Mankind

Serving Life

Date: 06th June 2023

BSE Limited
P J Towers,
Dalal Street,
Mumbai – 400 001

Script Code: 543904

National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (E), Mumbai – 400 051

Symbol: MANKIND

Dear Sir/ Madam,

Subject: Performance and Business Update Call for Q4FY23 & FY23 – Transcript

---

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the Performance and Business Update Call for Q4FY23 & FY23 held on Wednesday, 31st May 2023.

The transcript is also available on the website of the Company at https://www.mankindpharma.com/media/investor/q4-fy23-transcript-1686050139.pdf

You are requested to take the same on your record.

Thanking You,

Yours Faithfully,

For **Mankind Pharma Limited**

Pradeep Chugh
Digitally signed by Pradeep Chugh
Date: 2023.06.06 17:56:33 +05'30'

Pradeep Chugh
Company Secretary and Compliance Officer
Membership No. A18711

"Mankind Pharma Limited

Q4FY23 & FY23 Performance and Business Update Call"

May 31, 2023

MANAGEMENT: **MR. RAJEEV JUNEJA – VICE CHAIRMAN & MANAGING DIRECTOR – MANKIND PHARMA LIMITED**
MR. SHEETAL ARORA – CHIEF EXECUTIVE OFFICER & WHOLE-TIME DIRECTOR – MANKIND PHARMA LIMITED
MR. ARJUN JUNEJA – CHIEF OPERATING OFFICER – MANKIND PHARMA LIMITED
DR. SANJAY KOUL – SENIOR PRESIDENT, SALES & MARKETING – MANKIND PHARMA LIMITED
MR. ASHUTOSH DHAWAN – CHIEF FINANCIAL OFFICER – MANKIND PHARMA LIMITED
MR. RAVI AGRAWAL – HEAD OF INVESTOR RELATIONS – MANKIND PHARMA LIMITED

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

Moderator: Ladies and gentlemen, good day and welcome to the Mankind Pharma Q4 FY '23 Earnings Conference Call, hosted by Kotak Institutional Equities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

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

Alankar Garude: Good morning and good afternoon everyone. On behalf of Kotak Institutional Equities, I would like to welcome you all to the fourth quarter FY '23 earnings conference call of Mankind Pharma.

I would now like to hand over the call to Mr. Ravi Agrawal, Head of Investor Relations. We'll introduce the senior management and take the discussion forward. Over to you, Ravi.

Ravi Agrawal: Yes. Thank you, Alankar. Good afternoon everybody. I'm Ravi Agrawal, Head of Investor Relations at Mankind Pharma. I thank you again for being with us today on our Q4 and 12-month FY '23 earnings conference call.

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

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

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

I now invite Mr. Juneja to share his comments.

Rajeev Juneja: Thank you, Ravi and good afternoon everybody. It gives me super pleasure to provide you our first results update post IPO to our valued investors today. I may have met some of you before the IPO, all of us, but there must be some with whom I did not have any chance of interacting earlier.

So I welcome you today. And before I start this written commentary, let me speak something from my heart side that you always mentioned that what basically is the aspiration of Mankind.

Mankind's aspiration is to become the most admired institution in India. That's the inspiration and we always followed our heart and gut, whichever path we have ever taken. Mankind is a very, very unique company. It is actually a consumer health company. And why I say so because we are not depending upon few thousand doctors, we are covering 4 lakh doctors. And we have always believed one thing that don't follow certain companies, don't idolize certain companies, rather disrupt the market.

I take the examples whether it was our bottom-up approach to start with or gradual increase of our footprint in India from Meerut to Mumbai. And while we launched in Meerut in 1995, in Mumbai we came 20 years back. In southern part of India, 22 years back. Whether it was only marketing for a few years, then coming to manufacturing and then to R&D. And again in marketing, we are the only company, unique company, covering 4 lakh doctors. It is a very, very big scale.

And if you look at the manufacturing side, 75% products are being manufactured in our own manufacturing facilities. And if you talk about highlight about R&D, we have a distinction of developing Dydrogesterone. Not only that, in our OTC domain, consumer side only, look at our philosophy of always going for leadership position, whether it was Manforce condoms or Prega-News or Acne Star or Unwanted 72. It really tells our intentions that whatever we say, we have, we walk the talk.

And again, at different times, our philosophy has been different. There was a time we were just depending upon waterborne diseases. And today, it is airborne because air has become polluted. Once upon a time, our major products were antidiarrheal and today it is respiratory products. There was a time in 2004, till 2004, we were depending only on acute side. And today in 2023, our share in chronic side is 34%, whether it's a diabeto, cardio, neuros, psychiatry, respiratory, and so on. We have a lot of chronic side, lifestyle diseases, drugs. That really tells one thing about Mankind that we are a very, very dynamic company. And not only dynamic, at different times, we are more differently.

And how different are we? You'll be surprised to know that this is a unique company, Mankind, where there are no targets for our people, salespeople. This is only unheard of because our belief is that everything happens in long-term intangible things. I mean, benefit lies, growth lies, solid foundation lies in long-term intangible things, which become very profitable, tangible things in time to come.

And our belief is also there that we put our focus on people, processes, and products. So that creates a vibrant kind of atmosphere in the organization. The uniqueness of Mankind is when GST came, people were shrinking down, lowering their number of C&Fs. We did not do it. We rather increased. So we have a distinction of having more than 50 C&Fs. And our belief is that we are a company of only long-term. Our belief is anybody who believes in short-term kind of a thing, he loses focus on right kind of a karma (6.34) and right kind of a process. Because our belief is that pharma is not a cyclical kind of a business.

Healthcare is all about 24x7. Now, post-COVID, it has become more prominent in people's mind. It is 365 days, and there was a time our sales first half used to come around 56% when we used to depend only on acute side. But nowadays, because of a dependency on chronic, it has also increased, our share has increased. So it's quite stable. I mean, maybe it is 52% in six months, and the rest is in the rest of the six months.

And what we believe, actually, we believe that best quality can be given at the most affordable prices everywhere in India. We're totally India-centric Company. Our belief is that we can do fantastic in India. That was a commentary from the heart side. Let me read out the things.

What we see that pharma industry witnessed in normal year after two COVID years in 2023, which moderated the overall growth rate for the industry. With this context, I'm happy to share that the company has maintained its strong growth trajectory during the year.

Our domestic business segment continued to outperform the IPM in 2023 with a growth of 11% year-on-year, against IPM growth of 7.9% during the year. Within this, our chronic segment grew by 14%, with a market share of 34%, against 33% share last year in our domestic sales. We also successfully integrated Panacea acquisition. And during the year, EBITDA for the company was INR1913 crores, with a margin of 21.9% during the year. Our margins were lower by 390 bps due to higher API costs, especially in first half of 2023. Higher employee costs from the additional headcount from Panacea and not to forget, one-off, the cost from business integration of Panacea.

We have taken various measures to improve our margins, and we are confident that we will be able to deliver our historical margin of around 24% to 26% in the medium term, while growing at 1.3x to 1.4x of IPM.

For the quarter, our revenue grew by 19% year-on-year, with EBITDA of INR419 crores, and a margin of 20.4%, representing a growth of 45% year-on-year.

Before we get into specifics of the business, I would like to highlight the key strategic aspects of our segments. The strategic pillar on which our business are built, the first is the Mankind Company is primarily focused on India, with almost 97% of our revenues coming from India, this focus will not change, as we believe that there are unbound opportunities for the growth in the country.

Second, our core value proposition of affordability, accessibility, and the best quality will be central to our business going ahead to generate volume-led growth and prescriptions. Third, we see a clear trend of rising prevalence of chronic diseases in India, and we will aggressively focus on increasing our presence in chronic segments going ahead. This will be through expansion in our new therapies, growing presence in existing therapies. It will also be through increasing penetration in metro, especially within super-specialty doctors, for which we have created dedicated divisions. The strategy here is to garner dominant leadership position in identifying white spaces in key chronic therapies through in-house R&D, acquisitions, in licensed products, and through best in the industry doctors, stockists, and patient coverage.

Fourth, we'll continue to aggressively invest in marketing to create and support our dominant brand leadership across our pharma and consumer business. Within our key Class 2 and Class 4 towns and rural market, we will be focusing on increasing the value of prescriptions, bringing more prescriptions from the same doctors.

Our corporate brand, Mankind, creates synergy benefits across both pharma and consumer verticals. We have a very unique consumer healthcare business with a market leadership and will aggressively continue to grow and expand this business through brand extensions. Prescription to OTX to OTC, we have done plenty of, whether it's the HealthOK, whether it's Acne Star, we have both. These are two examples where we shifted our prescription products to OTC side, OTX to OTC side.

Going forward, also, the product we have acquired Nimulid from Panacea will be shifted over there. Also, our record in creating brands have been very good, from around 29 brand families with the sales above INR50 crores in year 2020, today, we have 37 brand families which are above INR50 crores, with 11 of them are above INR200 crores each. If you consider that, we are a company around 28 years old, we are probably one of the fastest, youngest companies to create such a brand success in India. We hope to keep doing the same good work.

Thank you so much. With this, I hand over to Sanjay Koul, Senior President, Marketing, and Sales.

Sanjay Koul: Thank you so much, sir. And good afternoon, ladies and gentlemen. And welcome to this today's investor call. I would like to take this opportunity to provide you with an update on our domestic business with a specific focus on our consumer healthcare segment.

Let's begin with our domestic business revenues, which reached INR8,453 crores in FY ‘23, reflecting a year-on-year growth of 11%. Excluding the impact of COVID-19 pandemic, our revenue growth stood at 15% during the year. In Q4 FY ‘23, our revenues amounted to INR1,972 crores, marking a robust year-on-year growth of 18%.

According to IQVIA, our secondary sales growth for FY ‘23 was 10.6%, outperforming the industry's 7.9% growth rate. This trend continued in Q4 FY ‘23, with our secondary sales growth at 24%, compared to the industry's 14.9%.

It's worth noting that our long-term historical performance has consistently positioned us at around 1.3x to 1.4x the industry growth rate. Additionally, IQVIA reports that we maintained our market rank of 4, holding a market share of 4.4% during the year. However, when considering the CVM, our market share reaches 6.5%, securing the second position in India. Analyzing the price and volume metrics, we have been closely in line with IPM as far as price increase and new product growth contributions is concerned.

Notably, our volume growth reached 2.6%, outperforming the flat volume growth of the IPM. This success is attributed to our expansive distribution network, large field force, and strong presence among doctors, making us one of the industry leaders. We firmly believe that, volume-led growth reflects the superior quality of our sales, as it is driven by prescriptions and thus more sustainable.

Another point to note is that, we have consistently had the highest prescription share over the last five years. Even in FY '23, our prescription share increased by 0.2% and stood at around 15.5%. We also have 22, INR100 crores plus brands, which is the third highest in the industry. As Rajeev sir mentioned, a key aspect of our business strategy is expanding our presence in the chronic segment. We have witnessed steady progress in this area, with the chronic business accounting for 34% of our sales in FY '23, up from 32% in FY '20.

Furthermore, in Q4 FY '23, it increased to 35%. Notably, our chronic business achieved a growth rate of 14% in FY '23, surpassing the IPM growth rate of 11%. In Q4 FY '23, our chronic business growth stood at 25%, while the IPM growth rate was 15% only. This represents an outperformance of 1.3x and 1.7x, respectively, during their respective periods.

We have a robust strategy in place to launch unique products, including those from in-licensing. We have started witnessing fantastic results from this initiative. For instance, our in-licensed product, Neptaz, which is Sacubitril-Valsartan for long-term heart failure, received an outstanding response and was ranked, the second best new product launch in India for FY '23, according to IQVIA.

Now, let's shift our focus to the company's overall PCPM. Despite a substantial increase in our field force, during the last three years, the average PCPM of the company has steadily increased from INR 5.5 lakhs in FY '20 to INR 6 lakhs in FY '23. It is important to note that, while most of our mature divisions boast a healthy PCPM, the overall company level is influenced by lower PCPM from our new divisions. However, we perceive tremendous opportunities to enhance our PCPM as these new divisions gain momentum, which will positively impact our margins going forward.

Moving on to our consumer healthcare business, we achieved revenues of INR692 crores in FY '23, demonstrating a strong year-on-year growth of 17%. Over a longer period, our CAGR has been a robust 22% in FY '21 to FY '23. For the quarter, I am happy to share that, all our major brands in consumer healthcare have increased their market shares. We are confident in sustaining strong growth in this segment going ahead. I will now hand over to Ashutosh ji, who will provide further insights into our financials. Thank you so much.

Ashutosh Dhawan: Thanks Sanjay, a very good afternoon and I thank everyone for taking time out and joining our first quarterly earnings conference call. I hope all of you would have received our financial results as well as the press release. Let me give you a brief of the financial highlights for the performance during 12-month period ended on 31, March '23 as well as quarter 4 FY '23 performance. So, starting with the quarterly view standpoint, for Q4 FY '23, revenue from operations have increased by 19% year-on-year basis to INR2,053 crores. EBITDA has shown a growth of 45% year-on-year to INR419 crores with the margins at 20.4%. PAT was at INR294 crores, representing a growth of 52% year-on-year with EPS, which is not annualized of INR7.1 per share of Re.1 paid.

For the quarter, if you look at our gross margins are at 67.2%, which is 40 basis points lower than Q3, which is due to one-time write-off of close to around INR15 crores, on account of COVID-related inventory, which has impacted our quarterly margins by 70 basis points. In the absence of this, the same margin would have been closer to 68%, for the quarter, which is at a similar rate as the pre-COVID levels. If you look at the R&D cost for the quarter, which stands at INR48 crores, representing 2.3% to the sales. The total capex spent for the quarter was at INR133 crores in Q4 FY '23.

Now moving on to the full year view, revenue from operations have improved by 12% year-on-year basis and we closed revenue at INR8,749 crores. EBITDA for the year was at INR1,913 crores, with margins at 21.9%. Similarly, PAT was at INR1,310 crores, with the margins of 15%. The annualized EPS for the year was at INR32 per share having a face value of Re.1.

As seen, our reported EBITDA margins in FY '23 have declined by 390 basis points and this is largely due to three main factors. The number one is the gross margin compression, gross margin was at 66.7% as against 68.9% in FY '22. So, there is a decline of 220 basis points and this decline is coming from three broad reasons. One is the cost impact on account of higher API prices, especially what we witnessed in H1 of FY '23, that was around 130 basis points. We also did higher provisioning for COVID-related expiry products, which also impacted gross margins by 60 basis points. Lastly, there was an adverse geographical mix, which impacted 30 basis points. We have taken active measures to improve our gross margins with price increases, which has given a positive impact, especially in the H2 of FY '23.

The second impact of 110 basis points is coming on account of higher employee cost. This is due to the full impact of total headcount, which we added in FY '22 in a phased manner. However, in FY '23, there has been a full year cost impact. And this also includes the impact of new employees, which we got added because of the acquisition of Panacea. We expect this to normalize going ahead as we begin to see the productivity ramp up in the sales force in the coming year.

Thirdly, there has been a one-time cost impact due to business integration of brand acquisitions during this year, which has also impacted our margins by 60 basis points. And now the other part is the depreciation and amortization expense for the year. They are at INR326 crores as against INR167 crores in FY '22. This is on account of additional amortization of close to INR140 crores in FY '23, due to the amortization of intangibles from acquisition costs.

Our effective tax rate for full year was at 21.6% as compared to 26.4% in FY '22. For the full year, our net operating working capital days were at 45 days, which is similar to what we had for FY '22. If you look at the total capex spent, that was around INR832 crores in 12 months FY '23 and cash flow from operations were at INR1,813 crores as compared to INR920 crores of FY '22.

The company has a healthy net cash position of INR1,366 crores as at 31, March '23. The ROCE was 25%, Return on Equity was 23% for FY '23 on ex-cash basis and if we adjust it for acquisition and cash our adjusted, ROCE and ROE were at 40% and 39% respectively in FY '23. With this, I would like to conclude our opening remarks and we will be happy to address any questions that you may have, please.

Moderator: Thank you. Our first question comes from Prakash **Agarwal** with Axis Capital. Please go ahead.

Prakash Agarwal: Hi, good afternoon. Just one question. First of all, thank you and congratulations on listing. Just one question. You gave an elaborate bridge of gross margin as well as EBITDA margin impact. You mentioned cost impact of API of 130 bps. How much of that has been recovered in the second half and what is the outlook for fiscal '24?

Ashutosh Dhawan: Thanks Prakash for the question. So we undertook the price increase in the Q2 and full impact of this cost pressure has been recovered by Q4 and in the next year FY '24, so this is getting normalized. So the full impact has been covered by way of price increase.

Prakash Agarwal : But there is another round of price increase, if I am not wrong, that happens in April and the impact comes by end of Q1. So would that be beneficial and we would go beyond 68% is the endeavour or how should we look about, what is the band that you are looking at, at the gross margin side?

Ashutosh Dhawan: Definitely, the NLEM price increase, we will be taking from April, so that will have a positive impact on the gross margins going forward.

Prakash Agarwal : Any band you are looking at in terms of gross margins?

Ashutosh Dhawan: Any band? So the price increases in line with the IPM market price increase.

Arjun Juneja: So Prakash, Arjun here, Arjun this side. So basically to answer your question, we have taken price increases in line with the NLEM price increases, which have fallen in place in the month of April. So those price increases we expect, the benefits of those price increases to start coming from June onwards. And apart from that, whatever price increases the government allows for the non-NLEM products, we have taken those price increases as well, which will happen during the course of the year, which will give effect in different quarters to come.

Prakash Agarwal : So ideally speaking, the gross margins should improve from that 68% mark, would that be correct understanding?

Arjun Juneja: The gross margins would improve slightly but not as much because if you see we are sitting at about 67% of gross margins as of now, around 67%-67.5% of gross margins. But having taken these price increases into account and the volatile Dollar-Rupee conditions and the volatile API markets, we are projecting gross margins should be around in the range of 68% plus 1% or so.

Prakash Agarwal : Okay, perfect. This is helpful. And second question is on the cash flows. So we had a very strong cash flow. Just trying to understand, like last couple of years, we have taken endeavours in the gaps that we had, the Panacea and the smaller ones and respiratory and derms. What is the thought process now in terms of using the cash?

Rajeev Juneja: The thought process is very-very clear that after the successful acquisition of Panacea, looking out for other M&As as well and feel, whenever the opportunity is right, we will definitely use it. Right now, we are just accumulating the gunpowder, so that at the right time, we have good amount of money in our hands. That's a thought because the value of any company can increase as a whole, if it really utilizes the money, rightly. That's the thought process.

And it is always unpredictable, when you get the right kind of organization, which fits in your company very well. Like we believe Panacea has really happened. Of course, not to forget that in 2024, we expect to incur around INR600 crores capex, in our R&D and other places, in our factories. And as far as our R&D is concerned, it will be approximately 2.2% to our sales.

Ashutosh Dhawan: So currently also, it's around 2.3% in that range.

Prakash Agarwal : Understood. And lastly if there is any dividend policy that you would like to highlight?

Arjun Juneja: Basically yes, there is a dividend policy. We are working on the dividend policy but we don't have a fixed pay-out ratio as of now. We are in the process of working on the same and will be updated in due course of time, maybe in the upcoming quarters.

Moderator: Thank you. Our next question comes from the line of H. Kunal with Macquarie Company. Please go ahead.

Kunal Dhamesha: Hi, it's Kunal Dhamesha from Macquarie and thank you for providing the opportunity and congratulations on the good set of numbers.

So while we have shared our medium-term target of growing by around 1.3 times, the IPM growth rate, but I would like to know your thoughts on the Indian pharma market growth, let's say three-year time period. How do you see that because there has been a lot of volatility with the COVID products coming in, going out, etc. But do you see structurally what, kind of, growth rate is possible in IPM and then based on that what is our target growth rate that we are looking for in the next three years?

Sanjay Koul: So Kunal, this is Sanjay Koul. Thanks for the question. And if you look at the IPM growth of FY '23, it was 8%. As per IQVIA, they have given basically next five years projection for growth of the IPM.

So as per IQVIA, the IPM is going to grow between 10% to 11% for next three to five years. And major segments, which will be the growth drivers will be cardiovascular disease, which will grow faster than the IPM growth. And the second will be anti-diabetics. Third will be dermatology. Fourth will be gynecology.

So these are few of the segments, which are going to grow faster than the IPM growth in the next three to five years as well. And these will be the growth drivers of IPM. And even anti-infectives last year grew by 6%. And the IQVIA says that even anti-infectives can grow between 8% to 9% in the coming three to five years.

So we have a very strong portfolio of anti-infectives, gastrointestinal, vitamins and minerals, which are projected to grow by -- the market is projected to grow by 12% to 13% as per vitamin and mineral segment is concerned. So we have strong portfolio in cardiovascular disease, anti-infectives, vitamin and minerals and gynecology.

So all these segments as per IQVIA are going to show robust growth and we are aligned because these segments have substantial presence in our portfolio.

Kunal Dhamesha: Sure. So basically it means that we should be somewhere around 12% to 14% range in the medium-term annual growth rate?

Sanjay Koul: So traditionally, last five years, last three years, last 10 years, we have outgrown the IPM. And even our volume growth has been higher than the volume growth of IPM. And we believe the trend will continue, because we have a number of strategies in place. We are expanding our covered market. We have launched specialty divisions in the last two years and these divisions are going to be the growth drivers besides existing business. And we expect that in the next two to three years, we will continue growing faster than IPM by 1.3x to 1.4x.

Kunal Dhamesha: Perfect. And the next aspirational or -- in terms of EBITDA margin, you have provided 24% to 26%. We know what in your view, let's say from quarter four, we have ended at around 20.5%. What is the major primary lever of that going from 20.5% to let's say 25%, which is midpoint? I don't know if you can provide some clarity to that.

Ashutosh Dhawan: Sure. So let me give you a perspective. Let me show the roadmap from 22% to 25%. So as we mentioned that there has been a gross margin compression of 1.3% in FY '23, which we have recovered through price increase. And let's assume that we maintain the same, even though technically what Prakash mentioned that because of price increase, there are chances of improvement therein.

But let's be conservative. So 1.3% recovery, which we have undertaken through price increase, which we expect to continue even as a matter of abundant precaution at a 68% GC level. So 1.3% is going to come from there. 1.1% has been the drop on account of higher employee costs, because we added workforce in FY '22 and FY '23 has been the year of consolidation. So we expect the productivity and ramp up to go up, so that should also give us the benefit of close to around 1.1-odd percent.

And thirdly, there has been a one-time integration cost in FY '23 because of these acquisitions. So that also impacted our P&L close to around 0.6%-0.7%. So that we expect that that will normalize in the next year.

So if we do a totaling of these three, we expect it to be somewhere hovering around closer to that guidance level of 24% to 26%. There are other operating levers as well as an organization level. The focus is on the chronic segment, so that also can be added impetus to the margins. So this is broadly how the roadmap from 22% to the taking it to the guidance of 24%-26% EBITDA level.

Kunal Dhamesha: So when you say chronic, it would again be higher productivity than what we are suggesting right now, which is the current negative impact that we have seen from the -- so we are just right now 1.1% is just making in breakeven of those new people that you've have hired, right? I mean, once they start generating beyond breakeven.

Ashutosh Dhawan: Yes, so that's why because -- and then -- so the impact will be on both the sides with the chronic. One is on the employee productivity and second is on the gross margins. So the impact will be double-fold if we increase the chronic market share and increase it from a current 34% level to a higher level.

Kunal Dhamesha: Sure. And the third question that I have is on the new integrated facility, which we have said that we will commercialize in H1 FY '24. So is it fair to say the current CWIP for INR493 crores belongs to that facility? And you also talked about dydrogesterone export opportunity. So what is the overall addressable market size there? What is the competitive landscape, if you could help us understand?

Ashutosh Dhawan: See, it's very difficult to point it out, because there are multiple projects, which are undertaken at the organization level. Last year, we have incurred the capex, both CWIP plus the capitalized part of close to INR832 crores. And this year, we are expecting it to be lower than that. That is expected to be somewhere close to around INR600 crores. That's the capex spent for FY '24.

And this facility, which is coming up in Udaipur, which is we expect to get commercialized within the next one or two quarters. So there no more capex will be going on in that.

Arjun Juneja: So basically, this facility -- this is Arjun here, this facility, which is being built in Udaipur, it will get commercialized in next quarter. And the reason for this facility is that it's a totally integrated facility, where we will be producing dydrogesterone from scratch. And it will help us remove our dependence from China on the KSM. So we'll be producing the KSM, the raw material to KSM, then to the intermediate, finished API, then the finished formulation at one integrated facility for this product. Because we've seen that since the last couple of years, we launched the product in 2019, ever since our volumes have been going up, and we were not able to meet the increasing volumes.

So looking at the future volume forecast of this product, we have built this facility to cater to the Indian market and also to -- we are exploring opportunities across the globe wherever there is market for dydrogesterone, whether it is China, whether it is Russia, whether it is Southeast Asia, South America. So we'll be exploring all the markets for dydrogesterone going forward with this facility.

Moderator: Thank you. Our next question comes from the line of Surya Patra with PhillipCapital India Private Limited. Please go ahead.

Surya Patra: Yes, thanks for the opportunity, sir. Sir, just first question on the, let's say, margin. We have seen kind of 25% to 26% margin during the COVID period. Obviously, that was a temporary opportunistic period where the margin has seen that number.

So now we are guiding almost that kind of scenario. So are we saying that the margin that we have on during the COVID period is achievable number, and efforts have gone towards that?

Arjun Juneja: Yes, I think you are right. The margins that we achieved during the COVID period, those are achievable numbers. I mean, this year was a slightly unexpected year, because last year because of the, if you see the early half of last year, especially January, February, March, China was in a bit of a turmoil. We were not sure of how COVID situation is happening in China.

And going to the same, we started increasing the inventory of raw materials, because we never knew what's going to happen in China because different parts of China were shutting down at different times. And we started sitting on extra inventory because of that. At the same time, the pricing of different APIs went up.

So that had an impact on the first half of last year where we were sitting on extra inventory and sitting on inventory, which was more expensive. We also wanted to take price increases, which we take during the course of the year, but there was a lag effect in those price increases because of the extra inventory sitting. So the price increase impact started coming, especially during the second half of last year. So had these issues not been there, probably the margins would have been better off.

Ashutosh Dhawan: So just to complement, if you look at during the COVID period, the margins were upward of 26%, closer to 27%. So while in this guidance, so they have been tapered off 24% to 26%. So they have been normalized with the COVID effect.

Surya Patra: Okay. Sir, my second question is about the consumer business. So let's say over a period of let's say three-year time. So what is the kind of business here that we are expecting out of this consumer health segment? And also what is the kind of business here that we are targeting for chronic?

Rajeev Juneja: Look at the history of our consumer business, and you can draw your own conclusion. We continuously do -- we continue to do quite good in that. We are right now building our brands. Rather what we are doing, whichever brands have reached to a level, we are just increasing the portfolio range in that, in Manforce, in Prega News. And also from OTX to OTC side we're going for. Hopefully we'll do much better than what we're doing right now.

Surya Patra: Okay. Sir, FY '23, the margin profile or the profit profile of the consumer health compared to the reported number, could you give some sense?

Ashutosh Dhawan: Actually, we don't discuss the segmental margins, but we can give you that the margins of the consumer business, they are in line with the listed consumer companies margins. And directionally, the margins have been improving in the consumer business year-on-year basis.

Surya Patra: My last question would be on the indication that you have said, sir, the plastic neutral, carbon neutral effort over the next couple of years. So whether it is going to have incremental cost, or you are expecting a better pricing power supporting to the profitability, how should we see this and what effort that you are really talking about in terms of cost and all that?

Arjun Juneja: So we are not expecting an incremental cost because of this. I mean, whatever costs are there, I mean, a lot of these things that we are doing are based on opex models. And there is not enough -- this in not a lot of capex going into all of this. And it is all within the rational range of expenses that we've been doing over the last few years.

Surya Patra: Okay.

Ashutosh Dhawan: So we kept the margin to 68% after factoring pluses and minuses.

Surya Patra: Okay, okay. Sure, sir. Yes. Thank you. Wish you all the best.

Moderator: Thank you. Ladies and gentlemen, a request, please restrict yourself to two questions per participant.

We move on to our next question, which is from the line of Naushad Chaudhary with Aditya Birla Sunlife AMC. Please go ahead.

Naushad Chaudhary: Yes. Hi. Thanks for the opportunity. A quick follow-up on the previous question. I understand, sir, you don't share the margin on the consumer business. But broadly qualitatively, if you can share, are we EBITDA positive here?

And in terms of our marketing spend, how much we spent last year and what is the outlook here for the next two to three years in terms of ad and marketing spend penetration and overall business profitability outlook?

Arjun Juneja: Thanks for the question. But I can very -- put it out here on record that it is an EBITDA positive business and the operational EBITDA for this business is in high-teens. And I mean, it will be very difficult to give the -- how much is the marketing spend or the advertisement spend on this business. We don't do segmental reporting for the consumer business as such. But it's a positive business, EBITDA positive business.

Naushad Chaudhary: And you have enough juice in terms of operating leverage here as the business grows, should it fall, should EBITDA expand meaningfully here in consumer business?

Arjun Juneja: Yes, there is enough juice in this business to increase the operating leverage. If we see our historical margins in the consumer business, they are increasing year-on-year. Till about a few years back, it was a loss making business for us. But since the last few years, the EBITDA margins have been expanding and there is full leverage happening because of the scale and size of the business at which it is growing.

Naushad Chaudhary: Right. And lastly, in terms of the API cost pressure, so are we -- do we still have high cost inventory, or is it over in this quarter and from next quarter onwards, there shouldn't be a…?

Arjun Juneja: I would say most of the high cost inventory is gone now. We'll start reaping the benefits from next quarter onwards.

Naushad Chaudhary: All right. Thank you so much.

Arjun Juneja: Some of the benefits have already started coming in.

Ashutosh Dhawan: Yes, and the number of days of inventory has also come down in the system.

Naushad Chaudhary: Right. Thank you so much, sir. Thank you so much.

Moderator: Thank you. Our next question comes from Harsh Bhatia with Bandhan Mutual Fund. Please go ahead.

Harsh Bhatia: Yes, thank you. Good afternoon. Just two quick questions from my side. In terms of your opening commentary, you mentioned that you had a 2.5% volume growth versus IPM being flat. So if you could help us understand in which therapies did you have this delta, like is it entirely infectives driven where you had 2.5% incremental volume growth against the market? Or is it more to do with the chronic market side? So that is basically to understand where have we gained market share, in which therapy on volume basis?

Sanjay Koul: So it has been, if you look at the volume growth as well as overall growth in FY '23, so we have seen higher growth in chronic segment as compared to the acute segment. Our chronic has grown by 1.3x compared to the IPM growth. So chronic has definitely shown a better growth as compared to the IPM growth and it is 14% versus 9% of acute growth. So volume growth definitely has come from both chronic as well as acute, but higher growth is coming from, of course, the chronic side.

Harsh Bhatia: Okay, fair enough. And in terms of the chronic share that you are highlighting, 34% versus 33% last year, this includes -- the 34% includes the Panacea acquisition as well. Is that the fair understanding?

Sanjay Koul: Yes, it is including both, but let me add here, if you remove, see our growth is, overall growth is 11%. If you remove chronic, if you remove Panacea from equation this year and from last year, so our growth improves to 15% instead of 11%. So Panacea will start basically producing good results in this financial year, that is FY '24, and the first six months we tried to basically rationalize the tail, we tried to basically correct the things in Panacea and we are aligned because our Q4 growth in Panacea business was 19%.

Harsh Bhatia: Okay. So just to clarify, the Panacea numbers are there in FY '22 and FY '23 as well, so could you quantify those numbers if possible?

Sanjay Koul: So these are IQVIA numbers and we have shown growth in this year, that is FY '23 has shown a growth over FY '22, this is as per IQVIA. And even the top five brands of Panacea have shown a growth of 6%.

Ravi Agrawal: Just to put it in perspective, if you look at the, what Dr. Koul is mentioning is that if you look at the IQVIA numbers, the numbers for last year and this year, both include Panacea, so if you knock them off, then the growth for the company is around 11%.

Sanjay Koul: Correct. Chronic is 15%.

Ravi Agrawal: And chronic is 15%.

Harsh Bhatia: Okay, all right. Thank you. All the best.

Moderator: Thank you. Our next question comes from the line of Mitesh Shah with Nirmal Bang Securities. Please go ahead.

Mitesh Shah: Thanks for taking my question. Congratulations for the strong listing. My first question is regarding the gross margins. If you can see in the first half, definitely, as you said, it would be under pressure, but the second half gross margin has improved by around 127 bps, I'm just comparing one half versus the second half.

Now I'm just looking the operating margins, EBITDA margins, that have declined. The first half had a 22.9%, 23%, and the second-half declined to 21%. I can understand that 4Q might be a soft, but 3Q also have a 21% of margins, and we are guiding around 24% to 26% of margins. So I'm not able to understand that gross margin already improved in the second half, despite that the margins haven't improved.

And also in the nine months, if I can see from your bifurcation, then in the nine months versus nine month of last year, marketing spend has reduced by around 125 bps. That also has benefited the EBITDA margins of nine months of FY '23. So what I'm missing, I just want to understand that how would you be able to see that, because I'm expecting the marketing spend will be normalizing next year as well.

Ashutosh Dhawan: Sure. So just to put it into perspective, if you see the sales mix over the whole year, so if you compare H1 to H2, so H1 sales is approximately somewhere around 52% to 53% of the whole year sales. And the H2 is normally 47%, 48%. So, one, is because of the lower sales and the fixed expense base is pretty constant. So there is a direct hit on the margins. That is point number one. So if you see H1, margins are fairly stronger as compared to H2 margin. So that's one of the reasons why it has been.

Secondly, the gross margin, if you see the H1 gross margins, they were quite compressed, close to around 66% level, which we have recovered in the H2 part of the year. So basically the margin erosion is coming because of the lower sales.

Mitesh Shah: Got it. So you mean to say that generally the 1H would be a stronger for you?

Ashutosh Dhawan: Yes, that has been the historical trend has been. Then according to this, the sales and marketing expenditure is also linked to the sales. So that's why you see there is a drop in the sales and marketing in H2 as compared to H1.

Mitesh Shah: Actually, I am talking about nine months. Because in your RHP, the nine-month comparison has given, and it has reduced around 125 bps.

Arjun Juneja: And if you see, I mean, historically also, if you see that quarter four margins are generally lower for us. I mean, if you see the past three years also in Mankind, the quarter four margins are generally lower.

Mitesh Shah: I think that could be the reason, because the domestic sales are mostly soft. But this quarter, I haven't seen any softness, 3Q to 4Q are almost similar. So that's why even I surprised that the subdued margins.

Ashutosh Dhawan: If you will see the margin between Q3 and Q4, Q4 sale has been 2% lower as compared to Q3 sale. And that's why there is a slight drop in the margins between Q4 and Q3.

Mitesh Shah: I got the margin front, and now just looking the exports, exports are growing robust around 65% growth in the 4Q and 58%. So what is the outlook and how do you look at the exports its definitely the smaller pie for you.

Sheetal Arora: So exports are -- growth is looking higher because the base last year was very less. And going forward, it's an Indian centric company and Mankind focus will always remain on India. So always 96% to 97% of our revenue will come from India. The focus will be on India.

Mitesh Shah: Can I squeeze one more question on the tax rate? Can you just guide about the tax rate for next year, next two years?

Ashutosh Dhawan: Okay. So if you see the effective tax rate for current year has been around 22%. And before that it was 26%. And the drop in the effective tax rate is primarily because we have increased our Sikkim facility where we are availing exemptions.

And then secondly, because of the acquisition, higher amortization cost has also given us depreciation benefit. And with regard to the future guidance, we expect the tax rates to be somewhere closer to 22% to 23% level. Why we are saying so? Because we have multiple manufacturing entities. So they are at the enacted tax rate . So we expect tax rates to be in the range of close to 22%-23%.

Mitesh Shah: Got it. Thanks. Thanks for all the answers.

Moderator: Thank you. Our next question comes from the line of Kunal Dhamesha with Macquarie Company. Please go ahead.

Kunal Dhamesha: Yes, thanks for the opportunity again. So a couple of questions. One basically on the field force productivity number that we have shared. So is it calculated on just the MR numbers, and not including the first line manager?

Sanjay Koul: So it is on the basis of medical reps only, not managers.

Kunal Dhamesha: Okay. And any particular reason why would you not add any business reasons in a way that they are just a managerial role, or even the, you know, you just wanted to say?

Sanjay Koul: So this is the normal practice in the industry that PCPM is basically calculated on the basis of the medical reps rather than including managers.

Ashutosh Dhawan: So if the managers get added, so it will be double accounting, because managers are controlling 8 to 16 depending on the span of control. So that's why it is being calculated at the MR level.

Kunal Dhamesha: Okay, perfect. And secondly, on the specialist coverage, since we have launched I think 18 division around two to three years back focusing on chronic, what kind of specialist coverage progress that we would have made in the last three years? Any metrics would be helpful for us to track?

Sanjay Koul: So our coverage among the specialists is -- our overall coverage among the doctors is 82%. When I talk about specialists, one of the major specialists is CP, that is Consulting Physicians, which is approximately 35,000 to 40,000 in the IPM, in the industry. So our coverage of prescriber share of CPs is 93%. It is one of the highest in the IPM. So besides family physicians, where our prescriber share is 91%, our prescriber share among the CPs who are considered as specialists is 93%. So post-launching of these specialty divisions, we have made inroads in the chamber of specialists like CPs, and we have also improved our prescriber share among endocrinologists, diabetologists, and cardiologists.

Kunal Dhamesha: And, sir, super-specialists, any numbers?

Sanjay Koul: That's what I'm saying. When I talk about diabetologists, our prescriber share is 84%, Cardiologists, it is 87%. It is among the highest in the IPM.

Rajeev Juneja: And when you talk about the super-specialty side, I mean, we have given you an example of Neptaz's, it is a hardcore super-specialty in-licensed product we got from Novartis. In that, it is explained that we were the second best launch of the year. Mankind on one side is famous for selling affordable prices, but over there, when we went in the super-specialty category, we had no advantage of prices. It was sheer on the basis of merits of the quality of working, Mankind could really put in those super-specialty doctors.

Kunal Dhamesha: Sure, sir. And the last one is basically on the capex. You have said INR600 crores out of how much that could be the maintenance capex for us?

Ashutosh Dhawan: So normally, the thumb rule what we follow is close to around 85% is the growth capex and 10% to 15% is the maintenance capex.

Kunal Dhamesha: So, sir, when I look at our gross fixed asset turnover, which is roughly on the FY '22 base of gross block, somewhere around 3.6 times. And if I compare it with some of the domestic focus name, it is meaningfully below that number. And if I look at the capacity utilization across our plant is also meaningfully low, like formulation would be close to 40%, API would be close to 40%.

So my question is, while the current capacities remain underutilized, what is driving the new capex in terms of capacity expansion?

Arjun Juneja: So if you look at our range of products, it's a very diverse range of products spread across antibiotics, in antibiotics, we have cephalosporins and beta-lactams, we have hormonal products, we have general category products, we have soft gelatin, we have nutraceutical products, we have ointments, syrups.

So all of these different therapeutic products, they require different set of facilities. And if you compare us to others, most of our peers, generally what they do is they outsource their domestic manufacturing to contract manufacturers. And generally, they in-house those manufacturing facilities where they're producing for the regulated market or export markets. We manufacture about 75% of our products in-house. So that gives us a couple of benefits, both in terms of quality as well as in terms of delivery timelines and supply chain controls. And more than that, the margins that these companies give to the contract manufacturers, we retain those margins in-house, which help us increase our gross margins, even though the pricing of certain of our acute side of products is much lower or much competitive than the market.

The reason why some of our facilities are lower in terms of capacities is because we made a huge expansion in our Sikkim plant, which is reaping the tax benefits. And in years to come, these facilities would be utilizing these capacities very well.

Kunal Dhamesha: Sure. Perfect. Thank you.

Moderator: Thank you. Our next question comes from the line of Rahul Jeewani with IIFL Institutional Equities. Please go ahead.

Rahul Jeewani: Hi, sir. Thanks for giving me the opportunity. Sir, can you comment on a bit more on your Panacea portfolio? And specifically, if I look at the growth for the top five brands of Panacea, that looks to be muted at around 6% for FY '23. So any reasons why top brands of Panacea have moved slower this year?

Rajeev Juneja: Rahul, thank you for the question. So first of all, you're supposed to understand whenever we have always seen any acquisition, we've always seen from a point of view of long-term strategy. One was that Panacea was offering us better gross margins. Second was most of the products were chronic side. And third was they were quite niche. And one more factor shouldn’t be forgotten. We got a patented product. I mean, how many patented products would be there in India? Very few. You can count on your fingertips. Keeping those things in mind, Panacea was acquired, number one.

The number second basically when you take some company, which was being run not very nicely, it takes time to really integrate the whole organization. So first year has always been like this and can be like this only because it takes time for the people to understand, we to understand those guys. We took this company inside Mankind in March of '22. So it's just 12 months. Just wait for a few more months. Wait for the next call. You'll find us doing fantastic.

Rahul Jeewani: Sure, sir. So the growth which you saw on this portfolio during the fourth quarter, which is at around 19%, do you think that we can continue this growth trajectory on the acquired portfolio over the next, let's say, three to five-year period?

Rajeev Juneja: Why not better?

Rahul Jeewani: Sure.

Rajeev Juneja: Why not better? That's my answer.

Rahul Jeewani: Sure, sure. And, sir…

Rajeev Juneja: You should see that, because keeping that in mind, we have gone for this company.

Rahul Jeewani: Sure. Okay. And, sir, the next question, which I had was on your PCPM that -- given that we have added almost 8 to 10 new divisions for the domestic market over the past two to three-year period, can you split out your PCPM of INR 6 lakhs between the legacy business and the new business, so that we get some clarity in terms of what kind of a PCPM improvement we can see in some of these newer divisions, which we have added?

Rajeev Juneja: I can tell you roughly. I mean, our established old divisions, traditional companies have a PCPM of INR 9 lakhs, INR10 lakhs, INR 11 lakhs, INR 12 lakhs. And last four years' time, whatever new specialty divisions we have launched, and don't forget, out of these four years, two years were lost in COVID time, starting, closing, starting, closing. So you can say they are around two years old, right? The PCPM varies from INR 2 lakhs to INR 3.5 lakhs and INR 4 lakhs. That sort of a PCPM is there. But yes, they are growing faster because of lower base. That's the point over there.

Rahul Jeewani: And this INR3 lakhs to INR4 lakhs of PCPM on these newer businesses, where do you see this number trending to in, let's say, the next three years?

Rajeev Juneja: I cannot comment on that, but I can tell you, I mean, we wish these divisions to grow, I mean, substantially well, very, very good. They should be good drivers in future. Without giving numbers, they will drive our growth. And on what basis we are saying that our chronic share will increase? On what basis we are saying that our gross margins will improve? Naturally, chronic side, naturally, these new divisions.

Rahul Jeewani: Sure, sir. And do we have any further rep addition plans for, let's say, the next one to two-year period? Or are we sufficient with the rep team, which now we have created over the past few years?

Rajeev Juneja: I mean, plenty has been done, substantial has been done. 5% to 7% I cannot rule out. That would be on the basis of requirements.

Rahul Jeewani: Sure, sir. That's it from my side. Thank you for answering my questions.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, that was the last question. I would now like to hand the conference over to the management for closing comments.

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

Moderator: Thank you.

Moderator: On behalf of Kotak Institutional Equities, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.

(The document has been edited to improve readability)