



## IOL CHEMICALS AND PHARMACEUTICALS LIMITED

IOLCP/CGC/2023

Dated: 13<sup>th</sup> February 2023

**National Stock Exchange of India Ltd.**

Exchange Plaza, Plot no. C/1, G Block,

Bandra-Kurla Complex, Bandra (E)

Mumbai - 400 051

Security Symbol: **IOLCP**

**BSE Limited**

Phiroze Jeejeebhoy Towers,

Dalal Street

Mumbai- 400 001

Security Code: **524164**

**Subject: Transcript of Earnings Conference Call, post declaration of audited financial results for the quarter and nine months ended 31<sup>st</sup> December 2022**

Dear Sir,

In continuation to our letter dated 8<sup>th</sup> February 2023 regarding intimation of Schedule of analyst/ investors conference call – Q3 & 9M FY23, please find attached herewith the transcript of Earnings Conference Call organized by the Company on 9<sup>th</sup> February 2023 post declaration of audited financial results for the quarter and nine months ended 31<sup>st</sup> December 2022.

This is for your information and records.

Thanking you,

Yours faithfully,

For IOL Chemicals and Pharmaceuticals Limited

Abhay Raj Singh

Vice President & Company Secretary



**IOL Chemicals And Pharmaceuticals Limited**  
**Earnings Conference Call**  
**Feb 9, 2023**

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**Moderator:** Ladies and gentlemen, good day and welcome to the Q3 and nine months FY23 Earnings Conference Call of IOL Chemicals And Pharmaceuticals Limited. From the management, we have Dr. Sanjay Chaturvedi, Executive Director & CEO, Mr. Pardeep Khanna, Chief Financial Officer and Mr. Abhay Raj Singh, VP & Company Secretary. We also have Investor Relations team from Adfactors. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Dr. Sanjay Chaturvedi for opening remarks. Thank you and over to you Sir.

**Sanjay Chaturvedi:** Thank you. Good afternoon, everyone. We are very pleased to welcome you all to our third quarter nine months that ended financial year 2023 earnings call. I'm sure you all must have gone through our quarterly results, numbers, and the investor presentation, which is available on the exchanges as well as on our website. Before we move on to the company's quarter performance, I'd like to dwell a little bit on where the global markets are, how they are developing, and how the Indian market is performing. My colleague, Mr. Pradeep Khanna, our CFO will then take you through the performance post which we will open up the forum for the Q&A. Session.

So businesses across the world has a tough ride in 2022 as there was persistent, high inflation, continued geopolitical conflict, surge in commodity prices, and overall are tightened monetary policy by most of the central banks that have put pressure on the growth trajectory for most organizations. Towards the end of the year in 2022, some resurgent COVID

cases in China and the subsequent disruptions in supply chains have further impacted the global trade and overall investor sentiment. However, there is positive news for the business as the World Bank expects inflation to fall to moderate levels through the next two years. It is expected to remain above pre-pandemic levels. In the Indian context, however, the situation is a little more optimistic. For FY23, the GDP growth for India is projected at 6.9% against 6.5% that was a number given in October of 2022. The report from the World Bank says that India's economy has demonstrated resilience despite this challenging environment. We believe that the country's resilience comes from the robust revival in consumer spending with the retail business is growing strong, particularly in the third quarter of FY23 on the back of festivities.

This momentum has continued since then, and as is evident from various categories like apparel, cosmetics, footwear and FMCG products' growth across the country. For the businesses that your company is in, despite all uncertainties, the business in quarter 3 improved versus quarter 2. The chemicals business had a muted performance, whereas the pharma business outperformed better both in the ibuprofen and the non-ibuprofen portfolio. As you're all aware, the company is building capacities for molecules such as Paracetamol, Metformin, Clopidogrel and Fenofibrate and this will overall reduce the dependence on ibuprofen. And the specialty chemical segment the raw material prices for certain products have stabilized, but some are yet to stabilize.

We do believe that the worst is over for this segment as the margins have bottomed out for most product lines. We are likely to see some improvement in margins in this segment going forward. As we work on increasing our capacity in specialty chemicals, we expect the challenges to have been taken care of by the industry players with the demand expected to revise from Q4 and the next financial year onwards. We would get an edge in terms of operational efficiency and higher margins with increased production. During the quarter, your company was also granted a patent for

an improved safe process for preparation of Sartan drugs or formula eye by Indian Patent Office that includes Valsartan, Losartan, Irebesartan, Olmesartan, Candesartan and other Sartan drugs, which is a class of medicine known as angiotensin tube septer blockers, which is used to treat high blood pressure and heart failure. The company also recently received EU GMP certification from the National Institute of Pharmacy and Nutrition Hungary. This will help the company in better penetration in European markets for our products. With this, I would now like to hand over to Mr. Pradeep Khanna, our CFO who will be sharing financial details with you over to you Mr. Pradeep.

**Pardeep Khanna:** Thank you Dr. Sanjay. Good afternoon, everyone. Thank you for joining us today to discuss our performance for the third quarter ended December 31, 2022. I will take you through financial highlights for the third quarter. The total income of the company in quarter three of FY 23 stood at Rs. 530 crores as against Rs. 564 crores in the corresponding of financial year 22 and Rs. 546 crores in previous quarter ended September 22. EBITDA for the quarter was Rs. 49.7 crore as against Rs. 68.1 crore in the corresponding quarter of financial year 22 and Rs. 36.7 crore in quarter second of financial year 23. EBITDA margin for the quarter grew to 9.4%, as against 6.8% in the previous quarter. The net profit in the third quarter was Rs. 24 crores as against Rs. 40 crore in the corresponding quarter of the last year, and Rs. 15.7 crore in the last quarter ended 30<sup>th</sup> sept 22. Export for the nine-month period grew 26% to Rs. 431 crore as compared to Rs. 368 crore as corresponding period of the last year. With this we open the forum for question-and-answer session. Thank you very much.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rohit Suresh from Samatva Investments. Please go ahead.

**Rohit Suresh:** So couple of questions on the Ibuprofen part. So could you just give us some data in terms of the pricing of Ibuprofen in this quarter? And secondly would be there was an article stating that there was some supply shortages due to

excess demand of Ibuprofen, especially in China. So what is the current supply demand scenario? And how do you see it moving forward? And has this resulted in us increasing our exports, considering the global shortages. Thank you.

**Sanjay Chaturvedi:** Ok. So the first part of your question regarding the pricing of Ibuprofen. Ibuprofen continues to be very stable between \$11 and \$12 in the export market. India prices are slightly lower than that. But this pricing is very stable. We don't anticipate it going down at all. Coming back to your question about some supply chain disruption. Yes, we've seen those reports. The demand increase that we see worldwide is too early to tell whether this is a real revival, or this is marginal increase. There has been a marginal increase though. And regarding the disruptions in China because we are currently not approved for exports to China, we have not been a beneficiary of the supply constrained situation there yet.

**Moderator:** Thank you. The next question is from the land of Neelam Punjabi from Perpetuity Ventures, please go ahead.

**Neelam Punjabi:** So Sir, my first question is a follow up of the previous participant question on Ibuprofen. Sir, what would be our capacity utilization of Ibuprofen during the quarter? And what would be our average volumes that we would have sold for Ibuprofen?

**Sanjay Chaturvedi:** We are currently running at an average asset utilization that is north of 80% and going forward we expect this number to improve.

**Neelam Punjabi:** So you had mentioned in the previous call that we want to take this utilization to 95% at peak, so by when do we expect to reach that kind of level?

**Sanjay Chaturvedi:** It might take another few quarters to get there, but we are on our path there. The demand seems to be picking up and last quarter versus this quarter our demand has been substantially up and we expect that to further go up in Q4 and beyond.

**Neelam Punjabi:** Next on the non-Ibuprofen API sales. So I see that on a QOQ basis this revenue has come down in Q3 versus Q2 FY23. What are the reasons for the same? If you can highlight?

**Sanjay Chaturvedi:** So in this quarter we have come down a little bit and that was we were in the midst of expanding capacity for one of our products. So we had to take some downtime to put more equipment there and stabilize the process at higher capacity. But if you look at it on a year by year basis; the non-Ibuprofen business has already delivered in nine months what it delivered in the entire financial year last year. So we are on a very, very good growth path for the non-Ibuprofen portfolio.

**Neelam Punjabi:** Got it and Sir, had we not taken the plant shut down for upgradation what would have been our sales? How much would it be higher if you can just give a bit of direction sense?

**Sanjay Chaturvedi:** So this year we expect a non-Ibuprofen business to touch something in the range of maybe 500 crores. So I think most of the increase that you will see will happen in Q4 now that the plant has been stabilized, so obviously next year we will expect a higher number than 500 crores.

**Neelam Punjabi:** In the medium term, are we confident of doing this 500 crore base at 20%-25% going forward?

**Sanjay Chaturvedi:** I don't want to give a number whether it will grow at 20% or 25%, but needless to say, we expect a lot of our growth in our pharma portfolio to come from the non-Ibuprofen APIs. On the Ibuprofen part, we are focused more on improving the quality of the business. As you can understand if you are already running well above 80% asset utilization, going even 10%-12% up 15% up will only add marginally to the business. The real growth is going to come from the non-Ibuprofen portfolio.

**Neelam Punjabi:** And what would be our capacity utilization on the non-Ibuprofen portfolio currently?

**Sanjay Chaturvedi:** So that's a very hard number to answer because a lot of the plants are multi product plants. So asset utilization makes sense when you have purely dedicated plants. But when you share products in a plant, sharing any data on asset utilization can be very misleading.

**Neelam Punjabi:** Last quarter you had mentioned that our non-Ibuprofen API portfolio is not making profits currently. Are we still there? And when do we expect the profitability to improve for the non-Ibuprofen?

**Sanjay Chaturvedi:** So the unabsorbed cost is going down every quarter, and I think in the next coming quarters the entire segment will turn profitable.

**Moderator:** Thank you. Next question is from the line of Sajal Kapoor, an Individual Investor. Please go ahead.

**Sajal Kapoor:** I have tracked the chemicals in API space for almost 2 decades now. This industry in the past has been badly bruised by various unfair practices originating from China, right? And I also know that it takes several years to innovate a new cost effective synthesis route and commercialize those filings, especially in the regulated markets like the Europe and the US. And we have all sorts of regulatory compliance restrictions as well. So in summary, Chemicals API is not an easy business, so my question to you is what are those changes that you designed and implemented since you joined IOL and what are those changes where management is still focusing on that are not yet visible in the reported numbers?

**Sanjay Chaturvedi:** First of all, thank you for your insightful comments. I will say that a specialty chemicals and an API business is a lot like an iceberg. The financial numbers that you see don't quite articulate the holds of employees and other stakeholders that actually enable these numbers. So you're absolutely right in your assessment, but. I think it would be unfair for me to say what are the changes that I have got about because, IOL is an evolving organization and we are not a personality dependent organization. What we do is collective decision making, consensus building based on the management team

members and the path that we've taken last couple of years is to grow the Pharma business, focus on quantity and quality of the non-Ibuprofen portfolio and focus mostly on the quality of the Ibuprofen portfolio. So we keep adding more and more products. If you see historically we had only one or two products approved for regulated markets. But now we are filing about four DMS over the last two years. So as these products pick up in regulated markets, of course the CP approvals are also coming in. We will be pushing a lot more into the regulated market, so you will see our exports grow. And you will see a de-risking in the entire portfolio as we add more and more products. And now we're going to be doing that on the chemical side as well.

**Sajal Kapoor:**

And what sort of execution risk, if any, do you foresee Dr. Chaturvedi in terms of actually putting this strategy that the team is working on over the next let's say three years and we all could see the benefits out of it. What are those top 2-3 risks that can potentially jeopardize the execution and the results that we all expect?

**Sanjay Chaturvedi:**

So, I would say the two top level risks that I see from an execution standpoint and these are again not unique to IOL. For any player in the API industry, the number one risk, of course, is you could have a situation like Renitidine where you kind of over-ride the market right away. We have list of products where if any of those products was hit by something like that. That's kind of one risk, but we operate in that environment just like any other API player. The second drift that I think about is because we don't have hundreds of products in our portfolio, we do few things (Inaudible 17.55) Not able to scale up and get the right quality of the product that could be a hurdle and therefore what we do is we work on the products very diligently in our R&D and then our pilot and run multiple trials before we take it for manufacturing. So we have a risk mitigation strategy there, but is there a risk in building a business with few products certainly. And but I think the first risk that I talked about, which is completely external. There's not much anyone can do about it. But the second risk that I highlighted, we



have risk mitigation strategies in place and we are very confident of mitigating those.

**Sajal Kapoor:** I've got one more question. The last one. Clearly, private equity has been very active in the API space in the recent years, and our competitors are also on a CapEx spree so to speak and expanding both the capabilities and the capacity is right. So both these combinations of the private equity is so very active, so perhaps they see some opportunity. That's the reason they are deploying so much capital into this industry and in our competitors are also expanding what you think it means for the industry as a whole, and particularly for IOL.

**Sanjay Chaturvedi:** So there are two questions embedded there. One is on the private equity piece and the second is on the CapEx piece. See when private equity goes into an industry and tries to create, as they've been talking about API platforms, I think it's a very positive development because overall they sense opportunity and growth in this particular segment. Now when I look at CapEx, yes, a lot of our competition has been deploying CapEx and we've been deploying CapEx too. On an average we do about 150 crores of CapEx every year and we do that mostly through accrual, so we've not had to take on any debt for that, and currently we have certain spare capacity and we don't feel the need to deploy more capital right away. In fact some of the CapEx that we've deployed this year have actually been non-production related assets like ETP environment, discharge, we are building a new warehouse. We put money into R&D and so forth. So all of those things are really helpful in supporting and creating and building the business, but they don't directly go into production.

**Moderator:** Thank you. Next question is from Line of Niharika from Aequitas Investments, please go ahead.

**Niharika:** So my question is regarding the chemical division. So last quarter I believe you had said that prices are moving positively for us and quarter 3 should be better than quarter 2. But even then, in chemical division we have done a

loss on EBIT level, so I just want to understand how is the demand and pricing right now and how is the pricing for ethyl acetate and acetic acid moving?

**Sanjay Chaturvedi:** OK, so the demand is fairly stable. We don't expect volatility in the demand. Coming onto the pricing. Obviously, we are not back to the profit level that we would like to be, but Q3 has certainly been better than Q2, and we're confident that Q4 will be better than Q3. Regarding the pricing, what is more important than pricing is the delta, the pricing of both ethyl acetate as well as acetic acid, the kind of move in sync although there is some kind of a phase lag, so we are currently at a situation where acetic acid prices are holding stable around ₹40 a KG and ethyl acetate prices are stable at ₹83-₹84 a KG level today and this gives us comfort that the quality of the business and the profitability will improve.

**Niharika:** So we're in like middle of quarter 4. So how do you think will we be able to kind of at least do profit on EBIT level, or fill it's something we are planning to achieve, say coming financial year?

**Sanjay Chaturvedi:** Well, we will certainly do better. Historically, we've made money in this business, so there is no reason for us not to be profitable.

**Niharika:** OK, and I want to understand something on inventory. Also, are you holding any higher price inventory as of now in the books? And how many days of inventory do we have on a book?

**Sanjay Chaturvedi:** So on the finished goods on the chemical side we hardly hold any inventory. We run kind of full capacity and we don't hold any finished goods inventory. We do hold some inventory of raw material, so that is important, and that's typically a few months. So it's pretty manageable.

**Niharika:** OK, and on the pharma side, how much of inventory do we have in our book? Month wise.

**Sanjay Chaturvedi:** One month inventory is what we carry typically.

**Niharika:** OK, and update on the CapEx. How much have we spent on the CapEx as of now? Because our target was around, I think 300 odd crores this year or something and the status of all the CapEx that is going on our Western India side and all of that.

**Sanjay Chaturvedi:** We spend close to 150 crores this year and that's what we typically do in a year.

**Niharika:** And so we were planning to do some Western India some expansion. So what is the status of that? And also on ethyl acetate capacity expansion. So are we on track to complete it by quarter 4, the ethyl expansion?

**Sanjay Chaturvedi:** No, we are not doing any ethyl acetate acidic expansion as of now. Instead, we are changing the product mix on the chemical side and you'll be hearing more about it at our next quarterly meeting.

**Niharika:** OK, and on pharma side, what kind of capacity utilization are we having as of now?

**Sanjay Chaturvedi:** So as I answered this question earlier. Asset utilization makes sense for dedicated plants, so in terms of Ibuprofen we are going to go well above 80% asset utilization, but the other plants are multi-purpose multi product so asset utilization is perhaps not as useful as metrics.

**Niharika:** OK, so this multi-purpose are we talking on the chemical side? Ibuprofen I got is 80%. What about the other chemical?

**Sanjay Chaturvedi:** We're talking on the pharma side.

**Niharika:** OK, and on the chemical side, what is that? And the capacity utilization on those would be.

**Sanjay Chaturvedi:** They are running well above 95%.

**Niharika:** And also on the last question from my side would be on I. Think last quarter we had some process patent on Sitagliptin and this time we have something

on sartan drugs so what kind of benefit do we expect from these patent statements? So anything on the top line or I just want to understand the benefit of getting these patents?

**Sanjay Chaturvedi:** So the benefit of patent is it prevent someone else from doing it. It does not give you the right to do it, but I think that's a very simple way to understand it and in terms of the commercial benefit. The commercial benefit for the starters will be when we offer the product that has lower impurity levels that competition and on the gliptin side, the benefit that we will offer is an environmental benefit because you will be using slightly less raw material and that will give you some benefit in your cost as well.

**Moderator:** Thank you. Next question is from the line of Surya Patra from Phillip Capital, please go ahead.

**Surya Patra:** My first question is on the market mix of your APIs currently. At least in terms of the advanced market versus the emerging market and as an extension to that. I think you have taken a couple of initiatives to enhance your positioning in the advanced market so. And also acquired or kind of invested some strategic stake acquisition that you have done in one of the US Company. So how all these are like connected to each other? And what is your advanced marketing incentives and the goal going ahead? If you can elaborate a bit.

**Sanjay Chaturvedi:** So I'll breakdown the question into two parts. There are two, I think overarching questions that you have is what's our plan to grow in regulated markets. That's one and the second question that you've asked is leading to our investment in the US company. How that's going to help us into regulated markets.

**Surya Patra:** Yeah, and also the market mix currently in terms of revenue.

**Sanjay Chaturvedi:** So you know if I look at overall the market mix, I would say broadly. About 27% of my revenue comes from exports.

**Surya Patra:** It is about APIs only.

**Sanjay Chaturvedi:** This is overall everything all put together.

**Surya Patra:** No, in fact for API is it possible?

**Sanjay Chaturvedi:** API only this number would be slightly perhaps slightly higher. It could be 30% or higher, 35% maybe, and in that if I look at my split between emerging markets and regulated market, most of my exports are actually in emerging markets right now. And that's understandable, because if you look at my entire product portfolio. I have approval for like 2 products for the US markets and the other CEPs have started to get in the last few quarters and as we are well aware in this industry after you get the CEP approvals, that's when the game of promoting these products to customers. It begins, so it will take a few more quarters, but our goal is really to improve our market share in the regulated markets. And we are well on track for that. The second part that you talked about, our investment. That investment, is in an organization that has essentially a technology platform. And at this point we don't anticipate that giving us revenue in the regulated markets right away we've taken a minority position. And we are doing an in-depth study to figure out what we should, how we can monetize that technology. So it will take a little bit of time before we can answer that question, but that investment is not going to help me sell more APIs into the regulated market. That's something we need.

**Surya Patra:** OK, my second question is on the on about the API industry EBIT. If it see in the current time frame. In fact we are witnessing underperformance across the world by API segment or even the intermediate place. So what should be attributed to this kind of underperformance? Whether it is the rationalization of inventory post to the COVID period, or it is the energy crisis what we have witnessed in the Europe? Who are generally believed to be one of the key lead market for all these APIs and intermediate or it has given the entities that isn't prevailing in the market. So what is really the concern that led to this kind of undergo funds by almost everybody and how

sustainable this underperformance or these challenges are likely to be for the API and intermediate play?

**Sanjay Chaturvedi:** OK, so first of all let me preface my answer by saying what you are calling underperformance depends what are you comparing it with. So if you go back to the performance of the API industry four years ago, it is not underperformance. If you compare it to a year and a half ago. It is underperformance so clearly what happened during the COVID period was not just there at COVID related products, but overstocking of products in general. So overall there was a surge in the performance of the API industry. If you look at some of the leading API players as the COVID products have got away, they've taken a massive hit in their profitability. I think the framework I would like to use is that at equilibrium you leave COVID aside, this is an industry that will run at an average EBITDA of 12% to 15%. Some companies will give you maybe 20-25% and then there are others that will give you closer to 8 or 10%. So that's kind of where this industry is, and that's where it has been historically as well. So and EBITDA number of 15% is an average performance that you should expect from this industry.

**Surya Patra:** So largely it is the Inventory rationalization post the COVID period, that is, when the one key reason for the kind of sequential decline in the industry performance that is what we can say.

**Sanjay Chaturvedi:** Yes, and in this industry, business improvement happens in years, not in quarters. So are you well along with a lot of our credible peers, we've made giant strides in improving our product portfolio of putting up capacity for that. Going after regulatory approvals so you will see the impact of all these things in the coming few quarters.

**Surya Patra:** OK Sir, second point is that. See while we have witnessed the volume decline alongside margin has been a concern. So it is obviously the input cost and all that would be 1 concerning fact, but alongside I think API industry is to some extent energy intensive as well as the bulk of for the activities that would be happening so hence the freight cost which had gone

up quite significantly. That would also be a kind of relevant cost concern for the period. May I know the put together energy cost as well as the freight would be what proportion of the total revenues at the current time frame?

**Sanjay Chaturvedi:** So I don't have that number on the top of my head, but there has been easing of pricing both on the logistics front as well as the energy front. So that will certainly help boost margins, but you talked about the decline in volumes. There has actually been for IOL we've not declined in volume. In fact, if you look at our business three quarters of this year we've given pretty much the same kind of performance that we gave last year. And this is a nuclear backdrop, where for on the chemical side our flagship product ethyl acetate the prices dropped by more than 30%. On paracetamol, the prices have dropped again by similar numbers 30%. In metformin, the prices have dropped about 20%-25%. Ibuprofen has seen a very modest decline, or maybe a flat. So it's actually our volumes have gone up to deliver that level of performance and it's the input costs that have put pressure on the margins.

**Surya Patra:** OK in this last point from my side. The recent articles recent data points indicate that there is a kind of a sudden surge in the demand for let's say all the pain management products like analgesic and all that. Again, acute segment like Ibuprofen, Paracetamol, and Naproxen and then suddenly the prices of those have gone up. And this China opening up also is not helping that rather it is creating a creating a condition where the prices are only moving up. So do you think this price recovery is a kind of a normalization thing or it is a kind of even if it is happening, it is a one off thing?

**Sanjay Chaturvedi:** I think it's a one off thing Surya. Because there is no fundamental underlying reason why there should be a certain surge in demand for these kinds of products, or increase in prices, so it's a one off thing and it will stabilize.

**Moderator:** Thank you. Next question is from the line of Shaikh Mohammad, an individual investor. Please go ahead.

**Shaikh Mohammad Ayaz:** My question is what's your next quarter guidance means actually from last three to four quarters and listening that we are coming into double digit margins but I'm not able to see it. So what's the next quarter guidance, Sir?

**Sanjay Chaturvedi:** So what I will say is, I will repeat that yes, we will be going into the double digit area and we are almost at 10% now, which is significantly better than where we were in Q2. So directionally, I don't want to speculate and draw a trend line between two data points. But all the indications based on our portfolio, what our customers are telling us, our order book and everything indicates that the worst is behind us and things are improving now.

**Shaikh Mohammad Ayaz:** So my second question is regarding the investment in the Western India. I think this is the third time asking the same question. First time you told it is coming in next few quarters. Second time you told me in 2 weeks but still there is no update on the land purchase or anything regarding the Western side investment.

**Sanjay Chaturvedi:** So see we are in the process of studying. The situation right now. As you can imagine in current macroeconomic environment is we feel that we are better off postponing the investment a little bit and making the right call and in terms of CapEx, we have enough investment that we are making in our current facility that can help manage the growth for at least the next year or so.

**Shaikh Mohammad Ayaz:** Ok Sir. Another question is I think we have got so many approvals in last 2-3 quarters. I think EDQM Certification for Pantaprazole Sodium, patent for Sartan drugs, EU GMF Certificate from Hungary, Korean FDA approval, patent for Sitagliptin process, Russian authority approval. When will get the benefits from all those approvals. Because I think still we are lagging behind the margins what we are getting in the 2021.

**Sanjay Chaturvedi:** So let me begin by saying that in the API business the regulatory approvals is. The first step towards establishing your business in regulated markets. So



if you look at yes, we got the CEP approvals, we just got the EU GMP certificate from the Hungarian Authority last month. Now our BD teams and front end teams are aggressively working with customers and clearly even after you give the API, you give your exhibit batches. It will take some time for stability testing so you can expect a lag of a few quarters and this is not something that is specific to IOL. This is just how the industry is. But the good news is that we've got the right tools to play with. We've got the right products. We've got the right approvals. We've got the right team who's talking to the right set of customers, and now it's a question of time before you start to see the commercial benefit of all this.

**Moderator:** Thank you. Next follow up is from the land of Neelam Punjabi from Perpetuity Ventures. Please go ahead.

**Neelam Punjabi:** So my question is that given we are looking at regulatory market foray for our API business our all our API units approved from USFDA or are we expecting any inspection anytime soon?

**Sanjay Chaturvedi:** So when I talk about regulated markets, it's mix of both European market as well as U.S. markets. So if I look at from a European standpoint, all my facilities are currently approved. When I look at the U.S. market all of them are not approved as yet. I've got approval for my Ibuprofen and Paracetamol. And we are expecting that you know, at some point the USFDA auditors will review our facility, but we don't have any official intimation from them yet.

**Neelam Punjabi:** Got it Sir. So for our filling to regulated markets, is our target more towards Europe or even we are targeting U.S. markets?

**Sanjay Chaturvedi:** So clearly regulated markets filling we will target both U.S. and Europe. It's a question of time once we get the USFDA approvals for some of the other products. But till then we've got the CEP's in place and the European business is certainly very soon.

**Neelam Punjabi:** Got it OK. Secondly, for Metformin, you mentioned that the prices have collected by 20%-25%. Could you please also give an update on the input price DCDA? How are the prices right now and have the profitability improved for this product?

**Sanjay Chaturvedi:** So DCDA continues to be a pretty volatile product. I think in the last one year I've seen prices of DCDA ranging from \$3500-\$3600 a ton all the way to \$2200 a ton, so it's really a question of having your right sourcing strategy in place with the right partners to be able to manage your profitability in Metformin. And we are well on track for that.

**Neelam Punjabi:** Next one is Sitagliptin. You had mentioned that we'll be looking to launch this product soon, so have we launched it and do we look at it as a sizable opportunity for us?

**Sanjay Chaturvedi:** So we've not commercially launched the product yet. The product is under pilot. Technically it is under development and we started to work with customers and depending on we are not as you can imagine, this is a product that is being offered by several of our peers and competition as well. It's too early for us to say what kind of market share we will get and whether it will be sizable.

**Neelam Punjabi:** Next Sir, on our CapEx targets for FY 24 and 25. If you can give that number and what could be the key areas of capital investment going forward?

**Sanjay Chaturvedi:** So our investment areas going forward will be, you know, typical numbers would be around 150 crores a year and they would go into a mix of both pharma and a little bit into chemicals as well.

**Neelam Punjabi:** OK, lastly Sir, if you can just highlight what would be our net cash as on December 2022.

**Sanjay Chaturvedi:** Around 300 crores.

**Moderator:** Thank you next question is from the line of Mahesh from UTA Asset Management. Please go ahead.

**Mahesh:** Just one question from my end. How are you looking upon this paracetamol? You has funded the capacity from 1800 to 3600 so would like to have your commentary on entire exercise of rising the volume. What are your expectations? The time coming ahead, thanks.

**Sanjay Chaturvedi:** So Paracetamol we've expanded our capacity and as you rightly said, we'll be. We are at a capacity of 3600 tons now. So this is not just the installed capacity, but the process and everything has been stabilized and in the coming months. That's the kind of capacity that we will be running the plant at. And in terms of pricing in the domestic market, the prices range ranging from ₹530 to ₹550 as of now. And this is a kind of a product where the prices change on a frequent basis. I'm only talking about the India prices. Of course the export prices are slightly higher. This is typically the price and if you look at it last year the same product was selling at north of ₹700 so there is a fair amount of volatility. But that volatility tracks the volatility in the raw material prices and one needs to manage.

**Mahesh:** OK, so Sir, what capacity utilization you expect? One year down the line on paracetamol? If you can give it to the rough.

**Sanjay Chaturvedi:** Certainly well from 90%.

**Mahesh:** 90% OK and Sir, just one more question in chemical area, what are we planning to apart from ethyl acetate what are the segment you are trying to enter into.

**Sanjay Chaturvedi:** I don't call them segments. I call them derivatives or chemistry is related to what we already do. I could tell we've got acetyl chloride. We've got MCA Monochloroacetic acid. We've got, you know, with ethyl acetate so we'll be working around these chemistries.

**Moderator:** Thank you. Next question is from the line of Yogesh Tiwari from Arihant Capital. Please go ahead.

**Yogesh Tiwari:** My first question was, is there any seasonality around Ibuprofen like Q3 is a little short and then it increases around January Feb. So if there is seasonality around Ibuprofen?

**Sanjay Chaturvedi:** No, not really. We don't see any seasonality in Ibuprofen.

**Yogesh Tiwari:** And Sir, I just wanted to understand what are the demand drivers for Ibuprofen in export markets like Europe and Southeast Asia?

**Sanjay Chaturvedi:** The European markets in terms of size are much bigger than Southeast Asia and in terms of demand drivers, I think we are back to what it was at pre COVID levels now so it's a fairly stable demand where the growth rates are in single digits.

**Yogesh Tiwari:** And, Sir, are you seeing any increase in demand and volumes in the current quarter compared to Q3 in both ethyl acetate and ibuprofen in terms of volume?

**Sanjay Chaturvedi:** So our volumes and ethyl acetate are very flat. We've been running at pretty high asset utilization, so there is no change there. Yes, there has been a bit of a demand increase on Ibuprofen and we have the capacity to cater to that.

**Yogesh Tiwari:** And Sir, lastly, so just to understand that given the current scenario in Turkey and we have some exposure in Turkey. As well so. Is there any supply disruption for our product in Turkey?

**Sanjay Chaturvedi:** It's too early. I suppose you're talking in the backdrop of the earthquake that happened in Turkey recently.

**Yogesh Tiwari:** Yes, Sir.

**Sanjay Chaturvedi:** Yeah, so it's too early for us to make a comment on that, but we don't expect there to be much disruption in supply chain.

**Moderator:** Thank you. Next question is from the line of Vishal from Systematix. Please go ahead.

**Vishal:** So with respect to the regulated market opportunity, wanted to understand whether you are currently supplying to India based customers who in turn sell formulations to the US. So like in case of Ibuprofen, large part of the US formulation demand is being catered by Indian players, so are those customers your customers currently.

**Sanjay Chaturvedi:** Yes, Vishal. You're absolutely spot on. One is to cater to the regulated market by supplying the API directly to the regulated market. The other is to supply that API to Indian manufacturers who make the finished formulation in India and supply that formulation to the regulated markets. We cater to both.

**Vishal:** So you are already supplying to the India based names.

**Sanjay Chaturvedi:** Yes

**Vishal:** OK, and is there a pricing advantage that you get when you supply to supply to, say, an Aurobindo supplying unit or to supplying or ibuprofen to the US market? So is the price higher versus other domestic customers?

**Sanjay Chaturvedi:** So what I would say is that the price depends really on the quality of the product. A USC product that has a better impurity profile than an IP product you are going to get a premium on that. Whether you supply that product in India or you supply that product directly overseas.

**Vishal:** So currently your average realization for Ibuprofen. So when we compare. It to a competitor average realization, it appears to be significantly lower. Any reason for that? Based on the export data.

**Sanjay Chaturvedi:** I'm not sure that's necessarily true. And what I'd like you to do is take a look at not just the price realization, but the profit realization because I think the question to be asked is if my peers and competitors are selling at a higher price, why are they not more profitable?

**Moderator:** Thank you. Next question is from the line of Gautam Gosar from Perpetuity Ventures, please go ahead.

**Gautam Gosar:** So my question is, given the ethyl acetate prices were flat quarter on quarter basis and you mentioned that the demand has been stable for the business, so what led to the de-growth on a sequential basis for ethyl acetate business?

**Sanjay Chaturvedi:** So actually, if I think a slightly lower volume and also the pricing was not completely flat. The pricing was slightly lower in Q3 versus Q2.

**Gautam Gosar:** Ok. Given that in Q2 we had some high cost inventory as well, we are behind that, so the margins should have been better in the chemical business. But we've given a negative or epic margins in the chemical business. So what has been the major reason for that?

**Sanjay Chaturvedi:** So I think it's a question of just eating out all that inventory and we had a few more days of downtime for maintenance in this quarter. With all of this behind us, we should be back to profitability in Q4.

**Moderator:** Thank you very much. That was the last question. Thank you for your participation in the Q3 and nine months FY23 earnings call of IOL Chemical and Pharmaceuticals. In case of any further queries you may get in touch with the Investor Relations team at Adfactors. I now have the conference over to Dr. Sanjay Chaturvedi from IOL Chemicals And Pharmaceuticals Limited for closing comments.

**Sanjay Chaturvedi:** Thank you all very much for joining us today to discuss our quarterly performance and as we discussed, we have shown considerable improvement in Q3 versus Q2 and we remain optimistic for growth for both

our businesses. However, there is some uncertainty that persist and disruptions continue. As far as we are concerned at IOL CP we are focused on improving our product portfolio, working on developing backward integration models to overall reduce our dependence on imported raw materials. And we believe that in the coming few quarters you will be able to see their strategy paying off well. And this will help the company in getting value addition for all our stakeholders. With this I would like to conclude the call. Once again thank you all for your time and have a nice day.

**Moderator:**

Thank you very much on behalf of IOL Chemicals and Pharmaceuticals Limited. That concludes this conference. Thank you for joining us. You may now disconnect your lines.