



“Alembic Pharmaceuticals Limited Q4 FY17 Results
Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Alembic Pharmaceuticals Limited Q4 FY17 Results Conference Call. We have with us today, Mr. Pranav Amin - Managing Director, Mr. Shaunak Amin - Managing Director, Mr. R. K. Baheti - Director - Finance & CFO, Mr. Mitanshu Shah - Senior Vice President, Finance and Mr. Ajay Kumar Desai - Vice President - Finance and Company Secretary. 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 for 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. I would like to thank all of you for joining this last quarter/FY17 results' conference call. Most of you would have received the results by now. However, let me briefly take you through the numbers before we start discussing the operations.

You are aware that numbers for this year are strictly not comparable with last year's, as there is a significant price erosion in Aripiprazole as was expected after the entry of additional players. During the quarter, total revenue grew by 18% to Rs. 740 crores. EBITDA at 135 crores is 18% of sales. Let me point out that pre-R&D EBITDA is 33% of sales. Net profit after tax went up by 2%, so virtually flat at 94 crores. EPS for the quarter is 4.94 per share, almost the same versus 4.82 in the previous year. During the year, the total revenue de-grew by 1% to 3,131 crores. EBITDA at 615 crores is 20% of sales. Again pre-R&D EBITDA is about 33% of sales. Net profit after tax went down by 44% to Rs. 401 crores. EPS for the year is 21 plus versus 38 plus in the previous year.

CAPEX for the year including the capital advances are Rs. 478 crores. Gross borrowing in the consolidated balance sheet is about 80 crores. However, we continue to remain debt free on a net basis. So, we have cash in hand. The Board has recommended dividend on equity shares at Rs. 4 per share that is 200%, for 2016-2017, the same as the previous year. The dividend payout stands at 21% in the current year; last year it was low 13%. I will now hand over the discussion to Pranav for his insights on International business.

Pranav Amin: Thank you, Mr. Baheti. As far as R&D is concerned, in the fourth quarter we spent 113 crores, approximately 15% of sales. For the full year, we've spent 427 crores, which is 14% of sales. At the start of the year, I had said that we will file anywhere between 15 to 20 ANDA applications. I'm happy to announce that we filed a record 10 ANDAs during the Q4, which takes us to highest ever 20 filings in FY17. Moving forward to FY18, I hope to see a higher number of filings there. As you know, our projects are progressing well. The oncology facility for oral and injectable formulations will be ready for batches in the first half of FY18. The second injectable facility will be ready in the second half as well the derma facility in the Aleor JV. We will be also commencing work on a new oral solid dosage facility this year.

During the quarter, the bioequivalence facility at Vadodara was inspected by the FDA with no observations. So all our plants are in compliance, and we have received EIRs for all of them. We did not receive any new ANDA approvals during the quarter. For the financial year FY17, four final approvals were received. We now cumulatively have 52 ANDA approvals including six tentative. We launched two products in the quarter. For the year we had given a target of six to eight new launches, but fell short with only three new launches. For FY18, we expect to launch around 8 to 10 new products.

Coming to financials for the international business, the International Formulations Business increased by 44% to 273 crores. The International Formulations revenue for the year decreased by 15% to 1,236 crores versus 1,461 crores last year. USA with sales of 200 crores for the quarter and 919 crores for the entire year comprises approximately 74% of the international generic formulations sales. API business grew by 9% to 181 crores in the quarter and by 22% to 640 crores for the year. It was an exceptionally good year for API business. However, it is likely to de-grow in the coming year.

I will now handover to Shaunak for his brief on the Branded Formulations business.

Shaunak Amin:

Good afternoon, everyone. As the numbers were circulated before, India sales closed the quarter at 286 crores as compared to 269 crores in corresponding quarter last year. For the total year, India closed at 1,255 crores versus 1,176 crores in the previous year. There were multiple factors which adversely impacted sales for the whole year; we had a substantial impact due to further price reduction by the NPPA in Azithral amongst some of the big brands. Demonetization impact was felt in the trade substantially at least for a period of four months and the IMS numbers reflect that. Overall our Specialty segment grew by 13% in the quarter and also in the year, and Acute degrew by 8% in the quarter and 4% for the year.

Going forward, we foresee GST being a major challenge in the coming months.

I'd open the floor to Q&A now.

Moderator:

Thank you, sir. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Bharat Celly from Equirus Securities. Please go ahead.

Bharat Celly:

Sir, I just wanted to understand your domestic market. It has been seeing sluggish growth since quite a while. So just wanted to understand how many products we have launched in this year and how many were the first-time introduction in the market?

Shaunak:

Yes, we launched 40 SKUs in the full year.

Bharat Celly:

Okay. So nothing was new in the market as such?

- Shaunak Amin:** No, we had new launches in the India market. Some of the more notable ones is the DPP-IV inhibitor that we launched along with other players as well as with in terms of current launches. Losartan, which is a new antihypertensive, we've announced the first launch. those are two large launching, along with that there were many smaller SKUs also. So all put together, 40 SKUs have been launched this year.
- Bharat Celly:** Understood. And sir, can you please split down your growth between new product volumes and the price increase you would have taken?
- Ajay Desai** It's almost you know broadly the same. So 3% would be roughly towards the volume, 3% price and the balance will be towards new product introduction.
- Bharat Celly:** Understood. And sir, coming to your US market, so when can we expect new launches from the Orbicular JV? have we started filing the products from that JV or how it is currently?
- Pranav Amin:** No, from Aleor, that's what the JV is called, you will not see filings up until -- you may see one or two filings this year which may happen from CMO, but the facility will only get ready towards the second half of the year. So, the filings will happen FY19.
- Bharat Celly:** Understand, and say something similar stands for oncology facility too?
- Pranav Amin:** Oncology facility too, what will happen is maybe in the last quarter, otherwise, most of them will start happening FY19 onwards.
- Moderator:** Thank you. The next question is from the line of Damayanti Kerai from HSBC. Please go ahead.
- Damayanti Kerai:** Sir, what are your thoughts on impact of Prime Minister's push for doctors to prescribe generic on industry overall? And how much of your India sales is contributed by unbranded generics?
- Shaunak Amin:** Everything we sell is only branded generics. I think it doesn't stop the use of brands, it stays as long as the generic name is written along with the branded name. there is no issue on that front.
- R. K. Baheti:** To be candid, the industry associations and the government authorities, are talking to each other. And at this moment, we would not get into any further discussion pending clarity on all these ambiguities.
- Damayanti Kerai:** Okay. Coming back to India, you said we have faced obviously lots of challenges during FY17 but see, like in some big therapies like anti-infectives and gastro, according to your slide if I see, the company growth has been lower than IPM in both FY16 and FY17, so..
- Shaunak Amin:** Yes, it has.

- Damayanti Kerai:** It has; so what will be outlook going like ahead, like do we see any improvement?
- Shaunak Amin:** We see a fairly returning back to industry growth numbers for both Acute and Specialty. One more point which I might have missed out is, last year, there was a small reduction in the total field force that also I think has impacted us to some extent. And like I said, last year there was a substantial price cut in Azithral which is our number one brand in terms of antibiotic market. So, that also had a fairly large impact to us.
- Damayanti Kerai:** Okay. So what is our current salesforce strength in India?
- Shaunak Amin:** the exact strength is 3800
- Moderator:** Thank you. The next question is from the line of Purvi Shah from Sharekhan. Please go ahead.
- Purvi Shah:** Sir, could you please elaborate more on the challenges in terms of the GST implementation, its effect?
- R. K. Baheti:** Okay. So there are two challenges, one is internal and one is external. As far as internal challenges are concerned, we are well prepared. We are well prepared for the process changes, for the technology changes, SAP changes etc. whatever we have to do. As far as external are concerned, there is a lot of confusion at the trade level how their stocks will be treated, on what documents and how much of credit they will get on the stock because they have to start billing from appointed date, assuming 1st July is the appointed date, at the new GST rates. So what most people expect and I am already seeing that impact, is that they would like to keep the minimum inventory with them and so whatever typically 40, 45, 50 days of inventory, which generally stays in the market is likely to come down, which will impact the primary sales of most companies, unless the government very quickly comes out with a very clear guidelines on how to take credit on existing stock etc.
- Purvi Shah:** Sir, are we seeing that impact already coming in into the Q1 numbers right now?
- R. K. Baheti:** Not so far, because as of now even people are also feeling that probably 1st July may be too ambitious and it may be postponed, so the business is as usual. I think you'll see the impact happening after end of May or so. By that time, they are expected to come out with some more clarity on the rates etc.
- Purvi Shah:** Right. And sir, the other thing I just wanted to know was on the CAPEX front, what is the guidance for this year and next year?
- R. K. Baheti:** So FY17-FY18 you are talking of, no?
- Purvi Shah:** Yes, FY18 and FY19.

- R. K. Baheti:** Yes. So FY18, there is a planned CAPEX and there is a small spill-over on ongoing projects. So spillover is just in terms of expense and it's not overruns. So, it should not be misunderstood as overruns. There are some spillovers, so altogether we think we'll spend around 700 crores.
- Purvi Shah:** It's 700 crores in FY18?
- R. K. Baheti:** That's right. And then thereafter, I don't think it will be much. Most of the CAPEX program will be over except a small spillover for the new formulation facility for the US market, which we are building. That would not be significant, maybe another 100 odd cores or something. I mean I am not counting in FY19, I'm not counting the maintenance CAPEX. FY18 when I am giving the numbers of 700 crores this includes the maintenance CAPEX also.
- Purvi Shah:** And sir that would be how much?
- R. K. Baheti:** Which one?
- Purvi Shah:** Maintenance CAPEX.
- R. K. Baheti:** For FY19 I've not really estimated, it's a little early.
- Purvi Shah:** No, sir; just the FY18, 700 crores...
- R. K. Baheti:** I'm saying so Rs. 700 crores, the maintenance CAPEX and some debottlenecking, some capacity expansion would be about 200 crores, 500 crores more on new projects, roughly.
- Purvi Shah:** Right. And sir, for the tax rate?
- R. K. Baheti:** Will continue to be under MAT in FY18.
- Moderator:** Thank you. The next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.
- Chirag Dagli:** Sir, I can see a scattered chart on the presentation that you've given out. So is this for the filings that you've already done or is this for projects under development as well?
- R. K. Baheti:** Which page you are referring to, Chirag?
- Chirag Dagli:** It's on page 11, sir. It gives us scattered chart on the risk versus capabilities on..
- R. K. Baheti:** So this is the filings, this is largely for filings.
- Chirag Dagli:** For the current filing that we've....

- R. K. Baheti:** It is not for project development, R&D project under development, both.
- Chirag Dagli:** So, both of it put together, is it?
- R. K. Baheti:** Yes, so these dots are not to be taken as numbers. Yes, what we are saying is that we are in both, we are in low risk, low returns kind of products and also we are doing on some projects which are high risk and high rewards.
- Chirag Dagli:** Fair point, sir. And sir, this quarterly US run rate, is this now the sustainable base in terms of Abilify pricing etc. or do you still think that there is still an element of higher profitability than what it normally should be in Abilify?
- Pranav Amin:** No, I think it will continue coming down. As you know, our Abilify, we report with a one-quarter lag. However, on Q4 if you see, Q4 last year also, Q4 2016 was a relatively weak quarter for Abilify because our partner had lost some market share. But I expect this will still come down further moving forward.
- Chirag Dagli:** Right. And the last question, sir, I have is on the balance sheet, there is 27 crore intangibles under development. What is the nature of this, sir?
- R. K. Baheti:** This is the money being spent by Aleor, which is JV. See, you are aware, Chirag, that we are writing off all our R&D expenses in P&L account. However, at Aleor, because it is still largely a development company, not still in manufacturing and marketing, they are keeping it as intangible.
- Chirag Dagli:** So this we should assume this is only part of the JV?
- R. K. Baheti:** This is only part of that JV because this is you are referring to consolidated balance sheet. So if you look at Alembic's standalone balance sheet, you won't find that number.
- Moderator:** Thank you. The next question is from the line of Anmol Ganjoo from JM Financial. Please go ahead.
- Anmol Ganjoo:** My first question is on the domestic sales. If I understood the early comments earlier, the sequential decline post the demonetization quarter doesn't capture any GST rationalization which might have happened in the channel. Is that correct? And if that's the case, then what explains such a sharp drop given that the earlier quarter also should have seen some impact of demonetization?
- Shaunak Amin:** I think the impact on Q4 has not so much to do with GST, it has more to do with demonetization. When you look at both IMS sales data as well as IMS script data, both show sequential decline in terms of sales for a longer period. This has more to do with, absolute inventory what was being stopped in trade and the offtake from the chemist counters. I think

part of it was with the stockists and the amount of stocks the stockists were willing to hold. And third was the patient footfall in the doctor clinic, I think that also got adversely impacted because of demonetization.

Anmol Ganjoo: So the stock that most stockists are willing to hold, has that come down materially from a stockist behavior standpoint?

Shaunak Amin: Post demonetization, we didn't see any signs that tell us that stockists are topping up the stocks, the restocking up to the old level.

Anmol Ganjoo: Thanks, that's helpful. And my second question is to Pranav; on the pipeline, the same scattered chart that an earlier participant alluded to, would we be able to get some idea that -- when we look at the 430 crore kind of spend on R& D, would that be spread across these categories?

Pranav Amin: Anmol, sorry. Unfortunately, we haven't really disclosed the verticals on which asset-wise what we've spent. This chart is just an indicator that we have some high risks, some low risks, and some low-lying ones. As you know, what we have said is we are working on derm, we are working on ophthalmic, we're working on injectable, we're working on oral solids and oral oncology. So these are four, five broad areas that we are working on. But we haven't given a breakup of each segment.

Anmol Ganjoo: But directionally if I was to kind of breaking the R&D spend, could you just outline some focus areas where we should be watching fairly carefully?

Pranav Amin: So I think as you know, what you see in the public domain is if we have a litigation or we have tentative approval, we haven't disclosed so far the flavor of our filings. And I think we continue to be doing that. In terms of what's pending, our 40-odd pending ANDAs, about 40% of those are either a FTF or Para-IV. That's all we've kind of disclosed.

Anmol Ganjoo: And my last question before I get back into the queue, Pranav. When you look at FY18 and the US market, there are a couple of things we have embarked on, whether it's products to our partners and some of the filings where we've seen some benefits, help us kind of mitigate the erosion of Abilify. When you look at FY18, both from a cost driver standpoint, which is the R&D, and second is the US revenue growth, how do you see both these things pan out?

Pranav Amin: In terms of pure R&D we've done about 420 odd crores this year. Moving forward, for the next year we will be at about 500 crores or so. The number of filings should go up as well. And in terms of the revenue growth, again there was this year in the first few quarters a decent amount of aripiprazole tailing out. So it depends, older products there's more competition; in terms of revenue growth we'll try growing the business as much as we can. We have few new launches coming up as well. So let's see. I think this will still be a year of consolidation because what

we have spent the increased R&D spending that you will not see these products getting approved up until FY19 or so.

Moderator: Thank you. The next question is from the line of Sriram Rathi from ICICI Securities. Please go ahead.

Sriram Rathi: Most of the questions have been answered, just two more; one on the US business, is it possible to share some kind of idea about excluding Abilify what would have been the growth in FY17 over FY16?

Pranav Amin: We have not disclosed that number. But you can do your Maths,

Sriram Rathi: Okay. And in India, obviously FY17 we have seen lot of challenges from different aspects. So going forward, what do you see in terms of industry growth and how is Alembic placed and what kind of growth, not exactly number but what kind of improvement we can see going forward and from when?

Shaunak Amin: Last year if you look at industry numbers, both AWACS and IMS, I think they've been very flat. It has been 8% which is I think after a very long time we've seen a single-digit kind of a number for industry growth, I think partly it was driven by substantial price cuts as well as demonetization had impact on overall sales.

R. K. Baheti: Yes, starting with FDC ban..

Shaunak Amin: to add to that the FDC ban again which created confusion for the first three, four months. itself was a challenge. So, going forward, conservatively if I had to take an outlook, I think largely we are seeing low double-digit kind of growth numbers for the industry. Along with that we try to maintain that we surpass the market growth. That's our objective.

Sriram Rathi: Okay, great, got it. And in terms of ANDA filings in US this year we have filed 20, I mean of course good number. So going forward, sir, you mentioned that you will be looking for higher number of filings. So any idea, is it possible to share the number or something like that, what kind of filings you see over next two years or in FY18?

Pranav Amin: It's tough to say. I think I said that over a three, four-year period when we embarked on to the exercise, we'd see about 100 odd ANDAs getting filed. So, it really depends on how successful we get moving forward. But I'd like to see more than 20, I'll say anywhere between 20 to 30 filings is what we should look at.

Moderator: Thank you. The next question is from the line of Rahul Sharma from Karvy Stock Broking. Please go ahead.

Rahul Sharma: Sir, just wanted clarity on Pristiq, have you launched it and how's the market share?

- Pranav Amin:** Yes. So we have launched it, but this is a partner product because this was partnered with Breckenridge a few years back. So this quarter doesn't reflect anything on any of the numbers on Pristiq because it's with a one-quarter lag. As for market share, what I've seen in public domain, Bloomberg, I think they've picked up a decent market share, about 15% or so.
- Rahul Sharma:** Okay. How's the competitive scenario in this product over the next probably 6 months to 12 months?
- Pranav Amin:** I think it's going to be very competitive. From what I believe, there is about 10-12 people expecting approval. Also, there's been a bit of erosion. I think next quarter I'll be in a much better position to say.
- Rahul Sharma:** Good. Currently how many players are there as of now?
- Pranav Amin:** I think about seven or something.
- Moderator:** Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.
- Nitin Agarwal:** Pranav, on the US side, I mean what's been your experience on the price erosion sort of situation over the last few quarters? I mean there has been some narrative that incrementally price competition is getting intensifying even in products with, earlier where probably five, more than six or seven players used to create the level of price competition. It's now coming in at a much lower level with much fewer number of players. And typically, it's the newer distributors are negotiating lot harder with companies with probably smaller portfolios. What's your own sort of take on some of these impressions which are there?
- Pranav Amin:** So, Yes, you're absolutely right when you mention that. So what's happened, one, on the approval side, as you know, FTA has increased its approval time. Secondly, lot more people are filing ANDAs. Thirdly, more plants are also approved. So, you're seeing more competition, There is buyer consolidation. But this has always been there. I think it really depends on how well your supply chain is, what you can do. And you have to be in the right product at the right time to launch it. I think that's the main thing. So, we try focusing on be it supply chain, trying to get the approval, ensuring that we are a good supplier. And so far, we've built up a good reputation with trade in terms of being a reputable supplier.
- Nitin Agarwal:** But in your own assessment, given these challenges, what essentially would be key to success or will differentiate you probably from some other guys who are trying to get into the market now?
- Pranav Amin:** I think you have to see it what is sustainable and what is possible. What we are focusing on is, number one, to ensure the first and the most important thing, as you guys all know is compliance, you know to ensure that plants remain in compliance, so you don't have any

hiccups in terms of your approvals or your supply chain. That's the first aspect of it. Second is being able to have a nimble supply chain that can cater to market needs. There are a lot of shortages, there are a lot of opportunities in the market where if your supply chain is nimble you can capture some of these, which we've been doing over a period of time. And third is having a good pipeline, that's the most important thing and which is why we're spending on R&D.

Moderator: Thank you. The next question is a follow-up question from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Sir, with whatever is happening in the US in terms of price erosion, how does the economics change for us for a base load of business, not for the unique products like Abilify etc., which will come and go, but for the base load of products that we've been thinking of? How does the economics change, if at all? How are you guys thinking about this internally because what we get to know is that price erosion is in double digits, sometimes it is in high single digits depending on what base? But how does that change the longer-term outlook of the US generic business ex of these big opportunities.

Pranav Amin: So it's tough to answer that question in one sentence. But to be honest you have to see in terms of what products you have and every time you have incremental competition is when you will see price erosion. At the same time, you may have people having supply issues and getting out. So, it's very tough for me to answer that question. We do see erosion in some of our old products, some of the big ones, whereas you've got to try and making that up through some of the new launches and wherever there is a shortage. So, it's still a good market and there are a lot of opportunities if you can find them and look for them.

Chirag Dagli: So if you think of your three-year-old products in the market today, sir, would they still be making reasonable return on capital?

Pranav Amin: Yes. So if you see that some of them, it's definitely. One thing that we have done well is we transitioned lot of products from our partner to our own label, and we're slowly, slowly picking up share. We're not desperate to pick up large shares in all of them. We try doing where it makes sense, what's a good price point to capture. If we have our own front-end, then we have more control over it.

Chirag Dagli: So even today, for a three-year-old product, the ROC or the return on capital on that business is respectable in your assessment?

Pranav Amin: It depends molecule to molecule.

Chirag Dagli: No, I'm saying, when you think of it as a basket of your products three years old versus now, it is still respectable?

- Pranav Amin:** Yes.
- R. K. Baheti:** Yes, I think what I didn't mention earlier intentionally. For the base business in US or for that matter any export market, what has affected Indian companies the most adversely is the Forex situation where rupee had appreciated almost 4%-5%, actually more than 5%, over the last six, eight, months. And that impacts us more than any of these external factors.
- Moderator:** Thank you. The next question is from the line of Aishwarya Agarwal from Reliance Mutual Fund. Please go ahead.
- Aishwarya Agarwal:** Sir, can you please help me with your strategy in US because now we see there is high price erosion as well as many peers filing for this oral solid kind of product. So how you are creating space for yourself in terms of filings? Which segment you people are focusing on where you can create value despite....
- Pranav Amin:** As I mentioned earlier in the call and we've spoken in the past, what you are saying is absolutely right. We were present only in oral solid. So as a result, we have increased R&D spend and we're building new capabilities. The new capabilities we are building is, one is on oral oncology products which requires a different plant, actually all high potency products. Number two is oncology injectable products; number three is general injectable products; and the fourth which is the JV we've done with Orbicular, which is Aleor, which is on the derma space.
- R. K. Baheti:** Even oral solid would continue to be plan of our bulk of the filings. But within that vertical, you need to find some general products.
- Aishwarya Agarwal:** Sure. And sir, the products which you are targeting and how big is the market right now?
- Pranav Amin:** Pending approval is about 14 billion. That's the market size of whatever is pending for our ANDAs.
- Aishwarya Agarwal:** And this is all patented products?
- Pranav Amin:** These are oral solids.
- Aishwarya Agarwal:** These are all patented or general size, 14 billion, sir?
- Pranav Amin:** Mix, I can't comment. As I said, what is pending about 40% is either a P4 or a FTF.
- Aishwarya Agarwal:** Okay. And so this 14 billion is the pending, but what you are planning for next two, three years, how we should look at that in terms of market size, sir?

- Pranav Amin:** I don't have the data with me because it really depends how successful we are with the filings. I think we've disclosed in the past that in the public domain that the whole derm basket is about 15 billion or so.
- R. K. Baheti:** The 240 projects we are working on now, just to combine market size. Of course we do it internally but it doesn't make sense for us to go public with that statement.
- Aishwarya Agarwal:** Sure. And sir, how about the facilities, I know you have one facility which you have talked about this 500 crores of investment. So all will be from the existing and the optimum facility or how..
- Pranav Amin:** No, so we have three API facilities, we have one oral solid facility, that's the existing facilities. We are building four new facilities, that is the two onco facilities, oral solid and injectable, a general injectable and a derm facility. And the fifth one is a regular oral solid, which we will commence about this year.
- Aishwarya Agarwal:** Sure. And they will all have the tax advantages in terms of this SEZ or something like that?
- Pranav Amin:** No, there are no tax advantages.
- R. K. Baheti:** There are no tax advantages.
- Moderator:** Thank you. The next question is a followup question from the line of Nitin Agarwal from IDFC Securities. Please go ahead.
- Nitin Agarwal:** Just a couple of housekeeping questions; on the International business, we mentioned 76% of the business is US. What would be balance unit outgrow, essentially is a non-US bid? What would be the major component of the business?
- Pranav Amin:** Yes. So basically we're present in very few markets. So the big ones are Europe, Australia, Canada.
- Nitin Agarwal:** That would be largely unbranded markets, right, the generic-generic markets.
- Pranav Amin:** Yes.
- Nitin Agarwal:** And that would make the bulk of the 320 odd which is there?
- Pranav Amin:** Yes, absolutely.
- Nitin Agarwal:** And how are we approaching the international formulation, the international formulation branded business? We did have plans for Algeria and all, if I remember, where you made an acquisition.

Pranav Amin: Yes, so Algeria is going on. We have started filing products from Algeria. We've got about seven approvals already in Algeria. So, that is moving along nicely. I think we would like to build up a big basket in Algeria. So, there's not much sales that are you seeing there is actually pretty much not, nothing much for Algeria this year. But moving forward next two, three years, I mean we should see when we get the filings and the approvals. Apart from that, on the other markets, we haven't focused much. We were looking at it, we never had a good portfolio in most of these. But I think we are relooking at them and deciding how to go, we've scaled down operations and a lot of these are the emerging markets or emerging branded generic markets.

Nitin Agarwal: And in the non-US generic markets, I mean these are Australia, UK and Canada that you mentioned, where do they figure in the sort of priority for the business?

Pranav Amin: I would say that bulk of our efforts would be towards the US. If you see in terms of R&D efforts, more than 80% could be towards US. Balance would be marginally little bit Australia, little bit Europe, little bit Canada and there's a reason for it because one this smaller markets we don't have a front-end, some are very fragmented, some have gone to tenders, some place incumbents are very strong. So I think US is where we're really putting a lot more effort, actually more like 80%.

Nitin Agarwal: Okay. And secondly, on our gross margins, there has been a material improvement in our gross margins over the years at about 73% odd where we basically for the quarter. Are these sort of new levels we should take as sustainable margins for the business?

R. K. Baheti: Yes, I think so.

Nitin Agarwal: And sir, what would have driven this sort of very dramatic improvement over the last two years in the gross margin levels?

R. K. Baheti: Largely it's because of product mix. So as we have scaled up in US, obviously the gross margin levels have gone up.

Nitin Agarwal: Okay. So I guess just for Abilify and all this, these are now the run rate sort of margins we should go with going forward?

R. K. Baheti: That was an exceptional year for 2016. The margins from those levels have come down a bit. But what we got in 2017, more or less the numbers are maintainable, plus, minus 1% or so.

Nitin Agarwal: And sir, in the coming year, as some of these newer facilities coming on stream, should we sort of budget in sort of aggressive increase in your staff costs and other expenses?

R. K. Baheti: Which I mean you are already seeing the numbers in our P&L, if you look on quarter-on-quarter, so versus March 2016, I think there is a significant increase in staff cost in March

2017 because the new facilities are getting manned, new people are getting recruited. So, it's part of.., so you will see some increase again in first half of 2018 and then probably it will get stabilized over there.

- Moderator:** The next question is from the line of Cinderella Carvalho from Dolat Capital. Please go ahead.
- Cinderella Carvalho:** Sir, just wanted to know any plans in terms of entering European market or any strategy out there, or it's too far right now?
- R. K. Baheti:** We are already there in European market.
- Pranav Amin:** There are two things; one, we do sell in Europe as Nitin asked earlier. I said the bulk of the non-US international formulation sales comes from Europe, Australia, Canada, little bit UK and little bit of Brazil. But we don't have a direct presence like how we have a team on-ground in the US. These are all products that are partnered with somebody else.
- Cinderella Carvalho:** Okay, so any plans to go direct?
- Pranav Amin:** Not as yet, not at this time.
- Cinderella Carvalho:** And sir, as you highlighted that being compliant is one of the focus, so how do you see the future pipeline wherein you're focusing on injectables? How difficult or easy is it to maintain injectable facilities because offlate we have seen a lot of hassles happening on the sterile units in India? So anything that you can highlight over there and any strategy that you can guide for your company, sir?
- Pranav Amin:** Yes, it is tougher. But we believe that we do have good standards, we have a good team, we have a good commitment towards quality. We're building up new plants. So, I think that's where we see an opportunity.
- Cinderella Carvalho:** Yes, but do you also agree that like few people have said that they don't want to continue running their plants in India and they prefer outside India. So any comment over there?
- Pranav Amin:** No, no comment at all. All my plants are in India. So I am happy with them.
- Moderator:** Thank you. Ladies and gentlemen, we will take our last question now from the line of Bhagwan Chaudhary from Sunidhi Securities. Please go ahead.
- Bhagwan Chaudhary:** Your view on these generic prescriptions side on the domestic market, there's mandate from the MCI, and how do you think it is going to have the impact on the branded generic industry overall and your company as well?

- Shaunak Amin:** As I mentioned earlier, there is no complete clarity on it. What we have seen and what interpretation we have seen is that there are doctors just have to write a generic name along with the brand. That is what we have seen largely as the interpretation from the MCI circular. So I think if that is the case, sure there might be some case of substitution. But I don't see anything major beyond that as long as it stays.
- Bhagwan Chaudhary:** And sir, second on the CAPEX part, how much CAPEX been in this year?
- Pranav Amin:** About 450 crores.
- Moderator:** Thank you. We have the last question now from the line of Dhiral Shah from Asit C Mehta. Please go ahead.
- Dhiral Shah:** Sir, any upcoming USFDA inspection for any plants?
- Pranav Amin:** No, nothing that we've got intimation on.
- Dhiral Shah:** Sir, because last this Karakhadi plant has been inspected during April 2015, so maybe now it is time for USFDA..
- Pranav Amin:** Yes, it should; as I said, we haven't received any intimation, but Yes, if you go by the two-year timeline, then Yes, that should be up for inspection.
- Dhiral Shah:** Okay. Sir, how many plants have USFDA clearance?
- Pranav Amin:** Everything is cleared, we've received EIRs for all our plants.
- Dhiral Shah:** Okay. So only this Karakhadi may be re-inspected maybe any point of time?
- Pranav Amin:** Yes, but I don't know. Even the others may be re-inspected. But so far, we have got EIRs for all the plants.
- Moderator:** Thank you very much. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Baheti for closing comments. Over to you, sir.
- R. K. Baheti:** Thank you once again! Good interacting with you. And if any of you have any questions which are unanswered or which were not asked for, you are welcome to drop a small mail. We'll be happy to respond. And look forward to see you, talk to you again in next quarter. Thank you.
- Moderator:** Thank you very much, members of management. Ladies and gentlemen, on behalf of Alembic Pharmaceuticals Limited, that concludes today's conference call. Thank you all for joining us, and you may now disconnect your lines.