



“Alembic Pharmaceuticals Limited
Q3 FY2019 Earnings Conference Call”

January 22, 2019



MANAGEMENT:

MR. PRANAV AMIN – MANAGING DIRECTOR
**MR. R.K. BAHETI - DIRECTOR FINANCE &
CHIEF FINANCIAL OFFICER**
MR. MITANSHU SHAH - HEAD -FINANCE
MR. JESAL SHAH – HEAD STRATEGY
**MR. AJAY KUMAR DESAI – SENIOR VICE
PRESIDENT-FINANCE**

Moderator: Ladies and gentlemen, good day and welcome to the Alembic Pharmaceuticals Limited Q3 FY 2019 Earnings Conference Call. We have with us on the call today Mr. Pranav Amin - Managing Director, Mr. R.K. Baheti – Director, Finance and CFO, Mr. Mitanshu Shah – Head Finance, Mr. Jesal Shah – Head Strategy and Mr. Ajay Kumar Desai – Senior Vice President Finance. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. R.K. Baheti. Thank you and over to you Sir!

R.K. Baheti: Thank you very much. Good evening everyone. Thank you all for joining the third quarter results conference call. Most of you would have gone through the results. However, let me quickly take you through the numbers.

During the quarter, our total revenue grew by 21% to Rs.1018 Crores; EBITDA at Rs.245 Crores is 24% of sales and is higher by 31% over the previous corresponding quarter. Pre-R&D EBITDA is about 34% of sales, the net profit after tax is up by 25% to Rs.162 Crores.

During the nine months period, the total revenue grew by 32% to cross Rs.3000 Crores. EBITDA at Rs.700 Crores is 23% of sales and is higher by 47% over the previous corresponding nine months period. Pre-R&D EBITDA is 35% of sales, the net profit after tax is up by 47% to Rs.467 Crores.

EPS for the quarter is Rs.9.01 per share which is up from Rs.6.93 in the previous year. While for the year-to-date that is for the nine months period not annualized, EPS stands at Rs.24.42 per share compared to Rs.16.91 per share for the previous year.

Capex for the quarter is Rs.162 Crores, cumulative for the year is Rs.504 Crores additionally we invested Rs.55 Crores in Aleor Dermaceuticals JV, for the year is Rs.165 Crores. The gross borrowings stood at Rs.1131crores and the Company has Rs.260 Crores cash on hand as on December 31, 2018.

The debt equity ratio considering the gross borrowing is 0.44 and if you take it on net basis it is 0.36.

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

Pranav Amin: Thank you Mr. Baheti. It was another good quarter for the International Generics business. We benefitted by some short-term supply opportunities for a few products in the US market.

Coming to the operations and compliance, our API plant was audited it by USFDA during the quarter and cleared with zero 483s.

The formulation plant at Panelav was also audited by the USFDA with four observations. It was subsequently cleared as NAI, no action indicated.

Our total R&D spend for the quarter was Rs.112 Crores, which is roughly 11% of sales.

We filed 4 ANDAs, 3 of them through Aleor and 1 DMF during the quarter.

The Company has also received 7 ANDA approvals during the quarter.

The Aleor JV received its first ANDA approval during the quarter.

We now cumulatively have 83 ANDAs approvals including 13 tentative approvals.

The company launched 3 new products in the US during the quarter.

The international formulation business grew by 44% to Rs.448 Crores for the quarter.

The US generic business grew by 42% to Rs.308 Crores for the quarter

The API business grew by 14% to Rs.205 Crores in the quarter.

Coming to the India business, the India formulation business grew by 4% to Rs.365 Crores for the quarter and for the YTD period it is at 11%. As can be seen from our presentation, our growth as per ORG-IMS is 15% for the quarter versus 11% for the representative sector.

The primary sale is sluggish probably due to the secondary inventory adjustment.

Now I would open the floor for Q&A.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. We have our first question from the line of Mousumi Paul from Samco Securities. Please go ahead.

Mousumi Paul: Can you just give me the future, what is your focus in FY2020?

Pranav Amin: We have not given any guidance, so it is tough for us to say what our future is. The Company focuss on two big markets, the Indian business and the US business. We also do business in Europe, Australia. We are investing quite in R&D, lot of growth coming from the US and India, we hope to grow at market or above.

Mousumi Paul: So considering very fluctuating market in the US, what do you think will be the product pipeline and what will be the nature of the product pipeline in the US market?

Pranav Amin: Product pipeline as of now; we have the oral solid dose, we have got a derm approval and ophthalmic approval, but barring that we have oral solid dosage. In terms of future, we are filing injectables and derm through our Aleor JV and ophthalmic products.

Mousumi Paul: Thank you so much.

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

Prakash Agarwal: Thanks for the opportunity. Two, three questions. First one, you mentioned about the short-term supply opportunities, is it got to do with the short-term issues or it is other than the Sartan?

Pranav Amin: Last quarter is one where we saw big bump up due to Valsartan. This is not sudden as much product where there has been a lot of disruptions in the market and luckily we will be there in positions, we have got capture some of this.

Prakash Agarwal: And when you say short-term, it is couple of quarters or it is longer than that?

Pranav Amin: No, I think it was just one time buy in the quarter. Will it continue? I do not know because I do not have visibility on that. One of our strategy as we said is, we are going to build a nimble supply chain as we see lot of shortages in the market and this was the case class example of one where we could capture it, because we had the inventory.

Prakash Agarwal: And most of it would be pricing so I can see the gross margin similar to last quarter where you had this Valsartan opportunity, so the better gross margin is function of that one time opportunity right?

Pranav Amin: Yes, right.

Prakash Agarwal: Lastly on the employee cost that has shot up, is it the function of consolidation of ALEOR or as we consolidate or say the commercialization of Aleor, is that the right way or why it has increased, is it MR or is it?

R.K. Baheti: You are looking at what, corresponding period or the sequential?

Prakash Agarwal: If I see YoY is up 35%, so what has changed YoY and if you see Q-on-Q and Q1 over Q2, Q2 over Q3 there has been significant increase, so what I understood was the new facility cost will start only when they commercialize both in terms of depreciation, other cost and staffs, so what is driving this?

R.K. Baheti: There are two parts of this cost. Bulk of the cost will start getting expensed out only when the plants go into commercial production, but many of the administrative expenses is charged-off in the books in the period in which it is incurred. So

some part of it because of that. We have added some headcount in R&D, which we are expensing out. Part of that employee cost portion is of R&D part and then few would be the normal increments and the performance pays etc.

Prakash Agarwal: Okay, but there is no change in India MRs?

R.K. Baheti: No significant change in MR base.

Prakash Agarwal: Just one more, so the Aleor one with the product is commercialized now that has started to get consolidated as staff cost or not yet?

R.K. Baheti: Aleor has got the approval. We still not have started the commercial production. Once we start that we will start getting into the expense.

Prakash Agarwal: And this will continue to grow as and when the facilities get commercialized?

R.K. Baheti: Correct, absolutely.

Prakash Agarwal: Okay, perfect. Thanks.

Moderator: Thank you Sir. We have next question from the line of Ayush Mittal from Mittal & Company. Please go ahead.

Ayush Mittal: Good afternoon Sir. Congratulations on a good performance. When I look at the strategy of the company for the last three, four years, we have undertaken a very massive R&D and expansion and if I just look back at the industry generic was supposed to do very well, but since last year there is too much of pressure on the pricing. So how do you think about the investments and the strategy that we have taken up?

Pranav Amin: We still stand by our strategy. US is still an attractive market for us. Two things, one is, US sales for 150 million, there are still a lot of opportunity for us to grow that, there is a lot of low hanging fruit that is one of the reasons why we are making these investments in R&D facilities across different capabilities such as injectables, derm and ophthalmic and we standby that. Yes! there has been some erosion and some of the market consolidation might have reduced some margins in certain areas, but by and large is a still very attractive market and we are still committed to it.

Ayush Mittal: You feel that the kind of investments that we have done we will be able to justify with the returns and the growth in the business in the coming times?

Pranav Amin: Yes.

Ayush Mittal: Any idea that you can give that may be certain number of ANDAs that you would have filed we would not be commercializing because of this price drop and the competition?

Pranav Amin: We do not have the figure, but roughly I think amongst all the approvals that we have got, there would be about less than 5% that we have not commercialized.

Ayush Mittal: Which you have not commercialized and a rough number wherein you feel that we will make sufficient margins in line with what we have been doing till now, any number?

Pranav Amin: It is tough to say. See there are two aspects of it. One is, we have kind of products where there is less competition. Secondly as I mentioned, there is a lot of supply disruption, so you never know where the opportunities are going to come

from, so we wait & see whenever it is possible. We want to minimize this, but yes, there would be some products that we do not launch.

Ayush Mittal: Okay and in the last quarter if we remember, you did mention that the base business for us has also grown we have taken price hikes and rest of the world business has grown and business kind of a new base, but in this quarter despite a quarter-on-quarter different numbers, you are saying that this is because of some supply disruption?

Pranav Amin: If you see, last quarter was high quarter due to the one-off Valsartan opportunity that we saw, right? This quarter, the base business has grown because there were some other like three, four other products which were in shortage, we could capture.

Ayush Mittal: What I am trying to ask is that in the last quarter you indicated that the base business has grown pretty well despite the one off thing?

Pranav Amin: Yes, that continues to happen. We gradually pickup market share wherever possible and we have been doing that. Our supply chain has been pretty good and we have had a lot of market share.

Ayush Mittal: Thank you.

Moderator: Thank you Sir. We have next question from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: I wanted to know how much is the growth in the base business in US?

R.K. Baheti: It is very difficult to share such numbers, because we do not go product wise, but as Pranav said, base business is also growing while we keep tapping such opportunities, which are slightly short term.

Charulata Gaidhani: If I could ask out of the 43 million of US revenue, how much would be one off?

R.K. Baheti: You are asking the same question in different way, we do not give the product-wise breakups.

Charulata Gaidhani: Okay and this derma product has not been launched yet?

Pranav Amin: The one that has got launched is from a CMO, not from our facility. It has just recently got launched.

Charulata Gaidhani: Okay that is the Aleor product?

Pranav Amin: No, that is the derm product for Alembic, the Aleor product we haven't commercialized as yet.

Charulata Gaidhani: Okay.

R.K. Baheti: So what Pranav mentioned, Aleor has got its first ANDA approval. In the next few months we will go to the market.

Charulata Gaidhani: Okay and how much would be the cash?

R.K. Baheti: Cash on hand is about Rs.260 Crores odd.

Charulata Gaidhani: Okay, fine. I will join back.

Pranav Amin: Thank you.

Moderator: Thank you. We have next question from the line of Nitin Agarwal from IDFC Securities Limited. Please go ahead.

Nitin Agarwal: Thanks for taking my question. Pranav on the non-US exports, we have had pretty good nine months for the business. Is there anything specific any particular geography, which has driven the business, and how should we look at this business going forward?

Pranav Amin: This year has been actually little abnormal year where we are caught up with some supplies. Broadly there are only three markets that we supply, Europe, Australia and Canada. These are the three big markets from where this growth has come from and which is the bulk of ROW sales. Europe, I think we will see a little bit of slowdown moving forward. We supply through partners who market the product. The European market has gone through serialization, so there has been inventory build up. Australia last year was a little low so there was some inventory built up. That is one of the reasons why this market has grown, but I think we will continue to grow gradually as we keep in much more products.

Nitin Agarwal: Secondly on the US, now when you look through the year-and-a-half, we have had too many launches this year, right? In terms of meaningful products and we have been invested a whole lot in the US business over the last few years, how should one look at the next four to six quarters in terms of US business, in terms of kind of launches you will make obviously, absolutely in the shortage opportunities, they will not be coming through in the market, we will keep benefitting from them, but from a product launch perspective, qualitatively how should we look at the business for us?

Pranav Amin: It is tough to say, but you know in US we have to keep launching products. I do not think there are too many of those big ticket opportunities which we are seeing in the market.

Even mid sized products, smaller sized products, where there are five, six or less people in the market which makes it easy to pickup market share and I believe we should launch more than 15 products in the US in the next four quarters or so, so that should be some growth we should get from there, but as I said earlier, I will stick to this market. It is still a good market, there are still lot of opportunities if you run a good show.

R.K. Baheti: Also Nitin when you look at next four to six quarters, new launches are primarily the OSD which we have filed sometime back out of our one facility. The investments, which we are making now and we will start filing from these facilities, will get launched only over two to three year period. So when you look at company of our size of investment I think you will have to take slightly longish view.

Nitin Agarwal: Your point is well taken, and Pranav just following upon that point. The conventional sort of wisdom is that there is not much money to be made plain vanilla products anymore and companies ought to really target, the complex products or reasonably less competitive products to really make money. Our thought process seem to be fairly different versus the common understanding which is there of the dynamics in the US, so how do we reconcile both the things?

Pranav Amin: I agree with you. I think one of the reasons why we are making all these investments in injectables, peptides, ophthalmic, dermatology, we can go up the value chain in terms of complexity. Number two, what you saw earlier with NCE-1 opportunity those you are seeing a lot more competition and lot more variability and there is lot of grey areas because of long lead times in the current market, so that is why we have some products smaller, little more complex to manufacture, where

there are five-six or less players. There are immediate term launch opportunities. And then you have a combination of these new capabilities that we are adding which will come on stream with filings by the end of this year.

Nitin Agarwal: Mr. Baheti on new plants, what kind of timeframe should we look at for the commercialization cost to hit the P&L for the new capex that we have done?

R.K. Baheti: Most of the plants will go into commercial production in FY 2021 and I think the critical mass out of these facilities will come in 2021-2022.

Nitin Agarwal: Costs will come in 2021 and in terms of our revenue contribution start picking from 2022 onwards?

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

Nitin Agarwal: Sir, what would be the total capex, which is by that on these five plants which will probably get commercialized say in FY2021 roughly broader number?

R.K. Baheti: I think it will be about Rs.1700 Crores this includes pre-OP expense and all.

Nitin Agarwal: Rs.1700 Crores sometime in FY2021.

R.K. Baheti: Yes.

Moderator: Thank you. We have the next question from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.

Dheeresh Pathak: Thank you Sir. Just continuing from the last question, in FY2021 which will be most likely the first full year of operation of the five plants, what will be the likely overhead, meaning the

other expenses and the employee cost on these five plants, ballpark number?

R.K. Baheti: Early to say, but roughly it will add to about Rs.200 Crores of annual expense from the current base.

Dheeresh Pathak: Okay, so gross profit will need to make at least Rs.200 Crores of gross profit to be EBITDA neutral on these plants in FY2020?

R. K. Baheti : Yes.

Dheeresh Pathak: Sir now in this quarter or let us say nine months you said capex was Rs.504 Crores, now what is the amount which is expense being capitalized in this Rs.504 Crores?

Mitanshu Shah: Rs.120 Crores.

Dheeresh Pathak: Okay and off the CWIP as of December 31, 2018, what is the CWIP?

Mitanshu Shah: Rs.1100 Crores.

Dheeresh Pathak: Of that Rs.1100 Crores, Mitanshu how much is the capitalized opex?

Mitanshu Shah: Rs.238 Crores.

Dheeresh Pathak: Thank you. That is all.

Moderator: Thank you Sir. We have next question from the line of Kunal Mehta from Vallum Capital. Please go ahead.

Kunal Mehta: Thank you for the opportunity. I wanted to have your perspective on the future for the next two years in the domestic pharma segment? Would you throw some light on the

headwinds which you foresee because last two years whereas difficult for the industry as a result of GST and other disruptions?

R.K. Baheti: It is difficult for us to say. But hopefully it will be stable in a couple of years and we do not see major disruptors.

Kunal Mehta: Secondly, I wanted to understand that we have made considerable investments in the dermatology space and from what we are analyzing worldwide since it is a valuable niche, a lot of companies both in India and in the global markets are entering into the dermatology segment in the US, so can you just give me the perspective of what kind of products and what kind of pipelines would it take to make it a profitable venture for us and what are the key points which would definitely somebody making money in the segment and somebody who will not do it?

R.K. Baheti: I would not be able to respond to B part of your question but our dermatological segment is focussed on US, the current investments which we have made through Aleor, is focused to US and the other regulated markets. As far as India is concerned, we have a small derm therapeutic segment, but that is entirely different product basket, so there is no overlapping, so, as of now we have no plans to introduce products, which are being developed for US in India.

Kunal Mehta: I was just speaking about the dermatology investment which have made for the US market, so can you just throw some light on how the business would shape up in the next two, three years?

Jesal Shah: I think your broad question is with respect to the competition and I think the concern is on the competition end. We would

like to say that what we find in dermatology is not very different from what you would normally find in other dosage forms. Though there are some differences, for example, the investments required to actually get some products into the markets are slightly larger in dermatology because of some of the new clinical studies. So investment will be slightly larger. We also find that competition is there for few products, which are more simple variety, but there are some products, which are more complicated and complex and they carry certain amount of risk where we find that the competition is still not of that order, so as you would see in various dosage forms, you will find that there are some products which are complex where you find even within oral solids that the competition is there, but is not as much as what you find it in others. For example in some products you will find more than 10 players, in some products you will find around four, five players, so we do see lot of opportunity in certain dermatology space in the next three to four years. We are kind of coming-in at almost the right time with respect to the new plant coming on stream and the filings that we are now doing, so we will still see pretty decent opportunities for us in that space. But the broad comment is just that like in other dosage forms, even here, but there are some products where you will find more players and some products you will find fewer players and that is the generic story anyway and the other factors, which will drive you profitability, would be supply chain, ability to maintain compliance. From the quality perspective and all those factors are something which we continue to focus on and hopefully that will continue to differentiate ourselves from the other players in the market.

Kunal Mehta: Sure, just last question from my end. We have made considerable investments on the oncology injectable side, so

can we just give us an understanding of what kind of filings have been made from this plant and so are the traditions in the oncology molecules which a lot of people are focusing on or these the molecules which are going to go off but in the post 2022?

Pranav Amin: There is a combination of both. So far, we have not made done any filings as yet, because the facility will only come up in the next few months and then the batches and stability and all that will start. We have not done any filings as yet on the onco injectables.

Kunal Mehta: Thank you.

Moderator: Thank you Sir. We have next question from the line of Bharat Celly from Equirus Securities. Please go ahead.

Bharat Celly: Thanks for the opportunity. Sir I just wanted to clarify whether the Valsartan prices have regressed to the earlier levels, or is there still some sort of cushion, which is yet to squeeze out?

Pranav Amin: Two things have happened : One is the market is shifted to other Sartans, second is the supplies have resumed and lot of people are there with product in the market, so I believe the prices were still higher than what they were pre July, August of this year, but they have come down drastically from last quarter.

Bharat Celly: Understood, can you name those products those other two, three products where you have seen shortage in the market?

Pranav Amin: No, these are one off opportunities, so I may not name them.

- Bharat Celly:** Okay, understood and Sir talking about your injectable projects wanted to understand when the filing will start from these projects for injectable and other injectable?
- Pranav Amin:** There are two injectable facilities, the general injectable will see the first of its filing happening by the end of this calendar year.
- Bharat Celly:** And the onco injectable will be next year?
- Pranav Amin:** That will also to be around similar time maybe last quarter FY2020 or so.
- Bharat Celly:** Understood, coming to the domestic market we have been guiding that we will be growing around 13%, 14% and still we are lagging in that target, so just wanted to understand what sort of growth and how it can be achieved and what is exactly hurting us? Can you give me the target?
- R.K. Baheti:** You are right. If we go by the market statistics we are growing better than the market, but the primary sales is slightly lower may be because of trade channel inventory. Last year, a year when we had this post GST, we had restocking by the stockiest so comparing a number on Q2 and Q3 has been little difficult and probably once that gets stabilized we should be back to same 13%, 15% growth that we have been projecting.
- Bharat Celly:** Understood Sir. Thanks that is helpful.
- Moderator:** Thank you Sir. We have next question from the line of Mayank Hyanki from Axis Mutual Fund. Please go ahead.
- Mayank Hyanki:** I just wanted to understand the current supply demand situation in Valsartan, so if you could just explain, that would be very helpful?

Pranav Amin: As I answered to the gentleman before you. What has happened in Valsartan, two things. One is, when the shortage happened some volume shifted to the other sartans and secondly what has happened is now I think the market is back in supply. People have got stock in the markets. There is no shortage of Valsartan anymore.

Mayank Hyanki: The recurring supplies Valsartan from each players including you would have happened normally in this quarter and this is the run rate it is going to begin in future as well?

Pranav Amin: Yes.

Mayank Hyanki: Why you are not disclosing the shortage opportunity, which came up this time? Could you help us understand the nature of shortages, which are occurring in US and is there any target because of which we are focusing on, which you would benefit going forward as an?

Pranav Amin: The nature of shortages very specific to companies. If someone has a large market share and products and he has whatever supply constraints, and I do not know what those are, but it is just sometimes we see these coming up and as it turns out we were well placed to capture it, so is there a recurring thing, it happens, but it keeps changing, so I cannot predict, which product or which other competitor may have supply issues, that is about it, so it is quite just the way the market is.

Mayank Hyanki: But the current set of products, which have been in this quarter, because of like permanent shutdown is that the case something?

Pranav Amin: It is the short term because it is not permanent may be just to one off supply situation for one month or two months things like that.

Mayank Hyanki: Understood. Third, on the API prices trend, what are we witnessing now in terms of API supply which you were impacted two - three quarters back, how is it trending out right now and similarly on price trend of API?

Pranav Amin: On API if you see the general trend that we are seeing on APIs as the world is moving to a higher compliance level and we also do like we spent lot of time in money on compliance. We want to ensure that we sell at the right price. We are not competing for volumes on API to sell at the lowest cost producers in the world. So what I am seeing is prices are holding, people would prefer better suppliers and better compliance and more reliable suppliers, so I am saying prices hold as well on API.

Mayank Hyanki: Okay and are we seeing supply coming back from China in the markets where we are?

Pranav Amin: It is tough to say we are not a large volume API supplier. Even in the past I have said, even on the sartans we are not a big player. Chinese supplies are there, it depends which market you look at for the regulated markets they are there. People are little wary sometimes in certain cases, but yes there are opportunities.

Mayank Hyanki: Okay, great, thanks. That is all from my side.

Moderator: Thank you. We have the next question from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Good evening Sir and congrats for the good set of numbers. Just wanted to know it has been more than two years you see launched our front-end and now going by the nine months number, it seems that we will be touching Rs.1000 Crores revenue from US market, so if you can just throw some light on how the front-end marketing team is shaping up and how are we looking at it from a future perspective and there will be lot of new segments which will be added up?

Pranav Amin: We have about 11 people in the US. I do not see this team going up more because the customers they are there, so much consolidations, we are not seeing too many new customers come up that needs servicing while the products and the supply chain and the 3PL will see increase and we will see some cost, but on the number of people in the US market I do not see that going up much.

Ankit Gupta: Secondly on the base business in the US market like are we seeing mid teens kind of growth there or it is higher than that?

Pranav Amin: Base business is steady. At some places we have taken up price hike, some places we have lost some market share. It is not predictable. Someone comes into the market, someone wants to take more market share, so it is very tough for me to comment on that.

Ankit Gupta: Okay and on price erosion, which is happening in the US markets, can you talk about how is the price erosion, one in plain vanilla product and secondly on complex products like injectable, oncology and derma products?

Pranav Amin: Injectables, oncology and derm is something that we have not commercialized products as yet. The first of our derm product is getting launched. It is tough for me to comment on those

three segments right now. In terms of oral solids again as I said it is what we have seen over the last 12 months or so, we have seen the bigger players exit some of the plain vanilla generics that has caused the increase in volumes. Has prices gone up? No, I do not think so, may be little bit. But by and large it is very product specific if a new entrant comes and wants to drop prices, have taken more market share, you see some erosion. Otherwise I think it is steady. It is very highly unpredictable.

Ankit Gupta: In ROW market this has been considerable growth we have seen in this year, is it because of the capacities that we have added, we have been able to show such a good growth in ROW markets?

Pranav Amin: I have answered this earlier. I think in ROW the reasons for the growth have been two, one is Europe, we have added some customers when we had some launches, at the same time, we supplied to our partners and built up some inventory, because Europe is moving to serialization so that will have slowdown on supplies. That is one. Second is Australia, we had a backlog from last year where we had an issue on supplies which has caught up this year, those are the two predominant reasons, how we have grown and the third is some new products.

Ankit Gupta: Thank you.

Moderator: Thank you Sir. We have next question from the line of Manish Poddar from Reliance AIF. Please go ahead.

Manish Poddar: I just wanted to get some thought on US business. Let us say for FY2020, this year I believe there is couple of one-offs and also the currency benefit Sir, how does US business looks for FY2020?

Pranav Amin: We have not given guidance. All I can say, we will launch between 15 and 20 products in the US in the next five quarters or so, so that is where we hope to see some growth. Is there any supply shortages or opportunities? That is not in our hand and somehow we would like to capture, but I think the growth will be from the new launches.

Manish Poddar: So what is R&D spend are we looking at for FY2020, are we looking at curtailing it or the same runrate could go up?

R.K. Baheti: In previous quarters also we have said that we expect it to be stabilized at around Rs.550 Crores.

Manish Poddar: Just on this India issues, you are saying the primary mismatch, has this stabilized or do you believe that this will take another quarter or so?

R.K. Baheti: Honestly we do not know. I think it has stabilized because most of the restocking last year was done by Q3, so in Q4 We expect to be normal quarter with normal growth.

Manish Poddar: Thanks.

Moderator: Thank you Sir. We have next question from the line of Kunal Randeria from Antique Stock Broking. Please go ahead.

Kunal Randeria: Good evening. Thanks for taking my question. Firstly, I wanted to get your thoughts on the Sartans space in general, because we have seen the recalls spreading to other sartans also and given that we are present in a lot of these sartans, was some of these opportunities you alluding to earlier?

Pranav Amin: What is happening on the sartans is, initially you saw Valsartan, which came under the issue of impurities, and we saw some volumes move to other sartans subsequently. There

were some impurities in the other sartans as well. We had some of these sartans, which were there in the short-term opportunities. the rest is general commercial products that we saw.

Kunal Randeria: Right, but do you expect this kind, because the recalls have sort of it is going to Irbesartan to Losartan and I think we are there in almost all, do you expect an upheaval again?

Pranav Amin: I do not expect an upheaval. Historically we have never been a large sartans player, we do not have massive capacity for sartans and we were there in these products, but we are not a big sartans player so to say, so we have captured some of these opportunities where we can. We cannot capture all of them, we are trying to see whatever we can do. Right now we have got some markets on Valsartan and Olmesartan and if you can see from Bloomberg and we are trying to keep that up.

Kunal Randeria: Right and my second question is, what is the capacity utilization at Panelav plant, because we are getting around three to four approvals every quarter, so do you have enough capacity to launch all the products?

Pranav Amin: This is an ongoing initiative that we have been constantly debottlenecking the plant and that is in process right now as well to ensure that the next year or two years targets are met, and secondly, we have launched a new Jarod plant which should come up by the end of FY2020, so we will move some volume there as well.

Kunal Randeria: Thank you.

Moderator: Thank you. We have next question from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: Thanks for taking the question. Just one question on the input cost related to the increase in API part, how much has been impacted on that and what is the outlook there?

Mitanshu Shah: API increase is something that we may see going forward because we had sufficient inventory in place actually and that was at the normal cost of last year. Going ahead we see close to 3% to 4% increase in the API cost, in the overall scheme of things we do not still feel that would have significant impact on the financial.

Nimish Mehta: So we expect that to be compensated by what?

Mitanshu Shah: I am saying that because considering that you have close to 30% raw material component as a cost and only 3% increase in the prices that we see on the books it wouldn't have significant impact on the financials.

Nimish Mehta: Okay, this 3% to 4% increased that you are envisaging, this based on the current prices or again on the contracted prices?

Mitanshu Shah: No, this is generally that we have seen for our range of procurement.

Nimish Mehta: Okay, so if you were to kind of procure it at the current rate there will be 3% to 4% that is the only gap that you are looking at?

Mitanshu Shah: Yes.

Nimish Mehta: Okay, I understood. Pranav if you can just throw some more light on general understanding of serialization, I understand there are some packaging related changes so how does that impact the Industry in general?

Pranav Amin: Yes I think this what is happening with serialization is Europe little more complex in the US. US is okay I think that is going smooth. We will see over the next three to six months, how well people have been able to execute it and implement it and I think it will eat up some capacity.

Nimish Mehta: It will kind of lead to some consolidation?

Pranav Amin: There may be some supply issues if people have not transitioned to it, it will chew about 10%, 15% of the capacity as well.

Nimish Mehta: Will this mean some kind of pitch for most of the company including us?

Pranav Amin: I do not know. Let us wait and see. We are fairly confident ; we should be okay, what is going to happen in the market I do not know. I think in the next three to six months will get much better perspective.

Nimish Mehta: Okay fine. Thank you very much.

Moderator: Thank you. We have next question from the line of Yogansh Jeswani from Individual Investor. Please go ahead.

Yogansh Jeswani: Thanks for the opportunity. Sir my first question is regarding your US product basket, I think an earlier participant also tried to ask the same question, but just bit to understanding on how your product basket has changed. I mean in past you have told that you are getting more and more products on your own label and not doing on the partner front so how does it look like and how many products do we have under or own label and in terms of US business is a major term coming in from our own label products?

Pranav Amin: Yes pretty much. There are only about 4 or 5 products that are there on the partner label and the rest are all being transitioned to own label. In terms of future approvals, everything will be on our own label.

Yogansh Jeswani: Understood and secondly what is our absolute export number because I think some bit of API also we exports so just seeing at the international generic number would not be the exact export number right so can you provide me that for the quarter and for the previous quarter as well?

Mitanshu Shah: Total exports we have got for the quarter is Rs.541 Crores vis-à-vis Rs.464 Crores, which is 35% growth.

Yogansh Jeswani: This is for Q3 of last year or Q2?

Mitanshu Shah: Q3 of this year versus Q3 of last year.

Yogansh Jeswani: And what was in Q2 Sir?

Mitanshu Shah: Q2 this year was Rs.715 Crores.

Yogansh Jeswani: Understood and Sir just to understand bit more on the US business like you said you do see some low hanging fruits and we are mostly into oral solid dosages so can you explain some more about on how are we going about selecting these products, what is our way of looking at it and now that we have been running our own front end for the past two years and we have been growing the business there, so can you just add some more color in terms of the market dynamics on how we are putting up taking up new product developing new products and all just some bit of color on that some commentary on that?

Pranav Amin: US portfolio is something that we do an elaborative exercise and we keep evaluating from time to time as well. There are various aspects which we see. Just saying, only for oral solids, we look at products and various dimensions we look at it as whether we have in-house API, whether it is readily available, is it NCE-1, how many people are in the market, when can we launch or what kind of capability is there and above all we do NPV per product, NPV or payback period or we build up with in the model and that is how we select the product.

Yogansh Jeswani: Understood Sir. Sir in terms of capacity now that the new capacities are coming in 2021 and there will be commercialized in 2022 and you did mention about doing some debottlenecking throughout this period so basically we do not expect any capacity constraint for these periods at least?

Pranav Amin: Yes I hope so. I think we feel little behind in terms of capacity right? Ideally I would like a little higher. We are constantly debottlenecking. Our team is working on that. So we should be okay in next two to three years and with the Jarod Plant coming up on stream, I think it should be fine.

Yogansh Jeswani: Okay and Sir lastly on the API side I see that in quarter we have clocked substantially higher number compared to what we have been doing in past 10, 15 quarters ideally, this is one of the higher quarters so any comment on that is there one-off in this API business also is that new base?

R.K.Baheti : No, API is only 14% growth and I think it is regular number.

Yogansh Jeswani: 200 can be maintained?

Mitanshu Shah: Yes. We do not look at it from the quarter on quarter basis because we can have different dispatches schedule.

Pranav Amin: Nine months is more appropriate

Yogansh Jeswani: Understood Sir.

Moderator: Thank you Sir. We have next question from the line of Chirag Dagli from HDFC Asset Management Company. Please go ahead.

Chirag Dagli: Thank you for the opportunity. When you say that these two, three, four products that you have, they are one time opportunity, what happens as in when so you have already supplied, you got this market share, you have got supply chain scaled up to, supply particular share, do prices contract I mean what happens why would you say this is one?

Pranav Amin: In US what happens is, let us assume, in any of the product that we have a decent market share that would have been contracted to somebody to XYZ person would be sold at a certain price and that is the contracted that we are selling at. Now if there is a product which somebody else has and if they have shortage and they cannot supply from one month or two months, so buyers buy at spot pricing which is just one time sale and that could be higher than the contracted rates because of shortage. That is about it.

Chirag Dagli: It is not that the contracted market share also goes up? It is a one time supply?

Pranav Amin: Yes absolutely.

Chirag Dagli: But does this not feed into your next contract when it comes up for renewal or whatever, say you are supplying?

Pranav Amin: It is up to us, certain cases we pickup contracts, where we feel confident that we can supply for a while and we are happy with the price. In certain cases, we may not want to take a contract, but we can just do spot sale because we have inventory so it is just the combination of factors.

Chirag Dagli: You are seeing this happen more over the last two to three quarters?

Pranav Amin: I think it has been going on. That is a market phenomenon as always. There were shortages, it just so happened in last few quarters.

Chirag Dagli: And typically the prices are at least, is there any a benchmark in terms of how high prices versus your current supply?

Pranav Amin: It is situation of markets, there is no fixed formula for it.

Chirag Dagli: Thank you so much.

Moderator: Thank you. We have next question from the line of Aditya Khemka from DSP BlackRock Mutual Fund. Please go ahead.

Aditya Khemka: Just one from my side on the associate income side. So this time we sort of loss earlier we used to be almost a 0 number, is my understanding correct this associate income largely come from Rhizen Pharma and if so then what is really happening there to contribute to this loss?

Pranav Amin: No.

Aditya Khemka: I am talking about the income from associates that is reported in the P&L?

R.K. Baheti: That is nothing but pure translation because all these companies are managed in foreign currency. On particular day

when you consolidate, there will be some notional translation losses, so it is just that.

Aditya Khemka: Okay so where do we report Rhizen then as in when is it which line item does Rhizen Sir activity get reported in?

R.K. Baheti: We have invested in Rhizen and when we get the money back from Rhizen, we reduce our investments.

Mitanshu Shah: Aditya you were on the item of Rs.1.7 Crores of loss right?

Aditya Khemka: Yes.

Mitanshu Shah: Okay so that is purely on the account of the Algeria loss, which we have accounted.

Aditya Khemka: Thanks for that. Secondly on the India business I understand a lot of your peer as well as your friends have been talking about this inventory adjustments in the channel so GST was like a few quarters back now, what is this adjustment currently still going on in the channel and rise it impacting our primary sales growth something I am failing to understand?

R.K. Baheti : GST got implemented from July 1, 2017, now April June last year there were virtually no sales and then the inventory in the market came down significantly, so next quarter Q2 and Q3 there were restocking and the primary sales of company went up. What happened in this year, Q1 almost everybody reported bumper growth because the base for the last year was low, this year while in Q2, Q3 we have a regular sales as against the previous quarter sales the growth looks smaller because Q2, Q3 last year had higher base because of restocking.

Aditya Khemka: I get that Sir, so I get the high base argument, but that is not the argument you are giving when we ask you the question of

lower single digit growth in India, you said that there is still some channel inventory adjustment, so my question is exactly that?

Mitanshu Shah: That is what precisely I meant when I said this.

Aditya Khemka: Okay, so you mean the base effect, there is no longer further tweaking of the inventory in the channel going on, okay, so do you mind giving a number to it, what was the inventory pre-GST and what is it today?

R.K.Baheti : It is difficult to say, but I think, so in pre-GST, pre-April period, the peak inventory in the trade used to be between 55, 60 days, it came down to as low as 20 days in post-GST i.e. at the end of June or so and then slowly that is building up again, so it has still not reached to that pre-GST, pre-April number, but today the inventory may be around 45 days.

Aditya Khemka: And this is where you say stabilizing from this point on?

Mitanshu Shah: I think so.

Aditya Khemka: Okay. That is it from me. Thank you Sir.

Moderator: Thank you. We have next question from the line of Dhires Pathak from Goldman Sachs. Please go ahead.

Dhires Pathak: Thanks for the followup. Sir from the new five facilities how many pending ANDAs are there as of now, are there any or they are none?

Pranav Amin: No, there are none, because the filings will only happen by the end FY2020.

Dhires Pathak: Just following upon the earlier question that I had asked you said those five plants would have an annual overhead of

Rs.200 Crores and if you look at the opex capitalized for nine months it is running at an annual run rate of Rs.160 Crores, so you are already capitalizing to that run rate right? Closer to that run rate right?

R.K.Baheti : No, I said that for nine months that number is 118 Crores to be precise.

Dhires Pathak: For full year it will be roughly like 160 if you do the full year 12 months?

Mitanshu Shah: If you see today most of the plants are completely manned actually, so incrementally what is going to happen is only more of exhibit batches, which would again be classified as R&D cost only, so incrementally if you see on a sustainable basis the number which Baheti Ji gave 200 is the number that is the precise number.

Dhires Pathak: Right so the way to think about it is right now you are doing a cash expense of 160 Crores on an annual basis, but you are capitalizing it, once the plants are fully commercial in FY2021 the cash expense will increase to 200 and then it will run to the P&L is that the way to look at?

Mitanshu Shah: Yes, that is right, absolutely.

Dhires Pathak: Okay Sir. Thank you.

Moderator: Thank you Sir. We have next question from the line of Rahul Sharma from Karvy Stock Broking. Please go ahead.

Rahul Sharma: Two of plants we have started commercialization, but will the depreciation impact come in the next quarter in January to March quarter?

Mitanshu Shah: Rahul, none of the plants have been commercially started, yet, I mean what we are doing is we are taking scale-up batches and some plants are taking trial batches.

Rahul Sharma: Okay, so all of them will come up only in FY2020?

Mitanshu Shah: FY2021.

Rahul Sharma: 2021, okay and another thing was there is item by the auditor, there is 38 Crores of loss for the quarter on account of subsidiaries and 48 Crores for the nine month period, so could you clarify on that?

Mitanshu Shah: We got multiple things there actually, the first one is as you are aware we got this operation of Orit integrated in our operations, we took this company called Orit Laboratories last year, so that has R&D cost, which is close to the 20 Crores, 22 Crores and apart from that there are certain niche R&D costs, which we do in some of our subsidiaries overseas actually, so it is not loss, it is like investment for future.

Rahul Sharma: And you have all charged it to the P&L?

R.K. Baheti: Yes P&L.

Rahul Sharma: You all have mentioned that you have launched three products in the US in Q3 and 7 are expected to be launched in Q4, so YTD any interesting products, which have launched, which you all have launched and any new products, which could be potential revenue drivers in Q4?

Mitanshu Shah: Rahul, most of the products are to our expectation, so, to that extent you could definitely say that those are interesting launches, in coming days they will kind of scale up and they would become interesting, time will say.

Rahul Sharma: Which are the products, which you have launched in Q3?

Mitanshu Shah: So there is Doxy Hyclate, Vardenafil, these are the two important for us.

Rahul Sharma: Okay. Thank you.

Moderator: Thank you Sir. We have next question from the line of Tushar Manudhane from Motilal Oswal Financial Services Limited. Please go ahead.

Tushar Manudhane: Sir just coming to US generics given product rationalization happening by the bigger players and so the furthermore scope of this spot entry, so typically of the total product wise business how much would be the contracted and how much would be now spot, any rough cut?

Pranav Amin: It is all contracted, the spot is right up to say, it is a very small fragment, it just happens once in a while, whatever we do satisfy all contracted and not spot.

Tushar Manudhane: No you do not think of having more of a spot business rather than?

Pranav Amin: I would love to, but if everybody else also has good surprises, so this only happens when somebody else is not able to supply and we see it once in a while, it is never so big.

Tushar Manudhane: On domestic formulation side if you can just explain growth in terms of price volume and new launches for nine months FY2018?

R.K. Baheti: I think broadly we are in line in the market, so typically in line with 4%, 5% growth in volume, 3%, 4% in price, couple of

percentage on new product introductions we are more or less on the same line.

Tushar Manudhane: Understood and lastly the tax rate for full year FY2019?

R.K. Baheti: I think it would be continue to be around 20%, 21%.

Tushar Manudhane: So far FY2020?

R.K. Baheti: Largely, I mean let us see what happens with the new budget, new rates, if it remains unchanged our tax rates also remain unchanged.

Tushar Manudhane: That helps. Thank you Sir.

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

R.K. Baheti: Thank you very much. Thank you everyone. Thank you participants for the lively discussion. I think there are couple of follow up questions which we can take offline because we completely run out of time and look forward to be talking to you all of you again at the end of Q4. Thank you very much.

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