



“Alembic Pharmaceuticals Limited
Q4 FY2021 Earnings Conference Call”

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MANAGEMENT:

**MR. PRANAV AMIN – MANAGING DIRECTOR
MR. R.K BAHETI – DIRECTOR FINANCE AND CHIEF FINANCIAL OFFICER
MR. MITANSHU SHAH – HEAD FINANCE - MR. AJAY KUMAR DESAI –
SENIOR VP FINANCE -**

Moderator:

Ladies and gentlemen, good day and welcome to the Q4 FY2021 earnings Conference Call of Alembic Pharmaceuticals Limited. We have with us today on the call, Mr. Pranav Amin, Managing Director, Mr. R.K. Baheti – Director Finance and CFO, Mr. Mitanshu Shah – Head Finance and Mr. Ajay Kumar Desai – Senior VP 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 telephone.

Please note that this conference is being recorded. I now hand the conference over to Mr. R.K Baheti – Director Finance and CFO. Thank you and over to you Sir!

R.K. Baheti:

Thank you. Good evening everyone. Thank you for joining Q4 results and the annual audited results conference call. I am sure you would have received the results. However, let me briefly take you through our numbers for the quarter ended March 31, 2021 and the year ended March 31, 2021.

During the quarter, our total revenue grew by 6% to Rs. 1280 Crores. EBITDA grew by 6% to 359 Crores. This is 28% of our sales. Profit before tax grew by 6% to 305 Crores while profit after tax went up by 12% to 251 Crores.

EPS for the quarter is Rs.12.75 per share on the expanded capital versus Rs.11.92 in the corresponding quarter in the previous year. During the full year, our total revenues grew by 17% to Rs.5393 Crores, EBITDA grew by 35% to Rs.1631 Crores, and EBITDA is 30% of sales. Profit before tax went up by 39% to Rs.1430 Crores and profit after tax went up by 42% to Rs.1178 Crores.

EPS for the year ended is Rs.60.81 per share on weighted average expanded capital versus Rs.43.97 on old capital in the corresponding previous year.

Capex: Capex for the quarter is Rs.178 Crores. Full financial year was Rs.687 Crores. Cumulative capex for ongoing projects including the preoperative expenses is Rs.1800 Crores. Financial assistance to Aleor for the quarter is Rs.20 Crores, for the full year it is Rs.145 Crores.

Borrowing: We have no short term borrowing. We only have debenture issued which have fixed maturity period, so the gross borrowing is Rs.500 Crores all by through the debentures. Cash on hand is about 208 Crores. This was Rs.1674 Crores in March 2020. So, net debt equity now is virtually negligible at 0.04.

Dividend: The board at its meeting held earlier during the day declared dividend of Rs.14 per share that is on a face value of Rs.2 per share at 700%. Previous year this was Rs.10 per share and the Rs.10 per share also included Rs.3 per share as a special dividend, so last year it was Rs.7 plus Rs.3 total Rs.10, this year it is Rs.14 per share.

I will now hand over the discussion to Pranav for his presentation on the international business.

Pranav Amin: Thank you Mr. Baheti. It was the good year for the international business. We saw growth across all our territories API, US as well Ex-US formulations. GMP compliance continues to remain focus area for us. Our F3 which is the General Injectable formulations plant was audited by the FDA in February. This was deemed mission critical that is why they came and physically audited it. They gave us 5 observations, most of these were procedural. We have replied to them and had discussion with them. Once we hear back from them we will let you all know. EIRs are in place for the other commercialized facilities.

The US business is firmly in place with new approvals and launches. There are lots of you guys who have been asking about the Sartans and yes, the Sartan prices have come down with competition. This has happened gradually over the period of last six months. We are happy that we took the opportunity of the business and it lasted much longer than what we had initially expecting. Moving forward, we expect this to be a new base which will be a little lower than what we have been getting in the past few quarters but that is the part of the business and we are happy with that.

We filed 13 ANDAs during the quarter out of which 4 were from Aleor and for the year we filed 29 ANDAs.

As you know, our drug discovery venture, Rhizen had out licensed to TG Therapeutics, its first product "Umbralisib" which is incidentally the first product to have been developed in India. TG Therapeutics has launched this product called "UKONIQ" for two indications and they have just commercialized it recently. They are also awaiting studies and

data on a new indication for CLL which is a much larger indication, so that is quite exciting but we will see how that goes.

Our R&D expense was Rs.195 Crores in the quarter which was 15% of the sale and Rs.670 Crores for the year which was approximately 12% of sales.

We received 4 approvals during the quarter and cumulatively have 139 ANDA approvals.

We also launched 3 products during the quarter and 16 for the full year.

For the next year, we expect to launch about 15 products in the market.

Coming to the numbers for international formulation was relatively flat at Rs.700 Crores in the quarter and grew 19% to 2942 Crores for FY2021.

US generics degrew by 18% to Rs.475 Crores for the quarter and grew 9% to Rs.2163 Crores for the year.

Ex-USA generics continue to grow to 77% to Rs.233 Crores for the quarter and 57% to Rs.779 Crores for the year.

The API business also continued its growth 38% to Rs.214 Crores for the quarter and for the year 35% to Rs.955 Crores for FY2021.

As regards the domestic formulation business, the Indian formulations business grew 5% to Rs.358 Crores in the quarter and 5% to almost Rs.1500 Crores in FY2021. As you know, Alembic does not have too many COVID products but Azithral is being used and we see a good uptick in that over the last couple of weeks.

As regards, rest of the domestic business, we are seeing some ramp up in specialty and raising some headway in specialty space and some of the therapies, so that is exciting.

I would now open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Yash Gupta from Angel Broking. Please go ahead.

Yash Gupta: Thank you for the opportunity. My first question is on the R&D cost, so for this quarter, our R&D cost has moved from 148 odd Crores to 195 odd Crores, so is there any special thing happened in further quarter?

Pranav Amin: Our R&D cost is really depends how the projects are progressing. At the beginning of the year, we have said about 650 odd Crores is what we will expect to spend during the year and we have ended up with that kind of a number. It just depends that sometimes we have some quarters where you have more FTFs, or studies passed to that, that is about it. It is just quarter-to-quarter variant.

Yash Gupta: Second question can you throw some light on what type of product that will be launched in FY2022 those 10 products to be launched in the US market?

Pranav Amin: We do not give guidance, so we do not disclose what products we are launching until we get final approval. The 15 products we expect to launch this year will be predominantly Oral Solid Dosages, Derm as well as Ophthalmic products that we will launch in the market.

Yash Gupta: Thank you.

Moderator: Thank you. The next question is from the line of Venkat from Citi Sigma Financials. Please go ahead.

Venkat: Thanks for taking my question. My question is more generic in nature. The western media is talking almost about the Coronavirus and its impact, so what are you listening from your customers or will there be any potential loss of business because of these or how do you see this is happening?

Pranav Amin: We do not really have any therapies for coronavirus.

Venkat: I am not asking some therapies point of view, but in general what is the customer's perception in particularly from the Western world Europe and US or North America?

Pranav Amin: I think it is tough to say, we do not really generalize because we are generic company, it is tough to say I think what we read in the papers is not everyone is saying. There is no input particularly for many customers about this.

R.K. Baheti: As far as India is concerned, in spite of this lockdowns or partial lockdowns, we believe that doctors are practicing now unlike earlier year, last year they had completely stopped their clinics, this year most of them and healthcare warriors have been vaccinated and they are in their clinics. To that extent, we do not expect big issues. Of course the patient has to come to the doctor's clinic that is a challenge.

Venkat: Thank you very much.

Moderator: Thank you. The next question is from the line of Karanveer Singh from Sunidhi Securities. Please go ahead.

Karanveer Singh: Thanks for taking my question. On the decline in US business is primarily due to loss in Sartan or other products have also not performed as per expectation?

Pranav Amin: As I mentioned, Sartan was up until the first half of this year we saw Sartans opportunity there. After that we saw a dwindling a little bit slowly and while we finished off some contracts, bulk of it had come from the Sartans and we have been saying that in US we expect per quarterly sales of about 70 odd million, now the new base will be about 55 million to 60 million because of the erosion that has taken place in the Sartans.

Karanveer Singh: 55 million to 65 million quarterly you are saying?

Pranav Amin: 55 million to 60 million compared to 70 million to 75 million, so about 10 odd million to 15 odd million is what we will see erosion and pricing on the Sartans.

Karanveer Singh: Okay because in the last call, we mentioned that now Sartan prices will surely have stabilised and even the market's share is also somewhat stable, so that means in this quarter, we have again lost some higher market share?

Pranav Amin: It is not a question of market share, it is just pricing and it is an ongoing thing. I said a lot of players are there in the market and supplies have stabilized but I guess we have seen a further reduction in prices in this quarter, so this is the new base moving forward.

Karanveer Singh: Secondly if you could give an update on Injectable, Oncology Injectable setup when we can expect now to get it?

Pranav Amin: Oncology Injectable is a facility where we will be filing the process of products in the next three to six months, once we file that they will trigger an FDA inspection. It depends on the FDA whether they will physically come out or not, so that awaits to be seen.

Karanveer Singh: We have already started filing from other two facilities that are new facilities Jarod?

Pranav Amin: We have filed Jarod also but I do not expect the US FDA will come for that facility anytime soon, that is just another OSD facility, so it is not mission critical for us as well. We already have a commercialized OSD facility. So the other one is the F3 what we call the General Injectables where the FDA has already come in and they have given us a few observations which we have replied.

Karanveer Singh: That is it from my side. Thank you.

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

Anmol Ganju: Thanks for taking my question. My first question is slightly a repetition. When we look at the 18% decline in US and we were to kind of attribute a significant part of this to Sartan normalization or even from a base

portfolio standpoint we see the pricing pressure has been significant or nothing has changed there, so any of three if you could?

Pranav Amin: Yes, by and large, Anmol, it has been Sartans for this quarter. During the year, we had other products but on quarter-on-quarter basis we have not seen that yet. Right now we have only seen on the Sartans which are a big chunk of our portfolio last year.

Anmol Ganju: Thanks that is helpful. My second question is on the sharp growth in non-US generic, so anything in specific we would like to call out here?

Pranav Amin: Anmol, there is nothing specific per se. We have just continued supplying the order booked. We have put into perspective that last year was very weak in this territory, so that is one of the reasons why the numbers look much rosier. The last two years have been quite weak for supplies for us. That is why it looks better but I expect growths to continue not at these levels but normalized level about 10%-15% or so.

Anmol Ganju: That is helpful. My third question is on API. Full year 35% growth, so quite healthy base to content with for the next year but this new base what do you think this part of the business looks like in terms of?

Pranav Amin: Good question Anmol. Again, I would like to break up this API business into the first half of the year and the second half. First half of the year we started up on a bang where, there were lot of opportunities due to the disruptions from China and the first half was lot more robust in terms of growth part of that has come down because Chinese companies are back on supplies and also the use of Azithromycin in the treatment of COVID has come down compared to what it was from March 2020 till June - July 2020. That is one reason. Second thing as the Chinese are back in the markets, it takes some competition there. Having said that the API business on this new base, I do expect it to grow by 10%. This particular quarter, Q4 was a little lumpy because we had won a large contract manufacturing deal where we supplied quite a bit of products.

Anmol Ganju: Thanks. My last question Pranav, if I may, so 15 product launches for next year around \$55 million to \$60 million quarterly run rate in the US,

so when we look at the next year, you think that \$300 million to \$325 million is a new base, should be there when we look at the US from a full year picture standpoint but that looks reasonable in terms of when we map out the US business next year?

Pranav Amin: I would not like to give guidance. Having said that, in US we will not have much growth for the next couple of quarters because while some of the new launches have done well, the whole Sartans are the one time opportunities we had in the last 2/3 years was quite chunky, so I expect the US to be muted. It will actually be degrowth if you see that going from a base of 70 - 75 million to 55 - 60 million, it will be a way muted may be little bit of degrowth. We will try and make whatever we can do with the new launches.

Anmol Ganju: Thank you. That is helpful. All the best.

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

Damayanti Kerai: Thank you for the opportunity. My first question is on the operating cost. Obviously R&D inched quarter-on-quarter depending on progressing projects, but we have seen bit of variation in staff costs and other operating expenses also, so how should we look at this part going ahead and do you still maintain that Rs.50 EPS guidance for FY2022?

Pranav Amin: Yes, as of now we are holding onto our EPS guidance of Rs.50. As regards the cost, I would like Mr. Baheti to touch base with this.

R.K. Baheti: Broadly the costs are in line quarter-on-quarter basis. If you have any specific observation just tell me, we can clarify further.

Damayanti Kerai: No, I was just asking from difference in staff cost and EX-R&D, other expenses in Q4?

R.K. Baheti: If you look at Q4 and when you compare with the previous quarter that is Q3, we are almost flat with similar numbers.

Damayanti Kerai: My second question is on India part. Again decline is it more due to I will say seasonality in sales or the anti-infective sales are coming down and going ahead how we should look at India's growth in a very broad sense?

R.K. Baheti: You would have seen our specialty divisions have all grown well, cardio, diabetology, gastro, women's healthcare, ortho, all of them have been grown in line with market or slightly better than the market. Where we are facing some headwinds are acute division but within acute I would say in anti-infective,, we are doing relatively better than the market. We have grown anti-infective 5% against the market degrowth of 10% but in cough and cold, we have degrown and the whole market has degrown. We have degrown in line with that. Also in acute, we have a large pediatrics portfolio and the pediatrics portfolio continues to degrow, which is true for the entire industry. Going forward as I mentioned earlier, we do not expect the last year's kind of washout even if there are lockdowns or partial lockdowns. The doctors have largely been vaccinated and they are operating in their clinics. Hopefully things should settle down quickly. These are early days, but as of now we seem to be growing.

Damayanti Kerai: Thank you. My last question would be on capex. How should we look at capex plan for FY2022 and this is do you have plan to expand on the API facilities?

R.K. Baheti: This year itself in March 2021 we have spent some money on API. Broadly the project related capex is over. There will be some maintenance capex, there will be some addition because of this preoperative continuing and probably during the latter part of the year. As we said in the earlier call we may be putting up additional lines, so that will cost some money.

Damayanti Kerai: Barring the project cost we should be broadly in I will say mostly continuing with the maintenance and some expansion on existing facilities?

R.K. Baheti: Yes.

Damayanti Kerai: Thank you for your response.

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

Charulata Gaidhani: My question pertains to RoW; can you give some more details in terms of RoW growth whether it has come from new markets or volume prices?

Pranav Amin: With respect to the RoW I did not catch that.

Charulata Gaidhani: RoW market...

Pranav Amin: Growth has been predominantly a volume growth because what happened in the RoW markets which is for us Europe, Australia and Canada, what happened is that the last two years FY2019-FY2020 were quite weak in terms of supply and we had a lot of supply chain based issues due to the serialization, so this is the mainly volume based growth on these markets. There has been no pricing change because we supply to our partners who market these in the territories.

Charulata Gaidhani: How much of the overall sales would be coming from COVID?

Pranav Amin: COVID, as I mentioned earlier, we do not really have any COVID products per se, the only one that we have is in the India market Azithromycin or brand of Azithral was used during the early part of the year and then again right now last couple of weeks but that is respiratory tract infection, that is only one, that is not a direct COVID therapy that we have.

Charulata Gaidhani: Okay, we are not exporting?

Pranav Amin: No, we are exporting Azithromycin as an API, but nothing else.

Charulata Gaidhani: Can you give the quantum of capex for FY2022?

R.K. Baheti: As I said it will be largely maintenance capex and the pre-ops depending on at what point of time, we get approvals for the injectable

facility and how the volumes pick up will put up more lines on the injectable plant.

Charulata Gaidhani: Yes, but amount?

R.K. Baheti: Depending on the situation it will be between 500 Crores and 700 Crores.

Charulata Gaidhani: 500 Crores?

R.K. Baheti: Yes.

Charulata Gaidhani: How much of India growth do you expect for FY2022?

R.K. Baheti: We do not give guidance on sales numbers but as I mentioned in my opening statements, we expect our specialty segments to grow faster than the RPM, the respective molecules in the industry and hopefully acute now we should start picking up again.

Charulata Gaidhani: Thanks. All the best.

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

Aditya: Thanks for the opportunity. I just want to understand the API business. It was regarding the Azithromycin what we have got the growth, it was regarding that only or are we seeing anymore demand or we are increasing the capacity?

Pranav Amin: API the growth was across all our products, Azithromycin is a big product for us where we do supply all over the world, so that is one part but most of our products across our portfolio is where have seen growth and we have seen growth across territory for all our API business as well.

R.K. Baheti: What Pranav is saying across geographies. Aditya our API investment policy has to do with their own captive consumption; we are adding

more products, as we are having more formulations in the market our API capacity also needs to be added.

Aditya: Again, one more thing regarding India business, as we see we are having large exposure to US markets, so there are always uncertainties regarding pricing or everything, as you see our very less contribution is coming from India business, as you see large pharma companies also, they are trying to increase their market in India business, so what is your view regarding the India business, how do you want to maintain the India business which is the branded business?

Pranav Amin: Aditya, actually you have to see of course our peers in the industry, each one has a different percentage of international versus India. If you see, on one extreme we have an Aurobindo which is almost all international, and less not much hardly in India business versus some of the others have about 80% India business, so it is really very hard to compare. Number two, it is not one at the cost of the others being exclusive, India business as you know it can continue to grow and there is nothing stopping us from not focusing on India business. The addressable opportunity size in the US is much larger that is why we have seen a US business if we do not take this year or even if you take this year where we are growing 9% but on the last five years we have grown at a CAGR of over 25% versus India we can go grow consistently anywhere between 10%, 15% depending on where you are. Again the India business is very different because it is a high ROCE kind of a business, where the returns are much higher there is not much capex required, so it is not mutually exclusive, I think the both can coexist and grow, that is how we have setup at Alembic also.

Aditya: Okay, so where do we see in the next five years your India business regarding the revenue contribution, it will be the same like what it is right now, or you want to increase more branded business?

Pranav Amin: I think we are trying to grow all our businesses so there is no question about India business will also continue to grow as well as the US both.

Aditya: Thank you.

Moderator: Thank you. The next question is from the line of Kunal from Vallum India Discovery Fund. Please go ahead.

Kunal: Thank you very much for the opportunity. Firstly, I wanted to understand regarding the FDA inspection which happened April 2021 for F3, wanted to understand the process and methodology we shall be following in doing this virtual audit?

Pranav Amin: Actually, audit was not a virtual audit. It was a physical audit where they came in person. In February a team came. They do not come generally. They only come if they deem there is some product which they think is mission critical. We were following up with the FDA to do physical audit because we wanted the plant to be up and ready and hence they came in person and they conducted the audit.

Kunal: Regarding Aleor could you give us understanding as to how we expect the launches in Aleor to happen over the next two years and could you also give us number of the total investment which is going into Aleor till date including the capex and the free of losses and are there any investments on that?

Mitanshu Shah: We have been close to stand out filing. We have started getting approvals also in the same tandem. Right now we are with eight products launch a year or year and half from now, we would have basket of 25 to 30 products and then it would be some sense in terms of total topline, bottomline contribution. We spent close to 250 Crores on capexes, we spent 300 Crores on R&D and that is how Aleor balance sheet looks like.

Kunal: That is very helpful Sir. One thing I wanted to understand regarding our total API capacity by that I mean the capacity you supply now to the outside customers but our own formulation units. So, where we are in terms of the capacity which we have for the API to fund the next level of growth once even the Oral Solids we have the F4 ready in the next 12 months to 15 months hopefully. So, are we in a situation where APIs will be a constraint for growth and vertical integration for our products?

R.K. Baheti: As I said we have been investing in API and we have been increasing the API capacities also across our plants. So, we do not plan to put up a new campus for API but in the existing campuses our API 1, 2, 3 all are expanding. We are okay with the capacity expansion and that should be taking care of our businesses.

Kunal: Just a final question from my end. Sir, now at this level EX-US business the RoW business of this, Sir this business being a purely B2B business, wanted to understand regarding the margin profile of this business would you see that these margins taking to top on the dealer business or would you say that we can line with the US business of the company?

Pranav Amin: We do not give geographically our margin breakup. Having said that RoW business as you seen expected is amazing growth this year of 57%, next year onwards they are expected to grow by about 10% to 15% or so.

Kunal: All the best Sir.

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

Saion Mukherjee: Good afternoon. I hope things are okay at your end. I just am wondering operationally what kind of challenges because these COVID cases have spread to every nook and corner, so when you look at your operations, plant operations, MRs on the field what kind of challenges, I mean are you facing any difficulty with people coming to work etc., and so operationally is it hurting your operation in any way?

Pranav Amin: I will answer the two aspects; one is for the plants that we have for the international markets that are based in and around our corporate in Baroda. We are absolutely okay, at the corporate we have fewer people and we have more work from home, but as regards the manufacturing we are coping okay, and it is not impacting operations in any way.

R.K. Baheti: We are seen that the field movement had been restricted a bit but now the MRs have enough experience of doing virtual calls with their doctors through phones, Zoom, learning to the tweak on detailing of the product. So, far achieved it is better than last year at least. People have learnt to live with this situation and we are better off.

Saion Mukherjee: Sir, on vaccination is there a priority for the sector and people operating the sector, is it possible to vaccinate employees faster?

R.K. Baheti: IPA and couple of other organization has written to the Government but at that time there was no positive response. Now of course the vaccination is open to everyone any one above 18 years so once the availability becomes better, we expect the vaccination also to pick up the speed. I am talking about our employee' of course they are doctors, and the healthcare professionals are vaccinated.

Saion Mukherjee: I am also saying the pharma industry being an essential industry the people working in I think they are given priority now, so it seems it is not, okay.

R.K. Baheti: No such preference is given.

Saion Mukherjee: Sir on the cost side anything that you would like to highlight on the raw material front or logistics front anything which is worrisome at this point?

Pranav Amin: As regards to the supply chain raw material logistics it is absolutely fine. I do not see any issues at all last year was a very different story again last year also not that we had any issues but right now no, we are not seeing any issues.

Saion Mukherjee: Sir one very specific question if I can the capex number for this year and next year I might have missed it if you can just repeat it?

R.K. Baheti: This year March 2021 we had a capex of Rs.670 Crores and as I mentioned previously and I think it would in similar range in the coming year so, about Rs.500 Crores of the maintenance capex, or something,

etc., and Rs.200 Crores depending on the situation at that point of time on expanding the capacity for our injectable facility.

Saion Mukherjee: Thank you Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Prateek Gandotra from Dron Capital. Please go ahead.

Prateek Gandotra: I had just one question that the capex plan, the project we have finished on injectables, I mean when should one obviously depend upon the FDA approvals but reasonably when should one expect the revenues to come and when should one expect that this capacity is reasonably utilized and almost fully utilized. I mean how many years do you think it will take?

Pranav Amin: I think in terms of starting commercialization I would say the earliest it will happen in H2 of this year that is the reasonable expectation. As regards getting to the full capacity utilization as you know the facility has provision for six lines. We have populated with three so far which depends one of the lines we expect that by 2024, FY2025 is when it will be fully occupied and we will have to expand that out. The other two will be okay I would say FY2024-2025 is when we will be at the decent levels of commercialization.

Prateek Gandotra: Yes, and you have approvals already in place, right for a few injectable products?

Pranav Amin: No, because until the FDA clears the facility we will not get any approvals. We have got filings in place.

Prateek Gandotra: So, you got filing in place okay, fine. Thanks, that is what I had, that settles my question and hope everyone stay safe. Thank you.

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

Nitin Agarwal: Thank you for taking my question Sir. Sir, on the cost related to the domestic promotion, what has the experience been? Has there been

any sustainable savings to eventually come through in the domestic side given the way businesses have changed in the domestic business?

R.K. Baheti: There has been some reduction in the traveling cost but we were like we discussed in the past, our promotional expenses are mostly scientific, science driven and in clinic support to doctors so that continues we have not seen significant change in that.

Nitin Agarwal: On a broad level not much from a structural theory perspective that has come through in the post COVID world or from a domestic promotion perspective?

R.K. Baheti: Yes, that is right.

Nitin Agarwal: Sir, on the US business now if you want to just back out the Sartan business and in terms of where the business is going to be next year versus your expectations I mean is it in line what you would have seen the business to be in a couple of years back or has there been some sort setbacks versus what your initial expectations would have been around the size of the business?

Pranav Amin: It is a combination. There have been some positives and some negatives. Generally the US business in certain segments has been more competitive than what we anticipated. If I take Sartans out and I think not just us, but across the board with our peers in the industry as well, there has been more competition in certain areas especially some portfolios such as Derm and some may be others been a lot more competition than expected. The Sartans are going to surprise. I did not expect that so there is a big positive. So, by and large we are okay where we see the business going forward. In terms of our internal product selection and how we look at the US business we become little more stringent. We have changed our outlook a little bit. Having said that the outlook has changed our expectations little bit. In the mid to long-term we are still quite bullish on the US market and we expect it to be a decent market.

Nitin Agarwal: Last one Mr. Baheti, on the cost, I think with Sartans now sort of normalizing out the 74%-75% gross margins now should be a broadly sustainable margin number to revenue?

R.K. Baheti: Yes, couple of basis points here and there you are right.

Nitin Agarwal: Thank you very much.

Moderator: Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Thanks for the opportunity. Just one clarity on this inspection related to injectable facility and the product approval, so the product approval is stuck because of product specific queries or they have the compliant related queries on the client's side?

Pranav Amin: So, the product will only get approved once the facility is approved and this is the first time filing hence the facility has to get approved first and once the facility is approved automatically the product approval will go through.

Tushar Manudhane: So just to extend to that whatever related to observation related work?

Pranav Amin: The observations are more related to processes and systems in places.

Tushar Manudhane: Thanks a lot. That is it.

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

Sameer Deshpande: Good afternoon Sir. Thanks for the opportunity. I would like to know in the balance sheet our property plant equipment is around Rs.1700 Crores odd and our capital work-in-progress is around Rs.1950 Crores. So, what is the quantum of investment which will be capitalized out of this capital work-in-progress during this year and how much is the investment we have made for US export purposes in this capital WIP?

R.K. Baheti: This entire investment that you see of Rs.1900 Crores odd of which Rs.1800 Crores is on account of the new plant which is F2, F3 and F4 and predominantly these plants are for catering to US markets. As and when the approvals come in for the plants, we will put these plants to use this would get capitalized.

Sameer Deshpande: Currently because of this pandemic the physical movement of the people from US to India etc., may not be possible so it will take further time or it will be approved after some other way?

R.K. Baheti: We saw in February that one of our plants F3 plant General Injectable plant was inspected by US FDA. But it is uncertain that when other plants would get audited.

Sameer Deshpande: Until they are audited, we cannot start any export etc., from those plants?

Pranav Amin: Yes, correct.

Sameer Deshpande: So, we have to see how early that can happen okay. For the other countries where our exports have grown very well in Europe etc., these plants are not of any use for exports there?

Pranav Amin: No, what we are talking about the audit and that is for the injectable plant and we are not sending any injectable products anywhere not even Europe nor US. So, first is we file for the US and then it will happen the rest of the commercialized plants which is API 1, 2, 3 and formulation F1 are approved by Europe as well as US, Canada everywhere.

Sameer Deshpande: Thank you very much. That is all from my end.

Moderator: Thank you. The next question is from the line of Aditya Khemka from InCred Asset Management. Please go ahead.

Aditya Khemka: Thank you for the opportunity. Hope you guys can hear me. A bit of specific question again I am sorry to bring this up again but the price

deflation in Sartans has this happened across the SKUs or is this a few couple of large SKU's that is our significant price differential?

Pranav Amin: There are two aspects, one is the ongoing regular routine business that you see on the Sartans and the second is over the last couple of years we had one-time buy opportunities that was across the pan of Sartans and various ones, that one-time buy opportunities of kind disappeared where we had a high price in short-term sales. As regards the other one where we do have share we are seeing erosion in pricing where some customers, some additional competition has come, so it is a combination of both.

Aditya Khemka: Right, so therefore fair to say that the price deflation has happened across SKUs, Candesartan and Olmesartan and Losartan everywhere?

Pranav Amin: Yes, absolutely.

Aditya Khemka: Sartans were obviously richly priced given the environment and the competitive landscape and that has normalized but the rest of the product basket in US that you have the pricing there has deflated for sure but has it deflated around the same levels of Sartans or has it deflated significantly lower?

Pranav Amin: No, by and large, what was commercially being supplied I do not think there is too much of a change in the pricing there. What has disappeared is that lot of the supply disruptions that we saw which give opportunities of short-term supply and one-time buys those have gone out. Of course, bulk of these were in the Sartans but there is handful of products where we saw as a combination to short-term opportunities have all gone from all the products because everyone is pretty much okay on supplies now.

Aditya Khemka: Thanks for that. Second question on China, so while we are a vertically integrated company, I am sure we are still buying some intermediate and basic chemicals from China. Could give us the sense of how the pricing environment of those raw materials? Are you seeing any inflation in cost of procuring such materials from China?

- Pranav Amin:** No, actually while we do buy from China, but last year when there was real constraint but still it did not impact us in anyway. There was a little bit of inflation last year when we were trying to get more volumes because we saw lot of supply opportunities but this year it is fairly stable. We are not seeing any changes. In fact, we are seeing more supplies over the last six months from China so pricing has been very stable if not there has been some reduction as well.
- R K Baheti:** For the India business, of course we are not impacted much but otherwise there is a general increase in retail prices for locally procured or Chinese imported stuff for India business. As far as we are concerned the only impactful item is Paracetamol and to some extent Azithromycin, all other prices are almost stable.
- Aditya Khemka:** Yes, that is because maybe because both these products are being used on COVID patients so there is abnormal demand situation there.
- R K Baheti:** The rest have really gone up but only marginally but otherwise the increase in prices has been more in vitamins and other products, we really do not have much of...
- Aditya Khemka:** Got it Baheti Sir. Thank you for that. One last question I have on the India business, so as you earlier remarked, your speciality business are obviously gaining share and you said that the MRs have learnt how to do business, the doctors have been vaccinated so in the current financial year FY2022 given that there is an outbreak, again there is a second wave but doctors are still attending and M's are still making their calls, would you expect volume growth in the acute segment this year?
- R K Baheti:** Too early to say but yes we expect the growth to come back in this year even in acute. Okay, one rider of course is it also depends on monsoon, acute particularly so, if we have a good monsoon and it is being predicted initially, I think we should have a good health.
- Aditya Khemka:** Thanks so much, gentlemen. All the best.

- Moderator:** Thank you. The next question is from the line of Viren Dalal from Monarch Network Capital. Please go ahead.
- Vineet Gala:** It is Vineet Gala from Monarch Network Capital. Sir, thanks for taking my question. Sir, launches that we are considering for the US business that is around 10 to 15, so are we considering any injectable launches here out of the plant which is currently under remediation?
- Pranav Amin:** No, we have taken only that non-injectable launches, which should be OSD, Derm and Ophthalmic.
- Vineet Gala:** Sir but given the fact that if we are expecting by H2 this injectable facility should be available for service. So, there would be a bunching up of a lot of these filings, right?
- Pranav Amin:** Not as much. We only I think we filed about 4-5 products, I believe from this 7 products so it would not be as much bunching, but it will happen gradually. So, that is why I have not given that numbers.
- Vineet Gala:** Correct, and Sir how many products have we filed through our CMO partner?
- Pranav Amin:** I do not have those details with me, but pretty much all the Ophthalmic what we have launched so far in the market that is with CMO.
- Vineet Gala:** Last question, I just wanted a clarification. In the EPS guidance that you gave two quarters back, I just wanted to clarify that you have taken any upside from this Rhizen profit contribution that can happen because of these "Umbralisib", milestone based payments or any kind of out licensing. So, have we taken that for FY2022-2023?
- R K Baheti:** To give a number to that is difficult. It is not coming in, which is marketed by us. It is out licensed to independent company.
- Vineet Dalal:** That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Harith Ahamed from Spark Capital Advisors. Please go ahead.

Harith Ahamed: Good evening. Thanks for taking my questions. For Umbrisib there were approvals for a couple of executions from the US FDA during the quarter was there any milestone income for Rhizen on account of those approvals? Is that reflecting in the P&L for us as a share of profits from associates?

Mitanshu Shah: Yes. We did get milestone income but there are spends as well at the Rhizen level and all of that is kind of blended, put into share of profits on joint ventures which you can see in the our published result.

Harith Ahamed: Second one is on our receivable base, as of March 2021, it is declined sharply versus September or March of last year so, anything particular to call out there on the receivables front?

Mitanshu Shah: Yes, last year we did discuss this. We saw kind of US, there was like partial or complete lockdown in certain cases in US and that is why there was embargo and we did not get our receivables, so there were abnormal high receivables in March 2020. This was all got connected in first quarter and these are more sort of the receivables which you see, I mean we had around 50 odd days at this point in time so which is the number.

Harith Ahamed: There is a decline from September levels also, that is why my question. Anyway I will take it offline.

Mitanshu Shah: Yes, of course if you see the collection has been quite normal in a sense, API, branded business all of them are back to normal and that is why these are the kind of debtor days that we see now.

Harith Ahamed: The last one from my side. You have given a guidance of Rs.50 EPS for FY2022, you had also guided for Rs.450 Crores of incremental cost from the premium facilities. Now, it appears that we would not be incurring the entire Rs.450 Crores this year given that there will be inspections and approvals for those facilities. So, will there be an upgrade to your EPS guidance because we are not having the full year impact of the costs?

R K Baheti: To that extent the launches and the traction US business also gets delayed, as of now we stand by this number and as we progress during the year we keep reviewing and discussing with you...

Harith Ahamed: Thanks. That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Tarang Agarwal from Old Bridge Capital. Please go ahead.

Tarang Agarwal: Three questions from my end. What proportion of our external API sales are exported and some sense on how much of your overall API volumes are captive and how much are external?

R K Baheti: Like 95% of our sales are export sales as far as API is concerned and the total sales, if we put the total volume close to 35% is for captive and rest is for the external sales.

Tarang Agarwal: Mr. Amin you have been significantly investing in R&D right from FY2016, just wanted to get some qualitative sense on how do you measure the efficiency of the R&D in Dollar that we have spent and also if you could give some matrix that maybe you can track internally to judge its efficiency?

Pranav Amin: Yes, it is a tough one and because it is a combination of various factors, one is R&D itself where you go, how long it is to scale up, at what phase you get stuck, so it is very tough to do it but what we do is before we select a product we do IRR NPV per product to see where it goes and how it gets to the market. So, we still do that we have internal hurdle rate with the products each segment we analyse what timeframe it will take and that is how we do it and we keep evaluating, we keep dropping products also on a routine basis, if we see the product is getting delayed or if we see that there is more competition entrenched so that some of the things how we have evaluate it.

Tarang Agarwal: The last one, when will we see the commercialization if you have to see that, I mean what procedural requirement are we looking for that will

enable commissioning and out of the Rs.1945 Crores how much is actually preoperative expenses?

Mitanshu Shah: Out of this Rs.770 Crores are preoperative expenses and for your first question the only challenge is US FDA giving you approval for the plant. That is it.

Tarang Agarwal: So, basically we are waiting for the audit and once we get an approval we can commission and we move for the process?

Mitanshu Shah: The audit has actually happened, so we are waiting their approvals.

Tarang Agarwal: Got it. Thanks all the best.

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

Bharat Celly: This is Bharat Celly. So just wanted to clarify on the preoperative sense it is Rs.450 Crores, if I understand right, which is now sitting in the P&L here?

R.K. Baheti: I did not get your question.

Bharat Celly: Just wanted to understand on the expense side how much expense is not getting expensed, already it is getting capitalized on this, related to the newer facilities?

Mitanshu Shah: Yes, that is what I said for the year it was around Rs.250 Crores odd cumulatively it is Rs.770 Crores.

Bharat Celly: Rs.250 Crores, earlier we used to guide for almost like Rs.400 Crores-Rs.450 Crores, so what is the difference between Rs.250 Crores and this Rs.450 Crores?

Mitanshu Shah: No, that was the last year cumulative number and this Rs.770 Crores is current, so Rs.450 Crores I am not able to recall with what you are talking about. We take it offline.

Bharat Celly: But this Rs.250 Crores is pre-EBITDA, right? This is before deducting all these depreciation and all right and this does not include depreciation?

Mitanshu Shah: Pre-operative is a balance sheet item.

R.K. Baheti: This does not include depreciation you are right.

Bharat Celly: It does not include, right. Sure, that is it. Thank you.

Moderator: Thank you. The next question is from the line of Kunal Randeria from Edelweiss. Please go ahead.

Kunal Randeria: Good evening. I hope everyone is safe and healthy. Through the course of FY2021 while you have given a detailed explanation on how the Sartan market has played out I believe there was also some incremental competition from some of the lucrative products like Famotidine or Febuxostat, so have these products dropped out or you see some downside to these products in the coming year?

Pranav Amin: As I said when someone else asked me earlier, I had said that by and large, most of the erosion that we have seen is in Sartans and I also said that during the course of the year we had lot of supply shortages and short-term opportunities on some other products, so one of them was Famotidine so in that supplies has kind of also sorted outside and what we are seeing is not erosion per se in the pricing but what we are seeing is this less short-term opportunities available in these products. So, that is how I see the products are moving forward.

Kunal Randeria: Right Sir, second there is a clarification whether you have launched Famotidine, and could this be a meaningful opportunity going forward?

Pranav Amin: You are taking of Famotidine?

Kunal Randeria: melatonin(?)

Pranav Amin: we have not launched it yet.

Kunal Randeria: And this could be major opportunity for you?

- Pranav Amin:** I do not think it is a very big opportunity per se.
- Kunal Randeria:** One last question if I can it is slightly longer-term question, so once your new plants are operational and then you will have six formulation plants, how should we look at your annual filling rates, so today it is around 25 to 30 annually for the past four, five years, so should this double going forward or how should we just think about it?
- Pranav Amin:** What will happen is the ANDA filing rate will remain similar. I do not expect it to go over this 25-30 kind of a level. We are currently in this range. It is also included some of the Aleor products which are the Derm, some Injectables, some Ophthalmic already. So, we have already taken that into account so, I do not think this number of fillings will go up even with the new facilities because the fillings are already taking place as we speak.
- R.K. Baheti:** So, actually it has already gone up in the last two years, this is 25 plus, earlier it used to be 20 or lower.
- Kunal Randeria:** Sir I understand that but my question was since you will have two injectable plants coming on stream?
- R.K. Baheti:** In absolute number, we will have only a marginal rise. It could go up significantly from our current base and so is the number of products filed.
- Kunal Randeria:** Then would it fair to assume your oral solid filings would be coming down and injectables could be going up going forward?
- R.K. Baheti:** yes.
- Kunal Randeria:** Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Arpit Kapoor from IDFC. Please go ahead.
- Arpit Kapoor:** Thanks for taking my question. Most of my questions have been answered. Just one bit on injectable facility, we do not expect the

reinspection, so whatever assessment or whatever plan we submit, the FDA should approve it and ideally we would not expect them to come again and re-inspect?

Pranav Amin: Yes, as I said I do not expect FDA to come out for a physical inspection for anyone unless they deem it mission critical, I think since last couple of months the situation is even worse so there is no chance of anyone coming for an inspection in my opinion. But I believe with this our inspection it is now going to be online correspondence. They have come in physically seen and they have given observation, we have replied so it is a back and forth that we are having with them right now.

Arpit Kapoor: Last one is on the capex FY2022 where we are guiding somewhere close to Rs.500 to Rs.600 Crores odd. So, this will predominantly be for the API plus the non-US exports?

Pranav Amin: The capex part of it will be API and part of it will be as Mr. Baheti mentioned the maintenance capex of all the other facilities.

Arpit Kapoor: You mean going forward we will have close to Rs.300 Crores to Rs.400 Crores odd of maintenance capex?

Pranav Amin: Yes, absolutely.

Arpit Kapoor: I am good. Thanks.

R.K. Baheti: Actually we have run out of time. There are few questions in queue, but may I request them to take it offline with me or Mitanshu. We have completely run out of time.

Moderator: I would now like to hand the conference over to Mr. R.K. Baheti Director Finance and CFO, for closing comments.

R K Baheti: Thank you everyone for being with us. It is pleasure always talking to you guys. Take care and stay safe. Anybody whose questions have not been responded as there are some I think repeat question in the queue also can get in touch with us directly offline, we will be happy to respond. Thank you everyone.



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