



“Alembic Pharmaceuticals Limited
Q3 FY 2020 Earnings Conference Call”

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MANAGEMENT:

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Moderator: Ladies and gentlemen, good day, and welcome to the Q3 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; and Mr. Ajay Kumar Desai, Senior VP, Finance. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. R.K. Baheti. Thank you, and over to you, Sir!

R.K. Baheti: Thank you very much. Good afternoon, everyone. Thank you all for joining our third quarter results conference call. I am sure you would have received our results by now. However, let me briefly take you through the numbers for the quarter ended December 31, 2019.

During the quarter, total revenue grew by 19% to Rs. 1,209 Crores. EBITDA at Rs. 332 Crores is 27% of sales and the growth versus the previous corresponding quarter is 36%. Pre-R&D EBITDA is 39% of sales. Profit before tax went up by 35% to Rs. 283 Crores for the current quarter, while profit after tax went up by 38% to Rs. 234 Crores.

During the nine months, total revenue grew by 13% to Rs. 3,399 Crores. EBITDA at Rs. 907 Crores is 27% of sales, and it grew by 29%. Pre-R&D EBITDA is again 39% of sales, and net profit after exceptional item and tax is up by 31% to Rs. 604 Crores.

EPS for the quarter is Rs. 12.42 per share versus Rs. 9.01 in the previous year. While for nine months, the EPS is Rs. 32.05 versus Rs. 24.42 in the previous year's nine months period.

Capex for the quarter including capital advances are Rs. 181 Crores. For the nine months period, this is Rs. 551 Crores and additionally, we have funded Rs. 55 Crores to Aleor Dermaceuticals in the quarter. Cumulative nine months figure is Rs. 155 Crores.

The gross borrowing at consolidated level is Rs. 1,407 Crores, and the Company has about Rs. 59 Crores in cash, so the net borrowing is Rs. 1,349 Crores.

Debt/Equity is at 0.42. And return on capital is 36%, if I exclude the investments which we have made and projects which are yet to be operational,

whereas in the company-wise, including the investments in projects, the ROC is 23%.

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

Pranav Amin:

Thanks, Mr. Baheti. It was a good quarter for the company, aided by growth in all the international markets, the U.S. as well as the ex U.S. grew pretty well in this quarter.

R&D expense was Rs. 146 Crores, which was about 12% of sales.

We filed 6 ANDAs during the quarter and a cumulative tally is 176 ANDAs.

Two DMFs were also filed during the quarter, and we filed 104 total DMFs.

We received 8 approvals during the quarter.

We also launched 7 products during the quarter in the U.S., 17 were launched in the nine months of the year.

Our projects are physically complete and are at various stages of batches and filings.

In terms of financials, the International formulation business grew 48% to Rs. 664 Crores for the quarter.

The U.S. generics grew 61% to Rs. 515 Crores for the quarter. It grew 65% in dollar terms to \$71.19 million.

The ex U.S.A. generics grew 15% to Rs. 149 Crores in the quarter.

API sales for the quarter were Rs. 177 Crores versus Rs. 205 Crores last year.

The domestic business, the India formulation business was flat in this quarter at Rs. 368 Crores, for nine months period it is 1083 crores

Now I would open the floor to any Q&A.

Now we can invite questions and answers.

Moderator:

Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Vishal Biraia from Aviva Insurance. Please go ahead.

- Vishal Biraia:** Sir, could you help us with your thoughts and perspectives on the weakness in the domestic business in the India business, as to what is taking the India business, why is it taking long to stabilize? And give your perspective on this?
- R.K. Baheti:** Sure. As I have said it in previous quarters, it is a good stable business. It is a growing business also. What is not getting reflected is some corrective action, which we had initiated sometime towards end of last year, and this exercise has now got completed. So typically, companies, including us, give discounts, extra discounts on institutional business. But we realized that trade was taking advantage of this loophole and was taking extra discounts from us. So now we have completely blocked that and the business is far more hygienic and far more profitable. So, we see no weakness in the business. On an apple-to-apple basis, we have grown 10%-12% in this period. Once this comparable base is corrected, we hope to continue to grow 10%, 12% in coming years.
- Vishal Biraia:** Sir, this should happen in the next 2, 3 quarters? Would that be a fair assumption?
- R.K. Baheti:** April onwards it should be visible on records.
- Vishal Biraia:** Okay. So just one last question on the overhead expenses that seem to be relatively lower for this quarter, so anything specific to read in those numbers?
- R.K. Baheti:** Q2 typically is a little higher expense base for domestic business. You will see for most pharma companies and in our case also. The more comparable number is a corresponding previous year number rather than a sequential number.
- Vishal Biraia:** Thank you.
- Moderator:** Thank you. The next question is from the line of Shashank Krishnakumar from JM Financial.
- Anmol Ganjoo:** This is Anmol. Thanks for taking my question. I have a couple of questions. First is on the U.S., continued good performance there, congratulations for that, Pranav. Just wanted to understand if there is anything with the sartan market participant behavior, which you would like to flag off because last quarter, you did highlight that, at some point there could be return of competition, etc. And therefore, market share gains that we might have seen could be under challenge. We also see a sharp sequential drop in gross margins. So, anything you would like to flag off there or call out?
- R.K. Baheti:** Pranav, you can address the first part, I will address the second part.

Pranav Amin: Basically, on the sartans, as I mentioned in the last quarter, the opportunities are still there. It is tough to say which product where because there are new entrants and there are supply constraints, because both are going on. And with the sartans and the combinations, we are talking about 10, 15 different products in the market, and they are all huge volumes. So, there is enough opportunities in all of them. And I see that for the next three to six months, these opportunities continuing. It depends, product to product. That is one aspect of it. We have made a decent amount of money on the sartans and it is a good opportunity. It is going to continue for a while. Some entrants are coming in, some are constraining supplies, so it is tough to say overall. In terms of the gross margins, I will let Mr. Baheti take control.

R.K. Baheti: Yes. There is no sharp decline. Even in the previous quarter, I had said that these numbers of the previous quarter were unusually high and they were expected to be moderated a bit. The gross margin numbers are pretty high. And that is because of the opportunity Pranav was speaking about. I do not think there is a sharp correction. I think it is about 200 basis points, 2 percentage points.

Anmol Ganjoo: Yes. What I was trying to understand there is also lower API contribution. So, is there anything which has changed with respect to pricing of sartans or anything we should be reading like that or from the end?

Pranav Amin: No, nothing changing in terms of the pricing of sartans. The sartan good thing is that, as I mentioned, there are so many products, and each one is independent. And last quarter, we may have had more than one sartan, this quarter more of another sartan, so just a product mix and that keeps changing. We see, where the shortage is and we try maximizing that.

Anmol Ganjoo: Okay. That is helpful. My second question is to Mr. Baheti. Mr. Baheti, you had flagged off that the impact of the hygiene exercises that we had taken on our domestic portfolio. I think Q3 should be probably the last quarter where we should have an impact. So, from Q4 the comparable base that you have been talking about, etc., should start reflecting and we are on track?

R.K. Baheti: Q4, last year, we had started this exercise, it got over only towards the end of the year. So Q4 should see the return of growth, but return of full growth will get reflected in first quarter and onwards.

Anmol Ganjoo: Okay. That is helpful. And just one housekeeping question. I do not know whether I missed it in your opening remarks, what was the capex for the quarter?

- Pranav Amin:** About Rs. 180 Crores or so.
- Anmol Ganjoo:** Was there any lumpy part in this in terms of Aleor or any other JV that?
- R.K. Baheti:** No, Aleor number is separately mentioned, Rs. 55 Crores.
- Anmol Ganjoo:** Thank you. That is, it from my side. I will get back in the queue. Thanks.
- Moderator:** Thank you. The next question is from the line of Ayush Mittal from MAPL Value Investing Fund. Please go ahead.
- Ayush Mittal:** Good afternoon Sir. Congratulations on a good performance. Sir, in line with the earlier discussion around the one-off in this quarter, can you tell us more about the base run rate of the growth that is happening in our business?
- Pranav Amin:** This is for what part? Was it international?
- Ayush Mittal:** Yes, the U.S., international business.
- Pranav Amin:** In relation to one-off, there are opportunities in the sartans. So, it is not a one-off, it is just the opportunity is there because of shortages and the sartans, as you know, are very high-volume products. And a lot of competitors have had supply issues and I see that continuing. So, it is not a one-off per se, it is just how the market is behaving currently. Will it change with additional competition coming in? Yes, but I do not know when. I would say that for the next 3 months, 6 months, I do see still some shortages in the market.
- Ayush Mittal:** Okay. Any other key drugs, which have helped us perform better?
- Pranav Amin:** We have launched 17 products so far, this year. Each of these products also, if you have access to IMS or the data, you can see where we have picked up market share. Everything contributes together. Some we may have lost opportunities. The U.S. business it really is a combination of all products. And as we have more products in the market, it gives us little more stability and the base business is more stable.
- Ayush Mittal:** Great, that is good to know. So somewhere I read that top 5 products of Alembic are contributing close to 50% of our U.S. revenues. Is that a right number?
- Pranav Amin:** In the past, I have said that about 20% of our portfolio would be about 80% of our sales. I am not sure what the number is now. Mitanshu, do you know?
- R.K. Baheti:** Yes, that number is broadly correct.

- Mitanshu Shah:** It is around 36%.
- R.K. Baheti:** 36%, top 5 products?
- Mitanshu Shah:** Yes.
- Ayush Mittal:** But today our basket is much wider, and we have done lots of launches in last 1 year. Is this number still valid? Or have we been able to more even out things?
- R.K. Baheti:** Mitanshu corrected saying that top 5 is 36%.
- Mitanshu Shah:** Of U.S. sales.
- Ayush Mittal:** Got you. Okay, top 5 is 36% of U.S. sales. Got it.
- Mitanshu Shah:** Yes.
- Ayush Mittal:** And any risk to the top contributors in terms of pricing or competition coming in that you are seeing in near term?
- Pranav Amin:** As Mr. Baheti said, it is difficult to say. I do not know what is going to come, but the inherent nature of the generics is that there will be push and pull. There will be someone coming in on one product, whereas you may have an opportunity on another. So, nothing we can do about it. We just have to ensure that we stay on the market and we just keep supplying.
- Ayush Mittal:** Sure. Great. Sir, second part of my question is around the massive capex that we have done, and large part of this capex has commercialized or will be commercialized, getting commercialized in coming times. One worry that market participants have is that we will face higher interest and depreciation cost going forward, while the revenues will not come in. We would like to understand more about this part from your perspective. Do you see the company being able to grow fast enough to overcome these pressures on the financials?
- Pranav Amin:** What I will do is just break it up into 2 parts. I will tell you the thought process behind the capexes and then Mr. Baheti will explain the financial bit. So, thought process is that, as a company, we are growing, we have a front-end in the U.S., We were present only in the oral solids and we saw that there is lot of opportunities in some of these other forms, be it injectable, oncology, ophthalmics and derm. So that is how we set up these capexes. Once we have these capabilities, we can progress up the value chain in these products as

well. There is a thought process behind it. In terms of financials, I will let Mr. Baheti answer that how he expects it to go.

R.K. Baheti: So, in pharma sector, most of you would be aware, there would always be some lead time between the spend you make or investments you make and the generation of revenues and profits. So, there will be some time gap. But the call which we have taken and which I had explained earlier is that, we will commercialize the plant only in the year when we take the first commercial batches. So as long as we are only in the filing mode and the FDA inspection does not happen, we do not get ANDA approval, we would not charge depreciation and interest. So, to that extent, there will be no hit on profit and loss account. Of course, cash flow-wise it is neutral, but once it gets commercialized and once we scale up, in the FY2022-2023, then we hope to make enough money to service all of this.

Moderator: Thank you. The next question is from the line of Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai: Thank you for the opportunity. Sir, coming back to gross margins. So since last 2 quarters were very strong on the U.S. front and that has resulted in very strong gross margins and as Mr. Pranav said, it can continue for another 3 to 6 months. But just a clarification, since we are growing on the base also, so how should we look at the sustainable gross margin on ongoing basis?

R.K. Baheti: These margins are little higher because of these opportunities can continue, will flatten a bit once such opportunities are out of the market. Now we do not know when, and we do not know by how much.

Damayanti Kerai: Okay. Sir, last quarter, I think you mentioned that 68% to 70% kind of gross margin...

R.K. Baheti: I said 70% plus/minus is like a standard margin number, which I would like to retain.

Damayanti Kerai: One question on the API front. We have seen like the growth has been good, but we have seen a lot of fluctuation since last few quarters. So, what is leading to that? And how should we look at that part of business?

Pranav Amin: Let me take that. So, in terms of API business, I do not really see fluctuations in terms of API business. If you see, compared to last year, we have one big client for whom we do some contract manufacturing for, and that is what was lumpy last year, and that is not there this quarter of Q3. What is happening is I had said earlier, in lot of calls that we should continue growing the API

business. We are constrained by capacity, so we are trying to do as much business as we can. And I think about 10%, 15% is something that we easily expect the API business to grow every year.

Damayanti Kerai: My last question on the R&D part, so that should continue at 13% to 14% of total revenues, right?

Pranav Amin: Yes. for this quarter, we are down at about 12.5% or so and gradually it will come down as the sales increases as well.

Damayanti Kerai: Thank you for your answers. That is all from my side.

Moderator: Thank you. The next question is from the line of Nisarg Vakharia from Lucky Investments. Please go ahead.

Nisarg Vakharia: Good evening everyone. Yes, I have a slightly deeper question addressed to you, Pranav. See, post 2015 in the investor community, in pharma, everything is a one-off. No matter what sort of numbers you deliver, everybody will ask you first thing is that what is the one-off, what is the one-off, and for the right reasons. Can you address this question somehow because you are actually one of the few companies who is investing a significant amount of money into the U.S. formulations and still very, very bullish on the space against a lot of other companies who feel that maybe domestic formulations are the way to go ahead? So, if you can get my question and if you can answer it, it will be helpful.

Pranav Amin: Yes. First of all, what I would like to say, one is not constraining me from doing the other. As you know, in Alembic, how we are set up is both the businesses are run almost as 2 independent companies. We are not competing for capital. It is not that domestic is restricted to do anything because of it. That is the first thing I would like to say. The domestic business is a fantastic business, I agree. It is a very high ROCE business. You can keep growing. So that is nice. But the issue with the domestic is you are not going to get addressable big market size of adding \$50 million, \$100 million in a year. You can only grow the 10%, 12%, 15-odd percent every year, which the best-in-class will do. So that is one aspect. So, we are not constrained by domestic. I still love the domestic as a corporate, and we are very bullish on domestic as well.

Coming to the international, now what has happened in the international space is, you are right, I think the dynamics have changed in the market because of a few reasons. One, there is consolidation among buyers. There is more competition because of faster approvals. These are 2 broad things, which have made it less attractive in the market. And we have seen lot of the bigger peers

in the industry getting competition in their products. Most of our ANDAs are all towards the back-end over the last 2, 3 years that we filed, 20, 30-odd ANDAs every year. So, we are getting fast approvals on that. That is number one. Number two, for us to grow in the international business, we needed to add capability. We could not just stick to oral solids only, hence once the injectable comes in, you can grow that as well.

So, based on that, compared to when we started to now, is the market looking different? Yes, it is looking different, but am I still bullish on it? Yes, I still think it is a very attractive opportunity if you have a well-run U.S. business, if you have a well-run supply chain, if you have compliant plants, there are good opportunities as well. I do not know if that is a good enough answer.

Nisarg Vakharia: Yes. Just to add to that question. So, let us say, we are at about Rs. 500 Crores of U.S. formulation sales per quarter.

Pranav Amin: Right.

Nisarg Vakharia: If I annualize that roughly, I am just talking approximately, it is Rs. 2,000 Crores of U.S. sales. Of the Rs. 2,000 Crores U.S. sales number, how much do you think is the steady state sustainable number ex of the pricing advantages that you might have got for 3 to 6 months of sartans?

Pranav Amin: It is a very, very tough to answer that...

Nisarg Vakharia: I just want a rough number. It just helps us analyze your U.S. business slightly better, that is it.

R.K. Baheti: Actually, U.S. is not a Rs. 2,000 Crores business, it is about Rs. 1,500 Crores, Rs. 1,600 Crores business.

Nisarg Vakharia: Sir, this quarter, you have done Rs. 500 Crores. Nine months, you have done Rs. 1,400 Crores. If you were to do even Rs. 400 Crores for the next quarter, which is your steady-state run rate, I am saying Rs. 1,700 Crores, Rs. 1,800 Crores is what you will do in the U.S., right?

R.K. Baheti: Yes.

Nisarg Vakharia: So, I am saying that on that Rs. 1,700 Crores, Rs. 1,800 Crores, how much is the advantage that you might have got in pricing in sartans? If you remove that, what is the steady state base case run rate on which you can build? Just a rough number I want, I do not want a precise number.

Pranav Amin: To be honest, I will have to work that number

- R.K. Baheti:** No. But, Pranav, nobody would have that number. I mean, how do I define what is one-off like. Like Nisarg was rightly saying that everything what pharma companies did in the last 4 years have been one-off. So, what is the base, what is the correction -- very difficult to say.
- Pranav Amin:** See, I think the way I see it is, on a 2, 3-year basis, is this something that we see our U.S. business growing, and I said it 2 years back, and I said it last year that from our size, what Rs. 100-odd million that will do is end up doing about 220 million or something like that this year, right?
- Nisarg Vakharia:** Right.
- Pranav Amin:** This \$220 million go to \$300 million, \$400 million over the next couple of years? Yes, definitely, that has to be the goal, otherwise all this investment does not make sense. And that is what will happen. Now, yes, there will be quarter-on-quarter, year-on-year, there will be some variance, but as a basket, I would expect that kind of growth to happen.
- Nisarg Vakharia:** Okay. My second and last question is that as per Alembic standards, the domestic formulation sales CAGR run rate for the last 5 years has been very low. I am saying that if I forget this 1 year, but if I look at your domestic formulation growth rate from 2014, 2015, as per Alembic standards, I am saying we can, of course, say the market was not growing and all that, but Alembic works on a different standard. So, is there any specific reason for that? And can that change? Because we have seen so many companies in the India space, like Pranav rightly mentioned that we work as 2 separate divisions, which have demonstrated at least 13% to 15% CAGR sustainably over 5 years.
- R.K. Baheti:** Yes, sure. Other companies have surely done better than us or we have done poorly versus them. What we are focusing on and what gives us confidence to say that for future, our detailing with the customers is robust, our prescription generation is robust. My saying that we adopted the UCPMP better than others, we were more stringent in following the marketing practices than others, and then this demo and GST affected everyone differently etc. I think it would not satisfy you. Yes, we have done badly as compared to others, but we will bounce back based on our groundwork.
- Nisarg Vakharia:** Okay. My last question is that there are a lot of acquisitions that are available in the domestic formulation space. Example, of course, Unichem was a very large one by Torrent. But the kind of efficiencies that a company of your standard can bring about in some of these small domestic formulations, Rs. 200 Crores

to Rs. 500 Crores sale companies can, of course, be large. So, have you looked at any of these guys, which can be a nice fit into your portfolio?

R.K. Baheti: We have looked at acquisition opportunities from time to time. Our consistent stand, which I have shared with investors in the past also is that we are not looking for any acquisition in domestic market. Our reason is sustainability and the value proposition for acquisition versus our organic growth. We find organic growth more attractive.

Moderator: Thank you. The next question is from the line of A.N. Lodha from Dhanmati Consultants. Please go ahead.

A.N. Lodha: First of all, congratulations on the good set of numbers. Sir, I have 2 questions. One is, for research and development, expenses of Rs. 145 Crores in the quarter and the Rs. 459 Crores in the nine months ending December. So, can you just tell me that the expenditure has been debited in revenue or some part has been capitalized also?

R.K. Baheti: All of R&D investments have been expensed out.

A.N. Lodha: In revenue?

R.K. Baheti: In revenue, except the expense which is incurred by Aleor, which is a separate company.

Pranav Amin: No, no. everything in Alembic, R&D is all expensed out.

A.N. Lodha: All expenses have been debited to revenue account?

R.K. Baheti: Yes.

A.N. Lodha: Okay. My second question is, Sir, just I wanted to know, Sir, how much Capex company gets to incur in financial year 2020 and 2021? I just wanted further Capex done by the company in the next 2 years?

R.K. Baheti: As Pranav said, our existing projects are physically complete, and we are taking batches, scale up, exhibit, filings, etc., so no major capex is expected on the new projects. But at the same time, we will continue to invest for our existing projects for debottlenecking, some capacity expansion, some balancing equipment and some maintenance capex. That capex is expected to be between Rs. 300 Crores and Rs. 350 Crores in a year. And of course, there can be more opportunities for capex in future, but this is the plan we have now.

- A.N. Lodha:** Okay, Sir. You have clarified your net debt is, I do believe, Rs. 1,300 Crores as on December? Net debt, net debt by the company is Rs. 1,300 Crores?
- R.K. Baheti:** Yes, that is right.
- A.N. Lodha:** How much further borrowing can be done by the company by March 2020?
- R.K. Baheti:** March 2020, we do not expect too much of additional volume.
- A.N. Lodha:** Okay. Regarding the debt, I just wanted to know, Sir, how you are funding this debt, i.e., mostly with term plans or debentures?
- R.K. Baheti:** It is a mix of short term, long term. We have done debentures, we have done some ECBs. And we, of course, use the bank funds. I mean, the working capital limits. So, it is a mix of all. If you look at our 6 months results, that will be there. In 6 months, we have given the detailed balance sheet also.
- Moderator:** Thank you. The next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.
- Nimish Mehta:** Yes. On the USP, Sir, we had the benefit of the 180-day exclusivity on febuxostat. So, can you give some color on what is the base business growth has been without febuxostat? How has it been and what kind of competition you are expecting for the first time from now on?
- Pranav Amin:** So, I think when we launched febuxostat, there were 2, 3 others in the market. As of now, I think there as we got to day 181, from what I have heard, I think another 2 entrants or so have entered the market. There will be some pricing pressure on that. And so, we will lose some share. So far, it was only 4 of us in the market, but I think another 2, 3 entering, if I am not mistaken.
- Nimish Mehta:** I see. We are not likely to see any just steep competition, okay?
- Pranav Amin:** No, even if we get one person, if he wants to be aggressive, you will see lot of steep competition. And I think we will take a little bit of a hit because as the new entrant comes, he will try reducing the prices. But let us see, it is still early days, so let us see, we will know in the next few weeks how it pans out.
- Nimish Mehta:** And what was the market share they could gain post the 180 days?
- Pranav Amin:** Anyone can gain as much market share as long as the price is there. I do not know how much it is there and what price we want to keep market and it is really open. It depends how the customer side behaves.

- Nimish Mehta:** No, I am talking about the historical market share so far that we have achieved, not the futuristic.
- Pranav Amin:** we were, about 20%, if I am not mistaken of its historic market share.
- Nimish Mehta:** Okay, great. And there has been Y-o-Y growth in the U.S. business on a constant currency basis?
- Pranav Amin:** Yes, because, overall, the U.S. business has grown by about 50%. So, there has been growth across the board in a lot of different products.
- Nimish Mehta:** Okay, understood. Next is actually once again on the gross margin. Baheti Sir, you mentioned that there was 78% in Q2 was very high. I mean, from a business perspective, there is no much difference between Q2 and Q3. So, what was that base effect in Q3?
- R.K. Baheti:** There is always higher expenses booked for the domestic businesses in Q2 because the promotional activities are maximum in Q2, more with companies which have significant acute businesses.
- Nimish Mehta:** No, no, no. Sir, gross margin between Q2 and Q3 is significantly differently.
- R.K. Baheti:** No, it is not. But any product can have different product sales. No, every quarter would have a different product mix or different product sales, but between these 2 quarters, the major products have kind of remained the same. So, I do have no other reasons to offer. We can move to the next question.
- Nimish Mehta:** Okay. The other is, you can just let us know the capitalized expenses that are the pre-operative expenses for Alembic and R&D expenses for Aleor, that will be helpful.
- R.K. Baheti:** I think the cumulative pre-op expense in Alembic is about Rs. 400-plus Crores.
- Nimish Mehta:** Sir, if you can tell me about this quarter that would be helpful.
- R.K. Baheti:** Only this quarter?
- Nimish Mehta:** Yes, Sir.
- Mitanshu Shah:** Rs. 198 Crores.
- R.K. Baheti:** Only this quarter is about Rs. 200 Crores.
- Nimish Mehta:** This is for pre-operative?

- R.K. Baheti:** Pre-operative, yes.
- Nimish Mehta:** And what is Aleor R&D capitalized?
- Mitanshu Shah:** That is around Rs. 200 Crores.
- Nimish Mehta:** This quarter?
- Mitanshu Shah:** That is cumulative.
- R.K. Baheti:** No, he is asking for this quarter.
- Mitanshu Shah:** This quarter is around Rs. 40 Crores.
- Nimish Mehta:** Rs. 40 Crores for the quarter and the Rs. 200 Crores. Lastly, on the domestic part, you mentioned about this flattening on the corrective action. So, does it also impact our AIOCD growth numbers or IMS growth numbers, the one that you mentioned in the presentation.
- R.K. Baheti:** Yes, it would have some impact. The IMS numbers or AIOCD numbers also will get impacted, both ways, when we start turning around, on a positive manner. But the impact would be much lower than our primary growth numbers. So, if you look at the IMS number, then you would see a growth rate of about 5%, 8%, whereas the primary growth is not that.
- Nimish Mehta:** Okay. So that also gets consumed because of the corrective action.
- Moderator:** Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.
- Prakash Agarwal:** Yes. Congrats on good numbers. Sir, just I want to know the like-to-like number for the Rs. 134 Crores that you mentioned in the first half as pre-op. Just wanted to know for the quarter, what would that number be?
- Mitanshu Shah:** Around Rs. 200 Crores.
- Prakash Agarwal:** Okay. And for the Aleor, I understand, you have started expensing it from this quarter onwards. Would that be correct? And what would be the number?
- R.K. Baheti:** Yes, that is right. Because they have started commercial production, we have started expensing out.
- Prakash Agarwal:** And so as called out by various participants, and you also mentioned Q2 is higher, so on Q-on-Q basis, we have not seen the dent. So, are the numbers

really small, and we expect it to become bigger? Or this is the run rate we should see going forward also?

R.K. Baheti: This you are asking in context of Aleor consolidation?

Prakash Agarwal: Yes, Sir.

R.K. Baheti: No, numbers are not small. For the quarter, numbers are not small. They are fairly good cost base. So, this is included.

Mitanshu Shah: Yes.

Prakash Agarwal: And we do not expect this to increase further. I mean, this would be the normalized cost base for Aleor going forward also?

R.K. Baheti: I think so.

Mitanshu Shah: Prakash, going on your first question, what you are asking us was the pre-op for a quarter, right?

Prakash Agarwal: Yes, Sir.

Mitanshu Shah: Pre-op for the quarter is Rs. 65 Crores.

Prakash Agarwal: Rs. 65 Crores. So, it is in line with what we have done in first half, Rs. 134 Crores, and what you mentioned the full year would be 134 x 2 plus/minus 10%?

Mitanshu Shah: Yes. So total around Rs. 200 Crores for current year, YTD.

Prakash Agarwal: Okay, YTD. So, looking at your presentation, when you mentioned the state-of-art facilities audit and filing status, the way to look at it is, for example, the Panelav oncology injectables filing status to start filing from second half fiscal 2021, it does not mean the cost will start, right? Once it is commercialized, when your products are getting approval, then only the expenses start. Would that be right thinking?

R.K. Baheti: That is right.

Prakash Agarwal: Okay. So next year, we would probably see the Jarod coming as an expense, no, not really? Which ones were the facilities which we will be start seeing some expenses, Sir, next year, fiscal 2021?

R.K. Baheti: General injectable will be the first one to start commercial production.

- Prakash Agarwal:** General injector, Karkhadi?
- R.K. Baheti:** Yes, that is right.
- Prakash Agarwal:** Only one facility?
- R.K. Baheti:** No, no. I am saying that will be the first one to start. In our investor presentation, there is a schedule given.
- Prakash Agarwal:** Yes, I am referring that only. Yes, those reflect the expected filing. I am asking commercialization, Sir.
- R.K. Baheti:** No, but that is really difficult for us to say, because I cannot predict when FDA will inspect us, approve the facility, then FDA will approve ANDA, and then we can start the commercial production. We have given what is under our control.
- Prakash Agarwal:** Fair point. Understood. And on this India business, what would be our share of the generic-generic of the total India business?
- R.K. Baheti:** I have hardly anything, not much.
- Prakash Agarwal:** So, we do not have generic-generic?
- R.K. Baheti:** No, we have, but it is not much. Actually, we have pruned the portfolio. We are keeping only the most profitable portfolio. So, our generic business in terms of profitability is as good as branded business, but the number is small. It is not worth even discussing.
- Prakash Agarwal:** Okay. And lastly, on the R&D side, earlier you used to give a grid of 200-plus products working across these line items, derms, injectables, onco. How is this grid moving up and down given that there is a lot of...?
- Pranav Amin:** Yes, it is a good question. It is not moving up. It is about steady because some products have a longer gestation period. So, we are not increasingly adding more people or anything, I think we will be flat now. Whatever, 200-odd products that we have, we will continue the same throughput for a while.
- Prakash Agarwal:** And then the engine that you started 2 years back with the 30-plus kind of filing, how is it looking for 2021 and 2022?
- Pranav Amin:** We will stick to that number, about 30-plus. What will happen is the composition of that may change. As we have more injectables coming in, it may increase a little bit. But yes, I do not expect it to go fairly upwards of 30, 35 or so. That is where we will be, I think.

- Prakash Agarwal:** For 2020. For FY2021.
- Pranav Amin:** Yes.
- Prakash Agarwal:** Okay. And do we see a hockey stick going forward?
- Pranav Amin:** We are not chasing a number per se that we want to pursue for the U.S. market because you have to see if there are any opportunities and what are the opportunities and what is the bandwidth that the company can handle. And I believe this 30, 35 is where we are currently. For the next 2 years, I do not see that increasing drastically.
- R.K. Baheti:** Prakash, if you do not mind, can you come back in the queue because I see a lot of questions, lot of people are in the queue.
- Moderator:** Thank you. The next question is from the line of Nirmal Gopi from IDFC Securities. Please go ahead.
- Nitin Agarwal:** This is Nitin here. Sir, on your SG&A costs for the nine months, the other expenses seem to be broadly flat despite you mentioned Aleor has been commercialized in this quarter. So, what should explain that, despite the fact that you have had reasonable growth in the revenue also in the nine months?
- R.K. Baheti:** We have done our job better at a lower cost.
- Nitin Agarwal:** Okay.
- R.K. Baheti:** Broadly, there will be some forex elements.
- Mitanshu Shah:** There was a forex gain there and this time as well. I mean there is generally a general reduction. I mean Q3, Q4.
- R.K. Baheti:** No, he is comparing nine months versus nine months. It is almost flat.
- Mitanshu Shah:** Yes.
- Nitin Agarwal:** Because, Sir, that implies significant operating leverage. And if we were to sort of build on similar sort of trends going forward, it just creates a very different profitability picture for the business.
- R.K. Baheti:** So, we have to keep our shoes tight, and that is what we are trying to do.
- Nitin Agarwal:** Fair enough. But Sir, this is unsustainable. This is where the business these are like a fairly sustainable base of expenses.

- R.K. Baheti:** No cost has been left out or has been avoided or ignored. I mean it is a sustainable revenue business.
- Nitin Agarwal:** Okay, Sir. And then, on that account, Prakash asked earlier, this Rs. 250 Crores, Rs. 260 Crores of expenses which will probably get capitalized over the next maybe couple of years or whenever the commercialization starts. So, it is the current base plus this another Rs. 250 Crores, Rs. 260-odd Crores, which should get added on to the cost base. How should we look at it?
- R.K. Baheti:** Correct. You are right. I do not know whether it will be Rs. 250 Crores. I do not know, I mean, how projects actually get into commercial production, but the concept you share is right.
- Nitin Agarwal:** Fair enough. I mean, basically, growth on this current whatever normalized growth on this current base plus this additional base sitting on it and in whichever way it really plays itself out?
- R.K. Baheti:** Absolutely.
- Moderator:** Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal. Please go ahead.
- Tushar Manudhane:** Sir, just referring to your state-of-art facility infrastructure slide, comparing it with Q2 FY2020, the timelines for filing have been pushed, say, for oncology injectables and the general oral solids.
- R.K. Baheti:** No, what is your question? I have not understood.
- Tushar Manudhane:** Say for example, oncology injectables, in the second quarter presentation, it was like in first half FY2021, now that filing would happen more or less in second half FY2021. Similar is the case for general oral solids, wherein the filing was to happen in H2 FY2020, now we have pushed that to H1 FY2021. So, if you can just explain this.
- Mitanshu Shah:** Tushar, because this would entail a little longer discussion, can we take it offline and you call me after this call, and we will discuss.
- R.K. Baheti:** But I think there might have been some delay of 2, 3, 4 months, which is all right. I mean, when you take the batches and when you prepare for filing, few months delay here and there can happen.
- Tushar Manudhane:** So effectively, it is like second half FY2022 to see meaningful revenues pickup?

- R.K. Baheti:** Revenues, yes, that is right.
- Tushar Manudhane:** And if you can just help me with the number of MRs for acute and specialty separately?
- R.K. Baheti:** The number remains the same. We have about 3,900-odd MRs and about 40% of them are in acute business, about 60% of them are in the specialty class.
- Moderator:** Thank you. The next question is from the line of Harith Ahamed from Spark Capital. Please go ahead.
- Harith Ahamed:** Will it be possible to comment on umbralisib, the molecule which your associate company, Rhizen, has out-licensed to TG Therapeutics? If you could help us understand the timelines for commercialization and the status of development here, that would be helpful.
- Pranav Amin:** Harith, to be honest, we cannot really comment on that. Whatever is there is in TG Therapeutics' public disclosures. And I think they presented at JPMorgan, it is on the website and online. They have quite a bit of information. From what they put in the public is, they have started rolling submission for the NDA, and you can check it online. But apart from that, I have nothing much we can comment on.
- Harith Ahamed:** Just one additional question there. Is there an opportunity for Alembic in terms of supplying the API or the finished product for this one?
- Pranav Amin:** Yes, there is.
- Harith Ahamed:** Okay. And the second question, I just wanted a confirmation on the Rs. 65 Crores pre-op expense number that you mentioned which is getting capitalized. Does this include the interest costs that are related to these projects, the Rs.65 Crores?
- R.K. Baheti:** No, that does not include the interest costs. It is the part of plant operations and overheads.
- Harith Ahamed:** And whether the R&D that we are capitalizing at Aleor, is that included in the Rs. 65 Crores?
- R.K. Baheti:** No, R&D is separate and Aleor is a separate number.
- Harith Ahamed:** Okay. So, the Rs. 65 Crores is all above EBITDA, I mean eventually when it hits the P&L?

- Mitanshu Shah:** That is correct.
- Mitanshu Shah:** Aleor, we actually capitalized on first of October. So, there is no pre-op anymore now in there.
- Moderator:** Thank you. The next question is from the line of Ayush Mittal from MAPL Value Investing Fund. Please go ahead.
- Ayush Mittal:** Sir, I had got disconnected earlier, so I could not hear the response to my question around the commercialization of the current capex we are doing and how it will hit our interest and depreciation cost till we get the revenues.
- R.K. Baheti:** We had a long chat on this subject. I mean, a lot of subsequent guys also asked this question. You can refer to our transcript in a few days later, Ayush.
- Ayush Mittal:** Sure, sure. I will do that, and I will perhaps get in touch with you if I...
- R.K. Baheti:** If you have any question, you can always call Mitanshu. it will be in the interest of time for everyone.
- Moderator:** Thank you. The next question is from the line of Kunal Randeria from Antique Stock Broking. Please go ahead.
- Kunal Randeria:** Sir, in the domestic market, the corrective action that you have taken, is it across the portfolio because in the last couple of quarters, acute growth seems fairly healthy and in specialty it seems weak.
- R.K. Baheti:** These discounts are always a little on the higher side for the specialty segment and not so much for acute. So obviously, the adverse impact also is not so much on acute but more on specialty.
- Kunal Randeria:** Right. You have a fairly strong and aggressive launch trajectory for the U.S. So, is there enough capacity in the Panelav formulation plant?
- R.K. Baheti:** Yes, we are running to capacity. And of course, once Jarod becomes operational, once it gets approved by FDA, that would ease the pressure on our existing plant a bit.
- Kunal Randeria:** Right. And my last question, how many ANDAs are sort of depending on the Karkhadi API plant?
- Pranav Amin:** I would say about, if I am not mistaken, because we do have same products that we filed from both API facilities for a derisk, but I would say about 15, 20

ANDAs would have Karkhadi API. I do not have the exact figure, but I am just guessing.

Moderator: Thank you. The next question is from the line of Tarang Agarwal from Old Bridge Capital. Please go ahead.

Tarang Agrawal: Just one question on capacity utilization for your formulation facilities and API facilities.

Pranav Amin: So, the capacity utilization, I do not have a number per se, but it is pretty much, I think, we are at peak. At least APIs, we are at peak because aside we like to keep API ready for formulation to see the ups and downs. So, we must be at about 80% for both, I am assuming.

R.K. Baheti: Also, Pranav let me put it this way. We are almost to the full capacity as far as technical capacity is concerned, but capacities get changed because of the product mix, because of the processes and all of that. So, there is no absolute number for capacity, it is all relative terms.

Tarang Agrawal: Okay. The next question is, you have around 97 products approved, of which 71 are launched and 26 are yet to be launched. So, what is the schedule like? If you could throw some light on that.

Pranav Amin: So out of the 26 pending. Again, I am just going to give you a rough cut what I see. Out of the 26 pending, about 5 will be launched soon, it is just in the matter of getting ready for commercialization. So, 5 will be launched soon. About 10 to 12 would be not viable in terms of the market situation. It is not worth the effort to put it in the market right now because of competition and pricing. And another 5, 10 possibly we may launch, there may be a technical issue, there may be some supply issue, something like that. So that is roughly how it is.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.

Dheeresh Pathak: Okay. Just confirming on the Aleor. So, the depreciation for the quarter would have the full impact of the Aleor plant depreciation. Is that a fair understanding?

R.K. Baheti: Yes.

Dheeresh Pathak: Okay. But sequentially, there is not that much increase in the depreciation, it is just Rs. 6 Crores increase, annualized like Rs. 24 Crores. Is that all coming from Aleor?

- Mitanshu Shah:** Yes. other things are remaining same. Largest impact is of Aleor.
- Dheeresh Pathak:** Okay. But it is there for a full quarter, it is not like for a month or so, right? It is for the full quarter?
- Mitanshu Shah:** That is what I said, 1st October.
- Dheeresh Pathak:** Okay. Okay. And just understanding on this nine months Capex you mentioned was Rs. 551 Crores. Included in that, I would assume, I am talking about nine months numbers here, so you have mentioned Rs. 551 Crores, nine months, that includes the opex capitalization of Rs. 200 Crores, right? So, the balance, planned capex is only Rs. 351 Crores. Is that correct understanding?
- Mitanshu Shah:** That is true.
- Dheeresh Pathak:** And on top of this, there is an Aleor R&D capitalization of Rs. 155 Crores for nine months. So total capex on a consol basis would be Rs. 706 Crores for nine months?
- Mitanshu Shah:** That is true.
- Dheeresh Pathak:** Okay. And this Aleor thing, capitalization even on R&D and everything will stop going forward? For this quarter, it has stopped, right?
- Mitanshu Shah:** No. basically, we continue to invest in R&D. Till the time we put product to commercial use, it will continue to get capitalized actually. As soon as the product comes into a sales grid, then the amortization starts.
- R.K. Baheti:** This is for Aleor. As far as Alembic Pharma is concerned, everything is expensed out.
- Dheeresh Pathak:** Okay. No, I am saying even though Aleor plant is commercialized, further R&D on Aleor will still be capitalized till the respective ANDA is commercialized. Is that correct?
- R.K. Baheti:** Yes.
- Dheeresh Pathak:** Understood. Thank you.
- Moderator:** Thank you. The next question is from the line of A.N. Lodha from Dhanmati Consultants. Please go ahead.
- A.N. Lodha:** This is my follow-up question, Sir. There was a filing in the recent stock exchange that the company has been granted approval by USFDA for launch

of the Empagliflozin tablets of 10 mg and 25 mg which is equivalent to tablets manufactured by the Boehringer Ingelheim Pharmaceuticals and having the market size of USD 3.4 billion.

Pranav Amin: Yes.

R.K. Baheti: So, what is your question?

A.N. Lodha: Like, I just wanted to know that this is a very good market size of Boehringer. I mean, the tablet is very high, is it USD 3.4 billion?

A.N. Lodha: Just I wanted to know, when company is launching our product in the market, can we have a good share of business in U.S. market because of this?

Pranav Amin: I will explain to you. this is an innovator market size. And when it gets genericized, we will launch. There is still time to launch it because it is still under IP, if I am not mistaken, under intellectual property. So, it is a few years till the patent expires. And when we launch it, it depends on the competition who else is there. It could be an interesting opportunity. But really depends on how many others also launch.

A.N. Lodha: Yes. But I mean, I was just looking at the past filing of the company, but first time I have seen the market size is running in billion dollars of any drug. So just I wanted to just wanted a clarification, because the size of the market which we are filing we are getting the approval is much lower than the filing?

Pranav Amin: No, you are right. But the thing is you have to see some products are old products, which are already genericized, that is why the market share is low. This is not genericized, that is an innovator size, that is why it is a high market share.

R.K. Baheti: I think we are running out of time. If you can take the last 1 or 2 questions. I mean, anybody who is having follow-up questions can get in touch with Mitanshu or Ajay subsequently. We are just running out of time. Take 1 or 2 last questions.

Moderator: Thank you. We take the question from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: My question pertains to the acute segment. What are the inventory days currently?

R.K. Baheti: You are talking about domestic market?

- Charulata Gaidhani:** Domestic market.
- R.K. Baheti:** In domestic market, both our receivables and inventories are best-in-class. I do not have the number, but receivables should be about 26, 27 days. Inventories should be about 60 days.
- Charulata Gaidhani:** And I am talking about?
- R.K. Baheti:** All right. I am talking about total inventory balance sheet.
- Charulata Gaidhani:** No, I am talking of channel inventory.
- R.K. Baheti:** The channel inventory in the market?
- Charulata Gaidhani:** Yes.
- R.K. Baheti:** That would not be different between acute and specialty. While you said acute because that is -- generally that is typically the same. So that is about 45 days.
- Charulata Gaidhani:** Okay. Yes. And why is the specialty segment not growing?
- R.K. Baheti:** Our internal parameters did their growth but because the base year last year has few issues which we have corrected this year, the growth number does not look to be there. We should be back in growth starting next year.
- Charulata Gaidhani:** Okay. Right. And my question pertains to the 10 or 12 ANDA approvals that we have received, which do not seem viable. So, what is the policy for amortization?
- R.K. Baheti:** Because we have already expensed out, there is no question of amortization. We already expensed out. So, see, you are confusing 2 different statements. Aleor does only the amortization, Alembic Pharma expenses out right from the beginning, so there is nothing sitting on the balance sheet.
- Charulata Gaidhani:** Okay. Okay. Yes, fine. All the best.
- R.K. Baheti:** So, we can wrap this up, and we can take the subsequent questions offline.
- Moderator:** Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. R.K. Baheti for closing comments.
- R.K. Baheti:** Thank you very much for your interesting session, for your question, answers. I think it keeps us also on the toes. And it has been good quarter, with your



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blessings; we will continue to do better, hopefully. And look forward to be interacting with you again next quarter. Best of luck to all of you.

Moderator:

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