us, they all are new. We also have a sense to the strategy which we have. We are also thinking of launching certain products to multiple therapy for the different brand names. We have just done that for MAB called y Ivzumab. So, I think all of these put together should be able to mitigate any risk which is not seen by us at the moment and coughs up. But I frankly don't see significant risk. See, we had a risk for immunosuppressants product because of COVID situation where because of the doctor wanting immune boosting instead of immune suppression we had some issue that time. But I think we have tied it over those going by the robust growth which we have seen in our immunosuppressants basket domestically as well as internationally.

Moderator: As that was the last question for today, I would now like to hand the conference over to Ms. Dhara Patwa for closing comments.

Dhara Patwa: Yes, thank you, Yugal sir, Vishal Sir and Mr. Neeraj for spending your valuable time and providing this opportunity to host the call. Sir, any closing comments you would like to give?

Yugal Sikri: Yes, the closing comment I have is RPG Life Sciences has worked out a very strong strategic framework to ensure sustainable, profitable growth of the company. Of course, our top priority is domestic formulations. There we have five pillars working simultaneously and that's where we are seeing the growth. We have something to do with product portfolio maximization, strategic asset creation, the productivity enhancement, use of digitalization or digital to increase

the share of voice and cost optimization. In case of the international formulations, we have focused on RoW markets on one side, on the other side, we are operating and identifying new niches and new products to beef up our growth for international formulations. And for API, we have the strategy of forward integration, or backward integration for our domestic formulations and finished formulations and identifying new products, new customers and new markets. We are investing in R&D now, both in the formulations and in the API. We have identified the patent protected products for our growth. So, that in a nutshell summarizes our strategy framework, and we continue to pursue those strategic framework going forward for sustainable, profitable growth. Plus, the organization is getting strengthened to face the challenges of increased growth going forward, both at the top end, at the ExCom level, as well as in the entire organization at the mid and the lower management levels. With that, we are confident that RPG Life Sciences will continue to be in a good growth trajectory. One more point to add. We have so far focused on the organic growth. We are now actively pursuing the inorganic growth opportunities also in the segments where we see huge growth potential and where we see gaps in our portfolio. So, thank you so much for the patient listening. It's been pleasure to interact with all of you and I'll be too happy to answer the couple unaddressed questions left and any other questions you have, it will be my pleasure, and my team's pleasure to answer those questions. Thank you so much.

Moderator:

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