



“Alembic Pharmaceuticals Limited
Q2 & H1 FY2020 Earnings Conference Call”

October 24, 2019



MANAGEMENT:

MR. PRANAV AMIN - MANAGING DIRECTOR
MR. R. K. BAHETI - DIRECTOR FINANCE AND
CHIEF FINANCIAL OFFICER
MR. MITANSHU SHAH - HEAD - FINANCE
MR. JESAL SHAH - HEAD - STRATEGY

Moderator: Ladies and gentlemen, good day and welcome to the Q2 & H1 FY2020 Earnings Conference Call of Alembic Pharmaceuticals Limited. On the call today, we have with us Mr. Pranav Amin, Managing Director, Mr. R. K. Baheti, Director Finance and CFO, Mr. Mitanshu Shah, Head Finance, Mr. Jesal Shah, Head Strategy. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. R.K. Baheti. Thank you and over to you Sir!

R.K. Baheti: Thank you very much. Good evening, everyone. Thank you all for joining the Second Quarter Results Conference Call. I am sure you would have got on the results by now and our press release and the investor presentation. However, let me briefly take you through the numbers for the quarter ended 30th of September 2019, and H1 2019-20.

During the quarter, the total revenue grew by 10% to Rs.1241 Crores. EBITDA at Rs.342 Crores, is 28% of sales, it grew by 12% on Y-o-Y.

Pre-R&D EBITDA is 41% of sales.

Profit before tax went up by 10% to Rs.299 Crores, while the after-tax number, PAT, went up by 23% to Rs.246 Crores.

During the half year, the total revenue grew by 10% to Rs.2190 Crores. EBITDA at Rs.575 Crores is 26% of sales, and it grew by 26% on Y-o-Y

Pre-R&D EBITDA is 40% of sales. The net profit after exceptional items and tax went up by 27% to Rs.370 Crores.

EPS for the quarter is Rs.13.06 per share versus Rs.10.61 in the previous year, while for H1; it is Rs.19.63 versus Rs.15.41 in H1 in previous year.

Capex for the quarter including capital advances are Rs.197 Crores, Rs.370 Crores for H1. Additionally, in the quarter, we have funded Rs.52 Crores to Aleor Dermaceuticals, our JV partner for H1 it is, Rs.100 Crores.

Cumulative investment on new projects, which are yet to be commercially operational, is Rs.1500 Crores, including Aleor and preoperative expense.

The gross borrowing at consolidated level is Rs.1432 Crores and the Company has Rs.86 Crores in cash, so the net borrowing is Rs.1346 Crores.

Debt/Equity is still healthy at 0.48 and return on capital is 35% without considering the investment on new projects and 23% considering investments on new projects.

I will now hand over the discussion to Pranav for his presentation.

Pranav Amin: Thank you, Mr. Baheti. Yes, it was a good quarter for the international business, considering the backdrop that last year

Q2 was one where we had that one off valsartan opportunity. This was driven primarily by sales growth in the United States on our base portfolio as well as some new launches. What was also exciting was the API business, which had a very good quarter this year, and they have been slowly building up the business every quarter.

Aleor, our JV for derm was audited by US FDA in September 2019, and we cleared it with one observation.

Our R&D expense was Rs.174 Crores in the quarter, which was, for H1, it was Rs.314 Crores, roughly 14% of sales.

We filed 5 ANDAs during the quarter.

We received 4 approvals in the quarter. We cumulatively have 102 ANDA approvals including 12 tentative approvals.

We launched 7 products during the quarter and for the half year, total launches are 10.

We plan to launch another 7 to 10 products in the second half of the year

EIRs are in place for all the plants.

Our new projects are progressing well. Exhibit batches were taken during the quarter at the oncology injectable facility as well as the general injectable facility and scale up batches at Jarod are also in progress.

The international formulation business grew by 10% to Rs.640 Crores for the quarters.

US generics grew 25% to \$539 Crores for the quarter. The US generics in dollar terms grew by 24% to \$74 million.

The ex-USA generics degrew by 31% to Rs.107 Crores for the quarter. This degrowth was primarily because, as I mentioned in the last few quarters, we have been having issues with serialization and the vendor, and that's something that we are correcting. We hope to get back online Q3 onwards.

India business was flat at Rs.391 Crores.

And I would like to open up the floor for Q&A now. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.

Aditya Khemka: Sir, can you just, again, sort of help us understand the India business growth. I understand reported numbers at least have been quite subdued for the past few quarters now. But what is it that we are doing to change this? And when do you see us coming back to at least market growth rate, if not beating the market?

R.K. Baheti: A very valid observation, and we are also constantly on the job, and I have tried to explain to you in the last couple of quarters. Let me assure you, we are adding prescribers. We are adding the number of prescriptions. ORG growth rate is also not bad. But our primary sales has taken a hit largely because we have decided to clampdown on the discounts which was being offered to the stockiest. We believe that the

sales needs to have a pull by the prescription rather than push by the stockiest. In the last couple of quarters, we have already taken a hit. Hopefully, maybe in one or two more quarters of pain on corresponding numbers and then you will see us back into the double-digit growth.

Aditya Khemka: Sir, when did we start reducing this discount to stockist?

R.K. Baheti: This was being gradually done from March 2019 onwards, from May 2019 onwards, it has been like complete clampdown.

Aditya Khemka: Okay. Understood and Sir, on the US business side, so while the growth has been pretty healthy, if I rely on the IMS numbers, a majority of the growth seems to be coming from different combination of sartan products be it olmesartan, candesartan, valsartan, losartan. So to that extent, if I were to ask you, what is the stickiness of the pricing as well as of the market share that we are getting in many of these sartan products? How would the management think about that? And how would you sort of guide investors on that front?

Pranav Amin: Yes it is a good question. And both market share and the pricing, they both go hand-in-hand, what the entire team in Alembic starting from the front end to the strategy and the supply chain, all the way through, what we decide is we are going to maximize our shareholder return in terms of what prices we get for the market share versus capacities that we have, and I have said repeatedly, in terms of the API for the sartans, we are not a huge player like some of our peers in the industry. So we try taking market share wherever we can at

whatever attractive price. Now if there is shortage, as you know there are more opportunities in terms of pricing. It depends when the incumbents come back and what price they decide to compete at. At present, we can hold the market share; there is no issue of it. It just really depends on what discount is given by the competitors and at what level you want to compete. But on a base portfolio what is happening today, we are happy with the market share, and we can increase it also if we add more capacity.

Aditya Khemka: Where are we on the capacity so first of all, two questions on that front. Are we using our own API on the sartans side? Or is it a third-party sourced API?

Pranav Amin: For the sartans, we are 100% captives.

Aditya Khemka: 100% captive so where are we on the sartan API utilization in our manufacturing?

Pranav Amin: Most of our facilities are all multiproduct facilities. We try balancing out whichever way we can. It starts with the API capacity and then the formulation, and of course, formulation of a multiproduct, but even our API plants are multiproduct so utilizing it in the best way, we want to ensure once we pick up a business, we do not stock-out. We do not have any issues so what you see now is what pretty much we can take currently with our capacities.

Aditya Khemka: Alright so just one last question on this front. What is your view, Pranav, on the potential re-entry of competition in the sartan space So maybe the Chinese manufacturer who had the original issue with the API may take longer, but you would

have other players who would want to fill the void, and therefore, what is the visibility on the competition in sartans as of now?

Pranav Amin: It is interesting you mentioned this. Last year Q2, where we had the valsartan opportunity, the shortages were restricted only to valsartan. Now that is pretty much gone into the other sartans, and I think the shares have also swapped and the usage has also swapped. So it is pretty much across the board on all the sartans and I do not think there are too many players who are present in every sartan. Everyone will have to decide what market shares and where they want to take a position. Along with this, some of our peers in the industry have also had regulatory issues. So it is just a combination of both and even if new people do come, I do not think prices are going to go back to where they were. It still remains an interesting opportunity for a couple of quarters at least.

Aditya Khemka: Okay thanks for the answer. I will get back in the queue.

Moderator: Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Just reconfirming, I mean, the spike in the US business is largely due to the valsartan opportunity. I missed the opening comments and apologies for that.

Pranav Amin: No. Actually, it is across the board for all the sartans. Valsartan is what we had last year, where we had a big opportunity. We picked up market share in most of the sartans as we had seen a shortage in sartans. Apart from that, we

have a few good launches as well. We have febuxostat, which was limited competition launch in the US.

Prakash Agarwal: Okay. Now the second question was that only so you talked about 10-plus launches in the H1. I mean, have they started contributing? Or we should expect the contribution from the H2 and the year forward?

Pranav Amin: Part of it has started contributing. But when we get into new products, especially when there are people there, we do not build up market share right away. We wait and we slowly build up market share. If it is a day 1 launch, it is separate story and in febuxostat, which was a day 1 launch, we have got decent share in febuxostat. As regards to the other products, they are smaller products. They have all started contributing in whatever little way that they can.

Prakash Agarwal: Okay. And how should we think about again this 10-plus and the 7 launches that you alluded in the Q3 that you plan to do, so these could be like a million or two kind of opportunities because especially these derms as well as the recent approvals, these are like \$20 million to \$80 million kind of opportunity with 7, 8 players already there so I mean, just to be realistic, how should we think about on the sales front?

Pranav Amin: You are right. Most of these launch in the US business is challenging, we are just getting there and see what we can do, how can we maximize our share if there is any shortage and they are not big products but they are good meaningful products. There is a good positive return. And we just keep supplying and keep getting money whenever we can.

Prakash Agarwal: And one last one for Mr. Baheti. In terms of the derm facility, we started expensing out the whole expenses with the launches, or with Q3 launches, we will start doing that?

R.K. Baheti: From this quarter onwards, we will start expensing out because the plant will be manufacturing commercial quantities of its products from this quarter, Q3.

Prakash Agarwal: Q3 Onwards. And the injectables and all, we will start from next year?

R.K. Baheti: Yes. This statement remains consistent. we will start expensing out as and when the plants get into commercial operations.

Prakash Agarwal: Okay. Which is more or so next year for the remaining target that we are doing for oncology and injectable. Would that be right understanding?

R.K. Baheti: Yes, absolutely.

Prakash Agarwal: Perfect. Thanks. I will join back in the queue.

Moderator: Thank you. The next question is from the line of Nimish Mehta from Research Delta. Please go ahead.

Nimish Mehta: Okay. Yes, thanks for the opportunity and congrats on a wonderful set of numbers. On the US business first, I mean, there has been a spike in the Q-o-Q sales as well, like from \$47 million to \$74 million. Is it all because of Valsartan and febuxostat, how do you kind of divide between these two?

Pranav Amin: As I mentioned earlier to Prakash that it is pretty much we are seeing this across the board and all the sartans. Apart from the sartans, we saw this in febuxostat as well. We do not give product-wise growth, but there are opportunities in quite a few handful of products, about top 20 of our products is about 80%, 85% of our sales.

Nimish Mehta: Okay and in febuxostat, do we have 180-day exclusivity? Or we can expect more competition anytime now?

Pranav Amin: As of now, there are three, four people in the market. I am not sure about the competition. At some point, I am assuming people will come. So let us see how it goes.

Nimish Mehta: But do we have the 180-day exclusivity or we do not have the 180-day exclusivity?

Pranav Amin: Yes, we do.

Nimish Mehta: We do so obviously, people will come after six months. I mean, now two, three months. Is that a fair understanding?

Pranav Amin: I am not sure. Some others may have exclusivity also, but they might not have received an approval or launch. I'm not sure on that. I can get back to you.

Nimish Mehta: Okay. I missed that, the capitalized expenses part on your as well as the preoperative expenses that we booked for other facilities if you can just repeat that for me?

R.K. Baheti: Cumulative investments on new projects, including the preoperative and including the investment on annual fixed assets is about Rs.1500 Crores.

Nimish Mehta: But the preoperative expenses only if you can, that is Rs.60 Crores or what is it?

R.K. Baheti: The preoperative cumulative is about Rs.400 Crores.

Nimish Mehta: Rs.400 Crores for H1?

R.K. Baheti: No, cumulatively I am saying.

Nimish Mehta: Cumulative. No, no if you can just tell me for the H1, that would be helpful.

R.K. Baheti: For the first half, Rs.134 Crores.

Nimish Mehta: Rs.134 Crores, total between Aleor and preoperative expenses. Okay fine and thank you very much.

Moderator: Thank you. The next question is from the line of Anmol Ganjoo from JM Financial. Please go ahead.

Anmol Ganjoo: Sir congrats on a great set of numbers. My first question is around the domestic market. Now, obviously, sequentially, there has been some improvement, but if you were to kind of break it down in terms of price and volume, it will be helpful because as far as I understand, around 20% of our domestic basket is NELM-linked. So there we should have had some price increases. And also, what is the feedback in terms of some of the clampdown that Mr. Baheti referred to in his opening remarks, how has that kind of impacted and when does it settle, frankly, because that is the only weak link in an otherwise fairly strong performance?

R.K. Baheti: If you look at the IMS data, IMS MAT growth is about 12% for the industry and it is 12% for us whereas for us, the primary growth number for the H1, there is no growth, I mean, it is a flat number. That is an impact of the more stringent policies which we have adopted. As I said and I repeat that we are gaining prescriptions, and we are gaining prescribers. As far as business on the ground is concerned, we are okay, we are comfortable and we are gearing up for growth phase once this high-base number effect is worn out.

Anmol Ganjoo: So you also referred to some time lag in terms of when things should settle down...

R.K. Baheti: In next two quarters, may be Q3 would be the last quarter, probably Q4 onwards this year, we should start seeing the results, we should start seeing the growth again, but latest by Q1 next year, surely.

Anmol Ganjoo: Okay that is helpful. My second question is to Pranav. Pranav, obviously, US has been very robust this quarter, and some of the factor that you alluded to, I mean, you do hint at some kind of a stickiness of this performance. Now if you look at the last year, we were tracking at around \$160 million odd, \$158 million in the US, and now if you kind of look at the H1, I mean, we are already above \$100 million so how do you want us to, I know things are dynamic as far as the US market is concerned. But when you look at the full year, what is the baseline number that we should work with and extrapolate some of these opportunities that we keep getting lucky with?

Pranav Amin: It is a tough one, Anmol, but okay. Now looking at Q1 was about \$40 odd million, Q2 \$70 odd million. About \$50-odd-million per quarter should be the base figure in my opinion, with the current portfolio and the situation that we are looking at.

Anmol Ganjoo: And I mean, you do not expect any meaningful moving parts in the US pricing to kind of offer meaningful downside to this quarterly run rate, right?

Pranav Amin: To be honest, in the U.S., what happens it is such a dynamic market that there is upside opportunities as well as downside risk. It is just a matter of how you capture it and what you do with it. But as of now the way I see it with whatever visibility and heading into Q3, I think on average, the \$50 million per quarter is capturing as a base portfolio that we have.

Anmol Ganjoo: Okay and my last question before I get back in the queue. Now, obviously, you have done a few right things as far as the U.S. is concerned. But is there any change in terms of customer behavior, which is kind of helping us do what we are doing? Is there any commentary on the end landscape with respect to what we are seeing or any other further dynamics you would like to kind of...?

Pranav Amin: Actually, in the US, I am not seeing anything else. Right from the beginning, there were three, four things that we wanted to work on as a corporate, as a company, and we've been sticking to that. One is supply-chain efficiency, ensuring our plants are compliant with FDA, ensuring that we maximize shareholder value so we stick to that. The buyers, like supply-

chain efficiency, they don't like stock-outs. We have just been focusing on some of those, so we are not trying to be overambitious. Whenever we get opportunities, we try to build up the business and ensure that we are nimble to capture them.

Anmol Ganjoo: Thanks. That is helpful.

Moderator: Thank you. The next question is from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.

Aditya Khemka: Just a couple more questions. Pranav, you mentioned that the top 20 products is 80%, 85% of sales in US for you. Could you give us a narrower number? How much are top 3, top 5 products, let us say, of the US business?

Pranav Amin: Top 5 should be about 30%, 40%

Aditya Khemka: Okay and most of these febuxostat, for instance, reflect in the top 5 for the quarter?

Pranav Amin: No.

Aditya Khemka: Okay fair enough and just another question on the ex US exports sort of seeing a consistent decline there. Is it more because of capacity getting more locked up for the US? Or is it something fundamentally changing in the business there for us?

Pranav Amin: No what has happened in the ex-US domain, most of these countries went to serialization in terms of the packaging and while the U.S. was smooth, some of the ROW nations was smooth, but Europe has been a little bit of a slow point, where

we had a vendor who took a while getting the system ready so we have got a backlog, I believe the business is still very good. I am hopeful that Q3, Q4, we should see a recovery. There is no other fundamental change in the business. It is not that US is eating up capacity. Serialization for the Europe is a little more complex. It has eaten up some capacity, so throughput has been little slowed down, but it is something that we have to sort out, and I believe we are on the process of doing it.

Aditya Khemka: And does that mean that we are unable to supply to our customers, and therefore, others who have been able to move, maybe quickly on the serialization could potentially take market share or is everybody, your peers, also facing similar issues?

Pranav Amin: I think the industry per se is facing this issue. In terms of pending orders, we still have lot of pending orders. We do not like to be in the situation. I think everybody else is also having some kind of issues, though different extent, but we are still looking on that, we need to really get back fast.

Aditya Khemka: Fair enough. Just the one last question with your permission. On the API side, although we have seen dramatic growth this quarter, how much of our API do we consume captively and how much do we export or rather sell outside actually?

Pranav Amin: In terms of volumes?

Pranav Amin: 35% of the volumes are captive, the rest are external sales.

Aditya Khemka: Understood. And same question inversely asked how much of our US sales...for US sales how much of our API production or US formulation sales, how much of our API production we use captively?

Pranav Amin: So for the oral solid dosage, at present, we have about 80%, which would be from captive.

Aditya Khemka: 80%?

Pranav Amin: Yes, 80%. And the rest, the other dosage forms will be external API.

Aditya Khemka: Got it. And lastly, sorry, one more question. On the India business, beyond the issue with the discounting with the stockist, are you facing any headwinds in terms of propaganda companies or the smaller companies incentivizing more and seeing that most of the larger companies are sort of reducing discounts, reducing freebies to the channel, do you think the smaller propaganda companies are taking advantage of the situation, increasing discounts and taking market share, it is there that something that we...?

R.K. Baheti: They have their own pockets, in some pockets, they can make an impact. But on an all-India basis, we are okay. We are as good as any other large pharma company.

Aditya Khemka: Okay thank you.

Moderator: Thank you. The next question is from the line of Kunal Randeria from Antique Stock Broking. Please go ahead.

Kunal Randeria: So Alembic has been fairly successful in identifying opportunities in the US and then capitalizing on it but do we still see some withdrawals from some of the bigger players in the US or has that largely stopped now?

Pranav Amin: There is a combination. Strategic withdrawal what we saw, I believe, last year and beginning of last year, some part of the year before that, we saw them pruning down their portfolios. Some businesses were sold. Today, what we are seeing withdrawal is more, as the regulatory norms have become tougher, as audits have become tougher. That is one of the reasons why we are seeing some withdrawals.

Kunal Randeria: So I mean, the bigger guys are still withdrawing or you see you see some of them...?

Pranav Amin: No, I think that whatever is withdrawn, that is the first phase already happened. I do not believe they are withdrawing anymore.

Kunal Randeria: Right, right. And capacity constraints we face?

Pranav Amin: We try to optimize our capacity wherever we can. We do not have a constraint as yet. We are expanding more. As you know, the new oral solid dosage plant at Jarod will be up and ready soon. We will do some incremental API investment as well.

Kunal Randeria: Right. My second question is regarding sustainability of gross margins. See the domestic business is not growing as fast as you would have liked and yet gross margin is going up. It implies that incremental business is still coming at 90%,

probably kind of margins. So just wondering how we should look at it?

R.K. Baheti: As far as India business is concerned, although there is no revenue growth, the margins have actually improved. The profitability has improved, both at the gross and the net level. Large incremental increase in gross margins is obviously because of the international business and because of all the opportunities that we have already discussed.

Kunal Randeria: And any sort of guidance you would like to give on gross margin?

R.K. Baheti: Like, we did \$ \$70-plus million in this quarter and going forward, the guidance is for \$50 million. There will be some adverse impact on the gross margin also.

Kunal Randeria: Okay and last question, if I can squeeze one. So of the 10-plus kind of launches you expect in H2 of the year, any Para IV or FTF kind of opportunity?

Pranav Amin: I will have to check the numbers. There should be some. What you are seeing on the FTF now, the kind of filings that you are seeing with the number of people, it is not as attractive. Once in a while, you may hit that, but I will have to check which are the FTFs that are we expecting.

Kunal Randeria: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Mayank Hyanki from Axis Mutual Fund. Please go ahead.

Mayank Hyanki: First, with regards to India business, can you give us a split? What is the split of growth between the volume and the price and new products?

R.K. Baheti: Largely the price growth has been about 4%, 5%, there is just small volume degrowth because of the reasons already explained.

Mayank Hyanki: So are you seeing volume degrowth because of the channel or because of fall in prescription rate?

R.K. Baheti: It is because of the channel.

Mayank Hyanki: Which means that probably substitution is happening in the channel at the pharmacy level. Is that is what is hurting you?

R.K. Baheti: No, it is not like that. I am just giving you example. We giving 1 strip free for every 10 strip, okay? So while we were realizing money only for 10 strips, market was absorbing 11 strips. Today, we have stopped that additional discounting, which is why we are realizing for 10 strips and pushing out in market 10 strips only, which has got reflected in little volume degrowth but has improved profitability.

Mayank Hyanki: Okay. So just SIMA data per se, we are not losing any prescription changes because of these...?

R.K. Baheti: Actually, we have gained prescription and prescribers as per the script data.

Mayank Hyanki: Okay. And our average portfolio price hike this year till now would be about 5%. That is what it indicates, right?

R.K. Baheti: 4% to 5%.

Mayank Hyanki: Okay. Secondly, on the R&D front, the run rate going forward is going to be like this only or there was bunching up of R&D in this R&D activity in this quarter because of which we are seeing higher R&D number?

R.K. Baheti: We said earlier also, it is very difficult to monitor R&D cost on a Q-o-Q basis. We stand by our number of about Rs.600 Crores plus/minus R&D expense for the year. For some quarter, some few specific activities happen and the cost is high. Some quarter, it may be a little lower.

Mayank Hyanki: Okay. Got it. Third, on the API front, I would like to know that now that between four quarters now that our run rate has been close to... we are running at a higher run rate of Rs.180 Crores, Rs.200 Crores since last four quarters now. So wanted to know two things: first of all, how much is this because of sartans per se, in the sense that is we externally selling of the sartans to more formulation peers and second, what is the outlook for the API business from here?

Pranav Amin: The API business outlook remains the same, as we have mentioned earlier. We continue to do business. It is not aggressive growth area for us, I said they are about 10% or so, we should grow the API business. We do sell some sartans. However, on the API side, most of the growth is not due to sartans, it is due to our legacy portfolio and some of the other products which we have been selling.

Mayank Hyanki: Are you seeing, in the legacy portfolio, volume shift happening from like a few of the Chinese competitors to you now? Or how is it like? So in the legacy portfolio given that...?

Pranav Amin: What is happening on the API business world over is, increasingly, customers are looking for good API sources. By good API sources means people who have a good regulatory approvals and a track record who have good track records and supply chain. And we have just been building that up

Mayank Hyanki: Okay. Just further probing on that, so basically, are your old customers taking now sourcing more of that API from you or are you also seeing that some of the existing formulation guys, who were not sourcing API from you, are now linking their ANDA files with you guys and then taking...?

Pranav Amin: It is a combination of both. However, actually, a lot of our API sales are not in the US, it is world over; U.S. is one part of it. But unlike the formulation, which is highly towards the US, the APIs are low. It is pretty much evenly spread out across territories. We have existing customers who buy more and more products from us. And number two is, we have new customers coming to us as well.

Mayank Hyanki: Okay. So lastly, on the US sales, given that most of our improvement in the sequential improvement in US sales is well spread and not just the exclusive product that we launched in July. So we would expect most of it to sustain in coming quarter as well?

Pranav Amin: As I said earlier, the \$50 million per quarter or so is a base business. I expect that to continue seeing whatever limited visibility that I have and heading into Q3.

Mayank Hyanki: Okay. So do you mean to say that none of the sartan opportunity, which came in Q2, it could be one-off kind of opportunity also not sustainable? Because you did say that most of it is market share gain, which would mean that a lot of it should continue in future quarters as well?

Pranav Amin: Well, some of it will continue. I am just saying \$50 million per quarter as a base rate, somewhere \$200 million a year, that is kind of what I am looking at going forward with the visibility I have currently. How it is going to change? I don't know, but that is what I am looking at.

Mayank Hyanki: Thank you. Thanks a lot. All the best.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from IDFC. Please go ahead.

Nitin Agarwal: Sir how much capex is really left on this current phase of expansion for us?

Mitanshu Shah: We are left with close to Rs.500 Crores on these four projects.

Nitin Agarwal: And that would happen over this year or it should be done by FY2021?

Mitanshu Shah: That is true.

Nitin Agarwal: And Mitanshu on the preoperative number, you talked about Rs.134-odd-Crores for the first half, that would pretty much be

the operating expenses run rate when all these four plants become commissioned or how should one look at that?

Mitanshu Shah: Yes this is meant for all the four plants. Continuing in H2, it would be the kind of same number. For next year, there could be bump up of 10% to 12% on that.

Nitin Agarwal: And this would include averaging the depreciation interest cost also?

Mitanshu Shah: So depreciation is not part of this. Depreciation will start once we commercialize the activity.

Nitin Agarwal: Okay. So maybe little bit of interest, but bulk of it will be op?

Mitanshu Shah: Yes, primarily, Nitin, it includes the employee cost, interest cost and all the other expenses.

Nitin Agarwal: Okay. Basically, that should be the incremental cost that should and as said, it is going to be a function of as and when commercialization happens on the three units going forward next year?

Mitanshu Shah: Yes.

Nitin Agarwal: Okay thank you.

Moderator: Thank you. The next question is from the line of Bharat Celly from Equirus Securities. Please go ahead.

Bharat Celly: Thanks for the opportunity. Sir, I just wanted to understand, when we are referring to decline of \$20 million from \$70

million, so what is the main reason? Is it sartans or febuxostat we are referring to here?

Pranav Amin: What decline are you talking about?

Bharat Celly: US market, we are expecting \$20 million decline. So we have done around \$70 million...?

Pranav Amin: I just gave a figure of \$50 million as a base portfolio. It can become \$40 million. It can become \$70 million depending on the timing of the dispatch when the customer wants outgo. It is not that it is going to decline or not going to decline. That is a base business I am talking about.

Bharat Celly: Okay. And Sir, when we refer to that uloric or febuxostat is not actually among the top 5 for this quarter. So we are referring to the quarter or for the H1?

Pranav Amin: So it was launched only last quarter. So that is why I'm saying only for the quarter.

Bharat Celly: Okay. So it is not among top 4?

Pranav Amin: Not amongst the top 4, but it is part of the top 10 or 20. That makes up 80-90% of our sales.

Bharat Celly: Sure thanks a lot.

Moderator: Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Yes. Thanks for the followup. I was just looking at the March analyst meet report where we mentioned about our

expectation of US sales to be about 3x in the next three to four years to around \$500 million. I mean, are we on track, I mean, my only thing is that the approvals that we are seeing is like the small ones with seven to eight generic competitors. I am sure there will be bigger ones coming in. So just if you could just give broad-level highlight on that pathway of achieving that \$500 million?

Pranav Amin: First of all, let me clarify to everyone. What I said and I have repeatedly been saying is, I used to get lot of questions about what I feel about the US business, especially in view of customer consolidation and the pricing and whatever is going on. At that point, we were about \$160 million of sales. So I said that from \$160 million, do I visualize going to \$400 million or \$500 million? Yes, that is a possibility because we have a smaller base. Now is that a guidance, do I see it happening, I do feel there is an opportunity. When that will happen, it is going to take three, four years because by the time the plants come on stream and injectables come on stream, how our filings goes, there are many, many moving parts. So that is what I meant when I said that, yes, \$400 million, \$500 million is a potential in the long run.

Prakash Agarwal: And would it be fair to think that, to start with, you will obviously have the base level product, which we have seen already some approvals, but as you move year or two ahead, we would see some complex approvals also?

Pranav Amin: Yes, it has to happen because otherwise how you are going to grow and how you are going to get there because we are sending up all this investment in terms of injectables, Onco

injectables, peptides. So we would like to see some of those complex filings first and then approvals, of course.

Prakash Agarwal: Okay. So I mean, the filings would start this year, next year? Any color?

Pranav Amin: Exhibit batches at both the injectable facilities have already taken place. We should see the first filing for the general injectable, F3, by the end of this year and the first filing for the Onco injectables in H1 of next year. We will start of course with the regular filings; and slowly, slowly as we build up our capability, we will move to complex and other products.

Prakash Agarwal: Understood. Great. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Abhishek Sharma from IIFL. Please go ahead.

Abhishek Sharma: Yes. Sir, just one question. On the withdrawal of on the promotion in India, just wanting to get a sense, is it all across the board that you were giving promotion earlier and you have withdrawn it or it was specific let us say acute or ...

R.K. Baheti: No, that was product-specific or in some places stockist-specific; in some cases, institution-specific. That was not across the board.

Abhishek Sharma: But this kind of practices was more prevalent on the acute side or the newly started products?

R.K. Baheti: No, it is more on chronic side.

Abhishek Sharma: Alright. And I mean, the fact that you are withdrawing promotion there and still able to gain prescription, does that give you some confidence that you are gaining traction in that part of business, is that...?

R.K. Baheti: I think so. That is why I made the statement.

Abhishek Sharma: Alright. Thanks.

Moderator: Thank you. The next question is from the line of Nimish Mehta from Research Delta. Please go ahead.

Nimish Mehta: Thanks again for the opportunity. Just wanted to know some if you can give us some color on the domestic business, especially in the industry wise, are we seeing any impact of the trade-generic on domestic business, for us as well as generally for the industry?

R.K. Baheti: We have been discussing this for some time, but I think I would not say that the impact was big enough for us to have any impact on our growth numbers. No.

Nimish Mehta: So we are largely not seeing? Okay. And any idea on the industry? I mean, you think that industry is getting impacted?

R.K. Baheti: It is very specific to the company or the brands. Some brands get impacted by generic more than the others. Or some companies are more prone to this impact of generics. So I think you guys know better, and you talk to far more companies than I do. But Alembic is not much impacted.

Nimish Mehta: Okay fine. Lastly, on the gross margins, Sir, can you tell us what would be a steady state? I mean, assuming that after the

YTD substantive mover, will we be back towards 75%, 76% gross margin? Or how do I look at it, a guidance would be helpful.

R.K. Baheti: Last quarter or quarter before also, I had said, 68%, 70% is a good enough number at gross margin level...

Nimish Mehta: But we are far above that and...

R.K. Baheti: I know, but if you ask me for a long-term trend line, I think we should raise our numbers more on 68% to 70% level, than at the current level.

Nimish Mehta: 68% to 70%? Then we are at 78% of that. I mean, what is the reason for so much of... even for the long term, this kind of decline in, given the way you are growing, given the traction in US.

R.K. Baheti: If you look at last eight quarters, then you will find a trend line which is closer to these numbers. In between, there is the spike, but in US or for that market, if you are in market, you will always get such opportunities.

Nimish Mehta: Yes. Okay.

R.K. Baheti: I keep joking with Pranav that he has been lucky for the last few years. So it is just okay for us.

Nimish Mehta: Okay. Fine. Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. R.K. Baheti for his closing comments.



Alembic Pharmaceuticals
October 24, 2019

R.K. Baheti: Thank you very much. I think it was very nice interacting with all of you, after a good quarter, good performance from the operational team and good interaction. Wish you all, a very Happy Diwali. Thank you very much.

Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of Alembic Pharmaceuticals that concludes this conference call. Thank you for joining us and you may now disconnect your lines.