



“Alembic Pharmaceuticals Limited Q1 FY-21 Earnings Conference Call”

July 22, 2020



MANAGEMENT: **MR. PRANAV AMIN – MANAGING DIRECTOR**
MR. SHAUNAK AMIN – MANAGING DIRECTOR
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MR. MITANSHU SHAH – HEAD (FINANCE)
MR. JESAL SHAH – HEAD (STRATEGY)
MR. AJAY KUMAR DESAI – SENIOR VICE PRESIDENT (FINANCE),

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY21 Earnings Conference Call of Alembic Pharmaceuticals Limited. On the call today we have with us Mr. Pranav Amin – Managing Director; Mr. Shaunak Amin – Managing Director; Mr. R. K. Baheti – Director-Finance and CFO; Mr. Mitanshu Shah – Head-Finance; Mr. Jesal Shah – Head-Strategy & Mr. Ajay Kumar Desai – Senior Vice President-Finance.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. R. K. Baheti. Thank you and over to you, sir.

R. K. Baheti: Thank you. Good evening everyone. Thank you all for joining the first quarter results Conference Call. I am sure you would have received the results by now. Let me briefly take you through the numbers for the quarter ended 30th June 2020.

Last year we had closed the year with a strong note and we are continuing the same journey nicely. First quarter this year has also been a good beginning for us.

During the quarter our total revenue grew 41% to Rs. 1,341 crores. EBITDA grew 108% to Rs. 416 crores, EBITDA is 31% of sales. Profit before Tax went up by 131% to Rs. 368 crores and profit after tax went up by 144% to Rs. 301 crores.

EPS for the quarter is Rs. 15.99 per share. This is for the quarter versus Rs. 6.56 in the corresponding quarter last year.

CAPEX for the quarter is Rs. 142 crores.

Cumulative CAPEX for ongoing projects including under CWIP and including pre-operative of course is Rs. 1,511 crores.

Investments in our joint venture Aleor Dermaceuticals is Rs. 702 crores. This is cumulative investment number.

The gross borrowing at consolidated level is Rs. 1,439 crores and this is down from about Rs. 1,700 crores last March. The company has Rs. 260 crores as cash in hand. The net borrowing is about Rs. 1,179 crores.

Net debt equity is 0.33.

I would like now Pranav to discuss with you the presentation on international business. Over to you, Pranav.

Pranav Amin: Thank you, Mr. Baheti. As you know it was a good quarter for the international business and this was driven across all the segments. The first question on everyone's mind is the sartin's opportunity and what is happening in the market. As I said in the last call the sartin's market seems to have stabilized. There have been newer entrants. By and large this is a basket of about 14 odd products in the market. We continue to hold share in some products, some products where there have been competitors. What is interesting though is no one competitor is taking up too much major market share or present across the sartans. So the market is quite stable.

As regards to the US outlook has continued the same what I said last quarter we stick by the 70 million plus minus kind of a number. That is what we consistently are seeing as our base business.

This quarter was an exceptional quarter for the Europe and ROW business as well because as you know the last two years has been little slow. We had lot of serialization issues and this quarter we managed to get a lot more throughput out of our plants and supplies struck through well.

API business also had a very good quarter. Some of it was due to some of the China disruptions where we could capture some API opportunities. However, we expect growth in the API to continue in subsequent quarters as well.

R&D expense was Rs. 143 crores in the quarter which is approximately 11% of sales. This was little lower due to shutdowns however during the course of the year it will go back up to where we have been.

We filed 8 ANDAs during the quarter. We also received 6 approvals in the quarter and we cumulatively have 125 ANDA approvals. We launched 3 products during the quarter in the US and we will launch about 5 in the second quarter.

As I mentioned coming in to the financials, international formulations grew by 70% to Rs. 771 crores for the quarter.

US generics grew 73% to Rs. 596 crores for the quarter. Having said that Q1 last year was a relatively weaker quarter in the US.

Ex-US also we grew 62% to Rs. 175 crores for the quarter. This I mentioned was due to the serialization issues in the past.

API grew by 54% to Rs. 264 crores for the quarter.

I will hand over to Shaunak to give a brief on the domestic business.

Shaunak Amin: For Q1 the India business the numbers have been circulated. We de-grew by 6%. This is in line with IMS industry numbers. We saw severe challenges in the months of April, May and parts of June due to the strict lockdown throughout the country.

In terms of the impact on business we saw a pickup in June and if I were to take till 21st of July we are seeing a pickup of the business. Despite all of these, at an overall portfolio level there has been a drag in specific areas. Those specific areas are the liquid formulations which largely go in to the Pediatric usages whether it is antibiotics or cough and cold which are large depended areas for us.

Also partly there have been some drag in the hormone part of the Gynecology portfolio. Largely we have seen these are driven more by the market dynamics in this period of COVID. Other than that, the expenses in Q1 we have managed to ensure that profitability stays in line with budget.

We have taken the steps to make sure that topline again starts to grow and we have mentioned the cost cutting and management of middle line has happened in Q1. In Q1 there have been no special discounts or special rates schemes given to the market to ensure pipeline billing.

We have made sure that despite lot of pressure from the trade as well as competition resorting to putting these pressures in. We spent last 12 months as previously communicated to clean up

trade discounts, trade practices to ensure that we largely become a prescription driven focused company and that should only drive us in.

In terms of the overall business impact of the restructuring the cost correction interventions we took last year, if I look at our bits of Q4 performance and parts of June and July, I feel the part of the correction has happened and it is reflecting in our portfolio.

Going forward we feel that overall portfolio will outperform the represented market despite the big drag on our liquid portfolio which historically is a portfolio that has always done well for us and will outperform the market if we see some tailwinds on that part of the portfolio we see substantial exploration to happen.

Thank you. I open the floor for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Vishal Biraia from Aviva Insurance. Please go ahead.

Vishal Biraia: Sir, few questions. This overhead expenses that while we have seen a sharp decline of 13% quarter-on-quarter and 5% Year-on-Year. So what proportion of this is sustainable?

R. K. Baheti: There are two major heads of expenses, which got reduced. One as Shaunak mentioned our field expenses including the traveling, some promo expenses got reduced. That is more because of this field people not able to travel frequently and freely to their customers and accordingly the promo also got impacted a bit or deferred a bit and the second is our R&D expenses also were down, which are clubbed under various heads of expenses.

The total aggregate of R&D is given in the bottom of the results and that also was little lower because of impact of lockdowns etc. Other expenses are in line.

Vishal Biraia: Okay and just one question on the API what led to the substantial growth in API business?

Pranav Amin: API as I mentioned, API business has been doing well. We have been sending samples. We saw some opportunities because of Azithromycin was one of the molecules that was used to treat COVID. The rest of it was just BD and opportunities we had. That is how we grew the API business.

Vishal Biraia: Okay and this trajectory should continue for the rest of the year, for API?

Pranav Amin: Yes, API will continue, not may be with such a high growth, but we will continue growing in subsequent quarters as well.

Vishal Biraia: For the US business, we had initially planned prior to start of the year that we will be launching about 10 products, we have launched 3 products in 1Q, so are we on track to launch the balance 7 in 2Q?

Shaunak Amin: In US we will launch more than 10, we will launch anywhere between 15 to 20 products in the US.

Vishal Biraia: That is for the year you are saying?

Shaunak Amin: For the year, yes.

Moderator: Thank you. The next question is from the line of Anmol G from JM Financial. Please go ahead.

Anmol G: My first question is to Pranav. Hi Pranav, my question is related to some industry commentary, which has been emanating that Sartan API pricing has been softening. Typically this is a lead indicator for the formulations also. So are you seeing anything with respect to market vis-à-vis the last time you spoke on the call, which kind of makes our portfolio more vulnerable to any potential pricing shock in the next two to three quarters?

Pranav Amin: We have to look at it. I have not actually seen the API pricing because we are not such a big API player, however, people are still looking for good API sources and that is one of the things that will be there with disruptions coming in from China. That is one aspect of it. Second aspect is, the competition has increased in the US in sartans, however, it is a complex and such high volume product as there is no one person who is taking very large share. So I do not think it is reflecting in. I expect it to be stable as of now.

Anmol G: Follow up on that. So for example last couple of quarters, our US performance has really surprised on the upside, do you think there is a greater case for incremental investments in the US given how the overall market is shaping up, any headline thoughts on that would be helpful?

Pranav Amin: Yes, US market I have seen a comparative intensity come down a little bit. I still think it is a very attractive market. There is lot of demand there. I believe I am still bullish about it and we are continuing to invest in that market.

Anmol G: My second question is to Shaunak. Shaunak, I take your point that liquids we did have fairly high amount of leverage from a portfolio prospective, but we also had offsets by the way of Azithromycin etcetera. So if you could just share some color in

terms of how we got impacted during the quarter and what the road to normalcy or a new normal is looking like say for example, how was June like and how far are we from pre-COVID levels and therefore, are we still on a full year basis in a position to take advantage of some of the initiatives that you took to take the domestic business to a structurally higher growth path?

Shaunak Amin: I will answer your questions two ways: if I look at Q1 Azithromycin, I do not think we had overall Azithromycin benefit for Q1 if I take in terms of absolute growth numbers versus last financial year. So that is one.

The second part like I said in if I were to take end of June and the first 20 days of July keeping in mind that market has reached some amount of normalcy, we have seen with a good onset of monsoon the pickup in Azithromycin solids. Azithromycin liquids as I mentioned all liquid formulations are at drag at the moment. We have seen a substantial drag in the liquid part of Azithromycin though, going forward we see a very strong uptick in Azithromycin oral solids.

Now in terms of coming to impact of some of the interventions we have taken, my gut call is that we are seeing a lot of that benefit already flowing through to us, and it will start flowing more strongly in Q2. If I look at the major drags in the portfolio like I said are liquids and liquid is one segment where historically we have always been able to outperform or perform in line with the markets whether it is antibiotics part of the liquids or it is the cough and cold part of the liquids we have always done well in IMS hitherto reflection of that.

In terms of normalcy, I feel despite with the ongoing lockdowns that are happening that will keep impacting the business, but not

in a major way as long as these lockdowns are not in for long period, so that is one part of it. Second part of it is to do with customer behavior, like I mentioned we saw some parts of the portfolio whether it is hormone part of the gynecology portfolio, which is linked to pregnancy or it is a pediatric part of the portfolio. Some of these patient populations are staying away from the clinics, for maintaining a higher level of protection for those patient population, I mean unless that dynamic changes back to normalcy, we do not see it. Like I said the GP side of the portfolio we see some return to normalcy, and balance part of the portfolio continues.

If I could just give an idea, I know it is too little and it is too early the IMS reflections for the month of June, which usually are a precursor to the subsequent months, the industry grew at 5% market growth, whereas Alembic showed about 8% market growth for the month and we expect this trend to go forward as long as we do not go back into any kind of major pan India lockdown this or the next of the few coming months.

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

Prakash Agarwal: First question is on gross margin. So just wanted to clarify that it is largely due to the lower India and higher API and ROW sales or the US profitability on the gross margin side would also be little lower than in the past few quarters?

R. K. Baheti: Your first part of the observation is right, Prakash. The lower gross margin lower as compared to the March number is because of higher proportion of API sales.

Prakash Agarwal: Okay and we have said that API will continue to be a higher growth element going forward?

R. K. Baheti: As a percentage of sales, contributed to the sales percentage I do not know whether it would be the same percent or it will go down a bit.

Prakash Agarwal: And secondly question to Pranav. So he mentioned about \$70 million plus/minus, I am just trying to understand with comment that Sartan opportunity being largely stable and with 15 to 20 launches, plus the Azithromycin scale up would not we go and do a step function of another \$10 million to \$20 million going forward by 3Q and 4Q would not that be a correct assumption?

Pranav Amin: The \$70 million is what I said few quarters back that what I anticipate. As per the new launches the whole point is as we have more launches you should see that going up. Azithromycin has not been a big launch for us. There is lot of incumbents in the market already that is stabilized, so Azithromycin we did not even have all the strength initially.

So that has not been such a big product for us, but yes overall we should continue to grow on that, so let us see how the launches go. I am not committing anything because we do not give a guidance depends how successful the new launches are.

Prakash Agarwal: Okay and lastly on the presentation, you have talked about 10 derma products and 12 ophthalmic approvals. I just wanted to check how it has been, what portions have been launched and how has been the initial launches since these are the new category of product launches for us?

Pranav Amin: Mitanshu will just tell you how many have been launched, but ophthalmic has been very good. I think it is a good market of course much smaller but has done quite well. Derm we are starting off little slowly, I think we have launched about four or five products and we are gradually ramping that up. As you know we never get in with big market share on day one, so we will slowly see how the situation is. Derm is little more competitive compared to the ophthalmic. Ophthalmic we picked up some good shares in some products.

Prakash Agarwal: Perfect and last one if I may, on the fund raise, so the understanding is we did fair amount of CAPEX in the new facilities all are heavily or fairly invested now, so the next round of investments would be looking for the US scale up into other categories where there are gaps and if yes, which are those areas we are looking at?

Pranav Amin: One of the reasons for the funding is we have demonstrated what we have done in the US and we continue to remain bullish in the US. There are lot of opportunities with that CAPEX largely paid off through internal accrual. Now it is a matter of next couple of years we know where the growth is going to come from right, but what do we do after that, so we have to start working on some longer gestation projects.

These are not inherently more expensive, but just little more risky in terms of little longer leap times. So we are just building up a fire power for that and just getting light on our balance sheet which would help us investment in these areas. We have not disclosed the areas, but it will be little more complex generic still more 505(b)(2) kind of products.

Prakash Agarwal: Okay and biosimilars, if you may just clarify that?

Pranav Amin: No biosimilars.

Prakash Agarwal: Complex generics and 505(b)(2)?

Pranav Amin: Yes, going up the injectables route and some other specialty.

Moderator: Thank you. The next question is from the line of Kunal Mehta from Vallum Capital. Please go ahead.

Kunal Mehta: Sorry to harp back on this sartans question. So firstly I would like to congratulate the management because our performance in sartans was because we had planned in increasing the API capacity, which I think nobody in the industry did at that time when we did and which has paid handsomely. So when I look at the IQVIA numbers around sartans portfolio as a whole is around roughly 40% of our running 12-month sales.

And we are now seeing more players coming in. So my question is to Pranav, I wanted to understand the worst case given how much market share can we lose in these products because it spread across 13 products and they are fairly large volume. So would you give us a sense of how do you see the price versus market share equation going forward there?

Pranav Amin: I cannot give you product wise specifics, but if you look at if you have IQVIA data, you just take a look at all the sartans and inevitably what you will find is there is about anywhere between 3 to 5 people who are dominant in all the Sartan sorts right and you will see where Alembic is and where we are not.

Number 2, strategically irrespective of sartans our strategy is we want to make more money for the company, so we do not chase market share, we chase where we can make more money. That

is the strategic direction that the US team and Alembic does. So that is the second thing.

Third is, as I said people are getting into sartans in various sorts and not everyone is able to do all the products, so it is very tough to say how it goes. Right now we are holding on to market share, it is our market share to lose and depends at which price. So far, as I mentioned earlier also that the comparative intensity has come down. I think the market is well settled right now.

Kunal Mehta: So the key barrier here for anyone to build a share assuming in a high volume product like Valsartan or may be Valsartan plus HCTZ. So would API quantity be a key barrier for somebody to take share from us or how?

Pranav Amin: Again with all business in the US, there are various constraints right, so it is very tough to answer. It is not particular with sartans or anything. You have got API, you got compliance at API, you got formulation, you got compliance of formulation, you have got your supply chain efficiency everything, so it is a combination and not sartans, for every product it is the same.

Kunal Mehta: The second question I have is on the longer term product launches. You mentioned that this year we would do more than 10 plus launches as compared to what we had guided earlier and I am sure next year given the Para-IVs has been lined up and there are good opportunities, I am sure you would repeat the same thing going forward. But once from FY22 second half where you have most of the capacities coming on screen regarding the new investments in different dosage forms.

So I wanted to understand from FY23 onwards how do you see the launch scenarios? Do you see at least 20 plus launches every

year given orals, given it is a combination of orals or it is plus onco plus injectables plus ophthal?

Pranav Amin: We have always said that we will launch about 15 to 20 products every year and we stick to that because lot of the filings that we are seeing is part of these new therapies and that is why I am saying. So 15 to 20 launches per year is what we are looking at for the next few years.

Kunal Mehta: Can you just let us know the situation on exhibit batches from each of those plants where we are in terms of any indication on that would be very helpful?

Pranav Amin: I will give an update on the plants. F1 is a formulation plant, which is a current commercialized plant. F2 is oncology plant, which is OSD and injectables. OSD has already got filed and audited twice. Injectables the batches are ongoing, so I think we will file in six months or so. F3 is injectables we have already filed three or four products. F4 is an extension of F1 or it is OSD plant, where we will file the batch in the six months.

Kunal Mehta: Any growth from Jarod will be an extension, Jarod plant F4 will be an extension of the original formulation plant?

Pranav Amin: It is not an extension. What I mean is it is similar to F1, it is a separate site and actually we have already filed, so it is just a matter of triggering the audit.

Moderator: Thank you. The next question is from the line of Swechha Jain from ANS Wealth. Please go ahead.

Swechha Jain: Sir, I just wanted to know if you can provide some update regarding your bio center in Vadodara like what kind of activity that are happening and what are your plans with respect to this?

Pranav Amin: It is a regular bio center what all pharma companies have. We conduct bio equivalence studies, so you compare the innovative product with the generic. It is a 90 bed facility.

Swechha Jain: But we do not have any plans of getting into biosimilars, right?

Pranav Amin: Zero biosimilars. We have no biosimilars and we are not intending on getting into biosimilars.

Swechha Jain: Okay. My second question is while we have seen a good growth in API in this quarter, but if I look at the overall CAGR of last four years it has just been 3% as compared to other US and ex US growth in generics. So if you could just throw some light as to what is that strategy with respect to API overall and we are also looking at capacity expansion in API, so what kind of CAPEX are we looking for next one year or two years?

Pranav Amin: API has not been a focus area for us for the last three to four years. We have been more focused on the formulations; hence we do not supply all API to all over the world. For example, if there is a new innovative API that we are going to use for a Para-IV filing we will not offer to competitor in the US so that is one aspect of it.

Number two, the API sale is for us a little lumpy some years because we do some contract manufacturing for a multinational. When that happens it gets very lumpy that is one of the reasons. If you take ex of that, the business has grown pretty well. I would say I do not have the figure, but must be at least 15% CAGR over the last four years, so it is going well. The business is going well.

Moderator: Thank you. The next question is from the line of Ashit Panjwani from AP Securities. Please go ahead.

Ashit Panjwani: I have got two questions. One on the India growth. So what is our estimate in terms of what would make us happy when we close out the current year in terms of like what growth rates are we looking. That is one. And second is I have a question for Mr. Baheti to understand what are our CAPEX plan for this year and next year?

Shaunak Amin: For India business it is hard for me to predict how COVID is going to play out. Going forward, as long as we outgrow the market, and when I mean outgrow the market, even in negative market if I can gain market share, we will be very happy. But, like I said, it is very hard to predict because if I see what is happening today, there is no pan-India clarity, because states are going into lockdowns on different periods, which is affecting it. Bombay versus Indore versus Calcutta versus Patna, the dynamics are so different in terms of what is happening. So it is hard for me to make a composite guess on that front.

R. K. Baheti: Taking your next part of the question on investments, we are already on record saying that our maintenance CAPEX is around Rs. 300 odd crores a year. We would also have about Rs. 350 odd crores as pre-op expenses across all our facilities. That apart, in next year, year-and-a-half, two years, we plan to spend about Rs. 600 crores to Rs. 700 crores on expanding our injectable facility as well as our Jarod, the F4, the new OSD facility because we will have to put up additional manufacturing blocks or additional lines.

And then we have some investments plan for API. We were not able to make lot of investments in API partly because of our focus on formulation, partly also because the route of the environment approval for getting expansion in API facilities was pretty long.

Now government is relaxing that. We are also getting some approvals for expansion. So we will spend some money on API.

Moderator: Thank you. The next question is from the line of Damayanti Kerai from HSBC Securities. Please go ahead.

Damayanti Kerai: Sir, can you split this pre-op expense between FY21 and FY23? In operating expenses and below EBITDA items, may be year wise? That will be helpful.

R. K. Baheti: This Rs. 350 crores which I am talking of is all operating expenses across all facilities, all new facilities.

Damayanti Kerai: Okay and this is over next two years, right?

R. K. Baheti: This is per year.

Damayanti Kerai: Okay, per year. And one question on other international business. You mentioned we are done with realization and all. So should we be taking this quarter performance as the base going ahead?

Pranav Amin: Yes, you can take that.

Damayanti Kerai: Okay and my last question will be on the operating expense. So, obviously this quarter we had some cost savings which is reflected in the numbers, but I think Baheti sir mentioned we should be seeing the normalization. So, this Rs. 320 crores kind of expense in the quarter, should it go back to Rs. 360 crores to Rs. 370 crores expense which we had seen in the previous quarter? Or how should we look at the operating expense trend?

R. K. Baheti: We are not in a commodity business, so giving this number for each line item is difficult. I am just giving you an example of R&D. R&D cost can be high in a particular period and it can be lower in

the next period depends on variety of factors of how the programs move, how the clinicals are done, and how imported samples are received and booked. But more or less, the numbers would be, if you take the whole year, the numbers would be about Rs. 1,500 crores or so.

Moderator: Thank you. The next question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: Baheti sir, I missed this figure of R&D. In the previous call Pranav had mentioned that compared to about Rs. 650 crores of R&D in FY20, this year we were looking at around, that figure to be around Rs. 700 crores. And you have already mentioned that Quarter 1, the figure was lower because of the lockdown. So how do we see this R&D expense for the full year?

R. K. Baheti: We believe that we should be around Rs. 700 crores plus minus for the whole year.

Rahul Jain: Sure, and with regards to the Indian business, could you share some details about product launches which you have done in the last two-three quarters. And how do you look at some of the major product launches in next one or two years to come?

Shaunak Amin: Yes, in last two-three quarters, the only two-three big products we have launched is, I mean last two quarters, last quarter there were no launches because keeping the lockdown in mind. Prior to that we are launching along with the industry, so we have launched Vildagliptin, Ticagrelor; two big, two important launches. Going forward, as and when any drug that goes off patent and we are expecting in the next two to three years, multiple DPP-4 inhibitors to be going off patent. We will launch on the day of expiry for those products.

Moderator: Thank you. The next question is from the line of Sameer Deshpande from Fair Deal Investments. Please go ahead.

Sameer Deshpande: The growth in sales and profits just had been excellent. We have invested in various plants which are at the various stages of completion. And as you have mentioned that they will be over next one year or so they will be completed. So actually, we have a debt of about Rs. 1,400 odd crores you mentioned, and the net debt of Rs. 1,200 crores. So actually what are the plans for the reduction of the debt?

R. K. Baheti: In the normal course, our cash flows would have repaid the debt over a period of time. But as I mentioned a moment back that we are also looking at some more CAPEXes. There is also a plan to do a QIP for the company. Just about an hour back, hour-and-a-half back, we had an AGM where the resolutions were put to vote. We are still expecting the resolution, but we do not expect any problem in getting the resolutions fast. Post that, the investment bankers and the counsels will do their work and then we will decide the timelines. The QIP also will be used to augment further CAPEXes as well as for repayment of debt.

Sameer Deshpande: The interest cost, what is the approx., because we have working capital debt as well as the debt for the plants that is CAPEX. So what is the break up currently for the debt? And what is the interest cost approximately?

R. K. Baheti: The interest cost on working capital you would see that is hitting our P&L. Whatever interest cost you see in P&L is on working capital and the rest of the interest is capitalized to the assets, CWIP.

Sameer Deshpande: So what is the rate of interest approximately on our debt currently?

R. K. Baheti: We have different rates. It varies from 8.5% to 9% on long-term debt to about 4% which we are currently borrowing on short-term debt. It is as low as 4%.

Sameer Deshpande: So we have all the rupee loans. We do not have any Forex loans?

R. K. Baheti: Out of that long-term loans we have some ECB also. In March '20 balance sheet, the annual report, all the details are there.

Moderator: Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: My first question pertains to India. With more than one third of our portfolio being in specialty, do not you see growth coming ahead? Because in the chronic portfolios during the lockdown there has been some stocking but now it is expected to revive?

R. K. Baheti: Our specialty is not now one-third, it is actually two-third of the the domestic business. Shaunak has said couple of times in this call itself that we hope that we will outperform the market. We will outperform the RPM.

Charulata Gaidhani: Okay. Second, my question pertains to API. What is the contribution that you expect from API for the full year?

R. K. Baheti: API is typically about 15% of our business. We expect it to stay in that range.

Charulata Gaidhani: Okay and third in terms of US, the growth in US, how much is the contribution of Azithromycin because there have been steep shortages for quite some time?

Pranav Amin: We do not give product-wise contribution. That is something that we do not disclose.

Charulata Gaidhani: But would it be a major component?

Pranav Amin: For the US business, no. Because as I said earlier, someone asked, so we did not have all the strengths and it is already quite competitive. So we did not do much on Azithromycin.

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

Vishal Manchanda: In the US, has Febuxostat commoditized or it is still a meaningful product for you?

Pranav Amin: As per the last quarter, it was, there are still only four people in the market. However, we have lost some share and someone has dropped prices, or there has been additional competitions. So it has got little commoditized.

Vishal Manchanda: So we would have seen some impact in the current quarter or we would see it subsequently?

Pranav Amin: Subsequently you will see it.

Vishal Manchanda: And on the API side, was there a lumpy element on account of CRAMS this quarter, this specific?

Pranav Amin: No. So there was no CRAMS revenue this quarter. Actually for the last three-four quarters, there has not been any CRAMS revenue.

Vishal Manchanda: Any color that you can share in terms of any specific API that contributed to the bulk of growth or it was spread across API?

Pranav Amin: We do not give it, but as I said in my opening statement, Azithromycin is one where we sold some API. We are the largest manufacturer of Azithromycin in India. So that is one API that we did sell.

Vishal Manchanda: And is there, so can we expect similar number to happen in the subsequent quarters? This quarter it was 20% of sales. So would that number sustain, as a percentage of sales?

Pranav Amin: API will grow this year. I can't give a break up. Because it depends on the other parts. But API as a business will grow about 15% to 20% this year.

Moderator: Thank you. The next question is from the line of Harish Kumar Gupta, an individual investor. Please go ahead.

Harish Kumar Gupta: What is the, on an average, capacity utilization right now?

R. K. Baheti: We do not look at capacity. See for API plant, all of our plants are multi-purpose plant. So for every product, capacity can be defined separately. So we look at our business model. Capacity utilization is not a big issue for us.

Moderator: Thank you. The next question is from the line of A. M. Lodha from Sanmati Consultants. Please go ahead. As we are facing issues with the current participant, we move to the next question from the line of Vishal Biraia from Aviva Insurance. Please go ahead.

Vishal Biraia: Any plans to expand the sales force in the US and ROW markets in the near term?

Pranav Amin: In ROW markets we do not have a sales force. We work on a B2B model, so we work through partners. As regards the US, we have about 13 odd people in the US. We will not be expanding that because that is not a sales force per se. We sell to the distributors and the trade channels.

Moderator: Thank you. The next question is from the line of Saketh Bansal, an individual investor. Please go ahead.

Saketh Bansal: I want to understand about the US growth, which is mainly led by volume I guess? Because if you see Sartan price have been stabilized right now. So can we say we are gaining market share?

Pranav Amin: It is tough to answer that because it is so complicated. We have 80 products in the market. So this typically, we have price expansion as well as volume expansion. It is a combination of both. So I cannot really give you.

Saketh Bansal: What percentage of the growth would be price and volume, like can you?

Pranav Amin: We do not disclose that.

Saketh Bansal: Okay. Sir, can you tell me in million dollars terms, how much it was for US? Would it be \$70 million odd?

Pranav Amin: Yes it is about \$70 million odd.

Saketh Bansal: Okay, so can you at least share the detail, what would be the growth of new product line?

Pranav Amin: We do not, again we do not disclose that because it is very tough to say what new products are launched. And typically we take a long time to build up market share in the US.

Saketh Bansal: Sir, we have invested a lot in injectable plants. Can we get a view, like what can be the revenue from injectables? What we are thinking about injectable plants?

Pranav Amin: So again I do not have a segment-wise break up, we do not give. But with all the CAPEX, like I said in the last call, we are at \$250 odd million. Typically companies who have done this kind of an investment of our size have gone up. You should look at a \$400 million to \$500 million kind of sales in another three years.

Moderator: Thank you. The next question is from the line of Bharat Celly from Equirus Securities. Please go ahead.

Bharat Celly: First one, on the injectable portfolio, so we have been investing quite a lot on that front. So just wanted to get some sense on what sort of portfolio we are looking at? Is there any complex generic which we are targeting at this point of time?

Pranav Amin: It will be a combination of products. We have just started filing the first few of our injectables. We will start with plain vanilla and we will, generally, and then we will gradually move up to little more complex products.

Bharat Celly: Alright. So we have filed only three products in injectables so far?

Pranav Amin: From that facility we filed four. I think there is one ophthalmic and three injectables.

Bharat Celly: Alright and from onco injectable?

Pranav Amin: We have not filed anything as yet.

Bharat Celly: And that will be happening after six months or so?

Pranav Amin: Yes.

Bharat Celly: And on R&D front, you usually share that how much aleor R&D you have capitalized for the quarter. So for this quarter how much that would be?

Mitanshu Shah: That would be around Rs. 25 crores.

Bharat Celly: And another one sir, we have actually, historically we have mentioned that gross margin should stable, should be stable at around 70%. This is something which you have mentioned in the earlier call. So how we look at gross margins, now that the overall dynamics have changed? So how we are expecting gross margins to be going forward?

R. K. Baheti: on a higher side and we expect it to continue at these levels.

Bharat Celly: Okay, and the last one sir, on the domestic side. Have we taken any price increase at the onset of the year so far?

R. K. Baheti: We take price hikes whenever they are available to us. Either for non-NLEM products and on the expiry of one year from the last price raise and on NLEM products every 1st of April or so.

Bharat Celly: So we would have taken for some portfolio, right?

R. K. Baheti: For the most, unless there is a different competitive environment. For most products we take price raise.

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

Prakash Agarwal: Just one clarification on the API and ex-US export formulation. So API you said, while the growth would be there, the rate could come off a bit despite Azithromycin you meant or why would, so momentum would be lower?

Pranav Amin: You know it is very tough to predict how the business will grow. What I don't know that it will grow. That is why I am not going out on a limb to say how much, whether it will be the same amount or not.

Prakash Agarwal: The growth will be on this base is what I understand?

Pranav Amin: I said earlier about 15% to 20%.

Prakash Agarwal: Got it. And ex-US business formulation you mentioned that, you know, serialization issues are over, so again?

Pranav Amin: Yes, it will continue at the same levels.

Prakash Agarwal: This base and it will grow from here on?

Pranav Amin: Yes, gradually.

Prakash Agarwal: And the last one on this, our deal with TG and Rhizen. So, I understand we should start getting some milestone payment by end of this financial year as well as the bigger one in next financial year. And would this be large or these would be token as I understand that the main company would require re-investment of those money? Would that understanding be correct?

R. K. Baheti: Rhizen would be receiving some milestone payments from TG Therapeutics. For a company of Rhizen size it would be good amount.

Prakash Agarwal: Okay, and some would flow to us as well?

R. K. Baheti: Sir, some would flow to us as dividend because they have other partners also. Rhizen has other partners also. So, once we receive over and above what Rhizen needs for its funding for its own projects, obviously the balance will flow into us.

Just to clarify, because probably this was the first question on Rhizen. Apart from milestones we would also get royalty on sales as and when the sales start. And Rhizen also has the manufacturing rights, which will be exercised through Alembic's manufacturing facilities.

Prakash Agarwal: Okay, and that would be '22, late 2022-23 onwards, right?

R. K. Baheti: It depends on TG's program. They are getting approvals and all of that.

Moderator: Thank you. The next question is from the line of Cyndrella from Centrum Broking. Please go ahead.

R. K. Baheti: We can take couple of questions and then I think there are still a queue. I would request other participants to send us a mail, because we would be running out of time. And we will respond to them individually. But we can take couple of last questions. Sure.

Cyndrella: So, to the team, just want to understand, any clarity on the future USFDA audits? Do we hear anything from the agency as we are awaiting few, and we have already filed few products? So what is the sense that we have right now?

Pranav Amin: It is a good question you know, and we have been in touch with the agencies because we need these new facilities inspected. But let us see, we are still working around as well. They have not taken any decision. Hopefully, in the next couple of months they will revert, how they hope to get the inspections done.

Cyndrella: Okay, that is helpful. And sir, coming to, you know, we are setting a different tone altogether starting from this quarter as there is a base established in non-US formulation markets, US also, you are expecting a steady stage going ahead. And eventually India will

also come back. So are there any key milestones that you think, the way we were seeing what was seen in business in the previous year to year, where you are seeing some changes?

And how should we look at it from a key milestone or key strategic perspective going ahead? I heard all the discussions on the CAPEX plans that we already have and that we have already discussed. So any comment from a broader perspective would be helpful.

Pranav Amin: It is very tough to say. There is no milestones. We do not have any milestones that we have said we want to be a billion dollar company or Rs. 5,000 crores company. Yes, the only thing I would look at, that falls on the other side of the table is, how the respective businesses are doing. How is the compliance, how is the US share, how is the US business, how is ROW business, how is India progressing. And just keep a tab of that.

Moderator: Thank you. The next question is from the line of Ayush Mittal from Mittal Analytics. Please go ahead.

Ayush Mittal: Just wanted to understand bit more on the outlook for the US market. My question is more in reference to, when we look at the performance of some other pharma companies also, we are seeing many of them are doing well. We are also seeing lots of product shortages happening in the US market and many of them for common products. So from this angle, just want to understand what you guys are seeing and what is the reason for this happening?

Pranav Amin: The product shortages is not something new. This has been there for a long time. Product shortages are something which creates lot of opportunities in the market. And the market continues to

remain interesting. It is just a matter of being able to supply on time and being compliant with the regulatory bodies. As I said, I am quite excited about the US market. In spite of competition, it is still a good market.

Ayush Mittal: And is this more to do something with China factor, like because of impurities or some of those issues? Or is it generally that this keeps happening because it was too competitive earlier or something like that?

Pranav Amin: It has nothing to do with China. The reason disruptions happen is when you have multiple SKUs, multiple plants, sometimes you cannot supply. And the demand is also quite dynamic. It goes up and down. It is not so steady. That is one reason. Number two is if someone enters or exits the market that could cause some disruptions. So, something like that.

Ayush Mittal: And sir, the other question I have is, when I look at the margins that we have had, and despite us having substantial investments into qualitative parts and maintaining all the compliances, our margins are pretty robust as compared to some of the peers. So I have been trying to understand, is it more to do that because of the vertical integration that we have and how much of backward integration into APIs we have for most of our product?

Pranav Amin: That is tough one. I do not know how, I do not know about the other companies, but we do have backward integration on lot of the oral solid dosage. With the new forms that we are doing, we are not as backward integrated. So, our portfolio in the market today is about, I would say, about 80% would be backward integration with our own API. But it will come down as we have more Opthal, derm and injectable launches happening.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question. I now hand the conference over to Mr. R K Baheti for closing comments.

R K Baheti: Thank you. My apologies there are still some questions are in queue but we have to wind up at this time. Again a request to all the investors whose queries have remained unanswered they can send a mail to Ajay or to Mitanshu and they will respond quickly. While before concluding I must thank each one of you for having shown interest in us and having participated in this call. Look forward to see you again in October 2020. And with this I wish all of you to be safe and healthy.

Moderator: Thank you. Ladies and gentlemen, on behalf of Alembic Pharmaceuticals Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.