“Alembic Pharmaceuticals Limited Q3 FY18 Earnings Call”

January 31, 2018

MANAGEMENT: **MR. PRANAV AMIN – MANAGING DIRECTOR,**
MR. R. K. BAHETI – DIRECTOR, FINANCE & CFO,
MR. MITANSHU SHAH – SENIOR VICE PRESIDENT, FINANCE,
MR. AJAY KUMAR DESAI – SENIOR VICE PRESIDENT, FINANCE & COMPANY SECRETARY,
MR. JESAL SHAH – HEAD (STRATEGY),

Moderator: Ladies and gentlemen, good day and welcome to Alembic Pharmaceuticals Limited Q3 FY18 Earnings Conference Call. From the management, we have with us today Mr. Pranav Amin – Managing Director; Mr. R. K. Baheti – Director- Finance & CFO; Mr. Mitanshu Shah – Senior Vice President-Finance, Mr. Ajay Kumar Desai – Senior Vice President- Finance & Company Secretary

As a reminder, for the duration of this conference call all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded.

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

R. K. Baheti: Thank you very much. Good evening everyone. Thank you all for joining the third quarter results conference call. With us we also have Mr. Jesal Shah – our Head of Strategy.

Most of you would have received our results by now; however, let me briefly take you through the broad numbers for quarter ended 31st of December 2017.

During the quarter, our revenues grew by 8% to 840 crores. EBITDA at 188 crores is 22% of sales. The net profit after tax went up by 52% to 131 crores.

Aggregating for 9 months up to December 17, our total revenue degrew by 5% to 2,277 crores. EBITDA was at 468 crores which is 21% of sales. For the same period, pre R&D EBITDA is about 33% of sales. The net profit after tax went up by 3% to 317 crores.

EPS for the quarter is 6.93 per share versus 4.59 in the previous year.

CAPEX for 9 months including the capital advances for the new projects is Rs. 458 crores and the net borrowings as on 31st of December 2017 is 472 crores.

Debt equity still healthy at 0.22 to 1.

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

Pranav Amin: Thank you, Mr. Baheti. As regards the R&D, we have spent about 98 crores in the quarter which is 12% of sales. We filed 4 ANDAs and 2 DMFs during the quarter. Additionally, Aleor, our JV, has filed its first ANDA during the quarter. This was from a CMO, not our own facility which is also recently ready.

The projects are progressing well. The Onco and General Injectable facility will be ready in the first half of FY19 and the new oral solid dosage facility should be near completion by the end of the year by H2 FY19.

As I mentioned, the Aleor facility is recently completed. Our plants continue to remain in compliance.

We received one approval during the quarter. With this, we cumulatively have 63 ANDA approvals including 9 tentative approvals. If we include our recent acquisition, Orit, our cumulative ANDA approvals are 70 and pending approvals are 49.

We launched two new products in the quarter which led to a total of 8 new launches in the first 9 months of this financial year.

International business financials: International Generics business grew by 3% to 311 crores for the quarter compared to 303 crores last year. US had sales of 237 crores for the quarter which is roughly about 76% of the international formulation sales. The API business grew by 8% to 180 crores for the quarter compared to 167 crores last year.

Coming to the India Formulations business, the revenue grew by 14% to 349 crores as compared to 307 crores last year. Post the GST transition, the revenues reported are lower to the extent of the ED component, though it is a profit neutral adjustment. Normalizing for this and some other transition related adjustments, the comparable year-on-year growth would have been much higher, almost close to 20%.

I now open the floor for any questions that you may have.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Shivkanth Sharam from Research Delta Advisors. Please go ahead.

Shivkanth Sharam: Just wanted to know, how much was the contribution from Pristiq this quarter?

Pranav Amin: We do not give product wise contribution for any of our products and as regards market share, our partner has picked up a decent market share and the information is available in the public domain, but we do not give product wise contribution.

Shivkanth Sharam: So how is the contribution from Orit acquisition?

Pranav Amin: Orit is a very small acquisition and the contribution is very marginal.

Shivkanth Sharam: Your US growth has been 24% sequentially, so just wanted to understand the growth has come from which factors?

Pranav Amin: As I said, Orit is a small acquisition. So in this quarter, Orit would be about less than a million dollar contribution. Product wise, we do not give breakup. We have had volume growth and lot of products have been picking up market share. As I said, we have launched 8 products this year and we picked up market share in some of those as well as some older products as well.

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

Prakash Agarwal: Just trying to understand, India business, we have seen a very good growth especially on the acute side. Any particular thing, is it good season or is it function of inventory levels going up. Could you elaborate there please?

R. K. Baheti: I think both. The season has been good. So acute has generally done well for the sector. There is some level of restocking again which had gone down to very low levels post GST. And the third is, our team has done well where we have rejigged our promo strategy to more science driven, doctors in clinic driven rather than those earlier.

Prakash Agarwal: Understood. And when you talk about grid, this is for US. So when you talk about being five-fold, what is the number of products you are working on today versus maybe 3-4 years back. So is it like…?

Pranav Amin: Yes, 3-4 years back our product grid was about 40 odd products which is over 200 now.

Prakash Agarwal: This is across forms, dosages?

Pranav Amin: Exactly.

Prakash Agarwal: And the kind of R&D, this year you mentioned about 400 to 450, but do you think that kind of run rate could sustain going forward or you see some spike given the fact that you come nearer to filing and all?

Pranav Amin: Yes, we had a big jump when we moved from the Rs 200 cr levels to 400 cr plus. I said next 2-3 years we will be between the Rs 400 - Rs 500 crore level. Next year expected to be about 500 or so. Then, we follow gradual growth until we see some big opportunities that we really want to get into.

Prakash Agarwal: Understood. And secondly on the EBITDA margin if you look at, we highlighted in the last call that margins could kind of taper with given the fact that this pricing pressure, everything put together and R&D going on stream, so what has played out well versus what was anticipated?

Pranav Amin: Few things. One is if compared to last year, we have a low R&D spend, that is one aspect. We picked up market share on some products as well and few of these things together have led to a higher EBITDA for this particular quarter. India business has done well sequentially compared to the sequential quarter, it has recovered quite well.

Prakash Agarwal: Understood. And last question on US. So now what proportion of your products which are in the market today, you have been selling through your own front end and largely everything comes under your bucket now?

Pranav Amin: Not everything, there is still handful of products which are not with us which we have tied up in the past, but that is about 5-6 products, not more than that. Rest is all in our own front end and we have about 30 odd products on our front end.

Prakash Agarwal: 30 plus products on your own front end today?

Pranav Amin: Yes.

Prakash Agarwal: And this includes the like of Abilify and others, the bigger one?

Pranav Amin: Abilify was a partnered product, but it has come on front end now.

Moderator: Thank you. The next question is from the line of Anmol Ganjoo from JM Financial. Please go ahead.

Anmol Ganjoo: So Mr. Baheti, last time you said that US is on the upward side, but should we start now getting used to 20% plus consistent margin trajectory going forward?

R. K. Baheti: I qualified my statement last time also. If you look at on a quarter-on-quarter basis, the R&D spent can be slightly different in different quarters and you are aware it can depend upon multiple of factors. If you look at GC, gross contribution in material level, it has remained almost very close to 27%-28% for last many quarters. So that part makes GCs more or less stable. Expenses are well under control. So other than the R&D, there is not much of variable . What I am not factoring today is, some of price erosions in US had been better compensated by higher volumes, volume pickup. I wish this trend continues or the price erosion gets little less intense.

Anmol Ganjoo: And in terms of staff cost, we have seen a sequential drop. Any particular drivers for this?

R. K. Baheti: So that would be like in the month of September, probably there will be some bonus payouts etc. It is not significant.

Anmol Ganjoo: And my second question is in terms of thinking about the US run rate. So 270 crores is what we did for the quarter. Pranav, on an annualized basis, how is it that we should be looking at our base. Is it fair to assume that 100…

Pranav Amin: Anmol, US is 237.

Anmol Ganjoo: So we should be looking at around $150-$160 million base business run rate on an annualized basis, is that the number you are comfortable with?

Pranav Amin: Yes. If all goes well, on base business, we should look at that. What will happen is, there will be erosion on some of the older products and we will have some new launches coming up. This year in the 9 months, we launched 8 products. Hopefully, we launch a lot more in next year. So that should be a fair base number to assume.

R. K. Baheti: Probably Pranav, 135-140 would be a more realistic number for the investors. If we do better, they will be happier.

Anmol Ganjoo: Thanks, that is helpful. And my last question is around some of the programs of our associated companies. During the quarter we saw some of the lead candidates of an associate company Rhizen reporting some favorable data in American Society of Rheumatology. If you could share your thoughts around how are we looking at it and what the road to commercialization would be and how value gets created in Alembic as an entity that would be helpful.

Pranav Amin: Rhizen is an exciting story for Alembic. Information is available in the public domain. The first molecule is outlicensed to TG Therapeutics and let us see how they commercialize it. I am not sure what their commercialization plans are, but they are progressing quite well as you see from the public releases. I think it is still early days, we will see how it goes.

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

Bharat Celly: Just wanted to understand what is driving the domestic growth? we have seen almost 18% growth this quarter. So what was the main growth driver this time?

R. K. Baheti: Growth on an absolute number is about 14% with the GST or on apple-on-apple basis, you are right it would be about 18%-20%. As I responded to an earlier question, the growth is driven by all three, better efforts at field by our MR team, good season at least for the acute and thirdly, some restocking now happening at the trade channel where the stocks were at all time low sometime in August-September.

Bharat Celly: So what sort of growth we should factor going forward considering that there has been a jump in restocking, so how should we look at domestic business going forward because earlier we used to be around 11%-12% growth set despite GST impact not being there. So how we should look going forward?

R. K. Baheti: We do not give guidance, but our efforts will be to at least stay with industry growth rate or slightly better than industry growth rate. Assuming industry growing by 10%-12% next year, we should be growing by 12%-15% next year.

Bharat Celly: And sir just one more question. Sequentially, we have seen a significant jump in other expenses. So what has led to that?

R. K. Baheti: The marketing and promotion expenses for Q3 for domestic business is typically high because lot of conferences happening during this period.

Bharat Celly: So we should factor in similar sort of numbers going forward I think.

R. K. Baheti: I think you should take more on an annualized number. If you look at 9 months number versus the 9 months of last year, we are slightly down, but that should be the number you should be taking.

Bharat Celly: Understood and sir. If we have to put everything in a pecking order in the US market, so what has led to the growth. What is the first thing which will be coming up? Will it be new launches or is it increase in the volumes of existing products?

Pranav Amin: Two things: first of all new launches would definitely play an important part, because that is how you keep growing. In The older products, there is lot of competition, however there may be some supply constraints which enable us to pick up market share. As regards new products hopefully in 2-3 years, we will have three injectables and the other portfolio also coming up, so that should also help.

Bharat Celly: Okay. Actually I was referring to the current quarter, so I was just trying to understand what was the main contributor whether it was volume increase or the new product which helped?

Pranav Amin: It is both because new products even if we did launch, it does not happen on one quarter that it will go right way. As you see what we have been doing, we gradually build up market share. So it is a combination of both.

Moderator: Thank you. We will take the next question from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Sir, gross margins or rather raw material cost as a percentage of sales, how different would these be across the three sub segments, India formulation, exports and API?

R. K. Baheti: We do not provide that.

Chirag Dagli: Qualitatively some color sir would be helpful.

R. K. Baheti: I do not think anybody, any company provides their breakup.

Chirag Dagli: But would this be dramatically different sir. The reason I asked is that we have about 45% of our sales coming from India which intuitively would be the highest gross margin, but the other two pieces, I cannot see any company sort of doing this kind of large gross margin. So I am just trying to understand this better off while you have been doing this for the last couple of quarters maybe with more, how sustainable is this margin and your thoughts around what is it that is driving this kind of improvement?

R. K. Baheti: These numbers are sustainable unless either there is a very significant price erosion from here or unless there is a very significant product mix change there. I do not see that happening in next couple of quarters. I cannot predict for next 3 years.

Chirag Dagli: Sir would US formulations for Alembic be as profitable at the gross level as India?

R. K. Baheti: Again, we do not discuss this segment wise profitability. It is difficult for me to say.

Chirag Dagli: And if I can just squeeze one more question sir. When you look at your US business on this base business $130-$140 million, how do you think about product concentration on this both from a sales standpoint as well as from a profit standpoint?

R. K. Baheti: Like Pranav has always been saying that in US for that matter, top 20% of our product number would give about 80%-85% of profits and then there will be another 30%-40% of the products which will give about 10%-15% profits and the rest will be contributed by the bottom 50% of the products. We are no different.

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

Nitin Agarwal: Pranav, in terms of your filing, the number of products that are under development has gone up materially, but in terms of the filing rate, when do you see that picking up and probably will given the fact that you are filing under new GDUFA regimes, presumably that should lead to a pickup of approvals that link to the pickup in…

Pranav Amin: That is a good question. If you see over the last 2 years, filing rate has picked up. We did 20 last year, we have done 14 already in the 9 months year to date. We will end up with upwards of 25 filings this year, that is one. Number two, when the new facilities are ready which the Aleor facility just got ready, but even with the injectables and the onco facilities are ready, we will see more filings happening from there as well. So filings will pick up and that is what our internal goal is.

Nitin Agarwal: And what is your assessment typically since we file under new GDUFA regime, typical 12 to 18 months, it should be an average of approval timeline for most of these products or there is a fair amount of products which are probably in the complex domain which have got litigation or approval issues associated with them?

Pranav Amin: Amongst our recent filings and what we filed over the last 2 years, this is a kind of response rate or whatever the timeline you are saying 12 to 18 months, we have got some approvals in that time as well.

Nitin Agarwal: So logically speaking, second half of FY19 onwards, we should probably begin to see a pickup in the pace of approvals versus the pace of approval that you had in the recent past?

Pranav Amin: Probably yes.

Nitin Agarwal: And secondly in terms of the approval visibility that you have for this year while not getting into details, qualitatively how do you see at the approval pipeline, cost potential approval pipeline versus the kind of approval that you had over the last couple of years?

Pranav Amin: This year as I said we got about 8 approvals or so in the 9 months so far. Early about 2 years back, I said we got 6 to 8 every year. Moving forward next year, it will be anywhere between 10 to 12 or so, maybe even more depending on how the FDA goes,.

Nitin Agarwal: And in terms of the quality of approval that you probably foresee coming versus what you have got over the last couple of years?

Pranav Amin: What we have got in these years is a fair indication of what kind of products we file and I think we will continue with that. As I said, the injectables are not there as yet until the facilities are ready so that will be much later.

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

Kunal Randeria: The first one is you have guided to around 10 plus launches for FY19, so how many of these will be day one launches?

Pranav Amin: We do not disclose that. I think all we can say is amongst 45 pending approvals without Orit. We have roughly about 17 which are either a Para IV or FTF.

Kunal Randeria: And on the domestic side, from your presentation I see that some of the specialty therapies like Cardiology and diabetes have actually slowed down in the last couple of quarters. You used to grow at around 15%-18% and now it is in mid-single digits. So any particular reason for that?

R. K. Baheti: We have taken a beating and I would say some of it, consciously. Couple of years back we changed our promo strategy where we wanted to be absolutely compliant on even the un-notified guidelines which were issued by the government and I understand competition is still flouting them pretty blatantly, so we have lost some customers in the process, but the positive part is that we are building a much larger prescriber base. So the idea is not to be dependent on few key customers, but get our business generated by a larger number of small prescriber base.

Kunal Randeria: So then would it be fair to assume that once these processes are in place, few quarters down the line, we could expect it to be the market growth?

R. K. Baheti: I hope so, that is the statement I made couple of minutes back. So we should get our traction back once the guidelines are clearly notified and once other companies are also fall in line.

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

Rahul Sharma: Any interesting opportunities which have been launched in the current year and which probably would be launched in foreseeable future in next couple of quarters and in FY19?

Pranav Amin: Rahul, we do not disclose our filings. The approvals are in public domain, you can just take a look at them. That gives a fair indication of what kind of pipeline we have and what we were getting so far.

Rahul Sharma: Can I say that there will be at least around couple of them out of 10 launches next year, we will be having around 4 to 5 would be less competitive.

Pranav Amin: Rahul, actually, that is not in my hand. I do not know myself, I do not know how the competition is doing. I do not know how the market is going to change, but as I said if you see last 10 approvals, you will get a fair idea what kind of products that we have.

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

Dheeresh Pathak: As per the presentation, 9 months domestic growth has been flat. So is this as per our target market. Has the market also been flat or we have grown slower than the market?

R. K. Baheti: We have discussed enough that Q1 and Q2 were very badly affected by GST. Q1 was almost washed out, Q2 we did recover, but recovery was slower and actually this is the first quarter post GST that we have done well. Market has also slowed down. So everyone is not affected the same way, some may have done better than us, but industry as a whole has suffered this GST burnt in one or the other way.

Dheeresh Pathak: So 9 months in our target market, markets were being flat, we would not have lost share for 9 months?

R. K. Baheti: The primary always does not give you that indication because every company would have a different inventory in trade channel. I think for that if you look at the ORG number, which also is part of our presentation would be a fair indication.

Dheeresh Pathak: And what has been the CAPEX year to date and earlier you have 700 crores guidance for FY18. How much have..?

R. K. Baheti: Almost 450-460 crores we have already spent on projects and I think it would not touch 700, we will be completing in bulk of the projects except the Jarod project which has recently been started. Bulk of activities on another projects will get completed by end of this year.

Dheeresh Pathak: And then FY19 would be a maintenance CAPEX?

R. K. Baheti: FY19, the large CAPEX will come from for completing the Jarod project which would be my second OSD unit which should be a large CAPEX and the others of course will be the maintenance CAPEX.

Dheeresh Pathak: How much are we spending on that, the OSD unit?

R. K. Baheti: I do not have the number on hand, but I think it would be about 200 crores plus project. Some we would have spent by March 18, some would get spilled over the next year.

Dheeresh Pathak: Onco injectable and OSD blocks were commissioned in the middle of last year, so have you started filing from those facilities?

R. K. Baheti: I hope you are talking about our Onco facility. Onco oral solids, we had commissioned. Onco injectable is still under final phase of completion would take some more time and we have not started the filings.

Dheeresh Pathak: And when is the derma and the general injectable will get commissioned?

Pranav Amin: Derm just got completed. So batches are on and in progress. And the general injectable should happen in the H1 of FY19.

Dheeresh Pathak: Has this been delayed, general injectable facility?

Pranav Amin: No, by and large we thought it will be in that timeframe. Maybe July and September, so it is as per schedule.

Dheeresh Pathak: One last question on the US. If I heard correctly, earlier you said that 30 products in our front end, 5 with partners. So we are marketing about 35 products currently?

Pranav Amin: Yes.

Dheeresh Pathak: So what percentage of our US sales we would be vertically integrated with our own API?

Pranav Amin: By and large in our initial filings in the first few years in the US, we are pretty much vertically integrated on most of them. Even till date from a portfolio, I think about more than 80% would be vertically integrated.

Dheeresh Pathak: And have you shared the erosion in your base business?

Pranav Amin: No, we have not said that.

Dheeresh Pathak: Can you give it?

Pranav Amin: It is very tough for me to give it Dheeresh because there are too many products and it is quite dynamic. So rather I refrain from sharing it all. So when you have erosions, some of the bigger ones, really offset everything else. So I would rather not comment on it.

Moderator: Thank you. We will take the next question from the line of Mayank Hyanki from Axis Mutual Fund. Please go ahead.

Mayank Hyanki: On price erosion itself, have we seen any impact from the Econdisc-WBAD merger in this quarter or do you expect any impact going forward?

Pranav Amin: Price erosion if you see the industry perspective and what everyone is seeing in the industry, it is there and as you guys see, it is a double-sided thing. One is there is consolidation on the buyer side and you have more and more ANDA approvals coming in. So due to that with more people coming, more entrants coming, yes there is price erosion.

Mayank Hyanki: But from this particular deal, are you guys impacted by that all. Do you guys supply intending to them or there is no impact from Econdisc-WBAD merger?

Pranav Amin: We supply to everyone and again it is tough to comment on price erosion customer specific because what are the prices it gets across to all distributors.

Mayank Hyanki: And going forward, we should assume this $36 million quarterly run rate to be the base?

Pranav Amin: As someone said earlier, what we did this quarter sequentially about 230 crores or so, I could see there would not be the base. As I said, there will be erosion, but there will also be new product launches. So it is a good indication of the base for next year.

Mayank Hyanki: And on the R&D budget side, has there been any revision because we have been spending a little low quarter by quarter. I understand there is volatility in the quarterly spends of R&D, but on the annual budgets, has there been any revision on the downside that we are seeing this slow run rate or we will see some pickup in the last quarter because of which initially I think we were talking about 430-450 crores of R&D budget for the whole thing?

Pranav Amin: Initially we did talk about closer to 450, but I think we will end up lower than that this year. Going forward next year, I think the number will be closer to 500 as I mentioned earlier.

Mayank Hyanki: So what has changed is basically that some of the projects have got lower or taking lower money than they have initially assumed? The number of projects have not changed per se.

Pranav Amin: No, the number of projects have not changed and as I said, it is a dynamic situation. So we keep fine tuning our R&D deciding which product to push when. Sometimes we may shelve a product also, sometimes we may not be successful. So it is a variety of factors.

Moderator: Thank you. We will take the next question from the line of Alok Dalal from CLSA. Please go ahead.

Alok Dalal: Pranav, any signs or any indication for the US generic market for this year in the sense do you expect pricing pressure to remain similar to 2017 levels. Any indication of players leaving market particularly in very competitive markets. Anything that you are seeing there?

Pranav Amin: No Alok, actually product wise, you may see some supply disruptions which may be short term and that is why we try capturing those. As regards the pricing pressure, I believe that is going to remain because as we have more approvals coming and more buyer consolidations, that will continue till about a certain point. As regards people exiting the market, I do not see anyone exiting unless they have an FDA issue or some strategic decision that they want to get out from. But as you all know the pharma industry is quite dynamic, let us see how it goes.

Alok Dalal: But Pranav, we have seen that although the approvals have gone up in 2017, but the new launches have lagged those significantly. Say there are companies who have received tonnes of approvals last year, but because products were or the market size was so unviable that they have not launched those. So do you feel that price pressure, the factor is more from buyer side as compared to competition coming in and eroding prices because those launches have not happened, we have seen that.

Pranav Amin: Firstly, it depends. If it is really an old product with 7, 8, 9 people there, then one would think twice about taking the effort and already if you have a plant with multiple approvals coming, it is really worth it launching the product. So it is again quite dynamic. It is very tough to give one sites with all approach. But I think combination of factors keep happening regarding people either not launching products over the buyer side consolidation or sometimes you may have 9 products and an entrant may come in and still want to pick up market share and drop prices.

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

Nitin Agarwal: Mr. Baheti, our gross margins this year are pretty high. I presume that obviously limits some bit of scope for expansion from these levels. Are we talking about a material jump in R&D for next year from about 400 odd number that we are doing this year, but I mentioned you look to do 500 for next year and so how should we look at our fixed overheads in this context. This year, we had a good year, pretty strong cost control given the fact that we have got a number of new facilities coming through, getting commissioned during the year. How should we see that bit and the overall EBITDA margins playing out going forward?

R. K. Baheti: Good question, next year once this facility gets commissioned, some of these preop expense would start getting charged as an expense. So there will be an additional cost next year. There is an expected additional R&D cost and I think some of it will be taken care of by increased business, but I do not rule out a margin pressure next year.

Nitin Agarwal: So in your assessment, do we still see scope for margin expansion on the gross margin from these levels or?

R. K. Baheti: It is very difficult. We have reached to an optimum level.

Nitin Agarwal: So it is largely going to be a revenue driven growth…

R. K. Baheti: Unless I get a product where profit and the sale is the same.

Nitin Agarwal: So it is largely going to be a revenue driven growth for us incrementally going forward from a margin perspective?

R. K. Baheti: Yes.

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

Prakash Agarwal: Couple of clarifications. One was on the US. You mentioned that because Q-on-Q improvement because of increase in some volume, would it be also due to some products coming through our own marketing front end and that would have doubled the sales. Would that be fair to say in the last couple of quarters?

Pranav Amin: Some of the growth has come through those products. As it comes down front end, we have more control on the marketing, on the sales, on the supply chain. So we can take positions on those products. We are giving less profit share out here, more flexibility in terms of pricing. So yes, that has played some part as well.

Prakash Agarwal: And the acquired benzonatate product is still yet to kick in, right from January to March quarter is what understand right?

Pranav Amin: These products have not come on the Alembic label as yet.

Prakash Agarwal: But fair to say that given the strong cold season, it should be a good product going forward?

Pranav Amin: To be honest, I do not know. Until the product comes to us, I have not done any analysis. It is still a part to be seen as a partnered product to Orit so till it comes to us let us see how it goes.

Prakash Agarwal: And just missed that comment the earlier question that so next year pretty known that cost of these large facilities that we are commissioning and commercializing would come on stream, what about Q3, have you seen this oncology block which is now commissioned, the expenses of that coming in and that is reflecting in other expenses or is it largely due to the increase in promotion expenses?

R. K. Baheti: Q3 if you compare with Q2, it is largely because of additional promo expense which we did. It does not have much of impact of Onco facility.

Prakash Agarwal: So that should come in fiscal 19 sir?

R. K. Baheti: It would come in fiscal 19.

Prakash Agarwal: And some color on the inspection. So I see you given some data of the last inspections, so Karakhadi and this Panelav could be due for inspections in the next 3-6 months?

R. K. Baheti: That is right. But I do not think there is a set pattern. FDA may not come for 3 years, may come after 1-1.5 years also.

Prakash Agarwal: And lastly color on the tax rate this quarter particularly lower than your usual run rate, so do we still maintain that 21%-22% for the full year and next year or?

R. K. Baheti: I think the only difference on a quarterly basis can be because of the profits captured at India level and the subsidiary levels. As far as India level is concerned, 21 is almost now a fixed rate for us because we are under MAT. As far as the profit bifurcation between India and the subsidiary, then create some difference on overall consolidated basis.

Prakash Agarwal: But you will be around that 21%-22% mark or could be TAD higher?

R. K. Baheti: We would be unless Jaitley reduces it next year.

Moderator: Thank you very much, that was the last question in queue. I now hand the conference over to Mr. R. K. Baheti for closing comments.

R. K. Baheti: Good interesting interaction. Thank you very much for joining the call and look forward to be with all of you again next quarter which will be the year end call also. Thank you very much and wish you all the best for the budget tomorrow.

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