



“Alembic Pharmaceutical  
Conference Call”

May 03, 2013



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**Moderator:** Ladies and gentlemen, good day and welcome to the Alembic Pharma Q4 FY'13 Results Conference Call, hosted by Edelweiss Securities Limited. As a reminder, for the duration of the conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, you may signal for an operator by pressing "\*" and then "0" on your touchtone telephone. Please note this conference is being recorded. I would now like to hand the conference over to Ms. Perin Ali from Edelweiss. Thank you and over to you Madam.

**Perin Ali:** Thank you Lavina. Hello and good morning to all of you. On behalf of Edelweiss, I welcome you all to the briefing of Q4 FY'13 results of Alembic Pharmaceuticals. Today we have Mr. Pranav Amin, Director and President, International Business, Mr. R. K. Baheti, Director and President, Finance and Mr. Mitanshu Shah from Alembic. Now I hand over the conference to Mr. Baheti to discuss the results and outlook. Over to you Sir.

**R. K. Baheti:** Thanks Perin. I do not know whether we start or we wait for a couple of minutes, because this time, we have changed the structure with the opening statement being slightly longer and would cover most of the routine financial questions, so if you think there are enough number of participants, we can start right now, if you wish, we can wait for a couple of minutes.

**Perin Ali:** I think there are sufficient participants we can start right away.

**R. K. Baheti:** On behalf of Alembic Pharmaceuticals, I welcome all the participants to our post results conference call. Thank you all of you for taking time out of your busy schedule and joining the call.

The results are already sent to the stock exchanges and many of you individually. Let me however quickly take you through the important notes.

First Q4 March 2013, during the quarter the revenues were up to 378 Crores from 342 Crores in the corresponding previous quarter. The India formulations business grew by 12% to 207 Crores from 184 Crores last year. PBT grew by 105% to 55.18 Crores and net profit after tax jumped by 115% to 43.65 Crores.

Coming to the full year results YTD March 2013, the total revenues were 1526 Crores. The international generic business was flat due to the reasons earlier explained. Pranav will



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further take it up. India formulation grew by 13% to 887 Crores. PBT was 206 Crores and net profit after tax was 165 Crores with a growth of 28% and 27% respectively.

The Company has declared a dividend of 125% versus 70% of last year. The total dividend payout ratio has increased from 23.56% to 33.37%, almost an outlay of 55 plus Crores including the distribution tax.

Couple of other financial information, the EBITDA for the Company for the year-ended was 252 Crores at 16.51%. This is in line with our indications earlier where we had indicated an improvement in EBITDA margins year-on-year. For your information last year EBITDA margins were about 15%. The total borrowings including short-term working capital loans have gone down significantly from about 350 Crores last year to about 185 Crores as on March 31, 2013. That brings down our debt equity ratio to quite comfortable 0.30 from about 0.90.

The entire outstanding of Alembic Limited in the books of Alembic Pharmaceuticals have been received back along with the due interest during the year. This is again indications given by us. Earlier in fact it has been done ahead of schedule. The total capex for the year was 102 Crores out of which almost 87 Crores was spent on the new formulation manufacturing facility. Pranav will give further details on that.

I am also happy to share with you the decision of Board of Directors to induct Mr. Shaunak Amin, on the Board of Directors of the Company effective from yesterday, in the board meeting. Shaunak has demonstrated his leadership and capability in managing the domestic branded business pretty well, and the Board appreciated and recognized the same. Now, I would request Pranav to share with you some of the other operational details.

**Pranav Amin:**

Good evening everyone. Before, I start I would like to congratulate Mr. Baheti and the finance team for doing an outstanding job in reducing the debt from 353 Crores last March to 185 Crores. As we mentioned, this is well ahead of schedule and he has also completely removed the intergroup borrowings as promised.

The international generic business grew 54% to 77 Crores in this quarter versus 50.37 Crores for the same quarter last year. Our new formulations facility is partially operational and expected to be fully operational by the first half of this year. API sales for the quarter were at 78 Crores versus 87 Crores last year.

Our R&D and F&D investment was 76.82 Crores compared to 63 Crores last year. This is a little over 5% of our sales. We filed two ANDAs during the quarter, 12 for the year and



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cumulatively we have 57 filings. Similarly, DMF filings are two for the quarter, six for the year and 60 cumulatively. We would not have any ANDA filings for Q1, but expect to file at least 10 to 12 ANDAs in FY'14. During the quarter, we received three ANDA approvals and cumulatively we have 23 ANDA approvals. Out of that 15 have been launched. We launched eight ANDAs during the year gone by.

I want to spend a little bit time on the Desvenlafaxine opportunity. We received an approval for NDA, this was a 505 (b) (2). So we received an approval for NDA for Desvenlafaxine Base Extended Release Tablets. This is a bio equivalent product to Pristiq by Pfizer. It is not an AB rated generic like regular ANDA. Pristiq sales were approximately \$570 million last year. This is our first 505 (b) (2) filing and has been partnered and launched by Ranbaxy.

The conversion in this business takes a while, so it is early to comment on the numbers, as we will see in the next few quarters. We have increased our focus on other regulated markets as well, such as Brazil, Europe and Australia. We recently launched two products in Australia as well. We are quite confident that with all the above efforts, we should see a healthy growth in the international generic business during the next year.

I will now mention a little bit about the branded India business as well. The ORG IMS figures for the month of March and YTD for the industry were quite disappointing; however, in spite of the slow growth in the industry Alembic has posted a 13% growth in March and 15% for YTD March. Even on a MAT basis our growth is 13%, which is higher than the industry growth rate of 10% as per ORG. The specialty business grew by 27% versus the industry growth rate of 11% on March MAT. Within this we saw a very good growth in Cardiology, Gastroenterology, ophthalmic, antidiabetics, Nephrology and Gynecology. This is a result of our sustained and disciplined effort to build customer relationship and launch product introductions.

Our acute business grew by 3% versus industry growth rate of 7%. Our total specialty's business which was 30% has gone up steadily in the last three years and now stands at 49%. Dermatology is a new division, which we launched recently and it is still in the nascent stage. As far as the internal numbers are concerned, as Mr. Baheti mentioned, the domestic formulations business grew by 12% to 208 Crores for the quarter, and by 13% to 886 Crores for the year.

Our total MR strength stands at 2800 and the total marketing field force at 3600. During the year we launched 25 new products, which contributed to 3.2% of the total sales. The international branded business continues to be in a restructuring phase they're also our



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focus is on branded products and elimination of low margin based NSA opportunities. We expect that our efforts in the last one and a half years will start showing results in the coming year. Uncertainty continues on the date of implementation of the pharma policy. Barring any unforeseen circumstances, we are quite confident of a strong year in FY'14.

Myself and my colleagues would be happy to respond to your questions now.

**Moderator:** Thank you very much Sir. We have our first question is from the line of Neeraj Somaiya Rose Red Management. Please go ahead.

**Neeraj Somaiya:** Hi, Pranav, and Mr. Baheti. Congratulations on a good set of numbers. First of all I would like to ask you now going forward from here you have reached the certain level and you have cleared up all your in terms of the export, now you have a sizable capacity available. How do you plan to grow your exports also internationally to bid your own teams, is it still a strategy for the next one to two years and also your first-to-files if you have anymore and your current first-to-file what sort of opportunity can we look at it?

**Pranav Amin:** Thanks. As far as the growth is concerned, we have said that we expect the international generics business to grow by at least 30% to 35% this year. We already have a very unique opportunity in Desvenlafaxine base. Apart from that as our strategy goes, we are filing differentiated products, so we will be filing a couple of FTFs also within this coming year. We filed about three last year. We will file about three or four more in this financial year as well. As far as the marketing strategy goes, I believe, in the US, we will launch our own front-end label as I mentioned in a year or two. So that is something that we will start working on soon. As far as the other markets are concerned we are building our team slowly, and we are getting in touch with customers directly as well.

**Neeraj Somaiya:** Mr. Baheti, in terms of expansion, you were supposed to spend 140 Crores. How much money has been spent and what is left in the capex?

**R. K. Baheti:** Could you repeat the question?

**Neeraj Somaiya:** Capex was supposed to be 140 Crores to reach 4 billion capacities, so all the money is spent now for the capex or anything is pending for the capex?

**R. K. Baheti:** As I mentioned 140 Crores was the total capex plan for the year, of which we budgeted Rs. 110 crores for new formulation facility, I think, we have already spent about 95 Crores, 87 Crores during the year, some previous year and we think we have about another 10 – 15 Crores of capex left which we will do as we do the debottlenecking and the balancing of the



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capacity. Other than this formulations facility we have not spent much of capex on R&D and API this year, which is 2012-13, but there will be some capex during 2013-14 particularly on R&D. API apart from some maintenance capex, we do not plan to do big capex spend.

- Neeraj Somaiya:** Next year it should be about 50 to 75 Crores of capex in that range?
- R. K. Baheti:** Maybe even lesser than that. I think 60 to 65 Crores should be enough, which includes 15 Crores of carry over of formulations.
- Neeraj Somaiya:** About 65 Crores capex, 60 to 65 Crores in that end. What about the research and development. How much have we spent for the whole year? The last quarter was 7%, for the whole year how much has been the research and development?
- Pranav Amin:** Over 78 Crores was spent for the whole year, which is about 5%.
- Neeraj Somaiya:** One last question, Pranav. Do you hold your target of achieving a significant 500 million plus target in the next two years? Do you really hold that target in terms of reaching that size in the next two to three years?
- Pranav Amin:** The target that we are speaking about and what we have spoken in the past is for this year at least we believe that international generics we should grow comfortably by about 35% or so. Domestic about 15% and APIs about 10% to 12%.
- Neeraj Somaiya:** So, overall 20% growth is possible?
- Pranav Amin:** It is possible.
- Neeraj Somaiya:** And maintaining the margins, which you have already achieved 16% and achieving that 20% target in the next two to three years in spite of the domestic hit which you take?
- Pranav Amin:** What we believe is year-on-year improvement over the next three years or so we should aim close to 20%.
- Neeraj Somaiya:** Wish you all the best. Pranav, all the best and Mr. Baheti, you have done a great job. Thank you very much.
- R. K. Baheti:** Thanks a lot.



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**Moderator:** Thank you Sir. . Our next question is from the line of Jigar Shah from KimEng. . Please go ahead.

**Jigar Shah:** This is Jigar from KimEng. Hi Pranav and Hi, Mr. Baheti. Congratulations for really pleasant numbers for the Q4. My question pertains to the Pristiq launch. So can you give some more idea in terms of how the launch has been received and I remember that you told it is not supposed to be a very easy product since you will require lot of effort to probably realize a larger market share. So how is it panning out? Can you give some idea in terms of how it will progress and what kind of outlook do you have for next one year to 18 months on this?

**Pranav Amin:** As you know the opportunity is only for about 18 to 20 months. That is what we foresee. As I mentioned it is early to say, but few discussions that have gone on, I think, it is promising. Again, we have not taken aggressive target. We should slowly see a ramp up in the sales, but there is a possibility of buildup in sales in this. There is some positive indication of few customers, but it is too early to say at this point of stage.

**Jigar Shah:** What is the price? How is your pricing compared to the innovator?

**Pranav Amin:** Jigar, it is tough to say right now, and I cannot really comment on that at this stage.

**Jigar Shah:** Mr. Baheti, this question is to you. You mentioned very small capex for FY'14. So, does it mean that you will become sort of negligible debt or no debt by the end of this fiscal?

**R. K. Baheti:** That is right. By March 2014 we should be almost debt free.

**Jigar Shah:** That is excellent. And the other point was can you dwell a little more on this product launches in Brazil, EU and Australia. How serious contribution they will make to the revenue this year and next year? I mean would it be very serious or important to consider?

**Pranav Amin:** It is a good question actually. Australia is a small market even though we have launched the products in terms of whole scheme of things, it is not going to make a big dent, but it is a nice profitable market and these are same products that we have in the other regulated markets as well. So it is a good fillip for us. Australia, the launches are little faster, so that is what helps. We launched three products in Australia. As far as Brazil is concerned, our partners have filed three products this year. We do not expect any significant revenue contribution up until about FY'15 or so.

**Jigar Shah:** And Europe?



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- Pranav Amin:** Europe is going on. Europe also we have done some filings. We expect to file about five to six products in the next year. Last year we filed four products. So, that will also only make an impact on the revenue about two years down the line.
- Jigar Shah:** Thanks. That answers my questions, and all the best.
- Moderator:** Thank you. Our next question is from the line of Mr. Bhagwan Choudhori from India Nivesh Securities. Please go ahead.
- Bhagwan Choudhori:** Good evening and congratulations to the management for very good set of numbers. My question pertains to this milestone payment. During the quarter was there any amount on that and how much was it for the year?
- R. K. Baheti:** There was no significant amount. There are milestones, which are linked with various products, but if your question is regarding the base, there were no milestones during the quarter.
- Bhagwan Choudhori:** Can you quantify that how much would be if it is possible the contribution from Desvenlafaxine?
- R. K. Baheti:** We have not shared the financial details.
- Bhagwan Choudhori:** Was it significant during the quarter?
- R. K. Baheti:** I said, there was no milestone received during the quarter for Desvenlafaxine. The last one was received in December quarter. This quarter there was none.
- Bhagwan Choudhori:** For the overall year was it somewhere about 25 Crores?
- R. K. Baheti:** I would not make a comment.
- Bhagwan Choudhori:** In the last quarter you made this?
- R. K. Baheti:** If you say the total milestone across all products from all customers the number would be closer to correct.
- Bhagwan Choudhori:** 25 Crores. So, it means can we expect same going forward or what kind of nature of this milestone payment?



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- R. K. Baheti:** I think going forward the milestone payments are expected to go down, because as Pranav said, now we are not tying up future products with customers as we are already drawing our plans to go to US markets direct. So while we continue to receive milestone payments for the products, which are already tied up, I think, new tying ups would be very selective and very few. So accordingly milestone payments are expected to go down.
- Bhagwan Choudhori:** Mr. Baheti, the question why I am asking this is that if I am removing these 25 Crores from your EBITDA because I think it would be directly coming to EBITDA then your margins are coming to 15.2% as per my calculations?
- R. K. Baheti:** If you do that comparing then even in 2011-12 there were milestone payments.
- Bhagwan Choudhori:** That is okay. So, it means, when I am looking at for what you are saying 100 to 150 BPS point improvement, so I need to look at 16.3% or at this 15.2%?
- R. K. Baheti:** I think you should look at 16.5. It is like this when I go direct, maybe except for a transitional period the milestones will go down, my direct margins shall go up. That is why we decided to go direct. So overall I think, you can take very safely 16.5% as the base for the current year for doing further working.
- Bhagwan Choudhori:** Second question is on this domestic business. You are saying that your specialty business, which contributed to almost 50% during the quarter, has grown by 31% and the other business by 3%. Then I think the average would come somewhere to 17%. However, during the quarter your growth was 12.5%?
- R. K. Baheti:** You are looking at two different sets of statistics. When we talked about therapeutic segmental growth they are based on ORG numbers. So, when we say specialty has grown by 31% that is ORG and that is for the quarter. The specialty business for the whole year grew by 27%.
- Bhagwan Choudhori:** That contributed 51%?
- R. K. Baheti:** That contributed to 49% for the quarter, and about 46% for the whole year.
- Bhagwan Choudhori:** Just want to know that was there any degrowth in the anti-infective segment?
- R. K. Baheti:** There was no degrowth, but there was a slower growth.
- Bhagwan Choudhori:** I think that is all from my side. I will get back in the queue.



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- Moderator:** Thank you. Our next question is from the line of Anuj Momaya from Value Quest Research. Please go ahead.
- Anuj Momaya:** Congratulations Sir on good set of numbers. Sir, one clarification, you said, you will be directly selling in US and Europe for the newer products, right?
- Pranav Amin:** Neeraj has asked that question earlier. Strategically, does it make sense for us today? Our model is such that we partner with people who have distribution or a front-end in these markets. In Europe we will continue what we are doing currently. As far as US is concerned, we believe that in about a year or two we would look at marketing the products ourselves directly.
- Anuj Momaya:** So, it is just a plan, because then we will have to invest in front-end marketing team and all?
- Pranav Amin:** Absolutely. It is just a plan. We are looking at a year or two down the line. Not in this financial year.
- Anuj Momaya:** Sir, when will the revenue start for this drug Pristiq?
- Pranav Amin:** For the Desvenlafaxine, they should start from this quarter itself.
- Anuj Momaya:** Q1 onwards.
- Pranav Amin:** Yes.
- Anuj Momaya:** Sir, what would be the margins for us in this?
- Pranav Amin:** I cannot comment. We do not give product wise margins.
- Anuj Momaya:** Sir, is it a cost plus margin arrangement or how would it be?
- Pranav Amin:** Sorry, I cannot disclose that right now at this stage. It is a profit sharing agreement.
- Anuj Momaya:** Sir, any other such opportunities that we plan to commercialize in the next two years in FY'14-15?
- Pranav Amin:** There are no other 505 (b) (2) filings that we have at present. As opportunities we would look at those in the future.



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- Anuj Momaya:** Sir, one last question, our other expense came down by 10 Crores in this quarter year-on-year, what was the reason for the same?
- Mitanshu Shah:** Basically a couple of things in this. One was the exchange benefit that we derived over last year same quarter. So there was a loss of almost 1.8 Crores for last time, vis-à-vis a gain of almost 3.2 Crores. So that was a swing of 5 Crores. Apart from that that was no major item basically. Otherwise it was normal savings in other businesses.
- Anuj Momaya:** 3.2 Crores forex gain in this quarter?
- Mitanshu Shah:** Yes.
- Anuj Momaya:** On our international API revenues were down in this quarter to 53 Crores from 68 Crores?
- Pranav Amin:** As I mentioned, in the last few calls, the API business even though we are focusing on it but we are changing the portfolio so we might not have pursued some opportunities which are of little lower margin or might have shredded it, because the captive use is also going up. So we have been selective about our portfolio. That is why you saw degrowth in the international API.
- Anuj Momaya:** So, going forward the revenue from international revenue would come down?
- Pranav Amin:** If you saw there was a growth in the domestic API business and it is not that it will necessarily go down. It is just a matter of quarter-on-quarter but on an annual basis we expect it to grow by at least 10%.
- Anuj Momaya:** Thanks a lot Sir.
- Moderator:** Thank you. Our next question is from the line of Nishith Sanghvi from IDBI Capital. Please go ahead.
- Nishith Sanghvi:** Hi Sir. Congratulations on a good set of numbers. Just had this one question on now basically we have in the US business we have 20 ANDAs, which are approved, and you have launched 15. Now during this year are we looking at a substantial number of launches including these backlog and the new approvals?
- Pranav Amin:** What will happen is for the US business we launched about seven this year gone by. For the next three years we have anywhere between eight to ten launches per year. So, slowly, slowly we expect approvals. Some are tentative approvals. In terms of launches we can assume about eight to 10 launches per year for the next three years.



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**Nishith Sanghvi:** How will be the mix? These eight to 10 launches will be mix of FTF and for this year any FTF out of these eight to 10?

**Pranav Amin:** This current year there is no FTF launches. FTF will be filings, but no launches.

**Nishith Sanghvi:** Sir, repeating the question, now the API business basically the domestic business has done a healthy growth, domestic API, but export is what has shown degrowth. So now we have to look at it in totality and probably you are expecting a 10% growth for the entire business per se. Is it?

**Pranav Amin:** Also what is happening is even though it shows as domestic business a lot of it goes to other Indian generic companies, there has been a good growth in generics., but even though it is domestic API sale, most of it is going to the regulated markets anyway. So, in terms of pricing or in terms of end market it is the same.

**Nishith Sanghvi:** Sir, I was just trying to see if there is anything, which is interesting probably in the domestic portfolio, but it is the entire thing that we have to look at. Great Sir. All the best Sir. Thank you. That is all from my side.

**Moderator:** Thank you. Our 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 business, we are about \$41 million of sales in the current year and I guess a lot of the filing plan about filing some of these niche products and all, it is just about sort of kicking in, which will play out I guess, over the next three to four years, so over the next three years the drivers primarily is going to be the backlog, which we talked about the eight to 10 launches will happen every year. Where do you see this \$40 million business, the base business really getting to over the next three to four years? With these backlogs, with already filed products that you really have in US?

**Pranav Amin:** As far as the total international generics are concerned, I mentioned that we should grow at about 30% to 35% for the next two years and then it will taper of, but again, it will be 25% growth at least. So, within that subset US would grow a little faster primarily because we have more filings in the US.

**Nitin Agarwal:** In US, this year you said there are probably no more large sort of launches which are there, it is all going to be perennial launches for the next two to three years or if you take a two to three view there is potentially some more interesting launches which can kick in for you when you look at your portfolio?



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**Pranav Amin:** Actually I did not say there are no big launches. There are products that are coming up like Valsartan will get launched, some of the other sartans are coming, so there are lot of big products. I said there is no FTF launches, which are coming in.

**Nitin Agarwal:** Forget FTF, in terms of probably some say limited competition launches which can give you higher than your regular product revenue, are you seeing some products like those in the pipeline, which will come in over the next two to three years?

**Pranav Amin:** Maybe we might have one or two.

**Nitin Agarwal:** Otherwise is going to be purely the fact that you have got 15 markets now and you will probably get another 30-odd over the next two to three years.

**Pranav Amin:** We will slowly, have more Extended Release, more complex ones coming up year, two years down the line, but for the next year twelve months or so, fairly standard some big ones, may be some limited opportunities, but not very big ones.

**Nitin Agarwal:** On the API business we have been talking about rationalizing the business and focusing more on profitability, what is the kind of potential that you seen in this business per se given the fact that we are not looking to make any capex on this business?

**Pranav Amin:** This is actually it is a good business because of couple of reasons. One, it is very important part for us speeding into our generic business. So we need to be cost competitive and have big volumes. Secondly what we have done and one of the reasons why the topline if you see is going down it is not growing, but internally the product mix is changing. We are changing our focus more to end regulated markets where the pricing is better. So compared to what we might have been selling in the Indian domestic market for the Indian market, where the prices are lower, we are competing with lower costs Chinese imports, we are trying to focus more on filings where one of the peers in the industry might file for Europe or US wherever we have a premium on the pricing. Lot of the development is also going on which should reflect in sales pricing in the future. As against that we may cut down some of the domestic and the lower margin business to ensure that we get optimum return on the facilities that we have.

**Nitin Agarwal:** And on this international branded business when do you see a sort of stability growth coming back to the segment?



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**Pranav Amin:** I think hopefully we will see some growth coming in this year and we will slowly, slowly build it up over the next few years. Because as we mentioned in the last few calls it is slowly increasing of filings building up the portfolio.

**Nitin Agarwal:** Mr. Baheti when you look at the 16% margins for the business in which segment of the business when we are talking about margin improvements really is happening on a steady basis over the next two to three years and we get into a 20% sort of a number, which segments or where do you see the maximum scope of improvement of margins on an overall basis over the next three four years?

**R. K. Baheti:** I think Nitin, all businesses margins will improve, domestic margins will improve on back of larger volumes with lower than the sales growth expense increase. There I have to only factor the pharma pricing impact, , which would be one time, but other than that the margins on all other all non-covered, non-controlled products, will go up. The international generic will again see the margins, the improve because of the quality of the products or quality of the new filings and new launches as well as the volume gain and API we have already discussed a lot that the margins will improve because of the product mix. So see for a Company of our size unless we improve margins on all business verticals it would be impossible to improve the margin in the Company. Particularly with the increasing R&D spend and investment in the new divisions as far as the local business is concerned.

**Nitin Agarwal:** And Sir where do you see the R&D spent? You will still be able to hold on to 5% of sales or given the fact that we are looking to file some more complex products, they will be need to up the R&D spends going forward?

**Pranav Amin:** I think yes, R&D is something that we are going to be focusing and we do want to file more complex products. It may go up to about six but I do not think this is going to go more than that and it will still be below 7% for the year or two, next year or two.

**Nitin Agarwal:** Thanks very much.

**Moderator:** We will take our next question from the line of Mr. Aditya Khemka from Nomura. Please go ahead.

**Aditya Khemka:** Thanks for taking my question. Sir on the Pristiq launch, could you give us a sense of how, first of all the product is not substitutable at the pharmacy level am I correct to saying that because it is not generated?

**Pranav Amin:** Yes, it is not directly substitute at the trade level yes.



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**Aditya Khemka:** Okay, so when Ranbaxy is kind of marketing the product, it will take time for them to ramp up the revenue right, because there has to be promotion behind it right, so do you feel that the 18 to 21 months window that you are talking about that you have can you really realize enough revenues in that window to justify whatever expenses we have had actually incurred on the product?

**Pranav Amin:** Okay, now enough revenues are subjective question, but yes definitely I think our costs will get more than recovered.

**Aditya Khemka:** Okay, and in terms of the domestic growth that you expect 15% plus growth you have been looking. So what would be the primary driver of the growth Sir, would it be new launches and it is for how many launches would we expect going forward in the domestic market?

**Pranav Amin:** I think with the domestic growth has been led by a couple of areas, if you see the last few quarters what we have been talking about specialty side of the business we are growing, we have been consistently growing more than 20%. So that gives us confidence because very acute even the market itself has slowdown quite a bit. So lot of the growth will come from the specialty segments. We have launched new divisions. As I mentioned early it has been dermatology, before that we have launched ophthalmic and couple of other ones. We will launch one or two more divisions also during the next few months as well as new product launches that should drive the growth.

**Aditya Khemka:** That answers my question. Thank you Sir.

**Moderator:** Thank you. Our next question is from the line of Dhiresh Pathak from Goldman Sachs. Please go ahead.

**Dhiresh Pathak:** Good evening Sir. Out of 235 Crores for the full year of international generic how much was the US Sir?

**R. K. Baheti:** US and Canada is about 60%.

**Dhiresh Pathak:** And bulk of that would be US how much is Canada in that 60%?

**R. K. Baheti:** About 10% is Canada.

**Dhiresh Pathak:** And so when you say margins of 20% this is to be expected in a two or three year time period right not next year?

**R. K. Baheti:** Not next year.



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**Dhires Pathak:** So for next year FY'14 you will have benefit of Desvenlafaxine and you will also have a negative impact because of the pharma pricing policy. So net-net what sort of margins do you expect for next year because you are guiding for growth, but can you give some sense on margins next year?

**R. K. Baheti:** We have not given guidance for growth, but what I have been saying in the past couple of calls is that the target is to improve the margins by 100 – 125 basis points every year. So this year March 2013 has been able to improve it by about 1.5%, next year also the target remains 100% – 125% in spite of taking partial effect of pharma policy, making some assumptions.

**Dhires Pathak:** By when do you expect the implementation of the pharma policy?

**R. K. Baheti:** I wish I had an answer.

**Dhires Pathak:** Thank you Sir.

**Moderator:** Thank you. We have a next question from the line of Kartik Mehta from Sushil Finance. Please go ahead.

**Kartik Mehta:** Good evening Sir. Sir my question pertains to your domestic formulation you launched Dermatology and you guided that one or two new therapy you are looking at, so any sort of idea where are you going to move ahead?

**R. K. Baheti:** No we may not in the current year go into a new therapy, but we may launch a new division within the existing therapies to differentiate the products and differentiate the customers. So in the current year I do not think we have a plan to get into a new therapy, because we would like Dermatology to gain a critical mass, but what plan is to is create a subdivision or a smaller taskforce for targeting specific customers and specific products in one of our existing divisions.

**Kartik Mehta:** Right and Sir I understand that in the last three years we added a couple of specialty division like Dermatology, we added this year so any of them have become matured and started contributing positively to?

**R. K. Baheti:** Ophthalmology has already become one. I mean matured is I would not say that word but Ophthalmology has gained some critical mass and should be contributing now positively.



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- Kartik Mehta:** Okay, so having said this couple of therapies, which are still not they have not yet achieved that critical mass and those are your assumption behind the margin improvement as one of the assumption behind margin improvement?
- R. K. Baheti:** Yes.
- Kartik Mehta:** And secondly this expansion of let us say 2. 5% to 3% in three years is also considering the two years exclusivity in the Pristiq?
- R. K. Baheti:** Yes, we have made some assumption that is included,.
- Kartik Mehta:** Right and also direct marketing expenses if at all we go ahead in US?
- R. K. Baheti:** No, we may not go whole hog. We will go slowly. So it may not hurt our margins in a significant manner. The idea would be to balance the profit, which we are currently giving up in partnership to cover our cost within that.
- Kartik Mehta:** Okay, so the whole exercise what I was trying to derive out of here is that we may probably achieve expansion in the margin considering this argument, but then after the new entrants coming into the Pristiq, would you be able to sustain those elevated margins?
- Pranav Amin:** Plan is yes. I think we would like to because if you see our peers in the industry they are moving towards that, as we have more products after 21 months we will have more launches by then we will have. As I mentioned eight to ten launches per year so 15 plus another 15 to 20 so that should help in the margin expansion as well.
- Kartik Mehta:** All right. Sir on the domestic API front you have done a pretty robust growth and any specific idea how it is going to be in the next couple of years?
- Pranav Amin:** I think what I mentioned and this is what I mentioned earlier also that on the APIs it is good to look at it in totally.
- Kartik Mehta:** Yes I understand that.
- Pranav Amin:** So and I would expect at least 10% if not more growth for the next year as and hopefully a little more of the year after that.
- Kartik Mehta:** Okay, Mr. Baheti just a last question on housekeeping front, any forex exposure in terms of hedging?



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- R. K. Baheti:** No.
- Kartik Mehta:** So we are keeping our book open?
- R. K. Baheti:** There would be a partial what we call self-hedging because we have some foreign currency loans.
- Kartik Mehta:** But nothing as such major?
- R. K. Baheti:** No.
- Kartik Mehta:** That answers and thanks a lot and good luck.
- Moderator:** Thank you. Our next question is from the line of Mr. Krishna Prasad from Kotak. Please go ahead.
- Krishna Prasad:** Good evening everyone and thanks for taking my question. I just want to check on a couple of recent approvals that we have received from the US. On Modafinil and Valsartan HCTZ, have you launched these products?
- Pranav Amin:** Modafinil has already got launched and Valsartan should happen in the next few months.
- Krishna Prasad:** Right and can these be interesting launches per se for the year?
- Pranav Amin:** Yes, absolutely they are both big products. Modafinil we are still seeing limited competition. It is not too crowded in market. Our partners are doing a fairly decent job so far and Valsartan as you know yes it is a huge product so let see how that goes.
- Krishna Prasad:** But so this quarter numbers actually includes partly Modafinil launch?
- Pranav Amin:** Yes.
- Krishna Prasad:** The second question is in terms of contribution from Pristiq for the current quarter. So you have mentioned that sales will start next quarter so essentially are you saying that this quarter there is very minimal contribution from Pristiq?
- Pranav Amin:** Yes, see so what is happened is this quarter there is some minimal contribution from Pristiq because it is only the launched quantities, which have got shipped to Ranbaxy.



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**Krishna Prasad:** And so if I look at the let us say the gross margin improvements, which has happened this year almost about 350 BPS improvement, given the nature of launches, which are expected would it be fair to assume a similar sort of improvement happening through FY'14 would that be a fair assumption to make?

**R. K. Baheti:** On margin expansion?

**Krishna Prasad:** Yes, just on the gross margin let us say is assuming your R&D rises would it be fair to assume there will be significant product mix improvement next year?

**R. K. Baheti:** I think just the moment back, I said that we continue to expect 100 – 125 basis points margin expansion based on two assumptions, based on a certain assumptions of adverse impact of pharma policy and based on certain assumptions on the desvenla base numbers. So if we are not very wrong then this margin expansion is very much possible.

**Krishna Prasad:** Just a final question actually on the other expenditure front, even if I look at it on a sequential basis, if I leave out the YoY comparison there is still there is actually a decline in other expenditure?

**R. K. Baheti:** No, Krishna you know in pharma, you cannot really look at sequential thing, because typically all pharma company could have larger expense in September quarter and December quarter and then lower expenditure sales and marketing and sales promotion expenses in March quarter. That is an industry phenomenon and I think our sales and marketing promotion in last quarter was lower than the preceding two quarters.

**Krishna Prasad:** That is it from my side. Thanks a lot and good luck.

**Moderator:** Thank you. Our next question is from the line of Hitesh Mahida from Fortune Financial. Please go ahead.

**Hitesh Mahida:** First of all congratulations to the management for wonderful results. I have basically two queries, one is Sir can you give us an update on what is happening with the partnership with Accu-Break Pharma as to where are we in terms of filing 505(b) (2) filling of warfarin and are we looking at more such 505(b) (2)'s from this partnerships and secondly Sir can we expect to be a debt free company over the next three years?

**Pranav Amin:** On the Accu-Break bid, the developments going on. I think being a 505(b) (2) filing it will also take sometime so exhibit batches and the formulation development is in progress and



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we hope to file the product in next financial year, because that is so long it takes to file the product.

**R. K. Baheti:** As far as the borrowings are concerned we would still has some borrowings at the end of March 2014 but we would also has some cash balance. So virtually we would be very low debt at March 2014.

**Hitesh Mahida:** Thank you and all the best.

**Moderator:** Thank you. Our next question is from the line of Sachin Kasera from Lucky Investment. Please go ahead.

**Sachin Kasera:** Good afternoon Sir and congratulations for a good set of numbers. Just two three questions, one on this international generics the rough number that we are looking at 30% - 35% growth that is including Desvenlafaxine or that is excluding?

**Pranav Amin:** Partial Desvenlafaxine not full because we are not sure how this launch will go. If it goes much better then, what we expect and yes, that this 35% could go up also.

**R. K. Baheti:** The base number we have taken for Desvenlafaxine. We assume 30% - 35%.

**Sachin Kasera:** Secondly Sir you mentioned that FY'15 the capex will again go up and you may have to so spend something on R&D can you just elaborate a bit on that?

**R. K. Baheti:** Not only R&D probably also on the manufacturing facility for international generics. We have to look at how the first two quarters we ramp up the business development activities. See we will start looking at building a new facility as soon as we hit 50% - 60% of capacity utilization in this plant. So that we do not get back to the situation where we had business but we had no capacity to manufacture.

**Sachin Kasera:** And is there a Brownfield, which is possible?

**R. K. Baheti:** 2014-15 possibly we will start investing in the new manufacturing facility. R&D of course it is continuous process. We did not say that R&D we will have a specific plan for 2014-15.

**Sachin Kasera:** But this R&D that you mentioned it will be on the capex side or is it something that you will you have to referring this will be take under the P&L?

**R. K. Baheti:** Early to say but I think it would be about 150 – 200 Crores.



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**Sachin Kasera:** So which means we are looking more of the Greenfield facility rather than a Brownfield expansion for the next stage?

**R. K. Baheti:** Yes but I said on a long-term basis it would be better derisking exercise if we have a plant at a different place.

**Sachin Kasera:** Okay and Sir the tax rate you expect it to remain at 20% for next two years?

**R. K. Baheti:** Next two years yes.

**Sachin Kasera:** And just one last question Sir we have increased the dividend payout in the current year and you mentioned that more or less we should be debt free by the end of current year. So can we look at you think this is what is going to be sustainable or once next year we will become debt free then you could probably look at improving this bit further?

**R. K. Baheti:** I am not saying the dividend payout ratio is sustainable or not it is surely sustainable but the board of course will take a call but I do not expect a reduction in absolute dividend percentage, or dividend amount.

**Sachin Kasera:** Thank you so much Sir.

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

**Rahul Sharma:** Sir just taking it from Sachin's question. FY 2014 what would be the capex that we are looking at?

**R. K. Baheti:** I think I said it should be around 60 – 65 Crores including carryover of about 15 Crores for the new formulation facility.

**Rahul Sharma:** Okay and this will be totally capitalized 65 Crores odd?

**R. K. Baheti:** Yes.

**Rahul Sharma:** And Sir the 150 – 200 Crores will be for what in FY'15 what we are looking at?

**R. K. Baheti:** The entire amount, money may not be spent in FY'15. I was responding to a query regarding how much of investment a new facility can require, as and when it is put up.

**Rahul Sharma:** But what type of capex are you looking for FY'15 then roughly?



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- R. K. Baheti:** Honestly we have not done that numbers but may be part of the money will be invested in 2014-15 for the new manufacturing facility and part of that maintenance capex. We can say it is 150 Crores for your number crunching.
- Rahul Sharma:** Sir on R&D we have done on the revenue front we have done almost close to 73 Crores so what type of number that translates into almost 5% of revenues?
- R. K. Baheti:** Yes.
- Rahul Sharma:** What type revenue R&D you are looking at in FY'14 and 15?
- R. K. Baheti:** Pranav said that I think it would stay within about 5% for March 2014. Going forward we are working already on a couple of new concepts and if they materialize then going forward in March 2015 it may go up but it would still not go up very significantly it will still remain between 5% and 7%.
- Rahul Sharma:** So will it be in line with revenues or will it be growing faster than revenues, because last year only?
- R. K. Baheti:** No, revenue percentage increase it would be faster than revenue. That is why it will go up to from 5% to whatever 6%, 6.5%, 7%, but that would not probably I am not expecting that to happen in March 2014. First few of the initial steps, which we are taking if they are successful, then March 2015 probably can be little more aggressive.
- Rahul Sharma:** Okay and Sir what about your loan how much is working capital, and how much is your long-term loans as of now?
- R. K. Baheti:** About 75 Crores are long-term and about 110 Crores is short-term.
- Rahul Sharma:** So because short-term do you foresee this continuing going ahead?
- R. K. Baheti:** We expect about 60 Crores of long-term to continue and about 25 – 30 Crores of short-term to continue. So we expect our loans to loan book to be below 100 Crores next year.
- Rahul Sharma:** Short-term will be around 60 Crores what you say?
- R. K. Baheti:** No long-term would be 60 Crores.
- Rahul Sharma:** Well I will get back into the queue. Sir thank you.



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- Moderator:** Thank you. Our next question is from the line of Shree Hari from PCS Securities. Please go ahead.
- Shree Hari:** Thanks for taking my call. You had mentioned that the forex gain was 3.2 Crores in the quarter. Is there any other figure in the topline?
- R. K. Baheti:** No it is in the other expenditure,
- Shree Hari:** And what is the corresponding figure for the full year?
- R. K. Baheti:** Full year is about, gain of 4.5 Crores.
- Shree Hari:** Coming to your domestic foundations gastro, cardio, and gynec have done very well. Could you throw some color on a few of your products, which have done very well?
- R. K. Baheti:** We would have a product wise if you look at ORG, but if you can give me a minute if you have any other question you can go ahead and let me just to look at my papers.
- Shree Hari:** Yes, the third question was pertaining to the DMF you have a very good pipeline there. Can we expect any major breakthrough is there?
- Pranav Amin:** In terms of the DMF and ANDAs, as I mentioned we are pursuing some FDAs opportunities we are looking at some of the 505(b)(2)'s. So it is still early to say until we actually file these products and we get an indication from FDA so it is tough to comment on that, but yes I think moving forward complex products is something that we are looking at in terms of the APIs so the DMF as well as for the formulations as well.
- Shree Hari:** So does it mean that there is not much overlap between the DMF filings and ANDA filings?
- Pranav Amin:** Actually there will be an overlap because we do like to be backward integrated on most of the formulations that we work with so the DMF will be used by our ANDA's.
- Shree Hari:** Okay, so can I reverse back to Mr. Baheti?
- R. K. Baheti:** I think couple of sartans has done very well. Telmisartan has done very well. Gynec has done very well. There is a product called Ovigyn, the brand called Ovigyn. Then couple of Diabetology products has done pretty well, Glycine, etc. So I think the products have driven the growth for these divisions.
- Shree Hari:** Okay, and anything in Cardio?



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- R. K. Baheti:** Ajay can tell you a little more commentary if you want product wise growth. These are ORG numbers.
- Shree Hari:** Thank you. That is all from my side.
- Moderator:** Thank you. Our next question is from the line of Mr. Sunil Rao from Sushil Finance. Please go ahead.
- Sunil Rao:** Congratulations on a good set of numbers. Just wanted to know your expansion came on stream in March 2013 if I am not wrong?
- Pranav Amin:** Not completely. We have started, but it is not fully at 100% but yes part of it we have used.
- Sunil Rao:** But in terms of revenue contribution how much would that be for the quarter in that case?
- R. K. Baheti:** It would be difficult to say because the products get interchanged. I mean it is one facility.
- Sunil Rao:** But in terms of any figure as such?
- R. K. Baheti:** You can say that last year March number was 50 Crores or 55 Crores, this year we have done about 77 Crores. So that would have a product mix change, that would have a volume change, that would have a new facility change, so I am not saying this entire thing because of facility but it also because of facility.
- Sunil Rao:** Sir how much impact of INR depreciation would there been margin expansion for FY'14 as in how much are we factored in your estimates?
- R. K. Baheti:** We do not factor forex movements for the margin working. It has been made a stable rate.
- Sunil Rao:** Thank you Sir.
- Moderator:** Thank you. We have a follow up question from the line of Rahul Sharma from Karvy Stock Broking. Please go ahead.
- Rahul Sharma:** Sir I just wanted to know because if I am seeing the loan we have got around 70 Crores of long-term loan in our number which is there 71 Crores and approximately 70 Crores in short-term so the other is put up fair is it another long-term liabilities or where is it sitting Sir?



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- R. K. Baheti:** Other should be these public deposits and there would be some those long-term trade deposits they are all part of it.
- Rahul Sharma:** They will be in this other long-term liability?
- R. K. Baheti:** Correct.
- Rahul Sharma:** Thank you.
- Moderator:** Thank you Sir. Participants as there are no further questions. I would now like to hand the conference over to Ms. Perin Ali from Edelweiss for closing comments.
- Perin Ali:** Thanks Lavina. On behalf of Edelweiss, we thank Alembic management for taking time out. I thank you all for participating in this conference. Mr. Baheti if you have any closing comments please go ahead.
- R. K. Baheti:** Thank you Perin and it was good interactive participation from all the investors, analysts with your support. So I thank all of you and look forward to talk to you again next quarter.
- Moderator:** Thank you Sir. On behalf of Edelweiss Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.