



“Mankind Pharma Limited
Q4 & FY '24 Earnings Conference Call”
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Moderator: Ladies and gentlemen, good day, and welcome to Mankind Pharma Limited Q4 FY '24 Earnings Conference Call. 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. Abhishek Agarwal, from Mankind Pharma. Thank you, and over to you, Mr. Abhishek.

Abhishek Agarwal: Good afternoon, everyone. A very warm welcome to our Q4 and FY '24 earnings conference call. On the call today, we have Mr. Rajeev Juneja, Vice Chairman and Managing Director; Mr. Sheetal Arora, Chief Executive Officer and Whole-Time Director; Mr. Arjun Juneja, Chief Operating Officer; Dr. Sanjay Koul, Chief Marketing Officer; Mr. Ashutosh Dhawan, Chief Financial Officer and Mr. Prakash Agarwal, President, Strategy.

We will begin with opening remarks from Rajeev Juneja, providing an overview of the quarter and the fiscal year 2024, followed by detailed insights of the business performance from Mr. Sheetal Arora and Mr. Ashutosh Dhawan will be sharing the key financial performance post which we will leave the forum open for Q&A.

I hope by now you had access to the investor pack shared yesterday and I'd like to reiterate that certain statements made during today's call may be forward-looking. A comprehensive disclaimer regarding the same is uploaded on our investor presentation and press release already uploaded on our website. Now I would like to invite Rajeev sir, to share his comments.

Rajeev Juneja: Thank you, Abhishek, and good afternoon, everyone, and a very warm welcome to our Q4 and FY'24, earnings call. I want to acknowledge that last week, we had celebrated our first year of listing. Thanks to the unwavering trust and support of our stakeholders, Mankind has swiftly risen to become one of the top 100 companies in the country. Additionally, during the year gone by, we have crossed the annual revenue milestone of INR10,000 crores and doubled our revenue in 5 years despite of multiple industry headwinds. This remarkable achievement is a testament of our unwavering passion and our firm commitment of serving Mankind.

Speaking of quarterly performance, we witnessed a strong quarter as our revenue increased by 19% year-on-year to INR2,441 crores. EBITDA grew significantly by 42% year-on-year to INR594 crores, with EBITDA margin over 24% and PAT grew by 62% year-on-year to INR477 crores.

On an annual basis as well, the company reported a strong revenue growth of 18%, increasing the revenue to INR10,335 crores. EBITDA increased to INR2,550 crores, up by 33%, and PAT grew to INR1,942 crores, up by 48%, primarily driven by robust growth in modern trade, hospital sales and expansion in chronic share by 160 bps year-on-year to 36%. We have outperformed the IPM chronic by 1.4x and CVM IPM chronic by 1.7x.

With a strong net cash position of INR3,260 crores, we are consistently evaluating multiple opportunities with high entry barriers to enhance our presence in chronic, consumer and other health care adjacencies.

With our commitment to provide international quality health care products to every citizen of the country, we have recently entered into an in-licensing agreement with Astra Zeneca for their world-class brand, Symbicort. In recent years, developing nations have experienced a notable rise in the number of individuals suffering from asthma and COPD condition, largely attributed to swift industrial growth and substandard air quality.

Presently, India accounts for approximately 13% of worldwide asthma patients, impacting individuals of all ages, thereby necessitating superior quality products to tackle this health challenge. Symbicort is a dual combination inhaler brand, known globally for its higher efficacy used for the treatment of asthma. We aim to grow this brand by leveraging our extensive field force and strong doctor's reach.

On the operational front, we have adopted various digital and technology-led business transformation initiatives. These initiatives are aimed at improving automation and digitization of processes across functions to further enhance our operational productivity and efficiency, which has also resulted into reduction in our working capital from 45 days in March '23 to 42 days in March '24.

Further, we are revamping the packaging of all our products to enhance customer experience and create better consumer awareness. In FY'24, the Consumer Healthcare segment grew by 2% year-on-year due to multiple business transformation initiatives undertaken during the year.

While secondary sales were healthy, we are now observing a robust growth in primary sales, ensuring confidence that this segment will resume its past growth trajectory. Recently, we have carved out our OTC business into a new legal entity as a wholly owned subsidiary of Mankind. This strategic move aims to sharpen our focus on this division and maximize its potential.

On the R&D front, our focus remains on developing differentiated products to cater to the unmet needs of the patients.

I would like to conclude by expressing my heartfelt appreciation to all our shareholders for placing their trust in us. With this, I will hand over to Sheetal, who will provide more details on our business performance.

Sheetal Arora:

Good afternoon, everyone. Today, I will be providing key insights into our quarterly and annual business performance. Let's begin with our performance for the quarter. In this quarter, our domestic business revenue rose to INR2,174 crores, marking a 10% increase. This growth was driven primarily by strong performance in our chronic segment and recovery in the gynaecology segment.

According to IQVIA, our secondary sales grew by 8%, outperforming the Indian pharmaceutical market by 1.4x. Our chronic segment growth was notable at 16%, surpassing the IPM chronic

growth by 1.6x. This robust performance has led to an increase in our chronic market share to 37.4%.

Significant contributions came from our Cardiac and Anti Diabetic segment, which registered impressive growth rate of 21% and 18%, respectively. These segments outperformed their IPM counterparts by 1.9x and 2.6x, achieving an all-time high market share in their respective therapies. I would also like to highlight that our insulin brand, NOBEGLAR, has been recognized as a launch of the year in the antidiabetic category.

Despite a modest 4% growth in our acute segment, we still managed to outperform the IPM acute growth by 1.2x. Additionally, adjusting for the impact of our regulatory change affecting one of our products, our growth in acute segment would have been even more impressive, exceeding IPM acute growth by 1.3x.

Further, in our Consumer Healthcare business, we achieved a revenue of INR156 crores, marking a modest year-on-year growth of 3%. We have observed some recovery in this quarter and are projecting mid-teens growth for financial year '25. We have strengthened our portfolio with strategic product launches, including Ova News, which leverages the Prega News brand to detect menstrual cycles.

In our international business, we saw a significant growth in quarterly revenue, propelled by one-off opportunities in the U.S. and selective product launches over the past 12 to 18 months.

Turning to our annual performance. Our domestic revenue climbed to INR9,522 crore, up by 13% from last year, with secondary sales growing 8.5% compared to 7.6% IPM growth. Despite being one of the youngest companies in our sector, we have scaled our brands remarkably quickly. This year, we added 3 new brand families to INR100 crore category, bringing the total to 23. We are confident that we will continue to outperform IPM by 1.3x to 1.4x.

During the quarter, we have also received the British Safety Council certificate for one of our facilities, reaffirming our commitment to providing globally acclaimed quality products.

Also in previous quarters, we have outlined a detailed road map of ESG towards increasing our sustainable footprint aligned with UNSDG. It gives me immense pleasure to share with you all that during the year, we achieved a remarkable milestone towards being plastic neutral, as we have successfully collected 100% post-consumer plastic waste and sent it for recycling. Additionally, we have reduced our carbon emission significantly by 85% as compared to FY'23.

We are dedicated to contributing to a healthier Bharat by being market disruptors and setting ourselves apart from the competition. I will now hand over to Mr. Ashutosh, who will provide more details on our financial performance. Thank you so much.

Ashutosh Dhawan:

Thank you, Sheetal, sir. A very good afternoon, everyone. Thank you for taking out time to join our quarter 4 and FY'24 earnings call. Today, I will be sharing detailed insight on our financial performance, both for the fourth quarter and the FY '24.

In quarter 4, FY '24, our revenue from operations increased to INR2,441 crores as compared to INR2,053 crores in Q4, FY '23, signifying a healthy growth of 18.9% year-on-year basis. For FY 2024, our revenue has grown by 18.1% year-on-year to INR10,335 crores versus INR8,749 crores in FY'23.

The gross margins of the company has increased by 2.6% year-on-year to 69.8% in Q4, FY '24, as compared to 67.2% in Q4 last year. This increase is primarily due to 3 factors. Firstly, it's a full year price increase, has provided a benefit of 1.4%. Secondly, the favourable sales mix has contributed 60 basis points to the gross margin. And thirdly, last year, we had inventory-related write-offs and accruals towards COVID products, which compressed Q4 FY '23 gross margins by 60 basis points, which was normalized in this year.

For the full year, the gross margin increased by 2.2% year-on-year basis to 68.9% as compared to 66.7% in FY'23. This is majorly on account of favourable sales mix, including increase in chronic share and the price increase impact as we highlighted before.

During the quarter, EBITDA increased significantly by 42% year-on-year to INR594 crores as compared to INR419 crores in Q4 FY '23. The EBITDA margin increased by 3.9% to 24.3% versus 20.4% in Q4 FY '23. This increase in EBITDA margin is on account of increase in gross margin of 2.6%, further aided by operational leverage due to strong revenue growth for the quarter.

For FY '24, we have reported an EBITDA of INR2,550 crores, which is up by 33% year-on-year basis with an EBITDA margin of 24.7% as compared to 21.9% for FY'23. This increase of 2.8% is primarily driven by increase in gross margin of 2.2%, and the balance is due to operating leverage and certain cost savings in the current fiscal year.

The R&D expenses for the year are at INR223 crores, which is 2.2% of the revenue, is in line with our guidance of 2% to 2.5% of sales.

In Q4 FY '24, the depreciation and amortization expenses increased to INR105 crores from INR85 crores in Q4 of the last year. And if we look at for the full year, the depreciation and amortization expenses increased to INR398 crores vis-a-vis INR326 crores in FY'23, which is primarily due to higher capitalization of completed projects, which included Udaipur plant getting operationalized in Q2 FY'24. Further, we have taken some accelerated depreciation related to upgradation and expansion of the existing R&D site at Manesar to support future growth.

The effective tax rate for FY'24 is close to 19.1% as compared to 21.6% during FY'23. The profit after tax for Q4 FY '24 increased by 62% year-on-year basis to INR477 crores with diluted EPS of INR11.7 per share of INR1 paid. The cash EPS, which is EPS adjusted for noncash items like depreciation and amortization was at INR14.4.

For FY'24, PAT increased by 48% year-on-year to INR1,942 crores with diluted EPS of INR47.7 per share of INR1 paid, and the cash EPS stood at INR57.6.

During the year, we witnessed strong cash flow from operations of INR2,152 crore due to operational efficiency, supported by a reduction in the net operating working capital base.

As on March 31, 2024, the net cash position of the company stands at INR3,260 crores.

The return on capital employed, excluding cash, increased to 34% in FY '24 as compared to 25% in FY '23. This is due to improvement in EBIT and cash generation during the FY'24.

The return on equity ex-cash increased to 29% in FY '24 as compared to 23% last year, primarily due to increase in PAT percentage during FY'24.

The total CapEx spending for FY'24 was at INR389 crores, which is less than 4% of the total revenue.

For FY '25, we are retaining our guidance of EBITDA margin for the full year to be in the range of 25% to 26%. With this, I would like to conclude our opening remarks, and now we can begin with the Q&A. Thank you.

- Moderator:** The first question is from the line of Kunal Dhamesha from Macquarie Capital.
- Kunal Dhamesha:** The EBITDA margin improvement that we have seen in this year, around 280 basis points for FY '24, would you be able to provide details as to how much would have come from the significant growth in export business versus the domestic business?
- Ashutosh Dhawan:** So we haven't called out the separate segmentation for the export business and the export business has contributed to the top line. But if we compare it at the EBITDA margin, the impact is not that significant.
- Kunal Dhamesha:** But the margin in that business would have improved, right? Whatever it would have been in FY '23, would it have improved meaningfully in FY '24?
- Ashutosh Dhawan:** So definitely, there is an improvement in the margin. But as we mentioned, it is not significant to be carved out or to be specifically highlighted.
- Kunal Dhamesha:** And let's say, if we look at export business, so you're saying that the margin in export business is lower than the overall average?
- Arjun Juneja:** I think the margin in the export business is almost at par with the company margin. It is not something, which is significantly adding to the overall margin of Mankind, but it will be at par with the company's average EBITDA margin.
- Kunal Dhamesha:** And at the gross margin level, would it be accretive, export business?
- Arjun Juneja:** Export business at gross margin level is slightly lower than the domestic business, but the expenses in the export business are not as high as the domestic business. That's why, at EBITDA level, it's almost at par.
- Kunal Dhamesha:** Perfect. And on the outlook -- yes, you're saying something.

- Prakash Agarwal:** So Kunal, the way to look at it is you should draw comfort from the guidance. As Ashutoshji said, there is not much contribution or significant contribution on the base business. Otherwise, we wouldn't have been comfortable there.
- Kunal Dhamesha:** Sure. And the outlook for the domestic formulation and consumer business provided but on the export business, what is our expectation, what is built into our budgets in terms of growth?
- Arjun Juneja:** Since the last couple of years, we had filed products. So the base business wasn't that big. That's why you're seeing a significant growth in the export business. But moving forward, we will get about 5 to 7 approvals every year. So we can expect about a growth of mid-teens to the export business.
- Kunal Dhamesha:** In terms of capital deployment, in terms of, let's say, adding a new plant, etc. for the export business, is there anything in plan or we would just focus on the plan that we have?
- Arjun Juneja:** So there is no capital deployment, which is on the cards for export business.
- Moderator:** The next question is from the line of Bansi from JPMorgan.
- Bansi:** So firstly, on the modern trade, you've highlighted this year's modern trade has grown by 50%, was this more skewed towards second half? And therefore, how should we think about growth in fiscal '25? So would it be more normalized? And therefore, would the number track more closely to the secondary number that is reported in IQVIA?
- Sanjay Koul:** So Bansi, FY '24, we grew by 50%, but FY '25, it will be normalized and aligned with whatever is the growth of modern trade in IPM. It will be aligned with them around 10% to 15% that is the guidance we gave.
- Prakash Agarwal:** We were under-indexed, now we are reaching the index. So we should be aligned with the IPM.
- Bansi:** Okay. Understood. That's clear. And on the growth breakup, so IQVIA number shows our volume growth is still negative for the full year, but if you can guide what do you see internally on your primary numbers as your volume growth fiscal '24?
- Sanjay Koul:** So we have not done that exercise, but what we understand, if you look at the last 3 years, our volume growth is higher than the IPM volume growth. And last year, because of reasons such as a regulatory restriction on the sale of a product, number one.
- Number two, modern trade grew by 50%, where our contribution is only 6%. So this is probably not covered by IQVIA. So that is why our volume looks a little bit subdued. But having said that, if you look at April this year, we are again back to our original volume growth that is 1.3 x of IPM.
- Moderator:** The next question is from the line of Neha Manpuria from Bank of America.
- Neha Manpuria:** First question is on the Consumer Healthcare business. I know you mentioned the mid-teens growth in the next year, if you could just give us some color on the confidence given the 2%

growth that we have done this year? I mean what was the business transformation that impacted? And if I were to adjust for that business transformation, probably what was the growth in Consumer Healthcare? Just trying to understand the confidence on the mid-teens.

Rajeev Juneja:

Look at the confidence of Mankind by saying that we are carving out our Consumer division separately. That's why I'm so confident that this particular division will do very good, number one.

Secondly, in the past, as we have informed earlier as well, the business was being run by head who was taking care of pharma and consumer side. So last year, we changed the pattern. Now, a specialist guy is leading consumer business. And by carving out, what basically happens this particular division needs different kind of DNA, different kind of working. We have done some kind of automation and digitization.

At the same time, there are certain products in the pipeline, which give us some more confidence that this particular division will do good, mid-teens kind of a growth to us.

I mean the confidence is so much that we are carving it out into a separate entity and the numbers will be separate. That gives the confidence to us. We are just too confident that this will do very good. Also, in number of platforms we have earlier said that this particular division is closest to our heart, because this has given Mankind lot of name and fame. This will do very good.

Neha Manpuria:

From a profitability perspective, would the Consumer Healthcare business margins be lower than corporate average? Would that be a right assumption? And as that ramps up, probably that margin gap narrows?

Ashutosh Dhawan:

Yes. If you compare the EBITDA margins as compared to the company average, yes, they are lower than the company average. Having said that, there is some potential to match up to the company level in the near future for this business.

Neha Manpuria:

Okay. And the second question is on the exports number. If I were to just look at the launches that you have done in the U.S. and the IQVIA data, is it fair to assume that all of the incremental growth that we've seen in FY '24 has been driven by the U.S. market? Or at least bulk of the incremental growth in year-on-year in FY '24 is the U.S.? Just trying to understand the U.S., non-U.S. mix in that number?

Arjun Juneja:

So if we were to just talk about the export numbers, the incremental growth is majorly from the U.S. number.

Prakash Agarwal:

Just to add, the ROW business has also grown. And within the U.S. business, the base business is growing quarter-on-quarter every quarter. So that's the comfort you can draw.

Neha Manpuria:

Yes. And if that is the case, if bulk of business has come from the U.S., wouldn't the EBITDA margins be higher because there's not too much cost that is sitting below gross margins, right, for that U.S. growth? So I didn't quite understand the reason why the margins are similar to our corporate average.

Arjun Juneja: I mean because there are certain products which are OSD products which have significant competition. And there is a certain one-off product, which is able to compensate for that. So that's why we are saying that the margins are more or less similar.

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

Rashmi Shetty: Just again on the export business, do you think or foresee any competition for your one-off product in the coming year?

Arjun Juneja: It's a very good question. It's very difficult to foresee competition because it's a generic product. It's not a patented or para 4 kind of a product. So we can't say that there will be no competition, but it would be safe to assume that competition can come in any time, we can't predict when.

Rashmi Shetty: Okay, got it. And sir, second question is...

Arjun Juneja: And at the same time, we need to understand that the base business in the U.S. is growing. So even if the competition comes in, there will be some impact on the growth in the U.S. business, but that will get compensated by the growth of the base business and certain new launches that will happen.

Rashmi Shetty: Okay. So the mix of U.S. versus rest of the world, it is mostly towards the U.S. in FY '24. But in FY '25, you think that the rest of world markets will also pick up or the contribution from the U.S. is still higher?

Arjun Juneja: So contribution from the U.S. will be still higher, but the growth from rest of the world would increase. So it would be safe to assume that the contribution from rest of the world would increase, but U.S. would still be significant.

Rashmi Shetty: Got it. And sir, on Dydrogesterone capacity utilization, if you can comment on that and how the demand is picking up for the product in India market? And if you can comment on the export market also if you're planning to do that?

Arjun Juneja: So I'll answer for the plant first. So the plant was started last year in September, October timeframe. And the demand is fully serviced from this plant, where we have reached capacity utilization of about 60% or so.

In terms of exports, we are in the process of filing this product in different markets, for which approval will take about a couple of years before we start selling them commercially. So yes, the plant is still underutilized and, there is enough capacity to serve for the export market as well as the domestic market.

Rashmi Shetty: And one more question, if I may, the fund raising of INR7,500 crores which the Board has approved. Any inorganic opportunity you are eyeing? In case it is, yes, anything is on cards or you're just looking at it? And what kind of size of acquisition you're looking at? If you can comment on that, it would be helpful.

Sheetal Arora: The news has come with just a market speculation. The same we have cleared to SEBI, yesterday, by giving a letter. And by saying that, it doesn't mean that we are not exploring opportunities in market for merger and acquisitions. We are definitely looking for the acquisition. But when the right time and right opportunity will come, definitely, we'll go for it. Right now it's just a speculation in the market.

Moderator: The next question is from the line of Atul Mehra from Motilal Oswal Asset Management.

Atul Mehra: So basically, just on this enabling resolution of INR7,500 crores. Normally, like if you provide the specific number of INR7,500 crores, it would imply that there is some calculation that has gone behind this number. Maybe you are eyeing a particular target, which is in final stages of negotiation etc. So can you just basically walk us through what is the thought process of this enabling resolution of INR7,500 crores?

Prakash Agarwal: Yes. So the way to look at it is that we already had a resolution for investments of about INR10,500 crores. So we've raised, first of all, the debt resolution from INR10,500 crores to INR12,500 crores. And then in addition that we have added an enabling resolution for INR7,500 crores. So we want to keep the war chest ready.

As Sheetalji mentioned, if there's an asset that will come to us, we will evaluate, big and small assets. So in the past, you have seen we have acquired a large acquisition of Panacea, but we've also looked at some very small but very strategic acquisitions like Daffy, which is working very well; Combihale which is for respiratory that is working very well. So this is more like blanket approval, enabling resolution, which will help us to be ready for any big and small acquisition.

Atul Mehra: Right. Got it, sir. Just one small follow-up on that. So I think in the past, the largest acquisition that we have done is about INR1,900-odd crores. So is there a time limit to the kind of acquisition that you might do in the future, like any particular number beyond which you would not go ahead and like the size will be too big for us to absorb? Is there an outer limit to the acquisition size that we can go ahead with?

Ashutosh Dhawan: Yes. So as we mentioned that it's a mix of both. So it's a mix of debt as well as equity. And the enabling resolution, which has been passed, the thought process is not to over leverage the balance sheet of the company and it should be the right mix of debt and equity. So that's how it should be perceived in that spirit and perspective.

Rajeev Juneja: Let me add something here. I mean, see, whenever Mankind has any time in the past promised, what we have said that we are in lookout for certain entities, but again very wisely towards chronic side, towards consumer side, towards certain things which can really add value to Mankind for our future growth and making sure that these products, these entities should have high entry barriers.

But at no given point in time, we're hazed. It's like industry practice. Many pharma companies do the same. They basically create some kind of a war chest I mean takes certain permissions. So we are just learning the tricks from those people so that any point in time, if anything comes, we're ready for that. We don't come back again and speak about these things. That's one reason.

I mean this is the first year of Mankind, and we see a lot of IPO companies how they practice, so we keep learning from these companies. That's the only thing. No haze. No hurry.

Atul Mehra: I totally get your point sir. Just normally what happens is basically most companies, they tend to add like by the size of how big acquisition that they're eyeing, in terms of, able to do it. So from that perspective, I was checking like is there an outer limit for example, if you were to acquire something, if the entity maybe it should be not more than INR8,000 crores, INR10,000 crores. Is there a limit to?

Moderator: Atul, your audio is not clear.

Rajeev Juneja: No. I totally understand that. See, Atul, there is no outer limit. It is always, I mean it depends upon opportunity. It can be, I mean, an INR100 crores opportunity, it can be an INR1,000 crores opportunity. But again, I mean anything and everything which would add some kind of value to Mankind, some kind of a product with an entry barrier, on chronic side, consumer side, you can look out for that.

I mean why we should put some kind of a limit. This is not kind of a shopping spree we are on. Anything right opportunity, look in the past, Panacea is the biggest one. In the past, people forget Combihale, Daffy and other products, which were very, reasonably low priced.

Prakash Agarwal: and just to add the financial discipline like Ashutosh ji mentioned, so just to avoid over leverage, we have given the enabling resolution for equity. So any given point of time, the debt-to-equity and debt-to-EBITDA ratios will be well within the limits so that's the financial comfort we can give.

Moderator: The next question is from the line of Amey Chalke from JM Financial.

Amey Chalke: Congratulations to the management for good set of numbers. The first question I have is on the new product launches. Our growth contribution has been around 3% for last consecutive 2 years. So is it possible for you to give more color on the new product launches in terms of therapies, molecules, etc? And how it looks like for the next 2, 3 years?

And the second question I have on the pricing side. We are already I believe we must have taken price hike for this year. Like the last year, we understood that the raw material prices had gone up. The price hike components may have been on the higher side. So this year, the raw material prices have gone down significantly. So how does it look like for this year, the price growth component for our business?

Sanjay Koul: The first question first. So if you look at the new launches, which we have planned, we believe that 3.5% to 4% contribution in growth is going to come from new products. We have some lead products, which have been launched or in the process of being launched.

NOBEGLAR is one that is in antidiabetic segment. We have in pain and analgesic, polmacoxib that is first of its kind anti-inflammatory analgesic. Besides this, we have Symbicort, which we believe is a big bet for us. So we have another for product that is for haemorrhoids management

that recently was added in the INR50 crore bracket, and we believe these are the products which are going to be big bets for us. This is the answer to your query number one.

Second was the price increase. Last year because of wholesale price index, we could leverage more than 5% of contribution coming from price increase. This year we believe the price increase component in overall growth is going to be between 4% to 5%?

Arjun Juneja:

But having said that, we also need to understand that Mankind's overall portfolio in price control is only 15%. So if the inflation, the wholesale price index doesn't go by that much, it's not going to affect our price increase because the non-scheduled formulations, we keep taking 10% price hike as and when the one year gets completed of that. So there will be price increase more or less similar to last year. It could be down by 1-odd-percent, but it would be more or less similar.

Moderator:

The next question is from the line of Harsh from Bandhan AMC.

Harsh:

Most of my questions are answered, but if you could help us understand a little bit more on Panacea Biotec the FY '24 growth as well as what is happening on the ground or maybe some numbers as well.

Rajeev Juneja:

So whatever brands in the company we took from Panacea, everything has been fantastic, growth is in the vicinity of more than 25% plus. They have one product, Glizid, which has crossed INR100 crores sales.

Sitcom is another brand, which is for haemorrhoids. We have bet very heavy on that. That's a patent product as well. All-in-all, it is a very successful acquisition. We're very happy with the performance of all the brands of Panacea.

Even the transplant division is also doing fantastic, which is very niche. When we took Panacea, we asked ourselves, can we make this kind of a division, the answer was no, and that's one reason we went for this.

So we are very cognizant to the fact, that what we cannot build ourselves, then only we look out, otherwise, no. We have such a big feild force any time for a me-too product or a simple product, we can go for it. Sanjay also missed one thing that the Symbicort is one product, Mankind is the only company to which Astra Zeneca has given the distribution rights for their global brand, Symbicort.

That's the kind of a confidence they kept in us. Last year, it was a different brand, in-licensed product, Neptaz was there. And very soon, we will give you news in the next quarter as well. One more in-license will happen. So people see us as a vibrant, aggressive company. That's one thing and we'll keep giving you good news like this in the future as well.

Harsh:

Sure. And just to sort of, again, bridge the gap between the FY '25 margin guidance, let's say, even if the export sales, because it is generics and heavy cyclically dependent number. Let's say, the numbers were to remain flattish, we would still be able to achieve that threshold of 25% to

26% margin, right? Because a lot of the levers that we might be building in might be India driven to that extent.

Prakash Agarwal:

Yes. I think the observation is correct. See, 90% plus business is still domestic. If you see the growth already highlighted is outperforming IPM by about 1.3x. So you'll definitely see a better growth and operating leverage to kick in through that. And that's why the margin guidance is 1 notch above versus what was given 24% to 26%, now it is 25% to 26%.

And the levers to that is higher chronic. So chronic, as you know, that we've already seen a 160 basis point improvement, Y-o-Y. This will every year see some improvement, which is higher-margin portfolio.

You are seeing increase in number of INR100 crores and INR50 crore brand. So once it reaches a threshold of INR50 - 100 crore brand, the incremental effort is lesser, the productivity and profitability is better. Plus the third important metric is MR productivity. So there also, it has improved from 6.1 last year to now 6.5. And as we speak with higher growth, that metrics will continue to grow and that typically drops down to the EBITDA margin. So these are the 3 big levers in the domestic business apart from the new launches, the in-licensing, etc, which will give a better flavor and also the new divisions.

I think you asked about Panacea, so apart from transplant where it already access to new set of doctors, we have now recently launched our urology division that gives a new set of products, new set of doctors. So these are the new white spaces we are addressing, which will help us grow and eventually have better margins.

Moderator:

The next question is from the line of Nitesh Dutt from Burman Capital.

Nitesh Dutt:

Congrats again on a good set of numbers. I have a question on our manufacturing strategy. So I think it was mentioned in the RHP that roughly 25% of our manufacturing is by a contract manufacturer so I want to understand, number one, is it still at similar levels? And do we want to maintain the mix or increase outsourcing? And second, is this split amongst a lot of players sort of fragmented supply base? Or is it consolidated amongst a few large suppliers for us?

Arjun Juneja:

Correct. I mean, our manufacturing strategy is still the same. More than 75% of our products are manufactured in-house. And we keep continuing to shift the products from contract manufacturers as and when they become slightly big or meaningful to move them in-house because of 2, 3 reasons. We have better control over the supply chain. We have better control over the pricing of the product.

But having said that, there will be about 20%, 25% of our products, which will continue to be manufactured at contract manufacturers because, A), we might not be having those types of manufacturing facilities in-house. B) We might not be having those kind of skill sets in-house. But having said that, we ensure that the quality standards of these contract manufacturers are at par with our in-house manufacturing facilities. We have a lot of big contract manufactures, who manufacture for us, where the quality standards are as per schedule M and WHO guidelines.

- Nitesh Dutt:** Got it, sir. How many partners do we particularly have?
- Arjun Juneja:** It would be difficult to say right now. I don't have any exact number, but there is a good set of partners that we have.
- Moderator:** The next question is from the line of Tarang from Old Bridge Mutual Fund.
- Tarang:** Congrats on an extremely good set of Q4 and full year numbers. I'm perhaps extending a line of questions around capital allocation. The business has about INR3,000 crores cash in books. Going forward, what business segments and geographies could this and perhaps additional capital will be put to use to grow our business from here on? And second, given the traction in the exports business, how serious are you about this business? Would you be open to, say, an international acquisition?
- Arjun Juneja:** So I will answer the second question first on the export business. I mean if you see our R&D expenses are about 2 - 2.5% of our revenues every year. If one were to really ramp up the export business, these R&D expenses need to go significantly up, as you must have seen in the books of our peers. So we've always maintained in the past that majority of the business, more than 90% of the business will continue to be domestic.
- Export business would be less than 10% of the overall numbers of Mankind. And we are not looking at any acquisition outside of India.
- Tarang:** Okay. And overall, I mean, within what business segments, from a strategic standpoint, if you could give us some direction, what you want to probably, move in towards therapies, which increased chronic share in your business, just some light?
- Arjun Juneja:** So if you see overall, I mean, till about a few years back, Mankind's covered market share was about 60%. But in the last few years, our covered market share has increased from 67% at the time when we were IPO-ing. And now it is about 69%. So you've seen that there are white spaces in the portfolio, which Prakash mentioned, which were in the field of neuropsychiatry, which we're trying to fill out, which was urology, which was filled up now, which was nephrology, and then oncology, critical care products were there.
- So we're trying to fill up those white spaces and launching products in those business segments. And the endeavour is to reach the covered market share of around 72% to 75%, where most of our peers are sitting.
- Prakash Agarwal:** And one more point, if I may. So within the therapy like diabetes, we didn't have these insulin pens. So fiscal '24, we introduced the pen. So if you are present in therapy, but not the sub-therapy, we are doing that also. In respiratory, we were not there in inhalers. Now we are significantly present in inhalers. So that's also the white space within the therapy that we are expanding.
- Tarang:** Okay. Last, I mean, gross margin expansion has been pretty decent for FY '24? Do you intend for this to stay here? Or do you think probably cool off a bit?

- Arjun Juneja:** So if you see historically, our gross margins have increased year-on-year, barring a couple of years where the raw material prices significantly went up. We are taking price increases wherever possible, if you see our price increase was also to the tune of 4 - 5%. So, I mean we don't see any significant jump in the RM prices over the next couple of quarters. So we see some jump in the gross margins, as you might have seen over the last couple of years.
- Tarang:** So no significant jump in RM prices for the next 2 quarters, and we'll continue to take price increases where you can, correct?
- Arjun Juneja:** Correct.
- Moderator:** The next question is from the line of Kunal Dhamesha from Macquarie Capital.
- Kunal Dhamesha:** So on the EBITDA margin, while we have given the guidance for the next year, but let's say when we think beyond FY '25, '26, '27, how do you expect our profitability to move in the next 3, 4 years? Some of our peers with a good chronic contribution, could be meaningfully higher currently as compared to us. Do we aspire to be in that league where our EBITDA margin could be 35% plus 5 years down the line?
- Arjun Juneja:** So Kunal, I mean if you see our chronic portfolio till about a few years back was around 30% or so. I mean there is significant work which is going on to improve our chronic share. Even this year we've seen our chronic share has gone up to 36%. And the chronic margins are definitely better than the acute margins.
- And with the chronic share going up maybe in the near term to about 40%, in the long term to about 45%, 50%, we see improvement in the EBITDA margins happening, and there will be operating leverage because of productivity increase that you are seeing, which is happening year-on-year. So definitely, there is going to be improvement in the EBITDA margins.
- But having said that, we should not just look at Mankind with EBITDA margin improvement. There is going to be improvement in the EBITDA margin, but we, as a company, would always want to go for growth, and we will invest for growth. So there has to be a balance between investment into growth and EBITDA margins improvement in a steady way.
- Kunal Dhamesha:** Sure. So do we expect our field force, etc, at least in the next couple of years? And what is the current numbers?
- Rajeev Juneja:** You see, I mean, whenever there has been an increase in our field force, it is always very balanced. Whichever therapy areas we are not there, we go for it. On the basis of that, we expect approximately, 700 to 900 people can be increased this year, I mean not individually, in different quarters.
- Kunal Dhamesha:** Sure. And what is the current number, sir?
- Rajeev Juneja:** Again, not to forget that, whenever we increase, we make sure one thing that the productivity at no point should go down. Look at last year productivity, it was 6.5 versus last to last year, it was 6.1% despite of increase in field force. So we basically maintain this kind of a balance that we

should really increase productivity along with number of people keeping in mind the productivity and the area of therapy in which we are not present.

Sheetal Arora: And to add to this point, since 2019 till now, we have increased 3,000 plus field force, and our productivity has gone up in the last 3, 4 years.

Prakash Agarwal: Current number is 16,000

Kunal Dhamesha: including the first-line managers?

Prakash Agarwal: Yes.

Kunal Dhamesha: And without that, the pure MR number?

Ashutosh Dhawan: 12,500.

Moderator: The Next question is from the line of Alankar Garude from Kotak Institutional Equities. .

Alankar Garude: Sir, historically, if we look at our track record before Panacea, we have always had a slightly conservative mindset when it comes to M&A and now we believe that there is no outer limit for any potential acquisition. So it would be helpful if you can elaborate on what has driven this change in approach?

Sheetal Arora: Yes, you are absolutely right, being a company which has a conservative mindset, but after acquisition of Panacea, Biotec, Daffy and Combihale, we have seen, we have become very successful. Because we have been very successful, so right now the time has come that definitely we will go for a merger and acquisition and...

Rajeev Juneja: And let me add on this. One thing you must have seen that we are very conservative. So that DNA would never go away, one. Any time we think of any kind of an M&A, one thing is clear in our head that it should really add value to Mankind's products. It should not be just to add revenue. It should have some kind of entry barrier, it should be in chronic or consumer side.

And whatever we had said in the past, whether it was consumer, chronic, whatever, you see that outcome is there in front of you. Every year, we are adding 1.5% share increase in our chronic side because we said that. We acquire those companies like that. So we are very strategic in this. It can be small or big, depending upon the opportunity.

Sometimes the opportunity is imminent, that's one reason. Again, we have taken inspiration from some of the pharma companies, which just keep this war chest ready so that you don't really end up wasting time. That's the only thing. We are not in a hurry. We'll not do something in rush. We are always very cognizant to the fact that lot of investors have, amazing faith in Mankind. So that is really making us more responsible.

Alankar Garude: That's reassuring sir. And maybe one follow-up, is there any outer limit on debt-to-equity or debt-to-EBITDA when it comes to any M&A?

- Rajeev Juneja:** So I mean, again as Ashutosh ji mentioned, we will always make sure that at no given point in time, the EBITDA of Mankind is being impacted by the interest. So being a conservative company, will make sure that it will always be 50-50 sort of a thing.
- Prakash Agarwal:** Yes. I mean in terms of numbers, we are talking about debt-to-EBITDA, not exceeding around 2 - 2.5x. So that financial discipline will be maintained
- Alankar Garude:** Understood. Sorry, sir, you were saying something, I missed that.
- Ashutosh Dhawan:** Just to add to what Prakash ji has said that we will be mindful in over leveraging to the sense that it should not impact the ratings of the company. So that financial strength should be maintained. So it's going to be a combination of cash on the books, the debt and the equity.
- Moderator:** The next question is from the line of Amit Kadam from Canara Robeco.
- Amit Kadam:** So my question is, again, in the extension of what Alankar asked. Again, on that particular capital allocation strategy, because this is something which we are really curious about to know. The question is on the payback side. So assuming because we don't know the kind of acquisition you desire to do because there is no outer limit.
- But also, you mentioned about the debt-to-EBITDA kind of thing, Prakash just mentioned. But just wanted to understand, based on your previous acquisitions, small and large, whatever, what was the payback periods you usually target from such kind of acquisition? That's the only question from my end.
- Prakash Agarwal:** So we are commenting on one thing, which is from a qualitative side, which is high entry barriers, synergistic benefits as well as complementary catering to the white space that we discussed. On the quantitative side, we have talked about that we'll not over leverage. We'll maintain the debt-to-EBITDA and debt-to-equity ratio.
- From other financial parameters, I think it's a combination of all these things put together that will lead to that decision. And there is nothing imminent, I think the street is reading too much into it, when the right time and right thing comes, then only we are going to take it. Otherwise, the financial discipline is very important for this company.
- Amit Kadam:** Yes. So basically, that number, we are not right now calling out, that's a fair assumption? Or should...
- Prakash Agarwal:** Yes, I mean, it depends on the asset, the size, the cash flows. I mean there are multiple things. So there is nothing on imminent, so we can't call it out.
- Ashutosh Agarwal:** Just to complement what Prakash ji has said that we are mindful of whatever the opportunities are there, it should not be EBITDA dilutive. It should not be a return on capital employed dilutive. So those are the parameters we give very high weightage to while evaluating the assets.
- Amit Kadam:** Okay. That's okay in that...

Rajeev Juneja: Let me add one more thing, as Prakash said, the Street is reading too much. We have not gone for anything until now. I mean there are lot of speculation in the market. I mean TV start reporting certain things. And that really happens. I mean that's just to create some kind of buzz in the market for their own reasons and benefits. We have not gone for anything...

Amit Kadam: I understand, but looking to our current EBITDA of INR2,500 crores to INR3,000-odd crores will do and then are mentioning that where our debt ceilings are in terms of debt-to-EBITDA of 2x to 2.5x. It just gives me a particular indication that debt requirement, if at all, for any acquisition, shouldn't be more than INR5,000 cores to INR6,000-odd crores.

And then when we are taking such kind of enabling resolution of like INR12,500 crores, it just confused me. And then along with it, for all those things and just on a side-line, if there is some news article that has been floated, it just confuses the investors so wanted more clarity about our capital allocation strategy because you also, on one hand said that we don't want to go too much into export. The export should be less than 10%, where usually those kind of acquisitions are asset heavy, but domestic side usually are more on the acquisition of brands etc., which are like intangible. So then where such kind of large enabling resolution was heading us to, was a little confusion from the investor's point of view. But I guess I got part of my answers, and then we'll just take it later.

Prakash Agarwal: Thank you.

Moderator: The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services.

Tushar Manudhane: Sir, just on the respiratory division, which was launched in 2021. So currently, how many MRs would be there, and it's heartening to know that we've got this Symbicort in the portfolio. So if you could just elaborate in terms of number of MRs? And what kind of deal does Astra Zeneca have with us?

Prakash Agarwal: So one point, respiratory is not a new division for us. We are top 5 player in respiratory, its just that we are more on the oral solid side, syrup side, where we have a lot of cough syrups and other products. We were talking about the new chronic respiratory where, apart from these products, there are a lot of chronic products and inhaler products that has been introduced. Allergy products have been introduced. So it's very difficult to call, say that respiratory had this many MRs.

We can give you, on a one-to-one, what is the new division of respiratory. Just give a number about, I think it should be around 200 to 300, but we'll come back to you. That's not an issue. But let's be clear that the respiratory division was not 2021. It's just one of the chronic respiratory that came in 2021. I hope it's clear.

Tushar Manudhane: Got you. But even on the size wise, at least as far as the therapeutic composition is given in the presentation, respiratory is 5% of domestic business, which comes to almost about INR500 crores, right? So is that the right way to understand respiratory?

Prakash Agarwal: It is 9%, yes. If you see the presentation, it is 9%.

Moderator: Yes, sir. Due to time concern, that will be the last question. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Rajeev Juneja: Thank you so much for all the questions and answers and for your patient listening.

Prakash Agarwal: Yes, if there are any follow-ups, you can reach to Abhishek, myself or Ashutosh ji. Thank you so much.

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

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