



## “Alembic Pharmaceuticals Q4 Financial Year & Year Ended 2014 Conference Call”

April 28, 2014



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*Alembic Pharmaceuticals  
April 28, 2014*

**Moderator:** Ladies and gentlemen, good day and welcome to the Alembic Pharmaceuticals Q4 FY 2014 and year ending March 2014 financial results, hosted by Edelweiss Securities Limited. 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 "\*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Perin Ali. Thank you and over to you madam!

**Perin Ali:** Thanks. Good evening and warm welcome to all of you on behalf of Edelweiss. I welcome you all to the briefing of Q4 financial year March 2014 results of Alembic Pharmaceuticals. Today, we have Mr. Pranav Amin, Director & President International Business, Mr. Shaunak Amin - Director & President Private Formulations India Business, Mr. R.K. Baheti, Director and President-Finance and Mr. Ajay. Desai, Vice President Finance from the management side. I hand over the conference to Mr. Baheti for opening remarks, over to you Sir!

**Raj Kumar Baheti:** Thank you Perin. Welcome and thanks to everyone for joining the call. Perin has already done the introduction, so I will start the statement right away.

During the quarter for March 2014, our total revenue grew by 23% at Rs.465 Crores, EBITDA at Rs.91.3 Crores is 19.6% of our sales versus Rs.65.6 Crores at 17.3% in the previous corresponding quarter. The growth in EBITDA was 39%.

The profit before tax grew by 46% to Rs.80 Crores and net profit after that grew by 40% to Rs.61 Crores. For the current quarter the EPS works out to be Rs.3.25 per share vis-à-vis 2.31 in the previous corresponding quarter. These are the quarter number.

For the whole year our total revenue grew by 22% to Rs.1868 Crores against Rs.1526 Crores last year. EBITDA at 19.2% at Rs.357 Crores is up V/S 16.5% of previous year at Rs.252 Crores. PBT grew by 51% to Rs.311 Crores and PAT grew by 43% to Rs.235 Crores during the year.

For the full year, the EPS stands out to be Rs.12.49 per share, vis-à-vis Rs.8.7 in the previous year. The gross borrowing as on March 31, 2014 was Rs.110 Crores versus Rs.190 Crores as on March 2013.

The board has recommended dividend of Rs.3 per share i.e.150% for 2013-2014 versus at Rs.2.5 per share that is 125% for the previous year.



*Alembic Pharmaceuticals*  
*April 28, 2014*

I will now hand over to Pranav who will take through the international business.

**Pranav Amin:**

Thank you Mr. Baheti. During the quarter the international generics grew by 76% to Rs.136.7 Crores versus Rs.77.7 Crores in the corresponding quarter last year. The API exports grew by 26% to Rs.67 Crores. Our R&D cost for the quarter was at Rs.31.2 Crores which is approximately 6.7% of sales.

During the full year, the international generics grew by 99% to Rs.468.4 Crores compared to Rs.235.8 Crores last year. The API exports grew by 20% to Rs.283 Crores and the R&D cost for the entire year was Rs.116.4 Crores which is 6.2% of the sales.

During the quarter one ANDA application was filed and for the year we have four ANDA applications filed. This takes the cumulative ANDA filings of the company to 61.

During the quarter, we received one ANDA approval and for the year eight approvals, cumulative ANDA approvals are 31 plus one 505(b)(2) approval.

During the quarter, two DMFs were filed and on the annual basis 6 DMFs were filed which takes the cumulative DMFs to 66.

I now request Shaunak to take it through the India Branded Formulation Business.

**Shaunak Amin:**

Good afternoon. In a quick nutshell, for the quarter for India Branded Formulation we saw 14% growth, which takes us to Rs.200 Crores against Rs.175 Crores in the corresponding quarter last year.

For the whole year, the India Branded Formulations grew by 14% to Rs. 850 Crores against Rs.748 Crores for last year. This is on the backdrop of two things; a very flat IPM growth for the year as well as the large NLEM impact on our key azithromycin brand. One highlight for last year has been the GESTOFIT which is the brand of Micronized

Progesterone consistently has featured in the top 300 brands of IMS-ORG.

A quick breakup between the Acute and Specialty growth is 17% for Specialty versus a negative 3% growth for acute segment for the year. Going forward I think we planned to look at for the consolidation in the specialty side of business as we have been getting good traction there and we want further increase of penetration as well as breadth of our portfolio. Thank you.

we will open the floor for Q&A session.

- Moderator:** Thank you very much Sir. We will now begin the question and answer session. The first question is from the line of Alok Dalal from Motilal Oswal Securities. Please go ahead.
- Alok Dalal:** Good evening everybody. First question is on the other income. Is there one-off component there it appears to be very high in this quarter?
- Raj Kumar Baheti:** It is from the insurance claim settlement.
- Alok Dalal:** Can you quantify that?
- Raj Kumar Baheti:** It is about Rs. 1.5 Crores.
- Alok Dalal:** Second questions is we are seeing gradually that debt levels are coming down and going forward it appears that Alembic will be a debt free company in the next one or two years. So where do you think the free cash that will be generated, how do you plan to utilize that?
- Raj Kumar Baheti:** We have drawn up some capex plans, which is over a period of two years which is 2014-2015 and 2015-2016. As the business is consolidating, our investments in manufacturing facilities will be across business verticals. . We are putting up new formulation facility for the domestic business. We are putting up some capacity expansion for our API and formulation business for the international business. So I think 2014-2015, 2015-2016 will see a larger capex; having said that we would have still strong cash flow, which will be used to for the growth of the company and for rewarding the investors.
- Alok Dalal:** Can you quantify the capex number for 2014-2015 and 2015-2016?
- Raj Kumar Baheti:** While we have completed the revenue budget, the capex budgeting exercise is still on and as I said it will be spread over two years, but my gut feeling is that in this year 2014-2015 it would be around Rs.250 Crores. So this would be significantly higher than the typical Rs. 100-120 Crores kind of capex we used to have in the past years. .
- Alok Dalal:** It definitely appears to be on the higher side Rs.250 Crores, so domestic capacity expansion is one and API is what you have hinting at?
- Raj Kumar Baheti:** In API as well as in formulation facility for international business for the de-bottlenecking and expanding the capacity.
- Alok Dalal:** Just one last question, US you have filed 61 products so far, now can you elaborate on the other areas of R&D that you are looking at focusing on injectable or nasals, some of the other areas that your peers are working on?

**Pranav Amin:** So far the 61 ANDAs that we have filed are all in the oral solids and our focus is on the US market. In terms of the other areas we have not filed anything. These are some areas that we are evaluating currently, but we do not have the facilities or the capability right now. That is something that we are working on and we do not have any filing on any of these other areas right now from what we are doing currently is just oral solids as of now.

**Alok Dalal:** Four ANDAs in FY 2014 appears a bit lower, so do you expect to pick up in FY 2015 on the ANDA filings?

**Pranav Amin:** You are right actually it is much lower than what we normally set a target for ourselves. There are a couple of reason for this, this year as you know when you have more complex products there is a high chance of failure, so that is one reason and second reason earlier because of the capacity constraints of last year in the plant, but hopefully next year and the year after we should see gradual ramp up in the filings.

**Alok Dalal:** I will get back into the queue. I have couple of more questions. Thank you.

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

**Nimish Mehta:** Thanks for taking my question. Can you just elaborate on the number of products that we have launched in this quarter in the US?

**Pranav Amin:** This quarter in US we launched three products. We have launched Metronidazole and Metronidazole capsule and Telmisartan hydrochlorothiazide capsules.

**Nimish Mehta:** On Telmisartan hydrochlorothiazide, do you expect this to remain on low competition or what do you think the outlook would be because as I understand that are only three players today including Alembic right?

**Pranav Amin:** I do not know in terms of market outlook who else has filed, who has got applications approved so I really do not know.

**Nimish Mehta:** Anything that you can comment on the market share that you would had in Telmisartan?

**Pranav Amin:** This is the partnered product and we have launched through our partner and we expect them to do decent shares. We will get to know about it a little later as we move now.

**Nimish Mehta:** Secondly if you can just throw some light on the next year's launching? Do you expect any kind of low competition product in FY 2015 to be launched?

- Pranav Amin:** Again in terms of low competition, I do not know. It depends on who all get approval, who all do not including us, but as I said earlier in the call, we are expecting anywhere between 6 and 8 launches every year in the US for the next two years.
- Nimish Mehta:** 6 to 8 launches, but you cannot comment on any local competition launched for the next year?
- Pranav Amin:** I cannot, because I do not know myself which would be low competition and which would not be, because where the market is, you do not know how many people are going to get approvals, how many people are not.
- Nimish Mehta:** Finally on the domestic business, this time around the growth has been probably because of anti-infective growth being in negative territory, but overall also in the specialty segment we have reported 11% growth which is significantly lower than the 22% that we reported last quarter that is Q3, so how do you look at it or is this one-off or how do we want to kind of what is the outlook there?
- Shaunak Amin:** We have not grown at 11% last quarter for specialty. This was much higher than that.
- Nimish Mehta:** I am reading from the presentation that has been sent. I am talking about the specialty growth?
- Raj Kumar Baheti:** I think for year it is 17% growth.
- Nimish Mehta:** How do you see that overall domestic...?
- Shaunak Amin :** These are not the internal numbers. These are the ORG numbers. I mean sometimes there could be issue of ORG over reflecting or under reflecting, most probably could be because of that.
- Nimish Mehta:** How do you see that domestic growth outlook?
- Shaunak Amin:** We think going forward we will definitely outgrow of the market and possibly look at high double-digit kind of growth rate consistently quarter-to-quarter. That is the kind of growth guidance as long as the Indian market keep growing may be mid to high single digit growth that should be possible.
- Nimish Mehta:** One final question on R&D if you can just highlight this time it was about 6.7% of the sales, what do you think would be the guidance for the next year?
- Pranav Amin:** I think 6% plus, minus, 6% to 7% is what we expect it to be.

- Nimish Mehta:** 6% to 7% right and tax rate guidance?
- Raj Kumar Baheti:** We continue to be under MAT for some more time, so 21% as of now.
- Nimish Mehta:** If I am not wrong, I mean this year we have registered higher tax right?
- Raj Kumar Baheti:** If you see the presentation, you are right, but if you see advertisement copy then the tax rate is only at around 21%, but there is deferred tax element of about Rs.7-8 Crores, this was not there and last year and the deferred tax is non-cash item, but largely that is on the larger capex's which we had this year. Non-cash item , reversible in future item.
- Nimish Mehta:** But your tax guidance MAT is including deferred tax or it is excluding that?
- Raj Kumar Baheti:** I will give tax guidance generally MAT, the cash outflow, 21% is actual tax which is to be paid excluding deferred tax.
- Nimish Mehta:** Because anywhere going to very high capex, deferred tax will actually be higher right?
- Raj Kumar Baheti:** We have not done that working. It also depends on at what exactly what point of time. There are two things. One is when do I incur the expense from the cash flow point of view, the other is when the assets get capitalized and available for depreciation.
- Nimish Mehta:** So total tax would be above MAT is a fair assumption?
- Raj Kumar Baheti:** Yes.
- Nimish Mehta:** Thanks. I will join back in queue.
- Moderator** Thank you. Next question is from the line of Kartik Mehta from Sushil Finance. Please go ahead.
- Kartik Mehta:** Many thanks for the opportunity. Sir, I have a question on the margin front that if I remember four quarters ago, we were talking about 100-basis point margin expansion every year for the next two to three years, but I think we have moved too fast in terms of improvements, so congratulation to the team Alembic but the point is that why is it so fast compared to what was guided for? What is going to be the level for the next couple of years? Are we going to see the range of 19% to 20% is sustainable range?
- Raj Kumar Baheti:** I think I had responded to discussion in one of our previous calls. We would like to stay at around these levels for the next year or so when we would be making investments in growth

for the future, so I am not guiding for margin expansion next year, but these numbers should be sustainable.

**Kartik Mehta:** So 19% should act as a floor. Another question is on the front end set of cost in the US how are we progressing on that front?

**Shaunak Amin:** I think in terms of front end cost, there is no cost right now. We said at the end of FY 2015 is when we should getting close to a launch and closer the date we will see some costs coming in.

**Kartik Mehta:** On the domestic therapy front any new segments we are planning to launch in this financial year?

**Shaunak Amin:** No new segments for the financial year, but there is a third Cardio division that is being launched as well as some, non-antibiotic respiratory division which would be upgradation of our legacy respiratory therapy, so these are the two large divisions that we have launched and obviously Gastroenterology which was another not a new launch, but it was a consolidation which we launched last year and we expanded this year further.

**Kartik Mehta:** On international generic front, we have done a fantastic growth on the back of new supply, so now have you kind of reached to some saturation level or you would have still better growth to be achieved from the existing capacity.

**Pranav Amin:** I will take this in two parts the capacity part, we are comfortable with the capacities right now and what we do is keep evaluating on products and sometimes we have given up low profit contract manufacturing business. In terms of saturations in capacities we are far from saturation. We still have capacities. We still keep in investing to get de-bottlenecking and in pilot plants. In terms of the sales, there are again two aspects on this. One is on the market competition. On market competition can reduce prices which may lead to lower sales or vice versa if someone walks out prices go up and we have higher sales. The second thing is what is in our control is by launching new products and as I mentioned in the US, we should launch anywhere between 6 and 8 products every year.

**Kartik Mehta:** In a way how much growth can you anticipate from this?

**Pranav Amin:** We have said last year that on a two year CAGR we expect a 35%, we have already achieved; however, this year, it is hard to say as I mentioned we have six launches and depends on the market situation.

**Kartik Mehta:** You do not want to specify any specific number?

- Pranav Amin:** We have not given formal guidance for this particular year.
- Kartik Mehta:** The last question on the domestic market, if I heard right, you said that higher double digit growth you are expecting in domestic market, is it right?
- Shaunak Amin:** Yes.
- Kartik Mehta:** Higher double digit could be much higher than the industry growth?
- Raj Kumar Baheti:** Higher double digit between 10 and 20 higher side of the table.
- Raj Kumar Baheti:** I will repeat. What Shaunak meant was between a table of 10% and 20% which is the benchmark of performing companies we should be closer to 20 than to 10.
- Kartik Mehta:** So that means we will be growing faster than this year?
- Raj Kumar Baheti:** That is right.
- Kartik Mehta:** So that is what I was coming to the next point that in terms of NLEM impact we have done in the base?
- Shaunak Amin:** One more quarter, I think after Q1 is Q2 the base will be factored in.
- Kartik Mehta:** Thanks a lot. Good luck.
- Moderator:** Thank you. We are going to take next question from the line of Prakash Agarwal from CIMB. Please go ahead.
- Prakash Agarwal:** Good evening. Thanks for good set of numbers. Question on this Telmisartan where you have launched in the recent past and also comment that you made the margins are the base case 19%, would you note given this product launch your revenue mix is likely to improve and close the margin?
- Pranav Amin:** It depends. There are two to three things that will happen. One is, while on this product there may be low profitability but not on all of them. Then there is increasing competition on some of the other ones, some of the people may launch and the others will kind of balance out. As we move along to the next couple of quarters, we will have a much better idea, because some of these as I mentioned earlier, it is not in our control depending on how

many approvals or who gets. If on Telmi, if there is more people who launch in the next quarter or next ensuing quarters that might change the scenario dramatically.

**Prakash Agarwal:** But if I am not wrong, this is what \$150 million, \$300 million,

**Pranav Amin:** It is about less than \$200 or so.

**Prakash Agarwal:** Okay and you are among the three players?

**Pranav Amin:** I believe yes.

**Prakash Agarwal:** What is your expectation in terms of since currently only three players we have first mover advantage, so do you have any specific targets for your partner in terms to get some market share or do we have supply constraints?

**Pranav Amin:** No supply constraints. In terms of guidance per product or product specific we do not give out; however, our partner is fairly good and we believe they should take up fair market share.

**Prakash Agarwal:** Moving to your R&D as I understand, you said 6% to 7%, so when you are moving towards the higher revenue base to this R&D number would look much bigger, but in which therapy you made a comment you have currently only oral solids, so which areas you would be currently investing for this fiscal?

**Pranav Amin:** Currently we are investing oral solids. That is what we have capabilities for. As I mentioned that we are evaluating some other areas as well. The other gentleman asked me about nasal and injectables, apart from these we keep evaluating lot of other areas, so we will invest in R&D in terms of 6% to 7% whether we will have to continue if we want to grow in the future, so we are evaluating all areas in R&D.

**Prakash Agarwal:** Moving to guidance you talked about India guidance what would be able to give guidance on overall business?

**Raj Kumar Baheti:** It is difficult to say because one 2013-2014 had a growth which also include lot of backlog clearance of orders, orders which had accumulated in 2012-2013, which we could not service due to capacity constraints so the base is much higher for 2013-2014 than what we call normalized base and second there will be exciting new product launches but then there would be some pricing pressure or there may be some pricing pressures on some of the existing products. It is difficult as of now and we are refraining from giving you guidance at this moment. As we move in quarter or two, we would have better idea.

- Prakash Agarwal:** Lastly on this India Generics, how do you think this market is functioning now you reported -4%, I understand that trade generics there is enough demand of retailer interest, so what is the outlook there and for the market and for yourself?
- Shaunak Amin:** I could not understand your questions, could you just repeat it please?
- Prakash Agarwal:** So, these generic generics you call it India Generics?
- Shaunak Amin:** Products which are sold without promotions. So they are still branded , only thing is they are sold with higher amount of discounting, so there is no promotion
- Prakash Agarwal:** I understand that where retailers would have higher margins so to say, right. So any specific reason you declined this quarter and would it be fair, we have been CIPLAs or IPCAs of the world they are promoting in a huge way, so do you think they would grow to a large extent and this could be one of the factors which are hitting volumes apart from the trade disruption?
- Shaunak Amin:** No, I do not think so, I think the degrowth is a planned degrowth so, we do not want to be in low margins commoditized business, so this is just a step to get out of it and to reduce our exposure in the portfolio.
- Raj Kumar Baheti:** Legacy of product which we had been having for the last many, many years, we will continue, but we are not growing it consciously and I think every call we have been consistently saying that it is not a focused business for us.
- Prakash Agarwal:** Understand from your perspective, but would you be able to comment from the market outlook?
- Raj Kumar Baheti:** We cannot comment on anyone else.
- Prakash Agarwal:** I will join back in the queue. Thanks.
- Moderator:** Thank you. Next question is from the line of Nisarg Vakharia from Lucky Investment Manager. Please go ahead.
- Nisarg Vakharia:** Good evening gentlemen. Congratulations on good set of numbers. My first question is out of their existing gross block was Rs. 650 odd Crores what is allocated to the international business?
- Raj Kumar Baheti:** I think bulk of it is in international business because the gross block as of now from the domestic business is less than Rs.100 Crores, actually Rs.60 to 70 Crores.

**Nisarg Vakharia:** Now this fresh Rs.250 Crores capex that we are planning to do is a relatively large capex as compared to our existing gross block. Can I have some more color on that please from the management?

**Raj Kumar Baheti:** I said that the capex will be spread across all businesses, , international API , international generics and also some for domestic branded and of course R&D.

**Nisarg Vakharia:** FY 2016 you have the same sort of capex plan as of now?

**Raj Kumar Baheti:** As I said we have not planned that out. It would be a dynamic situation. It depends on how business grows, how the capex grows if you are comparing with our own past numbers I agree that there is a significant step up, but if you look at the capex as compared to other companies or and as compared to our network etc., it is still low as compared to industry.

**Nisarg Vakharia:** What is the sort of looking at the filings that we have, what is the sort of asset that you think we would generate on this capex considering we are looking only at complex molecules?

**Raj Kumar Baheti:** That the new capex you are saying?

**Nisarg Vakharia:** Yes.

**Raj Kumar Baheti:** Literally it is too early to say that, but in the past we have said that our internal expected ROI is not less than 24%.

**Nisarg Vakharia:** I think it is higher than that right now and lastly just one broader question in the US market, we heard that there is a lot of consolidation amongst the distributors and retailers. Are we facing any challenges on the margins from there as of now?

**Pranav Amin:** . What does happen is, when you have products where there is a lot of competition that is still harder to sell and that is irrespective of how many, distributors so far we have not seen any effect of that on what we have or portfolio from last year to this year. One more thing on capex from what Mr. Baheti said, what has happened is last year, we have had tremendous growth and you would have seen that in the numbers, so as a result we have to accelerate lot of our capex plans as well, accelerate not in terms of the numbers, but in terms of timing , some could have happened next year, we have taken forward. This we are seeing the way the business has grown, because that is why want to take it up.

**Nisarg Vakharia:** So, you have some strong visibility on your pipeline and because capex is going to be supported by our existing cash flows?

- Pranav Amin:** What has happened as I mentioned in the last year the growth has been tremendous. To go for that we have to get our capex's up in running.
- Nisarg Vakharia:** Thank you so much.
- Moderator:** Thank you. Next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.
- Nitin Agarwal:** Thanks for taking my question. Pranav, on your US business, today currently R&D cost expenditure is about Rs. 120 odd Crores plus or minus and even if we take the growth of or kind of looking to hold out at the same levels even the growth if you assume, we will still are at low levels compared to get some other larger peers are and I guess the kind of complexity we are talking about in terms of new product filings, are you looking at potentially a step jump at that a point in time in the R&D expenditure, how do you look at this thing given our plan for providing plans going forward?
- Pranav Amin:** As I mentioned, I think I said we should be about 6% to 7% may be even 7% on the higher side depending on how the year goes, but you are right I think our bigger peers have much larger R&D spend. What we have to do we cannot compete in terms of number of projects, we cannot do as many as them, so qualitatively we are trying to do complex products what we can do, but I think incremental pay off in some of these had opportunities are lot more.
- Nitin Agarwal:** Per se it is 6-7% of the range that you will consciously hold on to and do a little more harder evaluation of the project that you are going to take forward?
- Pranav Amin:** If we feel that there is an opportunity as some of we may go little over 7% also.
- Raj Kumar Baheti:** It is just calculation. I do not think we are driven by percentage of the sales. It is actually our own competence and our ability to develop more products and how many projects our R&D can handle successfully and as a result whatever expenditure is incurred is just reflected as the percentage of sales, I do not think percentage of sales determine the business.
- Nitin Agarwal:** Where I am really coming from if you probably get into complex products, get into clinical trials and stuff?
- Raj Kumar Baheti:** We are prepared to commit more.
- Nitin Agarwal:** That is the point I was really coming to, \$20 million does not seem like a large amount to spend given the complexity we are really targeting. Thank you Sir.

- Moderator:** Thank you. Next question is from the line of Meeta Shetty from HDFC Securities. Please go ahead.
- Meeta Shetty:** Thanks for the opportunity. Two questions from my side. First is on the capex that you have envisaged of Rs. 250 Crores. Will it also include or does it also include any capex other than for non-orals I mean for oral solid, so are you looking in any other?
- Raj Kumar Baheti:** As of now, this entire the thing is for API, oral solids, international generics and domestic branded.
- Meeta Shetty:** For FY 2016, will we have any number?
- Raj Kumar Baheti:** We have not yet worked it out.
- Meeta Shetty:** Second thing for FY 2016, can we expect any products where you yourself would be marketing since you would have front end by end of FY 2015?
- Pranav Amin:** There will be some products. As I mentioned when we launched at the end of FY 2015, then FY 2016 there will be some products that we will launch on our own.
- Meeta Shetty:** So out of six or eight that you will launch at least 50% or probably 30%?
- Pranav Amin:** I think we do have relationship with existing partners. So we will see how many and which ones we are going to launch on our front end, we have not worked that out, we will work it out closer to the time.
- Meeta Shetty:** Thanks. That is all from my side.
- Moderator:** Thank you. Next question is from the line of Shri Hari from PCS Securities. Please go ahead.
- Shri Hari:** Thanks for the opportunity. My question pertains to the capex once again. You mentioned the capex have Rs.250 Crores, I would like to know the gestation period. Do we expect most of it to get commission this fiscal year?
- Raj Kumar Baheti:** This Rs. 250 Crores clearly is not on one single project where you are asking for gestational period. It is spread over multiple projects. The completion time of every project would be different. The roll out or commissioning of every project would be different. By end of this year, we hope that most of them will be commissioned.



*Alembic Pharmaceuticals*  
*April 28, 2014*

- Shri Hari:** So, is it different from what trend in terms of is this longer gestation project generally speaking?
- Raj Kumar Baheti:** They are not. They are typically 9 to 12 months kind of projects.
- Shri Hari:** Second pertaining to desvenlafaxine. There has been no update on that. Could you please add something to that?
- Pranav Amin:** In terms of desvenlafaxine base, Ranbaxy is trying hard to do the marketing. As you know this product requires a lot more effort, we got a moderate expectation on that and we hope that Ranbaxy is doing all the best they can to get the market share.
- Shri Hari:** Has the acquisition for SUN made any difference?
- Pranav Amin:** Not that we are aware of and if something happens we will let you know.
- Shri Hari:** Pertaining to complex products where is the earliest to expect any launch?
- Pranav Amin:** It is tough to say what you mean by complex products. As I mentioned we have about six to eight launches coming up. Complex products are moving up the value chain from a plain vanilla product to an extended release and so it really depends. We cannot say which ones are coming when.
- Shri Hari:** So this six to eight, could it be some kind of an indication, maybe one or two or whatever could be related to the complex products?
- Pranav Amin:** It is tough to say. I cannot give that.
- Shri Hari:** Thank you.
- Moderator:** Thank you. The next question is from the line of Saravanan Viswanathan from Unifi Capital. Please go ahead.
- Saravanan V:** Good evening. Congratulations on good set of numbers. I have a small clarification on the capex discussion. Can we assume that all the capex is going to be organic in nature or some Brownfield acquisitions have been planned?
- Raj Kumar Baheti:** This is all our projects. No inorganic opportunities.
- Saravanan V:** Thanks a lot. All the best.

- Moderator:** Thank you. The next question is from the line of Anandha Padmanabhan from Canara Robeco. Please go ahead.
- Anandha P:** Thanks for taking my question. My question was with regards to the domestic market. What is the kind of price increase that we have taken from April 1 on the DPCO and non-DPCO products this year from April 1 of this year?
- Shaunak Amin:** I think we have taken as per WPI, I think 6% as notified by the government on DPCO products. On the non-DPCO products there is no number because we can take up to 10% and that has not happened in April, it happens throughout the year. So we usually try to keep ourselves benchmarked to market price as in terms of non-DPCO products.
- Anandha P:** Is the percentage increase in price that you have taken is it more than what you have been typically taken in the past year?
- Shaunak Amin:** I think we keep in line with the market. We use the market as the reference..
- Anandha P:** So to that extent at least in the case of DPCO products assuming that you have taken price increase in line with what the competition would have taken?
- Shaunak Amin:** We will take the full price increase.
- Anandha P:** So competition would also have taken the full price increase?
- Shaunak Amin:** I do not know about the competition,
- Anandha P:** That is all from my side.
- Moderator:** Thank you. The next question is from the line of Nitin Gosar from Religare Invesco. Please go ahead.
- Nitin Gosar:** Just a clarification on the capex. You mentioned that 250 Crores plan for capex. So, is this Brownfield capex or the Greenfield? The point to understand here would be does this require incremental US FDA approval?
- Raj Kumar Baheti:** Part of it is de-bottlenecking of capacities as I said and part of it is Greenfield project, but Greenfield is likely for the domestic branded business I do not think we will need fresh approval from the regulatory authorities as far as the international business is concerned.
- Nitin Gosar:** Thank you.

- Raj Kumar Baheti:** One request, I am not guiding you to the questions, but I think we have done too much of discussions on capex, which is for the future, I would like to have to have more questions on the past year performance, but it is all up to you. This is for the entire audience and not to you.
- Moderator:** Thank you. The next question is from the line of Ashish Thakkar from Asian Market Securities. Please go ahead.
- Ashish Thakkar:** Thanks. Sir, on the domestic business you are planning to hire around 500 MRs so how are we placed here?
- Shaunak Amin:** How many have we hired so far? Is that what you asked?
- Ashish Thakkar:** Yes.
- Shaunak Amin:** So up to now I think, we have 90% of the recruitment is through and that we started recruiting in start of Q4 last year. Part of the recruitment and manpower cost is expensed out in last quarter and it should now fully represent in the coming quarters.
- Ashish Thakkar:** So, we have done the hiring or there is some more hiring to take place?
- Shaunak Amin:** We are through with it.
- Ashish Thakkar:** How many MRs we have on board now?
- Shaunak Amin:** 3500 medical representatives.
- Ashish Thakkar:** 3500?
- Shaunak Amin:** Yes.
- Ashish Thakkar:** In the press release I guess it was mentioned around 4000 plus MRs?
- Raj Kumar Baheti:** That is the total marketing strength.
- Shaunak Amin:** Including managers.
- Ashish Thakkar:** Got it Sir, and like we were also planning to dedicate most of the MRs through our respiratory division. So, do we have the entire product portfolio as far as the respiratory segment is concerned ready?

**Shaunak Amin:** We are going to be launching only the oral respiratory products and the genesis is established and it is subsequently relook at expanding the portfolio to other dosage therapies, dosage forms next year.

**Ashish Thakkar:** Dosage forms in the sense you mean to say inhalations and all those areas?

**Shaunak Amin:** Yes.

**Ashish Thakkar:** In the case of Derm and Respiratory we already had players like Glenmark and Lupin who are prominent there, so how are we strategizing to address these issues?

**Shaunak Amin:** I think this is a little more complex discussion. If you want we can definitely discuss it offline subsequently.

**Ashish Thakkar:** Sir on a full year basis FY 2014, we have done EBITDA margins of around 19.2%. So, for FY 2015 just a ballpark number and what your sense is. Would this 19% rate be maintained or we will be around 20%?

**Raj Kumar Baheti:** I mentioned that we will be around this number for the year. We would love to improve it, but our realistic assessment is to maintain this number.

**Ashish Thakkar:** Sir, are we hedged our receivables to that extent?

**Raj Kumar Baheti:** We have done small hedging, not in big number but I think about 20% to 25% of receivables we have hedged.

**Ashish Thakkar:** what are dollar realization for FY 2014?

**Raj Kumar Baheti:** Dollar realization for the whole year I do not know, but for the last quarter of course the dollar was quite stable and I think our average realization was 60.50.

**Ashish Thakkar:** That answers my question. Thank you Sir and all the best for future.

**Moderator:** Thank you. The next question is from the line of Hiren Dasani from Goldman Sachs. Please go ahead.

**Hiren Dasani:** Just on the export on the International Generic side, you mentioned that there were some backlogs of three earlier years in the current year. Sir would you like to quantify that?

**Raj Kumar Baheti:** It is very difficult to quantify. It is very difficult to say how much of it could have been done previous year and how much was order for the current year. What I mentioned was

2012-2013 could have been better year, had we had the capacity. Since we had capacity constraints and we had backlog of orders all that got cleared in 2013-2014. The statement was in context of seeing the growth numbers from 2013-2014 to 2014-2015.

**Hiren Dasani:** If I were to look at your last quarter, Q4 International Generic's number of about 136 Crores would there be any backlog in that or that is the new runrate now?

**Raj Kumar Baheti:** There is no backlog. That is the current runrate.

**Hiren Dasani:** That is the current runrate. So, this is base on which we should kind of look at next year?

**Raj Kumar Baheti:** Yes.

**Hiren Dasani:** Thank you.

**Moderator:** Thank you. The next question is from the line of Rahul Sharma from Karvy Stock Broking. Please go ahead.

**Rahul Sharma:** You would not mind, this is another question on capex. I just wanted to know how much would be the WIP in the 250 Crores which would be added in the current year?

**Raj Kumar Baheti:** Meaning?

**Rahul Sharma:** In the sense how much should be capitalize out of 250 Crores?

**Raj Kumar Baheti:** In the current year 2014-2015?

**Rahul Sharma:** Yes 2014-2015?

**Raj Kumar Baheti:** 2014-2015 I said that earlier that I expect all the projects to go on stream by the end of this year.

**Rahul Sharma:** Thank you Sir. I will join the queue.

**Moderator:** Thank you. Our next question is from the line of Mr. Nimesh Mehta from Research Delta Advisor. Please go ahead.

**Nimesh Mehta:** Thanks again for taking my question. Sir, just one question on the EBITDA margin that we are expecting; the base level EBITDA margin at the current quarter, what rate of INR we expect this to be maintained this quarter level in the next year?

- Raj Kumar Baheti:** It will become 60 as the base number.
- Nimesh Mehta:** 60 and if it goes down below that then we will what kind of an impact?
- Raj Kumar Baheti:** We could have an impact that I just said, some hedging we have done, but only partial. So, the whole country will get positively or adversely impacted so will we?
- Nimesh Mehta:** What will be the net foreign exchange exposure, meaning the exports minus the import?  
What will be that as a percentage of sales?
- Raj Kumar Baheti:** For us?
- Nimesh Mehta:** Yes.
- Raj Kumar Baheti:** On an annual basis it should be about \$100 million.
- Nimesh Mehta:** On an annualized basis?
- Raj Kumar Baheti:** Yes.
- Nimesh Mehta:** \$100 million?
- Raj Kumar Baheti:** Yes.
- Nimesh Mehta:** Secondly, with the capex that we are planning, what do you think would be the debt levels for the next year?
- Raj Kumar Baheti:** We do not expect significant increase in borrowings maybe this 110 Crores will go to 150 Crores but the debt equity ratio will remain the same because my networth will also get enhanced.
- Nimesh Mehta:** Finally, on the domestic growth that we are expecting to be on the higher double-digit. This is despite the two quarters of low growth that we expect because of the NELM price cut?
- Shaunak Amin:** Only one quarter.
- Nimesh Mehta:** Only one quarter.
- Shaunak Amin:** This was a high rate last year and from Q2 onwards more or less the new prices come into effect.

- Nimesh Mehta:** One last question if I can squeeze in is what is the outlook on warfarin tablets and Pentosan polysulfate if you can just highlight that it will be great?
- Pranav Amin:** I think in terms of filings, we have not commented on it. Warfarin the accubreak technology what we mentioned is something that we will file towards the end of this year.
- Nimesh Mehta:** We still maintain that, right?
- Pranav Amin:** Yes.
- Nimesh Mehta:** Anything on Pentosan polysulfate?
- Pranav Amin:** We have not disclosed anything on filings.
- Nimesh Mehta:** Thanks.
- Moderator:** Thank you. The next question is from the line of Deepak Malik from Axis Mutual Fund. Please go ahead.
- Deepak Malik:** Good evening guys. I have one question. At the start of the month, you have guided for 50 to 100 Crores of capex in one of the conference. So right now we are guiding for 250 Crores of capex. It is almost like 150 to 200 Crores increase in the capex. So, can we know the reasons why this has increased?
- Pranav Amin:** Deepak to answer your question, we are also guided for about 35% growth in international generic CAGR over two year period, but we have done that in a one year period. So, a result of that we need our capacities more often. To grow for the future we need more APIs, we need more formulations and we need more R&D. So because we have grown so fast in the last year we preponed some capex to this year.
- Deepak Malik:** Sir, what are the growth expectations then for the next two years, if we cannot get for this year but at least for the next two, because this capex will come by the end of this year, and we are going so fast on the capex. So we must be having some visibility on the growth for the next two to three years. So can we have some color on that?
- Raj Kumar Baheti:** We have not given guidance for this year. we had issue where we were late on our formulation capacities. So, what we are seeing the trend and the way the business is growing because it has grown so fast, we need to augment some of the API facilities to catch up. We need more investment in R&D as well as we need a new plant for the India business that is also growing. So based on this we have planned this capex a little more aggressively this year.

**Deepak Malik:** But Sir, if we see like out of total 650 Crores of gross block, so India is almost like 65 Crores or may be if we go for a new plant also it will not be more than 100 Crores. So it is still much higher. So that is the reason I think, most of us are asking this question again and again. So, if we are going for such an aggressive capex, so can we expect that the kind of growth which we see in the last two years will that replicate in the next two to three years?

**Raj Kumar Baheti:** Not in the current year but once the capacity is in place shortly that is the reason any prudent management will put capex and obvious answer without giving the numbers this is an obvious answer.

**Deepak Malik:** So, that means we are expecting that next two to three years we will see that accelerated growth, the way we have seen in the last two to three years? That is the reason we are now going for this kind of aggressive and fast capex?

**Raj Kumar Baheti:** I would not still call it aggressive. I mean it is all well disciplined approach. You know Alembic for quite some time. We have been a conservative and a disciplined company as far as capex is concerned.

**Deepak Malik:** We appreciate this.

**Pranav Amin:** All these questions we can discuss it otherwise there I think there is a big queue.

**Deepak Malik:** Thanks.

**Moderator:** Thank you. We are going to take a followup question from the line of Nisarg Vakharia from Lucky Securities. Please go ahead.

**Sachin Saxena:** Just one question on the margin front. There is a mention that we are trying to reduce the exposure to the low margin areas and in domestic we are looking at high double-digit growth. This would be that we are looking at productivity improvement and the share of specialty would obviously go up and then the back of filings we are going forward the share of niche and complex should go up. Considering all these do not you think that there could be some offset to the margins in the next one to two years?

**Raj Kumar Baheti:** Sure Sachin, for the existing business the margins will improve, but we are also making investments, higher R&D spends where the business will follow and also we are making investments in the domestic business where we will continue to explore opportunities for new therapies or expanding the existing therapeutic segments. So, when I say margins will be maintained I am factoring some investments for future, which will be charged off as an expense as far as books are concerned.

**Sachin Saxena:** The second question was around hedging. You mentioned that you had some hedging. Can you give some details on that? How much was the equation and what levels?

**Raj Kumar Baheti:** No. Hedging is largely to protect I am not sharing the percentage because this is dynamic. The number will keep changing, but the idea is to protect the existing level while participating to a large extent for the upside. I have not done a forward selling, which can go either way, I am protecting the base or the floor and keeping myself open for the participating on the upside.

**Sachin Saxena:** But this is a slight division in the past, earlier we used to give everything on spot right?

**Raj Kumar Baheti:** That is right.

**Sachin Saxena:** Just one question on the dividend payout, last time as you had mentioned that the dividend payout will increase. This year while the absolute dividend has gone up as a percentage of profit it has come down a little and the fact that now we have got some capex trend up next one or two years, do you think the current level of 25% is the number that we should look it or you think that we would like to step up going forward?

**Raj Kumar Baheti:** It depends on the performance. I cannot as of now comment on what kind of payout would be there, but you are right we have kept the payout for the current year in view of the capex's which as Pranav says has been accelerated.

**Sachin Saxena:** Thank you and wish you all the best.

**Moderator:** Thank you. Next question is for the followup from line of Alok Dalal from Motilal Oswal. Please go ahead.

**Alok Dalal:** Thanks for taking my question again. Sir, have you quantified the US sales number for FY 2014?

**Raj Kumar Baheti:** Surely, we have quantified. We have given the audited results here, but I do not think we are sharing the numbers country wise.

**Alok Dalal:** But in the past, you used to give US as a percentage of your international export sales, so can you give that same number again?

**Raj Kumar Baheti:** I think the numbers remain the same. We have been talking of 65%, 70% numbers for the North American market that remains the same.

- Alok Dalal:** Last question, when is the next FDA inspection expected for both formulation and API facility?
- Raj Kumar Baheti:** That you need to ask FDA what is their travel schedule.
- Alok Dalal:** When was it last inspected?
- Pranav Amin:** The API plants were inspected last year. As far as formulation I think it has been two years, so we maybe this year we might get an inspection.
- Alok Dalal:** Thank you very much.
- Moderator:** Thank you. Next question is from the line of Pranal Shah from Amideep Investment. Please go ahead.
- Pranal Shah:** Sir, could you give a number for market shares for Desvenlafaxine?
- Pranav Amin:** It is less than 1%.
- Pranal Shah:** Thank you.
- Moderator:** Thank you. Next question is from the line of Jagdish Bhanushali from Athena Investment. Please go ahead.
- Jagdish Bhanushali:** I have seen there is a QOQ degrowth in antiinfective and cough segment in India and there has been a reduction in gross margin of about 200-basis points, so is it fair to assume that the margins in anti-infective are higher?
- Shaunak Amin:** No, I think I do not think you can make an overall corporate margin expected degrowth because if you see the degrowth not just for this quarter I think even for the last two quarters, we have had in degrowth antibiotic mainly driven by the large base erosion of azithromycin due to the new NELM prices, so last quarter's margins also had reflection of the antibiotics sales in that.
- Jagdish Bhanushali:** Thanks a lot.
- Moderator:** Thank you. We had follow up question from the line of Nitin Agarwal from IDFC Securities. Please go ahead.



*Alembic Pharmaceuticals*  
*April 28, 2014*

- Nitin Agarwal:** On the international branded formulation business, we have seen good growth in the current year. How do we see this segment playing out going forward? Are some of these investments really beginning to pay off for us?
- Shaunak Amin:** It is very early. The base is very small for the international branded, but we expect good scale up. So it is going to be a gradual scale up and not like international generics, but yes we are filing products and we have started to get approvals in a lot of market so we should expect of good runrate in the coming quarters.
- Nitin Agarwal:** What is for sales force, have we got in these markets across some of the markets?
- Shaunak Amin:** Yes, we have about 150 medical reps spread over about 7 to 8 markets and we are always looking at expanding and we should open at least two markets, go into two new markets this year as well as expand the sales force in one or two countries.
- Nitin Agarwal:** You already touched upon the question earlier in consolidation in US on the supplier side, but do you envisage some sort of structural pressure on margins for businesses going forward?
- Pranav Amin:** The situation is lot more complex and yes there is lot of consolidation amongst buying and the big groups are coming together, but there are opportunities because they cannot do everything with one group also, so there are different price points depending on how much market share you are going to pick up, and how aggressive you are going towards your pricing if you are to be in the stay of selected, one stop source. Second is again as I mentioned earlier it depends on the product there is a three people in the market taken a more chance to pay around the price of better margin.
- Nitin Agarwal:** So, the pain in the portfolio would be in the lot of pressure right?
- Pranav Amin:** But it always has been under pressure as well. If you see historically , a lot of other people were complaining of very high erosion with high volume venla products. I think that will always be there.
- Nitin Agarwal:** Thanks very much.
- Moderator:** Thank you. Next question is from the line of Amish Kanani from JM Financial. Please go ahead.
- Amish Kanani:** If I understand correctly the number of commercialized launch in US is around 20 or something like that and you have approvals for 31 products, so what I wanted to understand earlier you had capacity constraint and hence you have not launched off the product that has

been approved as launched, so do you plan the launch which are approved, but not yet commercialized and for the products are the same?

**Pranav Amin:** Just to clarify out of 31, 27 is final approval and four are tentative. , and out of 27 we have launched 21, are not launched. We may or may not launch depending on the market situation. I think earlier there was the issue of capacity, but there is some also a competition), so depending on market situation we may launch some of this year, some we might not.

**Amish Kanani:** You had virtually doubled the capacity on the oral solid tablet side from 2.6 billion to 5 billion as I understand earlier, so where have been in terms of capacity utilization in some broad range and in that context your capex plans?

**Raj Kumar Baheti:** We are at around 65%. We are doing some more capex for debottlenecking and increasing it to about 7 billion.

**Amish Kanani:** Do you think the growth is very reasonable for you to do this?

**Raj Kumar Baheti:** I take it in different terms as a student in pharma business has been in the business for the last 25 years, it is always better to keep some capacity idle rather than to loose out opportunities when the opportunity presents, so idle capacity is not going to kill you, some lost business will definitely hurt you.

**Pranav Amin:** I had just follow upon that and a lot of questions people ask on consolidation and buying. One important aspect in the pharma business and international generics in the US is the supply chain efficiency.. If we can ramp up capacity, if we can get orders, if we can supply on time that goes a long way and we believe that it is good to have capacity ready whenever needed to ramp up.

**Amish Kanani:** Could you give us some flavor on your top products, how are your market share is right now because your average sales per commercialized product is \$2 million and the most successful large peers do in the range of \$5 to \$7 million. So my question was is your basket relatively small products and hence this number or do you think your market shares are relatively low and you just kind of scratch the surface and that there is scope to grow these products?

**Pranav Amin:** To answer that question, one we do not give product wise market share, but our products, compared to peers in the Industry are sold through partners, so what we are seeing is net sales and not the gross sales that we capture and it depends partner to partner and in some

products yes we have good market share, some they have been lower. Again it depends how aggressive we want to be with the pricing

**Amish Kanani:** So the question was is the growth coming more from scaling of the existing products or the new launches? You think this is the decent size with your net sales and stuff like that you think the growth will come more from new launches?

**Pranav Amin:** I said the growth will come from new launches.

**Amish Kanani:** Thanks a lot.

**Raj Kumar Baheti:** Perin, couple of us have to take the flight back to Mumbai, can you take last couple of questions and then we wind up this.

**Moderator:** Thank you sir. We are going to take last question. Ladies and gentlemen due to time constraints, we are going to take a last question from the line of Saion Mukherjee from Nomura. Please go ahead.

**Saion Mukherjee:** Good evening and thanks for taking my question. Slightly longer term if I have to think three to five years, will it be fair to assume that US would be contributing disproportionately to your growth over the next three to five years in terms of earnings?

**Pranav Amin:** It is fair assumption to make.

**Saion Mukherjee:** You mentioned about the R&D cost and some failures on the R&D side, this you are referring largely for your filings in the US?

**Pranav Amin:** Yes.

**Saion Mukherjee:** Pranav, I think you have mentioned about 6 to 8 launches right, I mean annually you expect, I mean increasingly will we be seeing more of like day one kind of launches going forward?

**Pranav Amin:** Absolutely, I think you are right. In the past we have not launched the day one that is endeavor now we have capacities, we have expertise, and we would like to be there on day one itself that is the goal.

**Saion Mukherjee:** A lot of companies have products \$20, \$30 million kind of size, when you look at your pipeline around 30 odd products, do you see those kind of possibility opportunities coming in the next couple of years for you?



*Alembic Pharmaceuticals*  
*April 28, 2014*

- Pranav Amin:** Of course, we do have some filings of the products. It depends on the competition and how much price erosion there is.
- Saion Mukherjee:** Thanks a lot and all the best.
- Moderator:** Thank you. Ladies and gentlemen that was the last question, I would now like to hand the floor to Mr. Perin Ali for closing comments.
- Perin Ali:** Thanks. On behalf of Edelweiss, we thank all participants and also we thank Mr. Baheti and everybody on the management side to take out time. Mr. Baheti is to have any closing comments, please go ahead.
- R.K. Baheti:** I would like to thank everybody. It was very interesting and very participative discussion and thank you for taking interest and taking time out we will respond to your individual questions if you send the mail to us. Thank you very much.
- Moderator:** Thank you Sir. On behalf of Edelweiss Securities Limited that concludes this conference call, thank you for joining us. You may now disconnect your lines. Thank you.