



“Alembic Pharmaceutical  
Conference Call”

January 22, 2014



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**Moderator:** Ladies and gentlemen, good day and welcome to the Alembic Pharma Earnings Conference call, hosted by Edelweiss Securities. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal 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 to Ms. Perin Ali. Thank you and over to you Madam!

**Perin Ali:** Thank you. Hello and a warm welcome to all of you. On behalf of Edelweiss, I welcome Alembic Management team to brief the quarter ending December 2013 results. Today we have on the call Mr. Pranav Amin, Director and President, International Business, Mr. Shaunak Amin, Director, and President Branded Formulation Business, Mr. R. K. Baheti, Director and President, Finance and Mr. Ajay Desai, VP Finance and Accounts. I hand over the conference to the management for opening remarks and then we can take the question and answer session. Over to you Sir!

**Raj Kumar Baheti:** Thanks. This is Raj Kumar Baheti. Most of you would have received our financial results and investor update; however, quickly let me briefly take you through the results for the quarter.

During the quarter ended December 31, 2013 we had total revenues growing by 31% to record 487 Crores, EBITDA was at 102 Crores, which was 21% of sales and versus 69 Crores, which was 18% EBITDA in the previous year's corresponding quarter. The growth on EBITDA was 47%.

Profit before tax grew by 48% to 88.8 Crores during the quarter. There was a slightly higher provision for deferred tax, which is a noncash item due to higher depreciation claim and as a result the post tax profit, net profit grew by 37% to 65.93 Crores. For the current quarter, the EPS was Rs.3.5 per share versus Rs.2.56 in the previous corresponding quarter.

I will now hand over to Pranav who will give you a brief overview on the international business/

**Pranav Amin:** Good afternoon everyone. The international generic grew by 112% to 130 Crores compared to 61 Crores in the corresponding quarter last year. The API exports grew by 53% and overall API business grew 13% to 76 Crores for the quarter. Our R&D cost for the quarter was 29.2 Crores, which is roughly 6% of our sales. We filed one ANDA during the quarter. We have cumulative filings stand at 60 and 31 are approved. We



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also filed two DMF during the quarter and the cumulative DMFs is 64. I will now hand over to Shaunak, who will take you through the Indian branded formulations.

**Shaunak Amin:** The Indian branded formulations we grew at 15% for the quarter. I think this is on the back of large price cuts on our NELM product mix. The sales was 230 Crores over Rs. 200 Crores in the corresponding quarter of last year. I think some of the key highlights for this quarter were that Gesteofit, which is our brand of Micronised Progesteron is part of top 300 brands of the industry now as per IMS ORG. I think segment wise, we grew 22% and negative 2% respectively in specialty and acute versus the industry growth rate of 11% and 2%. International branded business on a small base grew by 31% to 19 Crores and starting next quarter i.e first quarter of 2014-15 we will significantly look at scaling up our focus on our specialty business through additional division in the cardiovascular and the respiratory space and that is all the highlights for this quarter. I think we will open the floor for Q&A.

**Moderator:** Thank you very much Sir. We will now begin the question and answer session. Our first question is from the line of Nimish Mehta from Research Delta. Please go ahead.

**Nimesh Mehta:** This is Nimesh Mehta and thanks for taking my question. Congratulations for great set of numbers. First question on the domestic market, how do you see the trade margin issue panning out for yourself and the industry? The trade margin on the NELM products that I think the traders are agitating to increase.

**Shaunak** I think on the trade margins, majority of the industry has given in to the request for additional margins. In January first week Alembic also decided to pass on that trade margin because it was getting hard to operate when large part of the industry and most of the top 20 companies had all given in to the margin. we finally were one of the last few companies to hold out on giving additional trade margins, which we have decided to pass on to the trade in January.

**Nimesh Mehta:** Will this be effective, January?

**Raj Kumar Baheti:** As far as we are concerned, the issue is now over. We look forward to now consolidated growth.

**Nimesh Mehta:** How do you quantify the impact of the trade margin? Will it be effective from January, right?

**Shaunak:** Yes, effective January.

**Raj Kumar Baheti:** We have not really worked out on margin. It is not possible also statistically to workout the margin. I think our call is it would be offset by better business.



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- Nimesh Mehta:** But you also do not see any ballpark impact on the domestic margin as well?
- Raj Kumar Baheti:** We do not need to discuss this at this moment.
- Nimesh Mehta:** Second question on international generics. How many products have we launched this quarter?
- Pranav Amin:** We launched two products last quarter.
- Nimesh Mehta:** Can you please name those?
- Pranav Amin:** Valsartan and Metoprolol Tartrate.
- Nimesh Mehta:** I am sorry, metoprolol and the first one you mentioned was what?
- Pranav Amin:** Metoprolol Tartrate, Valsartan, hydrochlorothiazide.
- Nimesh Mehta:** I am unable to hear, I will get it offline. Finally, how many products are still left which are kind of approved and not yet launched?
- Pranav Amin:** We have 60 filings so far, with twenty six final approvals, four tentative approvals and 18 have got launched.
- Nimesh Mehta:** 18 have got launched including the last two. Basically why the delay between approval and launch, if you can just explain us as to is it only because of the commercial scale up of at the commercial level or what is it stopping us?
- Pranav Amin:** It is not a question of delay. I think some products we have chosen not to launch and whenever we do we launch it as fast as we can.
- Raj Kumar Baheti:** Some we are awaiting for probably a patent expiry and some we are discussing with the partners so that is for multiple reasons.
- Nimesh Mehta:** Any color that you can put on the approval that you have on Arava or leflunomide?
- Pranav Amin:** Leflunomide?
- Nimesh Mehta:** Right.
- Pranav Amin:** It is already commercialized.
- Nimesh Mehta:** It is commercialized. This happened this quarter or earlier?



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- Pranav Amin:** This happened earlier.
- Nimesh Mehta:** Thanks very much.
- Moderator:** Thank you. Our next question is from the line of Runjhun Jain from Nirmal Bang Securities. Please go ahead.
- Runjhun Jain:** Thank you Sir for taking my questions. Congratulations for good set of numbers. Just one thing, in this quarter the main thing, which will happen is improvement in the EBITDA margins, which has come to around 21.7% as per our calculation. So, can you just put any highlight what are the reasons the pricing you have taking any increase or something like that in the generics or somewhere? Do you think it is sustainable?
- R. K. Baheti:** Margin expansion was one of the objective which we have been discussing over many quarters and we have been gradually doing quarter-on-quarter, year-after-year. This year the margin expansion has been achieved mainly on back of increased international generics business, which you would have seen, so better plant capacity utilization, better order servicing, couple of good products, good work done by our partners in US has helped in achieving all of this.
- Runjhun Jain:** Sir, you feel that this is sustainable going forward also?
- R. K. Baheti:** I think we have said in the past that 20% odd EBITDA margin would be a number which we would like to maintain and because simultaneously we will also have to invest in for future growth. So, we will invest in R&D, we will invest in domestic marketing, so there will be some expense increase but I think 20% is a ballpark number, which we would like to retain.
- Runjhun Jain:** Sir, what is the forex gain or loss in this quarter and where it has been reported?
- R. K. Baheti:** This quarter has been fairly steady as far as the forex is concerned. We have had a minimal gain of about Rs.2 Crores this quarter and that is part of other expenditure and other income.
- Runjhun Jain:** Sir, can you provide any light on the Desvenlafaxine development? What is it happening?
- Pranav Amin:** On Desvenlafaxine I mentioned in the last call that the traction has been much slower. We are seeing a little bit of improvement but it is still quite negligible at this stage. Hopefully, moving forward we should see some ramp up in sales. But so far it is much slower than what we expected.



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- Runjhun Jain:** In this quarter also you have not seen any ramp up or no any signs of future development in that product?
- Pranav Amin:** We have seen some, but it is quite negligible and as compared to what we had expected earlier.
- Runjhun Jain:** Thank you Sir.
- Moderator:** Thank you. Our next question is from the line of Bhagwan Chaudhary from India Nivesh Securities. Please go ahead.
- Bhagwan Chaudhary:** Thanks. Congratulations for a very good set of numbers. Just want to know about this R&D expenditure quarter-over-quarter there was some decline in that. Any particular reason?
- Raj Kumar Baheti:** Bhagwan, you do not look at these numbers on a quarter-on-quarter basis, because in some quarter you do more and more pivotal and some quarter you do less. Overall as Pranav has mentioned in the last call, I think this year we will end up about 6% of revenue being on R&D and we are on track.
- Bhagwan Chaudhary:** Secondly at current levels that the new manufacturing facility what would be the capacity utilization of that?
- Raj Kumar Baheti:** For the new facility?
- Bhagwan Chaudhary:** Yes Sir.
- Raj Kumar Baheti:** I think the combined facility utilization is about 55% to 60% approximately. There are no new and old separately. These are combined.
- Bhagwan Chaudhary:** Given that the way we are ramping up into the US market, and the very strong pipeline, we are having so, is two years from here what kind of the capex you are looking for further required capacity expansion or how are you looking at that point?
- Pranav Amin:** I think for ramping up we have just done this capacity expansion. We will also do a little bit more next year. We should look at maintenance capex of about 100 Crores or so per year in the next two years.
- Bhagwan Chaudhary:** Any big capex plan that is what my question is?
- Pranav Amin:** It depends, but because of we are growing international business as well we will see capex coming in the API as well as on the formulation plant as well.



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**Bhagwan Chaudhary:** Sir, finally on this Desvenlafaxine as you said, that you are still awaiting the ramp up. So, if I am looking at the previous quarter, this quarter the sales was almost flat or there was some decline in this quarter, if I am just comparing to the previous quarter?

**Pranav Amin:** It is by and large it is very less, so it is when I mention negligible it is less than 1%. So, even if there is an increase, which may be interesting for us, but it is still very low.

**Bhagwan Chaudhary:** Finally, on domestic formulations you had done really very good in that market given the circumstances on the trading margins and NELM impact. So actually what is driving your business in that market? Just want to understand in detail of that if you could highlight something on that?

**Shaunak Amin:** I think for the last three years we have been maintaining that our constant endeavor is to align ourselves to higher growth markets in terms of the kind of molecules in the segments we participated as well as aggressive push towards upgrading our business more into a specialized therapies as well as in terms of both in terms of therapies as well in terms of doctor groups. So I think all these three things have given us an ability to grow better despite antibiotic market, which only grew at almost at 2%.

**Bhagwan Chaudhary:** May I know what is the field force that stands at current level?

**Shaunak Amin:** Current field force is 3000 medical reps.

**Bhagwan Chaudhary:** Are you willing to increase something?

**Shaunak Amin:** Yes we are. Like I said in the start, we are looking at consolidating in the specialty space, so we will be looking at expansion both in cardiovascular as well as in respiratory space. So both those expansions are already lined up and it should come into effect from Q1 next year.

**Bhagwan Chaudhary:** Thank you Sir. That is all from my side.

**Moderator:** Thank you. Our next question is from the line of Mr. Nisarg Vakharia from Lucky Investment Manager. Please go ahead.

**Nisarg Vakharia:** We have already launched metoprolol in US. Can you throw light on this product? Where do you see this product ramping up? Is it going to be a major growth driver for us?

**Pranav Amin:** Let me clarify. There are couple of metoprolols. One we do not give a product wise breakup of what are expected, but since this is not metoprolol succinate, this is metoprolol tartrate, but we do not give product wise data.



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- Nisarg Vakharia:** Have we also filed for Cymbalta?
- Pranav Amin:** Cymbalta yes. But again we would not be able to disclose that. That is something which we will see when we get approval. If we get approval in time, we are going to have FTF on it.
- Nisarg Vakharia:** Marketing partner for Cymbalta is? Who is your marketing partner for Cymbalta?
- Pranav Amin:** We do not disclose on our partners.
- Nisarg Vakharia:** Just for the domestic business how big a brand is Gestofit now?
- R. K. Baheti:** Gestofit, in terms of numbers?
- Nisarg Vakharia:** Yes.
- R. K. Baheti:** It is 30 Crores plus.
- Nisarg Vakharia:** This was launched how many years back?
- R. K. Baheti:** About two years. Brand was acquired when we bought Dabur, which we reworked the formulations and upgraded it.
- Nisarg Vakharia:** You mentioned 60 filings out of which 24 we have already received final approval, four is tentative and the balance is we are already selling in the market?
- Pranav Amin:** As I said, we have launched 18 products in the market.
- Nisarg Vakharia:** 18 products.
- R. K. Baheti:** Yes.
- Nisarg Vakharia:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Anmol Gangoo from JM Financial. Please go ahead.
- Anmol Ganjoo:** Congratulations for robust set of numbers. Just a couple of questions; first to Shaunak. We have seen the anti-infective as a percentage is progressively coming down and now we have further reduced to 600 BPS year-on-year. What is the steady state stabilization, we are looking in terms of the domestic market, both in terms of acute



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and chronic? And then within acute what is the prognosis on cough and cold, which is although been slowing, but slowing it to much slower pace than the respiratory and anti-infectives? Just was wondering if we can have any color on that?

**Shaunak Amin:** I did not get the question. What exactly would you want to know?

**Anmol Ganjoo:** Basically in a steady state what is the split between acute and chronic that we are targeting and within that what is the prognosis on cough and cold versus anti-infectives?

**Shaunak Amin:** I think cough and cold is an area where we want to accelerate we are roughly 5% market share in the cough and cold space. So we do have a lot of legacy in that space and we want to look at in the coming years to where we look at leveraging it. I think the challenge in cough and cold is there is it is fairly flat market in terms of growth. You see seasons and seasons of high growth as well as periods of low growth. So we want to maintain a little more focus than we have in the past. The specialty businesses is going to be our focus and I think have shown rough quarters of growth and sustained growth in this in all specialty segments. Antibiotics is a challenge for us, but we do maintain that we want to look at growing at least at the same speed as the market. our participation in the antibiotics space is fairly narrow, largely limited into the macrolides and Cephalosporin, so we do not participate in the entire market, but yes we want to try to at least maintain overall antibiotics growth in line with market.

**Anmol Ganjoo:** Basically what I was trying to understand that when I look at the domestic business a year down the line and how does the split look like in terms of where do we stabilize at, because we have shown sustained growth but what is the point at which we see the sterilization at is it 70:30, 80:10, 60:40 include chronic. Do we have any internal?

**Rajkumar Baheti :** I do not think there are targets like that. I think speciality will continue to grow much faster. Of course the base is also small, but today, now speciality is 50% plus of our total business. So, this will continue to grow faster. I do not have a target that I will take it at 70:30, or 80:20 or nothing like that. This calculation is only a statistical number.

**Anmol Ganjoo:** But as far as the growth rate differentials are concerned, you think that at least for the next four to six quarters this will sustain, right?

**Raj Kumar Baheti:** This will continue.

**Anmol Ganjoo:** Thanks. My second question is that any qualitative color you can give in terms of US filings because I know that you do not talk about products individually but when we look at pipeline from a 12 to 18 months perspective, what are the kind of products or



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therapeutic areas that we are looking because we have heard references to some of the derma products, some inhalation products 505(B)(2), any qualitative color without being specific on products that would be helpful?

**Pranav Amin:** Actually I think we cannot give anything. The only thing I can say we are trying to work on complex products as we go along, and that is about it. We have mixed bag right now, solid orals only to be filed, but I cannot give anything more than that.

**Anmol Ganjoo:** Then my last question is on some of the rest over branded generics market there we have seen that the market structure is inherently volatile, but what are we seeing with respect to some of our initiatives on the branded side in these markets?

**Shaunak Amin:** I think we are still at very early stages for rest of the World branded. I think we filed quite a few products in these markets and I think we are still awaiting for approvals in most of these markets. So, there are some time to scale up but I think we feel that we can definitely look at in some ways replicating the India branded business in terms of sustainability and growth rate, so that is what we want to look at.

**Anmol Ganjoo:** Thank you so much. That is it from my side.

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

**Dheeresh Pathak:** Good evening everyone. Sir, how many ANDA filings are made this year so far?

**Pranav Amin:** This year we have done so far three ANDA filings.

**Dheeresh Pathak:** Is there going to be a bunching up in the last quarter because on an average if I remember we have been doing like 10 filings for the few years?

**Pranav Amin:** But also in the beginning of the year, I said, that this year will be a little slow for us for ANDA filings due to multiple reasons in terms of number of filings. Ideally, we would be like to be between 8 to 10, 8 to 12 or so, but this year we have been a little lower, so and hopefully mid of next year we should see a pick up on a regular runrate.

**Dheeresh Pathak:** But is there a change in the quality of filing, which of course you have been alluding to, because R&D expenses are up 60% or so year-to-date but filings are down?

**Pranav Amin:** There are a couple of reasons for that. One is as you mentioned the complexity of the products, so it takes a little while longer and little more expensive to develop. So, as we climb up the value chain and the complexity that is one reason. Second is we are only



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equating this with US filings, but we are also doing some work in Brazil, Australia, and Europe as well.

**Dheeresh Pathak:** To the earlier question when you say that you are waiting for approvals in some of these major markets should be Brazil and Australia?

**Pranav Amin:** At the beginning the market first is US and then breakup while we have not given but we are working in all these markets.

**Raj Kumar Baheti:** Basically when we are awaiting approvals from other markets, what we meant was that was an answer given for branded generics and which is different from what we are now talking about, which is more in the generic segment.

**Dheeresh Pathak:** I mean branded generics which markets have we done filings and we are waiting approvals?

**Shaunak Amin:** I think it is on the less developed markets. So, South East Asia, CIS, East Africa, these are the three main geographic areas.

**Dheeresh Pathak:** Earlier you mentioned that next two years is going to be 100 Crores of capex? Is that right?

**Pranav Amin:** Yes. Rs. 100 crores per year

**Dheeresh Pathak:** Thank you.

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

**Saion Mukherjee:** Thanks for taking my question. Congratulations on a good set of numbers. I just wanted to know on international generics, how much is the US out of this?

**Pranav Amin:** We have not given a breakup, but roughly it is about 60% to 65%.

**Saion Mukherjee:** 60% to 65%, and you mentioned about investing in R&D and also on the domestic business. Especially on R&D side, is it fair to assume that most of the rise that we are seeing is all are largely for the US market, will that be a right assessment?

**Pranav Amin:** Most of what?

**Saion Mukherjee:** Most of the increase that you are going to see or that you have seen those investments are largely towards the US opportunities?



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- Pranav Amin:** As the earlier participants asked the question so by and large the US is the biggest market for us. So, yes, of course we try to invest still in the US and we are part of it in other market as well.
- Saion Mukherjee:** On the domestic market, I think you mentioned that CVS and respiratory can you just take me through the thought process as these are like new divisions or new launches or you are just realigning with new segments in the domestic market. Exactly what you meant by opening new CVS and respiratory divisions?
- Shaunak Amin:** I think it is just a strategic realignment to give additional focus to these therapeutic segments.
- Saion Mukherjee:** So, you would require to add more field force for that?
- Shaunak Amin:** Yes, of course.
- Saion Mukherjee:** How big would that addition be Sir?
- Raj Kumar Baheti:** We are still working on that, but over the next 12 months or so we plan to add between 350 and 500 people.
- Saion Mukherjee:** 350 to 500 people. Thanks a lot. I will join back to the queue.
- Moderator:** Thank you. The next question is from the line of Manoj Garg from DSP Merrill Lynch. Please go ahead.
- Manoj Garg:** Good evening and thanks for taking my question. Congrats for good set of numbers. If we look at the restructuring, which we have initiated somewhere in 2008-09 and the investments which you have made between 2008 and 2010 have really paid dividend to us and today what we are, is obviously closer to industry level kind of margins from 11% to 12% kind of margins which we used to have in 2010-11. So, if one looks back and now thinks about the next five year, so where Alembic would be and what could be the next big growth drivers for the company as a whole?
- Pranav Amin:** Manoj, as we mentioned earlier, we have not given guidance for the next five years. What we would see in the two businesses, what we see and what we have been saying is in the India business we would like to continue investing in terms of getting newer side of Speciality and which has always been more in the acute segment, we are getting the specialties to grow that business. That is something we will do on the India side. On the international generic side, if you look at filing products, our filing of complex products, and eventually have a long front-ended in the US as well.



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**Manoj Garg:** So, if somebody has to look at maybe down the line three to five year what could be the revenue distribution between India and US? Any thoughts on that or any broader number on that direction?

**Pranav Amin:** It is too early I think.

**Manoj Garg:** Second thing, like in the last two quarters we have seen massive ramp up in the international generics obviously because there were pending orders and there were capacity constraints earlier and we have seen growth over 100%. Now do we see this growth numbers to sustain or what could be the growth which one should project or model in the numbers on the international generic side?

**Raj Kumar Baheti:** Obviously the growth percentages would not be sustainable. These are nonrecurring one-time items, but we will continue to focus on the business and we hope to continue to do well. Now the base has become larger, also as I said there were some good opportunities in last couple of quarters, as of now we are not giving a guidance for the coming year, but the only statement we make is that this remains high focus area for us and will continue to look for better opportunities including new product launches, filings and all of that.

**Manoj Garg:** That is it from my side. Wish you all the best.

**Moderator:** Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

**Nitin Agarwal:** Thanks for taking my question. Pranav, on the US your own front end how is that progressing and when do you planning to sort of get in place?

**Pranav Amin:** I think our own front end as I mentioned is likely to start may be about in the next financial year or so

**Nitin Agarwal:** How does it works, it is only incrementally product that you not partnered out will be offered to the front end or even some of the product you offered you have an opportunity to start offering for your own front end?

**Pranav Amin:** I think what we have partnered already those will remain with our partners. What will happen for our front end is ones which are even not partnered or new ones that we are getting approval which are not partnered.

**Nitin Agarwal:** In general per se directionally the business apart from you sort of meeting the orders which were you were not able to with the pent up orders and stuff is there been a general direction or directionally market share improvement across most of your larger



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products to happen in the business in US, or you are seeing the quality the business in general apart from the capacity addition which have helped the growth?

**Pranav Amin:** I think it is both I think it is quality of the business as well as their capacity, so both the US there has been some products where our partners managed to get good market share of course they lost certain some as well, but it is a combination of both.

**Raj Kumar Baheti:** Also Nitin, you would be aware in international generics pricing would be volatile at times if you get good opportunities at times the prices can really go down very rapidly, so it is very difficult to just multiple by quarter by number into 4 and say these are the yearly numbers.

**Nitin Agarwal:** Pranav, you should sort of refer to the fact that in some cases the partners have not been able to do good job for whatever reasons, do you have an option in terms of taking back some of those products?

**Raj Kumar Baheti:** We did not say that. We said in few cases partners did a very good job. I do not think anyone of us have ever made a statement that the partners did not do a good job, Okay having said that there in our agreement there are clauses, which allows us to take back our products from our partners and when we start our front end those who would have also in addition to the products, which we have not partnered some of the products where we can take it back are also opportunities, but that we will evaluate at the right time and there are options available to us.

**Nitin Agarwal:** Lastly how many products are we looking to the sort of launch next year in FY'15?

**Pranav Amin:** What I have mentioned earlier, in one of the earlier calls is we should look at launching anywhere between eight plus minus products every year for the next two or three years, I think it will be around that level.

**Nitin Agarwal:** Thank you very much.

**Moderator:** Thank you. The next question is from Chetan Vora from Value Quest Research. Please go ahead.

**Chetan Vora:** Sir I just wanted to understand the two products what you have launched would be into what geographies?

**Raj Kumar Baheti:** We talk of US.

**Chetan Vora:** So it was only in US correct?



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- Raj Kumar Baheti:** Product continues to get launched in all territories but these two products we talked off in US.
- Chetan Vora:** Whether these products which we have launched by two on our own or from marketing partners?
- Pranav Amin:** Right now in US the business is that we work through partners.
- Chetan Vora:** So whatever products we launch in US is through marketing partners and going forward also it is quite safe to assume that whatever products we will be launching in US will be through the partners only correct?
- Pranav Amin:** Not really. As I mentioned in the question before yours that ultimately at some point we will look at marketing our own as well.
- Chetan Vora:** What would be that point to consider?
- Pranav Amin:** As mentioned in the last question it will be about the next financial year.
- Chetan Vora:** End of FY'15, and what about the arrangement in the other geographies whether it would be through on our own or will it be through a marketing partner for the other geographies?
- Pranav Amin:** It is too hard to say. Let me break it up for you on the generic side, it is all through partners. On the branded generics which is South East Asia, West Africa, CIS and Russian countries, those will be through our own.
- Chetan Vora:** Thanks a lot Sir.
- Moderator:** Thank you. We are going to take our follow up question from the line of Runjhun Jain from Nirmal Bang Securities. Please go ahead.
- Runjhun Jain:** One bookkeeping question. Can you give us the breakup of API in terms of exports in domestics?
- Pranav Amin:** API the breakup between exports and domestic is 64 Crores and Rs. 12 crores
- Runjhun Jain:** Can I just know when was the last FDA plant inspection happened?
- Pranav Amin:** Normally we do not disclose that , we do not disclose in discussion but we had one last year. We had one last year.



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- Runjhun Jain:** Sir just last question can you just give me the breakup I think I missed that point, when you are saying in the domestic portfolio what is the breakup of chronic versus acute?
- Pranav Amin:** We have 52% chronic for the quarter and 48% for acute.
- Runjhun Jain:** What is the YTD figure?
- Pranav Amin:** Almost 50-50.
- Moderator:** Thank you. The next question is from the line of Manish Jain from Sageone Investment Advisors. Please go ahead.
- Manish Jain:** I just wanted to know Pranav, how is Desvenlafaxine doing in US?
- Pranav Amin:** Manish, as I have mentioned it is being much slower than what we have thought. The Ranbaxy team is working on it. We are seeing some improvement at a grass root level in terms of acceptance and getting some prescription, it is still very low. It is too early to say.
- Manish Jain:** Second is on creating the front end, given the kind of small size what really will be the critical mass for you all to have the front end either in terms of number of products or in terms of value?
- Pranav Amin:** That is very subjective question and it depends when you want to do it. We have seen lot of Indian companies launched anywhere between two products to 20 products, so just a matter of timing when you wish to do it, so we will launch as I mentioned at the end of FY' 15 because we believe that is the right now with the products that we may have and the complexity of the products.
- Manish Jain:** Thanks.
- Moderator:** Thank you. We are going to take a followup question from the line of Nisarg Vakharia from Lucky Investment Managers. Please go ahead.
- Nisarg Vakharia:** Just a followup question on metoprolol tart. Typically, what we have seen to the plucked out is that it is a \$1.3 billion market of which Lopressor is about \$870 million so am I right to kind of?
- Pranav Amin:** There are two metoprolol that we spoke earlier. One is the metoprolol succinate ideally the figures that you are referring to are that metoprolol succinate which is an extended release. The products that we have launched are metoprolol tartrate which is immediate



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release tablet and that has already generic and it is actually having quite a few competitors that is the product that we have launched.

**Nisarg Vakharia:** Would you be knowing what is the size of this product in US?

**Pranav Amin:** At this point of time with the current IMS data I believe it was somewhere close to around 80 million in generics.

**Nisarg Vakharia:** When you typically launch a product or when you work on a particular product what kind of market size would you look at the time of launch and of course the complexity of the product?

**Pranav Amin:** Again this is very hard to generalize this question because there are a couple of things; one it depends what the competition is, who our partner is, what is our cost is for the supply chain, yes ideally we would like to get 10% market share, but it depends on certain products we do not, it is very tough to get so I cannot give a generalized answer for this.

**Nisarg Vakharia:** Thank you Sir.

**Moderator:** Thank you. The next question is from the line of Urvi Shah from Dalal & Broacha. Please go ahead.

**Urvi Shah:** Thank you for taking my question. Sir my question is related to the interest cost going out, if you could just give some clarification on that and second will be on the tax rate, what is the tax rate that we should be assuming going forward?

**Raj Kumar Baheti:** Interest rate what clarification you want madam?

**Urvi Shah:** Sir if you see on quarter-to-quarter it has been increasing in the last quarter if I am not mistaken you had said if we plan to retire the debt as soon as possible just wanted to ask?

**Raj Kumar Baheti:** Actually in fact we have retired the debt. It is also a combination of which type of debt you take. Last quarter probably we would have taken more on the foreign currency PCFC which would carry a lower interest rate but which would also carry a higher risk of currency fluctuation, so this quarter we played safe and we have taken largely rupee loans. The overall cost of funds including the forex hedge did not change much. So we have reduced debt Rs. 190 odd Crores, This time the debt is about 165 odd Crores, so the debt levels have gone down and As far as tax rate is concerned we continue to be under MAT, so the cash tax is on MAT we also have a deferred tax item, which is as

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per the accounting standards, which is noncash item and which depends on what is the difference between your normal tax and the benefit which are available.

**Urvi Shah:** Thank you so much Sir.

**Moderator:** Thank you. The next question is from the line of C Shrihari from TCS Securities. Please go ahead.

**C Shrihari:** Thanks for taking my question. You have been giving a guidance that the EBITDA margin growth would be between 100 and 150 BPS year-on-year, but sometime back you mentioned that the EBITDA margin you expect to stabilize around 20% for the current fiscal, is that correct for the current fiscal do you expect is it?

**Raj Kumar Baheti:** Our target was to take 20% EBITDA margin for the next fixed fiscal. In fact we have achieved it ahead of time. We are happy with it, but in the same breath I said that we would rather now that we are on a good foundation, we would accelerate our investment in domestic business growth as well as in R&D. We will be comfortable maintaining a 20% of margin.

**C Shrihari:** So basically it is an upgrade in terms of your guidance I would say?

**Raj Kumar Baheti:** I think I am maintaining it. There is not upgradation or deceleration. I am just maintaining.

**C Shrihari:** So would you still maintain a year-on-year growth of 100 to 150 BPS on this kind of thing?

**Raj Kumar Baheti:** That is why I said that we will be happy as guidance is concerned we are stick into 20% EBITDA.

**C Shrihari:** So your target of let us say 100 to 150 BPS you will achieve it?

**Raj Kumar Baheti:** We have achieved actually a year ahead of time.

**C Shrihari:** Thank you.

**Moderator:** Thank you. We are going to take a followup question from the line of Saion Mukherjee from Nomura. Please go ahead.

**Saion Mukherjee:** Thanks for taking my question again. I wanted to understand the issue with Desvenlafaxine. What is the exactly the issue is, is it because it is a CNS drug and we



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are not gaining traction and why should we think that it can change materially in the quarters to come?

**Pranav Amin:** There is couple of reasons what actually mentioned here it is the CNS product so that is one reason. Second is marketing it as a non AB rated generic. It is a little tougher. Ranbaxy is working on it and that is why it is taking a while to convince the customer and moving a lot. Why I am saying I expect it to improve is because seeing at the grassroot level the repeat business is starting. They can add to it and we should see this going up.

**Saion Mukherjee:** Would it be fair that now the market shares are very low right it is in low single digit, so it would be more reasonable like mid single digit or high single digit in a years' time?

**Pranav Amin:** Again as I said it is too tough to say because when you started the year we thought it will be able to do much sooner, but it is something we will have to wait and watch.

**Saion Mukherjee:** My second question is regarding the international generic business. I think you mentioned in response to one question regarding certain one time. Is there any tender business on anything which is nonsustainable in nature and if you can quantify that?

**Pranav Amin:** We do not disclose the nature of the business, as you know there is tender business in Europe, there is tender business some in other parts of the world, so we do not disclose what particular business and product wise what we are doing.

**Saion Mukherjee:** But you would still expect growth, it may come down, but you would still expect growth going forward?

**Pranav Amin:** If we are launching new products of course we would expect growth.

**Saion Mukherjee:** My last question is regarding the US front end, would it be like your are currently selling it through partner, so going forward when you establish some front end in the US, you would launch a product simultaneously through partners and your front end and gradually transition to completely to a front end it will that be kind of strategy you would look at?

**Raj Kumar Baheti** No I think what business we are doing with our partners will continue doing that waywith our partner

**Saion Mukherjee:** Basically going forward the kind of approvals, launches that you would have would there be relatively more day #1 kind of launches where you would have bargaining power to kind of have some critical mass with the front end that you would have?



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**Pranav Amin:** I think it is not a question of bargaining power, see with day #1 launches we have some with the partners as well. It is just we might do it on our own as well going forward and we believe we do have competence and the product portfolio in the future to do.

**Saion Mukherjee:** You said end of next fiscal right by when you?

**Pranav Amin:** Yes approximately around that time.

**Saion Mukherjee:** Thanks a lot.

**Moderator:** Thank you. We are going to take followup question from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

**Nitin Agarwal:** Thanks again. Pranav, do you guys share pending filings what are the number of para IV, which are there?

**Pranav Amin:** We have not disclosed or given that breakup.

**Nitin Agarwal:** Secondly for example when you launch a product like metoprolol or the SCD that you have launched at fairly late stage in the lifecycle or the generics come through, so what typically, what essentially drives the decision making, because you have been selective about these launches in the past in terms of not really marketing some of those products which you got approvals for?

**Pranav Amin:** In terms of launching new products, yes there are some products which are old in the market, but you do find opportunities it is still some of this we are going to cost structure if you have a good supply chain, and we continue to get market share still makes sense, so not all products is there, we have been much greater in the market compared to peers in the industry. Those are the start. There always some opportunity that we get. Some we have not launched, strategically we have not done because it did not make a sense to go to the levels that we where, also if you see last two years we did have capacity constraint so at that time we wanted to focus on the higher margin business, so the higher products containing more sense for us and where we thought it is not worth it we are just putting those aside. That is the reason why we did not launch some products.

**Nitin Agarwal:** Thank you very much.

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



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- Rahul Sharma:** Just wanted a clarity, we have seen a ramp up in our international generics, it is because the launch of the two products which metoprolol and telmisartan, HCTZ , right if I am not mistaken?
- Pranav Amin:** Rahul, actually the growth in international generic is due to various reasons. We have even product wise growth. There are various reasons for it across all territory, so we have pretty well lot of territories not just US. So it is because our market has done better some of course we have not done well with some products, so entire basket I would not attribute it to only few products.
- Rahul Sharma:** I just wanted clarity are we confident of sustaining this momentum in Q3 which is settled?
- Pranav Amin:** See as Mr. Baheti mentioned earlier this high growth rate 100% odd of course it is not possible to continue growing at this rate. On a CAGR basis we had said earlier at the beginning of the year that we expect to grow about 30% to 35% over a two year period. We have pretty much we reached lot of that target, so on a higher base we will grow but this kind of growth will be much tougher to do.
- Rahul Sharma:** The quarterly runrate which we are doing at around 130 odd Crores is it a sustainable runrate we are looking at?
- Raj Kumar Baheti:** The quarterly runrate is more or less okay.
- Rahul Sharma:** Thank you.
- Moderator:** Thank you. The next question is from the line of Chandrashekhar Sridhar from Union KBC Mutual Fund. Please go ahead.
- Chandrashekhar S:** On your topline you have about on your gross block, you have about 573 Crores of about gross block at the end of 2013. I presume by the end of this year, it will be somewhere close to about 600 to 650 Crores. On that you seem to be doing about three times your gross block in terms of sales and not a lot of companies end up doing that. So could you share some of the reasons how come you sales to gross block especially since you still have a large component of API also in your sales, I am trying to figure how was your sales to block so high? Also over the next couple of years you plan only about you have only about 100 Crores of maintenance capex, so does that mean assuming that you have about three times block added again, that you will add only about 300 Crores of topline may be over the next couple of years? Secondly is that your gross margins are somewhere nearing industry levels. I think right now you are about 64% gross margins, which is about where most of us slightly the larger peers are there. I know you have slightly better product basket in terms of you do not have a lot



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of legacy in old products in your US business, but is there a chance in the gross margins going up significantly from here?

**Raj Kumar Baheti:** First thing first. I think we do peer competition, but honestly I have not done this comparison a gross block versus sales. I would not know. We were a small company so we were more conscious of using our assets well, that is one. For the domestic business, but like most other companies we have also outsourced. So that would be one reason why the gross block would be low as compared to business, but honestly I have not looked at this ratio. We will continue to invest, but invest judiciously in the fixed asset. To me growth is the factor of marketing efforts and not so much of fixed assets.

**Chandrashekhar S:** So how much of the sales are actually outsourced sales in this?

**Raj Kumar Baheti:** For the domestic business about 35% of the domestic business is outsourced.

**Chandrashekhar S:** On the margins my question was that you are...?

**Raj Kumar Baheti:** I think I have responded earlier at EBITDA level. At a gross GC level I think it is a matter of product mix between the API and formulation business. I believe we have reached to a level of stability where for the next few quarters we will see the numbers are in similar zones, unless the international generic business outsmarts the API business in a big way.

**Chandrashekhar S:** Thank you.

**Moderator:** Thank you. Participants we are going to take a last question from the line of Nimesh Mehta from Research Delta. Please go ahead.

**Nimesh Mehta:** Thanks again for taking my question. Sir just more clarification on the margin front what would you attribute the reason to be for the increase in the EBITDA margin on a sequential or QOQ basis, it is the two products that we have launched in US, how do you put it?

**Raj Kumar Baheti:** It is an overall spread of overheads on a larger topline and larger contribution. So, I think it has improved as a percentage of sales GC has improved, as a percentage of sales all other overheads have gone down, so that is a direct factor for improved margins.

**Nimesh Mehta:** On the US front end are we likely to incur any cost for setting up the front end or significant cost is at all?



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**Raj Kumar Baheti:** But when we set up then there will be a cost, but significant again is a relative word, but believe that the first full year our operation we should be breaking even if not making money. But having said this let me clarify that on quarter-on-quarter basis the number can be different in the first quarter I mean I may have some cost but the business will come in subsequent quarter I am talking of one full year of operation.

**Nimesh Mehta:** Can you quantify that?

**Raj Kumar Baheti:** Advantage would be in subsequent years and the growth in profitability can be disproportionate to the business.

**Nimesh Mehta:** I fully agree. Is it possible to quantify the total?

**Raj Kumar Baheti:** As of now we have not shared the products, it is still a couple of quarters away.

**Nimesh Mehta:** Lastly would you like to throw some light on the possible launches of warfarin 505 (B) (2) and other generic product accubreak technology and we around that would be great some color on these two products?

**Pranav Amin:** I think for the 505 (B) (2) the accubreak is still away, the product, have not filed yet. Hopefully by the end of this year we might look at filing it.

**Nimesh Mehta:** Some kind of color as to when do you expect to launch ballpark may not be exact?

**Pranav Amin:** As I mentioned we have not given or disclosed anything about our filing which products we have filed or when we have filed, so the only thing is on warfarin as I mentioned it is 505 (B) (2) that we have been looking on working on we should file by the end of year.

**Nimesh Mehta:** Thank you very much.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Ms. Perin Ali for closing comments. Thank you.

**Perin Ali:** Thanks everyone for joining the call. On behalf of Edelweiss, I thank Alembic management team to take time out and Mr. Baheti if you have any closing comments please go ahead.

**Raj Kumar Baheti:** I think Perin, good interactive session and it was pleasure talking to all of you. Look forward to talk to you again next quarter. Thank you very much. Any of you have any questions if you can send a separate mail to me or Ajay and we will be happy to respond.



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