



“Alembic Pharmaceutical
Conference Call”

October 25, 2013



ANALYST: MS. PERIN ALI

**MANAGEMENT: MR. RAJKUMAR BAHETI
MR. PRANAV AMIN
MR. MITANSHU SHAH
MR. AJAYKUMAR DESAI**



Alembic Pharmaceuticals
October 25, 2013

Moderator: Ladies and gentlemen, good day and welcome to the Alembic Pharmaceuticals Q2 FY'14 Earnings Conference Call hosted by Edelweiss Securities. As a reminder for the duration of the conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, 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. Thank you and over to you, Madam!

Perin Ali: Thanks. Hello and a warm welcome to all of you. On behalf of Edelweiss, I welcome Alembic Management team to brief the quarter ending September 2013 results. Today we have Mr. Pranav Amin, Director & President International Business, and Mr. Rajkumar Baheti, who is the Director & President Finance. We have also Mr. Mitanshu Shah, Vice President, Finance. I hand over the conference to Mr. Baheti for opening remarks. Over to you Sir!

Rajkumar Baheti: Thank you Perin. Thank you everybody for joining our post results call. I know it is a hard working day for most of you, couple of conference calls.

Most of you would have got the results, but to reiterate briefly, our revenue during the quarter were up by 20% to about Rs.488 Crores, EBITDA margins were at 19% as against 16% of corresponding quarter last year to about 92 Crores, profit before tax grew by 52%, to Rs. 80 Crores and profit after tax grew by 45% to about Rs. 61+ Crores.

The EPS stands at around Rs. 3.27 per share versus Rs. 2.47 per share again a 45% to 50% increase. Pranav would share with you details about the business operation. Over to you Pranav!

Pranav Amin: Thanks. Good afternoon everyone. I will start with the international generics. International generics grew by 123% to Rs.114 Crores compared to Rs. 51 Crores in the same quarter last year. The API exports grew by 19% to Rs. 69 Crores. Our R&D cost in the quarter was Rs. 33.82 Crores, which is roughly 6.95% of sales.

During the quarter we filed two ANDAs and our cumulative filing stand at 59 out of which 30 are approved. One DMF was also filed and our cumulative DMF filing stands at 62. Des Venlafaxine Base ramp up was always going to be gradual but it has been below our expectations. We hope that in the next few quarters we see an increase in market share.

As regards the branded domestic formulations, the sales were Rs. 241 Crores against Rs. 219 Crores, which is a 10% growth over last year. The specialty and acute segments grew by 24% and 0% respectively in the current year versus industry growth rate of 11% and 3%. You are aware that this quarter was affected by price reduction of key molecules plus there was some disruption from trade channel partners also.

The branded export formulations also grew by 65% to Rs. 14 Crores, of course this is on a much smaller base. We are refocusing and restrategizing the ROW market business and we should see the results within the next two years or so.

With that I throw the floor open to question and answers.

Moderator: Thank you very much Sir. We will begin the question and answer session. The first question is from the line of Mr. Anmol Ganjoo from JM Financials. Please go ahead.

Anmol Ganjoo: I have two brief questions. One is that what explains the superlative performance in the specialty segments, the market share gains in product launches, any qualitative colour on what has been driving this superlative performance as far as domestic is concerned, domestic formulations?

Pranav Amin: You know actually this has been one of the focus areas that we strived out to do about three or four years back when we did the massive restructuring. That specialty business is something that we wanted to grow. Of course this is on a smaller base we are new entrants to some of these areas which is why we are seeing a big percentage jump, but as the entire basket it is becoming a significant basket for us. I think the quality of how we are running the business, what we are doing, and the business SOP and various parameters that we use is helping us in launching new divisions.

Anmol Ganjoo: My followup on that is what is the critical size at which you think the domestic formulations stabilize over the next two to three years or any color you can give that when will the challenges of a high base start kicking in or the low hanging fruit be plucked?

Rajkumar Baheti: I would like to answer it in a different manner. I think we are still only in the part of this specialty business. There are still areas where there are opportunities and slowly but surely we wish to grow into those businesses. So I think it is more of executional skills which is important at this stage rather than a big terms strategy. I think our people in the field have done a good job and we from Corporate continue to provide support. I think we will continue to see good growth in chronic. Superlative etc., I do not use these adjectives because I feel these are relative words, but I think we are doing a decent job.

Anmol Ganjoo: My second question is that if you look at the margin expansion on the line, how much of that would you attribute purely to currency and what are some of the other factors driving the expansion?

Rajkumar Baheti: Margin expansion is largely been driven by growth in international generic business. That is a pure, what we call business overheads getting spread over a larger business and there are some direct improvements in margins. Having said that pharma industry, particularly which are in international business would have good quarters where there profits would be slightly higher than the normal quarter and would have quarters, which are not so great quarters. So, I think I would rather request my investors and analysts to look at the yearly numbers rather than on a quarter-on-quarter number. The growth, I think, Pranav would of course clarify, which you see is also part of clearance of the back orders rather than a quarter-on-quarter business built up. So, probably post Q3 or so when most of the backlog will get cleared the growth could be in a more stable numbers.

Anmol Ganjoo: What was the dollar realization for the quarter?

Rajkumar Baheti: For the quarter, I do not know. We have not looked at average dollar realization but it was in the region of 62.5 plus.

Anmol Ganjoo: One last question, before getting back to the queue. On the R&D numbers, where do we expect it steady state to stabilize it for FY'15 beyond? We are at 7% and we know that the growth has also been strong, so in incremental terms it is a lot of money. So where does it stabilize and plus are there any bunched up items?

Rajkumar Baheti: Pranav is on record stating that we would be between 5% and 6%. There would be quarters where probably you would have some studies, some expense getting booked or incurred, but I think for a ballpark number you can take between 5% and 6% as the number.

Anmol Ganjoo: Thank you. I will get back at the queue.

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

Nisarg Vakharia: First of all congratulations on a great set of numbers. Sir, my question pertains to the specialty and acute segment where you have done a very commendable job. This 24% growth is on the back of launches? Could you throw some color on this? Research expense of 33 Crores if you could elaborate where this money or on what we are spending largely on filings, just kind of get some sense, the investors would want to know these things?

Pranav Amin: I will take the R&D question first. Where the R&D spend is going, it is pretty simple. I think on ANDA filings, European filings, Australian filings, bio-studies, so various things, as you know we are filing products are me too, some more complicated, some more advanced products. As you do more extended release products, your cost becomes more. So, this is predominantly on the chemistry side. That is one on the development side as well as on the formulation side. That is where Rs. 33 Crores has gone. Also it includes part of the GDUFA fees that we have to pay to the US FDA.

Nisarg Vakharia: The specialty and acute segment?

Rajkumar K. Baheti: I think the growth is driven by all three, the new product launches, I think about seven eight products were launched during the quarter, new products, which we define as product launch in less than 12 months contributed about 5% to 5.5% of sales so the growth is on the back of new products, volume growth, market share and some price rises.

Nisarg Vakharia: If you permit me to ask one more question. Just wanted to know your bigger strategy on the regulated markets for your ANDAs. These filings are largely Me Too filings or these you have identified certain products where the addressable market is going to be large enough for us to monetize this whole pipeline going forward over the next two to four years?

Pranav Amin: I think it is difficult to determine whether it is Me Too filing or not. I do not know. We file products thinking that there is no one there and you will have competition. What I can say our filing is similar to a lot of the other companies of our size maybe even better. We have a mix of extended release, we have mix of Para IV challenges and of course we are the one 505 (B) (2). So as a combination it is there. Again it is very tough to say you know because you have some products where it could even I thought it is Me Too filing, problem is if someone exits from the market then it is no longer a Me Too and it is a very lucrative opportunity

Nisarg Vakharia: Thank you very much.

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

Dheeresh Pathak: Good afternoon. Sir, can you give the breakup for API into exports and domestic?

Pranav Amin: API domestic was at Rs. 9.56 Crores for the quarter and the export was Rs. 68 Crores.

Dheeresh Pathak: Can you give the breakup for International generic into USA, Canada?



Alembic Pharmaceuticals
October 25, 2013

Pranav Amin: We do not have that breakup. We do not disclose that. We have clubbed in everything on international generics together.

Dheeresh Pathak: On Des-Venla I think three companies have approvals Teva recently also got approval for a Des Venlafaxine. Now that we have Teva, we have Osmotica and we have Alembic as well offering a different formulation than the Des Venla formulation. Now these three have they like Teva being a larger company and better marketing capabilities have they gained significant market share in Des Venla?

Pranav Amin: I actually do not know what their status. You can check with them or you can check on the IMS numbers, but I think with both the Companies Osmotica and Teva coming in it will actually help us as well, because it will lead to more understanding.

Dheeresh Pathak: Acceptance of that product?

Pranav Amin: Absolutely.

Dheeresh Pathak: Great. All the best to you. Thank you.

Moderator: Thank you. The next question is from the line of Mr. Krishna Prasad from Kotak Securities. Please go ahead.

Krishna Prasad: Thank you for taking my question. My question is just relating to the US market. I know this quarter would have been a significant one at the back of some of your backlogs, but if you could just talk a little bit about when would you start to actually see some of let us say when you talked about these differentiate filings in the US where you start to see that coming through let us say in terms of filings or launches and how do you see that progression happen in the context of starting our own frontend in the US? Where are we and how do we see that happen over the next two to three years?

Pranav Amin: In terms of filings it really depends. It is not there at one phase that everything will come. We had the Des Base_which we launched this year so that was a differentiated filing. Apart from that we have a couple of Extended Release products, which we will see over the next two years or three years and in terms of our own frontend I think it will take at least about a year and a half to two years, maybe FY15 that we might be setting up in the US.

Krishna Prasad: Would you say a \$50 million in the US would be probably when you would want to be in the frontend in the US? Would that be a fair assumption?



Alembic Pharmaceuticals
October 25, 2013

- Pranav Amin:** I think it is not a question of \$50 million mark, but see lot of our ANDAs are partnered already. It depends only when we have enough ANDAs of our own that we feel are good enough to launch. That is the differentiating factor, not \$50 million of sales.
- Krishna Prasad:** Do you think, because we now have a sizable number of filings as well, do you think we are closer to that or do you have somewhere to go on?
- Pranav Amin:** It will be at least in FY15 not before that we will probably launch.
- Krishna Prasad:** But just in terms of the underlying growth, obviously you are not sharing the number, but if you look at the underlying growth numbers, are you sort of satisfied with how things have shaped up, because there was a time where we did not have capacity?
- Pranav Amin:** Due to two reasons; one is of course with new capacities on stream, our supplies have increased, not just US but all over the world as well. We are supplying some in Europe, Australia, Canada and so all those supplies have come. Second is in the US some of our ANDAs the market situation has been a little decent due to either people exiting or not able to supply, so that has helped us as well.
- Krishna Prasad:** Did we launch Modafinil this quarter?
- Pranav Amin:** We launched it earlier, not Q2, we launched it in Q1 or even before that, actually Q4 of last year.
- Krishna Prasad:** That is turning out to be somewhat limited competition? Is that a fair assumption to make?
- Pranav Amin:** I am not sure. Actually it is a good product for us, but I do not know if it is a limited competition or what it is.
- Krishna Prasad:** Perfect. That is all from my side. Good luck. Thanks.
- Moderator:** Thank you. Next question is from the line of Param Desai from IDFC Securities. Please go ahead.
- Param Desai** Thanks for taking my question. Sir, on the US business of the 30-odd ANDAs that are approved, how many of these are commercialized and being actively marketed right now?
- Rajkumar Baheti:** I think 16 are already in market.



Alembic Pharmaceuticals
October 25, 2013

- Pranav Amin:** 16 are commercialized, four are tentative and the other 10 some we are launching four, either three or four next quarter, Q3.
- Param Desai** So, I guess the balance five or six probably right now may not be commercialized, so we may not go ahead with them?
- Pranav Amin:** Absolutely.
- Nithin:** So we will have our portfolio about 25-odd products by the end of the year in the market?
- Pranav Amin:** We hope so.
- Nithin:** What was the sort of number at the start of the year?
- Pranav Amin:** Start of the year we launched one product in Q2, so not too many.
- Nithin:** So we were about 20-odd products at the start of the year?
- Pranav Amin:** Yes.
- Nithin:** This ramp up which is happening, this is what on these five products which you have launched or even the 20-odd that you already had in the market?
- Pranav Amin:** The ramp up has been happening. As I mentioned is due to two reasons; one is because we had a big backlog so we are getting out of that by December, so we are incrementally this Q2 and Q3 will see sales going up to clear the backlog and two is new launches has been as much. As I mentioned Q2 is only one launch.
- Nithin:** But when you say backlog, I mean, how exactly do you define a backlog in this market? In the sense there are people always willing to take out market share, so it almost sounds like a market where people are waiting for your product to come through?
- Pranav Amin:** See, because our model is still different. It is a partnership model, so what happens is there is always some inventory carried forward by our partners. So that is what I am talking about.
- Nithin:** The favorable competitive situations you talked about, how many such products, obviously not to get into names, but where you have been presently surprised by the competitive dynamics in the products, which you have launched so far?



Alembic Pharmaceuticals
October 25, 2013

- Pranav Amin:** It keeps changing every quarter. So, it is tough to say because as you know Wockhardt went out of the market with some products last quarter. This is one example. Like that there are few of them, where we see some pleasant surprises, some of course we see more competition goes the other way, so as a portfolio it balances out, when you have a portfolio about 15 products or so that we have now and hopefully more going forward by the end of the year as you are saying, it should balance out with new gains, some you might lose.
- Nithin:** The products that are being sold, are they sold in the name of your partners?
- Pranav Amin:** They are all partnered, so they would be in the name of the partners.
- Nithin:** So your name does not appear on those labeling?
- Pranav Amin:** No.
- Nithin:** All the partnership arrangements are pretty much in that nature?
- Pranav Amin:** Up until as I mentioned till we decide to launch on our own.
- Nithin:** Thanks very much.
- Moderator:** Thank you. The next question is from the line of Jigar Shah from Kim Eng Securities. Please go ahead.
- Jigar Shah:** Congratulations on a very good set of numbers. I wanted to have a couple of questions; one is we have been guiding now for quite some time there because of the changes in the domestic price. There will be a hit at some point in time on the domestic revenue and profitability, but the second quarter results are not evident of that. So, can you explain that when that impact would be evident?
- Rajkumar Baheti:** On the domestic side, Jigar?
- Jigar Shah:** Yes.
- Rajkumar Baheti:** I think we already had the hit in the numbers. If you see our topline for branded products the growth has come down from 14% to 15% to just about 10% and the price cut is already effective in this quarter. So, the impact is already felt. As I said in the past, I am repeating the company obviously will take various steps to protect some of the losses, but it would still be hard to compensate.

Jigar Shah: So you had mentioned about Rs. 20 to 25 Crores of EBITDA impact possibly, approximately. Did we experience any EBITDA decline because of that in the second quarter?

Rajkumar Baheti: Obviously yes. Let me try to respond this way, had this not been there, then the EBITDA would have been higher by 5 to 6 Crores surely for the quarter.

Jigar Shah: I think that is important. Second thing was about Pristiq. Can you give some more light on this thing on why the ramp up is slow and how you are confident that that will be sort of will come in line with your expectations in the next few quarters?

Pranav Amin: I do not know if it will come in line with our expectations. I do hope to see some increase. Ranbaxy is doing a good job. We have sat with them. We have reviewed it. It is the inherent nature of the switch the 505(B)(2) what they are doing is not too many examples of it in the industry. Second since it is a CNS product, it is taking a little bit longer time. So they are trying a lot and we hope to see some market share improvement in the next few quarters.

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

Moderator: Thank you. The next question is from the line of Bhagwan Choudhary from India Nivesh. Please go ahead.

Bhagwan Choudhary: My question pertains to margin side, means, earlier we were expecting that we will have some 120 BPS expansion in the margins, but looking at the current quarter margins and a very good ramp up in the US side, and going forward also, do we see that 20% kind of margins in the next year?

Rajkumar Baheti: I think you should not look at these macro numbers on quarterly basis. As of now we stand by our earlier statement that we hope to do 125 to 150 basis points margin improvement every year and hope to reach margin level of 20% by March 2016. If we do it earlier than that we will be very happy, but we are not changing the guidance as of now.

Bhagwan Choudhary: Sir, again anticipating the higher currency, better currency realization as well?

Rajkumar Baheti: Who knows? The currency can go back to 56 tomorrow.

Bhagwan Choudhary: Will this stabilize? Are you optimistic on that side?

Rajkumar Baheti: We do not take calls on currency.



Alembic Pharmaceuticals
October 25, 2013

Bhagwan Choudhary: Second thing is on this Valsartan side. We have DMF filing for the Valsartan. Are we supplying to some of our clients, commercially?

Pranav Amin: Which one?

Bhagwan Choudhary: Valsartan?

Pranav Amin: Valsartan is still not clear because there is a case going with Ranbaxy until they get cleared only then. In terms of API we are supplying API.

Bhagwan Choudhary: Since how long we are supplying there?

Pranav Amin: API?

Bhagwan Choudhary: Yes.

Pranav Amin: It has been going on at different times to different launches. Europe launched earlier, US development quantity was some other time, so it is moving along.

Bhagwan Choudhary: This is for the development quantity or for the commercial?

Pranav Amin: Valsartan API?

Bhagwan Choudhary: I am talking of Valsartan API.

Pranav Amin: API we are selling all over. The commercial supply is going in Europe, there is commercial supply is going in the ROW market, in India market, in the US the valsartan pure ANDA no one has launched it. I do not think so.

Bhagwan Choudhary: But to some of the clients who are anticipating to launch?

Pranav Amin: We are the DMF on source. We will supply whenever there. We might have supplied already some quantities.

Bhagwan Choudhary: That is all.

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

Manish Jain: If you can just give some insights on your Capex plans and working capital as a percentage of sales going ahead?

Rajkumar Baheti: For the current year I think the Capex would be in the region of Rs. 75 to 80 Crores, and on working capital we continue to be amongst the best in the industry, if I can say so both receivables and inventories are pretty tightly monitored and controlled, so I am not seeing an issue.

Manish Jain: My question pertained to from current level what room do you have to improve on your working capital?

Rajkumar K. Baheti: I do not think there is just significant room for improvement. Well I think if I remember the numbers right, our average debtors are about 56-57 days, our business mix of our side I do not think there is a significant improvement potential. Similarly, I think inventories are at around 75-78 days, and that is optimum I would say.

Manish Jain: Thank you.

Moderator: Thank you. The next question is from the line of Runjhun Jain from Nirmal Bang Securities. Please go ahead.

Runjhun Jain: Thank you. Congratulations for good set of numbers. Most of the questions have been answered. Just wanted to know what is the Forex impact or Forex number you have accounted in this quarter?

Pranav Amin: About 4.3 Crores.

Runjhun Jain: That is before EBITDA?

Rajkumar Baheti: All before EBITDA.

Runjhun Jain: Last time when we talked during the concall you said that from Q2 onwards, you expect API to stabilize, but till now we have not seen that kind of numbers come in. So, what is the view on the API business going forward?

Pranav Amin: The API business there are two to three things, one is increasingly we are using our capacities to supply internally. Two what we are doing is we are optimizing the portfolio to see which is the business that we do want to do and which is the one's that we do not want to do, so you may see, we might reduce supplies from the Non-REG markets, but will continue supplying to the developed markets. That is two. Third is because of the FDA



Alembic Pharmaceuticals
October 25, 2013

issues of various people are having some of them are our customers also. That has also led to a little bit of a reduction in API, but moving forward, I am not worried about the API. I think slowly, but gradually will pick up. We are doing a lot of development, lot of new products that should pick up in the next few quarters.

Runjhun Jain: Do you see any growth in API during this quarter or during this year?

Pranav Amin: I think we saw API has been a little slower. In the export sales there maybe some growth. Domestic will definitely be lower, but on an annual basis also, I mean, we had also said that we do not expect anything if at all API does grow it will be less than 10%.

Runjhun Jain: You expect that to at least grow by 10% still?

Pranav Amin: Not in this year.

Runjhun Jain: Just last thing. Sorry to pester this again, but I wanted your view on Desvenlafaxine. What do you think it is hampering it and what kind of growth you can see from and when you can see it because anyway we have a limited window in that?

Pranav Amin: I agree, but unfortunately the market is very complex market and the conversion is taking a lot longer. It is not as simple as an ANDA. There is not too many 505(B)(2) that do the strategy. So Ranbaxy is trying their best. I think we also reviewed with them. It is hard to even forecast which way it is going forward.

Runjhun Jain: So, internally are you forecasting, projecting any revenues for this year from this? I am not asking the number?

Rajkumar Baheti: I do not think we can give product wise forecast or internal thing. There are budgets. There are budgets for every territories, every business manager and that is something which we cannot discuss.

Runjhun Jain: I agree that Sir. Just that when Mr. Pranav was talking at the launch of the product, he was actually saying that we will be able to take ten percent of the market share of the original product. So even if we say that not even 10% 1%, 2% even I am not asking for the numbers, but can we expect some revenue from this product?

Pranav Amin: I said it will gradually ramp up. At present it stands at about 1%.

Runjhun Jain: Thank you Sir.



Alembic Pharmaceuticals
October 25, 2013

- Moderator:** Thank you. The next question is a followup question from the line of Mr. Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** Thanks again. Of the 59 odd ANDAs how many have been partnered?
- Pranav Amin:** Whatever has been launched, the 16 that have been launched they are all partnered.
- Dheeresh Pathak:** But the ones which are filed, 59 have been filed?
- Pranav Amin:** We have not disclosed that, but increasing what we are doing, whatever filing this year and last year a lot of them are not partnered, the rest are all partnered. The ones that are filed before.
- Dheeresh Pathak:** The ones 30 approved, all of them have been partnered?
- Pranav Amin:** Yes.
- Dheeresh Pathak:** What would be the Capex estimate for FY15 as we stand?
- Rajkumar Baheti:** We have not worked it out yet.
- Dheeresh Pathak:** What is your maintenance Capex?
- Rajkumar Baheti:** About 40 to 50 Crores.
- Dheeresh Pathak:** On Desvenlafaxine what was the R&D spend to development product?
- Pranav Amin:** We have not given a breakup for that.
- Rajkumar Baheti:** You cannot have a product wise breakup of R&D.
- Dheeresh Pathak:** I would not ask for every product. The reason we are saying is I am sure we would have spent a reasonably higher amount of money compared to a plain ANDA?
- Rajkumar Baheti:** If you ask for a payback it would have been paid back.
- Dheeresh Pathak:** But there have not been any sales yet, right? Are the licensing income from the partners would have made for the payback?



Alembic Pharmaceuticals
October 25, 2013

- Pranav Amin:** I think product wise we are not disclosing of what we are doing, but what Mr. Baheti said, it is not that we are not going to make money off the product, because the license income upfront partners pay.
- Dheeresh Pathak:** The window of opportunities for the product before the succinate generics come in, what is that window of opportunities?
- Pranav Amin:** It is very tough for me to answer that because when the succinate generics will come in is not established, and we do not know how it will go in the respective litigations or settlements.
- Dheeresh Pathak:** Thank you Sir.
- Moderator:** Thank you. Our next question is from the line of Arvind Joshi from Bataleur Advisory. Please go ahead.
- Arvind Joshi:** Good evening. This is for Pranav. I appreciate if you could share a little bit on how our NCE pipeline is shaping up in the subsidiary. General broad idea on the therapeutic focus and what stage a few products could be and what could the timelines say in the next three to five years do you look forward to something worthwhile coming out of this. I am sure it will be something worthwhile, something tangible you could discuss with us or what focus you could give on that?
- Pranav Amin:** All I can say is Alembic has invested in a company called RHIZEN with A partner and they are working on a pipeline. It is early days to say and I cannot give any forecast. I think whatever is out in the media on RHIZEN, they put the releases out, but Alembic is not. The team there is quite watertight over the team there and what they do is quite independent.
- Arvind Joshi:** Thanks.
- Moderator:** Thank you. The next question is from the line of Sunil Rao from Sushil Finance. Please go ahead.
- Sunil Rao:** Congratulations on a great set of numbers. Sir, just wanted to know what would be the constant currency growth in your international generics business? I was trying to gauge as to how much would that be the growth? How much would that be attributed for the Rupee effect?
- Rajkumar Baheti:** Honestly we have not tracked that.

- Sunil Rao:** In terms of your EBITDA also how would be the incremental margin that is happening because of your Rupee effect, because I am trying to gauge as to how much would that be going forward if the Rupee stabilizes here?
- Rajkumar Baheti:** Frankly we have not done that exercise.
- Sunil Rao:** Thanks a lot Sir.
- Moderator:** Thank you. The next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.
- Sachin Kasera:** Good afternoon Sir. Congratulations for good set of numbers. Just wanted your sense on the net debt as on September? Can you give that?
- Rajkumar Baheti:** As of September 30?
- Sachin Kasera:** Yes.
- Rajkumar Baheti:** It is about 190-odd Crores.
- Sachin Kasera:** The breakup between working capital and term loan of that?
- Rajkumar Baheti:** Term loan is about 65 Crores, the rest is working capital.
- Sachin Kasera:** Coming back on the Forex, can you just tell us what is the hedging policy? How do we hedge and are there any hedges outstanding as on September?
- Rajkumar Baheti:** There would be some hedges outstanding, but as I said we have a very small hedge exposures, most of it is self balancing like exports are hedged by some foreign currency loans. In last six months or so we have not taken much of packing credited foreign currency. So working capital is maintained largely in Indian currency, but we carry some long-term loans which is in foreign currency. Otherwise we do not sell forwards very aggressively.
- Sachin Kasera:** Which would mean that would it be fair to assume that the average that we realize should not only track the average of the currency, little bit there and there?
- Rajkumar Baheti:** That is right.

- Sachin Kasera:** Secondly, you mentioned that you continue to say that your margins will expand by 125 basis point and you do not want to build any?
- Rajkumar Baheti:** Year-to-year basis.
- Sachin Kasera:** But if you could just tell me when you say that 125 you must internally building up something when you take a budget, you take currency at 55 – 60 so that can have a significance, when you say 125 that is building at 60 or that is building like 54 or 55?
- Rajkumar K. Baheti:** That is the reason you would have seen some spurt in margins.
- Sachin Kasera:** Which means that the currency were to sustain at 61 to 62 there could be some upside to that possible?
- Rajkumar K. Baheti:** Yes.
- Sachin Kasera:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Rahul Sharma from Karvy Stock broking. Please go ahead.
- Rahul Sharma:** Sir, just wanted to know what type of numbers, market shares you are looking at in terms of Desvenla by year end?
- Pranav Amin:** Rahul, it is very tough to say. It really depends. I really cannot give a number on that?
- Rahul Sharma:** Is it yes or no for a 10% market share next year?
- Pranav Amin:** It is tough to say. I would lower my expectation. I do not think it will get to 10% but again, it really depends next few quarters how the ramp up happens.
- Rahul Sharma:** Has the plant been commissioned for the formulations and is it full stream now?
- Pranav Amin:** One of the reasons why you have seen and I answered earlier you are seeing the growth in generics is because we have the incremental capacities coming in.
- Rahul Sharma:** So can you see further ramp up quarter-on-quarter on these numbers?

- Pranav Amin:** It is very tough because what we are doing is as I mentioned we had a backlog and a lot of the older orders so taking out expansion a lot more out of the pan right now, so it is gradually come down to more stabilized level moving forward after a quarter or two.
- Rahul Sharma:** Next quarter also you will have similar numbers basically what you are looking at?
- Pranav Amin:** It depends. It depends on the market because a lot of this also has to do with how the products behave in the market and the profit share or what market share the partners can bring. So, it is tough to say. It is not only supplies.
- Rahul Sharma:** What about your domestics? How are you looking at the domestic formulations in the second half, what type of growths you are looking at?
- Rajkumar Baheti:** I think again I stand with my earlier statement that we should be growing slightly better than the industry growth rate. At the start of the year I said that we should grow by about 13% to 15% and I think we maintain that.
- Rahul Sharma:** Sir, we did around flat growth in acute. Do you foresee better numbers in acute in second half?
- Rajkumar Baheti:** As compared to the previous year not really because if I do larger volumes, because of price reduction you will not see significant growth.
- Rahul Sharma:** But will it be at least flat growth or some sort of growth will come in?
- Rajkumar Baheti:** We do not expect a de-growth. We expect to compensate the price reduction with at least a volume growth.
- Rahul Sharma:** I will join back the queue.
- Moderator:** Thank you. Our next question is from the line of Nisarg Vakharia from Lucky Investment Manager. Please go ahead.
- Nisarg Vakharia:** Sir, this is just pertaining to your international branded. First of when I look at 26 Crores this I would assume largely Desvenlafaxine?
- Pranav Amin:** International branded, no. Desvenlafaxine would be included in the international generics.
- Nisarg Vakharia:** What is international branded?



Alembic Pharmaceuticals
October 25, 2013

- Pranav Amin:** The branded export, which is at 14 Crores for the quarter is the branded generics to markets such as Russia, Vietnam, Ukraine, Myanmar.
- Nisarg Vakharia:** Sir, this international generic business which part of the geography are you seeing growth or this is like a very broad based?
- Pranav Amin:** I think across the geographies is the biggest of course is US and then we have Europe, Canada, Australia.
- Nisarg Vakharia:** Going further on post two quarters, once the backlog is kind of panned out completely, what kind of a steady state can we expect going into future?
- Rajkumar Baheti:** As Pranav and I said in the past we would have a 35% CAGR kind of thing from March 2013 to March 2015 and giving beyond this number is difficult at this stage.
- Nisarg Vakharia:** All the best. Thank you very much.
- Moderator:** Thank you. Our next question is from the line of H. R. Gala from Quest Investments. Please go ahead.
- H. R. Gala:** Yes my question also pertain to this increase in other expenditure now Sir you said that it includes filing cost I presume that filing cost probably might be part of your R&D cost.
- Pranav Amin:** I did not say it includes filing cost, I am saying my three subsidiaries are operating in different parts of the world and there are expenses that there is no income as yet.
- H. R. Gala:** That is fine my question was that filing cost is it included in other expenditure or is it included in research and development.
- Pranav Amin:** It is not included in other expenditure.
- H. R. Gala:** Yes.
- Pranav Amin:** So there was no one-off item in Q1, which has increased the base of our other expenditure I think that was probably the question.
- Moderator:** Thank you. We are going to take our followup question from the line of Sunil Rao from Sushil Finance. Please go ahead.
- Sunil Rao:** Just wanted to know what would be the average dollar realization in Q2 FY13?

- Rajkumar K. Baheti:** About Rs. 62 per dollar
- Nisarg Vakharia:** That is for this quarter right Sir?
- Rajkumar K. Baheti:** Yes.
- Nisarg Vakharia:** But I was talking about Q2 FY'13?
- Rajkumar K. Baheti:** It is around 54.
- Nisarg Vakharia:** Thank you.
- Moderator:** Thank you. Next question is from the line of Runjun Jain from Nirmal Bang Securities. Please go ahead.
- Runjhun Jain:** I missed the net debt figure what you said?
- Rajkumar K. Baheti:** This is 190 Crore odd
- Runjhun Jain:** Just last thing for the full year the sales growth what is your view now?
- Rajkumar K. Baheti:** For the company we should grow by 18% to 20%.
- Runjhun Jain:** You are maintaining that. Thank you Sir.
- Moderator:** Thank you. We are going to take the followup question from the line of Sachin Kasera from Lucky Investment Manager. Please go ahead.
- Sachin Kasera:** One question on the tax rate, 25% for the first half that is something that we can assume for the current full year and if you could give some idea for FY'15?
- Rajkumar Baheti:** I do not think it is 25%, it is about 20% plus the surcharge. There would be some adjustment of deferred tax which is a non-cash item. We are at MAT, we will continue to be under MAT for some more time.
- Sachin Kasera:** FY'15 also we can look at similar tax rate, right?
- Rajkumar Baheti:** Yes.
- Sachin Kasera:** Thank you so much.

Moderator: Thank you. We are going to take our next followup question from the line of Rahul Sharma from Karvy Stockbroking. Please go ahead.

Rahul Sharma: Sir, just had a query, how much of Forex gain is 4.3 Crores included in which line item, is it in materials?

Rajkumar Baheti: It is in other expenditure. It is not a gain it is a Forex loss. Actually the Forex benefit is captured in the sales. The Forex loss is on loss on currency which is a treasury item and that is in other expenditure.

Rahul Sharma: Thank you.

Moderator: Thank you. We are going to take our next question from the line of Runjhun Jain from Nirmal Bang Securities. Please go ahead.

Runjhun Jain: Sir, like you said, you have Forex gain in sales. Is it possible to quantify that?

Rajkumar Baheti: No.

Runjhun Jain: Thank you.

Moderator: Thank you. I would now like to hand over the floor back to Ms. Perin Ali for closing comments. Thank you.

Perin Ali: Thanks everyone. On behalf of Edelweiss, I thank Alembic management team to take time out and I thank all of you for participating in the conference. Mr. Baheti Sir if you had any closing comments please go ahead!

Rajkumar Baheti: I think I would like to thank again everybody for joining the call in large number and my mail ID is available with most of you, so if you have any queries you can surely send me a mail and we will respond promptly. Thank you.

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