



“Alembic Pharmaceuticals Limited Q2 H1 Financial Results
Investors Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Alembic Pharmaceuticals Limited Q2 H1 Financial Results Investors Conference Call. We have with us on the call today, Mr. Pranav Amin - Managing Director; Mr. R. K. Baheti, Director –Finance & CFO; Mr. Jesal Shah - Head -Strategy; and Mr. Ajay Kumar Desai - Senior VP-Finance. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. R. K. Baheti. Thank you and over to you sir.

R. K. Baheti: Thank you very much. Good evening everyone. Thank you all for joining this second quarter results conference call. Most of you would have received the results by now; however, let me briefly take you through the numbers of the quarter ended 30th of September 2018.

During the quarter, our total revenue grew by 43% to 1127 crores, EBITDA at 305 crores is 27% of sales and pre-R&D EBITDA is 39% of sales. The net profit after tax went up by 69% to 207 crores.

During the half year, the total revenue grew by 38% to 1990 crores, EBITDA at 456 crores is 23% of sales. Pre-R&D EBITDA is 36% of sales and net profit after tax is up by 63% to 305 crores.

EPS for the quarter is 10.61 per share which is substantially up from Rs. 6.45 in the previous year.

CAPEX for the quarter is 186 crores, total for H1 is 342 crores and additionally Rs. 55 crores have been funded by us to our JV Aleor Dermaceuticals. The H1 number for total funding to Aleor is 110 crores.

The gross borrowing is at 1072 crores and we have about 80 crores of cash on hand.

The debt equity ratio considering the gross borrowing is 0.41.

I will request Pranav to now take up the international business.

Pranav Amin: Thank you Mr. Baheti.

It was a good quarter for the international generic business. We grew across the segments on base business in the US, base business in Europe and Australia, all had very good growth. Additionally, there was a one-off opportunity due to a shortage for Valsartan, I don't feel that the Valsartan API opportunity will continue as supplies of result resumed in the market. This is one of the primary reasons for a massive growth in the US business.

As announced earlier today, our Dermatology JV Aleor had its facility inspected and approved by the US FDA without any observations.

Our total R&D spend for the quarter was 145 crores which is roughly 13% of sales.

We filed 8 ANDAs during the quarter. Two of these ANDAs were filed through Aleor.

We filed three DMFs during the quarter as well.

The company has received four tentative approvals during the quarter. We cumulatively now have 77 ANDA approvals which includes 13 tentative approvals.

The company launched one new product in the quarter.

The international formulations business grew by 124% to 587 crores for the quarter as compared to 262 crores in the corresponding quarter last year.

The US generic business grew by 128% to 419 crores for the quarter whereas the ROW formulations business grew also by over 100%.

The API business grew by 9% to 155 crores for the quarter.

I will now hand over the discussion back to Mr. Baheti for his briefing on the India Formulations Business.

R. K. Baheti: For the quarter, India Formulation business was flat at 385 crores; however, as I said in my previous call, Q-o-Q is not a comparable number due to GST implementation last year. The better way to look at it is the H1 number and the India formulation business grew by 15% in H1 of 2018-19 as compared to the previous year.

I am happy to say that in almost all the therapeutic segments where we are operating in, we have grown faster than the market as per IMS September 2018 YTD. The ratio of sales between acute and specialty is now 31% and 69% for H1 2018-19.

Now, I would open the floor for Q&A.

Moderator: Sure, thank you very much. We will now begin the question and answer session. We have the first question from the line of Prakash Aggarwal from Axis Capital. Please go ahead.

Prakash Aggarwal: Just trying to understand this further, this one time supplies you mentioned due to the shortage of generic Valsartan, so when you say it means that all the upsides have been captured in the current quarter or there is something remaining which would be recognized in the future quarters?

Pranav Amin: I will divide it in two parts. One is opportunity itself and what happens next. I know there will be more questions on it later on. As I have been saying in the past, one of our roles is to create a nimble supply chain that can react quickly to market opportunities. So we could respond very fast to the Valsartan opportunity and we could ramp up our

supplies and we could get on the market at a high price and that is what is sold. Now two things have happened in the market, subsequently a lot more people have their supplies, so the juice in the opportunity is much lesser. Number two, the market has also shifted to the other sartans in our opinion that has caused some way to go down. As regards, do I see the opportunity continuing? No. Is there anything left in the bank, I let Mr. Baheti to answer that if there is anything left

R. K. Baheti: No, I think broadly it is captured in this quarter.

Prakash Aggarwal: And how should we look at the US base business going forward because I mean this is clearly a spike. Would the base business have been stable or grown or given the price erosion that we see it would have come down a bit?

Pranav Amin: The base business barring this Valsartan opportunity has also grown. As I said in my opening statement, US has grown by decent amount. While there is pricing pressure across the board, our team has managed to take some price increases as well. Almost 25% of our portfolio is where we have taken some kind of a price increase and the base business has grown by over 20% in the quarter and ROW markets as I spoke, they have grown by over 100%.

Prakash Aggarwal: So US base business has grown over 20%?

Pranav Amin: Yes.

Prakash Aggarwal: And this is a mix of volume and pricing you are saying?

Pranav Amin: Yes.

R. K. Baheti: Higher volume and probably a little pricing.

Prakash Aggarwal: And there is a comment on the receivable side that there has been increase of about 300 plus crores, so should we largely attribute to this Valsartan thing with the money yet to come in given the longish

receivable cycles. So is that way to determine what would have been the Valsartan sales?

Pranav Amin: Absolutely. Bulk of the sales was done in August and September for which money is being received now.

Prakash Aggarwal: My question is actually to understand in general if the receivable cycle has increased excluding this?

Pranav Amin: Not really.

Prakash Aggarwal: And lastly, obviously this CWIP with more and more assets getting capitalized now, so it is getting a little bulky now so when do you think you would start depreciating and taking it on the fixed asset side?

R. K. Baheti: Prakash, our investor presentation gives the schedule of our expected completion; however that would be the physical completion of the facility, then subsequently as you are aware we will be taking exhibit batches, filing ANDA, receiving approvals and the commercial production. Actually, what would happen is probably the capitalization will take a little longer but plus investments on these projects will really not be happening.

Prakash Aggarwal: Sir I could not understand, so depreciation will start for these assets when?

R. K. Baheti: Depreciation on these assets will start when the commercial production begins.

Prakash Aggarwal: Commercial production, so which is say 21 onwards?

R. K. Baheti: Not for all, for Derma like for example it can start much earlier, even for other facilities it depends on how soon we get the FDA approval and also we can market the products, but once the commercial production starts, then it can be even a 5% of the capacity utilization, it starts charging all the expenses and the depreciation.

Prakash Aggarwal: And the operating expense is also when the commercial production starts or nothing?

R. K. Baheti: Operating expenses, there are two parts and they go as per the accounting standards. So broadly a lot of expenses get expensed out even today. Few expenses will get expensed out once the commercial production starts.

Moderator: Thank you. The next question is from Nimish Mehta from Research Delta. Please go ahead.

Nimish Mehta: Some of my questions have been answered. Just wanted to understand what is the reason for the high international growth ex of US and how sustainable it is?

Pranav Amin: Ex of US, the growth has been higher because we had some supply constraints in the past. We have been able to ramp up a lot from production in the last quarter or so, that has led to the higher growth. We will not grow at 100% now, but is this the new base, yes I would like to believe it is.

Nimish Mehta: Interesting, and just to clarify you mentioned that there was actually some price increase in the US business ex of Valsartan, is that right understanding?

Pranav Amin: That is correct. While there has been price reduction across the market and in lot of places, our team has managed to take price increase in some products as well. Of course it could be a low volumes which is optimizing. So we play around with the portfolio to see where it makes sense, so there are possibilities of taking some marginal price increases as well.

Nimish Mehta: But at an aggregate level ex of Valsartan, has there been increase or decrease on a quarter on quarter basis, just to understand the nature of the Industry?

Pranav Amin: Decrease.

Nimish Mehta: Would it be a single digit, any idea?

Pranav Amin: It is tough to quantify but overall I guess it would be in single digit.

Moderator: Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: My question pertains to the increase in working capital cycle. You think it will normalize in the next quarter?

R. K. Baheti: Most of it will get normalized. There has been some inventory buildup which is for other new products or new launches which we will be doing, but as far as the receivable is concerned, will get normalized by end of this quarter.

Charulata Gaidhani: US business, base business has grown by 20% Y-o-Y?

Pranav Amin: Yes, roughly about 20%.

Charulata Gaidhani: So for the long term, the operating margin should be sustainable at current levels?

R. K. Baheti: Current level is with this one time opportunity or inclusive of this?

Charulata Gaidhani: Inclusive.

R. K. Baheti: No, how it would be possible?

Charulata Gaidhani: So the current level which is around 27%, so should we be able to sustain to FY18 levels?

R. K. Baheti: Sure, it is the right way to look at it.

Charulata Gaidhani: And India business has been flat.

R. K. Baheti: It has been flat for the quarter because if you recall last year first quarter was bad and this year we grew by almost 40% on that quarter and at that time I had said that this is not a reflective growth number. So this quarter, last year Q2 there was a huge jump because of this void created by GST implementation in first quarter. So this quarter is flat as compared to the last quarter, but on an H1 basis, we have grown 15%.

Charulata Gaidhani: Yes and how many launches are you planning for the US in FY19?

Pranav Amin: At the start of the year, I said that, it is anywhere between 10 to 15 launches. I think the second half is a little heavier for us in terms of launches, so we will be around the 10 to 15 launches.

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

Anmol Ganju: This 20% Y-o-Y growth on the base business that you are referring to Pranav, is this a dollar number or more like rupee realization number?

R.K.Baheti: That is a rupee number.

Anmol Ganju: Second, on R&D, basically you know obviously this quarter, we benefited from one time opportunity but we have seen sequentially sharp jump in the R&D by around 35 to 40 odd crores, so is this the new base or it normalizes during the full course of the year?

R. K. Baheti: That is not right observation, you can't really do a quarter-on-quarter comparison because some costs which gets incurred on a particular day or a particular time, but I think we will stay around 500 odd crores for the year.

Anmol Ganju: That is helpful. My third question is basically Pranav, you said that now with supply creating opportunities for nimble players like us, do you think that the US market landscape is finally kind of turning around the corner and you are seeing all the bloodletting which

happened past couple of years now creating opportunities on the other side, do you think we are there directionally or still of time?

Pranav Amin: One thing is the fundamental changes that has happened in the US market are there to stay and that is the new base with the buying power, the distributors, and the chains that is here to stay. I think it really depends on the supply side; however, companies keep up with the supplies and to be honest on the generic side we do see disruptions all the time and if we can react quickly to it, you can capture some opportunities. Valsartan of course is one of most opportunities and so big but I think there is pricing erosion in some part of the portfolio and I also mentioned that we have taken price increase in about 25% of our portfolio. So it is a mixed bag. So there is price erosion but it is in the single digit now.

Anmol Ganju: And my last question, in the international, now that the supply constraints are over, is this the base that we work with for a full year or this quarter is the new normal because we have seen very sharp jump there in the non US international formulation sales?

Pranav Amin: We should see similar to this, may be not as yet, but it will be round about this.

Anmol Ganju: If I can squeeze one last question. I understand that this quarter obviously has the challenge of very high base to overcome on the domestic side, but from a full year standpoint post this quarter has anything changed with respect to the growth outlook for the domestic piece of the business?

R. K. Baheti: Not really. We should be doing about 14 - 16% of growth if there is no other external disruption in the market.

Moderator: Thank you. The next question is from Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.

Dheeresh Pathak: Is there any explanation that you have given for other expenses being higher this quarter and the run rate to be expected for 2H?

R. K. Baheti: One reason obviously is the higher R&D cost as the R&D cost just clubbed into other expenses on the top. Probably it is routine because Marketing and promo expenses in Q2 is high, so that would look higher in comparison to previous year because previous year we had curtailed some of these expenses. Other than that, most of it is in line.

Dheeresh Pathak: So ex of R&D also, it is higher sequentially not comparing with last year but comparing with June quarter this year by about 55 odd crores so Q2 obviously is higher, I see the past year trends also higher because of as you mentioned domestic promotional, but it comes down in December and the March quarters, so is that also fair understanding because in the past years also has seen that December quarter it will come down and then March quarter again it comes down because I am assuming the new facilities that you have talked about in the H2 FY18 as per the presentation, they will not contribute anything right because as you are saying that till the time we do commercial production, you will not do the above EBITDA OPEX expensing or you will start doing OPEX expensing as you take exhibit batches?

R. K. Baheti: As I said now, it does not depend on the taking of the exhibit batches except that the direct cost related to exhibit batches are charged off. So the employee cost and the utility cost etc. is charged off whether just part of R&D that is charged off any expense that there is being currently done also, so may be base will go up a bit but bulk of the expenses will get charged off only when the commercial production starts.

Dheeresh Pathak: Bulk of the expenses will get charged off, one is the depreciation part that I have understood properly.

R. K. Baheti: Direct R&D expense, direct exhibit batch cost will get charged off

Dheeresh Pathak: That means anything right now you are getting charged off it as you said.

R. K. Baheti: That's correct. Today only two plants are taking exhibit batches. Towards end of H2, all plants will probably get completed and will start taking exhibit batches. To that extent, R&D expense will go up a bit. This quarter we also had an MTM loss on some of the hedging which we have done but we get compensated by higher revenues coming in but that MTM loss comes into the other expenditure.

Dheeresh Pathak: Can you quantify that MTM loss?

R. K. Baheti: It is not significant in an overall context, but when you are doing comparison on a sequential quarter basis, this contributes.

Dheeresh Pathak: Can you give me like a number for FY19 where the operating cost for the new plants you know, how much of the operating cost for the new plants in FY19 would have been capitalized?

R. K. Baheti: No nothing has been capitalized. Everything is being carried forward today is work in progress. We will do the capitalization once the plants are completed.

Dheeresh Pathak: Yes, that is what I meant. What I meant was not so let me word differently. I am saying in FY19 can you give me an estimate of the operating cost which are cost above EBITDA which will not be charged to P&L and would be put on the balance sheet?

R. K. Baheti: Would be capitalized and which would also include the borrowing cost because you know as per the accounting standard in the borrowing cost, interest cost or borrowed funds which are used for setting up new facilities are to be capitalized till the date of commencement of operations. So I don't have the number right now but I can share with you separately.

Dheeresh Pathak: Let me connect offline sir.

Moderator: Thank you. Next we have a follow up question from the line of Prakash Aggarwal from Axis Capital. Please go ahead.

Prakash Aggarwal: Just trying to understand the molecule Rhizen Pharma RP6530, I think it was also presented at ASCO, what are the read outs? when can we see some monetization of the same?

Pranav Amin: Rhizen, all their public disclosure, they are on the site. It is still some time off for 6530, they still have to do a lot of studies. I would presume it will take at least another 2 to 3 years to get to a stage of completion of the clinical studies.

Prakash Aggarwal: And regarding we have a target of doing about 100 filings, we did about 8, so given that lot of company stocking about rationalizing R&D, cutting of ANDAs and all, so is there a rethink about it may be in terms of numbers, may be in terms of going to different therapies or reevaluating? What is the thought there?

Pranav Amin: When we said 100s, we have said approximately we would look at adding about 100 odd products in the next 3 to 4 years, right now I would put an average of anywhere between 20 to 30 per year. That is what our thought process and that was broad target. Do we internally evaluate, yes, our grid keeps getting changed on a regular basis depending on the risk profile of a product and what we foresee as a market opportunity. Seeing what is happening in the market, we keep evaluating those and we keep fine tuning that. So far in the year it is little lower than what we have thought, but I think we should catch up, last year we filed 26 odd ANDAs, I think we should be at a similar level this year as well.

R. K. Baheti: First half, we have filed 11, not 8, 8 is for the quarter.

Prakash Aggarwal: Yes, I said for the quarter. You are looking at 20 to 30 for the year.

R.K.Baheti: We will be filing 25 plus in the year.

Prakash Aggarwal: Yes, understand, great and to think in terms of investments we made both in terms of R&D and CAPEX. So the monetization for Derma you said would start from fiscal 20 onwards and the injectables will start from fiscal 21 onwards. Is that right way to think?

Pranav Amin: Well, Derma, there is a lot more visibility and now that FDA has already approved the facility. In terms of injectables just above FY21, FY22 is when you expect because we will start doing the batches in the second half of the year then by the time, we do the filing, you got to get approval. So it is safe to say end of FY21 may be early FY22.

Prakash Aggarwal: And to start with we would mostly get the general already 3 to 4 player market, I would assume so or there are few good limited competition ones as well?

Pranav Amin: It is tough to say right now. I think from the R&D perspective, we are working on the bunch of products, it is tough to say and I really would not like to give a guidance on how the product is because still couple of years off and we have seen the market changed a lot, so it is tough to give the comment on that right now.

Moderator: Thank you. The next question is from Nimish Mehta from Research Delta. Please go ahead.

Nimish Mehta: Just to understand about, I mean has there been any impact of the increased API cost at an aggregate level in this quarter and what was that and what do you think is the outlook on that?

R. K. Baheti: We have seen an increase in API prices. API also saw the intermediary prices because of, I understand some supply disruptions are constraints in China. More than the cost I think even the supply disruption, apprehensions are there, so we have done some stocking so that we are well prepared and there has been some price increase also.

Nimish Mehta: If you can some ballpark impact on the numbers of likely to have in the coming quarters that would be helpful?

R. K. Baheti: Actually how would you look at it because we have two different business verticals. Both the business verticals have some impacts. It is not uniform across and it is different from product wise. So while we keep doing our analysis, it is very difficult to quantify a specific number or a specific percentage.

Nimish Mehta: But this quarter what was it also is not easily identifiable?

R. K. Baheti: Which number, I mean what exactly...

Nimish Mehta: I am trying to understand the impact on cost of goods sold this quarter due to the increase in API and/or intermediate cost?

R. K. Baheti: As a percentage it would not be very high.

Nimish Mehta: It won't be very high, okay fine and on the US business now just to remind myself, we are anticipating, we are kind of envisaging 2 to 3 opportunities, one is the injectable business, one is the dermatology business and there is oncology business. So if you can just remind ourselves as to which is the opportunity that is going to pan out in terms of timeline, the first I guess would be injectables or oncology and then that chronology if you can just give us and some broad timeline that will be helpful?

Pranav Amin: First one will be the derm opportunity because as you know the derm facility has just passed the FDA inspection. The onco and the injectables facility will go on stream in the second half of the year. Then there will be the filings and then there will be the FDA inspection and approval. So the first will be the derm followed by the general injectables, then I assume the onco injectables.

Nimish Mehta: In derm, would we be able to see any launches this year or next year?

Pranav Amin: We launched one product Acyclovir ointment already in this last quarter. The rest would be next year.

R. K. Baheti: Again, it would depend on when we receive the ANDA approval.

Nimish Mehta: Right, that obviously will depend on approval, but some ballpark understanding.

Moderator: Thank you. The next question is from Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: My question pertains to the US business. On a constant currency basis, what type of growth would you expect for FY19?

Pranav Amin: We have not given our guidance on the growth.

Charulata Gaidhani: But there is a huge amount of volatility like Q1, it was around \$52 million and Q2, it has come down to around \$33 million to \$34 million, so can you?

R. K. Baheti: Which number you are referring?

Charulata Gaidhani: In the sense if I take 20% growth in rupee terms on the current exchange rates?

R. K. Baheti: Whatever number we count on when I was talked on was on rupee basis. So US based business is about \$35 million on a quarterly basis. Is the number you are talking of?

Charulata Gaidhani: In Q1, it was around \$52 million and it has come down in Q2. There is a huge volatility, so what is the reason for that?

R. K. Baheti: Let me come back to you. I think there is some disconnect within the number we are speaking. Let me come back to you.

Moderator: Thank you. The next question is from Sohini Das from Business Standard. Please go ahead.

Sohini Das: I was just wondering, I joined in a bit late, sorry. So I do not know if it is a repeat question. One is that you mentioned that one of the products in short supply, there was an opportunity which is why the profits are high, so could you tell us is this opportunity is being taken away what would have been the normal growth in the international business of the US business?

Pranav Amin: The international business has various territories. The rest of the world territory also grew by 100% that was mainly due to some supply shortages that we had in the past and we could supply and ex of Valsartan in rupee term, the US grew by over 20%.

Sohini Das: Ex of Valsartan, it grew by 20 odd percent in the US business, right?

Pranav Amin: More than 20%.

Sohini Das: And 20 to 25 launches per year is your target?

Pranav Amin: No. I said about 10 to 15 launches in the US market.

Sohini Das: Okay, every year going forward now right?

Pranav Amin: This year.

Moderator: Thank you. The next question is from Damyanti Keria from HSBC. Please go ahead.

Damyanti Keria: Sir to expedite some of the US opportunities, are we going for some third party collaboration or outsourcing of some of the key pipeline products?

Pranav Amin: I don't understand like which products are you referring to?

Damyanti Keria: Say like our target is injectables which we are looking for long term and all, so right now you are mentioning that which would be looking those opportunities in FY21 and beyond so just to understand, are you planning or are you already in collaboration with some third party or

some outsourcing partners to expedite some opportunity? In that case, we can see those opportunities coming much earlier than FY20-21?

Pranav Amin: No, I think for injectables, what we are doing is everything is coming from our facility, so you will see that as soon as, as I said the batches will start in second half of this year and wait for FDA approval after that. I don't think it is going to be much faster going anywhere else.

Damyanti Keria: Coming back to India, can you specify what is the field force strength right now for Alembic?

Ajay Desai: It is 3800.

Damyanti Keria: And any comment on the productivity like what is the current standing and what are we targeting?

Ajay Desai: It had gone up to 3 lakhs now.

Damyanti Keria: 3 lakhs as of current quarter from what level? Previously it was?

Ajay Desai: It was somewhere 2.7 lakhs, now it has gone up to around 3 lakhs.

Damyanti Keria: Any near term target we have here, near or near to medium term target?

Ajay Desai: Basically all our growth has to come out of productivity increase and immediately we don't foresee any expansion in fieldforce.

Moderator: Thank you. The next question is from Kunal Randeria from Antique Stock Broking. Please go ahead.

Kunal Randeria: Our specialty business in India has picked up after fairly lackluster FY18, so you had mentioned this in the last quarter also that this is sustainable. So what are the strategic changes that you have made getting the confidence of reverting back to our previous level?

R.K.Baheti: No I don't think there is lot of strategic change. I think it is an operational execution that we are trying to improve actually every day. So it is an execution which is the key and that is what we are working for.

Kunal Randeria: So in the near term or in the medium term we can expect it to be beating the market?

R. K. Baheti: I mean when I say market, I always mean the molecules in which we are present.

Kunal Randeria: My second question is for Pranav. Pranav, if you can shed some light on ROW market, more specifically how much of the growth is due to some supply backlog? How much is probably from product specific growth and how much of it is actually sustainable?

Pranav Amin: I believe the absolute amount and what we do on annual basis is sustainable because that will be the new business, but the bulk of it has been due to supply backlog that was there. We had some issues last year where we had some agreements which we had a dispute and we were waiting for clarity on something. It is all supply backlog that was there but this should be the new base going forward. There is no one particular product per se, just a basket of products.

Moderator: Thank you. The next question is from Chirag Dagli from HDFC Asset Management. Please go ahead.

Chirag Dagli: On Valsartan, have prices gone back to the pre hike levels?

Pranav Amin: A few things had happened. One is there is lot of supplies in the market, so prices have corrected quite a bit because lot of players have come in with supplies and number two as I mentioned there has been a shift to other sartans as well.

Chirag Dagli: But the price is still higher than where it was before the price hike started?

Pranav Amin: I am not sure. It is quite static but I think it has gone pretty much back to where it was, may be little higher but not much.

Chirag Dagli: And sir, on the ROW market opportunity for the non-oral solid species, is there something substantial there in the oncology or dermatology?

Pranav Amin: Non-oral solid side on the ROW markets, we are not doing anything else yet. We are waiting for the approvals of the facilities. First we would see the business. The filings as I mentioned in the past is predominantly US is our first market that we look at. After that, the ROW market is what will see if this makes sense for us.

Chirag Dagli: So what remains the growth driver, sir beyond this once the supply constraint is in the base, what will be the growth driver for this business beyond the 100 million that you are currently clocking on an annualized basis?

Pranav Amin: So for the ROW, it is less than 100 million, but one this should be the new base and then as you get new launches about 10 to 15 new launches that we do in each of the markets and it really depends on how successful we are, how good our supply chain is and that is how we will grow in the future.

Chirag Dagli: But within the orals, if there is enough opportunity still?

Pranav Amin: These are all oral.

Chirag Dagli: And sir what is the CAPEX for FY19 and 20?

R. K. Baheti: It would be about total of about 600 odd crores. FY20 there would not be significant CAPEX except if there will be spill over expense of any of the projects and maintenance CAPEX.

Chirag Dagli: Sir when you sort of look at the CWIP that was there as on March which is about 910 crores in hard assets and then another 600 that you would probably spent this year, how would you split this 1500

roughly in the 3 to 4 buckets that you have, you know oncology, dermatology, just ballpark split would be helpful?

R. K. Baheti: Typically, formulation plant of decent size these days costs about 250 crores and that is how we have spent on almost each of these plants, derma, oncology and injectables.

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 as the rates of filing for us is picking up and you guided to 10 to 15 new launches for this year, when do you see a pickup in these number of new launches, the quantum of new launches every year, at what time period do you see that happening, FY20, FY21, when do you see that pickup coming through?

Pranav Amin: We see the last two years what we filed. We filed 20 and 26, so about 46 ANDAs have got filed over the last 2 years. If we assume this year itself, we filed another 25 plus. So looking at and with the FDA approval timeline which have gone down about a year and a half or so now, barring of course the Para-IVs, you take those are the pictures, you should look at all those coming in. So I would say at least 10 to 15 launches every year, for this year definitely and next year probably more and let us see other approvals come.

Nitin Agarwal: And secondly on the business as it is today, based upon the broadly the numbers that you indicated, we roughly seem to have currently a base business about \$150 million and what would be the product concentration in this business, I mean top 3 products would be what one third of this business...?

Pranav Amin: I have said in the past that for most companies if you see, there will be about top 20% of our portfolio which will be a chunk of US. I think the same top 20% would yield about 80%. I am just saying the rough principle. I don't have the exact number with me but I think we will be in the same basket as the other companies.

- Nitin Agarwal:** And last Mr. Baheti on the SG&A, if you take the first half of one of the expenses of SG&A, is it right to sort of use that as a base on a half yearly basis?
- R. K. Baheti:** I am saying plus minus 5% that should be the base.
- Nitin Agarwal:** And sir incrementally what kind of incremental growth can really come on it when your plant start to get commercialized I mean barring the inflation related increases which are there?
- R. K. Baheti:** No I didn't get your question. What exactly you are asking?
- Nitin Agarwal:** Sir incrementally when the newer plants get commercialized when they very start to capitalize them on the base that is there on H1, incrementally are you looking in a meaningful growth on this number or say over the next 2 years or once all the new plants are also commercialized?
- R. K. Baheti:** Commercialized, and I think, on the other expenditures side growth will be okay, let me put in this way. All the expenses that is manufacturing, employees and other expenses, all together should be a growth of almost Rs. 200 crores per year.
- Nitin Agarwal:** Incrementally from year on.
- R. K. Baheti:** Yes.
- Nitin Agarwal:** But sir then what explains this 50% growth that we have done on other expenses and in this half year if the cost has still not in our cost yet?
- R. K. Baheti:** I said that the largest contributor is our expense increase in R&D and MTM loss.
- Nitin Agarwal:** MTM loss and the R&D expenses?
- R. K. Baheti:** That is the largest contributor out of this total increase.

Nitin Agarwal: Sir you say incrementally on the 200 odd crores that we need to build in across different line items into accounts for that incremental commercialization of the plants?

R. K. Baheti: Yes, absolutely.

Moderator: Thank you. Next question is from Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: Just one clarity. You guys mentioned that US sales have increased 20% year-on-year but how about sequentially? Sequentially this will almost flattish the base business or up in low single digit?

Pranav Amin: Sequentially, I don't have figures with me but I think it will be flattish.

Anubhav Agarwal: So the price increase, Pranav that you talked about you would have taken it last year. That is what the price increase that you are mentioning?

Pranav Amin: No what has happened is while I said that there is still erosion and single digit erosion, when you take a price increase, it helps dues offset some of that so that is what benefits us a little bit in some of the products.

Anubhav Agarwal: And the price increase you would have taken this quarter, then?

Pranav Amin: We have taken some at the beginning of this quarter, some at the end. It takes a while for these to get through.

Moderator: Thank you. Next question is from Prakash Aggarwal from Axis Capital. Please go ahead.

Prakash Aggarwal: Just one clarification for the question that I asked and you answered. You mentioned that on the base business, US has still grown 20% Y-o-Y and there has been a price decline overall. So the volume in effect would be higher than 20%. So I am trying to understand if the production gone, we have tied up with lot many suppliers or is it like

couple of products which we have increased production, how do you think about over 20% volumes and would that be sustainable?

Pranav Amin: It is a complex question. Basically the US business has grown over 20% in rupee terms. As I mentioned some products there has been a price increase, some there has been erosion, and I think as a combination it is very tough to say because in one quarter how much, there is no one or two activity I can say that has led to this increase. It is across the board we picked up some market share, we have lost some market share, we have done some price increase, it is a combination.

R. K. Baheti: To respond to your question, all the supplies have gone from our one existing plant, so we have no outsourced product as far as the international formulation is concerned, we have no other facility. There has been volume increase in this facility.

Prakash Aggarwal: And you think these are sustainable volume increases as there is no one off kind of volume increases?

Pranav Amin: Yes. That is right.

Moderator: Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: My question pertains to Orit, have you started integrating Orit products into Alembic?

Pranav Amin: We have started integrating Orit product and we launched one of them and we will launch some of the other ones as well.

Charulata Gaidhani: How much will it start contributing in FY19?

Pranav Amin: FY19 we don't know, as of now the contribution is insignificant to the overall scheme but as we get more products back into our own label, also we get some approvals which are awaited for the ANDA which

has been filed by Orit, I think we will have more visibility. This one product we launch and relaunch under our label.

Moderator: Thank you very much. That was the last question in queue. I would now like to hand the conference back to Mr. R. K. Baheti for closing comments.

R. K. Baheti: Thank you very much for the participants to come in there and speaking to us and we will be very happy to respond to your questions offline if there are any and look forward to see you and connect with all of you again next quarter. Before I disconnect, I wish all the participants and their organizations a very happy Diwali. Thank you very much.

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