

Conference Call Transcript

Alembic Pharmaceutical
Q1FY13 Results
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Corporate Participants

Mr. Pranav Amin
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R. K. Baheti
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Questions and Answers

Moderator: Ladies and gentlemen good day and welcome to the Q1 FY'13 Earnings Conference Call for Alembic Pharma hosted by Edelweiss Securities. As a reminder for the duration of this call all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference being recorded. I would now like to hand the conference over to Mr. Manoj Garg of Edelweiss Securities. Thank you and over to you sir.

Manoj Garg: Thank you. Good morning and a warm welcome to all of you. We at Edelweiss are pleased to hold this call and welcome you all to the briefing of quarter one FY'13 results of Alembic Pharmaceuticals Limited. On behalf of all the participants -and Edelweiss we welcome Alembic Management Team to discuss the result and on the outlook of the company going forward. Today we have Mr. Pranav Amin, Director and President International Business and Mr. R.K. Baheti, Director and President Finance. Now, I would like to hand the conference over to Mr. Baheti. Over to you Sir.

R.K. Baheti: Thank you Manoj. Good morning and thanks to everybody for joining this call. We have Mr. Pranav Amin along with me on the call. Most of you would have received our financial results along with the investor update; however, quickly let me take you through the operations for the quarter ended June 30. During the quarter, the total revenue grew by 7% posting sales of 368 Crores. India formulation business grew by 14% at 197 Crores, international business remained flat posting revenues of -140 Crores, which was largely expected as we have discussed in our last conference call, cumulative ANDA filings stands at 49 of which 20 are already approved and cumulative DNA filings are at 63. The profit before tax grew by 7% to 38 Crores and profit after tax for the quarter grew by 12% to 30.83 Crores. For the current quarter, the EPS worked out to be 1.64 per share for the share as against 1.46 for the previous corresponding quarter. I would now request Pranav to give your brief on the operation and then we will open this up to the Q&A Pranav.

Pranav Amin: Thank you Mr. Baheti. Good morning everyone. Let me start with the R&D. , R&D cost of the quarter was about 14 Crores, which is about 4.1% of our sales. We filed four ANDA during the quarter and as Mr. Baheti mentioned at cumulative ANDA stands at 49. We also filed our first Brazilian dossier with ANVISA this year which was first for us. As you know our facility and Bio-center board approved ANVISA last year.

During the quarter, Alembic along with Breckenridge settled its litigation Para IV litigation with Novartis on the Rivastigmine Tartrate capsules and we have launched a product as well. Also during the quarter Alembic filed the Para 4 and

desvenlafaxine succinate extended release tablets. This is a first to file opportunity and we expect to share 180 days exclusivity with other ANDA filers.

In the stock exchange release yesterday, Alembic has also entered into development and license agreement with Accu-Break Pharmaceuticals to develop new products based on the innovative Accu-Break technologies. First one that we will be working will be warfarin for the US Market. We hope to extend this platform to other territories as well in the future. As regards domestic Mr. Baheti gave you as upon the number which is about 14% growth, but we are seeing the delayed monsoon having effect on the anti-infective numbers which we will discuss subsequently. I throw open this forum for question and answers.

Moderator: Thank you very much sir. First question is from the line of K C Suri from Span Capital. Please go ahead.

K C Suri: Good morning Mr. Pranav and MR. Baheti. I just wanted to understand in your release the international branded and international generic had a decline could you like give the reasons as to why so and what led to it?

Pranav Amin: I will cover the international generic first, in the international generic we had some very high margin business last year in Canada which has not continued this year, so that is one reason. Second, which was a bigger issue is that we actually have capacity constraint and the new formulation facility which should be up and running by the end of the fourth quarter, so that is second reason we could not grow the business. The third aspect why the sales was lower because we did a lot more validation batches of filings in Brazil, Europe, U.S., so that also took up some of the capacity. After Q4 of this year, I think we will see steady ramp up in sales in the international generic. As regards the branded generic business is the matter of focusing on the better product portfolio that is one of the reason for the lower sale.

K C Suri: What was the quantum of forex during the quarter? I mean any gain loss?

R.K. Baheti: There was the loss of about Rs. 3.5 Crores for the quarter largely on the forex denominated loans, but I think against that the benefit which got captured in sales is far higher, so net-net we are not loser, but to be precise on a P&L there was a hit of 3.5 Crores on forex.

K C Suri: In which line would that be sir?

R.K. Baheti: For the quarter?

K C Suri: No, in which line would that 3.5 Crores to be reported the forex?

R.K. Baheti: It should be in other expenditure.

K C Suri: Other expenditure. Okay and for your international business can we have the constant currency growth, in numbers reported 46 Crores and 8 Crores for international branded and international generics after translation to Indian rupees how much was the actual underlying dollar revenue?

R.K. Baheti: I would not have that number immediately, but I can have it

mailed to you.

K C Suri: Thank you.

Moderator: Thank you. The next question is from the line of Sarvanan Vishwanathan from Unifi Capital. Please go ahead.

S. Vishwanathan: Good morning sir, congratulations on good set of results. I just heard you mentioning about the first to file opportunity wherein you could have the 180 day exclusivity, would we have the capacity to capitalize this opportunity?

Pranav Amin: Absolutely, because the filing was right now, but the launch of course the expiry still two, three years away I believe in 2015 or 2016, so our capacity issue should be resolved by the end of the fourth quarter of this year, so it would not have any impact.

S. Vishwanathan: For Accu-Break also?

R.K. Baheti: Given for this Accu-Break technology we are ramping up our manufacturing facility, so by the time we have those approvals in place we would have adequate manufacturing facility with us.

S. Vishwanathan: Okay and you investor communication mentioned about price erosion in the international generic segment, was it on expected lines, or was it more than your expectation?

Pranav Amin: Actually it was not on expected lines actually this is better than expectation to be honest, because we have had this huge chunk of very profitable business last year which stopped due to certain reasons hence it was in line.

S. Vishwanathan: Final question my side, you have mentioned the delayed monsoon and slightly effect on you anti-infective business considering that what will your outlook for the domestic business for this year?

R.K. Baheti: Difficult to say as of now, in the first quarter my specialty business grew by 20%, my antibiotics-infective grew by 7%-8%. Now I think we have seen some signs of rain reviving in August, we are still not sure what it will be the impact. As of now my budget is 15% growth to was previous corresponding quarter, probably it would be around 10%, 11% growth.

S. Vishwanathan: What are the current debt levels?

R.K. Baheti: We have repaid about 25 Crores during the quarter and the debt level could be around 325 Crores at a gross level everything working capital, term loans, ECB altogether.

S. Vishwanathan: Okay, thanks a lot sir, all the best.

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

Nishith Sanghvi: Hi sir, I just wanted to reconfirm the growth outlook that you are given for domestic formulation, you said it is 10% to 11% for FY 13 is it correct?

R.K. Baheti: I said for quarter two, we were discussing context of quarter two.

Nishith Sanghvi: Okay, but the growth outlook for domestic formulation stays at 14% to 15%?

R.K. Baheti: For full year yes. Nishith if you would have observed what has happened is over the period our anti-infective portfolio or acute in short which was about 75%, 80% of our total sales has come down to about 55%, so today 45% of the my business is Chronic and that is growing pretty okay I think for the last couple of year that has been growing at 18%-- 20%, so we expect to maintain that growth momentum as far as the chronic is concerned. Acute will of course depend to some extent on monsoon and to some extent on our increased efforts or focus on the strategy.

Nishith Sanghvi: Right sir and just on the outlook on your export formulation's business, now basically what kind of I understand that this quarter you had last quarter so it is probably the base impact has happened but the ramp up, we will be able to achieve the quarterly runrate that you have been doing over the last quarter in case of export formulation, we were doing 68 Crores in FY Q4, FY12, going ahead, what kind of numbers do you expect from these business?

Pranav Amin: I think matching those numbers will be a tough for the next two quarters at least; Q4 onwards I think we will get into those numbers and actually start ramping up.

Nishith Sanghvi: Okay, so basically for the full year?

R.K. Baheti: Probably we will be doing around between 225 and 240 this year and next year of course we have set significant growth to come from the business.

Nishith Sanghvi: Great sir and my last question is on Accu-Break technology now, when do we see this revenues or this business coming into our revenues after FY14 or how was it?

Pranav Amin: Yes Nishith, what will happen in this, the development will start now the platform technology is ramping up we are setting up equipment and stuff so we should do the filing within the next 9 to 12 months, 9 to 12 months doing a 5-0-5 B2 we should hope to get an approval for another 9 to 12 months after that, 24 months for this commercialized.

Nishith Sanghvi: That is all from my side probably I will join back the queue. Thank you.

Moderator: Thank you. The next question is from the line of Jigar Shah from KimEng Securities. Please go ahead.

Jigar Shah: Good morning Mr. Baheti and Pranav. I would like to congratulate you for not the numbers but for bringing out some good development in the research and I think there is what one would like to here more about Alembic doing in all that. So I think Accu-Break development looks quite interesting on the face of it. What I want to understand is what is the opportunity size for something like this and also while doing this while you commercialize the things do you get any kind of royalty or such other payments in the meanwhile?

Pranav Amin: Thanks Jigar I agree with you actually for the future growth and let me comment that we are increasingly focusing on to differentiated products to some value add products. As regards Accu-Break the opportunity at present we have evaluated and what worked on is just a warfarin opportunity which should go anywhere between 5 million to 20 million in a five year period, depending on how the marketing is done how successful it is. As regards the royalties, what will happen is both Accu-Break and Alembic will get a marketing partner to do this? Now it depends on kind of deal we do with the marketing partner and we could stay, but we have not factored any royalties, because we have to rather take a percent of the net sales in the future.

R.K. Baheti: There will be other interesting products probably which will qualify for the technology, so I think as of now that is early days may be we will do some more work on it then share the details with you.

Jigar Shah: Can you give some idea of how successfully Accu-Break in doing this kind of anything elsewhere in the world, what the have size I do not think there is much information available about them because they are not public?

Pranav Amin: Actually it is a small company and the founders from x pharma chairman and lot of notable people. It is purely a development company and they outsource everything. So payment has not too much, I think these are the first few months I think this outlet and platform somewhere else, but there is not too much out there. If the concept is if it really helps in terms of specific product, you cannot apply the technology everywhere only where that titration where we have very precise doses and narrow therapeutic index where unsafe from dose to change that is the two areas where it works the best.

Jigar Shah: Is this arrangement with Alembic exclusive in terms of geography or products or what is kind of the nature of arrangement?

Pranav Amin: It is not an exclusive arrangement as of now we have started for one product development and then we have option open up doing more products for the territories and there is still our progress.

Jigar Shah: Okay, the second point that I want to understand is that despite delayed monsoon, which affects lot of your product portfolio in domestic market. There is 13% to 14% kind of growth in the domestic market. Now what will make you do even better than that, it does not improve from what it was in the previous year, but you are still doing as much as the industry growth and having relatively smaller share probably you should be doing more growth, so how you are shaping up your strategy to do that?

R.K. Baheti: Jigar, all of you are aware with that in this industry, getting the topline growth is not much difficult; however, getting the topline growth while maintaining margin and keeping the cost within its band is extremely difficult. So I think we are trying to do a fine balancing of job without sacrificing margins, without going overtly aggressive on marketing and promotion efforts, we are trying to grow the business through scientific messages to the customer fraternity and that is not easy so while I appreciate that there is a potential for growing our sales faster than the industry, I think there are challenges. As long

as my chronic grows 18% to 20% I am not too concerned about overall growth number because that is where I think the future is focused for.

Jigar Shah: Okay that gives me good idea. One last thing is that, I know that this year you are facing capacity constraints so growth is not going to be very great on the topline, but would you like to give some number now that you are seeing in the first quarter and you are already in the second quarter, and what kind of indication is there for the following year because you will have the capacity in place and it seems that your product pipeline is also getting stronger. So overall what kind of growth one can look at on the topline for the FY'14, if you give some idea.

R.K. Baheti: I think for the next three years, , we would not be very happy if you would do less than 25 to 30% CAGR.

Jigar Shah: Okay, thank you very much that is a very good number. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Lucky Securities. Please go ahead.

Sachin Kasera: Good morning Sir. I have two to three questions. One is if you could give a breakup of domestic growth of 14% between volume price and new launches that would be of great help?

R.K. Baheti: Generally the industry is driven more by volumes and new introductions rather than price increases I have no specific number for Q2, but in the past I think if we have grown by 14% if I can say my price increase growth is just above 2%, 9% is about volume growth and about 4% is new product introduction.

Sachin Kasera: Secondly, would you update us something regarding your MR strength in the productivity and how are you benchmarking it, how does it stand vis-à-vis some of the other peers?

R.K. Baheti: Our MR today is about slightly more than 2800, total marketing team is about 3600 my acute MR productivity is inline with industry or as good as anybody else in the industry. My specialty MR productivity is still low because it is a relatively new business for us and also for our MR team, but I can focus on penetration of larger geographical area and I think slowly the productivity will ramp up.

Sachin Kasera: Can you sir breakup this MR between acute and chronic and how much in the chronic, is it below industry when we expect to reaching us the benchmark?

R.K. Baheti: I would not have it readily. I will have it send to you on mail.

Sachin Kasera: Secondly Sir, on the export market front you mentioned that it was a combination of product mix change, price erosion and also capacity constraints, so if you could just tell us is it that the plant was at almost at a full capacity?

R.K. Baheti: I think Pranav has already responded. Plant in working at

theoretically 100% capacity and the reason for degrowth was discontinuation of one of our large high profit product in Canada.

Sachin Kasera: Going forward in terms of productivity of earnings how do we build in this, are there still some junky products in the portfolio that could cause volatility in the next two to three years? How do you see your product operating for your export market?

R.K. Baheti: I think that going to be the case all pharmaceutical companies in international generic market. There would be quarters, where they can have advantage of some very profitable product, there would be quarter and you do not have, so it is very difficult for me to comment today if we are getting into those Para IV and 5-0-5 2B kind of product filings, I think those volatility would increase, but what we are trying to do, we are trying to build a base of number which will remain unaffected by these volatility.

Sachin Kasera: My last question is on the FY'12 balance sheet number, there are certain transactions that I can see interrelate party with associate companies and I would also clarification. One is purchase of goods worth 67 Crores, so second is deposits given of around 27.5 Crores and the third is large figure of ICD 102 Crores approximately of loans given to an associate companies, could you just clarify on these three transactions Sir?

R.K. Baheti: As far as the purchases are concerned they are largely from Alembic Limited. They continue to make some of these fermentation based or Macrolide API products and the pricing is no different from the market prices, they are all market driven prices that is corporate governance requirement also and that is the reason we did restructuring so whatever earlier coming as part of captive transfer has now become sort of purchases. As far as the inter-company loans and advances are concerned that is not 100 Crores, that is only about 50 to 52 Crores that also very largely to Alembic Limited, which was again part of the restructuring which Alembic is supposed to repay in the next two years, so by March 2014 we expect this to become zero, because by that time they would have enough cash flow out of their new projects.

Sachin Kasera: Basically if I see the Page 42 of your balance sheet, this loan given to GRO that of 102 Crores, outstanding is 63 Crores and there is also deposit given of 27.5 Crores which was not there last year?

R.K. Baheti: Those are like assets which are the project which Alembic Limited is building; we have also brought some property in that that is an investment and reported again is that.

Sachin Kasera: This loan given that you mentioned is just 63 Crores at the end of the year, it has gone from 26.5 Crores last year?

R.K. Baheti: I think it has remained almost at the same level.

Sachin Kasera: May I will take it offline in Page 42 it is given 2011 plus 26.5 and it is 63 as on date?

R.K. Baheti: Will come back to you.

Sachin Kasera: Sure thank you so much.

Moderator: Thank you. The next question is from the line of Niraj Somaiya from Rose Wealth Management. Please go ahead.

Niraj Somaiya: I wanted to ask you what is the next three years if I heard you said 15% to 20% growth in the next two years, so you see our company will be like 2500 Crores topline company is that achievable?

Pranav Amin: I would make it growth up in the two areas, one on the international generic; absolutely we expect not less than 25% growth in the international generic. As regards the Indian markets we believe that we have 14% to 15% is the decent growth side to keep moving forward due to the portfolio that we have. In terms of APIs also will grow may be not as much as, but I do not expect API growth to be more than 15% as well because we are changing the product mix, so if we do the Math, yes we could be 2500 Crores in a couple of years about three to four years.

Niraj Somaiya: Would you be able to maintain margins because as you keep moving into the API business the price erosions are very severe when we saw the first quarter of doctor everyone, so do you see that price erosion topline could be maintained, but would you be able to protect your margins, that will be another concern?

R.K. Baheti: I think I responded to this actually partially in my previous question, but as of now the focus of the company will be to improve on the operating margins, so not in this year, as we move to the next year with a new plant capacity, we expect our operating margins to move up by 100 to 125 basis point at least.

Niraj Somaiya: This first to file how big are these opportunities, Norvatis and one with Pfizer how big are these opportunities can I just have some idea, can you throw some light on that, even I know it is 10 to 15, how big is the opportunity can you throw some light on that?

Pranav Amin: Sure, as regards to the first one the one with Norvatis Rivas that is Exelon it is not a very big opportunity because there are already some generic out there, so this was more of a learning for us in making a Para IV under litigation so that molecule size is generic size, price is only about 46 million. As regards to the other one they are close to have Pristiq less than a fraction and it is currently about 577 million dollars in the US and it should be about a billion dollar it is expected in another couple of years' time.

Niraj Somaiya: So it could be some 100 million opportunities if we see 90% price erosion right could be a 100 million with three to four players?

Pranav Amin: Actually there is a lot more than three to four players on the first profile, but we will know moving forward then it could be 90% it would be about 100 million.

Niraj Somaiya: Does it concern you that you have built your API and international business partners, in the short time it is very good, because technically your cost are reduced, does that concern because you are reaching 60% of your business international, domestic business is a very stable, doing

very well that is fine, does that concern you, when you sometimes move as a big boys or would you continue this model, both now not a small company even internationally may be 700 to 800 Crores size now, so does that concern you, or how is it managing Alembic quarter was we are seeing it that over years, so never being a stable performer that is where the concern has been and thus the management get concern on that, that is my major question as a long term investor on the company?

Pranav Amin: Now it is a good question here. Actually on the international side there is a question that we keep debating all the time. I believe there are some market where it make sense to go directly, and when you do a have portfolio that is easy to sell we have some good quality products, not out of the mill products, so that is consistently Somaiya that we keep evaluating and for the U.S. market we do it. As far as some of the other markets are concerned, if you said Brazil or Europe I think you have followed a different model, I personally do not believe in present strength that we have make sense to go directly. U.S. is something you keep evaluating and yes that company might have to make some move also if we feel we are ready for it in terms of the product portfolio.

Niraj Somaiya: Do you see, this time you are caught with capacity constraint, do you see further you would not have such bottlenecks would the management be more proactive in building capacity?

Pranav Amin: Absolutely we were actually one of the reasons, there are two reasons why this happened, one is the business we did not expect a ramp up will happen as fast as we had in terms of generic because it is still early for us so the business grew a lot faster and then at that point we were busy with supplies and did not get now to be proactive on the product moving forward I do not think we should have this issue again.

R.K. Baheti: Also probably on the hindsight everybody is wiser, but also we had this situation of this plant being underused for three to four years with larger overheads, so we wanted to be doubly sure before starting such fresh investment. Now that you have a critical mark, I think next time when we have this requirement probably we will be headed offline.

Niraj Somaiya: You have said that this year you will repay 50 Crores right, already you repaid so you will reach your target, so it will be debt of around 300 Crores in the end, in the gross level?

R.K. Baheti: Absolutely.

Niraj Somaiya: Can I just understand what are now Alembic Limited and Alembic Pharma relation. I understand we actually given the loan, I am well versed but if you could just clarify for overall, what exactly now the relationship between Alembic Limited and Alembic Pharma, because there is one question earlier that some business was done and there is a real estate part certain which we also have and they would not put equity in the company can you just explain the two reasons how it will go forward because always it concerns people, if you could just explain a little bit?

R.K. Baheti: Honestly I do not think there is a much room for concern. Alembic

Limited continues to manufacture API which macrolide based, because there is a fermentation facility we do not have and now we do not plan to have in Alembic Pharma, so those API we continue to outsource from Alembic Limited. As far as the business relationship is concerned that is restricted to outsourcing of or buying up API at arms length of price because they are all commodities so the prices are certainly available. I mean there is no monopoly of Alembic Limited that they can charge us higher prices or we need to or are forced to pay a higher price it is a market driven price. As far as the other things are concerned, I think the only other relationship is Alembic Limited again by the scheme of restructuring had real estates or some of these offices etc., continues to be owned by Alembic Limited and again Alembic Pharma pays market driven rent. Alembic had given limited properties to other customers also and they have given to us also and we pay rent. I think those are the only two as far as business or operations are concerned relationship there is no other relationship. The management team is completely different except some people like me who are probably common to both, otherwise marketing, manufacturing, operations, procurement, all functions are independent . Alembic Limited of course continues to hold equity shares in Pharma that would continue.

Niraj Somaiya: You have some stake in the real estate also right as you are explaining something that you have some share in the real estate part right?

R.K. Baheti: we have bought some apartments based on exact business requirement that is all.

Niraj Somaiya: So only that will get canceled and you will get the apartments, is that right?

R.K. Baheti: Yes.

Niraj Somaiya: You would give an advance and advance would get cancelled against the allotment of apartment's right?

R.K. Baheti: Absolutely.

Niraj Somaiya: What other business can Alembic also complete tomorrow with you or no, or it would be only Alembic Pharma, Alembic can go into the other market, can it go into domestic business or there is nothing like that or they will just continue making APIs?

R.K. Baheti: There is no legal prohibition of Alembic Limited getting into any of the businesses but there is no intention, because see idea of whole restructuring in Alembic Pharma again different entity, distinct entity focused on the core pharmaceutical business and Alembic Limited run is old fermentation facility and try to get diversified into the real estate and other stuff so there is no plan, there is no need put for Alembic Limited to get into the pharmaceutical business which API is dealing with.

Moderator: Thank you Sir. The next question is from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.

Sangam Iyer: Sir actually I just wanted the growth guidance that you had given for the export formulations could you just repeat that?

R.K. Baheti: For the export formulation as I mentioned for this year, we have had muted performance and it will start ramping after Q4, but on the year-on-year basis we will expect at least 25% CAGR.

Sangam Iyer: Next year onwards?

R.K. Baheti: Next year onwards.

Sangam Iyer: So this year the runrate that we are currently seeing would be the quarterly runrate that one should expect because of capacity constraints?

R.K. Baheti: Or may be slightly higher in Q3 and Q4, but that is more on product mix and on the pricing and not on the absolute volume.

Sangam Iyer: On the API side you said that 240 Crores is what one should be looking at from the export side?

R.K. Baheti: 240 Crores is the international generic number.

Sangam Iyer: For the domestic business as a whole, we actually has been seeing in a quite a strong pickup across the board and amongst peers also in the chronic segment, and acute also slowly but is picking up, so do we see second half recovery in the acute segment which is why we are saying you should still be able to maintain a guidance of 15% for the full year?

R.K. Baheti: I really do not know it is little early for me to predict because I think July will be pretty desperate because the rains are very low, August it has picked up a bit in from parts of the country, so I am keeping my fingers crossed.

Sangam Iyer: Okay, but if the rain is similar to what it has been currently then the guidance would actually trend down to around 20%?

R.K. Baheti: It is difficult question. As of now, I am not revising my projection upwards or downwards I continued to maintain 13% to 14% growth on an overall basis for the year.

Sangam Iyer: Sir, lastly on the margin front what would be your outlook on the margins for this year?

R.K. Baheti: This year margin we hope to continue between 14% and 15%.

Sangam Iyer: Tax rate at around 19% to 20%?

R.K. Baheti: Yes.

Sangam Iyer: Okay great Sir. Thanks a lot and all the best.

Moderator: Thank you. The next question is from the line of Sakshi Malhotra from SKS Capital & Research. Please go ahead.

Sakshi Malhotra: Thank you for taking my question. Sir basically I wanted to know what is the capex guidance for FY'13 and how are we breaking that up?

R.K. Baheti: Capex for FY'13 which is expected to be about 120 Crores out of which, capex on the new formulation facility would be about 100 odd Crores out of which we have spent almost 20 to 25 Crores in the previous year so the balance 80 Crores will get spent in the current year and plus we would have

about 30 to 35 Crores of maintenance capex whereas in balance plants and the R&D so the total should be around between 115 and 120 Crores.

Sakshi Malhotra: Sir, what would be your guidance your outlook for the API business?

R.K. Baheti: See most of the API are being consumed captively, not most of that but I think API focus is we make what we can consume internally and only the surplus we sell, so we are not yearly looking at large API growth I think will be happy with about 10% growth overall the domestic and international together.

Sakshi Malhotra: The average for the full business would be in the range of 13% to 14%, if I get it correctly? For the full year the total revenue outlook would be somewhere in the range of 13% to 14%?

R.K. Baheti: I think it so, I think it will be slightly lower because international generic business which is a large component of the business is not growing and the domestic grows by 13% to 14%. The overall growth should be around 10%.

Sakshi Malhotra: Okay. That is it from my side thank you.

Moderator: The next question is from the line of Balasubramaniam from PCS Securities. Please go ahead.

Sri Hari: This is Sri Hari here. I had a couple of question and my colleague Balasubramaniam had one question. My first question pertains to exports to the regulated market 46.1 Crores could you please give the split as regards the US sale both for Q1FY'13 as well as Q1FY'12 and Q4 FY'12? What is the guidance going forward?

R.K. Baheti: I think it is given in the investor update probably it's about 55% to 58% for the North American Market and 45% for Europe and other regulated markets.

Sri Hari: I am asking the split for exports to the regulated market?

R.K. Baheti: I am talking of exports to regulated market only.

Sri Hari: What is the split for 46 Crores?

R.K. Baheti: I said 55% is to the North American market which is US and Canada and about 45% is in Europe and other regulated markets.

Sri Hari: How is the growth been for the North American market?

R.K. Baheti: The North American market has degrown because of the Canada issue which Pranav explained.

Sri Hari: As regards API's it has been exhibiting very good growth in the recent past could you please outline some key launches over the 6 months and what are the launches you have on anvil over the next 12 to 18 months?

Pranav Amin: I think on the API's side launches what is major difference is on account of development quantities of new products. . Moving forward the other ones that are launched in US and Europe.. The rest of the API I think will therefore be pushing more on the development quantity in some of the newer

ones the next year.

Sri Hari: If I got it right are you expecting a just a 10% growth in the API business to the current fiscal?

Pranav Amin : I think 10% net of forex should be a good growth because what we also doing is we also changing the mix which anywhere in the ratio of regulated market products to the other one which has higher profitability as well.

Sri Hari: But you have already done close to 20% in the first quarter?

Pranav Amin: That is I said one of the reasons for that is launch of product that we sold some launched quantities.

Balasubramaniam: I just wanted to know the details for the product which was selling successfully in Canada product or may be a good products why was it that they suddenly cessation of that in Canada or was it a quality issue or pricing issue or partner suddenly such a lucrative business. You said it stopped can I know the reason?

Pranav Amin: One actually be I cannot disclose the product or the partner but what happened was there was no quality issues or any thing as regards the marketing it is just that a matter of time and in fact I should have considered a lot longer than we would have liked, but there was no quality issue or anything like that.

Balasubramaniam: So are you still trying to pursue that?

Pranav Amin: No we have part of it, partners have given those products as well and we have similar products with others. So we are pursuing and other thing will get this exact same product back but we are doing other opportunities with the same partner.

Balasubramaniam: For the Canadian market?

R.K. Baheti: For Canada and for Europe both.

Balasubramaniam: So you expect that in a coming quarters at least some part of it?

R.K. Baheti: I think we will see it not until Q4 may be after Q4 we might see it.

Balasubramaniam: Thank you.

Moderator: Thank you. The next question is from the line of Niel Rao from Sushil Funds. Please go ahead.

Niel Rao: Just a query that your raw material cost has reduced this quarter any specific reason for the same?

R.K. Baheti: No it's largely product mix driven.

Niel Rao: Sir your full year International business in terms of what guidance you have given are there could we expect any one of revenues happening in the FY'12 revenue so that you can see a de-growth or a sluggish work going forward anything on that coming in the next quarters?

R.K. Baheti: No the question is not clear.

Niel Rao: As against 2011-2012 FY'13 revenues could you see any of this one of revenue that happened in Canada could you see that going forward in the coming quarters?

R.K. Baheti: I think that effect will continue but quarter Q2 as Pranav explained, effect will continue in Q2, In Q3 and Q4 we should be back to our previous year numbers.

Niel Rao: Sir any specific guidance for the international branded formulation market what kind?

R.K. Baheti: Actually we are in process of restructuring some of the product portfolio so it is a small 10 -11 Million Dollar we will continue that at least in this year. Going forward we expect to ramp it up in a significant manner.

Niel Rao: Thanks a lot.

Moderator: Thank you. The next question is from the line of Bhagwan Choudary from India Nivesh Securities. Please go ahead.

Bhagwan Choudary: Good morning and thanks for taking my question. Just on the Canadian part how much was that size of that product can you please quantify?

Pranav Amin: Actually we have given a break up of that because of we have other partners also we do the product sorry I cannot disclose that.

Bhagwan Choudary: So the runrate what we are getting means whatever we are getting in this quarter somewhere 46 Crores from the international generics so is this only because of capacity cost and debt molecule environment including both or something I have over the next price should be there in the market?

Pranav Amin: No I think there is no other issue. It is more just capacity constraint once we move forward as I mentioned for the year we should look at about 220 to 240 Crores because by Q4 the capacities will be up in running, we have new launches coming up in US and Europe so all has taken effect that is one of the reason where we have had the lower sales.

Bhagwan Choudary: And my second question is on the Alembic Limited part as you said some of the products we have buying from Alembic Limited so I couldn't understand clearly that when we came for the demerger why we kept that business into the Alembic Limited?

R.K. Baheti: We have not filed anything in Alembic Limited, Alembic Limited, doesn't have a FDA approved plant I mean I don't know from how you pick it up. I only said Alembic Limited continues to make some old macrolides API's which source from them that is all. There is no other pharmaceutical business as far as Alembic Limited is concerned.

Bhagwan Choudary: Okay so we are outsourcing from Alembic?

R.K. Baheti: You are right. We are buying it I mean it's like any third party purchase of API.

Bhagwan Choudary: One last question I had on if looking the business model now we are shifting more towards the formulation business rather than the API and I am looking that we are doing very aggressively filing from the DMF in the US markets so we are looking the strategy of the consumer its fair to assume that whatever DMF we are filing more or for launching our own product in the future or it is from the API point of view?

Pranav Amin: Actually when you file a DMF there are two things one the primary purpose we do it is for in-house dossier or in-house ANDA at the same time we were spending money into in a good process and makes us sense to sell it out as well. We do not generally file any dmf for exclusive sale of APIs. We only do it we do it as a combination of both internal and external.

Bhagwan Choudary: Okay so in the last few quarters whatever the products we had filed which are to expire in the future patent expiry in somewhere three four years down the line so means we are preparing ourselves for the ANDA filings for that and to launch our own products in the right?

R.K. Baheti: Yes, own products and some partners would also probably launch on our APIs.

Bhagwan Choudary: Thank you.

Moderator: Thank you. The next question is from the line of Mr. Rahul Mehra. Please go ahead.

Rahul Mehra: Sir just one question in the last concall you mentioned that your new facility expansion would be up and running by the end of Q3 this time you are mentioning in end of Q4 is there some delay in the expansion?

R.K. Baheti: No I think we always said that it would be up and operational only in Q4. I do not know in what context you are referring to since you have there would always you have some time lag between the physical completion of the facilities and then subsequent validation etc., so I think we expect to make it commercially operational only by middle of Q4 this financial year.

Rahul Mehra: With regards to your international branded business you are quite bullish on the business as we have some MRs also marketing your products, we have been seeing substantial degrowth, may I know the reason for it and what is our outlook on that business going forward?

R.K. Baheti: Now the reason is already explained, Rahul and I think we continue to remain bullish on our international generic business.

Rahul Mehra: I am talking about the branded business not the generic?

R.K. Baheti: Branded I don't think international branded business you were very bullish for this current year because as I said we also said in our last call that we are doing some restructuring of portfolio some countries operations are being also rejigged. . I said it is a small 10-11 Million Dollar business it will continue to remain at this level for this year going forward of course we plan to ramp it up a significantly.

Rahul Mehra: Thank you.

Moderator: The next question is from the line of Jigar Shah from KimEng Securities. Please go ahead.

Jigar Shah: Mr. Baheti I have one question with this probably not related to the quarterly results but if I recall correctly I do not think Alembic has probably ever raised money through a QIP or any other external equity placement so what would make you people do that because lot of your peers have grown by doing that and whether there is any such substantial plan over a period of next three four years in terms of capex or such other opportunity which would make you do that so I just wanted to know if there is any level of thought at the management level on this front?

R.K. Baheti: Before I respond to that question Jigar can I ask you a question, whether there is distinct business advantage in doing that?

Jigar Shah: It is in terms of scaling up this has some opportunity probably it may relate to acquisition or something else which will take you to a greater size level I mean that's the only thing otherwise yes I don't think you should be raising equity just of the sake of it I definitely agree and that should also deserve if you get a good valuation of course only then it permits you to do that otherwise not.

R.K. Baheti: Yes I think thank you, you have partly responded your own question but I think you are right we have not raised external equity and this entire expansion which we did in last 5, 6, 7 years both for the regulated market also the acquisition for the domestic market was funded by debt and at one point of time the debt was also a concern to investors. Fortunately now we have started repaying it the debt levels have come down by end of March 3 we expect our debt equity to go down 0.6. I don't think we have a need for equity as of now. I cannot foretell the future if there is a genuine good opportunity for us to invest we will not hesitate to divest but it has to be absolutely driven by rational.

Jigar Shah: Right thank you very much.

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

Sunil Jain: Sir my question relates your expansion which is going on, this plant you said that you will be starting in the fourth quarter we need to take USFDA approval for supply into regulated markets so that also will be available in Q4 or it will take some more time and it can switch over to next year?

R.K. Baheti: Some regulatory authority's approval will be there by that time some may take little more time so each regulatory authority has their own schedule and their own requirements.

Sunil Jain: So these approvals will be taken once the plant is up in running and then the approval process will start, if I am not wrong?

Pranav Amin: As Mr. Baheti said it is a combination of some regulatory authorities. It is the existing plant which is being expanded so some regulatory allows supplies and some they get it for a re-inspect.

R.K. Baheti: Also while we are doing our internal revalidation will start inviting peoples so it does not have to be say 100% in commercial production before invite regulatory authorities once the plant is physically complete the process will start so while we are doing our internal validation I think some instructions were also expected to happen. That ensure the idea is to start selling from it selling from the plant or selling from the expansion from the middle of last quarter.

Sunil Jain: That is it Sir. Thank you.

Moderator: There are no further questions at this time. I would now like to hand over the floor over back to Mr. R. K. Baheti for closing comments.

R.K. Baheti: Yes it was a pretty interesting interactive session and thank you all for taking interest taking time out and interacting with us. If you have any further queries you can have a mail sent to me or to Mitanshu and we will be pleased to respond to your queries and I look forward to interact with you next quarter thank you.

Moderator: On behalf of Edelweiss Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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