



“Alembic Pharmaceutical
Conference Call”

August 8, 2013



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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY'14 Results Conference Call of Alembic Pharmaceuticals Limited hosted by Edelweiss Securities Limited. As a reminder for the duration of the conference all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, you may signal for an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Perin Ali from Edelweiss Securities. Thank you and over to you, Madam.

Perin Ali: Thanks, hello and a warm welcome to all of you. On behalf of Edelweiss, I welcome you all to the briefing of Q1 FY'14 results of Alembic Pharmaceuticals. Today we have from the management team Mr. Pranav Amin, Director & President International Business, Mr. Rajkumar Baheti, Director & President Finance, and Mr. Mitanshu Shah, Vice President Finance. Now, I hand over the conference to Mr. Baheti for opening remarks, over to you Sir.

Rajkumar Baheti: Thank you Perin. Thank you all of you and a very good morning. Thank you for joining the call, I know it is hard day's work for pharma analysts, lot of conference calls and lot of results. Most of you would have received our financial results along with investor update. However quickly let me briefly take you through the operations for the quarter ended June 30, 2013. During the quarter the total revenues grew by 16% posting sales of 429 Crores. India branded businesses grew by 15% to 196 Crores, international business grew by 33% to 185 Crores. The profit before tax grew by 60%, to 60 Crores and the net profit after tax grew by 51% to 46 Crores. For the current quarter EPS works out to be 2.47 per share as against 1.64 per share, you remember our share has par value of Rs.2. CapEx during the quarter was 12 Crores and loans at the end of the quarter were down by another 15 odd Crores. Along with Pranav and Mitanshu I also have my business development team with me, Mr. Vipul Gandhi and Mr. Ish Bansal and I have our new joiner Mr. Jesal Shah with whom most of you would be familiar. Now I will hand over to Mr. Pranav, who will take you through the operations.

Pranav Amin: Good morning everyone I will just give you a brief snapshot of the operations, R&D cost for the quarter was Rs. 22 Crores which is 5.23% of sales. I have mentioned in the last call that we will not be filing any ANDAs in this quarter, so hence we do not have any ANDA filings. The cumulative filings stand at 57 and we have received approvals for 25 and 3 tentative approvals, so 28. One DMF was filed so cumulative 61 DMF filed. International generics grew very well by 86% to Rs. 85 Crores versus Rs. 46 Crores last year. The expanded formulations facility is partially operational and we expect it to be fully

operational by end of Q2. So I think Q3 is when you would see it fully operational. API sales in the quarter were at Rs. 106 Crores which is relatively flat. Talking about the branded formulations in India the ORG IMS figures for the month of June and YTD for the industry were quite disappointing. However in spite of the slowdown in industry Alembic has grown by 15% in the quarter, our speciality business grew by 26% versus the industry growth rate of 12% in MAT. Acute business grew by 3% versus industry growth rate of 7%. Total specialties percentage of business has gone up steadily in the last three years, as has been our strategy and our focus, and the same now stands at almost 50% as of June 2013. There are some concerns on implementation of reduction in prices announced during the quarter, barring this we are quite confident of a good performance going forward. I now throw this open for Q&A.

Moderator: Thank you very much Sir. Participants will begin the question and answer session. The first question is from the line of Mr. Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: On the NLEM impact can you again quantify that, now that the ceiling prices have been out from most of the products?

R. K. Baheti: It stands at around Rs. 25 Crores on an annualized basis

Dheeresh Pathak: Sir on desvenlafaxine Ranbaxy is clearly saying that there is some disappointment in terms of the earlier projections they would have had because I think it is almost three to four months and we have yet to see any meaningful impact at least on the IMS numbers. So given that we have two years on this opportunity can we just hear your thoughts on how it is going from what you had earlier planned?

Pranav Amin: In terms of desvenlafaxine, yes the uptake has been little slow. But as expected for a product of this kind Ranbaxy had a very good target on it, we are very happy with the efforts that is getting done at the grassroots level. I am confident that they should make it up. We have taken a base case of about 5% to 7% market share and we hope that by the end of this year we should get to those levels as well.

Dheeresh Pathak: The incremental filings that we are doing for the US business if you can share like how many are being partnered through and how many are we planning to do on your own?

Pranav Amin: As I mentioned at a given point in the future we will launch on our own in the US, so increasingly we are not partnering lot of our products. There are some products, which we may partner but the rest is pretty much going on our own because we want to launch on our own.

- Dheeresh Pathak:** Last year you had 13 filings if I am right then how many of those you have partnered?
- Pranav Amin:** Most of them would be our own filings. There are very few which would be partnered, unless it was agreed to much earlier.
- Moderator:** Thank you. The next question is from the line of Mr. H.R. Gala from Quest Investments. Please go ahead.
- H.R. Gala:** You said the CapEx which you incurred in this year is 12 Crores so far, so how much will be your total CapEx?
- R. K. Baheti:** For this year we expect it to be around 50 to 60 Crores.
- H.R. Gala:** What is the level of gross debt and net debt now?
- R. K. Baheti:** Our gross debt is about 175 odd Crores and the cash on books would be about 20 Crores.
- H.R. Gala:** Going ahead do you expect any delays in getting approvals from US FDA like many companies are facing this issue that the approvals are not coming because of some changes in the process that they have undertaken, so do you expect any headwinds on that count as we are now wanting to grow US business in a big way?
- Pranav Amin:** I think what is happening over the last five years or seven years is that we are seeing longer time for approvals by the FDA which is why they implemented the GDUFA fee last year, but there is still a backlog at FDA and that will continue for a couple of years until they clear that up, so that is something which is not in our hands. What will happen in terms of the filing is that there may be a slowdown in Q4 of this year and Q1 of next year because FDA is going for a six-month data instead of three-month data. **H.R. Gala:** Overall what kind of filings do we expect in US in this year and next year?
- Pranav Amin:** Goal is 10, but as I mentioned Q4 and Q1 will be less because now US FDA has implemented six-month data, which should be below 10.
- H.R. Gala:** As far as the margin is concerned we have seen handsome gain in this first quarter; do you expect that to continue?
- Pranav Amin:** Couple of things had happened in this quarter, in the US we grew over the last quarter which was at a smaller base. There are some products which performed very well, of course the foreign exchange helped in international business. In India we saw increase in our speciality business. So some of the impact will continue, . If Desvenlafaxine picks up



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then we might see more of that in the coming quarter, so there are couple of variables, which may go in our favor or against us.

R. K. Baheti: Also I think the negative balancing would be because of impact of the price reduction and the first impact of price reduction will be felt in July-September quarter.

H.R. Gala: What is the legal position with so many companies filing the cases for the new DPCO?

R. K. Baheti: I do not think the filing or per se is against the DPCO. Most companies who went to court said the deadline of 45 days is impractical, and NPPA direction of getting back all the stocks, from all the chemists shelf was impractical that should not be forced upon, so that is where companies have got temporary limited relief.

H.R. Gala: There is some issue on the margin also, the trade margins are to be given to retailers and stockiest?

R. K. Baheti: That I think the trade bodies are independently fighting.

H.R. Gala: But then the question will be if they go for destocking they do not buy then there could be an issue, the primary sales to them also might be affected?

R. K. Baheti: It is like saying that pharma company, if DPCO is implemented, will go out of production. It does not happen that way. They would continue to be in business, so they will continue to fight for their rights, but they will continue to be in business, if they do not sell my products what will they do.

H.R. Gala: So you expect this to be resolved pretty soon?

R. K. Baheti: That I do not know.

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

Bhagwan Chowdhry: Just want to understand on this US part the ramp up has come in this quarter, how much belongs to ramp up in the new manufacturing facility?

Pranav Amin: It is the same facility; it is an extension of the existing facility so it is still hard to justify how much is coming from the new one and the old one, because we do a combination of the same facility.



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- R. K. Baheti:** This is a combination of sales growth on supply, on profit sharing and on milestone, so it is all combined together.
- Bhagwan Chowdhry:** Was there some milestone payment as well?
- R. K. Baheti:** That would be in every quarter.
- Bhagwan Chowdhry:** In the current quarter?
- R. K. Baheti:** Yes there would be.
- Bhagwan Chowdhry:** Secondly on this domestic business other than generic business, however it is a very small part of your overall business, what is exactly?
- R. K. Baheti:** This is the generic-generic business. Many other companies would have generic-generic division in their portfolio but consciously we are not growing this business for the last so many years, so for so many years, you will see similar numbers.
- Bhagwan Chowdhry:** Thirdly on the margin side, still you have that outlook what earlier we were having some 100 basis points kind of the margin improvement every year despite this NLEM and price erosion in the domestic market?
- R. K. Baheti:** These things were factored in while we talked about our margin improvement last time.
- Moderator:** Thank you. The next question is from the line of Purvi Shah from Dalal & Broacha. Please go ahead.
- Purvi Shah:** I just wanted to have an outlook on the Indian formulation business, how do we see it going forward?
- Pranav Amin:** In terms of the Indian formulation business going forward, as you know it is an important market for us, as a trend we are increasingly trying to focus on this speciality segments.
- Purvi Shah:** Okay, so we can expect it to be more than the market growth is what we are trying?
- Pranav Amin:** That is what we are attempting to do.
- Moderator:** Thank you. The next question is from the line of Kevinder Suri from Span Capital. Please go ahead.

Kesvinder Suri: Good morning to the whole team. Firstly, speaking on your international generics business, you see that on a sequential basis the growth has only been 10% I believe the currency also appreciated about nearly 10%, so is my understanding correct, you had a flat revenue Q-o-Q in dollar terms?

R. K. Baheti: The fact remains that the **expanded** facility was operational only for the part of the period, so going forward as we put more of the facility into operations you will see a higher sales impact.

Kesvinder Suri: Right now what is the availability on that whole 5 billion capacity what we had for planning, you said 5 billion comes at somewhere in the end of 2Q or early 3Q right?

R. K. Baheti: That is very difficult to say. In Pharma plant that does not work that way because you need to do validations and qualification stage by stage

Kesvinder Suri: In your presentation and annual report you mentioned about a 30% CAGR in international generics till FY'15 what is the base you are considering this, are you considering this in dollar terms, currency terms because the currency appreciation would have factored in if you have taken on the rupee terms, if you could just throw some more light on that?

R. K. Baheti: Base is March 2013 and the currency is rupee.

Kesvinder Suri: If I were to just extrapolate the growth you are talking about even the domestic been affected this year and 30% growth on an international, so the 2000 Crore kind of outlook which we had topline outlook by FY'16, I believe that gets shifted by another year?

R. K. Baheti: Not really actually, why you say that?

Kesvinder Suri: If I just do the 30% CAGR for 2015 I get about 400 on FY'13 number of international generics of 235 that is only about 400 Crores and even I assume a simplistic 10 to 12% growth on that domestic 1000 odd Crores when you even take the other international branded it hardly adds up to about 1500 odd right and then the repay of course had another 500 Crores?

R. K. Baheti: Our business in March 2013 was about 1500 Crores, so I think we should reach 2000 Crores by the time we indicated.

Kesvinder Suri: Margin expansion you see happening right now and what would you actually attribute the so-called less than expected performance on the desvenlafaxine product? Just your thoughts



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on it, what would you cite the reason because initially we were in expectation of greater market share?

Pranav Amin: Actually I am not that dissatisfied with the performance I am always on the record saying that this conversion will take time, it is not like a pure generic conversion, it takes time because you have to get in at the formulary level, get them to make the change slowly, so it will take a couple of quarters I am not that worried about it at this stage.

Kesvinder Suri: When do you see an inflection point being reached for this product?

Pranav Amin: It depends how soon the conversion starts I think we have seen some activity right now, the net sales reflect just a 1% market share, but as the conversion happens that will stay, so I think another quarter or two at least.

Kesvinder Suri: On the API front, we had some we were tying up with some developmental quantities being sold last year which was much in increment compared to the year before that, has there been any furtherance to that kind of deals in terms of those scaling into full time API supplies for you?

Pranav Amin: I think that is happening. What we are doing on the API side is that we are currently balancing our portfolio. One reason for the profit growth, even though the API sales had been flat, is that the product mix has been much better, . In terms of the business development yes they are spending on R&D chemistry, so we keep getting those molecules into primary source or secondary source in dossiers, so that development will continue also.

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

Manish Jain: On desvenlafaxine this Osmotica approval change anything for you all?

Pranav Amin: It is an interesting question I think we will have to wait and see in the market how it goes, because as you see it has taken us a while to ramp up as you heard in the Ranbaxy call and from the data, so it could be one or two things, one it may affect us, or it may benefit us also, I think we do have a lead over six months on them, I am not that worried about at this stage let see what happen when they launch and how they target it.

Moderator: Thank you. The next question is from the line of Niraj Somaiya from Rose Red. Please go ahead.

- Niraj Somaiya:** Mr. Rajkumar Baheti, one thing on the EBITDA margins which was 17.35 last quarter, we shaved off a percentage and also you had a rupee gain this time, where has this 2% thing because the R&D what has really happened that this EBITDA 2% are is it the destocking, could you just explain the reasons why this would have happened?
- R. K. Baheti:** You are comparing with what?
- Niraj Somaiya:** I am comparing last quarter, quarter 4 with first quarter, your EBITDA margins have slightly moved on. If you see overall your sales has increased significantly from 370 to 420 Crores while your profit margins and profit in physical numbers also if you see has not moved that much from 43 Crores to 47 Crores and EBITDA of 65 or 70, does not matter which number you take, but what would you attribute this reason to despite a strong topline growth, despite a rupee benefit to you, is it the R&D whether has this additional cost gone?
- R. K. Baheti:** Unlike IT sector, pharma it may not be most appropriate to compare the preceding quarter and the succeeding quarter, the corresponding quarters give you a better clarity, why I am saying is that the sales trend and the spend trend for companies like us and mostly all companies would differ from quarter to quarter depending on the season because lot of us would have antibiotics, cough and colds spends and the sales move seasonally it is not uniform..
- Niraj Somaiya:** How much would have been the gain from foreign exchange in this quarter, assuming last year was the constant currency how much would have been gain in terms of foreign exchange directly to the bottom line?
- R. K. Baheti:** That assumption is hypothetical assumption, I think there would be surely gain because we continue to remain net foreign exchange earner but some gain would have been offset by some of these balancing funding which we do, we do PCFC, ECB, so net-net the gain would be over 3 or 4 Crores.
- Niraj Somaiya:** All your expansion programs are over right, in terms of the expansion, in terms of investment of 140 Crores all that is over and that is more or less done in terms of actual investment right?
- R. K. Baheti:** There may be some balancing equipment investment in this current quarter otherwise you are right.
- Niraj Somaiya:** But that will be all minor right?



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- R. K. Baheti:** That is right.
- Niraj Somaiya:** Pranav, we have almost achieved close to 2000 Crore company which was our earlier discussion a few calls back, now where would you take the company, how would you grow the US sales, would you be niche product company, from here somewhere you will have to look at some niche what would you take here for Alembic because they have more or less your target which may be in 15 or may be 16 does not matter, but somewhere you are very close to your target which was the first target, now what would be your second target or how would you take this company, where would you take it and how would you take it, would you go by research, how would you build, when everyone is trying to build somewhere in that area, some specialty, would it be acquisition, would it be sell out?
- Pranav Amin:** It is a good question, what has happened so far is we have grown quite rapidly as you have seen, in generics. What happens is as we move along couple of strategic things are going to happen, as I mentioned we will have to get into the US direct marketing that is the first milestone that will happen by the end of 2014 or early 2015 that is one. Second is I think we have to increase our skill sets on execution to ensure we get to that level because 2000 Crores company is a little different from 1000 Crores, we are building up a team, we have got some new people joining us this quarter also and strategically also we will start exploring some other territories as well.
- Niraj Somaiya:** Would you grow inorganically or would there be inorganically or it continue to grow, if organic would you recruit a lot of people, is the management aware of this to go to the next level?
- Pranav Amin:** Most of our growth would be organic, inorganic is not part of the strategy right now, we will keep evaluating options to see if there is any needs that we are likely that we can do it but most of our growth should be organic.
- Niraj Somaiya:** With so much cash you would throw you do not have much this 160 Crores does not matter either way, now would it more of a dividend pay or would you conserve cash to grow the business how would you use this cash because somewhere return on equity does get affected from next two years, how would you strategize on the money which you would throw in the next two years, would it be used for research or would it be we pay the dividend, what would be your strategy would be on that front?
- R. K. Baheti:** All the three Niraj, you have already seen dividend enhancement in terms of pay out ratio, there will be further debt reduction, and of course we will have to conserve cash for growth.



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- Niraj Somaiya:** Mr. Baheti do you now have a dividend policy that if we make X we will have this much percentage or is it more?
- R. K. Baheti:** There is no formal policy, but as we become less leveraged the payout ratios should go up.
- Niraj Somaiya:** Pranav, with all this US changes in first to file, I heard lot of calls, I am not an expert, what is your strength, is it all getting derailed, just I heard Cadilla before this and generally everyone is getting delayed for whatever reason, let us assume you have certain filings, and certain people develop the inventory in advance or would you wait for your filings to come, how would you take this challenge in the next one year, may be in one and one half years are you going to see that you get delayed would you build inventory before that or how would be cope up with this whole challenge of new filings and also second part to that would be certain filings down to down make sense because certain product pricing, would you pull out your filings any how would you take this whole thing if you could explain some small and throw some light on that?
- Pranav Amin:** There are two to three aspects of it, you are right, first you see some of the filings we have seen recently there has been a tremendous amount of competition, so we have to keep evaluating that from portfolio perspective which are the products that you want to work on, if there are 15 filers then it gets very tough to make money, so we move to niche products and everyone talks about that but how do we try finding some unique product or try doing products which are really less competitive. You have seen some of the NC-1 filings where there have been 15-16 filers, that is one example. We are getting a better development portfolio. In terms of approvals from FDA I mentioned earlier that is not on our hand,
- Niraj Somaiya:** How would you cope up in this scenario, would you build the inventory or would not build inventory for the products which you would make filings or would you wait?
- Pranav Amin:** See as of now we have do not face this issue because all of our products have tied up with partners and we have been pretty okay with our launches so far, yes some we may have been delayed, some we are on time, but so far we have not faced too much of an issue on this primarily because the capacity has been running full and we have been choking out as much as we can.
- Moderator:** Thank you. The next question is from the line of Mr. Sachin Kasera from Lucky Investments. Please go ahead.
- Sachin Kasera:** I had just two questions, one the share of specialty has improved from 44 to 50% can you give us some sense in terms of the margin differential between your specialty and non

specialty if you can tell us specific numbers on the margins is the margin difference between specialty and non especially substantial, does it have significant improvement on the EBITDA margin?

R. K. Baheti: At EBITDA margin there may not be significant difference but at GC level surely there is a significant difference, specialty carries a very high GC.

Sachin Kasera: What explains that while despite having higher GC margin the EBITDA or more or less same?

R. K. Baheti: You track pharma you would know this, so I don't have to say on a telecon.

Sachin Kasera: Second question was on the international generic business, the growth is around 86% in the generics and 62% in branded, will you able to quantify how much of this is in cost and currency terms because there would be some element of currency again in this?

R. K. Baheti: We do not track in that way but I have already given the net foreign exchange gain.

Sachin Kasera: I am talking of the revenue sir, revenue in international geographies from 40 Crores to 85 Crores and branded is from 7.5 to 12.5 Crores so on the revenue front if you could just give a sense?

R.K. Baheti: Honestly I would not have that on constant currency basis.

Sachin Kasera: My last question is on the API, if you see the API number compared to March it is 86 versus 53 YoY it is 86 against 83, so what is the reason for such high volatility in the QoQ on this API business and how should we look at it forward.

Pranav Amin: I think going forward it should be little more stable the reason for the QoQ is we had in the past some business which was a spot business that we had done which we are not doing anymore so that is the one I think going forward I do not think you will see as much volatility in the API business.

Sachin Kasera: And just last question this quarter the improvement in March is it because of the change in the product mix or is it also because of the change between formulation and API mixer and all that.

R.K. Baheti: From both product mix change between formulation and API and product mix change within the API business itself as Pranav had said earlier.



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- Moderator:** Our next question from the line of Priyank Singhal from Bajaj Allianz. Please go ahead.
- Priyank Singhal:** Hi, Pranav, Mr. Baheti congratulations on good numbers. I just wanted to again check this quarter again you have done very well on the domestic side in the specialty business especially in Gastro and Cardiology, so what is it that we are doing differently because of which our growth is actually much ahead of the market?
- Pranav Amin:** Priyank on the domestic as you know we have been saying just a couple of things. One we have smaller base in Speciality segments so that is enabling us to grow faster. We have strategically done lot of work over the last three, four years to ramp up our domestic in terms of practices at the field, MR productivity, HR practices and business, health and financial controls. So as a combination of all these and a little more focused approach we are able to grow on the specialty segment.
- Priyank Singhal:** And you think this kind of growth rate and out performance over the market would continue in the foreseeable future?
- Pranav Amin:** That is what we attempt to do and that is what we have to do of course as I mention we have smaller base right now, let see how it goes once we get with a larger base.
- Priyank Singhal:** But has it also included launching new products earlier that something we might have been lacking in filling the gaps on the product portfolio?
- Pranav Amin:** Yes, new product launches are critical and that is something that we have been doing on a regular basis.
- Priyank Singhal:** Okay secondly on the cost front Mr. Baheti while raw material cost as a percentage of sales has come down quite significantly on a YoY basis there has been a meaningful increase in employee cost and SG&A. So I just wanted to understand what could be the reason for that is it that we have hired extensively for certain opportunity. What is the reason for that?
- R.K. Baheti:** For domestic marketing we have not hired; our marketing field force base remains almost the same, no significant hiring during last six months or so There has been some ramp up in the international business on critical functions like QA, regulatory and supply chain, but I think generally the cost has also gone up. The new plant has started so the new plant had new workers and the entire new supervisory team, hence the numbers exactly are not comparable.

- Priyank Singhal:** How about in SG&A because that also has gone up from 80 odd Crores to 103 Crores on a YoY basis.
- R.K. Baheti:** Yes, part of it is direct variable expense and part of it is as I explained to a previous question is because of the nature of business.
- Priyank Singhal:** You mentioned that there would be a 20 odd Crores impact on account of pharma policy but the 100 bps margin improvement that you guided for would be despite that and the 20% earnings growth again that you talked about would be despite that.
- R.K. Baheti:** Yes hopefully yes.
- Moderator:** Thank you. Our next question is from the line of C. Sri Hari from PCS Securities. Please go ahead.
- C. Sri Hari:** If you could indicate the kind of price erosion that you had on desvenlafaxine number one and number two how Modafinil and Valsartan are faring currently?
- Pranav Amin:** In terms of Desvenlafaxine I cannot disclose the pricing and in terms of erosion there is nothing. I think we will get little more clarity in the next few quarters. Modafinil is doing very well, it is with one of our partners, I am not sure about the market share I do not have that data but it is doing pretty well in terms of profit and Valsartan we will be launching soon.
- C. Sri Hari:** Okay that is yet to be launched.
- Pranav Amin:** Yes.
- C. Sri Hari:** Okay then vis-à-vis the domestic in the cough and cold segment the performance has clocked up significantly in the current quarter could you please outline the reasons for that?
- Pranav Amin:** Yes, I think it is a good season. Rain started little early and rains were pretty widespread all over the country.
- C. Sri Hari:** No but the difference with the industry has narrowed significantly earlier I think there was a differential of around 3% this time around just about 1%.
- Pranav Amin:** I do not know. I do not have that analysis.



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Moderator: Thank you. Our next question is from the line of Sunil Rao from Sushil Finance. Please go ahead.

Sunil Rao: Just one question on standalone basis your EPS seems to be higher any specific reason from a consolidated being lower number?

R. K. Baheti: A lot of my new filings are being done from my subsidiary in Europe so, to that extent, gets accounted for there and obviously like Pranav said and we have been saying for last two three calls now we are doing more and more filings direct and some of these filings are being done by the subsidiary so the expense gets booked there and the revenues are yet to start on that account.

Moderator: Thank you. Our next question is from the line of Jigar Shah from Kim Eng Securities. Please go ahead.

Jigar Shah: Good morning congratulations to everybody for a very good performance. I have two questions, one is that we have seen a pretty decent increase in the R&D expenses for the first quarter so can you give us some idea to it is going in what direction and whether it has got any quantitative importance as you are saying only 10 to 12 products to be filed as planned so the expense increase is just reschedulement or it is something to do with any major program.

Pranav Amin: Jigar in terms of R&D what we will see is about 5% to 6% of sales somewhere around that. In terms of filings this is not the quantity with the filings I have mentioned that only the US filings one and second the US filings are also little more complex some of them were one of the reasons why there may be an increase in cost because the bio study may be a little more expensive or something like that. Two is we have some filings in some other territories and regions also so that is also adding.

Jigar Shah: While saying on that same subject Pranav can you say what will be the composition of this years US filing is composition is the sense that para-3, para-4 and if there any 505(b)(2).

Pranav Amin: I cannot disclose that right now and until it actually get filed, I foresee in the next few months we may file some critical products.

Jigar Shah: One other question was on the domestic I think the growth especially in the specialty is very good and I remember Mr. Baheti saying that 50:50 will take probably 1.5 to 2 years to achieve but it has come much faster so what kind of I know this is again an aspirational thing but what kind of ratio you would like to see over the next few years?



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- Pranav Amin:** I think one of the reasons this happened also is because if you see our acute business has been much slower than what we had all expected about a couple of years back. In terms of what our aspirations are yes we want to build up more of specialty business and we will keep growing it.
- Jigar Shah:** Like you launched last year the dermatology division are there any plans of launching any new division this year.
- R. K. Baheti:** Not new therapeutic segments Jigar but within the existing therapeutic segments I think we are creating different task forces to meet a different set of customers requirements, in a way we are splitting a couple of divisions.
- Moderator:** Thank you. Our next question is from the line of Rahul Sharma from Karvy Stock Broking. Please go ahead.
- Rahul Sharma:** How many launches do you see with new GDUFA norms coming in and lower approvals coming in whatever launches are you looking at in US markets in the current year and next year.
- Pranav Amin:** I have said earlier for this year and the next two years we expect anywhere between seven to nine launches.
- Rahul Sharma:** Okay and Desvenlafaxine just wanted to know whatever price erosion you are looking at and with the possibility of Osmotica coming in and a 5% market share what is the base case scenario is there just wanted your thoughts on that.
- Pranav Amin:** It is tough to say right now lets Osmotica launch, they have not launched as yet once they launch we will get little more idea.
- Rahul Sharma:** Okay but currently we are selling about 20%, 30% price erosion or lower.
- Pranav Amin:** I cannot disclose that right now because it is a very variable figure and depends from buyer to buyer.
- Rahul Sharma:** Just another interesting thing what I just wanted to ask you the anti-infectives there has been a slowdown and the impact would have been there in the first quarter despite that you have done a 15% growth we were seeing a major slackening happening in this quarter because of the trade impact and the policy the reduction happening so you are going to see a probably single digit growth in the next quarter particularly.

- R. K. Baheti:** The price reduction of some of our critical molecules will surely effect growth but I maintain that in spite of this we will outgrow the industry growth rate.
- Rahul Sharma:** In the short-term also sir.
- Pranav Amin:** In the short-term also yes.
- Rahul Sharma:** Sir there has been if you look at your other expenses which somebody else also put at up it has actually gone up from 22% to 24.3% and there has been a growth of almost 30% on a YoY basis even on a QoQ basis there has been a 30 Crores increase . So just wanted your thoughts on it is there some additional is there a FOREX loss or something in this or there is certain change which has come in where you are seeing more thrust on certain operations which is more fixed in nature and cash, would we take this as a benchmark going ahead.
- R. K. Baheti:** I think you have a question and you have answered most of it. Now it is combination of all with the FOREX loss as per accounting MTM loss but that it more than offset by my FOREX gain which is part of the business income so not much of an net impact. There is a higher sales and marketing expenses there are higher filing expenses the three subsidiaries we are now working across the globe so there are those expenses which are part of this increase in expense and generally with the product mix change extends percentage is also undergo a change you are a veteran you know that.
- Rahul Sharma:** Okay this would be a good base to look at going ahead Sir.
- Pranav Amin:** Yes.
- Moderator:** Thank you. Our next question is from the line of H. R. Gala from Quest Investments. Please go ahead.
- H. R. Gala:** Yes my question also pertain to this increase in other expenditure now Sir you said that it includes filing cost I presume that filing cost probably might be part of your R&D cost.
- R.K.Baheti:** I did not say it includes filing cost, I am saying my three subsidiaries are operating in different parts of the world and there are expenses that there is no income as yet.
- H. R. Gala:** That is fine my question was that filing cost is it included in other expenditure or is it included in research and development.
- R.K.Baheti:** It is not included in other expenditure.



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- H. R. Gala:** Yes.
- H.R.Gala:** So there was no one-off item in Q1, which has increased the base of our other expenditure I think that was probably the question.
- R.K.Baheti:** No there is no one-off item.
- Moderator:** Thank you. Next question is from the line of Anuj Momaya from ValueQuest Research. Please go ahead.
- Anuj Momaya:** Hi, congratulations on a good quarter. Most of my questions have been answered I just had one question this strategy of moving to selling on your own in US this is a big step for us. So I just wanted to understand what internal calculations you would have done in terms of risk reward or why we should go ahead at this stage of the company we should be doing this and how it is going to change our cost structure going forward and what are the timelines to put the strategy in action. Thank you.
- Pranav Amin:** In terms of timelines as I mentioned it will be end of 2014 early 2015 around that time. Why do it because I think now we have got enough of a size and bulk with this portfolio of our products, the kind of products that we are working on we are confident that we can sell on our own. This current strategy of partnering was because we were learning the ropes we did not know where to go we did not have that much investment upfront lot of it was funded. So moving forward we are quite confident that we can launch on our own as well.
- Moderator:** Thank you. Next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** Thanks for the follow up question. Sir the milestone income how much was it this quarter and how much was it last year?
- R. K. Baheti:** We do not share that individually, all that profit share, milestone these are all part of my overall sales.
- Dheeresh Pathak:** Okay and bulk of it would be reflected in international generic is that fair point.
- R. K. Baheti:** Yes that is right.
- Dheeresh Pathak:** Okay and can you give a breakup of international generic how much was US and Canada and how much was others.



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- R. K. Baheti:** Roughly about 60% in US another 10% odd would be Canada and the rest would be Europe.
- Moderator:** Thank you. Next question is from the line of Kunal Shah from Amideep Investment. Please go ahead.
- Kunal Shah:** Hi, very good numbers Sir. Just a couple of questions when are we expecting our US FDA visit to our plant for its inspection?
- Pranav Amin:** API's we had all three API plants inspected earlier this year and for the formulations next year.
- Kunal Shah:** Any month can you specify.
- R.K. Baheti:** When they notify us.
- Kunal Shah:** Sir seeing the current strict actions by the US FDA on the plant visit that they do what are you planning in terms of how we maintain our facilities and how we maintain ourselves with regard to the guidelines that they have set.
- Pranav Amin:** I think GMP compliance is something that is there day in and day out our quality teams and regulatory teams they have to ensure that we comply to it there is nothing changing I think we have been doing that and we will have to continue doing that even more.
- Kunal Shah:** Okay are we hiring any third party for helping us Sir?
- Pranav Amin:** We keep doing couple of things. We have our customers audit and we use consultants training so routine things that we keep doing.
- Kunal Shah:** Okay so as and the top management is actively involved and maintaining the facilities right.
- Pranav Amin:** Well it is critical to everyone, so absolutely.
- Moderator:** Next question is from the line of Runjhun Jain from Nirmal Bang Securities. Please go ahead.
- Runjhun Jain:** Thank you Sir for taking my question. Most of my questions have been answered just I have missed two points just wanted to clarify on that first is how much is the chronic and acute percentage in the current domestic revenue?



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- R.K. Baheti:** It is around 50-50 I think it is 50% chronic is 50%.
- Runjhun Jain:** Okay and you maintain you are expected to maintain or improve further right.
- R.K. Baheti:** I think chronic will go up.
- Runjhun Jain:** How do you see this in by FY'14 or FY'15?
- R.K. Baheti:** FY'14 is what we are running and 2015 I think as Pranav says Speciality will continue to grow faster than the acute.
- Runjhun Jain:** Okay and second thing which I have missed Sir can you just specifically tell me how much is the FOREX gain or the loss we have reported in this quarter and where it has been reported?
- R.K. Baheti:** FOREX losses which are on MTM basis is part of other expenditure and FOREX gains whatever is realized goes part of the business income and income from operations. Overall there has been a gain of 3—4 Crores for the quarter.
- Runjhun Jain:** Sir it would be helpful if you can give me the separate numbers Sir?
- R.K. Baheti:** I think will give you offline I do not have the number right now.
- Moderator:** Our next question is from the line of Sri Hari from PCS Securities. Please go ahead.
- Sri Hari:** Thanks for taking up my follow up question. At present US sales is around 50 Crores in the quarter can you please give the growth rate?
- R.K. Baheti:** Would you repeat the question please?
- Sri Hari:** I presume based on what you have said US sales the generic sales accounted for 60% of overall developed market sales what was the growth out there?
- R.K. Baheti:** Growth was about 80%.
- Sri Hari:** I mean US generic sales.
- Pranav Amin:** Bulk of the international generic sales is in US so it is by and large it is about 80% odd percent.



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Moderator: Thank you. Participants that was the last question I would now request Ms. Perin Ali to add a few closing comments here.

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

R.K. Baheti: I think it was an interesting interaction and thank you everybody for sparing time. If anybody else still something left over we will be very happy to respond to them over mail or on phone calls. Thank you once again.Look forward to talk to you again next quarter.

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