"Alembic Pharmaceuticals Limited Discussion on Company's Q1FY24 Unaudited Financial Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Alembic Pharmaceuticals Limited Discussion on Company's Q1FY24 Unaudited Financial Results Conference Call.

We have with us today, Mr. Pranav Amin - Managing Director, Mr. Shaunak 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 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. Good evening, everyone. Thank you all for joining the 1st Quarter Results Conference Call. I am sure you have gone through the Results by now.

Let me briefly take you through the financial numbers. During the quarter, our total revenue grew 18% to Rs. 1,486 crore. EBITDA is Rs. 210 crore, which is 14% of sales and grew by 67% before considering nonrecurring items in corresponding quarter. Net profit is Rs. 121 crores.

EPS for the quarter is 6.14 per share versus Rs. 1.84 per share before nonrecurring items of previous corresponding quarter.

Interestingly, this year 1st Quarter EBITDA and net profit are after charging all expenditure of new plants that is F2, F3 and F4. Till December 2022 or so, we were capitalizing them as CWIP.

The gross borrowings at consolidated level are Rs. 600 crores versus Rs. 630 crores in March 2023 and Company has about Rs. 90 crores cash on hand. In March 23, the number was Rs. 75 crores, the net debt equity is now at 0.11.

It will be interesting for all of us to hear from Shaunak and Pranav about their respective business performance. So I am handing it over to Shaunak for India branded business.

Shaunak Amin: From the India business, we grew at 9% to Rs. 524 crores for this quarter. For Q1 if I look at comparison with external numbers, industry grew by 9% as per IMS whereas our external growth journey is at 11%.

Our performance for specialty therapy showed growth of 12%.

For Acute, Industry reflected a growth of 10%, whereas we reflected a growth of 16%.

Anti-infective, Industry had 10% growth whereas Alembic recorded 19% growth.

In cough and cold, Alembic's growth is in line with market growth of 10% and our Animal Healthcare continues to outperform with 11% growth in Q1.

For the quarter, the business did see a bit of softness in the back end of the quarter, partly due to the extended summer months in large parts of the country and going forward hopefully once with the onset of first monsoon, we should see a significant pickup in momentum going forward.

I will pass it on to Pranav to talk on the International Business.

Pranav Amin: Thank you.

The US business grew 6% in rupee terms on a year-on-year basis. Our focus is on launching new products in this year and improving efficiencies and execution in the midterm.

Importantly the ex-US formulation as well as the API business have done very well and we are confident both these verticals performing in the coming quarters as well.

The R&D expense for us was Rs. 119 crores, which is approximately 8% of sales in the quarter. As I had mentioned in the past, we have been working and optimizing the R&D costs and the improvements are on track.

We filed 5 ANDAs during the quarter and cumulative ANDA filings stay at 250.

We received 5 approvals in the quarter and cumulatively have 184 ANDA approvals.

We launched 6 products in the quarter and plan to launch over 20 products during the rest of the year.

The US FDA had inspected our new oral solid dosage facility F4 in December. We have now received EIR for the facility and have two product approvals from this facility. With this, all our manufacturing facilities have the respective EIRs in place.

In terms of revenue, the US generics were flat at Rs. 390 crores whereas the ex-US generics grew 46% to Rs. 266 crores and the API business grew by 31% to Rs. 305 crores.

I would like to open the floor for question and answers. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Am Lodha from Sanmati. Please go ahead.

Am Lodha: I have got two questions, number one research and development expansion which has moderated in this current quarter, can you update sir, how much amount we expected to incur during the current year of FY24?

Pranav Amin: So in the past few calls, I have said that this year our target is to get somewhere around Rs. 500 crores of R&D and we will be around that number, maybe even lower.

Am Lodha: Then another one year, your US facility Aleor, any write-off in this quarter regarding that subsidiary or completely amount has been written off?

Pranav Amin: No, no more write-offs, everything is done.

Am Lodha: My last question, sir, why tax liability is so low? Profit before tax is Rs. 129 crore on consolidated basis and the current tax is only Rs. 4 crores?

R. K. Baheti: Two things, one is Aleor is no more subsidiary, it has got merged into Company. It is now a division of Alembic Pharmaceutical and if you recall that in March we did the impairment of assets which would be spread over 2 years, so that is how we get the tax benefit - what we call deductible expense and tax provision is low.

Am Lodha: So can you just give how much tax we expected to pay in 2024 and 25?

R. K. Baheti: Very difficult, that would depend on how much profits we make in future

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

Damayanti Kerai: My question is for Pranav, so Pranav some of your peers are talking about normalized price erosion in the US and then opportunities emerging due to shortage, etc., so how does Alembic stand here in terms of gaining from such opportunity? Or like what are your broader observations on the US pricing opportunity etc., from next few quarter's perspective?

Pranav Amin: For the last 6-7 years that we have been in the US market, we have always done well when there are shortages in the market and we have been able to capture those opportunities. So that fundamental still stays because inherently our strategy is focused on a very robust supply chain and having compliance at our facilities. So if there are shortages, we would like to take those opportunities. Having said that, the last 3 years, we have seen excess supply in the market and the buyer consolidation has really driven prices down. There is a little bit of improvement over the last quarter, I would say over the last 3 to 6 months. There is still price erosion in the market. It depends, molecule to molecule. There were certain segments in the generics which had little lesser erosion. We saw some disruptions in some injectables, some Derm and some Ophthalmic, which were interesting opportunities. Of course our injectable portfolio is still a little nascent, we just started launching it. So that is where we are seeing some opportunities. Let us see how it goes. But the erosion is still there and as I mentioned that we are geared up to do well whenever there are shortages in the market.

Damayanti Kerai: So specifically, do you think the injectables will be interesting from your perspective since you have new plant and you have just started supplies etc., and how much you can achieve, say in next 2 years or so from injectables?

Pranav Amin: We are not giving a guidance on the revenue, but injectable is an area that where there is a relatively lesser competition than the OSD's. Though there are some strong players, we continue to keep seeing disruptions in the injectable market. So hopefully it should throw up opportunities. Right now, our portfolio is still very small. We only launched 5 products from both the facilities so far. As we keep launching more products, as we have more breadth in our portfolio, that will help us and we will be able to capture more opportunities.

Damayanti Kerai: Can you remind us how many files you have done for injectables, like you said, 5 launches and in terms of filing, how many have been done so far?

Pranav Amin: From both these facilities for injectables about 15 to 25 filings is what we have done.

Damayanti Kerai: My last question is your other expense trend, so obviously the 1st Quarter number now reflects full impact of new plants etc., so should we work with this base or we can see further expansion in cost in line with like your topline growth etc.,?

R. K. Baheti: We don't expect further expansion in cost, the base is around these numbers.

Damayanti Kerai: So fourth quarter is base most likely going ahead.

R. K. Baheti: Yes.

Moderator: Thank you. The next question is from the line of Am Lodha from Sanmati. Please go ahead.

Am Lodha: Sir, I have observed from the results that the API business company is doing very well, there is good growth in API in this quarter also beside last quarter, so whether the company is planning in any expansion in API?

Pranav Amin: Thank you very much. API has been a focus area for us and over the last 12 quarters or so, the API business has seen a pretty decent growth. In the past, I have guided for about 10% to 15% growth in the API business and we will stand by that. This year, of course, the 1st Quarter was very good. It was very robust. Our strategy is still the same. We will focus on a robust supply chain with compliances in place and hopefully it will help our partners in the business and that is what again, we have done well over there and we will continue with the API business growth moving forward as well.

Am Lodha: Any expansion in API, sir company is planning?

Pranav Amin: We continue to keep doing expansions at our facilities and we keep adding more blocks and more facilities in the same plants.

Am Lodha: Sir, my second and last question, regarding 3 new plants which we have installed in the last 2 years, they have capitalized in the current quarter, sir? The commercialization of the 3 new plants has been capitalized I mean to say the depreciation interest on these 3 new plants has been debited to the profit and loss account?

Mitanshu Shah: Yes, we have capitalized it and from 1st April, we have depreciation for these three plants already booked in P&L for the current quarter.

Am Lodha: But the product approval has already been commenced by and the plant has been approved by US FDA?

Mitanshu Shah: Yes, we have launched, between these two plants 5 products are commercialized.

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

Bharat Celly: Sir, I just wanted to, Baheti sir, actually during the last quarter, you mentioned that large part of the costs which were associated with the new plant had already come in fourth quarter, so I was under the impression that all the costs was there in the fourth quarter and the 1st Quarter should have seen a flattish other expenses as well as employee expenses, so still we are seeing the increase, so can you elaborate what exactly has happened that if the cost was there completely during the fourth quarter or not?

R. K. Baheti: You are right to the extent that from 1st of January onwards, we have not capitalized, we have not done any further capitalization of cost. We have charged it to P&L, but as the plants are now getting approvals and products are getting launched, there is some revamping of manpower cost, utility costs and so on. So obviously those costs have gone up a bit and secondly, it also depends on the cycle of other expenses and all of that. So it is very difficult to do a quarter-on-quarter cost analysis, one item of cost comes into one quarter and the cost looks big on smaller base, but broadly now what we are saying is we are not further capitalizing any expenses, whether it is of old Derma division or other facilities, everything is getting charged up to P&L.

Bharat Celly: I am asking can we take it as a base for the future quarter, this cost side?

R. K. Baheti: I will say that broadly yes, some variation would always be there.

Bharat Celly: Actually, I just wanted to pick your mind on the US pricing environment, we have been hearing a lot that there have been a changing for pricing environment whereby the overall pricing environment could be very soft as compared to the last quarter, so just wanted to get a sense of how you are dealing the overall these line items, whether you are seeing that actually the prices have started coming down and have you seen any material change in the overall competition landscape whereby you are seeing couple of guys running their overall portfolio? Have you seen it yet?

Pranav Amin: No, actually I have not seen any material change in terms of anyone pruning the portfolio or any fundamental change in the market, so that scale rises. The only thing that happened last few months is that there was some regulatory action against some facilities, which has reduced some supply in the market and these companies which had the regulatory issues at high market share on certain products has caused the shortages, but we continue to keep seeing shortages in the US market as per the FDA shortage report, but there is still quite a bit of supply in the market. So while in terms of pricing, there is still erosion in the market and I don't see any change, is it less than what it was 6 months back, yes, maybe, but it is still there.

Bharat Celly: Is it possible for you to outline that how much was price erosion for Alembic during this quarter, from the quarter-on-quarter perspective?

Pranav Amin: It is very tough to say, no, because each product is different. Now in certain products you may have pricing erosion of up to 30%-40% and certain cases, it may be flat with no new entrants coming in. So if I give a figure and it is not going to be valid because you can't take it, you can't calculate it. It is a very product specific.

Bharat Celly: But earlier it used to be like double digit, has it come down to a high single digit, mid single digit, anything like that if you can top of that?

Pranav Amin: It is still double digits.

Moderator: Thank you. The next question is from the line of Resham Jain from DSP Asset Managers. Please go ahead.

Resham Jain: So I have three questions, first one is in the API business, what kind of growth you are looking for in this year and I think raw material prices have seen some correction plus energy costs have also some correction, so how do you see margin API in this year, overall if you can just help on how do you think API business for this year?

Pranav Amin: So the API business, as I have said in the past few calls, I expect this business to grow between 10% to 15% year-on-year and I think we are on track for that. In terms of margins, our margins have been pretty decent in the API business. We were not affected much due to the higher price of the raw materials that we saw, we were covered and we are pretty okay on that. While what is happening in the margins is, as the price of the raw materials comes down, so does the expectation of the finished product in the market as you have more competition. So in margins we maintain, our API business got decent margins, then we will continue maintaining those moving forward.

Resham Jain: And in the domestic business, as you mentioned, season has just started, there has been some delay, so how do you see the growth given that we have built a good sales force also over the last couple of years and there also if you can guide on the margins again, given we have seen inflationary situation in the previous few quarters which is again moderating, so?

Shaunak Amin: On the India piece, that delayed monsoon. It is one of those things that we have been seeing now for the last 5-6 years where it changes from year to year. It is just a matter of a delayed onset with kind of slows things down. So I don't think from any manpower angle we have any issues on the acute side, we haven't expanded manpower in the current year which has the impact of seasonality to it. It is still early, but usually we have seen that delayed onset usually leads for long season on the back end, so usually for the last 3 years, we have seen the Q3 has been significantly better in terms of seasonality compared to Q2. So I think maybe it is due to climate change and realigning trends. On the margin side, we haven't seen any pressures on the margins. At the moment and we just continue to see the same levels of margins going forward.

Resham Jain: And the last one is on overall capital allocation for this year, given that we have limited CAPEX, so how do you see the cash flow being redeployed?

R. K. Baheti: We have said that our major projects are over. We are building a new facility for the domestic business at Pithampur, Indore and that will consume some cash. In the 1st Quarter, we also completed one pending line at F3, the injectable plant that is done and capitalized. Going forward, capital should be largely maintenance CAPEX, so this year our total CAPEX including the 1st Quarter could be in the range of Rs. 300-350 crore or so and going forward probably even lower.

Resham Jain: Sir, my question was how are you thinking about cash redeployment? Are you going to increase the payouts? Are you going to, what are you thinking from the incremental cash inflation perspective?

R. K. Baheti: As of now, we have borrowing of about Rs. 550-Rs. 600 crores on books, that gets repaid out of the cash flow which we generate and thereafter we will look for more opportunities.

Moderator: Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Sir, given the kind of shortages that are happening on the injectable side, certain plants having had weather issues, so would you like to throw some light in terms of what could be the benefit for us on a FY24 basis from this current quarter sales of $48 million?

Pranav Amin: It is tough to say on the shortages, how it will impact us and which products. As I said, generally, our strategy has been that if there are shortages, we are in a good position to take it, but we have seen lot of shortages in injectables, but as of now, as I said, it is still an early portfolio for us. It is in a nascent stage. We have launched only 5 products. As we launch more products, we will be able to participate in those markets as we go along. So it is tough to say how we are going to move from here onwards. What we are hoping for is this year we will launch a total of about 20 plus products and hopefully that will start picking up and as we move along, we will see more growth coming in the following quarters.

Tushar Manudhane: Any clarity as in this 10% to 15% growth also is still very much possible, right at least?

Pranav Amin: We have not given growth guidance, we don't give a growth guidance.

Tushar Manudhane: And on the animal health business, now that it has become a reasonable size, so if you could just throw some more light in terms of what this strategy would be to further expand this business?

Shaunak Amin: On the animal health side, we have seen this tremendous run rate. In the current year, we have expanded about 200 people in the animal health business and we created a separate vertical to focus more on feed products in the large cattle space. We continue to see very strong traction and we have some good launches lined up in the nonantibiotic feed space as well as in terms of probiotics and in some mainline veterinary products. So we are very bullish on this space and we continue to look at growing it organically with the same momentum and hopefully pick up some upside on business.

Moderator: Thank you. The next question is from the line of Rashmi Shetty from Dolat Capital. Please go ahead.

Rashmi Shetty: One question on depreciation, we are seeing quarter-on-quarter debt while you are saying that we have started capitalizing all the plant expenses, so just want to know the reason why there is a debt and why that is equal to your earlier quarter amount of depreciation, when there used to be capitalization?

Mitanshu Shah Rashmi, that is largely on account of the Aleor depreciation effect that we had in the previous quarter, which does not continue in this quarter. last quarter Q4 where we had Aleor amortization.

Rashmi Shetty: So this will be the right base to take it for the full year, right?

Mitanshu Shah Yes.

Rashmi Shetty: And your other income seems to be pretty high, quarter-on-quarter as well as year-on-year also if you see, does that include any Forex income or anything if you want to explain about it?

R. K. Baheti: Yes, you got it right. Actually, for us it is an operational income only, but accounting standard classified as other income, this is Forex income.

Rashmi Shetty: And any ballpark number can you give on the tax rate because it is very low this quarter, for the full year where you have target 17% to 18%, should we model in the same number as of now or you see that it should be lower than the number which you had guided?

R. K. Baheti: In this year, actually, tax rates are likely to be lower because of impairment expenses, we are going to claim this as deductible expense.

Rashmi Shetty: Any ballpark number which you can guide on that to?

R. K. Baheti: It would depend on the total profit and minus the impairment, so it is like giving guidance on the profit and can't be give at this moment.

Rashmi Shetty: And on FY25, the tax rate would clock back again between 17% and 18% right?

R. K. Baheti: Sorry, going forward?

Rashmi Shetty: Yes, going forward.

R. K. Baheti: That we will be back to MAT.

Rashmi Shetty: And with the current operational expenses, our EBITDA margin is now in the range of 13% to 14% in the next few quarters, will it be sustainable or we do have scope for expansion from the current level?

R. K. Baheti: if sale grows because the fixed overheads are likely to stay at current levels, so if the sales grows, which we hope that the margin should expand.

Moderator: Thank you. The next question is from the line of Sandeep Raj from Oculus Capital. Please go ahead.

Sandeep Raj: I had questions specifically on the injectables, when can we expect a revenue generation from the injectables?

Pranav Amin: Started already. As I said earlier in the call, we have got launched about 5 products which are from the injectable facilities, 4 from the onco and one from the general injectable. So revenue has started and as we launch more products, it will gradually ramp up as well.

Sandeep Raj: May I ask, how much was the revenue for quarter 1?

Pranav Amin: We haven't given that. We have disclosed the breakup, but we don't disclose the facility wise.

Sandeep Raj: And regarding the pricing scenario, specifically for injectables, how is that going?

Pranav Amin: It is tough for me to comment because it is still a little early for us. It is as I mentioned just the 1st Quarter that we started launching products and 4-5 products is not large enough set to give an analysis. I think hopefully by the end of the year, we will be able to give you a better perspective on the injectables as well.

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

Bharat Celly: Sir, just wanted to get a sense on gross margins, we have seen a sharp expansion sequentially, so if you can help with what led to that?

R. K. Baheti: So gross margin is a factor of product mix. In our case actually we have been maintaining this gross margin, more or less over the last few quarters. The margin dependence is more on overheads, so because of increase in overheads, the margins have gone down, but otherwise gross margins are at around 70% plus minus couple of points.

Bharat Celly: Have you seen any softening of raw material prices, which would have helped us during this quarter?

R. K. Baheti: Not really. I think for the raw material cost for us has been fairly steady.

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

Jainil Shah: My question is on the US business, we have been launching new products from our new facilities, so when do we see this business becoming profitable? Any meaningful launches that you would like to call out?

Pranav Amin: So this business has always been profitable for us and we don't really disclose vertical wise profitability, but as we go along, hopefully we will have more launches. As I said, we are going to launch 20 plus products this year in the US. So that will help build up. The other thing is we have seen a reduction in R&D spend, which used to be almost Rs. 600

crores, it will come down approx Rs. 500 crores this year. So that will also help the margins.

Jainil Shah: And what is our margin aspiration 2-3 years down the line? Where do we see that hitting?

R. K. Baheti: No, actually it is again, it would amount to giving guidance which currently we are not because we still need to test the newer facilities, newer products in the market, but aspirational margin without really linking it with our current performance would be back to 18%-20%.

Jainil Shah: And is it fair to assume that 1Q margin would be bottom and we could see improvement going forward?

R. K. Baheti: I already responded to this question that the overheads largely remain fixed as the sales growth of the margins would get better.

Moderator: Thank you. The next question is from the line of Nitin Gandhi from Inoquest Advisors. Please go ahead.

Nitin Gandhi: What is the asset turnover plan for the injectable facility?

Mitanshu Shah Too early to say, at this point in time

Nitin Gandhi: No, when you designed the plant what was in your mindset, I am not asking what is current expectation?

Mitanshu Shah Very difficult to put a number in current US business environment because product could generate or give you like $100 a bottle and same product could get you $3, so it is very difficult.

Nitin Gandhi: What is the amount capitalized for injectable facility?

Mitanshu Shah: For all the three plants put together, it was around Rs. 2,000 crores of which pre-op was around Rs. 1,100 crores which got impaired last year.

Moderator: Thank you. The next question is from the line of Rashmi Shetty from Dolat Capital. Please go ahead.

Rashmi Shetty: Just one follow up question on the US business, like you said that the price erosion has been in double digit on an average, can you just specify when this happens where do we stand? Is it higher than the average price erosion for your portfolio or the price erosion has slowed down in that?

Pranav Amin: As I mentioned, it is very tough to say product specific how the erosion works. Every time we have a new entrant, you have someone trying to take a market share. So, it is very tough to have basis and to extrapolate that data. So this is generally what we are seeing across the portfolio. It is a double digit erosion and it is very tough to single out a Sartan or particular Sartan. In certain cases, there may be a new entrant who is trying to get more aggressive and in certain cases, there are not, so it is very tough to give a general answer to this.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to Mr. R. K. Baheti for his closing comments. Thank you and over to you.

R. K. Baheti: Thank you very much, everybody once again and wish you all the best. We will see you all in next quarter call. Thank you.

Moderator: Thank you. On behalf of Alembic Pharmaceuticals Limited, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.