



“Alembic Pharmaceutical
Conference Call”

January 22, 2013



ANALYST: MR. MANOJ GARG

**MANAGEMENT: MR. R.K. BAHETI
MR. PRANAV AMIN
MR. MITANSHU SHAH**



Alembic Pharmaceutical
January 22, 2013

Moderator: Ladies and gentlemen, good day and welcome to the Alembic Pharma Q3 FY'13 Results Conference Call hosted by Edelweiss Securities Limited. As a reminder, for the duration of the conference, 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 the conference call, you may signal for an operator by pressing "*" and then "0" on your touchtone telephone. Please note this conference is being recorded. I would now like to hand the conference over to Mr. Manoj Garg. Thank you and over to you Sir.

Manoj Garg: Thank you Lavina. Hello everyone and good morning to all of you. We at Edelweiss welcome you all to the briefing of Q3 FY'13 results of Alembic Pharmaceuticals. On behalf of all the participants and Edelweiss we welcome Alembic Management Team. Today we have Mr. Pranav Amin, Director and President, International Business, Mr. R.K. Baheti, Director and President Finance and Mr. Mitanshu Shah. I would like to hand over the conference to Mr. Baheti to discuss the result and outlook. Over to you Sir.

R.K. Baheti: Thanks Manoj and welcome and good morning to ~~everybody~~ all participants. Thank you for joining the call. I think the results are already sent to stock exchanges and also individually to most of you. So most of you would have got some time to review the results. ~~However,~~ quickly let me take you through the quarter numbers. During the quarter, our total revenues were 372 Crores almost flat. The heartening point was India formulation business grew by 15% to 227 Crores ~~bagged-backed~~ by strong growths in specialty division.

I am very happy to report that this is ~~the~~ 12th consecutive quarter where we have recorded growth over the previous corresponding quarter. So it is a signal of consistency and performance. International business posted revenues of 117 Crores, ~~and hopefully this~~ ~~The~~ degrowth, which we had seen in the previous quarters in the international ~~generic~~ business has been now ~~has been now~~ arrested and with the commissioning of the plant next month we look forward to sustained growth from ~~that next~~ quarter.

Profit before tax grew by 12% to 60 Crores and net profit grew by 9% to ~~4853.54~~ Crores. As indicated by me in our earlier discussions we are on to track ~~for~~ EBITDA expansion. The current quarter EPS is 2.56 ~~on and~~ the cumulative EPS for nine months is about 6.45 as compared to 2.25 and 5.83 respectively.

I would request Pranav to share some of the operational details and some thoughts for the future.

Formatted: Left, Indent: Left: 3.5 cm



Alembic Pharmaceutical
January 22, 2013

Pranav Amin: Good morning everyone. Let me talk about the research and development. Our research and development cost for the quarter was 21.72 Crores. This is substantially higher than what we did last year. 21.72 ~~crores~~ is about 5.9% of our sales. One of the reasons for this has been ~~that~~—we wanted to invest in R&D and we believe that the international business and the international generics is going to be ~~profitable~~ for us in the future. As a result we filed six ANDAs during the quarter, which takes our filings for the year at 11 ~~what-that~~ is until YTD. Our ~~total filings~~ cumulative filing stands at 55 ANDAs and DMFs at 58. I am also happy to share what Mr. Baheti mentioned, that the new plant is getting ready and we should see activity from that starting February onwards, which will help the international generics grow significantly over the next year. I throw this ~~open-the~~ forum open for questions and answers. So we can answer anything else that you have. Thank you.

Lavina: Thank you very much Sir. Our first question is from the line of Jigar Shah from Kim Eng Securities. Please go ahead.

Jigar Shah: Good morning everyone. Congrats for a good set of numbers as expected, no surprises and that is a good thing. My first question is that the new pricing policy for the industry. How will it impact Alembic and can you give us some idea about that for FY'14? What will be the impact on our margin? Secondly what incremental revenue and profitability we expect due to the new plant for FY'14?

R.K. Baheti: Thanks Jigar. Two questions so let me answer one and let Pranav answer the other one. Pharma policy ~~is yet to be~~ ~~yes it is~~ notified. I am told that the DPCO is now ~~is~~ working for the fixation of prices. One hurdle, which the government is still to cross, is the final disposal of the matter by Supreme Court that ~~the~~ hearing was to take place last week. It has not happened. I do not have the new date. I presume that unless the Supreme Court clears it, the government will not actually notify the prices. So that is the procedural part. Assuming what we understand, because the actual impact we would know only when the prices are actually notified, ~~but based on our internal working,~~ we believe that the net impact ~~towards for us~~ would ~~be about~~ between 20 and 25 ~~c~~Crores. ~~That would be the net impact~~ and unfortunately that is the net impact on both topline and the bottomline; however, we have done some internal brainstorming and I think there ~~would-may~~ be some savings or some recoup of this losses. I mean it would be too early for me to get into the details. So, we are waiting ~~for the prices to be notified~~ ~~and then I think we will have more concrete things to discuss.~~

Jigar Shah: Mr. Baheti, just to stay on that you have said in your investor update that 20% CAGR on EBITDA is expected so when you say that, you have taken that this impact into account?



Alembic Pharmaceutical
January 22, 2013

- R.K. Baheti:** Yes.
- Jigar Shah:** That is good to hear. Thank you.
- Pranav Amin:** Jigar, on the international side with this new capacity what is happening is we are little more than doubling our capacity than what we currently have. Of course ~~with~~-overnight the business would not improve but I do not expect international to grow less than 30% - 35% ~~this~~-next year.
- Jigar Shah:** You had EBITDA margin of 18.8% if I am not doing a mistake for this quarter, so will that also continue?
- R.K. Baheti:** I think that would be ~~that is~~ the ultimate goal ~~pos~~. I think a more realistic number is ~~at~~ the YTD number. I think last year we closed the year at around 15 this year we should be closing it at around 16 – 16.25 and that is ~~where~~- what I have been indicating that margin expansion of 100 – 125 basis points every year is our target.
- Jigar Shah:** Thank you very much.
- Moderator:** Thank you. Our next question is from the line of Hitesh Zaveri from Birla SunLife. Please go ahead.
- Hitesh Zaveri:** Congratulations to the management for ~~this~~-these numbers. My question is on the R&D side could you elaborate ~~that~~ your R&D budget for the current year as well as for the next year and what specific areas would you target to spend number one, and number two whether there are any modification that we will see in FY'14 versus what we have seen in FY'12 and 13?
- Pranav Amin:** Hitesh if you see in terms of the R&D budget we will stay around at 4% to 6% range depending of what kind of filings ~~that~~ we do. This is a little higher because we also have lot of ~~the~~ past GDUFA and PDUFA fees that the USFDA has established to clear the backlog, so we have ~~found~~-paid those fees. Going forward what we are spending on is we are also ~~we~~ are ~~doing~~ Para IV filings~~para 4 of our challenges~~ so that increases the cost and the complexity of the product. Number two we are also trying to do some different delivery technologies and if that works out then of course ~~after the pilot then~~ those are little more expensive to develop and to file. Right now our focus is on oral solids, moving forward we are looking at areas of dermatology, we are also looking at something ~~an~~-in inhalation. ~~th~~Those are two ~~or~~-three areas that we are evaluating currently.



Alembic Pharmaceutical
January 22, 2013

Hitesh Zaveri: What are the launches that you are looking at and for FY'13 as well as FY'14 what international launches could we expect?

Pranav Amin: I think for the US market ~~to was~~-start with where we have done most of our R&D effort so far as we should see anywhere between 8, ~~and~~-10 and 12 launches per year, I think this year we will end up with about 9 launches, next year also about 9 launches and the year after ~~that~~ I think about 10 to 12 launches.

Hitesh Zaveri: And what gives you comfort that the international generics should be growing at 30% - 35% plus next year?

Pranav Amin: The comfort I get because one, of course we have these new launches, number two I have a backlog of orders ~~for I know next year for sure the business will grow~~. Number three our partners are doing good job in getting market share. I am saying market share ~~go has gone~~ up ~~and~~ in the products that we are in there. Yes there ~~are is~~ two - three ANDAs that we have ~~is not launched~~, but barring that we have done well. In terms of Europe we are doing well with our partners. We have won almost 80% of the ~~products tenders~~. Our partners have won the AOK tenders, which we are partnering them. It is good sign for us and the AOK tenders have some fixed volume for two years so we know what to expect as well.

Hitesh Zaveri: Could you also talk about the domestic formulations now aside from the concern that got discussed a couple of minutes ago. What kind of market share gain would you want to work with and what kind of growth would you look for in the domestic formulations next year?

R. K. Baheti: ~~Overall the total market I am - we are~~ not targeting ~~like~~ market share expansion because I think when I ~~saysaid~~ that we will be growing a little better than the market but market share expansion maybe difficult. What we are actually targeting is ~~that~~ some of the specialty segments ~~for there we are targeting~~ market share expansion. So if you look at our last couple of quarters, we have got growth, which is better than industry and hence the market share expansion in cardiology, in gastroenterology, I think also in Ophthal, of course it is very small base ~~but also Ophthal and and~~ of course dermatology is a new division.

Hitesh Zaveri: Thanks and all the best.

Moderator: Thank you. Our next question is from the line of Ranjan Jain from Nirmal Bang Securities. Please go ahead.

Ranjan Jain: Good morning Sir and thank you for taking my question. My question is in this quarter particularly as you said that our margins are higher and going forward do you think that the



Alembic Pharmaceutical
January 22, 2013

YTD range is in the normal range ~~you think~~. So why the margins are higher one reason is that the lower cost of goods sold in this quarter. So you think it is sustainable and what is the outlook?

R.K. Baheti: I think it depends on the product mix, which we ~~made-~~ make for the quarter and that is why in any company, pharmaceutical company particularly it is very difficult to do a quarter-on-quarter comparison for margins. It depends on product mix including generic, international generic, this time ~~we could have apply~~-because of the capacity constraint we focused more on the profitable products. There are some milestone payments also which came in. So that would reduce the cost of percentage of material cost but on an overall basis I would say with the kind of product mix we have and API and formulation, domestic all together, ~~we think that~~ 44% - 45% kind of material cost is a correct number to estimate.

Ranjan Jain: Okay, sir how much can you quantify that milestone payment we have received during this quarter?

R.K. Baheti: Again they would be different for quarter-to-quarter and customer-to-customer.

Ranjan Jain: For this particular quarter will be how much?

R.K. Baheti: I do not think we are sharing that information on a quarterly basis on a ~~manual~~ annual basis we do an update.

Ranjan Jain: So YTD how much it would be?

R.K. Baheti: YTD would be about 25 Crores. I do not have an exact number at this time.

Ranjan Jain: Approximately sure, and can you just quantify for last year also FY'12?

R.K. Baheti: I will have it sent to you. I mean I would not have that now.

Ranjan Jain: Sir one more thing your other income is also higher in this particular quarter. Can you just give me the breakup of the other income?

R.K. Baheti: I think that is a single item of an insurance claim, which we have received. If you recall we had fire in August of last year in our plant and ~~in~~ a part of the insurance claim is settled as an advance payment or an ad hoc payment. So that has come into the other income. That is about Rs.2.5 Crores or so, the rest will be normal.

Ranjan Jain: What is the current debt position of ours?



Alembic Pharmaceutical
January 22, 2013

R.K. Baheti: It is pretty healthy. I think our debt equity ratio as on December 31, ~~is and~~ 0.44 and the debt in absolute term ~~is were~~ less than 250 Crores almost down 100 Crores from March 12 numbers.

Ranjan Jain: But do you think it is going up or once the project ~~everything~~ capex would be done in next quarter?

R.K. Baheti: I do not think so, ~~maybe and~~ it maybe plus/ minus 10 Crores but I do not expect it to go up because I think the cash generation as you would have seen is pretty strong and also I think we have completed at least 80% - 85% of the project ~~is already completed~~. So we do not expect increase in loans on December.

Ranjan Jain: That is all from me. Thank you.

Moderator: Thank you. Our next question is from the line of Mr. K C Suri from Span Capital. Please go ahead.

K C Suri: Good morning to all. I just wanted to understand how is the development on Warfarin going right now ~~with the~~ Accu-Break technologies?

Pranav Amin: Accu-Break is going on pretty well with Warfarin. We have ordered the equipment, which is arriving soon. So I think we should look at the filing because ~~of~~ it would not be ~~an~~ ANDA filing, it will be 505 (B2) so it will take a little longer, I think we look to file in the next twelve months or so.

K C Suri: You just talk about better than market growth in the domestic market what would exactly drive that. I really did not get that?

Pranav Amin: What has happened is we have seen lot of growth in the chronic ~~of the~~ ~~and the~~ non anti-infective segments that we have grown in, the gastro at 25%, cardio 36%, anti-diabetics 42, nephro and urology at 46%, ophthalmic 41, we are seeing this on a smaller base but they are adding ~~on~~ to our portfolio ~~as~~ was used to be pretty much heavy on the acute therapies.

K C Suri: In terms of the launches ~~what~~ you have the two ANDA launches, which were those during the quarter?

Pranav Amin: The ANDA launches during the quarter ~~were~~ ~~it~~ ~~be~~ Telmisartan and Hydrochlorothiazide.

K C Suri: Okay, and in terms of API ~~is~~ now how are we, I mean how is that looking the order book?



Alembic Pharmaceutical
January 22, 2013

Pranav Amin: ~~The order book for API is~~ What happened last year we ~~have had~~ some contract manufacturing that we do, ~~as a result it was~~ skewed last year, ~~while here the last year in the last year~~ this quarter was still high. Also moving forward what is happening ~~is in SEZ that our for~~ API capacities we are using ~~is we do~~ higher margin business. So we may not have topline because we want to use more than for one higher margin and for our own captive means. So API is going up, I do not think API business will ~~go back grow~~ more than 10% to 15%.

K C Suri: Thanks and all the best.

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

Niraj Somaiya: Hi, Pranav and Mr. Baheti. You have done a great job. Debt has reduced from 250 Crores instead of 300, which you had said. So that is a good job you have done. Now I wanted to ask Pranav, what is your vision for the next three years Pranav in terms of where do you take this company from a 70 million quarter runrate and the ~~slowdown in the domestic business which we have seen~~ slowdowns in the domestic business which we have seen in the last one-two months what is your view on that?

Pranav Amin: Niraj, I think two things one on the domestic side we believe that the next two-three years we will continue to go faster than the market that is because of our entry in these this new segments I think this will we have our business help the way the two businesses and very good so we are happy with the field, HR practices that we have, the productivity so we expect the domestic to grow quite above the market rate.

Niraj Somaiya: What was the reason for slowdown? Last two months we have been having the market ~~has~~ slowdown significantly. Yesterday Unichem declared as well they also found the market going down. How do you see in the short-term is there any impact in the domestic market?

Pranav Amin: I think if you see our results we grew by 15% and we are not finding it so far. I think we are doing okay so I am not sure about others and here is having checked up on them, but we are doing okay so far.

R.K. Baheti: But Niraj part of slowing growth is degrowth in anti-infective business for the industry as a whole. It used to grow by 9% - 10%, I mean I think last couple of months it ~~is~~ grew only by 5% - 6% and that is a large market. Also probably ~~is~~ the new pharma policy overhang is keeping people slightly cautious. I think the new product launches have been slow in last quarter as compared to the industry trend. Probably I think some of it also maybe due to



Alembic Pharmaceutical
January 22, 2013

healthy season, which we had comparatively. I am told that in January with the weather becoming colder and the cold getting little longer, things should improve on anti-infective front but let us see the numbers.

Niraj Somaiya: In terms of now your expansion ~~knew~~ at 140 Crores of investments required how much is done and what is now left 40 was normal capex and 100 was the project capex so how much is done and what is pending now?

R.K. Baheti: I think ~~we have done to~~ about 70 – 75 Crores is already spent. Committed is almost 100% as I was mentioning and with the commissioning of the plant at least partially in February and hopefully 100% by June or so I think we are on track and we will not overspend so I think we will stay within our budget.

Niraj Somaiya: Pranav again back on the strategy. Where do see this company from two to three years now in terms of size and revenues and where would do you see or where would you be happy maybe a 20%. I mean just some what would be your view and where would you take ~~a~~ research to very macro level, where will you take the company to and what sort of role would you have as a management and what timeframe is would you look at from three years from now for success or failure?

Pranav Amin: Niraj we do not give a guidance per se but I am actually looking at the domestic what we have done and I think it is safe to assume that we will grow at least 12% to 15% year-on-year or little more than the market if the market really slows down of course then we cannot do it so that is safe to assume in my opinion. In terms of the ~~l~~international as you know it is a much smaller base and we are investing quite a bit on R&D so that growth should be even higher. For the next two three years I believe the growth rate should not be less than 30% odd.

Niraj Somaiya: But how would you change the strategy because yet you are depended on external people in the international business right. You are not directly right now present and where would you ~~going~~ like, going like the big boys or would you continue this model? Would you change that view in the next three years or would you continue yet to scale in the same model and how would that ~~works~~ for you as a company as an organization because where you are there is a risk_ you are depended on the middleman right now in the international markets?

Pranav Amin: You are right actually as we grow in size and our partners have done well so far but we constantly keep evaluating what is the right strategy for a company of our size and we are doing that. In Europe as you know we have started a European front-end not to do direct



Alembic Pharmaceutical
January 22, 2013

selling but we do licensing on our own so that should help with going directly to customer's license out molecules. We are trying to do something similar in Australia and Brazil as well. In terms of the US that is something that we consistently evaluate, what is the right time and what is the right pipeline to go with if we have to enter the US markets. So I think we have may be to might see that also.

Niraj Somaiya: One more thing in terms we are normal business you are saying EBITDA margin will be in close to 20% over a period of time that would be taking this 20 – 25 Crores hit in the domestic business?

R.K. Baheti: I hope so, because as I said I think this would be probably one year hit and probably we will come out of it the year next. So I think industry has learned to live with this in the past and I am sure it will get over it.

Niraj Somaiya: Right and if I understood last time you have said your manufacturing capacity from 2.5 billion tablets will go to 4 billion currently and then you would expand the last 1 billion to 5 billion. Is that right what I had understood last time?

Pranav Amin: Yes, that is correct.

Niraj Somaiya: So right now it is 2.7 currently?

Pranav Amin: It is little less, actually ~~respected to~~ usable capacity is still less.

Niraj Somaiya: Okay, and the debt what I heard just now was that it has comedown to 250 Crores right from 300 Crores?

R.K. Baheti: 350 Crores last year, March 12 it was 350 Crores.

Niraj Somaiya: But last quarter it was 300 that has comedown by another 50 Crores right?

R.K. Baheti: That is right.

Niraj Somaiya: One last question in term of Alembic Limited, 40 Crores what is the new status and also you are going to get delivery of some flats. Can you just throw some light on that, what exactly is the situation now and how much it continues?

R.K. Baheti: December 12 the loans had gone down to 27 Crores, ~~and hopefully by March and when I say when this reduction both out of~~ The reduction in borrowings is both out of our accruals



Alembic Pharmaceutical
January 22, 2013

~~and~~ net of capex's and also repayment received from Alembic ~~Ltd so hopefully~~ by March 13 Alembic plans to clear the entire loan.

Niraj Somaiya: So then that issue will go away, so it is only now 27 Crores right and plus you have some flats delivery which you would get for your business that is it?

Pranav Amin: Yes.

Niraj Somaiya: Wish you a very good year and you have done a great job and see you soon. Thank you. I will stay ~~with go~~ back in the line. Thank you.

Moderator: Thank you. Our next question is from the line of Priyank Singhal from Bajaj Allianz. Please go ahead.

Priyank Singhal: Congratulations for a good quality of earnings. Just a few questions more on the international business; I just wanted to get a breakup currently of the international generic business in terms of geography how is it split?

Pranav Amin: In terms of geographies if you see North America would be about 60% - 65%, about ~~pretty~~ ~~30 odd %~~ would be Europe and the balance would be the ROW markets.

Priyank Singhal: Pranav could you also give us some idea what these ANDAs ~~are~~, the nature of these ANDAs what kind of potential these holds so we know that you have 55 filings but in terms of the potential and you were mentioning 30% - 35% kind of CAGR, which should take to roughly about 500 Crores of the ~~international~~ generic business size in three years' time but you know this incremental business of 280 - 300 odd Crores over the next three years if you could just help us understand where would this come from how much from US and within US what is the nature of these filings from which you are expecting these businesses?

Pranav Amin: If you see in terms of filing, ~~the 21~~ ~~approvals~~ that we have got ~~approvals~~ so far, the ~~IMF~~ ~~IMS~~ sized about 6 billion so far. The other ones which are not approval of course it is much higher because ~~while~~ by the time they get ~~generic side generisized~~ but I am assuming is not less than 15 ~~or~~ 20 billion ~~of~~ the products are going ~~off~~ patent in the next three years. Most of the growth will come from the US for the next ~~a year and a two and a half year~~ ~~two years~~ at least. ~~W~~Europe we still have to speed up our filings for Europe so I think you should see growth in Europe in about two years, Brazil will also take about two years by the time we get the filings and the business will start. So for the next two years most of the growth should be from US.



Alembic Pharmaceutical
January 22, 2013

- Priyank Singhal:** Is the growth likely to be evenly spread out or could it be front-ending given that your filing has gone up and actually it was 45 even at the end of last year. So is it going to be equally spread or could it be front-ended so far your capacity constrained that comes on stream next month and therefore in FY'14 could be a bigger year I am just trying to understand from a spread of these revenues fund?
- Pranav Amin:** Yes and I think FY'14 could be a bigger year in incremental because to clear the backlog of Europe as well as US so that is there. But the rest of it depends on the launches that you have and as I mentioned we are launching about anyway between 10 products ~~plus minus~~ every year in the US. But as you know for which we have lesser competition of anyone of them then obviously that leads from much higher jump in sales.
- Priyank Singhal:** Sure and the initial capacity that is coming on stream in the month of February is what you said right?
- Pranav Amin:** In the month of February yes we have slowly start with some batches in the US.
- Priyank Singhal:** Sure and these facilities are already approved?
- Pranav Amin:** Yes the part expansion has already approved USFDA Europe and Brazilian has approved the facility²
- Priyank Singhal:** On the employee cost front Mr. Baheti the employee cost has gone up quite significantly on a year-on-year basis. So, could you help us understand that is it that we are adding significant field force on a quarter-on-quarter basis it is pretty okay, but as a percentage of sales it has gone up, so is it field addition and if yes then which kind of therapeutic area are we targeting?
- R.K. Baheti:** Actually in the field for the last year or so we have ~~been~~ not added much except the launch of new division where we added about 100 odd people. I think in our older divisions the field force is almost flat at numbers and the growth has come out of the productivity improvement. I think the increase in the employee cost vis-à-vis last year is some part of it has to do with the manning of the new plant, because as the plant gets ready for commissioning we have also started doing the manning and on a quarterly basis the sales has not started coming so you would see a slightly larger percentage of employee cost on sales but once the sales start happening from that plant I think it would even out.
- Priyank Singhal:** But we are seeing the because the increase is quite significant compared to 10.8% of sales we are practically at around 12.5% - 13% of sales for this quarter actually 13.5% of sales so



Alembic Pharmaceutical
January 22, 2013

the increase seems to be very high. You are saying the entire increase is because of new plant commissioning expected and therefore the cost ramp up?

R.K. Baheti: I am not saying entirely I am saying the field force numbers ~~of plant are same~~ except the new division, which we have launched this year which is dermatology about 100 odd people. Then the increase in absolute ~~number of the increase~~ would be also because of higher incentives with the sales people ~~who have as compared to the last year and backed by their performance~~ and the third factor is of course the manning of the new plant. So all together is making 5 odd Crores of increase from December of last year.

Priyank Singhal: But what is your field force strength currently and what is the additional plan you are looking at for next year?

R.K. Baheti: Field force continuous to be at around 3000 I mean MR strength continuous to be at around 3000, about 600 odd people in supervisory and managerial capacities, so total field strength is 3600 except for launch of new division, which is still early to comment we do not expect to add too many numbers.

Priyank Singhal: As a percentage of sales next year it should come down significantly given our international business will ramp up significantly next year?

Pranav Amin: I hope so.

Priyank Singhal: Also in terms of the growth while overall India the formulation business has grown at 15%, but the chronic segment has grown at 23% to 24%, which is very good. Could you help us understand what specific areas have grown faster?

Pranav Amin: I think out gastro has grown 28% ~~v/s~~ 13% of the market, cardio has grown by 28% against 14% of market, Ophthal 25% versus 14%, ~~antibiotics~~-diabetic 35% versus 23%, Gynec 11% against 9%, and nephro, uro 32% against 14%.

Priyank Singhal: So, practically every therapy you have actually gained market share?

R.K. Baheti: The decrease is in our area of strength where antibiotics have grown by 6%, we have only grown by about 4%.

Priyank Singhal: Could you just from a ~~software~~ aspect point of view, any specific strategy that has helped us in growing much faster than the industry in most of these therapy areas?



Alembic Pharmaceutical
January 22, 2013

- R.K. Baheti:** I think in simple words, it is customer focus, better relationship management and better productivity from the field.
- Priyank Singhal:** Because we have not really expanded sales force and increased reach has not really been the reason, right?
- R.K. Baheti:** But I think, I mentioned, in my earlier call and also one on one discussion with you that having settled the field force in these relative newer divisions, we expect the growth to come out of field force productivity improvement. That is precisely what is happening.
- Priyank Singhal:** Last question is you mentioned about 20 to 22 Crores kind of an impact because of pricing policy in FY'14. Would that be the entire hit on profitability or are there ways and means to reduce that impact by selectively taking price hikes in the rest of the portfolio?
- R.K. Baheti:** That is what I said, there will be ways and means probably, but unless the prices are really notified, it would be difficult for me to dwell further on the subject.
- Priyank Singhal:** But there would be certain products, which would be part of the earlier cost plus pricing policy and would now move to the new pricing policy. Would there be a better pricing policy?
- R.K. Baheti:** There will be a price ~~free job freeze~~ on those products for about a year.
- Priyank Singhal:** So that entire benefit will only come next year?
- R.K. Baheti:** That benefit will come in 2014-15.
- Priyank Singhal:** Thank you very much and all the best.
- Moderator:** Thank you. The next question is from the line of Prakash Agarwal from CIMB. Please go ahead.
- Prakash Agarwal:** Good morning. Just a question on the comments that you made earlier on the slowing of new product growth, is there a correlation with the ~~MPPA-NPPA~~ policy?
- R.K. Baheti:** I do not know ~~for possible~~ because I think the company is getting cautious in new product launches.
- Prakash Agarwal:** What I understood seeing the AICD data is that there has been a growth in the new product launches. I mean, if I see, the growth in January to June was around 4% from new products,



Alembic Pharmaceutical
January 22, 2013

but now they are growing by 6% plus. So, is there a possibility that in the last one to one and a half years Pharma companies generally are launching more products, so that and that too more in the combination space, so that the future growth would be a largely combination that as they are not in the price control game?

R.K. Baheti: I think your observations are largely valid and the growth up to this September or so was driven by new product launches.

Prakash Agarwal: So, in future you expect this to come down a bit, so the industry growth of around 15% could now taper to 12% to 13%?

R.K. Baheti: That is one way of looking at it. The other way of looking at it is that if the country continues to grow at 7% to 8% GDP growth rate ~~then the no and our~~ healthcare spends is still a low number as compared to other developing countries. There is no way at a macro level Indian Pharmaceutical growth rate would come down. Except this head~~wind wins~~-we expect the pharmaceutical sector to continue doing well.

Prakash Agarwal: Secondly, on your anti-infectives largely, I understand it could be seasonal, but any specific observations you had for the lower growth of 4% to 6% as you mentioned?

R.K. Baheti: Probably, I am not too sure. My marketing would probably not agree with me. ~~Also~~ that probably the shift of focus more to specialty divisions apart from season.

Prakash Agarwal: Specialty division?

R.K. Baheti: Yes, it is a matter of focus ultimately. Probably the more investments or more focus has gone to specialty divisions where they are growing better than the anti-infectives.

Prakash Agarwal: So by specialty you mean the chronic, which has still grown well?

R.K. Baheti: That is right.

Prakash Agarwal: Just an observation there even the chronic especially the diabetes division has seen a sub 10% kind of growth. So, is it like one off kind?

R.K. Baheti: In our case?

Prakash Agarwal: No, you are just launching an additional segment but I am just talking from an industry perspective?



Alembic Pharmaceutical
January 22, 2013

- R.K. Baheti:** I think the MAT number for November. I am not looking at month-on-month number. Those are sometimes not of current parameters, but on MAT 12, I think, the number I have, anti-diabetic grew by 23%.
- Prakash Agarwal:** MAT wise yes, but for the month of December it was sub 10%?
- R.K. Baheti:** *“Woh to bahut mushkil hain bolna”*
- Prakash Agarwal:** I understand. I will be in the queue.
- Moderator:** Thank you. The next question is from the line of Bhagwan Chaudhary from India Nivesh. Please go ahead.
- Bhagwan Chaudhary:** Good morning. Sir, as you mentioned earlier that there was some milestone payment. So, if I am excluding that in this quarter, so can you please quantify how much would be the material cost of gross margins?
- R.K. Baheti:** It is difficult. As I said, 45% for our product mix looks to be the barometer number.
- Bhagwan Chaudhary:** 45% on the kind of product mix we have in this quarter?
- R. K. Baheti:** Yes.
- Bhagwan Chaudhary:** There was some mismatch that last quarter there was some 50 ANDAs filing and during the quarter we filed six, so it would 56?
- Pranav Amin:** I will explain that actually ~~w~~—What we have done is we have ~~dethroned-withdrawn~~ one ANDA filing. We had not launched it because it did not make sense, so we just pulled it back.
- Bhagwan Chaudhary:** And the same with DMF also?
- R. K. Baheti:** Same is also. I think three ~~divisions-DMFs~~ have been dropped.
- Bhagwan Chaudhary:** Backlog ~~feed~~-GDFA ~~fee~~ was in which line item during the quarter? Was it in R&D side?
- Pranav Amin:** It is on the R&D side, the backlog fees. ~~They were for the plant as well as~~ for pending ANDAs that we had to pay for USFDA.



Alembic Pharmaceutical
January 22, 2013

Bhagwan Chaudhary: There is some facility fee also from the next quarter onwards. That will be in your other expenses or R&D?

R.K. Baheti: That would be in manufacturing expenses. That would be a part of the plant expense.

Bhagwan Chaudhary: Can you elaborate a little more on the timeline side of the new facility commencement. By exactly when will be the ramp up? This means when it will completely in the 4 billion tablets what we are estimating?

R.K. Baheti: Bhagwan, it is difficult word to respond to, but I think middle of February we will commission the first phase. By end of June of so we will complete the entire facility.

Bhagwan Chaudhary: This means June onwards out of this 4 billion how many tablets you will be?

R.K. Baheti: That would be driven by the business growth. Pranav has already indicated at 30% - 35% kind of growth for 2013-14.

Bhagwan Chaudhary: So that will be reflected in the first quarter of FY'14?

R.K. Baheti: Yes, some of it yes, but not the whole of it.

Bhagwan Chaudhary: So, from second quarter?

R.K. Baheti: Yes.

Bhagwan Chaudhary: Thank you.

Moderator: Thank you. The next question is from the line of Charulata from Quest Investments. Please go ahead.

Charulata: I wanted you to put some light on the international business. Can you suggest why there is a slowdown in the branded business?

R.K. Baheti: The international branded business?

Charulata: Yes.

R.K. Baheti: I think we have been discussing this for the last three to four quarter and we are on record stating that there is a product profile revamp in many of those countries and the new product registrations etc., are underway and it will take some time to wrap up, to ramp up



Alembic Pharmaceutical
January 22, 2013

the business again. Having said this I wish to be candid that we ~~will not do- have not done~~ well in those markets. ~~We have been therefore in those markets.~~ We have been there for last so many years and we have not done ~~that well~~. So, hopefully, the new team with their new strategy will be more successful.

- Charulata:** In the domestic business what is the mix of chronic and acute?
- R.K. Baheti:** Last quarter it was about 47:53, chronic is 47 and 53 is acute last quarter and for YTD it is around 55:45. 55 for acute and 45 for chronic.
- Charulata:** So, you have increased your focus on acute?
- R.K. Baheti:** No, we have increased our focus on specialty, chronic.
- Charulata:** Now this increase is mainly volume driven or price driven?
- R.K. Baheti:** It is not much price driven. It is volume driven. Also, new product introduction driven.
- Charulata:** Okay, how many new products have you introduced?
- R.K. Baheti:** YTD nine months, we had introduced almost 25 products including seven launches, ~~seven~~ in the new division. So about 18 for our older division and seven for the new division.
- Charulata:** In this quarter?
- R.K. Baheti:** In this quarter it will be about six new launches.
- Charulata:** About the capex also, how much is the capex for FY'13 and going forward?
- R.K. Baheti:** FY'13, we expect to close the year about 140 Crores of capex, about 90 to 100 Crores will be on the new plant and the balance on the maintenance capex for other plants and R&D. Going forward we do not expect large capex so we expect it to cap it around 50-odd Crores for the plants and the R&D.
- Charulata:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Krishna Prasad from Kotak Securities. Please go ahead.



Alembic Pharmaceutical
January 22, 2013

Krishna Prasad: Good morning everyone and thanks for taking my question. First one, Pranav, I think, in your commentary, you had mentioned about focus outside of oral solids and you mentioned dermatology is one of them. Probably you just missed the other one. Which was the other area that you talked about?

Pranav Amin: I mentioned was derma and the other one we are thinking of something is inhalation. It is still early days and we are not looking at the regular inhalation, if we can do some value added generics pass on to the inhalation side. That is what we are trying to evaluate.

Krishna Prasad: So, when you say inhalation is that including nasal path or is it just the inhalation, the inhalers that you are talking about.

Pranav Amin: For the inhalers, for chest control, COPD kind of areas.

Krishna Prasad: In terms of let us say timelines; is there some sort of broad timeline that you are looking at in terms of how some of the filings could happen or potential filing?

Pranav Amin: I think more than the filings over the next six months or so what we are trying to figure out is in terms of proof of concept is what we are working on, the technologies that we want to do. As I mentioned is not one of the main ANDA where we are looking at, maybe some value added. So we will know in the next six months if the proof of concept works and whether we should progress further or not.

Krishna Prasad: I think you talked about how the international generics should ramp up, I think, once we have the facility going in terms of any specific products that you would want to talk about? Let us say once the capacity comes in, are there any sorts of niche opportunities that we currently have or once expected? Any sort of color on that?

Pranav Amin: I think it is two separate areas. One is the existing products that we already have in the market, as you know we have some ~~productseople~~, we have some launches coming up, we have got some approvals, some of the products that we are ~~in are~~ very big. ~~like (indiscernible) 43.04 launch coming up, we will be starting various launches, (indiscernible) is getting launched.~~ So, I think it is a combination of the older products which are there and about nine to ten new products that we will keep launching per year.

Krishna Prasad: Sir, if I just look at the decline, which has happened, would it be safe to assume that let us say by Q1 or Q2 of FY'14, we would start to see a YOY growth or would that happen starting from the Q4?

Formatted: Not Highlight

Formatted: Not Highlight



Alembic Pharmaceutical
January 22, 2013

- Pranav Amin:** I think it will start with Q4 itself.
- Krishna Prasad:** Finally on the international brand, so currently which are these key markets that we have for international branded?
- R.K. Baheti:** I think these are CIS countries, South East Asian countries. These are the key markets. Couple of African countries who are not very large.
- Krishna Prasad:** You mentioned that that should start to grow as well going forward?
- R.K. Baheti:** That is all we are working for.
- Krishna Prasad:** I think that is all from my side. Thanks a lot for taking my question.
- Moderator:** Thank you. The next question is from the line of Mr. Rahul Sharma from Karvy Stock Brocking. Please go ahead.
- Rahul Sharma:** Congratulations on a good set of numbers. Sir, just wanted to ask on the R&D front what will be the outlay which will be there for the current year in lieu of what we have already spent and secondly this milestone, which has come in where is it included? Is it in the export revenues or how is it shown?
- R.K. Baheti:** The milestones included in the revenues only, international revenues, international generic revenue to be specific and on R&D let Pranav respond.
- Pranav Amin:** As I mentioned, Rahul in terms of R&D we will be anywhere between 4% and 6%. I think this quarter will be higher because yes, our sales are little lower. As our sales ramps up, I think we will be closer to about 4% to 4.5% range.
- Rahul Sharma:** This was an aberration. This would not repeat in the quarter ahead?
- Pranav Amin:** It may, but I think on a year-on-year basis, it would not be as high, but on a quarterly basis, yes you might have some quarters where you have like for example ~~(indiscernible)~~ 45.26 505(b)(2) filing when itself is about \$1.8 million for one filing, so if something like that happens then it could skew it. Also as I mentioned this quarter we also had some of the backlog fees that we have had for the generic volume.
- Rahul Sharma:** I just missed out on how much have we done in reg markets and which geographies are there in reg markets? What revenues you would have all done for reg markets and others?

Formatted: Not Highlight



Alembic Pharmaceutical
January 22, 2013

Pranav Amin: For the regulated markets the revenue that you see as I mentioned earlier that about 60% to 65% is from the US and balance about 30% ~~to~~ 35% from Europe and about 5% to 10% from the other markets.

R.K. Baheti: The number we have done about 60 Crores for the quarter and about 158 Crores for YTD on international generics reg markets.

Rahul Sharma: Have I heard right that you are all planning to do around close to 350 Crores in reg markets next year or is it 300-odd?

R.K. Baheti: It is doable but maybe a little ambitious. We will stay with our 30% to 35% growth on March 2013 numbers.

Rahul Sharma: Thank you. I will join back in the queue.

Moderator: Thank you. The next question is from the line of Mr. Sandeep Patel from IL&FS. Please go ahead.

Sandeep Patel: Good morning everybody. Just wanted a little bit of an idea on the debt that we have. I believe you were planning to reduce debt this year and next. So could you just throw some light on that?

R.K. Baheti: I think part of it I will answer. Our debt as of December 31, 2012 was about 250 Crores, so it is less than that, March 2012 numbers are 350 Crores, couple of years back this was about in excess of about 500 Crores. So there has been a constant reduction of debt. As of December 31, 2012 with 250 Crores of debt our debt equity ratio was about 0.44. We said ~~to close~~ another reduction of ~~35.25~~ Crores so I think we should close at around 225 or so ~~by March 13~~

Sandeep Patel: Next year?

R.K. Baheti: Next year hopefully another 100-odd Crores would be ~~taken up, repaid~~ unless there is some big bang capital expenditure.

~~**Sandeep Patel:** Are we talking about acquisition?~~

~~**R.K. Baheti:** Another 100 Crores will get paid from the borrowings.~~

Sandeep Patel: Thank you so much that is from my side.



Alembic Pharmaceutical
January 22, 2013

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

S. Viswanathan: Very Good morning Sir. Most of my questions have been answered. Just want to know about your R&D team? How big is the team and any changes you have done recently?

Pranav Amin: I think in terms of R&D team we have a total of about 300 people between the chemistry and formulation development side. No new changes. I think the team is fairly steady. Our employee turnover and R&D has also come down quite a bit. So we have a very steady team and a young team.

S. Viswanathan: Thank you Sir.

Moderator: Thank you. The next question is from the line of Sri Hari from PCS Securities. Please go ahead.

Sri Hari: Thanks for taking my question. My question pertains to the regulated market exports of 61 Crores for the quarter. Can you give me the share of US sales in the quarter and for the nine months? How has the growth been and what is your estimate for fiscal 14?

Pranav Amin: I think for North America industry sales as I mentioned is about 60% to 65%. In terms of pure growth North America ~~credit level~~ has been flat and in fact there is a degrowth compared to the last year. Going forward we should see a lot more growth coming as new capacities come up.

Sri Hari: Thank you.

Moderator: Thank you. Our next question is from the line of Mitesh Shah from Bonanza Portfolio. Please go ahead.

Mitesh Shah: Thanks for taking my question. I just have in international market; you have said that you have launched nine ANDA products this year. Next year you are also expecting 10 products to launch. So, if I can exclude the one-off sales last year so what is your growth in the current year? Is that a high growth like 30% to 35% you are expecting next year?

Pranav Amin: I think what will happen is this growth will start from next year onwards, because so far we have had capacity constraint and once the capacity comes on line in February of this month, will slowly start ramping up. So Q4 onwards we should start saying marginal growth and as we can go of the Q2 of next year that is when we will see more sales happening.



Alembic Pharmaceutical
January 22, 2013

- Mitesh Shah:** I can accept these things, but you have already launched a similar product what you will expect to launch next year, so why that growth is mute growth or a negative growth this year?
- Pranav Amin:** There are two reasons for it; one because we had some very high value business last year which has not been repeated.
- Mitesh Shah:** If you exclude that business then is that growth is 30% - 35% which you will expect?
- Pranav Amin:** If you exclude that business there is a significant volume growth.
- Mitesh Shah:** One more question on your margins front you said that you have done a good product mix that is why you have a better gross margin. If I can expect that even you are expecting the employee cost would be reduced, R&D cost would be reduced so why you are expecting a lower margin compared to the current quarter. I think it should be similar or the higher margin from next year onwards because you are getting better capacity also in our API side you expecting you are concentrating on a higher margin products, so why you are expecting a lower margin?
- R.K. Baheti:** No, we would not say that we expect a lower margin what I am saying is we do not look at a quarterly margin as a benchmark. We look at the YTD margins. This year we expect a margin expansion of about 100 – 125 basis points over the last year and next year going forward we expect another 100 – 125 basis margin expansion. Some quarter it can be high and some quarter it can be low that depends on the product mix of that quarter so that should not be taken as a benchmark is what I have said.
- Mitesh Shah:** Okay but the similar product mix I think you will continue in some next quarter onwards?
- R.K. Baheti:** You cannot choose always a product mix with high GC. You have to service both the customers. This year because of capacity constraint we had given more priority to high GC with the products that cannot be a continuous process. We have to service all customers.
- Mitesh Shah:** Okay and one more question in your debt side are you planning to further reduce your debt?
- R.K. Baheti:** I said that that we will reduce it further by 20 – 25 Crores this year by March in the next three months and probably another 100 Crores in next year.
- Mitesh Shah:** Okay, so what is your comfort level on the debt equity ratio as a company?



Alembic Pharmaceutical
January 22, 2013

- R.K. Baheti:** I think virtually we will be debt free next year because with about 1000 Crores of networth and a 100 Crores of debt it would be 0.1 – 1.5 so it is miniscule. You have rightly said largely some working capital always would be in the system.
- Mitesh Shah:** Can I get the last year same quarter domestic market growth and the international generic market growth?
- R.K. Baheti:** Mitanshu will have it sent to you. ~~But I think he will have been sent to you.~~
- Moderator:** Thank you. Our next question is from the line of Bhagwan Chaudhary from India Nivesh Securities. Please go ahead.
- Bhagwan Chaudhary:** Thanks for taking. Mr. Baheti just one question, that this milestone payment is linked to what?
- R.K. Baheti:** It is linked to various triggers, development to filing to launches so that for every customer, every partner it can be different, for every product it can be different.
- Bhagwan Choudary:** So, mainly from US side?
- R.K. Baheti:** Also it is from Europe also we get milestone payment from European partners also. But quantum wise US should be larger amount.
- Bhagwan Choudary:** Thank you.
- Moderator:** Thank you. Our next question is from the line of Sri Hari from PCS Securities. Please go ahead.
- Sri Hari:** I wanted to know the forex impact for the quarter and the nine months and what is your hedging policy?
- R.K. Baheti:** For the quarter we had a forex loss of about Rs.2 – Rs.2.5 Crores, for nine months we were almost flat maybe a loss of about a Crore, and 1.5 Crores. The reason for the loss in the current quarter December quarter was in September the rupee had appreciated towards at the end of the quarter and again it ~~appreciated-depreciated~~ in December, ~~- Post December,~~ it appreciated again. If I take today's ~~revenue-expense-exchange rate,~~ probably I would have recouped all that losses, which I did in last quarter. As far as ~~raising-hedging~~ is concerned I think we try to hedge about 25% - 30% of the net receivables and when I say net it is made of imports as well as forex loan liability.



Alembic Pharmaceutical
January 22, 2013

Sri Hari: Thank you.

Moderator: Thank you. Participants as there are no further questions I would now like to hand the conference over to Mr. Manoj Garg for closing comments.

Manoj Garg: Thank you everyone and once again on behalf of Edelweiss, we thank the management to taking time out. Thanks to all of you once again for participating this conference. Mr. Baheti if you have any closing comment on this.

R.K. Baheti: Thanks Manoj and I think very interesting interaction with all the participants. I must thank all of them for taking their time early in the morning and attending this call. Thank you for the interest shown and on behalf of the management, I would wish to reiterate that will continue to work harder for a better performance. Thank you.

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