



“Alembic Pharmaceuticals Limited Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Alembic Pharmaceuticals Limited earnings conference call hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bijal Thakkar from Edelweiss Securities. Thank you and over to you, Ms. Thakkar.

Bijal Thakkar: Thank you, good afternoon. On behalf of Edelweiss, I welcome you to the briefing of quarter four for FY15 results of Alembic Pharmaceuticals. Today, we have Mr. Pranav Amin – Joint Managing Director Mr. Shaunak Amin – Joint Managing Director Mr. R. K. Baheti – Director-Finance & CFO and Mr. Ajay Desai – Vice President- Finance & Company Secretary from the management side. I hand over the conference to Mr. Baheti for opening remarks. Over to you sir.

R. K. Baheti: Thanks Bijal and good afternoon everyone. Thank you for joining the Post-Results Teleconference Call. We are presenting results for the quarter-ended and year-ended 31st March 2015. Along with Pranav and Shaunak, we also have Jesal, Mitanshu, and Ajay Desai along with me on this call. Most of you would have received our financial results along with the investor presentation. However let me briefly take you through the operations for the quarter and for the year ended 31st March 2015.

During the quarter, our total revenues grew by 9% posting sales of 508 Crores, EBITDA at 99 Crores is 19.4% of sales versus 91 Crores at 19.6% in previous year's corresponding quarter. Net profit after tax grew by 15% to 70 Crores. During the year, total revenues grew by 11% that is for the full year to 2,068 Crores against 1,868 Crores last year. EBITDA for the full year is 19.6% against 19.1% of last year which in terms of amounts is 406 Crores versus 358 Crores. Profit before tax grew by 16% and profit after tax grew by 20% to 283 Crores against 235 Crores last year. For the full year, EPS works out to be Rs. 15.01 per share versus Rs. 12.49 in the previous year.

The total CAPEX including CWIP and some capital advances for projects in progress, about Rs. 201 Crores for the year and investment in Algerian JV was about 37 Crores. The gross borrowings as on 31st March 2015 are Rs. 264 Crores reflecting a debt equity of 0.27. The return on capital has gone down a bit as compared to the previous year but is still healthy at around 29%. This is in view of the various CAPEX plans which we are currently undergoing.

The Board has recommended a dividend of Rs. 3.50 per share, share of Rs. 2 each which is 175% for current year versus Rs. 3 per share for last year at the rate of 150%. Dividend payout stands at around 28% in the current year as well as in the last year. I will hand over the discussion to Pranav who will give you a brief on the international business.

Pranav Amin:

Thank you, Mr. Baheti. Good afternoon all. As mentioned in the last few calls, we are in a period of consolidation from the high growth we have seen over the last two years. Our focus this year has been on; 1) the compliance of our plants, 2) removing bottlenecks of future R&D filings and 3) improving our supply chain efficiency. We will continue to focus this in the future as well. I am happy to say that we have done reasonably well on most of these focus areas.

During the quarter, our Formulations facility at Panelav was successfully audited by the US FDA. I am happy to say that this was without any 483 observations. Our Bioequivalence facility located in Vadodara was also successfully audited by the US FDA again without any 483s.

For the quarter, International Generics grew by 8% to 148 Crores and for the year, International Generics grew by 11% to 519 Crores. API business grew by 8% in the quarter. API business also grew by 8% for the full year. During the quarter, two ANDA applications were filed taking the cumulative ANDA filings of the company to 68. We have received during the quarter one ANDA approval taking cumulative ANDA approvals to 37. In the quarter, two DMF applications were filed taking cumulative DMF filings to 72. Our total R&D spent for the quarter was 43.7 Crores which was roughly 9% of the sales and for the year which was about 6.7% at 139 Crores.

Our JV in Algeria is making good progress. The filings of the products are expected to start in Q2 of this current year and the commercial launch will happen in few months of the next financial year. I will now request Shaunak to take you through some of the highlights of the Branded Formulation business.

Shaunak Amin:

Good afternoon everybody. A couple of key figures for the last quarter and the year. India Branded Formulations grew by 16% for the quarter with clocking in a sales of 232 Crores against 199 Crores in the corresponding quarter last year. For the whole year, the India Branded Formulations grew by 15%. The split between Acute and Speciality in the current quarter stands at 22% growth for Speciality and 11% for Acute. For the whole year, the growth stands for 21% in Speciality and 9% in Acute segment. All our Speciality businesses are growing faster than the market and we are quite happy with the rate of progress. All the new division that had been launched in the last year as well as

this current financial year have been performing up to mark and we expect to get greater traction in the coming year. One significant development recently has been the significant price reduction by NPPA on our brand of erythromycin called Althrocin and that will lead to a major erosion in terms of this brand's total annual turnover and I open this forum now for questions.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: If you can just repeat the last point that you mentioned Shaunak about the price erosion in Althrocin? Is this in this quarter, meaning it is yet to be reflected or?

Shaunak Amin: The price erosion will get reflected in the coming quarters in the whole of 2015-2016 financial year.

Nimish Mehta: And if you can quantify how much is the price erosion that we have seen?

Shaunak Amin: About 17 Crores topline.

Nimish Mehta: 17 Crores for the quarter?

Shaunak Amin: For the whole year.

Nimish Mehta: In FY16 right?

Shaunak Amin: Yes.

Nimish Mehta: I see but in percentage terms, how much is it on like?

Shaunak Amin: Percentage terms, 20% due to reduction in the absolute MRP of the product.

Nimish Mehta: Yes, next question is actually again on the India business. When are we expected to see the impact of the increased sales force that we had done in some few quarters back? So where are we there, like are we already seeing the benefit of increased sales force or we are yet to see? How do we see that?

Shaunak Amin: No, I think we are yet to see the full benefit of the sales force. I think this next quarter, we should be able to see good, the actual representation of the sales force expansion.

Nimish Mehta: When you say next quarter, we are talking about Q2.

- R. K. Baheti:** Nimish adding to what Shaunak had said, it is a continuous process. So fieldforce what we added in 2013-2014 have given results in 2014-2015 and we are seeing a 15%-16% growth every quarter and for the whole year. Fieldforce which we have added in 2014-2015 as Shaunak said will start giving results in next year, but it is a continuous process.
- Nimish Mehta:** In terms of understanding it better, what is the PCPM today and what is the target by FY15-16? That would be helpful.
- R. K. Baheti:** We do not have a target PCPM, but we do look at growth and we were looking at it Speciality business growing in excess of 20% and Acute business growing in a range of 10%-15%.
- Nimish Mehta:** That is quite helpful. Second on the International Generic business, now that we have launched this product Exforge in April, are we also expecting to launch the Exfrobe HCT version which is a combination of hydrochlorothiazide.
- Pranav Amin:** No, right now we have the approval that we have received is for Exforge which is valsartan plus amlodipine. We got the approval in early April. So our partner is in the process of launching the product.
- Nimish Mehta:** We have yet not launched it?
- Pranav Amin:** It has been given to the partners and I think they might be in negotiation, we may be launching.
- Nimish Mehta:** And any outlook on Abilify which was supposed to go..
- Pranav Amin:** Abilify as people asked this in the last call as well, as you know now we do have a tentative approval. I think we are awaiting for the direction from the US FDA. Until that happens, we really cannot comment on what the situation is.
- Nimish Mehta:** But there is a case between the US FDA and the innovators. So when do you think that will get resolved?
- Pranav Amin:** I think that is the case that we cannot really comment. As I said, it really depends, there is lots of moving parts in this and there is the case between the innovator and the generic companies and there is a case between the innovator and the FDA. So it really depends what action the FDA takes and what the market formation will be and what risk will be at that point.

Nimish Mehta: Understood. Finally just to squeeze in the last one. Any update on Warfarin filing would be helpful and are we also looking at targeting Nexium in this year, that will be helpful.

Pranav Amin: No, we do not have a tentative or a approval on Nexium. As regards to Warfarin, as I mentioned, it is a product that our partner will file and I believe that they should file sometime in this quarter.

Nimish Mehta: That is Q1FY16 right? Thank you very much

Moderator: Thank you. The next question is from the line of Nishith Sanghvi from CIMB. Please go ahead.

Nishith Sanghvi: Yes, sir my first question pertains to generic Diovan. Now we have launched this product sometime in February. So what are our expectations as far as the market share and ramp up in this product is concerned?

Pranav Amin: I think it is tough to say about what market share and as you know that unfortunately, unlike other companies, we do work through partners. So it is not everything which is in our control in terms of what we expect from the market share and what we can do; however, we are confident that our partners can pick up market share. It might not happen on day 1, it will happen over the period of time. As you know, we entered the market after 180 day expiry. So it is still early days as we have just launched in Feb and let us see how it goes. I think in the next couple of quarters we should know, but again, it really is the factor of what pricing you want to get in at and how aggressively you want to be.

Nishith Sanghvi: So because I was just seeing our market share probably which was available in Bloomberg for Telmisartan HCT. There has been a spike there. So from 2%, it has jumped to 7%. So basically, is it because of some competitor has moved out or how is it? Any particular reason?

Pranav Amin: As I said, unfortunately we are not marketing this product directly. So it is really tough for me to comment. It can only be speculation at best.

Nishith Sanghvi: And just wanted probably how many products, so basically earlier we have said 7-9 product launches every year in the US. So, we hold that guidance, right?

Pranav Amin: Yes, I think this year we had 5 launches, if I have not mistaken and yes, ideally we want to be around at 7. Nine is pushing in re-launch but I think 7 is a fair number to take for the next year or two.

Nishith Sanghvi: Sure and if you can just let us know how many products of this 7 probably this year and next year, may be how many will be through our own frontend?

Pranav Amin: So as I mentioned, we should get a frontend up and running by the end of this year. So it really depends on what we have tied up and what we have not? If you look at it from FY17 perspective or so, I believe pretty much that most of products should be through our frontend.

Nishith Sanghvi: And just one question on India business. Sir basically you have said that you expect at least 10% growth in the Acute Therapy product. Now my question specifically pertains to the anti-infective portfolio now which is 30% of our domestic business. In the past, of course there are explained reasons for very single digit or flat growth for the last 2-3 years. So what is your expectation here and what have we done to improve growth here especially the anti-infective portfolio?

Shaunak Amin: No, I think there are a couple of points in this anti-infective portfolio. I think we were very clear that we only want to grow progressive parts of the anti-infective portfolio because I think there is a limited resource and band width that we can manage and in that we are prioritizing volumes or prioritizing good markets where we have good pricing. We have good competitive landscapes and we want to push for those markets where we can grow faster. I think with the antibiotic portfolio, we have a large legacy in this therapeutic segment. So because of that, our growth rates are quite flat in the entire anti-infective portfolio. So from that, I think a 10% growth in the anti-infectives in my opinion would be a good job by us.

R. K. Baheti: Also, you are right that the growth numbers in the past few years have been low, you also have to account for the fact that there have been price reductions predominantly in this segment for us. So because of the price reduction in 2013-2014, again there is a price reduction in 2015-2016. So whatever we do to build volumes gets negated by the price erosion. When you look at the growth, you have to look at the growth in that context.

Nishith Sanghvi: Right sir and sir just on this increase, probably debt has moved up. I am talking about net debt figure. So will this continue at this rate or how we should look it going forward?

R. K. Baheti: It is like making investments for future. So like in the beginning of the last year, I had said that we have some CAPEX plans and I think broadly we are in line with what I had indicated and that has resulted in some increase in borrowings. The comforting zone for us is that our debt equity is still pretty low and we have a lot of leverage options available. Having said that, the investment decision will be taken based on opportunities.

- Moderator:** Thank you. Next question is from the line of Arvind Bothra from Motilal Oswal. Please go ahead.
- Arvind Bothra:** Just on your US frontend plans, wanted to understand your thoughts on the ongoing consolidation in the US channel especially at the PBM level and how that would impact new players in the market in terms of bargaining power and ability to have market formation in their favors? So just wanted to understand do you think that pricing or portfolio what would be the key success factor that would determine Alembic's journey?
- Pranav Amin:** I think we have got this question in the past. No, I do not believe so it will impact. I think and for the long run, it is imperative that we do have our own frontend because we need to have a little more control and I think competition and the consolidation is there definitely, but it is a kind of products that you have. If we are confident of the good product, if we are confident of good supplies, then I do not think there should be an issue.
- Arvind Bothra:** Can you just detail out the kind of hiring you have made over there so as to give some comfort at our frontend execution life?
- Pranav Amin:** I think we have not finished our hiring. We will be finished with it by the end of this year. We will get a US sales head. We are in discussion with a few people, we hope to wrap up in the next few quarters.
- Arvind Bothra:** Fair enough and like you said post this year, most of your high impact para IV launches would be from your own stable.
- Pranav Amin:** So I think FY17 onwards is when we will start moving towards launching on our own.
- Arvind Bothra:** Second thing on the branded export formulation from market, we have seen a huge dip in this year, large part of it would be due to currency I believe, but what would be the constant currency growth and where do you see this normalizing at?
- Shaunak Amin:** Yes, I think there are multiple questions in this. We can answer it offline and I think Ajay can send you the details because of multiple geographies but I think two large impacts, one is some new product approvals that we were expecting in Q4 for less regulated branded formulations have not come and have been delayed rather. So along with that, I think Ukraine and Yemen where we have some exposure, both these countries have issues.

Moderator: Thank you. The next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: Specifically sir on this International Generic. This quarter, we have shown a quarter-on-quarter growth of 11%. Any specific reason because I guess there was no significant change within this quarter and Q3?

Pranav Amin: Well, it will depend on because we work through partners and it really depends on when they start picking up market shares. It is not necessary that it will still happen on first year or day 1. Sometimes it happens gradually as well as someone earlier commented that Telmisartan Hydrochlorothiazide, our partners picked up some market share. So what happens is that a few products will pick up market share and a few products not where we might have more supplies as well. So it is a combination of both.

Nimish Mehta: I see but it is largely about the market share increase that has happened right?

Pranav Amin: No, also supplies because sometime we replenish inventory as well, so that also shows as turnover for us.

Nimish Mehta: Understood and on the European launches, can you share some outlook as to like how do we expect going forward, any major thing or will it be, I won't say the significant but meaningful growth driver?

Pranav Amin: To be honest, I do not believe. So I think Europe as you know what is happening in the market has been quite impacted with the tenders and it has become more competitive. I think most of our R&D dollars and focus has been on the US market. Europe will have some growth may be, but I do not think it will be significant and it would not do much because there are some AOK tenders, some we have lost as well. So I do not expect much from Europe in the next year or two.

R. K. Baheti: And very steep depreciation of Euro of almost 25% in last one year has not helped either.

Nimish Mehta: I see, but we are not looking at any meaningful product launches in that market any sooner?

Pranav Amin: There would be few launches, but as you know Europe is quite fragmented market and with the Euro coming down, so that is reduced as well.

- Nimish Mehta:** Understood. Finally if you can provide some outlook on the margin for FY16 that will be helpful now that we are talking about some of the large products like Abilify to be launched? How do we look at the margin?
- R. K. Baheti:** I think then we will be in a position to answer this question better in the next quarter when things probably would be clearer. So as of now, we are keeping fingers crossed.
- Nimish Mehta:** But no outlook to be given, I mean to be shared on this that.
- Pranav Amin:** We generally do not give an outlook on this thing and as you know, as I said for Aripiprazole, there are a lot of nuts and pieces and there are a lot of variables in it. So I think let us see how it goes. I think by next quarter we will have a better idea.
- R. K. Baheti:** Having said that, our earlier discussion on EBITDA margin curve stands, I think over next couple of years, few years, will like to take it to 23%-24%. So that is the sense, but there is no guidance per se for the quarter or for the year.
- Moderator:** Thank you. The next question is from the line of Neha Manpuria from JP Morgan. Please go ahead.
- Neha Manpuria:** My first question is on our US filings. Do we have a target rate of filing that we planned to do every year and is there any specific areas that we were looking at for these filings that is my first question?
- Pranav Amin:** Yes, so in the call earlier I have said that ours should be about 8-12 filings. So last year when we had 4 filings was way below what we should do. This year, we filed 7 which is alright because we have moved to 6 months stability. So we lost out 1 quarter. Moving forward, I think we are about 10-12 or so. It should be where we will make and gradually start increasing that as well.
- Neha Manpuria:** Any specific area that we are looking at when you say 10-12 filings or more mature products?
- Pranav Amin:** Yes, so this I am talking about predominantly oral solids.
- Neha Manpuria:** Okay, fair enough. Sir my second question is given you want to build up frontend presence in the US, have you thought about probably inorganic strategy where especially we talked about consolidation among the larger players where they might be portfolio available, does inorganic make sense for Alembic to build that frontend presence faster probably?

- Pranav Amin:** Yes, I think there are two aspects of it. One is the portfolio and second is the team. I think both are a fallout of what happens with the M&A activity. So there you can get good talent as well as sometimes products go out in the market. So we constantly evaluate both. Our primary focus is to get a frontend for our own products, but if we can supplement it with a portfolio, if we can pick it up from somewhere else inorganically, if it makes sense for us, then we will evaluate those options as well.
- Moderator:** Thank you. Next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** There was one product from the domestic side you said came under price control. So I am just trying to understand that there was no new list that was released by the government. So how come we have another product coming under price control?
- R. K. Bheti:** There were no new lists. Actually this Althrocin, erythromycin was always under price control. In our earlier years also, it was under price control, but we used to get a differential pricing advantage, which is under government policy, if you are manufacturing the bulk drug right from the base stage and other manufacturers who are importing Estolate were getting a different lower price. That dual pricing has been abolished or differential pricing has been abolished and now they have made one uniform price which is a new low price for us. So that will give us a hit of 17 Crores.
- Dheeresh Pathak:** So last year when the NLEM came out, that time this product was in the price control but we were getting differential pricing is what you have said.
- Shaunak Amin:** Yes, the prices were fixed by the government. There were two prices fixed, one for exfermentation as they call and one was for imported stuff.
- Ajay Desai:** So Dheeresh, it was like it was part of DPCO 1995 and it is the part of NLEM 2013. This is the first time government has notified uniform price in March 2015. So basically from 1st April 2015, this new price becomes applicable. So notification came sometime end of March 2015.
- Dheeresh Pathak:** T'his was the only fermentation based product in our portfolio, right?
- Shaunak Amin:** No, no, I mean this product, there is a price difference. All the fermentation product need not have this differential. There was no other manufacturer who was doing this product through fermentation stage.

Dheeresh Pathak: What I want to ask is that is there any other product which has in a portfolio which has this anomaly where..

Shaunak Amin: No.

Dheeresh Pathak: So this year, our International Generics has not been good, last year was very good so and I think a couple of reasons. One is that we had I think lesser approvals and where we had approvals, we did not get good market shares. So next year, I think last time when we had talked, we talked about some 7-8 approvals and any more visibility that you can provide how FY16 looks for US in terms of approvals and launches and how confident you are feeling that those products which you are expecting to launch in terms of contributing to your US sales?

Pranav Amin: So actually I do not think approvals are lower than what was expected. We were expecting these kind of approvals. As I said this last year and the next year or so we should have anywhere between 6-8 approvals and may be about 6 odd launches that we have and I think we are on track for that. One of the reasons that we had a high base on the year before that in FY14, so there is some price erosion in some of the products which is one reason. Number two as I mentioned there was some on the topline basis, we lost out some contract manufacturing opportunities, some which was conscious, some it has happened which I am not too worried about as we build up for the future. Moving forward, it really depends on what success we can make from our products. As I mentioned, we do not have a control over on frontend like sometimes it becomes little harder for us to give a forecast because of that, which should change, but as for now, I think approvals are on track and we believe, let us see how the new launches go in the market formation as well.

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

Prakash Agarwal: Sir question on the R&D space, I am not sure whether this has been answered. I joined the call a little late. Sorry for that, but we have been doing about 6% of R&D cost of our sales and with the comment you made that 8-12 filings going forward, what should we assume, how much 100-200 bps increase especially with the fact that in the past we have talked about that though our current approval will be on the oral solid side, but we are also working on some derm strategy and other little higher-end products. So if you could just throw some light on the R&D please?

Pranav Amin: So the R&D spent for the year was 6.7% which was about I think 139 Crores or so. Moving forward, I think as absolute number would definitely increase, I think we will be close to about 7%-8% or so and you are right. We don't have as yet but as we go forward, we might have some complex filings as well.

Prakash Agarwal: So 7%-8% is for 2016 and 2017 onwards?

Pranav Amin: Yes.

Prakash Agarwal: And in the past, we have talked about 50 odd R&D projects being evaluated in terms of which one we want to take it forward and if you could throw some light on the color of complex filing, I mean we have talked about some derma evaluations? So what stage of filing we are and what are the other therapies we are focusing apart from oral solids?

Pranav Amin: Apart from oral solids, right now as I mentioned in the past few and sometime back derma is something that we are looking at and in the future, we may look at injectables as well.

Prakash Agarwal: When you say looking at if you could throw more light, I mean is it, have you identified the product?

Pranav Amin: We are evaluating the same. So see the whole process takes a long time and first is evaluation, then seeing whether what kind of investments are needed and most importantly building the skills set. So we know we want to do something. So we will start looking at these skill sets, it could be in-licensing opportunities or doing it yourself. So we are looking at both.

Prakash Agarwal: Sure and sir second question was on understanding when you say frontend, so I just want to do step back and look at in the US business, have you been impacted by the supply chain consolidation for last year because we had a portfolio and being a relatively smaller player, have we lost couple of clients or customers?

Pranav Amin: Actually no, if you see our products over the last year and this year, I do not think we have lost market share per se in any of the products. It always is a function of the price and what market share you can take. In terms of market share, I do not think we have lost out anything because of consolidation. As new entrants come into some products, you may see some price erosion. If people exit the market, then you may see some price increase as well. So I do not think because of consolidation, we have lost out this year compared to last year.

- Prakash Agarwal:** Lastly sir I mean speak to market, I mean we have seen a couple of opportunities in the past especially Cymbalta and other products where we have got approval and launching that product has taken some time. So what kind of steps or with this frontend coming in shape by end of the year, do we expect significant turnaround time to improve supply chain?
- Pranav Amin:** I think our supply chain as I said in my opening statement has improved drastically this time around. We have pretty much being there on day 1, For day 181 for most products and it really depends on the launch and if it is the day 181 launches if you are not there on day 1, then it is few days here that does not make as much of a difference because market is already formed, the buyers already have enough inventory. So takes a little time to get into it, but I think our supply chain is quite agile and we have ramped up quite a bit.
- Moderator:** The next question is from the line of Karan Doshi from Subhkam Ventures. Please go ahead.
- Karan Doshi:** Sir based on the frontend execution of our partners, we are not able to gain much more of our market share, and it is still a lot of sluggish. Sir could you throw some light how we are going to monetize products like Diovan or Exforge? Can you throw us some light on the next year sales till the time we do not have our own frontend in the US?
- Pranav Amin:** Actually, the Diovan and Cymbalta already with our partners you know that is through partners because we do not have a frontend. So it really depends. I think what I said is we do not have as much control over it. So I cannot give you information or details of what is happening in the market place because my partners are doing the marketing. In terms of the partner's performance, I think they have done a fair job. I think we picked them because they are competent. By and large, most of them have done a decent job and they have been able to pick up market shares wherever there is an opportunity.
- Karan Doshi:** Sir could you just help me for understanding purposes, sir we received the approval for Diovan in January and why there was a delay of 1 month for the launch?
- Pranav Amin:** Actually we did not get the approval in January. We got the approval in March '15 if I am not mistaken for Diovan.
- Jesal:** No, actually the thing is that basically this is a very product specific discussion and it is a little difficult to do on the call like this, but just to broadly give you a sense of our ability to take market share, our partner's ability to take market share is the function of many things, and one of the most important things there is we get a competitive dynamics

in the market space. So if you look at for example the Valsartan launch that you are talking about in the market was delayed and there were quite a few players and all of then it is a question of marketing philosophies on market share and stuff like this. On the other hand if you look at for example some of the other products that we have for example is Telmisartan HCT, the Valsartan HCT that you will find pretty decent market share and market shares have increased. So I think it is something which depends product-to-product and what the exact situation is with respect to that product but by and large as Pranav mentioned, I think overall we are pretty happy with the performance of the partners. So this is not something which we are too worried about. Also, there will be some possibilities to kind of improve performance with respect to sharper execution, but compared to the previous years, I think we have done a reasonably good job this year.

Karan Doshi: Thank you sir. Sir one more question. Sir post this FY16 from FY17 when we will be having own frontend in the US, so already products like Diovan and Exforge would be marketed through our partners. All the new products would be through our own frontend only, is that correct?

Pranav Amin: That is correct.

Moderator: Our next question is from Sachin Kasera of Lucky Investment Managers. Please go ahead.

Sachin Kasera: Just two questions from my side. One is if I see the reported balance sheet, I can see a goodwill component there which was not there last year, can you throw some light on that?

R. K. Baheti : On a consolidated basis when we have an investment in Algeria, it is a joint venture. It is a line-by-line consolidation but the differential between the book value of assets at their place and our investment value goes as a goodwill. This is a non-cash accounting treatment.

Sachin Kasera: Sure, second question is other than the CAPEX also, if I can see I think there is slight increase in the working capital cycle looks like. So can you throw some light on what has exactly happened there and how do you see that? Is it like the new normal or we see it returning back to the FY14 levels?

R. K. Baheti: Yes with multiple products, I think both the inventories and to some extent debtors level has gone up for the international business though we remain very tight on the domestic business working capital both in inventory and receivables, but yes I think there the

inventory buildup is all as per the plan. The receivables, there has been some slippage but negligible, but earlier it used to be dot on time. There is some slippage but I think all is good and recoverable.

Sachin Kasera: Sure sir. In terms of number of days we see it remaining at more or less at the current level as we go forward in terms of the next year sir.

R. K. Baheti: I think we hope to bring it back by 3-4 days on average.

Sachin Kasera: Both inventory and debtor sir?

R. K. Baheti: Inventory can go down a little more depending on the actual supplies, as there has been some buildup in anticipation.

Sachin Kasera: Last question was on the International Branded Formulation, this year I think the growth is little flattish. I believe we were looking a few more aggressive numbers out there. So what has transpired and what is outlook there for the next 2 years?

R. K. Baheti: Shaunak has already responded. I think there were challenges in some territories. There are some registration processes which we have discussed earlier that we are making applications for new registrations, it is a process, I think it is a small business for us and though we remain bullish on it, it is not something which needs to be alarmed with.

Sachin Kasera: One last question sir, can you give some guidance on the CAPEX for FY16 and FY17, how the plans will firmed up now?

R. K. Baheti: Yes, we are in the midst of drawing up the detailed plan. So I we will continue to invest for future. We will continue to invest as we progress on our R&D development. Pranav made a few statements on the R&D areas of interest. So as we make some progress in the development, we will start investing in the capacities. So there will be some investments. I think it would be larger than what we did in 2014-2015, but I may not be able to give an exact number as of now.

Sachin Kasera: Approximately can you assume it will be at least 100 Crores plus most likely.

R. K. Baheti: I have said that what I was to say.

Moderator: Thank you. Our next question is from Nimish Mehta of Research Delta Advisors. Please go ahead.

- Nimish Mehta:** Just a little bit on we just got a tentative approval on Pregabalin where I understand since some other players probably launched it, so what is the timeline that we are looking at?
- Pranav Amin:** No, so this product actually there is a period which expires, I think in 2018 December or something. So we cannot launch till then.
- Nimish Mehta:** 2018, so all the other players are also likely to come then or I just do not know about it if you can just update me.
- Pranav Amin:** We would imagine so.
- Nimish Mehta:** Understood and I do not know whether I missed it or not but I see in the balance sheet that the short-term loans have shot up quite a lot despite our increase in CAPEX. So like how do we understand that?
- R. K. Baheti:** Yes, actually we had intentionally not borrowed long-term anticipating an interest rate reduction and we have large unutilized bank limits. So we have used our short-term borrowing program and we will lock it up to long term when interest rates get better. Also that gives me a flexibility of managing my working capital if I have temporary surpluses. I can always use it by reducing the debt rather than investing it separately.
- Nimish Mehta:** Right and CAPEX guidance this year that will be helpful.
- R. K. Baheti:** We have not given a guidance, but as I said we will continue to invest for future.
- Nimish Mehta:** But nothing as to whether this will be higher than this year or lower?
- R. K. Baheti:** We have said it may be higher than what we invested in 2014-2015. Actually it is dynamic. It will depend on how my other programs progress? How my R&D progresses? How my US business progresses?
- Moderator:** Thank you. Next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.
- Prakash Agarwal:** Sir just question on this capacity utilization. We saw a bump up in from fiscal 2013-2014 when we added capacity from 2.6 to 5 billion units. So what is the current capacity utilization today and we were planning to raise it to 7 billion units. So is this operation lies now and what is the fresh capacity utilization if you could throw some light.
- R. K. Baheti:** It is a continuous process Prakash, in a way, but 7 billion theoretically is already operational. There will be some balancing equipments which will come. We have also

made an investment in the new pilot plant because we were feeling a constraint of taking out the exhibit batches. This is a continuous program. The current capacity utilization again in the theoretical basis would be about 50%-55% but I think we would like to keep some capacities for unanticipated opportunities.

Prakash Agarwal: So this is on the base of 7 billion?

R. K. Baheti: Yes.

Prakash Agarwal: But sir we have not seen any significant change in depreciation. I mean it has been flat, 10-11 Crores. So there must have been some CAPEX to increase that capacity right?

R. K. Baheti: I think the depreciation would go up. There has been some change in the current year if you go through the notes to accounts, probably you will find some mention. There has been some tweeking of depreciation rates as per the new Companies Act, not big difference but there is a marginal difference. Some of the capitalization also has happened towards the end of the year. So probably you see a higher depreciation impact next year.

Prakash Agarwal: Fair enough and some color like you gave some color on the litigation landscape on Abilify. So if you could just throw some light on Celebrex and Namenda opportunity so that would be helpful?

Pranav Amin: So actually really speaking, we really do not comment on any of these things. So I do not think we have made in disclosures about either of these two products. So it is really hard for us to comment.

Moderator: Thank you. Next question is from the line of Nishith Sanghvi from CIMB. Please go ahead.

Nishith Sanghvi: Probably just question on your US frontend now, FY17 you said many of the launches will be from your frontend, just wanted to know also on the existing products, will we be taking some products from our partners and launching it through our frontend?

Pranav Amin: No Nishith, what has happened is existing products already tied up with our partners. If and when the agreement expires, then yes we can always look at if we want to take it to frontend or back to the partners we may continue also.

- Nishith Sanghvi:** Just a small question on this Algerian JV now. So basically this will start contributing from FY17 profitably? So how do we look at when will it be start looking at the revenue from this JV?
- R. K. Baheti:** I think we are expecting commercial launch in 2016-2017 and when it will become profitable again is a dynamic situation, but I think in second year we expect breakeven of some profit out of it.
- Moderator:** Thank you. Next question is from the line of Ashish Thakkar from Asian Market Securities. Please go ahead.
- Ashish Thakkar:** Sir just one question on Abilify. Supposing that the FDA grants us an approval and the case is still in litigation, are we going to do an at-risk launch?
- Pranav Amin:** So that is why I said it really depends on a lot of moving pieces. We would to be the one in the market formation but again it is a risk return tradeoff to see what is happening in the market and what are the outcomes? So we are tracking it very closely and let us see what happens whenever the approval comes.
- Ashish Thakkar:** Yes, so just to put in other words, is it really our marketing partners call whether to do an at-risk launch or this is something wherein we also have some kind of a say.
- Pranav Amin:** No, this is something which will be controlled and decided by us.
- Moderator:** Thank you. The next question is from the line of Sri Hari from ECS Securities. Please go ahead.
- Sri Hari:** First question pertains to other expenditure, they shot up significantly even sequentially as well as year-on-year and secondly what is your effective tax rate guidance for the current fiscal?
- R. K. Baheti:** The second question first because that is an easier one. We will continue to be under MAT. So the tax rate would continue to remain unchanged at around 20%-21%, but that's standalone profit as of now, we are not making significant profits or losses in subsidiaries. 2015-2016 may change. So that is not a number which I am discussing right now. On standalone profits, the tax rate will continue to be 20%-21%. Other expenditure has gone up largely on two fronts as Pranav had mentioned earlier. For the quarter, R&D expenses far ahead than used to be in earlier quarters and also sales and marketing because of new divisions which we have created and which are now operational, but will be contributing from this 2015-2016. We had invested, we had recruited and trained

people. So that is an addition of almost how many people in the new divisions, about 500 people we have recruited in last 4 months and recruitment, on-the-job training, induction and all of that. So that has led to some increase in expense on sequential basis also because this has come in this quarter.

Sri Hari: Right. So on a full year basis, can you expect it to pan out at around 14% as this was the case in the last two years?

R. K. Baheti: Yes, I think more or less the number should not go, I mean percentage will not undergo a change.

Moderator: Thank you.

R. K. Baheti: Bijal, we can close the call. I think we have taken most of the questions.

Bijal Thakkar: Sure, sure, thank you sir.

Bijal Thakkar: Thank you sir. On behalf of Edelweiss, we thank all participants and also thank the management team at Alembic for the opportunity to host this call. Mr. Baheti, do you have any closing comments?

B. K. Baheti: Yes sure. Thank you once again for joining in the call. I was expecting at least couple of congratulatory messages on our FDA passing. If there are observations, all of you will jump at us and there is not a word when we passed without a 483, but anyway I think we will keep working for you guys and thank you very much for joining the call.

Bijal Thakkar: Congratulations sir on behalf of Edelweiss and everyone on the call. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen on behalf of Edelweiss Securities Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.