



“Alembic Pharmaceuticals Limited Q4 and Annual FY22 Financial Results”

May 2, 2022



MANAGEMENT:

- MR. PRANAV AMIN – MANAGING DIRECTOR**
- MR. SHAUNAK AMIN – MANAGING DIRECTOR**
- MR. R K BAHETI – DIRECTOR-FINANCE & CFO**
- MR. MITANSHU SHAH – HEAD-FINANCE**
- MR. JESAL SHAH – HEAD-STRATEGY**
- MR. AJAY KUMAR DESAI – SENIOR VP-FINANCE**

Moderator: Ladies and gentlemen, good day and welcome to the Alembic Pharmaceuticals Limited Q4 and Annual FY22 Financial Results.

From the Management, we have with us Mr. Pranav Amin – Managing Director; Mr. Shaunak Amin – Managing Director; Mr. R K Baheti – Director-Finance & CFO; Mr. Mitanshu Shah – Head-Finance; Mr. Jesal Shah – Head-Strategy; and Mr. Ajay Kumar Desai – Senior VP-Finance.

As a reminder, all participants' 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 the operator by pressing “*” then “0” on your touch-tone telephone. Please note this conference is being recorded.

I now hand the conference over to Mr. R K Baheti – Director-Finance & CFO. Thank you and over to you, sir.

R K Baheti: Thank you dear friends for joining this Conference Call where we are presenting our Q4 and Annual Results for FY22. I am sure that most of you would have received our results but let me briefly take you through the financial numbers:

Operationally, Q4 was a good quarter for us. Both India business and US generic verticals performed well, and Shaunak and Pranav would be talking about it in detail in their presentations.

During the quarter, our total revenue is up by 11% to 1416 crores. EBITDA was 164 crores. Profit before tax and profit after tax is down to 34 crores and 35 crores respectively. That's because of one-time nonrecurring expense charged by Aleor. Had Aleor followed the previous year practice, APL's consolidated profit

before tax would have been higher by Rs. 188 crores at Rs. 222 crores and net profit after tax would have been higher by Rs. 145 crores at Rs. 180 crores.

EBITDA on a likewise basis would have been Rs. 286 crores i.e 20% of sales.

EPS for the quarter is Rs. 1.80 per share for the quarter. It would have been 9.16 on likewise basis versus Rs. 12.75 in the corresponding quarter in the previous year.

During the full year '22 our total revenue was Rs. 5306 crores, EBITDA was Rs. 955 crores which is 18% of sales. Profit before tax and profit after tax were Rs. 650 crores and Rs. 546 crores respectively.

EBITDA on likewise would have been Rs. 1078 crores which was 20% of sales.

EPS for full year is 27.76 per share, Rs. 35.11 on likewise basis versus Rs. 60.81 in the corresponding financial year 20-21.

The Company declared a dividend of Rs. 10 per share, i.e., 500% corresponding to Rs. 14 per share or 700% in the previous year.

As you are aware, Company acquired from Orbicular Pharmaceuticals, a joint venture partner in Aleor Dermaceuticals, the balance 40% stake shared by them in Aleor. Pursuant to share acquisition, Aleor becomes a wholly owned subsidiary of the Company.

Looking at the current market situation in US generic business, Aleor, the wholly owned subsidiary of the Company, carried out a detailed review of its intangible assets of R&D expenses and

decided to expense out an additional Rs. 188 crores in the current quarter/year. The breakup of that Rs. 188 crores is being charged of Rs. 65 crores in higher amortization expenses and the balance in various sets of R&D expenses, i.e., employee benefits, material cost, and other expenses.

Borrowings:

The gross borrowings at consolidated level is 630 crores versus Rs. 500 crores in March 2021 and the Company has 61 crores in cash on hand versus Rs. 285 crores in March 2021. Net debt-equity stands at 0.11

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

Pranav Amin:

The US business witnessed a good quarter with sales at USD 75 million. This is due to a couple of reasons such as the increased market share in some products as well as some one-time opportunities and some stocking of the distributor pipeline. This gives us confidence in the business moving forward. We also launched our first inhalation product in the US market Formoterol in April. We continue to remain focused on the long term of the US business backed by 15 plus launches in the next year in FY23 and consolidating market share in the existing products as well.

As Mr. Baheti mentioned, Aleor is now a wholly owned subsidiary of APL. We will get full control of strategy, operations, and marketing of the entire dermaceutical portfolio resulting into efficiencies and improvement in overall business outlook.

Ex-US formulation business as well as the API business have both come off a very high base of last year, hence growth was

muted. However, we are confident on both these verticals moving forward as well.

R&D expense is 350 crores in the quarter includes Aleor's revised charges. The R&D was Rs. 162 crores which is 11% of sales (ex of Aleor)

We filed 11 ANDAs during the quarter.

We have also received 8 approvals in the quarter including 3 tentative.

We cumulatively have 160 ANDA approvals including 22 tentative.

We launched 1 product in the US during the quarter and 13 during the full year and we plan to launch about 15 products in the next financial year.

FDA inspection:

We are working hard to address the observations issued by the FDA at our F3 injectable facility located at Karkhadi. Remediation measures are underway and we are in touch with the FDA to move towards full compliance.

In terms of the numbers:

The US generics grew at 17% to Rs. 557 crores for the quarter.

The ex-US generics degrew by 19% to 188 crores for the quarter whereas the API business grew by 4% to Rs. 222 crores for the quarter.

I will now hand over to Shaunak to take you through the India Branded Business.

Shaunak Amin: Good afternoon everybody. The India business, for another quarter, our ability to show a continued buildup in momentum in the business continues. A large part of this growth was spread over not just a narrow part of the portfolio which had some tailwinds this quarter due to the Covid breakout, but it was pretty much across the key product therapies as well as our key focus product portfolios, and we expect this trend to continue going forward. Hopefully with some of the strategic interventions, we expect to strategically accelerate this space of growth.

If I were to come with the growth numbers, the India business grew by 25% to 449 crores on quarter-to-quarter basis and by 29% to 1926 crores in '22 on a year-to-year basis. As per the industry, the market grew by 18% in Q4 whereas Alembic reflected a growth of 23%. The primary sales growth is 25%. Across our key segments – both acute and specialty – we recorded a better-than-market growth.

On the Specialty side, the market grew by 7% whereas internally we grew by 13% and majority of it is driven by our key product therapeutic areas of gastroenterology, gynecology, and diabetes.

Q4FY22 for Acute, the industry recorded a growth of 25% whereas Alembic recorded a growth of 60% by IMS and 57% growth internally.

The Anti-Infectives which had a strong tailwind this quarter, the industry showed a growth of 23% whereas Alembic's internal growth was 59% and the market reflection of 75%.

Cough and cold which is our second key segment in the Acute business, the industry showed a growth of 66% whereas Alembic recorded an internal growth of 54%.

Our Animal Healthcare continues to still grow at a very robust high double-digit pace with all our interventions and that grew by 16% in Q4.

For the financial year, the industry grew by 18% whereas Alembic showed a growth of 29% internally and this is spread over both acute and the chronic segments.

The PCPM for financial year '22 is at 3.58 lakhs for the business

For the whole year, the animal healthcare grew by 26% over a high base of last year also.

So, that was a very big positive upside for the performance.

I would like to open the floor for further questions & answers please.

Moderator: Ladies and gentlemen, we will now begin the question & answer session. We will wait for a moment while the question queue assembles. The first question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: A question on the US ; good recovery ! you mentioned 3 points. How much of it is sustainable and how much of it is one time and stocking related?

Pranav Amin: I said earlier that about 55 million or so should be our base business. So, I would say 55 million or so should be our base business going forward. I still stick to that. Apart from that, we had

some stocking because we are moving our distributors. So, we did some stocking of a couple of weeks of extra material we supplied. And there were some one-time buy opportunities. Are they still continuing in this quarter, we will wait till the end of the quarter.

Prakash Agarwal: I was trying to understand we had 13 launches during the year. So, they would have started picking up some share. Last quarter, you did 53 and the understanding would have been that these would increase market share plus some more new launches. So, 55 seems a very conservative number as a base business.

Pranav Amin: Yes. With what happened to us in the last year and how we saw price erosion. So, this is the number that I am comfortable with. Yes, it is a conservative number but let us see how it goes.

Prakash Agarwal: Secondly, on the Aleor business; in one of the presentation slides, you have given with and without Aleor numbers. Aleor is currently despite some high single-digit launch has zero sales. I could not understand that please.

Mitanshu Shah: Yes, there is sales, Prakash, and there is sales of 35 crores for the year actually. Maybe because in large millions, you may not be able to see that, but there is sales in the current year.

Prakash Agarwal: I can see the slide, there is no slide number. It says Q4 financial....

Management: You are referring investor presentation?

Prakash Agarwal: Yes. It says 14.16 billion with and without Aleor and the impact is 00.

Mitanshu Shah: Because that is considering both consolidated numbers. Then what we need to compare is between the standalone and consolidated and then you will be able to see that, but I am giving you the figure.

Prakash Agarwal: That is about 36 lakhs?

Mitanshu Shah: Crores.

Prakash Agarwal: Given the cost base, I would presume it is loss making at the moment.

Mitanshu Shah: Yes.

Prakash Agarwal: The second question was on the R&D side. Since now it's a subsidiary, what is our R&D guidance for the year?

Pranav Amin: If you see on the R&D side – the total number of R&D and this is without the one-off, this year we ended up at about Rs. 640 crores standalone Alembic R&D. Next year, our guidance would be about Rs. 700 crores that would include Aleor R&D as well.

R K Baheti: We will also start charging of the entire R&D as a P&L item. We will stop this practice of capitalizing it and then amortizing subsequently.

Prakash Agarwal: As a percentage to sales, that number then would look lower, right?

Pranav Amin: It depends on the sales.

Prakash Agarwal: Assuming India double-digit growth and the US you are saying already recovering.

Pranav Amin: We don't really guide for the percentage of sales. This is an absolute number I am giving. If India grows and everything grows, then Yes, the percentage would come down.

Prakash Agarwal: Lastly, if you could share some broad level guidance for the India business, because we had a high base Q1 last year.

Shaunak Amin: I have always maintained whatever the IPM growth is for the quarter. We should expect a few basis points higher than the IPM growth. I will answer this in 2 pieces. Yes, there is a large impact of last year's April and May stocking that happened due to the Covid phenomenon. As long as the market stays robust, we should be able to grow a little bit faster than the market. That being said, azithromycin oral solid did have extremely large tailwinds in April and May of 2021-22. So, that would be a drag on the sales. The ex of these 2 products, we expect the portfolio to perform pretty decently.

Moderator: The next question is from the line of Damayanti Kerai from HSBC Securities and Capital Markets. Please go ahead.

Damayanti Kerai: I just wanted to understand Aleor related costs better. Baheti sir mentioned now all R&D will be expensed. First, how much of Aleor R&D has been capitalized so far, and going ahead, you mentioned R&D will move up from around 640 to 700 crores for the next year. Similarly, what kind of incremental costs we are expecting above EBITDA ex-R&D due to this ownership change for Aleor?

R K Baheti: Cumulatively, Aleor's accumulated R&D expense which was capitalized as CWIP or as intangible assets were about 355 crores. We have expensed out 180 crores in this year March '22.

Secondly, Annual R&D expense as of now is about 50 crores which we have charged off in '21-22 and we will charge it off from '22-23 onwards fully.

Damayanti Kerai: Sir, you said 50 crore R&D will be additional coming off from FY23 across quarters?

R K Baheti: That's correct.

Damayanti Kerai: Sir, I just missed, how much you said the total R&D capitalized for Aleor?

R K Baheti: About 350 plus crores.

Damayanti Kerai: My next question is on India business. Obviously you mentioned traction has been very strong. Can you clarify a bit what factors have helped us in achieving such industry-beating growth? And for FY23, what are your expectations on growth contribution from the volume growth as well as from the price increase part?

Shaunak Amin: In terms of the India business, I have been saying it now for quite a few calls we have done significant corrections across the board in terms of our business and it is hard for me to get into all the things we have done over the last 4-5 years to get to this, but if I could just simply put it to you, the transitioning of the product portfolio to a more high growth profile for sure is a big one that has helped us. Along with that, extremely robust and rigorous efforts that we put into our supply chain in the market to optimize that. That has given us strong results. Along with that, a large amount of the correct mining in the business and trenching of the right kind of profile or manpower. These would be the three very macro reasons. Going forward, there is no guidance as such that I can give, but what I can say is that whatever the market

performance, I expect us to do a certain amount of basis points significantly better than the market growth in any given quarter, and that's what we are working to at this point in time. And if over the next couple of quarters we can establish a trendline, we will probably give a guidance at the end of the year to see if we can look at a far more higher percentage of growth over the IPM.

Damayanti Kerai: Sir, just a clarity; the NLEM hike, which was allowed from April 1st, that's all taken?

Shaunak Amin: On the volume versus price growth, it should be anywhere between a 70:30 split; 70 on volume and 30 on price.

Damayanti Kerai: So, 70% contribution from the volume growth and the rest 30 from the pricing hike part?

Shaunak Amin: Yes.

Moderator: The next question is from the line of Yash Gupta from Angel One Limited. Please go ahead.

Yash Gupta: Sir, first of all, this 35 crores of Aleor business is for the complete year FY22 or for the quarter?

R K Baheti: Full year.

Yash Gupta: We have 13 launches in FY22. How much of the 70% growth is attributable to the new launches and any thoughts on the price erosion in FY23?

Pranav Amin: We don't give a breakup of how much of the growth came from the new launches, but strategically what Alembic does as you know is whenever there is a market, we slowly pick up market share. We don't get market share right away. So, we gradually

pick up market share in our products, and as we get more confidence and as the buyers get more confidence in our supply chain abilities, we gradually pick up share. So, we don't give a breakup of from where we got it.

For your second part of the question, price erosion is tough to say because we are coming off a high base of last year. If you look at it sequentially, I will say about 5% to 10% or something like that.

Yash Gupta: For the Indian business, have we taken any price hikes in the April month related to the NLEM and any numbers that would you like to give?

Shaunak Amin: At the moment, in certain parts of the portfolio, we have taken a price increase but we don't expect that to play out immediately as there is some amount of manufactured inventory that we have in our warehouses. By the time we extinguish that inventory, it will play out may be in a month or two in terms of price increase.

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

Tarang Agrawal: Just a couple of questions on some key products. I read about there is Sprycel settlement with the innovator. When could we see this launch happening?

Pranav Amin: For which one?

Tarang Agrawal: Dasatinib

Jesal Shah: Actually, we are not disclosing products which are under settlement. But you are right; the product has been settled, and we hope to launch at the time of market formation.

Tarang Agrawal: And when is that likely to be?

Jesal Shah: We are not able to give an exact date at this time because of confidentiality provisions, but it's not in the near term.

Tarang Agrawal: Given that Lacosamide is genericized, how is the market formation because I see there are a lot of players there and how big could this opportunity be?

Pranav Amin: It is still early days. We did launch our product but I think there is a lot of competition. So, I don't expect it to be a very large or meaningful launch for most people. These are still early days but we are just waiting to see what happens. We have picked up some share. We haven't gone up in any of the big accounts.

Tarang Agrawal: There is a product for which you received tentative approval in January. It's called Vortioxetine. Can you just give us a sense what's happening there in terms of litigation with the innovator?

Jesal Shah: Vortioxetine, I think in the public domain, you would see that there was a litigation going on. We generally expect the launches to happen only after compound expiry.

Moderator: The next question is from the line of Vaibhav Badjatya from Honesty and Integrity Investment. Please go ahead.

Vaibhav Badjatya: Sir, I have 2-3 questions from a longer-term perspective. Firstly, we have been repeatedly highlighting that we have a nimble supply chain, and whenever there are opportunities that arise due to market dislocation, we are in the right position to capture that. What exactly we have done to be in this good position that we are able to capture the opportunity? Is it like we generally have more inventory as compared to competitors or is it like our manufacturing equipment are more flexible to quickly shift

between the different kind of production? What are exactly the 3-4 things that enable us to be in this good position?

Pranav Amin: That is one of the focus areas that we wanted to build on for the US business because it's an important area we realized and you mentioned some of them and a few things that we do. I don't know compared to the competition, but what we do internally is if we do pick up an account share, we do carry extra inventory. We carry extra all the way starting from the API or the intermediates to the finished product, so we carry some extra inventory. We have multipurpose plants, so it helps us to be more nimble. We try to leave some capacity idle, so that helps us scale up very fast if there is a market share buildup. And all the way from the front end to the back end, there has to be very good communication and everyone is aligned towards that and that's what helps us.

Vaibhav Badjatya: Secondly, on the international US business particularly, even if we exclude the one-time benefits that we get in different forms at different points of time, even our normal international business seems to be generating a reasonable sum of money in spite of a lot of products having been commoditized. It is well known that there are more than 6-7 competitors for these kinds of products, and in spite of that, not only you but a couple of other competitors are also making a reasonable amount of money. Why it is that still this is a reasonably attractive business in spite of more of being....I mean excluding the one-time opportunity, most of the products have been commoditized. In spite of that, we are continuing to earn good money. What in your view is the reason behind that?

Pranav Amin: I have always said that one of the reasons why the US market is attractive is – not just for Alembic but for everybody else – it's a

large market. And while India is a very steady market and you can grow at market or like Shaunak mentioned earlier in the call that there is a market share growth and you have to either do better than that or less than that but you get restricted to that band. But for the US business, there is a big opportunity to add business very fast and if you see, a classic example is Alembic and we have grown at.... up until last year, we have had a CAGR of 25% in a 5-year period. So, you can add a lot of business, and that's why the US business is still attractive. One-time buys always help you with helping your margins and they help up the profit, but long term supply contracts are the base. There has been more price erosion as everybody else, all our peers in the market have said. So, it has made it a little less attractive, but our long-term view is it's still an interesting market and we are still focused on it.

Vaibhav Badjatya: Generally, nobody else gives this number, but ROCE on the international business would obviously be lower than domestic, but everything is still in the range of say 15% to 20% or it's below that?

R K Baheti: You are right. ROCE on domestic business is very high primarily because the investment needed for domestic business is limited and you will get a high profitability out of it. As far as international business is concerned, say until '20-21, we were making a decent ROCE even in the international business. Two things have pulled down our ROCE in recent times. One is the investments which we have done which have not started contributing revenues, and the second is, some profits have been chipped off. As a company, we are still good on ROCE, particularly if we exclude the projects related to CAPEX because they are still not revenue generators.

Vaibhav Badjatya: If I exclude the CWIP or the projects that have not contributed to the revenue, international business still has a reasonable ROCE. That is what you say in FY22 as well?

R K Baheti: Reasonable is a state of mind and what is reasonable there is no definition. But yes, we still have good positive ROCE.

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

Ranvir Singh: I just wanted clarity on US business. In this quarter, we had better than the normal run rate that the average run rate we had. What was the reason? That particular launch of respiratory products, that is the only contributor?

Pranav Amin: No. As I mentioned earlier in my opening statement that one of the reasons why the US did well is we have picked up market share in our existing portfolio. I have been saying it for the last 2-3 quarters that we are gradually picking up share in some of our products. That is one reason. Number 2, there were some one-time opportunities that we saw in the US market, some short terms, that have kicked up the sales. And third is, we have moved distributors in the US, still some inventory restocking at the distributor level. We carried some extra inventory at the distributor level to make the transitions smoother.

Ranvir Singh: Of that, 10 to 12 million, it has been in the nature of exceptional upside, right?

Pranav Amin: I wouldn't like to give a breakup of this stuff to say but this will be because part of it was increased market share and part of it one-time buys.

Ranvir Singh: Secondly, on integration of Aleor; what was the operating cost related to Aleor in this quarter or for a year if you can give.

Mitanshu Shah: We have R&D cost of around between Rs. 40 to 50 crores. And the plant is very efficient, it runs around less than Rs. 40 crores.

Ranvir Singh: Of that 188 crores excluding that 55 crores in amortization, the remaining is 123 crores. Of that 123 crores which is above EBITDA, that includes....

Mitanshu Shah: What we can do is we can take this question offline. You can call me and we will discuss this.

Ranvir Singh: Okay, sure. Just last one on another side that on CAPEX, what in FY23 we can expect?

Mitanshu Shah: CAPEX for '23 would be around 450 crores. That would include the preoperative expenses for the plants.

Moderator: The next question is from the line of Ashwini Agarwal from Ashmore Investments. Please go ahead.

Ashwini Agarwal: On Aleor, in response to the previous question, you said that the capitalized R&D was 355 crores of which 180 crores has been expensed off as a one-off. Is there a plan to expense off the remaining 175 crores as well?

R K Baheti: Yes. As I said, Aleor as of now, it still remains a separate company though we plan to amalgamate it. They have decided to accelerate the amortization. So, I believe the rest of the accumulated tranche will get amortized in '23.

Ashwini Agarwal: So, 175 crores will appear as a one-off in fiscal '23?

R K Baheti: 155 crores or so.

Ashwini Agarwal: Sir, obviously this business is incurring a fairly substantial loss at this point in time and we have a number of filings in there. Could you help us build a picture about how we should look at Aleor over the next 3 to 5 years? You acquired the minority stake of 40% in this and you are amalgamating it in the Holdco. How do we think about this business from a 3- to 5-year perspective?

Pranav Amin: In my opinion, the best way to look at it is, it is separated now, I think we are moving forward it is going to be amalgamated into Alembic. And there is not much to see, right? Because even on the R&D side, as I mentioned, the ongoing R&D cost will be about 40-50 crores a year compared to about 650 crores that we have in Alembic. So, even it's a small fraction. We have filed a bunch of products, about 30 odd products that they have got and they will just get amalgamated with Alembic. The plant is running quite efficiently. Moving forward, after the amalgamation, I don't think you should look at it separately but it is just like a derm portfolio for us because cost-wise there is not going to be any major issue for us.

Ashwini Agarwal: No, that's not the point. The point is that last year you had a revenue of roughly about 33 crores against which you had an R&D expense of about 50 crores and plant operating expenses – if I got the number right – another 80 crores or so, correct?

R K Baheti: All put together was 80. So, the plant would be around 30-40 crores.

Ashwini Agarwal: So, it's a straight loss of about 50 crores. Obviously, while it will be a division and it will be a number that will get hidden away in the big picture of things, but I just wanted to understand the rationale for acquiring the minority stake and what do you expect

this business to contribute over a period of time? The fact that it will be small is not relevant, right?

Pranav Amin: The rationale is the same as it is for the rest of the US business. We are still excited about the US business and this is a good portfolio to have. There are some opportunities in derm as well and I do see the sales also ramping up significantly. There is a lot of approvals that will be coming at this plant. Cost-wise, the plant is a very efficient plant. So, it's going with our US strategy that we are excited in the US business and this one too will aid to that, and sales and profit everything will go uphill with this.

Ashwini Agarwal: If I recall right, the total capitalized value of Aleor as of 31st March 2021 was of the order of 800 crores. Am I right?

R K Baheti: Yes, that's right.

Ashwini Agarwal: And out of which let us say 355 crores gets written down as R&D, that leaves you with something like 500 crores ballpark. Would that be correct?

R K Baheti: Yes.

Ashwini Agarwal: And would it be reasonable to expect it over a period of time this 500 crores can turn out in ROCE of double digit or would that be too aggressive?

R K Baheti: No. I think over a period of time, we expect it to have a low double-digit ROCE going forward.

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

Saion Mukherjee: On the US market, Pranav, this quarter seemed to have created such an opportunity. What is driving it? Is it the China-related shutdown, why our distributors talking more, and why are those opportunities coming back? Is there any structural shift or this is just....

Pranav Amin: Saion, there is no structural shift per se in the market. For the last 3 quarters, I have been saying that we are looking at building up more market share in some products. So, we have had that. That is one aspect of it where we have gained market share in some products. No. 2 There were certain one-time buy opportunities. I don't think they were China related. It was just basic whatever reason the market was short on these products. That was the second one. Third as I mentioned, the distributors. I think that is more only for us because we are moving our third-party distributor to a new distributor. We moved on the 1st of April. Hence, we wanted to stock up some more material to ensure there is a smooth transition. That's all. But structurally there is no shift in the market per se. I don't think China disruption is something that we have seen so far on the formulation side in the US.

Saion Mukherjee: The second question is, when you think slightly long term in the US, you mentioned it's a market which you feel excited about, but it appears that most of these opportunities are very much sort of one-off in nature which is very unpredictable. How do you make capital allocation decisions based on such sort of uncertainty?

Pranav Amin: What we have seen historically with the US market is that it moves up and down. There are opportunities always. And as I said earlier, it's like a massive market size. While the returns have come down considering what we thought initially, but we are being mindful of it. That is why if you see R&D, what I said earlier that

R&D also for the next year, we are going to keep R&D flat for the next year. And if you do your job well and if you remain compliant, you will get opportunities as we have seen that from time to time.

Saion Mukherjee: Any of the new areas you are looking at for the US market? I know you have topicals, injectables, oral solids. Anything else you want to sort of....?

Pranav Amin: As of now, our hands are full with what we have got. Our first priority is to ensure the injectable plant is compliant. So, we will resubmit our response to the FDA. We are undergoing remediation right now and we have got consultants. That's the first aspect, because once that comes and automatically the ophthalmic line, the regular injectables, the prefilled syringes, the long-acting injectables, everything then kicks into play.

Saion Mukherjee: Just one final question from my side. On the cost front, if you can just throw some light on how the raw material, logistic, and other overhead sort of costs are trending? I just want to know where we are versus let us say what we had seen maybe pre-pandemic levels. Just to get a sense on how elevated the costs are for....

Pranav Amin: This year the logistics have been a big hit for everyone, I guess, in the industry because all your shipping rates – not just air but even sea – have gone up. We moved a lot of our shipments from air to sea but in spite of that, we have seen a higher logistics cost.

R K Baheti: On the material cost, we are stable. There is no significant change from the last quarter. Pre-pandemic is an old story. So, I don't even remember the number. But generally other expenses are in line.

Pranav Amin: The material cost of some intermediates and some chemicals have gone up. The rest I think is okay.

Saion Mukherjee: Is it possible to give a number like so many crores, let us say....

Mitanshu: Saion, can we take this offline? You call me and we will discuss the numbers.

Moderator: The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Just one question. Since Aleor is loss making and derms are a little bit kind of getting commoditized, was there a thought process of selling our stake rather than buying the other stake?

Pranav Amin: To be honest, no. As I mentioned, it is an interesting market. So, I didn't want to sell our stake. It's an FDA compliant plant approved for, inspected 4 times. There is a nice portfolio and it's a good basket of products. So, I was quite keen to pick up the balance 40% stake.

Prakash Agarwal: What is the pipeline like? How many filed and how many pending?

Mitanshu Shah: We have a total of 45 products that we are working on at this point in time. There are others under consideration but 45 on the grid. We have filed 30 of that actually and we have 17 approvals and we have launched 11 products.

Prakash Agarwal: And these 7 products are currently giving us \$5 million?

Mitanshu Shah: Yes.

Prakash Agarwal: And these would be just launched, right? I mean there is a chance of them becoming a little larger, right?

R K Baheti: Yes, of course.

Prakash Agarwal: Secondly, on India business; since growth is across the board and more so acute, but things will normalize. Just trying to understand; in the past, we have invested and all the capital allocation is higher in the export business. Having done that, now is there an M&A strategy for India? Any thought process there?

Shaunak Amin: On the India piece, on the M&A side, like I said, we keep a check of what's going on. At this point in time, looking at the last valuation for the last 3 transactions in the India business that have happened including the veterinary ones. We see limited long-term value in any M&A strategy at this point in time to pick up an entire portfolio. What we are constantly trying to do is we are trying to augment the portfolio and we have certain slots in certain divisions. There are certain therapeutic areas where we can look at acquiring a one-off trend. Those transactions are quite slow and long drawn and success rates are very low. That is what we are looking at. But as of now, jumping in the fray for any M&A asset that comes up in India, that's not something we feel is a prudent strategy for an Indian company like us.

R K Baheti: Having said that, Shaunak, we will continue to invest in our organic growth that is the idea.

Shaunak Amin: And the reason why I say this is where we are we have been able to demonstrate now it has been quite a few quarters, we have been able to show sustainable predictability and decent growth numbers. There are plenty of ideas and there are plenty of things at an organic level where we want to actualize. From a resource allocation point, yes, we have stepped up resource allocations a little bit compared to what we have done 2 to 3 years ago, but there are a lot of ideas and there is a lot of clarity in terms of what

can give us this additional incremental growth in the India business over and above what we are doing at this point in time. Hopefully, we can execute these in this year and some of that should start showing by the end of the year.

Prakash Agarwal: Lastly, was there a comment of a partnership with Rhizen on Umbralisib? Where are we? What are the next steps? If you could just give us the year-end overview and going forward how....?

Pranav Amin: No, there was no comment on it, and it's a disappointing news that we saw that the FDA has taken a very different view towards all PI₃ kinase products in the market. Hence, TG have volunteered out of the ODAC meeting. So, what we know is in the public domain of TG. We will start discussions with them on what they say, but what we know in the public domain of TG is that they are not going to pursue oncology in the future. So, we are in talks with them. Let us see how it goes. It was a bit disappointing because it was at the last leg and FDA took this call – not for this particular product but for PI₃K inhibitors.

Prakash Agarwal: And then you have the chance to go and scout for another partner or how does these things happen?

Pranav Amin: As I said, we are in discussions with TG. Let us see what happens. But we are in talks with them. So, in the next couple of weeks, we will get an idea.

Prakash Agarwal: Is there any near-term milestone that was pending?

Pranav Amin: No, nothing was pending.

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

Bharat Celly: Since our product Azithral has crossed the 450 crores mark for this year which could actually normalize going forward considering the Covid cases as well have come down drastically, do you believe we can grow in double digit even going forward in FY23?

Shaunak Amin: Like I mentioned, with some amount of higher base this year growing at a double digit for '22-23 would be a bit of a challenge. But going forward, '23 onwards, we should come back to historical growth number that we have been giving pre-Covid which was anywhere from a low to mid-level double-digit growth based on market growth numbers.

Bharat Celly: Just wanted to understand on the US part as well. Considering we have got additional set of queries for the new facility; how do we look at US market from FY23 perspective in the absence of new plants considering the new product approval which we have seen is having a ticket size of around \$25-30 million. So, in the absence of new facilities coming through, how do we look at the US market for FY23?

Pranav Amin: There are 2 parts to it. I think we are still going ahead with launching. As I mentioned, we will launch about 15-odd products in the US in FY23. That will help the growth as well as what we saw in Q4 that we picked up share in some existing products as well. So, 15 products is pretty good and I think we should be able to get growth on these products. In the next 6 months to 9 months – depends how long it takes for the FDA – we will get an idea about the new facility as well, but growth will continue because we have a non-injectable portfolio as well.

Bharat Celly: Just wanted to understand one part. Considering we have got a settlement for Revlimid. When is that launch scheduled? Are we

going to be at the time of market formation in the second wave or third wave? How is this going to be?

Jesal Shah: Is the question on Revlimid?

Bharat Celly: Yes.

Jesal Shah: Revlimid was in the public domain. We are in litigation with the brand innovator and that's all we can say at this stage. It's a pretty early stage in litigation. We will see how that progresses.

Bharat Celly: So, we have not yet settled it, right?

Jesal Shah: No, we have not yet settled it.

Bharat Celly: And last question. You said 15 launches. Out of that, how many are going to be the ones which we had got already approval in FY22 and we will be launching in FY23?

Pranav Amin: Is it about Aleor?

Bharat Celly: No, overall.

Pranav Amin: I am just saying 15 that is what I expect to launch. We don't launch, we sometimes take some time to launch a product to see the market formation where we wait. It's an opportunity. But we will launch 15. Some may be from this last year; some may be pending with us for a while. It depends on the situation.

Moderator: Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to Mr. R K Baheti for his closing comments. Over to you, sir.

R K Baheti: There were a couple of pending questions but we have some other schedule. So, you can get in touch with anybody whose

questions were not responded to after getting in touch with Mitanshu or Ajay and they will be happy to share that information. Thank you very much everyone for joining this call. It is always interesting to interact with you and look forward to seeing you again in the next quarter. Thank you.

Moderator: Thank you members of the management. Ladies and gentlemen, on behalf of Alembic Pharmaceuticals Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.