



“Alembic Pharmaceuticals Limited Q2 FY24 Earnings Conference Call”

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**MANAGEMENT: MR. PRANAV AMIN – MANAGING DIRECTOR
MR. SHAUNAK AMIN – MANAGING DIRECTOR
MR. R. K. BAHETI – DIRECTOR (FINANCE) & CFO
MR. MITANSHU SHAH – HEAD (FINANCE)
MR. AJAY KUMAR DESAI – SENIOR VP (FINANCE)**

Moderator: Ladies and gentlemen, good day and welcome to Q2 FY24 Earnings Conference Call of Alembic Pharmaceuticals Limited.

We have with us today Mr. Pranav Amin – Managing Director, Mr. Shaunak Amin – Managing Director, Mr. R. K. Baheti – Director-Finance & CFO, Mr. Mitanshu Shah – Head -Finance 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 the operator by pressing '*' then '0' on a 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, Mr. R. K. Baheti.

R. K. Baheti: Thanks. Good evening everyone. Thank you all for joining the second quarter results conference call. I'm sure you would have got the results by now.

Let me, however, briefly take you through the numbers for the Quarter Ended 30th of September 2023:

During the quarter, our revenue grew by 8% to Rs. 1,595 crores. EBITDA is Rs. 218 crores, which is 14% of sales and net profit is Rs. 137 crores.

During H1, the revenue grew by 13% to Rs. 3,081 crores. EBITDA is Rs. 428 crores, which is 14% of sales again, and grew by 27%. Net profit is Rs. 257 crores, grew by 47% before considering non-recurring items of corresponding period.

EBITDA and net profit are not exactly comparable with previous year corresponding period as Rs. 61 crores and Rs. 116 crores of cash expenses for Q1 and H1 respectively and Rs. 12 crores and Rs. 23 crores of depreciation has been expensed out in Q2 and H1

respectively for the new manufacturing units which were earlier being capitalized in previous corresponding period. So the current year profits both at the EBITDA level and at the net profit level are after charging off all the expenses of facilities F2, F3 and F4.

EPS for the quarter before non-recurring items is 6.95 per share versus with 7.09 for the previous year. And for H1, it is 13.08 per share versus 8.93 in the previous year.

Our gross borrowing at consolidated level is at Rs. 784 crores versus Rs. 693 crores on September 2022. The Company has Rs. 141 crores of cash in hand versus Rs. 65 crores on September 2022. Net debt equity stands at 0.14, almost same as compared to the previous year.

Our new development for this quarter has been solar plant installation. I'm happy to share with you that our 12 megawatt solar plant has been commissioned with effect from 4th of October 2023 and is operational at rated capacity. The effect of capitalization and energy savings will be reflected in Q3 onwards. The project has a healthy ROI of 18% to 20% with payback of less than 5 years at the current electricity rate in the state.

I would now request Shaunak to take you through India business. Shaunak.

Shaunak Amin: Yes, thank you Mr. Baheti. India business, we clocked in Rs. 577 crores, which is a growth of 5% in Q2 versus industry growth of 7% as per IMS, partly due to extended summer and muted demand in antibiotic and respiratory markets.

Despite its low growth, the specialty therapies in gynecology, antidiabetic, ophthalmology saw an impressive growth, which was 9% as per IMS.

In the antibiotic and respiratory segments, which were heavily degrowth for the Market for the quarter, we have a relatively better performance in terms of growth numbers, which is there in the investor presentation.

We had significant new launches in the last 12 months, and they continue to do well, and we have some strong new launches in the India Business lined up in H2 across our key product segments.

The animal health care business, which is a significant part of our portfolio, grew at 32% for the quarter. And a highlight for this is we added manpower with a new division in livestock with a 350-person headcount. And along with this, we expect growth to get accelerated in the coming quarters and years.

We will now move on to the international business.

Pranav Amin:

Thank you. The US business grew 6% year-on-year basis and 14% sequentially. As we mentioned, we are focused on launching new products in this year and improving efficiencies and execution in the mid term.

Importantly, the ex US formulation business, which grew by 17% as well as API business, which grew by 10% have been doing very well in the last couple of years. We're confident of good performance in both these verticals in the current year.

The R&D expense is Rs. 121 crores for the quarter, which is 8% of sales. We have been working at optimizing our R&D costs and improvements are on track.

We filed 2 ANDAs during the quarter and cumulative ANDA filings at 252.

We received 6 approvals in the quarter and cumulative we have 190 ANDA approvals including 25 tentative approvals.

We launched 3 products in the US during the quarter and plan to launch over 10 products during the second half of this year.

All our plants are in compliance mode and EIRs are in place.

The US Generics were at Rs. 444 crores for the quarter.

The ex-US generics grew 17% to Rs. 252 crores for the quarter, whereas the API business grew by 10% to Rs. 322 crores for the quarter.

Now, I would like to open the floor for question and answers.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Rashmi Shetty from Dolat Capital. Please go ahead.

Rashmi Shetty: Yes, so the first question is on other expenses. We have seen a sharp increase quarter-on-quarter. Is it this is because of expensing of the new facilities? And should we see this as a new base or it has got anything one-off included in it? Excluding R&D I am talking about?

R. K. Baheti: You are right. Actually it is not quarter –on-quarter, quarter one also we had charged off these expenses to P&L. This is more to do the comparison with the previous year's quarter where these expenses were not charged, as I said Rs. 60 crores of expenses come into this part of the quarter as other expenses and of course, salaries and all that. As far as the comparison between quarter-on-quarter is concerned, Q2 of financial year is always a high-spend quarter for the domestic business. So that way, it's not comparable. But you are right new facilities account for a little bit expensive.

Rashmi Shetty: So sir, this will be the new base. Now we should take it for the subsequent quarters.

R. K. Baheti: Again, with a little decline in sales promotion expenses in Q3 would be safe, but Q4 probably...

- Pranav Amin:** So if you see the new facilities, yes, this is the new base, because you have about Rs. 60 crores, Rs. 70 crores of cost for the new facilities, so this will be the new base.
- Rashmi Shetty:** Rs. 60 crores – Rs. 70 crores every quarter related to the new facility, right?
- Pranav Amin:** Additional that we're having, yes, absolutely.
- Rashmi Shetty:** And sir, what we see that, your US business has improved quarter-on-quarter, then we are also seeing that the non-US business is also better. In terms of India business, your acute therapies showed a lower growth, but your specialty and other therapies are doing well. And despite all this, we are also seeing a quarter-on-quarter dip in your gross margin. So any specific reason for it? Also, if you can call out related to the input cost, that is the cost for raw material, whether it is softening for you or stabilized.
- R. K. Baheti:** Actually speaking, there is no decline in gross margin. Gross margin has been consistent. It's slightly better than the previous year. And on a sequential basis and for the current year, very minor changes maybe because of product mix, otherwise gross margin is consistent.
- Rashmi Shetty:** So it is only related to the product mix when we see quarter-on-quarter, right?
- R. K. Baheti:** Yes.
- Rashmi Shetty:** Any ballpark guidance you would like to give on the gross margin as well as on the EBITDA margin front?
- R. K. Baheti:** We don't give guidance, but we have said in the past that GM 70%.
- Rashmi Shetty:** 70% you're talking about the gross margin?
- R. K. Baheti:** Couple of points.

- Rashmi Shetty:** And nothing on the EBITDA margin guidance?
- R. K. Baheti:** No, I mean, we are not giving guidance, but current number, we'll be happy to continue the current number for the time being.
- Rashmi Shetty:** Got it, sir. And sir last on the US business, if you can throw some light whether quarter-on-quarter growth is mainly because of new launches or you have seen some improvement in the base business, any stabilization in the price erosion if you can talk more on that part?
- Pranav Amin:** Yes, it's a good question. The US business we had a couple of launches from these facilities that came up. As you know, Alembic, we typically take some time to get market share, so it's there, so some of it is new launches. There is still erosion in the market. It depends molecule to molecule. Some people are a little more aggressive. As and when we see people coming to the market, there may be some, but by and large, it's a little lesser. As you know, the volumes and the demand for us is still quite strong. We're still getting a lot of volume. It's just not at the prices that we like, but the volume is still quite strong in some of the older products as well.
- Rashmi Shetty:** Okay, so we will be able to maintain this kind of run rate in the subsequent quarters also.
- Pranav Amin:** Let's wait and see how it goes, unless there's significant erosion if there's a new entrant and it really drop prices even further, we lose out. So yes, as of now, the status quo.
- Moderator:** Thank you. Our next question is from the line of Damayanti Kerai from HSBC. Please go ahead.
- Damayanti Kerai:** My question is on the US business. So Pranav, you mentioned new launches have definitely helped a quarter. But can you specify how has been pickup on the injectable launches side like how many launches done and what are your observations on market pickup for those

products so far? And the kind of erosion in injectable, is it very different from what we see in the oral products?

Pranav Amin: It's still early days for us. To be honest, from F3, which is a general injectable, we've just launched 2 products, one ophthalmic and one injectable. So it's early days for us. On the Onco side, we've launched a couple of products and the pickup has been pretty good. So we're pretty happy with it. It is both on injectables as well as OSD side. It's been pretty good. But for me to give a better answer, I would still require a couple of quarters because these are just very few products. I don't want to have an opinion just based on a few products. But so far, it's pretty good on the pickup that we're seeing and the demand.

Damayanti Kerai: And the level of price erosion, maybe it's early days, but is it better than what we generally see in the oral launch?

Pranav Amin: Yes, again, it's a small subset of products. On the injectables, we only got a couple of products, three or four products in the market. So it's still early to say around the particular products that we have, yes, the erosion is not there, or not as much as that we're seeing.

Damayanti Kerai: And very broadly say like 2 to 3 years from now, how would you see your US portfolio say between oral and non-oral products? Because I guess you're focusing more on a bit of differentiated launches to offset price erosion etc.

Pranav Amin: I think what will happen is your OSD part of it will always be there. So for me from being 100% OSD, I see how we've moved as a company, we've got a bunch of ophthalmics now, we've got a bunch of derm products, about 15-odd ophthalmic products, we've got 2 inhalation products and now we'll have the injectables also coming through. So the OSD bit will gradually start coming down.

Damayanti Kerai: And on a Derm portfolio, have you seen any improvement on pricing or is it still very challenging?

- Pranav Amin:** The Derm has been a good business for us in the first half of the year, predominantly due to some shortages in the market. So that business has been quite profitable for us for the first half of the year.
- Damayanti Kerai** But the pricing challenges continue there, right? So one estimate may have benefited from some demand etc.
- Pranav Amin:** Yes, we've seen some shortages in the market which benefited us for a couple of products.
- Damayanti Kerai** And my last question is on India bit. So second quarter obviously muted seasonal impact etc. But in coming quarters, how do you see growth picking up and what key drivers?
- Shaunak Amin:** Yes, on the India business, what gives us confidence of moving forward as you know, if you have a copy of the investor presentation, I have put in a slide specifically for the slowdown and if you see versus the slowdown, we've relatively performed better. So our net debt growth, I think is +3.5 -+4 versus market. That also plus on the back of a very high base last year, post COVID for azithromycin and a lot of liquid preparations. Going forward, we're extremely confident. We expect the market to stabilize coming into Q3, Q4. And we expect growth to return to a strong double digit growth. Having that said, if market throws no surprises in the future, we should be very comfortable. And if I look at it from a growth profile, from a portfolio point of view, once the acute piece comes back on track, we will see at least a high single digit to double digit growth across all products all therapeutic segments.
- Damayanti Kerai** So depends on your broader market trends, but you are comfortable with high single digit to double digit given that there are no...
- Shaunak Amin:** Yes, as you're aware, the acute, both antibiotic solid and liquid plus respiratory cough and cold are all at negative, -5, -7 for the quarter. Yes, it's very challenging to grow on that, but like I said, if we don't see any

base effect coming in, going forward, I think we're quite comfortable to deliver those kind of numbers consistently.

Moderator: Thank you. Next question is from the line of Chirag Dagli from DSP BlackRock. Please go ahead.

Chirag Dagli: Sir, you have about 129 products in the US. In how many of these do you think do you have market share, which is lower than where you ideally want it to be? And how soon can we expect that market share scale up?

Pranav Amin: It's not as simple as branded market, right? And the reason what we do is to pick market shares, really you have to go and drop prices and we won't be comfortable with dropping prices in most of these products. So the market share that we have is we take an opportunity based on the shortage we like to pick up market share because we can get it at a better price. So we are pretty happy with where we are. On the newer products, as I mentioned, I am not just now, I've always mentioned that we take a little time ramping up because we wait for good opportunities to get it. So on the last, the launches that we would have done in the last couple of quarters, 2-3 quarters, yes, I there may be some potential in some of these products to increase the market share. Otherwise, we're pretty happy with where we are. We do have a very good track record with supplies, so we actively get solicited a lot by the buyers to participate in some bids, but we only do so if the price is interesting. But on the volume side, we're pretty confident, so if we want to get more market share, we can. It's just we have to be happy with the price that we want to get around.

Chirag Dagli: Is it fair to say that between, so you've launched over the last 6 months maybe 10 odd products, is it safe to say between 12 and 15 products is where your market share is still ramping up, it's probably suboptimal than where we?

Pranav Amin: Yes, and some of especially with the new facilities, definitely it takes some time to ramp up and we want to be more confident of supplies,

because we don't want to get into a situation where we take on orders and we can't supply and have shortages and penalties. So we normally do that gradually as we get more confident.

Chirag Dagli: Understood. And generally, when you look at this entire portfolio of 129 products, how have you seen? I know price erosion is a difficult number, but in how many products would you have probably seen price increases and price declines, which are beyond the normal single-digit kind of erosion that you have?

Pranav Amin: It's very tough to answer it, you know, Chirag, because it really depends product to product. If someone comes in aggressively on a product, then yes, you will see double digit price erosion. At certain times, we give up the business, certain times we match up. So it's very tough to give an overview answer. There is still the erosion in the market. But as you've seen, it's kind of bottoming out. But yes, some people still go a little lower.

Chirag Dagli; Understood. And sir, how many pending ANDAs do we have at the moment?

Pranav Amin: About 62. 62 pending and this year we'll file about 15, over 15 products. Our filing rate also will reduce our R&D spend from 20-25 that we were doing will come down to about 15 or so.

Chirag Dagli: Understood. And sir, can you give some color around the quality of this pending ANDAs in terms of injectables, oncology, derma or else, just some color, qualitative color.

Pranav Amin: Our aim is to get a little more complex filings. This is going to take some time. As you know, we've got a little bit of a delay, but in the future we should see more complex filings on the injectable site.

Chirag Dagli: So my question was on the ones that you've already filed, the 62 and probably the 15 that you will file in 24. Just some color around.

- Pranav Amin:** Because out of the 62, you have some which are OSDs, some which are derm, some which are ophthalmic, and the balance are injectables. Injectable filings are about 15 odd products or so.
- Chirag Dagli:** Of the 62, 12-15 are injectables.
- Pranav Amin:** Roughly, something like that, yes.
- Chirag Dagli:** And derms, how many, sir?
- Pranav Amin :** Derm, I think, must be another 5 to 10.
- Chirag Dagli:** And sir just a last question, if I can. When do you really think the US business will see a material change in the numbers? We're still in this \$50 to \$60 million quarterly kind of run rate. But if you have to kind of think about this business longer term, when do you think this business really inflects from an absolute dollar million standpoint?
- Pranav Amin:** Its variable. Ideally, this should grow. As we get more products. Let's wait a couple of quarters to see how we do and how we do with the launches on the new products. And then we'll get an idea. we'll see gradually ramping up as we get more products and we shall launch in the market.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question of our question and answer session. As there are no further questions, I would now like to hand the conference over to Mr. R. K. Baheti for closing comments.
- R. K. Baheti:** Thanks. So, thank you once again to all participants. And if anybody has any followup questions, they can be in touch with Mitanshu or Ajay. I wish you all a very happy Diwali and a cheerful festive season. All the best. Thank you.
- Moderator:** Thank you. On behalf of Alembic Pharmaceuticals Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.