



# “Q3 FY24 Earnings Conference Call of Alembic Pharmaceuticals Limited”

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**MANAGEMENT: MR. PRANAV 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 Q3FY24 Earnings Conference Call of Alembic Pharmaceuticals Limited.

We have with us today Mr. Pranav 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 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. Good afternoon. I thank everyone to join our 3rd Quarter Results Call.

Straight away, I will go to “Financials”:

During the quarter, our total revenue for the Company grew by 8% to Rs. 1,631 crores. EBITDA also moved up and is Rs. 269 crores, which is 16.5% of sales and net profit grew by 48% to Rs. 180 crores.

During the 9 months period cumulative up to December 2023, our revenue grew by 11% to Rs. 4,712 crores. EBITDA is Rs. 697 crores which is 15% of sales and grew by 22%. Net profit is Rs. 438 crores, it grew by 42% versus Y-o-Y. Before considering non-recurring items of corresponding period.

EBITDA and net profits are not exactly comparable with the previous year corresponding number as almost Rs. 64 crores and Rs. 180 crores of cash expenses and Rs. 14 and Rs. 37 crores of depreciation has been expensed out in Q3 and 9 months respectively for new manufacturing facilities which you are aware, were earlier capitalized. So from 1st of January 2023 onwards, we have started charging off all expenses to P&L.

Our gross margin stayed at around healthy 70%.

EPS for the quarter before non-recurring items is 9.18 per share versus 6.76 in the corresponding period last year.

“Cash Flow and Borrowings”:

The Company generated a healthy cash flow of Rs. 652 crores over 9 months period December 2023. After meeting its CAPEX as well as working capital requirement, net cash inflow was Rs. 309 crores, which was used in paying dividend and repayment of borrowings.

The gross borrowing is reduced to Rs. 575 crores, as compared to Rs. 686 crores on December 22. The Company has about Rs. 156 crores of cash in hand versus Rs. 146 crores last year same period.

I will now hand over the call to Pranav for discussing both “India Business and the International Generics”.

**Pranav Amin:** Thank you, Mr. Baheti.

Despite the muted demand in the antibiotics and respiratory market, the India business grew by 9% to Rs. 596 crores.

Specialty therapies performed better than the market. Gynaecology, gastro, antidiabetic and ophthalmology therapies outpaced the market growth.

We performed relatively better than the market in antibiotic and respiratory segments on a higher base in the previous year Q3.

New launches continue to do well with promising future launches across key segments.

Animal Health had a fantastic quarter and this is business that's been doing very well for us. It grew by 32% during the quarter.

Coming to the "International Business":

We had a very satisfactory quarter with exceptional growth in the ex-US generics. The US business also grew 9% on the back of 11 launches. The US business is looking better right now with new facilities already commercialized. As they ramp up, we will get a lot of operating leverage and cost improvements are also on track.

There is no further large CAPEX needed for the international business and we will have only maintenance CAPEX as well as some API expansion, including in therapies such as GLP-1 and debottlenecking.

The API business has been very strong for us over the last couple of years. The de-growth this quarter was due to lower offtake from a few select customers since it's getting lumpy. I expect another quarter or two maybe weaker, and then we should be back to our regular growth rate that we demonstrated in the past.

R&D expense was at 7% of sales at Rs. 114 crores for the quarter. As we have been saying in the calls in the last couple of years,

our goal was to bring this down and we are constantly optimizing this and improvements are on track.

We filed 5 ANDAs during the quarter and cumulatively end up filings at 257.

We also received seven approvals and launched 11 products.

We should launch about 5 products in the next quarter as well.

The U.S. generics business grew 9% to Rs. 474 crores for the quarter.

The ex-US grew by 32% to Rs. 272 crores, and the API business degrew by 11% to Rs. 289 crores.

With that, 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:** One question on the other expenses, excluding the R&D, the other expenses were pretty low and my assumption is that last time you all said that Rs. 60 crores to Rs. 70 crores we are already expanding new facility costs. So is there any one off included in this or it is basically because of the cost improvement program and what are those cost improvement programs and whether this number will be sustainable or not in the future?

**R. K. Baheti:** I didn't understand your exact numbers but what we have said is R&D we will keep it at around Rs. 500 crores for the year and we are on track. We have already started charging off all the expenses from new facilities which were earlier being capitalized

and numbers are in line, they are the numbers which somebody can take as a base.

**Rashmi Shetty:** And in your US business, what kind of price erosion we are seeing? Whether, we have already done 20 launches in nine months and I think that was the guidance. Any more launches are we expecting in quarter four?

**Pranav Amin:** Yes, 2-3 things. One, it's tough to say on the price erosion in the market because it's a factor of multiple products. Generally, it is little lower than what we had last year, but it still exists. It's product to product. It can range anywhere between 5% to 30% depending on the incumbent who comes into the market. But it's little better. So we don't comment on, it's very tough to give a number for the price erosion. As regards new launches, yes, we will continue doing it. And then my opening statement, I said that we will launch about at least 5 products in the fourth quarter.

**Rashmi Shetty:** Sir how many products? Sorry, I did not take it.

**Pranav Amin:** At least 5.

**Rashmi Shetty:** And what is the guidance for FY25 for the launches?

**Pranav Amin:** We haven't given guidance, but I expect at least 10 to 15 launches.

**Rashmi Shetty:** And last question is on tax rate, what should we take it for this year because 9 months because of the deferred tax, the tax rate has come down. So if you can give that and what should we take it for next two years?

**R. K. Baheti:** Tax is a computed number on profit for the purpose of taxation. We'll get some coverage on impairment losses etc. And that's how the tax rate is looked.

**Rashmi Shetty:** Sir, any number would you like to share for FY25? Is it that we should take 17%-18% in FY25?

**R. K. Baheti:** Yes, that's right.

**Rashmi Shetty:** The normalized tax, right?

**R. K. Baheti:** Correct.

**Moderator:** Thank you. The next question is from the line of Damayanti Kerai from HSBC Securities and Capital Markets India Private Limited. Please go ahead.

**Damayanti Kerai:** My question is again on R&D. So looking at nine months number, you are very much in line with your earlier guidance of Rs. 500 crores or below. So how should we look at your R&D approach ahead? Because obviously you are optimizing R&D costs, but how will you build up pipelines for US? And you can also talk about the kind of products where you are spending the majority of your R&D focus as of now?

**Pranav Amin:** Yes, if you see our broad R&D spend; we don't give a segment-wise break-up, but I can give a flavor of where we are and where we intend to be. About 5-7 years back it was only OSD. As we went on, today, if you look at it, we have OSD, the APIs at the chemistry bit, we have injectables, Derm, we have Ophthalmic, these are the broad areas that we are spending on. What's happened is OSD as a percentage of the total mix has come down, Derm has come down because Derm, the portfolio that we wished to do, we've done a bulk of that portfolio, so Derm has

come down quite a bit. Those are the two areas where we've seen a reduction, where we've seen either flat or gentle increases on the chemistry side and the injectables as we build up a more portfolio of injectables. And injectables will continue growing moving forward, injectables and Ophthalmic.

**Damayanti Kerai:** So OSD, Derm, as you said, has come down in a way that you're giving or optimizing costs here and spending more on newer growth areas like injectables. So as of now, can you just give us some indication, say, out of 100, how much is Derm plus OSD as a part of your pipeline and how much is the newer?

**Pranav Amin:** As I said, we don't give this breakup because it keeps changing and it gets lumpy also, so we don't give this breakup of segment wise R&D spend.

**Damayanti Kerai:** And Pranav, did you mention in your opening remarks that you are focusing on or you are working on GLP-1 drug also? If yes, can you comment a bit more about it?

**Pranav Amin:** Yes that's an interesting area that is there. The P-4, the launches are still a little away but these are interesting APIs and formulations. We have got peptide capability as well. Hence we're looking at entering the segment, we started it so we can get some of the filings done and we'll see how it goes.

**Damayanti Kerai:** Filings you haven't started like it's in development right now, but you are targeting most of the opportunities. And my second question is on your utilization on the newer plants, so in your press release saying like you will be seeing better pickup or better supplies from the new plants in coming quarter. So, like how much you have covered the space so far in terms of utilization for new plant?



**Pranav Amin:** Utilization still, again, you have to peel through the layers to see the utilization. In certain areas, we are doing pretty okay and bulk of them we are still quite low and we'll pick up as we go along. The way I anticipated is Ophthalmic, we should be near practical capacity utilization in another 6 months, our Vial line should be okay in another 6 months. On the Oncology injectable side, we're seeing good pickup. And the two areas where we will have some capacity and it will take a little longer, but that's okay, that's just the nature of the business because these are late expiring products is on the OSD side of the oncology and on the PFS side of the injectables.

**Damayanti Kerai:** Sorry, which part of injectables? I didn't get you.

**Pranav Amin:** On the PFS, pre-filled as a capacity utilization. There are some products which will more than take care of the cost if we get those launches, but I am talking about on the capacity utilization.

**Damayanti Kerai:** And for next year, you said 10 to 15 launches in the US, so I assume with these kind of launches, like 25 this year, if you do like another 5 in fourth quarter, and then in 25, you're targeting 10 to 15. So that should be reasonably picking up your plant utilizations, right?

**Pranav Amin:** Yes, absolutely. What's happened with launches this year is we gradually get market share. And with the new launches that come next year, we'll help. Apart from this, we also have some CMO opportunities we're pursuing for some of the lines. So those have also helped with the plant utilization.

**Moderator:** Thank you. The next question is from the line of Anushka Vora from Vimana Capital. Please go ahead.

**Anushka Vora:** I had a couple of questions, I've just recently started tracking the Company and I had a couple of questions. The first one was amongst all your geographies, will the ex-US be a major growth area going forward?

**Pranav Amin:** The ex US, we have a little different strategy. And if you see the last few years, I see CAGR is about 15%. We've been growing pretty well in these territories. The large territories that we participate in, and we participate through partners is Europe, Canada, Australia, Brazil, South Africa. These are the big ones that we do. And we've done pretty well in that. And that we'll continue growing as a territory.

**Anushka Vora:** And my second question is around the API business. So how is that API business performing from the realization and a margin point of view? And how do we see this realization going ahead? Is this majorly going to be volume driven?

**Pranav Amin:** The API business has been a pretty good business for us. In the last 4-5 years, if you look at the CAGR, it must be about 11% to 15%. So slowly and steadily going, we have a very good quality of API business. By that what I mean is we have a good bunch of customers all over the world and we have done pretty well. I anticipate moving forward this business will also continue growing. A quarter or two maybe a little lower, a little slower because we have some big business which are little lumpy, which comes once every 3, 4, 5 quarters and that's what causes a big bump. So a quarter or two maybe a little lower and start increasing it again. API business is a good margin business for us. It's a decent EBITDA, decent margin for us.

**Moderator:** Thank you. The next question is from the line of Chirag Dagli from DSP Mutual Funds. Please go ahead.

**Chirag Dagli:** Just, you know, you've launched about 11 products in the 3rd Quarter. Overall, over the last 2 years, you probably have about 30 odd products launches and typically you've said that you gradually build up market share. In how many of these that you've recently launched is your market share still suboptimal where you think you can go up?

**Pranav Amin:** it's not always a question about market share, it is a question of what price you get in the market. Just pure market share doesn't make sense. You don't want to burn up your capacities only to sell at cents. So it really depends. If we don't have a target market share that we get into, we want to see where we can make the most money. Yes, there are some products that are a little lower than the market. But I do know as time goes by, we may get opportunities in them. But you are right, we do go a little slower. I don't have a set figure for you. But Yes, we could do better in some products. It depends on what price and all.

**Chirag Dagli:** And this \$57 million a quarter kind of a number that we've done. Is this like absolute base Pranav or is there still anything which you fear can be lost in terms of pricing etc?

**Pranav Amin:** This is the new base. See there's no sartans, there's no huge chunks of that in the business anymore. Few small one-time opportunities which you get every quarter so that continues. So it is the base and if it's going to even moving forward, I anticipate this would be the new base or like 54, 55 could be the new base. But I can't predict that because it really depends on the next guy, some new incumbent comes and will break this, actually drop the prices even further, then we may walk out of the business. As of now, this is the base, it seems.

**Chirag Dagli:** And just from an environment standpoint, any new thoughts that you have for the US market in terms of what's changing, whether we are better placed or do you still continue to think that?

**Pranav Amin:** Good question, Chirag. the US market is looking a little better compared to where we were, two years back, a year and a half back. It is looking a little better. There is still, being a good supply partner still being valued in spite of the price erosion that you see. And it's just that we have all the items in place, all the things in place, be it the front end, which looks for opportunities, the back end which can respond to the opportunities. So it's looking little better. Having said that, the returns are down compared to what they were 3-4 years back, hence a lower R&D spend on the US side.

**Chirag Dagli:** Understood. Have we got any long term contracts?

**Pranav Amin:** In the US generics?

**Chirag Dagli:** Yes.

**Pranav Amin:** No, we haven't gotten into any of that because we're looking at it to see if it makes sense. While principally a long term contract would make sense, but I think one must read the fine print and we're evaluating those if it makes sense for us.

**Chirag Dagli:** But competitors are getting long term contracts, you are still evaluating. Is the way to think about it?

**Pranav Amin:** We have evaluated it. I don't like some of the fine print, hence I haven't jumped into it.

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

**Tushar Manudhane:** So just on the US business again like at this base business of \$57 million, so would we be profitable or like at a breakeven?

**Pranav Amin:** Yes the US business is profitable.

**Tushar Manudhane:** Domestic being a legacy business, I'm assuming it would be in the range of 25% EBITDA margin, overall.

**Pranav Amin:** We don't give a breakup of EBITDA margins. I don't think we've ever given it.

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

**Bharat Celly:** Just wanted to understand on US generics. So, have we seen any growth in the US volume business?

**Pranav Amin:** On the volume business side, yes, we are seeing an increase in the volumes of the business that is there. On a nine-month basis, we definitely have compared to last year.

**Bharat Celly:** And since you mentioned that you are still not clear on taking a new contract, so what is the particular reason for that? Is it surprising part or is it holding you back?

**Pranav Amin:** Let me just backstep a little bit. And this is a question that Chirag asked earlier. What is happening is that some of the buyers are trying to get into a long-term contract. Right now, in terms of long-term contract, a lot of them have approached us. We are still evaluating, we are still negotiating with them because one has to read the print, right? As a Company, we have to see in the long

run what is beneficial for us and where the liabilities could be and that is why we're just waiting and watching. We don't want to jump into it as yet.

**Bharat Celly:** And sir, when we talk about US market, how do you see from the new launching perspective, when you launch a new product, what sort of price erosion you see? When the price erosion for the incremental new products is very high, how do you see it?

**Pranav Amin:** Price erosion is tough to say. It depends product to product. So an incumbent may come and we've seen one product recently where we were there, the market was settled and new person came and it dropped at about 40%-50%. So you can see that kind of erosion also. But generally, it depends on who the competitors are, what the volumes are, what the shares are. It's very tough to comment on that.

**Bharat Celly:** So I am asking ex of our R&D expenses, our other expenses has actually gone down by Rs. 20 crores sequentially. So is it because of some cost control measures or there is something else which is leading to this and how should we see it going forward?

**R. K. Baheti:** No, I don't think so. Everything is normal in business. I don't think there is any particular reason for any impact. Maybe in pharma Q2, there's some higher promo expense than Q3. Probably that's the only difference.

**Pranav Amin:** Mr. Baheti, the other thing is, there's a little bit of saving on the RM and the sourcing side. I think that may be reflected.

**R. K. Baheti:** No, that's not part of other expense, Pranav.

**Moderator:** Thank you. The next question is from the line of Vishesh who is an individual investor. Please go ahead.

**Vishesh:** I've got two questions here. First, could you please quantify the overall revenue from your new facilities in the whole for, let's say, Q3 of financial year 24?

**R. K. Baheti:** No, we don't give product wise details, some of the facility wise details. That's very difficult to provide.

**Vishesh:** And sir when can we see a good operation taking place regarding the new facilities, like operating leverage?

**Pranav Amin:** When do we expect to see operating leverage in the new facilities?

**Vishesh:** Yes. When can you see?

**Pranav Amin:** I think someone earlier asked a question about capacity utilization in the new facilities. Now the new facilities are all operational. The capacity utilization right now is pretty low and what I meant by operating leverage is as we go along, and as we have more product coming out, we have more opportunities and that will raise the operating leverage and costs will come down, your unabsorbed overheads will come down. That will help operating leverage, which will ultimately reflect in the margins of the Company as well.

**Moderator:** Thank you. The next question is from the line of Rishabh Dugal from Fino Wealth Financial. Please go ahead.

**Rishabh Dugal:** I have just one question. My question is, will the US business, will it be naturally driven by better product mix or what will it be?

**Pranav Amin:** The US business, what will happen is, as you get the number, as you have broader portfolios, you have more products getting into the market, that is right. One of the reasons why we made these

investments into new capabilities, such as injectable, peptides, oncology, is incremental competition there is much lesser on the OSD side. And also on this, as you go towards more complex products, you will hopefully see lesser price erosion and bigger product opportunities. That's the way we approach in the US market.

**Moderator:** Thank you. 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. As you all know, it's a pleasure to interact with all of you and we will continue looking so quarter after quarter. Thank you very much for joining again and see you next quarter. Thank you.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of Alembic Pharmaceuticals Limited, we conclude this conference. Thank you for joining us. You may now disconnect your lines.