



“Alembic Pharmaceutical  
Conference Call”

October 19, 2012



**ANALYST: MS. PERIN ALI**

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



Alembic Pharmaceutical  
October 19, 2012

**Moderator:** Ladies and gentlemen, good day and welcome to the Q2 FY'13 Earnings Conference Call of Alembic Pharma hosted by Edelweiss Securities Ltd. As a reminder, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing "\*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Perin Ali from Edelweiss Securities. Thank you and over to you madam.

**Perin Ali:** Hello everyone, good evening. We at Edelweiss, welcome you all to the briefing of Q2 FY'13 results of Alembic Pharmaceuticals. On behalf of all participants and Edelweiss we welcome Alembic management team. Today we have Mr. Pranav Amin, Director and President International Business, Mr. R.K. Baheti, Director and President Finance. I would like to hand the conference to Mr. Baheti to discuss the results and outlook, over to you sir.

**R.K. Baheti:** Thanks Perin and good afternoon and welcome to everybody. Thank you for joining our post results teleconference for the second quarter 2012-13. This is Raj Kumar Baheti. I have Mr. Pranav Amin with me on this call. Most of you would have received our financial results along with the ~~industrial-investor~~ update. However, quickly let me briefly take you through the operations for the quarter.

During the quarter the total revenues grew by 2%, almost flat at 407 Crores. India formulation business grew better by 12% at 254 Crores and total international business ~~hosted-posted~~ revenues of 118 Crores. Cumulative ANDA filings stand as of now at around 49; 21 are approved. ~~You will be very happy to know, when Pranav will be discussing more.~~ In last fortnight we have received ~~about~~ three approvals. Cumulative DMFs are 65. The profit before tax grew by 18% to 53 Crores during the quarter and the net profit after tax grew by 12% to 42.49 Crores. For the current quarter the EPS is 2.25 per share, ~~share~~ par value of Rs.2 each as against 2.02 in the previous corresponding quarter. I will hand over to Pranav who will give a brief ~~of some of the~~ on the operational performance during the quarter.

**Pranav Amin:** Good afternoon everyone. Let me start with the research and development expenses. Our research and development expenses was 16 Crores for the quarter which is about 4% ~~.Asas~~ Mr. Baheti mentioned, we filed one ANDA application and 3 DMFs. We also received 3 approvals, ANDA approvals last week. So that should reflect in next quarter's update. As regards domestic business we are in decent growth. What is more encouraging is we grew about 20% in the specialty segment, which is what we have been focusing for the future. As regards the international ~~we are still, in Q4~~ we should see a plan the new plant coming on



Alembic Pharmaceutical  
October 19, 2012

stream in Q4 and after that we should see a ramp up in the international generic sales. Let me open this floor to the Q&A session, if you have any questions we can start answering them.

**Moderator:** Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from Jigar Shah from Kim Eng Securities. Please go ahead.

**Jigar Shah:** Good evening Pranav, good evening Mr. Baheti. My question to you is that, when is the new plant coming on stream and what kind of contribution in terms of revenue you see forward in the fourth quarter.

**Pranav Amin:** I think, Jigar, ~~what will happen is, sometime~~, in the middle of Q4 we should see this coming up. Once that happens gradually you see an increase in the international generic sales and once that happens, ~~once we have~~ (indiscernible) 4.48 it should be more than 20% quarter-on-quarter.

**Jigar Shah:** Do you think this plant is slightly delayed in what you thought earlier, any specific reasons for that?

**Pranav Amin:** No, ~~initially~~ we always expected it to be Q4. So, we are still holding it at Q4 and I am pretty confident we should be up and running at that point.

**R.K. Baheti:** There are different phases Jigar, as you would know in Pharma, the plant mechanically will get completed in this quarter itself; however, post completion there would be lot of validation etc., to be carried out before it can be opened for commercial production.

**Jigar Shah:** The other question which I was getting to is that, we have seen quite steep decline in the exports business in the second quarter and considering that you will have the plant also only by the fourth quarter, do you think that 10% kind of top line growth overall for the year is possible?

**R.K. Baheti:** For the international generic business?

**Jigar Shah:** No, for the overall top line of the company, do you see a 10% growth considering that this plant is also going to come in the end of the year?

**R.K. Baheti:** Yes, I think 10% is an achievable number. I think we already have 6-7% growth in the first half H1. Why I am saying this, international generic is still only about 25-30% of the business. The rest of the business if it grows by ~~12-~~13-14%, 10% is feasible. One more

important factor is Jigar, when you see the growth from the corresponding period like what we mentioned last time, the first two quarters of last year, ~~we had that, I would not say non-vacuum, but~~ we had a unusually high sales of a product, ~~high sales, at~~ high price ~~where I think prices have also tampered-up down~~. That effect will get diluted from Q3 onwards. So we may not grow at an absolute number to a large extent in the international generic business, but de-growth will look much smaller. You will not see de-growth now.

**Jigar Shah:** Just one last thing is that, you deserve compliment for reducing the cost of interest and despite the flat sales, you achieved the growth in the earnings, so that is quite good. Can you give some more ideas in terms of whether this is achieved through efficiencies in working capital or it is your cost of interest, overall came down. So can you give some more idea on that?

**R.K. Baheti:** Surely because this time, ~~I think we have~~ given the balance sheet extract ~~is there, I do not know, it is still a short time~~. We have improved on our working capital cycle, our numbers of debtor days are down, inventory days are down, but that is only one factor. We have also reduced our borrowings in absolute terms, ~~like we have been discussing, in last quarter also we discussed~~, that we have repaid almost Rs.50-60 Crores during this half year and that has also reduced the interest cost. So, it is both; reduction of working capital also the surpluses which ~~we have used~~, which we have earned we have used to repay the borrowings; however, I must quickly add that in Q3 and Q4 there will be some increase in capex because only a part of the capex has gone into the first two quarters. So, a large portion of actual payments, ~~while there have been larger commitments, actual payments~~ will happen in Q3 and Q4. So, there will be a slight increase in borrowings, ~~not incremental borrowing but how the CC works~~.

**Jigar Shah:** Thank you very much and wish you all the best.

**Moderator:** Thank you. The next question is from H.R. Gala from Quest, please go ahead.

**H.R. Gala:** Hello Mr. Amin and Mr. Baheti, congratulations for good set of numbers. Sir, just one question which arises is that we are losing out on the international generic sales because our own capacities are not ready. Would it not have been possible to outsource from some acceptable sources and still meet the market requirement?

**Pranav Amin:** It is a very good question actually and we have thought about it. What happens is, in a regulated market to do a switch to another facility, the time it would have taken against the regulatory approvals would have probably been as long, if not longer than this. So we have ~~not~~ evaluated for multiple markets, not just US, but for Europe and lots of other places as



Alembic Pharmaceutical  
October 19, 2012

well ~~and this was something we tried we can do it something right away may be some packaging operations, even little bit de bottlenecking here and there~~ but because of the regulatory constraints it was not making sense.

**H.R. Gala:** My second question is what will be your outlook on the EBITDA margin, which has been pretty good we have been able to sustain at around 15% excluding other income. So do you see any scope for increment say from Q4 onwards when our international generic sales will pick up?

**R.K. Baheti:** Not really because I do not think second quarter is a comparable quarter because generally second quarter is the best quarter for us and ~~largely~~ because of the domestic market impact. So second quarter of course was about 15.9% ~~but we are confident~~. Actually we will be happy if we can maintain 15% EBITDA for the year and then we will try to improve it by, as I said, 100-150 basis points over next one and half – two years.

**H.R. Gala:** That is great. How much will be the capital expenditure in this year?

**R.K. Baheti:** This year capital expenditure including the new facility or the expansion which Pranav was talking about should be about 140 Crores.

**H.R. Gala:** And how much are we so far done in H1?

**R.K. Baheti:** We have done about 70 Crores, slightly less than 70 Crores, about 60 odd Crores.

**H.R. Gala:** Last question from my side, lots of things are being read in the paper about this new pricing policy and all that and of course it has not taken the final shape but if you know the things as they stand out if it is implemented by the government, how do you think Alembic will be impacted, because we have a large presence in the antibiotics and all that.

**Pranav Amin:** There are two aspects of this; one would be yes, of course we would be impacted because we have a couple of very big brands ~~(inaudible) 12:00~~ that would get ~~reversed-impacted~~ out but yes due to the impact in some, what will happen is this will get offset by some other brands where there would be a possibility of price increase as well. So, I think we are just trying to work out the modalities once we have the ~~exact~~ final ~~rolling~~ decision on that.

**R.K. Baheti:** So, the fact remains, you are right, that there will be an adverse impact. However, it is not the impact which is killing the industry. It is the delay in the whole decision making ~~office process~~ which is hurting us more because you do not know when there will be finality to it.



Alembic Pharmaceutical  
October 19, 2012

- H.R. Gala:** Exactly, you cannot work out on strategy as to how you want to structure your new launches and things like that?
- R.K. Baheti:** In fact in between also, there was newspaper reports that Supreme Court is insisting on cost based price, which I do not think was a right interpretation of Supreme Courts', limited order and then again there has been some discussions in the ministry itself, so I would rather not comment till there is a finality on the decision.
- H.R. Gala:** I understand that, okay thank you very much and wish you all the best.
- Moderator:** Thank you. The next question is from K C Suri from Span Capital. Please go ahead.
- K C Suri:** Good afternoon Mr. Amin and Mr. Baheti. Thanks for this opportunity. Just in continuation of Mr. Gala's question about this new pricing policy, I mean correct us if we are wrong, but from what we understood that the Supreme Court wanted us to follow the existing cost based pricing for the enhanced list of 348 drugs, right?
- R.K. Baheti:** That is what was reported in paper, but my understanding is that, that is not the intention of the Supreme Court. The intention was actually to get to clarity from the government of the rational for change in the mechanism. So Supreme Court wanted to understand whether it is only a pricing modality which is getting finalized or if it is the whole policy which is getting redrafted and I think the government is very clear on that and the whole policy they are revamping.
- K C Suri:** As a policy stand as per date what is the likely impact as per the internal assessment. Of course final outcome would be a different thing, but how does it look as things stand now?
- R.K. Baheti:** ~~Policy as itself today, is what is applicable today.~~ No, there is no clarity that is what I am saying Mr. Suri, ~~that what do I assume and as it stands today.~~
- K C Suri:** When is it likely the next time line we should look for, when would be that?
- R.K. Baheti:** If I remember ~~currently correctly~~, the Supreme Court has given some date in third week of November. We hope that before that the government will file its final affidavit.
- K C Suri:** Now coming back to the company, you said that you prepaid a debt of 50 - 60 Crores, if my memory serves me right, we were 350 at the end of the year and the 325 at the end of last quarter and we were targeting 300. We have already that 300 kind of thing right?



Alembic Pharmaceutical  
October 19, 2012

- R.K. Baheti:** Correct. As I said, as I was talking to Jigar that the same ~~phase-pace~~ of repayment may not continue because in next two quarters, I will be making a lot of disbursement for my capex, which is coming up.
- K C Suri:** When coming to the capex we were talking about 100 Crore Capex, now you spoke about 140, has there been some increase somewhere?
- R.K. Baheti:** I said and that is why I repeated, I think 40 - 50 Crores of capex is always maintenance capex every year and this 100 Crores is exclusively dedicated for the new facility, so I said including the new facility the total capex will be 140. I hope I am clear, there is no overrun, actually we may save couple of Crores.
- K C Suri:** In last quarter we were a bit, it was too early to comment as to the recouping of as the growth of acute segment, how do things and now with the extended monsoon and the climatic variation, how has business been in the acute segment?
- R.K. Baheti:** As Pranav said, I think the heartening thing for us is our growth in specialty segment where ~~I think~~ overall we have grown 20% and in some of them like for instance Gastro we have grown 28% ~~vs~~, Industry's ~~sies~~ 13%, Cardio we have grown 24% ~~vs~~, participated market 15, Ophthal we have ~~around~~ 16 versus the industry of 11 and Anti-diabetic we are 29 again 24, so I think some of these newer segments where we have entered, of course our base is smaller, but the competition is also tougher. We are doing much better than the industry or the participated market. Anti-infective, yes you are right we continue to grow ~~slower~~ than the industry; our growth rate has been 4% against 8% of the market. Similarly, cough and cold has also been around 4% against 6% of the market. The de-growth is, I am not taking a defensive position, but one of the thing is you cannot do too many new things, ~~focusing the new products~~, new products introduction we are focusing on, specialty segments, so the pace of introduction of newer products in the traditional segments slows down and you are aware Pharma is growing only on new products, volume growth is 4%-5%, ~~your~~ price increase is 1%-2%, so the bulk of ~~5, 6, 7%~~ ~~6-7%~~ which the industry grows, grows out of new products and so have we grown, in new products in specialty segment, so that is an area which needs further attention and consolidation, anti-infective as I said.
- K C Suri:** The recent fire incident which was there; was there any impact in losses on that account, how is that?
- R.K. Baheti:** Yes, the losses have been accounted for in the results.
- K C Suri:** Roughly how much were they?



Alembic Pharmaceutical  
October 19, 2012

- R.K. Baheti:** It was not much, because at book value there would be about 2.5 to 3 Crores.
- K C Suri:** So that is flow through the losses here?
- R.K. Baheti:** But I would like to assure you and all the other participants in the call that we are fully insured as and when the insurance claim is settled these losses will be reversed.
- K C Suri:** The profit would have been higher by 3 Crores, are you trying to say that?
- R.K. Baheti:** That is right.
- K C Suri:** Okay fine thank you so much and all the best.
- Moderator:** Thank you. The next question is from Sangam Iyer from Subhkam Ventures. Please go ahead.
- Sangam Iyer:** Sir, I joined the call a bit late, could you give us some idea regarding the growth prospects on the various segments like your formulation domestic and export and also your API?
- R.K. Baheti:** Sure, there is sales summary, which is also attached with the results, I do not know whether you got time to go through it, but quickly I will tell you domestic formulation we grew about 12%.
- Sangam Iyer:** I went through that, I wanted to get your outlook, what do you see for the next half and the coming year?
- R.K. Baheti:** Ok, next half would see similar trend, but I think we are looking at 2013 - 2014 ~~what do I say~~ with greater confidence largely on back of our business development activities in international generic business, which we believe should grow by 25% to 30% next year against the current year and ~~domestic~~ will continue to aim for 13% to 15% growth ~~in~~ domestic formulation.
- Sangam Iyer:** International generate if I just take one segment at a time, we said that the new plant would come in and that would result in the 20% growth?
- R.K. Baheti:** That is for the fourth quarter, for the whole year 2013 to 2014 we expect the growth to be higher than 20%, so it can be in the range of 25 to 30.
- Sangam Iyer:** Okay because earlier calls and interaction we have indicated that we are looking at around 270 to 280 odd Crores as the new revenue from the international generic segment in FY'13?



Alembic Pharmaceutical  
October 19, 2012

- R.K. Baheti:** In FY'13 will not grow; I think we have been saying that we will be almost flat, what I just mentioned to an earlier participant, was that we may not de-grow for the whole year.
- Sangam Iyer:** Last year we did at around 280 odd Crores of revenue for the international generic?
- R.K. Baheti:** ~~We did about 245 to 250 Crores.~~ We did 241.80 last year.
- Sangam Iyer:** So you look similar number this year in international generics?
- R.K. Baheti:** That is the target, I mean there is a stretch, but I think we will try to reach that number.
- Sangam Iyer:** What about the domestic formulation segment could you throw some light in terms of how do we see the growth in the domestic formulation segment?
- R.K. Baheti:** We will continue to aim for 13% - 15% growth in the domestic formulation and as of now I am not factoring any changes because of this pricing policy.
- Sangam Iyer:** Sir, in terms of the breakup on a therapy basis, can you give us the contribution to your domestic formulation on the various therapies?
- R.K. Baheti:** Yes, I think it is there on my investor presentation.
- Sangam Iyer:** Actually, I did not get, that is why.
- R.K. Baheti:** Not a problem, either I can have it sent to you if you can give me your mail ID ~~or I will just quickly..~~
- Sangam Iyer:** Okay, then I will send and I will get it offline for the benefit of others also. Finally sir, on the export formulation, how do we see that segment going forward both for regulatory and branded?
- Pranav Amin:** For regulatory what is happening in the international generic as we mentioned from Q4 onwards you see it is growing quite significantly. As regard to the branded formulation in the last call or the call before, I mentioned that where, we are bringing our portfolio for the international branded and trying to focus on some areas, so that should take a couple of quarters, till we get that branding right in the new products and after which we could see some rise and growth over there.



Alembic Pharmaceutical  
October 19, 2012

**Sangam Iyer:** So would it be fair to assume a flattish kind of number at least in the second half as well and then once the restructuring is over in FY'14 is where we should be seeing some growth coming through?

**R.K. Baheti:** For the current year we would see flat or maybe slight de-growth because the newer product registration and rejig of sales force will take its time to settle down, such a small business, so it does not, that way it impacts in big way.

**Sangam Iyer:** Finally if we look at it in the second half considering that the peak strongest quarter is behind us and our costs remaining almost similar how do we see the margin profile maintained at around 15% levels, would not they pressure on the margins also coming through?

**R.K. Baheti:** There is some pressure on the margin, see there are two ways to look at it as compared to the previous corresponding quarters, and we hope that will continue see growth as compared to the second quarter my margins will take a small beating.

**Sangam Iyer:** My final question, from my end; in terms of the interest outflow can we look at this quarter run rate as a run rate going forward or because there would be some incremental outflows in terms of capex payments etc?

**R.K. Baheti:** As I said earlier, there will be more cash outflow during the next six months and there will be a bit of increase in interest cost.

**Sangam Iyer:** Can we look at the Q1 run rate as a run rate?

**R.K. Baheti:** I think that will be more appropriate.

**Sangam Iyer:** Thanks a lot sir and all the best.

**Moderator:** Thank you. The next question is from T Srihari from PCS Securities. Please go ahead.

**T Srihari:** Good afternoon Sir. Congratulations for a good set of numbers under the circumstances. My first question pertains to Forex, could you please throw some light on that and what is the impact on the forex front, and secondly on the generics front how is Rivastigmine Tartrate fared and what is your outlook for irbesartan plus HCT?

**R.K. Baheti:** Thanks for your compliments. First question first, ~~forex~~-this quarter in forex, there has been some gain which has reversed some of the losses of the previous quarter and on half yearly



Alembic Pharmaceutical  
October 19, 2012

basis we are almost neutral. To be specific this quarter there was a gain of about 3 odd Crores in P&L and Pranav would respond to the second question.

**Pranav Amin:** Actually we have got three approvals not just two, so the three are Irbesartan, hydrochlorothiazide and modafinil. In terms of Irbesartan the market size, the innovator size, it was about 400 million for the irbe pure and 100 odd million for the irbe combination. I think there are about 7 to 10 people who are getting approvals, so I think in the next three months or so we should get a little more clarity on what is focused in terms of sales. The last segment has been a smooth launch so far by a partner, so that is moving now as well.

**T Srihari:** I think that is the bigger potential around 250 million dollars?

**Pranav Amin:** Irbesartan pure is a bigger one that was ~~about the~~ innovator ~~large scale sale~~ was about 450 million and the Irbesartan with hydrochlorothiazide was about 177 million.

**T Srihari:** I get that rough sided numbers. There was a mention (**indiscernible**) 26.50 F to F, could you throw some light on that?

**Pranav Amin:** We do have (**indiscernible**) 26.57 first to file status with a shared exclusivity and I think that case is going on with the innovator, but there is about 10 other people who have filed this product.

**T Srihari:** What is the kind of timeline for this?

**Pranav Amin:** I think it is a 30-month stay because it is FTF filing, so it will take at least two and half years.

**T Srihari:** Thank you. That is all from my side.

**Moderator:** Thank you. The next question is from Girish Bakhru from HSBC. Please go ahead.

**Girish Bakhru:** Thanks. Just continuing on the US side, how many partners do you have in US?

**Pranav Amin:** In US we have about 4 to 5 different partners that we are working with.

**Girish Bakhru:** The recent launches that you just commented Irbesartan and Rivastigmine they are not impacted by the capacity constraint?



Alembic Pharmaceutical  
October 19, 2012

- Pranav Amin:** In terms of Irbesartan, we have got the product ready for shipping, so that should be out ~~some time.~~
- Girish Bakhru:** Any development on the licensing deal that you had with this company called Accu-Break ?
- Pranav Amin:** There is no development so far. The product is in the development stage per se and we are in the process of upgrading the machinery to manufacture it, so it will take us a good about 6, 7, 9 months for the development to get done and then we should do our first filing.
- Girish Bakhru:** So these are all very differentiated filing with this technology in place?
- Pranav Amin:** These are new filings that we will have to do.
- Girish Bakhru:** How many ANDAs are we targeting to file in US this year?
- Pranav Amin:** This year our target was about 10 and I think we should close at about 8 to 10 depending on the last quarter.
- Girish Bakhru:** In terms of the products also I just wanted to know how many products are commercialized currently in the US markets?
- Pranav Amin:** Out of the 20 approvals that we have got, 14 are commercialized and so two approvals in Irbesartan that takes us to 16, modafinil is 17 and then we should get may be about 3 to 4 other approvals in the next two quarters as well.
- Girish Bakhru:** Modafinil is not launched yet right?
- Pranav Amin:** We just got the approval today morning actually.
- Girish Bakhru:** Okay, so the launch will be imminent in this product?
- Pranav Amin:** It will be quite soon.
- Girish Bakhru:** The R&D outlook per se will be similar like 4% to the sales, it will not change much?
- Pranav Amin:** R&D focus should be similar about 4% of sales.
- Girish Bakhru:** Just on the India side, I know you have commented that pricing policy per se is not very clear, but just on the bigger brands like Azithral, Roxid, if you could comment on whether you are at the higher price in terms of the brand?



Alembic Pharmaceutical  
October 19, 2012

**R.K. Baheti:** We are at higher price than the weighted average of whatever 1% market share or 5% market share.

**Girish Bakhru:** How much would that be like percentage wise?

**R.K. Baheti:** We would be about 30% higher.

**Girish Bakhru:** On most of these brands?

**R.K. Baheti:** I talked of only that Azithral, ~~which Roxid~~ is not figuring in that list of 348.

**Girish Bakhru:** Okay say of the top 10 products which form 30% to 40% of the sale, how many products would be there?

**R.K. Baheti:** Other than azithromycin nothing else out of top 10, ~~because azithromycin which is Azithral is already a (indiscernible) 30.36 product.~~

**Girish Bakhru:** Any additional is only Azithral right?

**R.K. Baheti:** No, that is the only additional amongst that bigger brands, we have lot of 8 to 10 Crores brands which gets added.

**Girish Bakhru:** The sales force has there been any change in terms of number?

**R.K. Baheti:** Largely stable about 2800 MRs in about 3600 total marketing.

**Girish Bakhru:** Just lastly this among the branded exports which are the bigger branded markets outside India that we are in?

**R.K. Baheti:** Largely ~~France~~, CIS within also ~~France-CIS~~ also Ukraine, Russia, Vietnam and then most of small, small Asia Pacific countries.

**Girish Bakhru:** How much will be the sales force there?

**R.K. Baheti:** We would not have direct sales force. We have, but mostly the sales forces are appointed by the distributor, who work under our guidance and supervision but he is paid by them and it is part of their commission structure. You will see that as sales force ~~then we~~ THEY would be about 45 to 50 across these territories.

**Girish Bakhru:** Thank you so much.



Alembic Pharmaceutical  
October 19, 2012

- Moderator:** Thank you. The next question is from Rahul Sharma from Karvy Stock Broking. Please go ahead.
- Rahul Sharma:** We had the savings QoQ on your raw material front, any particular reason for the same Sir, has it been on account of?
- R.K. Baheti:** Product mix ~~you are looking at percentage it is largely product mix~~. As I say in September quarter ~~Rahul~~ we would have larger domestic formulation sales ~~and that product mix itself gotten some deep in the MTL cost~~. There is not otherwise significant cost reduction.
- Rahul Sharma:** No effect of the exchange rate or anything?
- R.K. Baheti:** Actually exchange rate effect, if at all would be slightly on the negative side, because the exchange rate benefit I get on my finished product exports and on my materials particularly materials which are imported from ~~(indiscernible) 32.48 etc.~~ I have to pay slightly higher rate.
- Rahul Sharma:** On QoQ there will be an increase in the staff cost, is there any addition or bonus pay out or anything which is coming?
- R.K. Baheti:** There is some component of performance pay, which is being distributed in between July and September.
- Rahul Sharma:** That is the first quarter runrate is a good number to go by?
- R.K. Baheti:** I would say average of first and second quarter would be a good runrate to go by.
- Rahul Sharma:** What is the R&D spend that we have done for the half year?
- R.K. Baheti:** This is about 16 Crores that is for the quarter. Half year is about 30 Crores.
- Rahul Sharma:** We will be looking at close to 60 Crores R&D in the current year?
- R.K. Baheti:** It should be close to, actually my budget is 70. I am running slightly behind the schedule on this. I am just saving on budget does not excite me. I would like my people to run hard and meet the budget of filings.
- Rahul Sharma:** Thank you. I will join the queue.



Alembic Pharmaceutical  
October 19, 2012

**Moderator:** Thank you. The next question is from Saravanan Vishwanathan from Unifi Capital. Please go ahead.

**Saravanan V:** Good evening Sir. Most of my questions have been answered. I just have a one book keeping question, in the balance sheet how much of debt, in the debt side how much is due from Alembic Limited?

**R.K. Baheti:** That is not on the debt side. They are from the advances side.

**Saravanan V:** Advances side, but back to back we will be showing it in our borrowings also ~~right?~~

**R.K. Baheti:** You can put it this in anyway. I will respond to your question without getting into the connection on a corollary. This is about 40 Crores.

**Saravanan V:** It is reduced, it used to be higher number right?

**R.K. Baheti:** It used to be a high number, it is reduced.

**Saravanan V:** Thanks a lot Sir.

**Moderator:** Thank you. The next question is from Sunil Rao from Sushil Finance. Please go ahead.

**Sunil Rao:** Thank you all my questions have been answered.

**Moderator:** Thank you. The next question is from Sangam Iyer from Subhkam Ventures. Please go ahead.

**Khushbu Patwari:** One question, you said that you had some international business, you have capacity constraints, but if you have capacity constraints same amount of sales has been going around, so why are we seeing a sales dip there, is there price erosion or something on the fact just causing it?

**Pranav Amin:** Actually the last two to three quarters you have been talking about it, one of the reasons is yes there is a price erosion in some markets had higher margins last year, which was in the generic business is happened you get of couple of quarters where you see some high opportunities and we have this last year, so that is the primary reason for the dip in sales.

**Khushbu Patwari:** Okay that is we would say that the price erosion factor is a problem, anything else contract wise, is there a problem in the contract that we are getting?



Alembic Pharmaceutical  
October 19, 2012

- Pranav Amin:** Again, the capacity constraints, so in terms of pure volumes that we are putting out on the capacity utilization of the plan there is no issue, so nothing wrong with the contracts as well and it is just a matter of product mix and price erosion.
- R.K. Baheti:** Today my marketing ~~they have~~ team has a backlog of order which we have not been able to service. It is not that we are losing customers, we have customers, we have orders and we are likely to start servicing them from fourth quarter onwards.
- Khushbu Patwari:** Sir one more thing on the margin front, we had a better margin this time, but what do you think going ahead, but this time export API was there and the mix was a bit different, how do you see it going forward?
- R.K. Baheti:** As I said as I mentioned in my earlier interaction, we hope to maintain margin at around 15% for the current year.
- Khushbu Patwari:** Thank you Sir.
- Moderator:** Thank you. The next question is from HR Gala from Quest. Please go ahead.
- HR Gala:** Just wanted to know how much is the total debt as on September 30, 2012, because there will be something hidden under this what you call other current liabilities?
- R.K. Baheti:** It is slightly lower than 300 now it is classified under three categories.
- HR Gala:** Exactly and by end of the year, how much you expect that to be?
- R.K. Baheti:** We expect it to be around 300 Crores.
- HR Gala:** It will remain at the same level?
- R.K. Baheti:** I mentioned in my previous answer to the question, in the next six months I would pay out almost 60 to 65 Crores of capex commitments.
- HR Gala:** That is fine, what I was expecting that your debt will go up beyond 300 Crores?
- R.K. Baheti:** It would not go up, "~~Mere ko chey mahine mein paise kamana nahi chahiye na boss~~".
- HR Gala:** That is great. What is the average cost of the debt?



Alembic Pharmaceutical  
October 19, 2012

**R.K. Baheti:** What I mentioned Mr. Gala is debt will not come down the same way it has come down in the last two quarters.

**HR Gala:** I appreciate that Sir. The only thing is you would not require to borrow more that is all because your internal accruals will take care of it. What is the average cost of this debt?

**R.K. Baheti:** Because part of this is in foreign currency and part of it is in rupee and foreign currency we will keep it open that is why you will see sometimes exchange loss and sometimes exchange profit, but if you look at it as a pure fully hedged basis then it would be at around 8.75% to 9%.

**HR Gala:** How do you hedge?

**R.K. Baheti:** We do not hedge as of now. We are using our natural hedging, ~~the business hedge and natural hedging~~ strategy.

**HR Gala:** But you do not hedge your imports separately than the outgoing on account of this FE loans and then export receivables and all that?

**R.K. Baheti:** No.

**HR Gala:** You do not hedge. Thank you very much.

**Moderator:** Thank you. The next question is from Nishit Sanghvi from Karvy Stock Broking. Please go ahead.

**Nishit Sanghvi:** Most of my questions have been answered. I just had two quick questions, now one more this QoQ decline in export API, was this in any way is related to the hirer (ph) that we had because we see this revenues coming back QoQ or how is it?

**R.K. Baheti:** A small portion can be attributed to ~~the prior, but~~ I think if you look at the composition, my domestic API sales have gone up. I think I explained in one of my earlier interaction, now we are also supplying APIs to a lot of Indian companies for their regulated markets. For the purpose of my business analysis they are regulated market API, but for the purposes of accounting they still get clubbed as the domestic sales. So the combination that is why these days we are not really looking at export and domestic API. API is the business we are looking independently as a consolidated entity.



Alembic Pharmaceutical  
October 19, 2012

**Nishit Sanghvi:** So, incremental probably we got domestic, we are probably QoQ 4 odd Crores higher, so probably you see the Q1 runrate coming back or how in export API or it will be more opportunistic in nature going ahead?

**R.K. Baheti:** It would be opportunistic in nature.

**Nishit Sanghvi:** Second thing, the 144 capex that you mentioned out of this, how much would be capitalized and impact on depreciation will come in the balance quarters?

**R.K. Baheti:** I think by end of March everything should be capitalized because I am talking of running the plant and making products out of it, so everything will be capitalized.

**Nishit Sanghvi:** Incrementally the Q2 depreciation should go up?

**R.K. Baheti:** It will not go up significantly because it would be only for the number of days for which the plant is commissioned and operational but in the next year there will be an impact of about 7 to 8 Crores on account of this.

**Nishit Sanghvi:** Thank you and all the best Sir.

**Moderator:** Thank you. The next question is from T Srihari from PCS Securities. Please go ahead.

**T Srihari:** Just a couple of questions pertaining to capex. You have mentioned that the capacity expansion will come in phases, is the 4 billion tablets capacity coming in one shot or is it over a period of time? Secondly, what is your capex budget for fiscal 2014?

**R.K. Baheti:** Actually when we say the plant will be operational by March, ~~I would say March~~ quarter 2013. I mean it will take care of my current business requirement, but I think some debottlenecking or some fine tuning would still continue, so to answer your question yes it would be in phases, but my business constraints will be removed by March 2013 or so. March 2014, I do not see major capex because we have no major capex requirement across the businesses. So except for maintenance capex and some capex on the R&D we do not expect large capex, so you can assume 40 to 50 Crores of number for March 2014.

**T Srihari:** Could you give some kind of timeline in that case. If let us presume 4 billion tablets and capsules are not coming on stream by March, how will it get phased out?

**R.K. Baheti:** 4 billion, there is some confusion in the number, my current capacity is about 2.3 billion and post expansion my capacity will be 5 million, you want to increase and you are saying the total, I did not understand.



Alembic Pharmaceutical  
October 19, 2012

- T Srihari:** If you are saying that the expansion is going to happen in phases, so let us say in March how much will come on stream?
- R.K. Baheti:** At the completion of this expansion my capacity would be 5 billion.
- T Srihari:** But the point is how will that get phased out?
- Pranav Amin:** See what will happen is to start with, as you know we are building a shell, which if we are able to 5 billion shell utility and everything. In the first phase we are going to go up to 4 billion or so and it should take care of unit requirements because we do not want to unnecessarily buy the new machinery and put it in place just as yet. So as we go along then we will start adding the other capex as well.
- T Srihari:** Okay, so this 100 Crores outlay is then effectively for 4 billion capacity?
- Pranav Amin:** It is for 5 billion.
- T Srihari:** Thank you.
- Moderator:** Thank you. The next question is from Sangam Iyer from Subhkam Ventures. Please go ahead.
- Sangam Iyer:** One more thing could you please explain that you have signed an agreement with Accu-Break, can you just highlight upon that?
- Pranav Amin:** This is a development agreement. Accu-Break is the US Company if you have seen press release. They have developed a noble formulation technology platform, so while they have developed it, we are going to scale it up. We are going to manufacture it and we can use this platform to put some products on it and sell it. We have identified the first one which is Warfarin and we hope to do Accu-Break formulation of that.
- Sangam Iyer:** When do you expect approvals or the launch or whatever for the product?
- Pranav Amin:** What we will do as I mentioned earlier, we are going to do the filing to this in about nine months or so. Once we do the filing then it is up to the FDA to get approvals, so for the next 24 months or so it will take at least to launch.
- Sangam Iyer:** Okay so at least three years I would say that you will be finally be able to get into it?



Alembic Pharmaceutical  
October 19, 2012

**Pranav Amin:** It will be 505 B2 filings so it might be a little sooner, but yes will take about two years at least.

**Sangam Iyer:** Okay, but what do you expect the kind of income that could generate to you?

**Pranav Amin:** I think, it is tough to say right now. As you know we have only identified one product which we are going to start with first and depending on the market situation we have not given guidance for it, but as we have more products which should add up significantly more than topline it is a nice diversified portfolio which is sustainable.

**Sangam Iyer:** Okay one more thing sir in future like what should we take as a guideline, say two years down the line how do you see the sales in the margins going ahead?

**R.K. Baheti:** We have already said know this 13-14 and 14-15 as far as international generic is concerned, we expect a 25% to 30% CAGR. As far as domestic is concerned, we continue to maintain at 13% to 15% CAGR. Margin this year would be 15% and we hope that going forward base backed by volumes which should improve our margins by 150-basis point in next six to eight quarters.

**Sangam Iyer:** Sir one more thing, our international API business had a dip this quarter, how do you see it going forward and what was the reason exactly for this dip?

**Pranav Amin:** As Mr. Baheti just mentioned in the previous question, see API is the opportunistic market and between India and international which are balancing it. So it just depends on quarter on quarter, but overall the API business should grow this year and it will grow next year as well.

**Sangam Iyer:** What is the growth as such we should take for this, just an assumption how much amount of growth shall we take for it?

**R.K. Baheti:** We have mentioned earlier that in API we are not doing any capex etc., so internally we are maintaining only a 10% growth. Also, because more and more APIs are consumed captively, so it will not come as API sales. We are doing more volumes, more activity, but less of sales.

**Sangam Iyer:** Thank you Sir.

**Moderator:** Thank you. The next question is from Rakesh Mehra, an Individual Investor. Please go ahead.



Alembic Pharmaceutical  
October 19, 2012

**Rakesh Mehra:** Good evening. Actually just wanted to understand one macro question. Very recently there has been news in papers that the directive has passed on the license of only generic, I just wanted to understand how would it impact your business per se?

**R.K. Baheti:** I think there is some gap in understanding. The way I understand it the directive is that the ~~every-local~~ FDA authorities while giving licenses will give license only for the generic name and not for the brand name. Now that will bring out very clearly the ~~goals-roles~~ and responsibilities of the licensing authority and the trademark authority. Now giving that license in generic name does not mean that any company can make the product with any brand name. In any case he has to seek specific registration of its trademark, so I think it will continue the way it is continuing today, but the roles are clearly defined as far as the licensing authorities are concerned, they are not concerned with the brand name. The brand names and the trademarks are controlled by the registrar of trademarks that is what I understand.

**Rakesh Mehra:** Thank you.

**Moderator:** Thank you. The next question is from Kavya Subrahmanyam from Capital Market. Please go ahead.

**Pavan Kumar:** I have a question. Actually we recently got generic approval for ~~Avapro and Avalide~~ from US-FDA as we launched the product in the US market?

**Pranav Amin:** Not as yet, we just got the approval a couple of days back, so we have not launched it yet, it should happen in this quarter.

**Pavan Kumar:** So how will be the competition, ~~Avapro~~ is a multi player product I know. ~~Avalide~~ only Dr. D got launched, so how will the market share going to be? How much revenues we are going to expect in this quarter from this particular product?

**Pranav Amin:** Both of them are multi player markets, ~~(indiscernible) 50.20 first to file exclusive, it is expired, but there is a multi player market in both of them~~, so far from what we have seen there is about six people in that plus Alembic and Avalide and about 8 to 10 people in Avapro. As regards the market share we do not market directly we go through partners, so I think we will have to wait and see how it pans out.

**Pavan Kumar:** Thanks.

**Moderator:** Thank you. Sir we have one last question from HR Gala from Quest. Please go ahead.



Alembic Pharmaceutical  
October 19, 2012

- HR Gala:** This is not a question, but just a request. If it is possible for you to put up the transcript of this concall on your website it will be greatly helpful to us. Kindly look at it because most of the companies do that, then we can refer to that in future. Thank you very much Sir.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference back to Ms. Perin Ali for closing comments.
- Perin Ali:** Thank you everyone. On behalf of Edelweiss we thank the management to take time out and thanks all of you once again for participating in this conference.
- R.K. Baheti:** Thank you everybody and thanks Perin for organizing this.
- Moderator:** Thank you very much. On behalf of Edelweiss Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.