



“Alembic Pharmaceuticals Limited
Q2 & H1 FY2021 Earnings Conference Call”

October 22, 2020



MANAGEMENT:

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 & H1 FY2021 Earnings Conference Call of Alembic Pharmaceuticals Limited. We have with us today on the call Mr. Pranav Amin, Managing Director; Mr. Shaunak Amin, Managing Director; Mr. R.K. Baheti, Director, Finance, and CFO; Mr. Mitanshu Shah, Head of Finance; Mr. Jesal Shah, Head of 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. R.K. Baheti, Director (Finance) and CFO. Thank you and over to you Sir!

R.K. Baheti: Thank you. Good evening everyone. Thanks for joining our second quarter results conference call. As a change, this time we had a Board meeting in the afternoon, but I am sure you would have got the results by now. I will briefly take you through the numbers for quarter ended September 30, 2020.

During the quarter our total revenue grew by 17% to Rs.1457 Crores, EBITDA grew by 33% to Rs.455 Crores which is 31% of our sales. Profit Before Tax went up by 36% to Rs.406 Crores while Profit After Tax went up by 35% to Rs.333 Crores.

The EPS for the quarter is Rs.17.24 per share, this is on expanded capital on weighted average basis, in the previous

corresponding quarter that is September 2019 EPS was Rs.13.06 that was on the old capital.

During the H1, our total revenue grew by 28% to Rs.2798 Crores, EBITDA grew by 61% to Rs.871 Crores. EBITDA is 31% of our sales for H1, Profit Before Tax went up by 69% to Rs.775 Crores while Profit After Tax went up by 72% to Rs.635 Crores.

EPS for H1 similarly on expanded capital on weighted average basis is 33.25 per share versus 19.63 per share on old capital in corresponding H1 of the previous year.

Capex for the quarter is Rs.168 Crores, H1 is Rs.311 Crores. Cumulative capex for ongoing projects, which are still under CWIP including the pre-operatives, is Rs.1825 Crores.

Financial assistance to Aleor JV for the quarter is Rs.40 Crores, H1 is Rs.65 Crores and cumulative financial assistance to Aleor JV, our total investments in Aleor JV is Rs.742 Crores.

During the quarter we made a very successful QIP issue of almost \$100 million, Rs.750 Crores.

We heartily welcome our new investors!

The funds have been used partially for repayment of debt and will be further used for future growth opportunities.

The gross borrowing at consolidated level is Rs.600 Crores versus Rs.1439 Crores in June 2020. Company has about

Rs.273 Crores of cash in hand. Net debt equity is very low at 0.07.

I will now hand over the discussion to Shaunak for his presentation on the domestic branded business. Over to you Shaunak!

Shaunak Amin: Yes. Good evening everybody. It has been a challenging year in the Indian market this year. Despite all the challenges we could clock in about 6% growth in Q2 and we closed the quarter at Rs.415 Crores of sales. For H1 we have closed at Rs.721 Crores of sales with a flat curve.

Despite all these challenges, for the month of August we have started seeing a strong traction in our sales and in September we witnessed a double digit growth so that just gives you a little bit of trend of the business.

Overall we have been able to perform better than RPM in all key specialty segments especially Oral antibiotics, Cardiology, Gynecology, Gastroenterology, Antidiabetic, Nephrology, Urology. What is more encouraging and endearing for us is the portfolio of the key focus brands within each of these segments are the ones which have been driving this growth. As you know this is what we have been working towards and it is extremely encouraging for us in these very challenging times.

The outperformer for the quarter was by far Azithromycin Oral Solid. We saw significant growth numbers along with a strong market share gain for Azithral Oral Solid. We did lot of



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groundwork in Q1 in anticipation of what we expected for Q2 and make this happen. We see this trend continuing for the next two quarters at least and our aim is to continue with these acute robust growth numbers for Azithral and further consolidate our market shares in Q3 and Q4.

Another area where we see significant improvement was the area of Gastroenterology and Gynecology. These two segments were lagging in growth over the last few quarters. We see this trend of improvement continuing based on the operational and strategic corrections we have taken in 2019-2020. We see strong improvement in this quarter and we expect this improvement to continue.

Our Cardiology, Antibiotic, Uro portfolios grew a little bit better than the markets; however, we still see significant opportunities to achieve growth rates beyond the market numbers based on our portfolio and the amount of efforts and resources we are allocating into these segments.

The only area which is still a concern for us is the Cough and Cold market along with the Pediatric market segments. The market for these products are still in a negative growth for the quarter and the portfolio is in line with the market. Despite all this we are extremely confident based on our history with this segment of pediatricians and cough & cold and for antibiotics, we will start returning to outperforming the market, as soon as the market reaches into some kind of positive growth category we will be able to also grow in this segment, so we are not concerned by it because we have been doing this

performance of cough and cold for a fairly long time and despite the market being down once the market comes back to some level of normality we can come back into growth into this segment also.

So this is the quick snapshot of India business. I will pass it on to Pranav for the international business.

Pranav Amin: Thanks Shaunak. As regards the API and the international business, both of them have had a good quarter driven by sales growth across all the markets.

Our R&D expenditure was Rs.185 Crores in the quarter, which is about 13% of sales. With the easing of the lockdowns, the R&D efforts ramp back to what they were pre-COVID.

We filed 7 ANDAs during the quarter and cumulative ANDAs at 198.

We received 6 approvals in the quarter including 4 tentative approvals.

We cumulatively have 131 ANDA approvals including 18 tentative approvals.

We launched 3 products during the quarter and we plan to launch about 5 to 6 more in the third quarter.

Talking about Rhizen, our drug discovery venture Rhizen had outlicensed its oncology molecule Umbralisib to TG Therapeutics. TG Therapeutics had announced in the past that acceptance of this NDA by the USFDA for the treatment

of patients with MZL, which is Marginal Zone Lymphoma, and FL, Follicular Lymphoma.

As per their press release, they are targeting the regulatory submission for the CLL indication, which is Chronic Lymphocytic Leukemia for Umbralisib along with their proprietary product Ublituximab in early 2021.

Rhizen also announced last week an exclusive licensing arrangement to develop and commercialize its second oncology product Tenalisib with Curon Bio Pharmaceuticals from China. We have put a press release out. Under the terms of the agreement Rhizen will receive commercial milestones up to \$149 million as well as double digit royalties on net sales. Tenalisib as you may know was also in the past granted fast track and orphan drug designation for the treatment of T-cell lymphoma by the U.S. FDA.

International Formulations Business grew by 21% to Rs.779 Crores for the quarter and Rs.1550 Crores for the first half.

The U.S. generics grew by 8% to Rs.582 Crores for the quarter and 33% to Rs.1177 Crores for the first half. Last year Q2 was an exceptional quarter so we are happy that we have surpassed the performance.

Ex-USA Generics continued its robust growth and grew by 84% to Rs.197 Crores for the quarter and grew by 73% in the first half.

API business has had a very good Q1, it had a good Q2 as well, and it grew by 29% to Rs.263 Crores for the quarter. It has been a very good first half for the API business as well, so by and large all the businesses have been doing pretty well domestic as well as international, we are pretty happy with the performance as well as on the back of the massive capex that we are on the last stage.

However, there have been a lot of questions from our investors on the sustainability of the U.S. business as well as the impact on the EPS, operating expenses of the new plants which are currently capitalized, start hitting the P&L.

Although it has been our consistent practice not to give guidance, we thought of doing a onetime deviation and give you some broad understanding of our earnings. I repeat this is a onetime guidance and we do not intend to give it on a regular basis. We will also not get into an itemized discussion and I hope the audience would respect that.

The company has had a satisfying performance in the last few years on account of disproportionately high spend on R&D as well as expanding our capacity and capability. Barring unforeseen circumstances, we are guiding to an EPS of Rs.60 per share in the current financial year.

As regards the next financial year FY2022 there will be an additional expense of Rs.450 Crores hitting the P&L on account of the new formulation plants. In spite of this increase in operational expense, we expect an EPS of Rs.50 per share in FY2022.

We expect the increase in revenues in FY2023 as the new capacity start, but we are not giving EPS guidance for FY2023 as it is still a way off.

I hope the above gives an indication of where we see the business moving and our thoughts on the same.

Today, I have given a little more detailed opening statement and I will open the floor up for Q&A. Thank you.

Moderator: Thank you. 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 Baria: Sir, a few questions. Pranav we appreciate the guidance and we do respect not getting into too much details, but some qualitative insights into what is the basis for Rs.60 in FY2021 would be very helpful in terms of international API and domestic?

Pranav Amin: Mr. Baheti would you take that?

R.K. Baheti: Sure. We have already done 33 and based on our understanding of the business, the orders, the market situation we think that barring any unforeseen circumstances Rs.60 should be a good reflection. The whole objective of giving this guidance was to allay the fears of some analysts/investors that how much of business is sustainable. We are actually making a statement that most of the business is now sustainable and stable.

Vishal Biraia: Okay and just to elaborate a bit on this. Like Rs.4.5 billion is the additional expense in FY2022 what is the additional expense that you would consider for FY2021?

R.K. Baheti: In FY2021 there would not be much of, we have not at least considered much that the new plants will be commercially operational because the plants will have to be audited first by the FDA and obviously after that we must get ANDA approvals and then only we can start the commercial production, so we have not really factored anything in FY2021.

Vishal Biraia: Okay and just one question. For the new plants for which of the facilities have we invited US FDA for pre-approval inspections?

Pranav Amin: Right now we have done filings from the F2, which is the oncology facility as well as F3. We have some FDA goal dates coming up, but I do not know this is something that I am not sure how the FDA is going to come. They will have to come for a physical audit, so let us see what happens over there.

Vishal Biraia: Okay I will come back in the queue for more questions.

Moderator: Thank you. The next question is from the line of Shweta Jain from ANS Wealth. Please go ahead.

Shweta Jain: Sir, a couple of questions, first one we have reduced debt this year do we have further plans of reducing debt in this year and next year?

R.K. Baheti: We have repaid almost all of our short-term debt. It is only long-term debt, which are not due in this year, so these will be repaid on their due dates.

Shweta Jain: Okay great that is helpful and Sir I just wanted to know we have seen our U.S. generic and API business grow, but if I look at on a sequential basis our U.S. business has declined by 2% compared to Q1 and API has been flat, so can you throw some color around it as to what was the reason?

Pranav Amin: It is very tough to look at the business on a sequential quarter-on-quarter business. If you see the U.S. generics last year or the last two years, we have had exceptional growth so we have been maintaining that and we have been stabilizing it. Sartans is one area where we had lot of business. As we get new competition, what happens is you have new competition and you have new launches so as we keep increasing, adding more launches, we will hopefully keep growing and that is why we have given the guidance for the next year. API business as well, first quarter was an exceptional quarter because of the COVID-related issues and a lot of supply chain opportunities so that is one of the reasons.

Shweta Jain: Even if I look at the API from a 4-year CAGR we are clocking like close to 3% so how should one see the API business going forward if you can throw some guidance around this, Sir that would be great?

R K Baheti: We have not been able to make much investments in API for adding capacities for two reasons, one is we were focusing on completing our OSD projects, injectables and the new OSD

plant, second, getting permissions for API was also a little tedious and time consuming. Now fortunately both the things have come into our favor. Formulation facilities are all ready and Environment Ministry is now more liberal in giving expansion permissions because they want to have more of Indian API manufacturing so now we are also making investments in API and we see a good growth opportunity for API even from business perspective.

Shweta Jain: If you can give I know normally you do not give guidance, but if you can give some guidance in terms of API business, what kind of growth are we looking at from a 4 or 5 year perspective, Sir, is it going to be like double-digit growth is what we are targeting from a 5-year perspective in API?

Pranav Amin: Yes, we do not give a guidance, only thing I had said in the last call is the first quarter was good and we hope to see that kind of momentum continue through the rest of the year as well and that is why you have seen a decent Q2, but we have not given long-term guidance.

Shweta Jain: With respect to the expense that you have given a guidance of booking of Rs.450 Crores of expense in FY2022 can we assume that is the bulk of the expense booking is going to happen in FY2022 and then from FY2023-FY2024 like just want to understand this Rs.450 Crores a bulk of the booking already will happen in FY2022?

R.K. Baheti: This Rs.450 Crores will be additional operating expenses on the new plants so that will be recurring every year with small increase as we already just discussed.

Shweta Jain: Yes so from FY2022 onwards that means can we assume Rs.450 Crores will be an additional that will be the new base, but that will be only for the new plant, Sir, right?

R.K. Baheti: That is only for the new plants, all the existing expenses will continue.

Shweta Jain: Okay that is helpful. Thank you so much.

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

Prakash Agarwal: Just understanding this sartans opportunity better, as you mentioned some competition is coming so have we seen some moderation in volume and prices and despite that we have been able to see U.S. flattish or still strong and same has been for API or we would see the impact from Q3 onwards?

Pranav Amin: For the sartans as I said in the last call that yes there have been entrants coming in and they have been picking up business. Also the sartans was good 15 odd products and so some people have got more spent in one or the other, so there have been some price adjustments, there have been some market share increases, but by and large it is pretty stable, a little bit erosion keeps happening as per normal, so we grew in spite of some erosion there have been some other opportunities as well and some new launches, so that is what we are seeing in the market. As regards to the API sorry I did not get your question.

Prakash Agarwal: That is what I am understanding like, so there is no incremental pressure that we can see in Q3 or whatever pressure of incremental competition is already baked in, in Q2 numbers that is what I am trying to understand?

Pranav Amin: Yes. It is there. Again this is something I cannot predict if someone really drops prices or someone goes off the market.

Prakash Agarwal: Okay perfect and secondly on the kind of launch and approvals you are expecting for this year and next year if you have said that maybe if you can repeat because I missed the opening comments if that is okay?

Pranav Amin: Yes. In the first half we have launched about 6 products and for the next half again we will have at least 10 to 15 launches, so we will end up at about 15, 20 or something like that for the year and similar next year as well maybe even higher.

Prakash Agarwal: Okay because the question I asked is because the kind of approvals we have seen of late, these are the smaller ones, so we are going for launches for most of it and you are expecting some meaty ones also or to start with these would be all smaller launches and approvals?

Pranav Amin: I think it is a combination Prakash and to be honest I do not know who else is going to launch and when. We have some interesting launches coming up this quarter and for the rest of the year and next year onwards is when hopefully we will see some launches coming out from the new facilities from the injectables.

Prakash Agarwal: Understood. Fair enough and lastly your take on the volume offtake and pricing in the U.S. markets, we have seen some supply chain improving, but in general would you say volumes have increased or it is similar to last quarter and same with pricing in general?

Pranav Amin: In general it is the same I do not think there is much change. As I said, sartans yes there is some little competition, but by and large it has been okay.

Prakash Agarwal: Understood fair enough. Thank you so much and all the best.

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

Anmol Ganjoo: Congratulations for a superlative quarter. It was fairly well diversified, so 2, 3 questions one is that we expected that a lot of costs related to staff and travel, etc., would come back this quarter given that this is a fairly more normalized quarter with some of the activity kicking back and that does not seem to have happened any particular reason for that or this is on an annual basis this is the new number that we should be looking at or some of the cost savings that might have happened along those lines are of more permanent in nature?

R.K. Baheti: No, not really. Anmol if you look at employee cost, if you look at some of the other costs, the costs have gone up as compared to the immediate preceding quarter. I do not know whether you are comparing with June quarter or September previous year. The costs have definitely gone up beyond the

June quarter, some of those travel, promotions have really picked up, and employee costs have gone up. R&D cost, you would have seen, has gone up, so we are almost at a pre-COVID level as far as expense is concerned.

Anmol Ganjoo: I was just wondering if there was any pent-up costs which would have been incurred this quarter, but that does not seem to have happened and that seems to have aided the case of margins because margins have been very strong so that was my first question. Second question is on API and ROW we have again demonstrated very strong growth just trying to understand that what is driving in particular the growth in these two segments and where are we on capacity regards these because as you said that API seems to be emerging as another interesting area of opportunity do you think our capex mix could change or we have full capacity just trying to understand some of the drivers around these two segments again, which recorded very strong growth this quarter?

Pranav Amin: Yes the ROW business, as it is only the few markets that we focus on Europe, Australia, Canada and we work through our partners in most of these markets and we had supply chain issues in the past that has gone through, so with better supply in the market our partners are picking up more share so that I see the trend continuing for the rest of the year and hopefully next year we will slowly start adding to this business as well. As regards to the API and capacities, yes, we have been constrained with capacities because it has been really tough expanding due to the permissions. But we have been doing incremental investments in API capacity as well as part of our

ongoing maintenance to debottleneck and I think we should be okay moving forward and it is work in progress there is some API expansion already underway.

Anmol Ganjoo: Right and one question on the big picture of U.S. market, so for example if you look at FY2022 most of our capacity would be online. I do not want to labor over the sartans opportunity beyond a point, but if you look at 3 years out do you think we are kind of now well set to take this sustainable run rate to the next level and how is the 3-year picture looking from a U.S. opportunity standpoint and landscape standpoint what would FY2023 turnaround on the back of these new capacities look like from a U.S. topline run rate and I am not looking for a specific number, but any directional color would be helpful?

Pranav Amin: It is not giving any guidance per se, but with the new capacities and more importantly capabilities coming up the U.S. market look interesting definitely. As I have said in the past can we envision going to \$400 million to \$500 million kind of revenue definitely I think that is what we would aim to go at in the next 3 years or so.

Anmol Ganjoo: That is helpful and one last question before I get back into the queue. Shaunak, congratulations on a spectacular turnaround, at least sequentially on the domestic business. Just trying to understand that if you look at this new base that we have on the domestic business now, how much of that when you disaggregate this across therapy areas, how much of this would be attributable to some onetime demand drivers versus some of the structural changes that you took in the past 24

odd months to cut the tail and many other things to rationalize portfolio and drive from a new base and to that extent how do you feel about the growth prospects of this portfolio from a 2-year time horizon?

Shaunak Amin: The onetime opportunity is like I said with Azithromycin oral solid I mentioned outside of that there are no other onetime opportunities. If I could take a more composite view like I said the Azithromycin oral solid it is not a onetime opportunity, but there are heightened demand for it and being the leading brand in this definitely we will be able to get good market shares in this segment. So if I answer your question more from a market share point of view this additional gain in market share from Azithromycin solid will it go back down to pre-pandemic levels no, we will maintain this market share and we will actually get this market share to grow beyond that also. So that is one way of looking at it, though it does not answer your question completely. If I look at the net portfolio, there have been plenty of areas where we have been hammered and the market has got hammered and despite that we have been able to kind of grow so what I expect going forward is that if Azithromycin growth numbers do tend to moderate out a bit, I expect that the cough and cold portfolio as well as the balance of liquid for antibiotic portfolio, which is also big chunk products, I expect pick up on those areas, which at this point is bit of a deal for us. So net-net going forward should be kind of even out.

Anmol Ganjoo: That is helpful, but just one last one if I can squeeze in. As a consequence of COVID what we are picking up from various

industry sources at least domestically is that there is a lot of change in marketing strategies and so on and so forth, so do you see a consolidation of incumbents across products and therapy areas and wiping off tail because some of the practices of MRs, visiting doctors, etc., seem to have suffered and a lot of people allude to the fact that it could be permanent and where does it position our portfolio from again 1- to 2-year standpoint?

Shaunak Amin: I would not want to comment on this. The only thing I would answer is if you look at the growth numbers and we have been tracking growth numbers of top 20 companies to the top 30 companies, 30 to 100, 100 to 150, as you see the growth numbers, if I split the business up, definitely growth from companies of 50 rank onwards, it has definitely been a large market share loss in those companies, so that trend that I have not seen as a trend slow down or come around, so as long as COVID is around we expect that trend to continue in that direction. With regards to marketing practices and medical reps meeting doctors, our view is that we have been able to normalize that now and it is just that it takes a little more effort to meet doctors compared to how it used to be. A lot more planning is required and a lot more time and effort to kind of plan these doctor meets sorted out, so they are available for a meeting and as long as we have something value-add to the doctor in this meeting, doctors are more than willing to meet medical reps in the Industry. That is the only change we have seen. But I would not say it is dramatical in nature, so it would be too much for me to say that the industry is going to change

overnight and a lot of incumbents are going to get wiped out. That is an exaggerated statement in my view.

Anmol Ganjoo: That is helpful and congratulations once again for a great quarter.

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

Bharat Celly: Congrats for good set of numbers. So just I wanted to understand your guidance much more in detail, so just from the perspective of new launches you have been guiding around 20 ANDA launches every year, so how many of those are going to be towards high value and how much are going to be more like a commodity product launches I would say relatively lower contributors?

Pranav Amin: So Bharat we do not guide on the product differentiators, what is high, what is low because in a sense we also do not know what is going to happen, how much competition is going to be there so we do not guide on that. Hope you understand.

Bharat Celly: Understood and Sir we have been a bit apprehensive of price decreases in sartans and this is something which we have been alluding that it can happen until we are in second half of FY2021 so when we are giving a guidance of almost Rs.60 earnings and after that Rs.50 earning in FY2022 so are we building in lower pricing for sartans within that guidance or we are expecting shift in the sartans space?

Pranav Amin: It is a combination of the new products and the new launches we have and the erosion that we will see across the board, not just sartans, so with our comfort in the business this is what we are guiding at.

Bharat Celly: Understood and Baheti Sir there has been a sharp reduction in the receivable as well as inventory days so is there any one-off or something you can call out?

R.K. Baheti: If you recall last time we had conveyed because you are comparing with March number, balance sheet numbers are given every half year, so in March U.S. receivables were high because at that some disruption in collection, etc., which we had got collected by April and we had made a mention in June call. We have been good at our receivables and inventory is back to the standard days.

Bharat Celly: So it is going to remain at the current level?

R.K. Baheti: There is a change in working capital profile. Once the new plants start getting operational the launch inventory starts getting built and so on and so forth, but so far till that it will be stable.

Bharat Celly: Right and Sir last one from my end so we have actually been calling out for Aleor R&D expenses as well as the pre-operating expenses every quarter so can you share for this quarter as well?

R.K. Baheti: No, I did not get you. All of our R&D expenses are expensed out even from the new facilities, whatever exhibit batches, etc., we are taking that is being expensed out.

Bharat Celly: Even Aleor?

R.K. Baheti: Can you take it from Mitanshu offline?

Bharat Celly: Sure. Thanks a lot.

Moderator: Thank you. The next question is from the line of Kunal Mehta from Vallum Capital. Please go ahead.

Kunal Mehta: Congratulations for a very strong quarter. Sir, I had a single question I am sure this guidance for FY2021 and 2022 sorts off lot of doubts, which we had regarding the earnings and the sustainability of earnings for the next 2 years, so now just moving out and just wanted to understand from Pranav Sir how do we look at, now we have built four plants, one is the oral solid plant at Jarod then you have the injectable plant, you have the onco injectable plant, and you have your Aleor facility, the topical plant, so just wanted to understand just from a framework perspective how do we see the utilization of these plants going up starting from FY2022 once the Jarod facility would be operational and so how do we see the utilization building up any perspective on this would be helpful and I am sure it is difficult for you to predict also because it is something related to regulatory approvals and how everything will play out on the approval side, but as a framework how do you see the utilization building up over the next starting FY2022?

Pranav Amin: Aleor plant is already commercialized so that has already got some products and as we get more and more approvals that you will see more coming from the plant. Jarod OSD facility that we are waiting FDA to do either online or a physical audit. The general injectables, which is the largest of the plants, also we are awaiting FDA visit, products have been filed already, so over the next year or so it really depends on the regulatory so it is very tough for me to say, once they come then hopefully we will start seeing a buildup and the launches coming because filings are in place for all these facilities.

Kunal Mehta: Understood and in terms of the assets which would quickly be utilized, where the utilization would ramp up very quickly, if you could rank it in order of where you would have expected to happen the fastest and where you would expect it to happen in a larger timeframe so would it be fair to say that Jarod would be the fastest to be utilized and then following injectable plants and then the Aleor plant or how do you rank it and what timeframe do we expect?

Pranav Amin: It is tough to say. Actually Jarod is easiest to go into production because we already have a matching pipeline of OSD, so once approval is there then we can always shift products there, so Jarod is the easiest to do. In terms of future and growth opportunities, I think the general injectables is the most exciting with a lot of interesting products and a lot of filings are there. The onco is a little more long term because a lot of the onco products are in the minus one so there will be some time until we gets approved and Aleor has already

started commercializing so as and when the approvals come we will see more of it.

Kunal Mehta: Sure and just final question from mine and the cost structure for the rest of the business remains in line with what it will be so the earnings estimates are factoring in all of these changes in the cost structure as well once we end the COVID and the expenses on the India side also build up to some extent?

R.K. Baheti: Yes. Obviously, I will not give you a number without factoring all of that.

Kunal Mehta: Sure Sir. Thank you very much Sir and congratulations for a very strong quarter.

Moderator: Thank you. The next question is from the line of Vishal Manchanda from Nirmal Bang. Please go ahead.

Vishal Manchanda: I just wanted to check with respect to Umbralisib, do we anticipate any milestone income on approval so basically whatever Rhizen gets would Alembic be getting that and booking that in the P&L?

R.K. Baheti: Yes. Pranav I will take this. So in the past also Rhizen have got milestones, but actually that got refunded back to APL against our investments, which we did in Rhizen, so now our investments have been repaid and now whatever milestones are received by Rhizen to the extent they need for their future development, they will retain, the balance they will distribute to the partners.

Vishal Manchanda: Basically whenever there is an approval it has been filed for, obviously there would be a regulatory milestone on that and probably that would happen around FY2022 timeframe?

R.K. Baheti: I do not wish to get into each of these items something can happen, something may not happen we have a very broad understanding of our business. As we come along we pass some more time and we can discuss more. At this moment I do not wish to elaborate any further.

Vishal Manchanda: The growth in API business and the rest of world business would Azithromycin be a large contributor to this growth that we are seeing in the second quarter?

Pranav Amin: So I did not get you because I think you were breaking up, but I think you mentioned whether Azithromycin is part of the ROW and API growth. ROW, Azithromycin, no, but API yes, Azithromycin is an API that we manufacture and we have got customers who have been buying with us, so it is sustainable going forward. As regards to ROW it does not have anything to do with Azithromycin it is just a regular portfolio that we serve.

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

Dheeresh Pathak: The first question on this Rs.450 Crores of cost that is in the P&L this is including depreciation also right?

R.K. Baheti: Yes, that is right.

Dheeresh Pathak: Is there a breakup available or this is just the number that you are sharing?

R.K. Baheti: This is a broad number for all the 3 new plants together.

Dheeresh Pathak: Correct, so that is fine, but just to clear my understanding, so in FY2022 once we have this Rs.450 Crores there is no capitalization of any cost that will happen, right, in FY2022 then?

R.K. Baheti: That is right.

Dheeresh Pathak: Okay and on the capex if you can just refresh the FY2021 and 2022 numbers that you are finding?

R.K. Baheti: Yes. It is part of opening statement. It will be on our website FY2022 number of course we have not discussed.

Dheeresh Pathak: Thanks Sir.

Moderator: Thank you. The next question is from the line of Sameer Deshpande from Fair Deal Investments. Please go ahead.

Sameer Deshpande: Most of my questions have been answered.

Moderator: Thank you. The next question is from the line of Milind Karmarkar from Dalal & Broacha. Please go ahead.

Milind Karmarkar: Well, congratulations on a great set of numbers. My questions have been answered.

Moderator: Thank you. The next question is from the line of Tushar from Motilal Oswal. Please go ahead. If you can hear us please

dial-in from a different number and you can rejoin the question queue for your questions. The next question is from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

Tarang Agrawal: Good evening and congratulations for a great set of numbers. Current revenue in Latin America generics what percentage would be from injectables?

Pranav Amin: We have not given a guidance of the percentage of revenue that is coming from either of the segments.

Tarang Agrawal: Okay. Fair enough and out of pending 85 how many would be injectables?

Pranav Amin: Again we have not given a breakup of the filings according to our dosage forms as well.

Tarang Agrawal: Okay thank you.

Moderator: Thank you. The next question is from the line of Mukesh Prajapati, individual investor. Please go ahead.

Mukesh Prajapati: Most of my questions have been answered, but even though can you throw some color on the domestic business and specifically in chronic segment that would be a good help for domestic business?

Shaunak Amin: Domestic business like I said it is all our chronic business especially cardio, diabeto, gastro, gynecology, urology, nephrology have done well. Our growth has been largely in line with the market growth pretty much. Like I said going forward we expect all these segments for growth to get better

and as I said in my opening statement where we are today I see enough scope why we cannot increase our performance to surpass the market growth in the chronic segments and that is what we are working towards and that this is based on our portfolio of products based on how we see the market getting unfold, how competition is unfolding and based on that I think my objective is to drive better than market growth consistently quarter-on-quarter as we keep moving forward over the next year that is what we are working towards.

Mukesh Prajapati: Right Sir because so many things happening in chronic segment that some SGLT coming out of patent, even DPP-4 is coming out of patent, so Indian market is gearing up for all these off-patent products and I think patient is going to get affordable medicine from good company like Alembic. I think that is going to be very interesting in coming days.

Shaunak Amin: Yes so we have also launched a new DPP-4, so we are pretty much geared up and organized to launch all the new SGLTs and DPP-4s. Also a lot of other smaller niche cardio products are going off patent, so we are in the process of launching. We have launched whatever has expired and going forward we are trying to launch more as they are going off patent so I agree.

Mukesh Prajapati: Any prediction for growth next year for chronic segment?

Shaunak Amin: Like I said we will grow in line with the market growth and with the chronic we want to try to outgrow the market growth number so that is the only guidance I can give.

Mukesh Prajapati: Thank you very much.

Moderator: Thank you. The next question is from the line of Anubhav Aggarwal from Crédit Suisse. Please go ahead.

Anubhav Aggarwal: One clarity on the guidance actually, but just trying to understand, so FY2022, we get additional expenses of about Rs.450 Crores?

R.K. Baheti: Would you repeat your question, please, Anubhav we did not clearly understand?

Anubhav Aggarwal: Sure. So I was just asking of the guidance, guidance for FY2022, this additional expenses of Rs.450 Crores, EPS is about Rs.20. Rs.20 are not there effectively regarding that so if these expenses were not there we would have done a EPS of Rs.70 that is what to understand or is it that this Rs.450 Crores expenses will not fully come in respect to 2022 or only part of it is coming?

R.K. Baheti: So actually I do not know how much of this will be coming on factoring Rs.450 Crores assuming all the plants start operating in the first half or first quarter of 2021-2022, but as I said it will depend on the FDA inspections, approvals and the ANDA approvals.

Anubhav Aggarwal: So we should be safe in assuming that Rs.450 Crores expenses may not come in fiscal 2022 otherwise what is happening is if I assume that..

R.K. Baheti: I will be happy if they come I want the plants to start running...

Anubhav Aggarwal: I am just trying to understand it a little better in the sense that if we assume full expenses then it is an increase that we do Rs.60 EPS this year and regarding Rs.70 next year, which is a very good growth of 16%, 17%, and despite the good support we had with on the API and on the U.S. base this year that is what I was just trying to understand?

R.K. Baheti: Yes. It is an observation you are making so I do not have to respond. Go ahead anything else, Anubhav?

Anubhav Aggarwal: Yes. On the API business, I had a question. So in the Q1 generally for the sector we saw that most companies saw that thing customers were buying more, the same number of products as the customers were stocking up more on the inventory side. You had benefits also additionally Azithromycin was the extra benefit to our company, but in general what is the trend that you are seeing now as the customer inventory levels largely been same, your observation for the industry or it is come down or the growth momentum that you are maintaining is largely coming from new set of customers?

Pranav Amin: So what happens is during that time we saw yes Azithromycin was one molecule where there was a lot of demand so that was some demand that came in. As regards to other products we have been constrained with API supply in the past, so it is pretty much most of the business is all sustainable. Yes, there may be some peaks, but now it is a little more normalized. Moving forward whatever business we picked up will continue because we are supplying to all regulated markets. We are not supplying to the nonregulated market. Hence, for someone to

make an API switch also is tedious so the business will stay and it will continue growing in my opinion.

Anubhav Aggarwal: Okay. Sure and Pranav just some clarity on this. On the inventory level of the customer, have you seen any change or no change the customer inventory levels are largely standard or normal?

Pranav Amin: I have not seen any change there.

Anubhav Aggarwal: Thank you very much.

Moderator: Thank you. The next question is from the line of Abdul Puranwala from Anand Rathi Securities. Please go ahead.

Abdul Puranwala: Sir, my first question is related to debt. So through the QIP though we have paid most of the debt and from next year we are guiding that there will be some additional expenses what we are capitalizing right now, so Sir how do we see this debt figure going up starting next year do we remain confident that most of these additional expenses or the expenses for the new plant would be largely paid off through internal accruals or we might have to raise a certain amount of debt in the future?

R.K. Baheti: At the time of QIP we had said that the QIP proceeds will be used for repayment of debt as well as for funding growth opportunities, so obviously for the capex the current year and the next year will be funded by part of these proceeds. Of course you cannot keep money idle so we have repaid borrowings ahead of time in some cases and if need be we

can borrow again, but for meeting the additional expenses I do not think we will need additional borrowing. Since I am giving guidance obviously the expenses will be met out of the earnings.

Abdul Puranwala: Sure Sir and my second question is more related to this Rs.450 Crores of savings, so as discussed by earlier participant that amounts to close to an EPS of addition cost of close to Rs.18 to Rs.20, so what I want to basically understand is what is the driver which could boost some amount of growth in FY2022, would this be largely a function of the topline growth or we see margins moving ahead from the 30% level what we are currently clocking in?

R.K. Baheti: I think we are already in a pretty healthy margin levels. So the growth has to come out of higher business, higher revenues.

I fear that people who have put in repeat questions I may not be able to take them now because we would be running out of time and they are most welcome to write to us and you can send your mail and we will be happy to respond. We will take a couple of more questions and then we will have to wind it up.

Moderator: Sure Sir. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Congratulations on a pretty good set of numbers. After the cash flow generation that you had in H1 plus QIP proceeds financially we are in a very solid position right now in terms of the capacity to invest back into the business and any thoughts

on what kind of opportunities does it offer and what kind of opportunities does it enable us to leverage going forward, is it going to be more generics or are there new verticals?

Pranav Amin: Our business is pretty much only generics right now and one of the reasons for the new investments is to get new capabilities, so new capabilities that we are going to get is injectables, derm, onco, onco injectables that is the new capabilities that will be coming up in the future that is where we are seeing growth from FY2022, 2023, 2024 a lot of this will come from that, from the newer capabilities whereas right now what we are doing is only the regular generics, OSD, which is our current business so that if that answers the question, you will see more towards injectables and derm and ophthalmic in the future as well.

Nitin Agarwal: No, Pranav, my question is I think you have already made this hard work in terms of the hard investments, which are required for some of these capabilities where do we go from there in terms of the financial capability that we have, are we thinking about the incremental opportunities for the business incremental domains?

Pranav Amin: It is a good question and I have said that in the generics space once you achieve a threshold going up to about \$500 million, \$600 million it is easy and is possible we are also envisioning that, moving forward after that it gets a little harder and you have seen that with some of our peers in the industry, so we do have thoughts around what we want to do. It is still early days, I still see another 4, 5 years where this will continue, so

we do have thoughts around it and we are trying to see what are areas that we do want to get into, there are some areas that we definitely do not want to get into, that is biosimilars and investment required is very high at this stage, biologics as well, but we are evaluating other opportunities and we slowly, slowly start investing in those ones in another year or 2 once these are all stabilized.

Nitin Agarwal: Thanks that is helpful.

Moderator: Thank you. The next question is from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Sir, just some quick questions on the cost structure. How much spend particularly in the domestic market, how much of the costs have already come back and on a sustainable basis do you see it settling at a lower level and any estimates that you have for that and the second would be on the raw material side any trend that you would like to highlight?

R.K. Baheti: You can treat Q2 as a very representative quarter, though in early part of Q2 still the field activity is a little restricted where we have used more of digital means, but in second half of Q2 probably activities had picked up. So as far as our expenses are concerned Q2 was a fairly representative number and going forward of course we will keep getting best efficiencies out of expense so that is always the case for the company. As far as material is concerned, material costs are now back as a percentage of business back to pre-COVID levels. A temporary spurt, which we had seen in API prices now have stabilized come down or whatever and it is not much of impact

except there will be some odd APIs where costs are still high, but it is okay it is part of life.

Moderator: Mr. Mukherjee does that answer your question?

Saion Mukherjee: Yes. Thanks.

Moderator: Thanks. Well ladies and gentlemen we take that as a last question for today. I would now like to hand the conference over to Mr. R.K. Baheti, Director (Finance) and CFO for his closing comments.

R.K. Baheti: Thank you very much. My apologies for not being able to take all the pending questions most of them were repeat because we are running out of time. Thank you for your active participation. I reiterate that you can always write to us and we will be happy to respond and a very good evening to all of you. Thank you very much once again for joining the call and stay safe and this is also an occasion for me to wish all of you a very happy festival season, happy Durga Puja and Diwali. Thank you very much.

Moderator: Thank you. Ladies and gentlemen on behalf of Alembic Pharmaceuticals Limited that concludes this conference. Thank you all for joining. You may now disconnect your lines.