“Alembic Pharmaceuticals Limited Conference Call on Discussion on impact of COVID-19”

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Moderator: Ladies and gentlemen, good day and welcome to the discussion on impact of COVID-19. We have with us today on the call, Mr. Pranav Amin - Managing Director, Mr. Shaunak Amin - Managing Director, Mr. R. K. Baheti - Director Finance & CFO, Mr. Mitanshu Shah – Head-Finance, 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 * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pranav Amin. Thank you and over to you sir.

Pranav Amin: Thank you. Good afternoon everyone and thank you all for joining the conference call. The reason for doing this call is that we had multiple requests about COVID-19 topic and its impact on Alembic and the pharmaceutical sector. Instead of individual calls, we thought we will we address all of you together.

Before I get to the COVID pandemic, let me address the FDA issue that we recently had at F1, our main formulation plant for the US and the European markets. We had two auditors who spent about 5 days with us inspecting the plant. This was a general GMP audit. We were issued four form 483 observations. None of these are repeat observations nor are they related to data integrity. Broadly the observations are quite procedural and related to strengthening of our SOPs. I am quite confident that they are quite benign and we should be able to respond to them adequately.

Coming to the COVID pandemic, the pharmaceutical industry is relatively less affected by this compared to some of the other industries. Up until a few weeks back, the only pertinent concern for Indian pharmaceutical industry was the inbound material coming in from China which is the API and the intermediates and the disruption in the supply chain. However, things are progressing quite fast and exponentially.

Let me take you through what our thoughts are in particular to Alembic to get an idea. I will talk about the international business first, talking about supplies from China.

As I have said earlier, we will be a relatively less affected because we generally carry higher inventory levels; number two, we have a lot of domestic intermediate suppliers; we have our own API facility for international formulations and we very much restrict the usage of Chinese API for international markets. So we are not really concerned, or we haven't got affected by the shortage in supply from China so far. We are quite comfortably placed.

Having said that, what we are seeing is that supplies from China have improved and they are getting back to normalcy quite soon. So this is not a concern area for us anymore. We have enough inventory and we are seeing supplies resuming from China as well.

Coming to the international markets, so far, we have not seen any disruptions in our international markets. We have enough inventories to cater to these markets. Our strategy, as I have repeatedly been saying, is that we want to be nimble with our supplies and capture market opportunities when they arise, when disruptions arise. The US business is continuing with our

routine sales and dispatches. We have inventory in the US. The team is working from the home, but no impact on sales and dispatches. Europe, our sales to Europe are through our partners and most of our shipments are FOB. So far, we seem to be okay with sales and dispatches in this quarter.

API: We are seeing increasing opportunities in the API space and trying to monetize as much as possible. The Government recently came out with a notification where they banned the export of some antibiotics and retrovirals. Some of our products were in that, however, they have eased these norms where we can apply to the Government, they are giving permission, so that should help us.

Another initiative the Government has done, which will help us in the near future is that they have hastened the approval process for incremental capacity at API plants. That should help us because we see lot of opportunities in API. We need to expand our capacities and we were waiting for some of these permissions. That should happen in the near term to 6 months.

As far as manufacturing is concerned, we have had no disruption in manufacturing and all plants are running on full capacity as on date.

The only potential area where in the future we may see some disruption is on the outbound logistics. As you know in the last week or so we have seen lot of flights cancellations and lockdowns in many countries. So outbound logistics may get little constraint, shipments may go out. I am not overly worried about it because it may delay shipments by a week or two, but nothing else.

I believe that the pharmaceutical industry is in a good space so far.

I hand over to Shaunak to talk about the domestic business

Shaunak Amin: Good afternoon every one. Let me start first by talking about the supply chain. As you know India is quite heavily dependent on Chinese supplies. We started taking a call by second week of February looking at the situation that was unfolding in China. We started building up inventory in our key APIs. From that point onwards, we have been consistently buying APIs and from supply chain point of view, we are in a very comfortable situation for the next two quarters. So that is on the API and supply chain side.

Secondly, coming to our plants, our plants are fully active. About 2 weeks ago, we took a call to step up production out of our manufacturing facility and start operating additional shifts, just to make sure we have more product available in the market.

We have ensured good movement of product and then good availability of product at all our CFA locations.

When it comes to our operations of our Bombay office, starting on Monday, we have started operating remotely for pretty much most of the operations. We are in a very comfortable situation at this point in terms of operating remotely from the head office point of view.

When it comes to the medical reps, the whole industry has decided that the medical reps should not be asked to work, and everyone is working from home.

We have some exposure to digital marketing and as well as we are using this time to work on budgets for the next financial year. Along with that there is lot of time being used to make sure that the product availability, customer interfaces remotely are happening and training for the MR also is going on.

In terms of major disruptions that we are expecting to our business at this point, we fall under essential commodities. So, we have to supply and we have taken a call to make sure we are there, updating the doctors on the latest information. There have been some studies going on related to a combo of hydroxychloroquine with azithromycin down in France on a 20 patient randomized study. We are in a wait and watch situation. We are constantly carving all medical updates in regards to any of our key products that can play at global in treatment of the Coronavirus. We are on that job and we are constantly looking out to see if there is anything that can be used. We are waiting and watching to see if there is more data that comes out on azithromycin where we have a large interest and large stake.

In regards to Regulatory, we have made our representation and the Industry has also made representation to NPPA in regards to price revisions.

I open the Question and Answer session. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai: Sir, my first question is, in view of FDA suspending all foreign inspection till April, are we seeing any impact on the ANDA

review process? Anything so far has come, or it is going on as usual?

Pranav Amin: It is going on as usual. We are not seeing any impact. We are still getting communication from the FDA. They have put audits in India on hold but the work is going on from home, ANDA reviews, queries all that is going on as expected.

Damayanti Kerai: So, barring the products which may need prior approval inspection, all other ANDA approval process should go smoothly, right?

Pranav Amin: It seems so far. We haven't seen any change in that process.

Moderator: Thank you. The next question is from the line of Viraj Parekh from Goldman Sachs. Please go ahead.

Dheeresh Pathak: Sir, this is Dinesh Pathak. In terms of the new facilities that we have built, FDA is not coming for inspection now, so can you just refresh my memory in terms of I think Aleor and there was one more which was already inspected?

Pranav Amin: Yes. I will take you through that. F1 is our main formulation plant which has got inspected again few weeks back. F2 is the oncology block. The oral oncology has already got inspected twice and approved. F3 is the injectable plant and we have just filed the first of the products there. So, we would be expecting an audit towards the end of the year. F4 is Jarod, where we will be filing the first of the productio soon and also, we would expecting audit until the end of the year.

Dheeresh Pathak: Okay. And on azithromycin, it is one of those penicillin based products, right? So our key starting material would be coming from China for that, right.

Pranav Amin: No, as you talked about azithromycin. Azithromycin is not penicillin base; it is from erythromycin. Some of the starting material is from China, some comes from Europe and the US as well. But this is a product that we have had for a while, we carry enough inventory for that.

Dheeresh Pathak: But in terms of new supplies which are linked to azithromycin from China, are you getting those or you are not getting those?

Pranav Amin: Yes, we are getting everything.

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

Ranveer Singh: I was asking the facility which has recently got 483, the Panelav facility, how much ANDA filing relates to that facility, that I wanted to understand.

Pranav Amin: I think right today if you see all our commercial suppliers are from that facility and in terms of filing, 140 filings or so.

Ranveer Singh: So out of pending 71 roughly ANDA, I believe that Panelav is main facility, key facility where bulk of ANDA has been there?

Pranav Amin: Yes, for formulations we only have one facility which supplies commercial to the US and that is this F1.

Ranveer Singh: Right. And in your commentary you said that in domestic market because now MRs are not working on field, and I believe that as directives given by Government their salaries and other perks should continue, I believe. So how much to your assessment is going to impact our P&L? How much in terms of revenue expense we are going to see in this?

R. K Baheti: As long as sales are getting generated it won't impact the P&L. And as Shaunak said, that while MRs have restricted calls, they are still in touch with the doctors digitally, on phone, by mails, so we are still promoting our products. As far as the upliftment of stock is concerned, we have not seen any major deviation. So we are on target. I don't think there would be any impact on P&L in short term.

Shaunak Amin: Yes. Just to give you update, despite the MRs have not been in field now for 4 days, we see no change in our billing trend and we see movement of stock also into the market as normal. So we don't see that as a major issue at this point.

Moderator: Thank you. The next question is from the line of Ashish Thavkar from Motilal Oswal. Please go ahead.

Ashish Thavkar: Sir, on Europe since Italy, Spain and Germany, these three nations are suffering from COVID, your comments or if you could help me understand how we should now look at Europe?

Pranav Amin: Unlike other companies, we don't have a direct frontend in Europe. So the only market apart from India where we have a direct frontend is US, where we have our own team. In Europe we supply to our partners who in turn have their supply chains. So as far as we are concerned, we are seeing supplies as normal. We are not seeing any disruptions so far.

Ashish Thavkar: But there, nothing on the demand side of it?

Pranav Amin: No, we haven't received any change in forecast or supplies or anything, so we are continuing with our plans as usual.

Ashish Thavkar: Okay. You have seen this oil prices could have some impact on such markets?

Pranav Amin: In terms of pharmaceutical space, I don't think there will be any impact of oil. At a macro level, yes, you may see transport coming down and stuff like that. But there are so many other variables today. It is very hard to just give an impact of oil on pharmaceutical industry.

Ashish Thavkar: Okay. And to the extent the solvents and API are related, could there be some kind of savings there?

Pranav Amin: Technically yes, but in this environment again, when we are talking about so much disruption, I don't see that as yet. May be 3 to 6 months down the line we may see a benefit in pricing.

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

Nimish Mehta: I probably missed some of the initial comments, but what I understand is that, despite all the disruptions that might have happened from China and all that, as of now our sales and our targets are kind of intact. Is it a right understanding?

Pranav Amin: Yes. Absolutely. What I said in the opening statement is, up until last week or 10 days back, the only concern was that China and supplies coming from China and repeatedly we have insulated ourselves by getting high inventories and we source from domestic suppliers. So that is one. Number two, what has happened is, now supplies from China have already resumed. So that is eased, so we are comfortable on that. Only issue where we may see is on the outbound logistics which may delay our supplies by about a week/two weeks depending on how the flights and shipments are back.

Nimish Mehta: I see. So what I understand from our thing in conference is that we will have inventories till the end of March and now that the supplies have resumed from China we are likely to see a seamless position as far as logistics from supplies, is that a fair understanding?

Pranav Amin: No, actually that is not a right statement. We never said that we have inventories till March. We always have quite a few inventories. So we were never concerned about this China situation right from the beginning.

Shaunak Amin: From India point of view I think we are covered up to July at least at this moment and like I said China supplies have started. So we will keep covering and we will keep carrying extra inventory.

Nimish Mehta: Okay, last. Do we see any impact on API as well because API supply of intermediate might come from China and that might just do…?

Pranav Amin: Actually, I am seeing more opportunities on the API rather than constraints. The opportunities are in two areas, one the people want API from us. However we were restricted by our capacities. If the Government is fast tracking permissions for increase in API capacity in building plants, that should benefit us over the next 6 months onwards.

Shaunak Amin: As we have a substantial capacity that we go on stream, post this change in Government decision.

Nimish Mehta: Okay. And you don't see intermediate supply as an issue for API rather?

Shaunak Amin: No.

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

Saion Mukherjee: Just one question on, we heard like prices were moving up of raw materials in the initial phase. I don't know specially for anti-infectives, which directly or indirectly were linked to China. So when you look at your raw material costing, have that impacted you and how are the prices now?

Pranav Amin: There are two parts of it. Some anti-infectives pricing has gone up. But then again in other cases the selling price in the international markets for these products has also gone up. So it kind of balances itself. In terms of internal I think still there is enough room, we have old contracts, we should be okay.

Shaunak Amin: Saion, just to add from an India point of view, like I said in my opening statement that we started covering in February. So lot of the APIs we have covered have been at the original rates. Subsequent to that there was bit of a panic situation in the market and traders did start quoting both Chinese and domestic in terms of higher API prices. We have not been exposed to that and like we said we see China supplies resuming, which should bring the prices back to more reasonable levels.

Saion Mukherjee: Okay. So net-net you don't see any impact on the P&L because of these movements?

R. K. Baheti: No, that would be difficult to assess at this moment. Also as Shaunak said earlier, the industry associations have already made representations to the government, to NPPA and to Department of Pharmaceuticals for revision in, particularly amending prices of NLEM products as the inflation index taken up to December is just less than 2%. The price hike which will

be effective from 1st of April 2020 will be 1.88% and there I think, quite a few antibiotics fall into that NLEM products. So there are already some discussions going on, NPPA is also working on it. Let us expect some relief from NPPA also.

Saion Mukherjee: Sir, what forcing of the domestic formulation sales would come under this category where you are asking for a relief because of higher prices?

R. K. Baheti: It would not be fair on my part to discuss molecule wise impact, because these are all competitive sensitive information. We have submitted all our data to the government.

Saion Mukherjee: I was asking like the percentage of your domestic formulation sale come under this category?

Shaunak Amin: Okay. I will answer Mr. Baheti's expression in a different way. I think immediately for Q4 this financial year and Q1 next financial year we see no impact. Subsequent to that if there is a consistent run up in API prices from China at that point, I think that is when our discussions with NPPA would have some material benefit. And both NPPA and Department Of Pharmaceuticals have shown willingness to revise prices based on elevated procurement price from China. As and when that happens, there would be definite scope for us to go and make a relevant representation. But I get that running for the next two quarters, but we are in a fairly comfortable situation at this point.

Moderator: Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: A quick one on logistics and transportation. How much of your inbound material is coming from sea route versus air, and likewise for the outbound?

Pranav Amin: About 80 is coming by sea for the inbound and 20 by air. And outbound I am assuming the air would be higher at this stage.

Sameer Baisiwala: Okay, like 30:70 for outbound?

Pranav Amin: Outbound 90 air, and 10 sea.

Sameer Baisiwala: Alright. Okay, that is great. And second question is, so how much does it take to further backward integrate your APIs into intermediates, so as to reduce dependence from country like China and it is a general question, not specific to facilities?

Pranav Amin: It is a good question actually. This is something that we have been increasingly working on for last few years, it is not because of COVID, because the disruptions we have seen from China, not just now, but in the past as well. So it takes a while, it is not impossible. In lot of them we do have either an internal source or a domestic source that we do, a supply chain team and have some of our members here with me. They constantly keep doing that. So it is possible. It is not tough. Some products where China has got a huge advantage. It maybe, it might not be as price competitive, but it is an ongoing process. But it is possible to do. It is not as bad.

Sameer Baisiwala: I mean, if you think about the industry do you think this could be a major trend over next 1 to 3 years when more and more company tries to internalize intermediates?

Pranav Amin: I think you are right. The trend has already started over the last few years. Specifically if you see the US market, what is

happening is, disruption in supply is a huge penalty if you can't supply and people have realized that they made that mistake. So they are all internalizing either intermediate supplies or getting local partners who have got intermediate suppliers. We are falling in the same suite as well.

Sameer Baisiwala: Great. And see, after interview many companies have come and said that the dependence on China directly or indirectly for intermediate maker is very high, about 60%-70% is the product overlap. However, you are saying that yours is much less. So which is the right version?

Pranav Amin: Now intermediates depends which stage of intermediate or how basic the intermediate is and I think 60%-70% would be a right amount. People would have alternate sources in India, but not for everything. So it is an ongoing process. We are okay because the top 20% will make up 80% of revenue and profits. Those are the ones that have to be backward integrated or have alternate sources and that is what we have done and the rest of the Industry, it is fair enough, 60%-70% is about right.

Sameer Baisiwala: Okay. That is great and one final one. How are you thinking about the currency which is the Forex, rupee-dollar move from 70 to 74, what have you?

Pranav Amin: That is definitely benefiting us as we are a net exporter. That has been in our favor and we are actually happy about that so far.

Sameer Baisiwala: Okay. And there is no adjustment in your selling price to your customers in US etc.?

Pranav Amin: No, we send in dollar, right, so it is okay.

Moderator: Thank you. The next question is from the line of Vineet Gala from Monarch Networth Capital. Please go ahead.

Vineet Gala: What are your thoughts on this recent CHQ plus azithromycin for tackling COVID in terms of our US and domestic business. If you could throw some more light on that and also if you could tell us, what is the azithromycin export to the US? Do we export that and if yes, what percentage would that be?

Shaunak Amin: Okay, so Vineet, I will answer the first question in regards to the hydroxychloroquine plus azi study that has been come out of France. Up till now whatever the research I think it is a leading biologist out of Southern France which has done this exercise. We are waiting for more data as of now the data likely you have seen as per the report is a 20-patient non randomized study. So that gives some indication and we are tracking aggressively to see if this follow up to this study is ongoing and we expect some more follow up data to be emerging out on this. We have also started discussing with all leading experts within the country as per their opinion and are trying to get their opinion on this combo and how azithromycin can play a pivotal part of treatment on this. So, it is an ongoing and unfolding situation. It got traction maybe 2-3 days ago, and we are just waiting and watching to see if there is any further clinical data that comes out of this at this point.

Pranav Amin Azi exports, we do have lot of orders right now

Vineet Gala: What is the supply to the US?

Shaunak Amin: Supply to the US is not much. We are not supplying much to the RoW markets and Europe is where we supply more.

Vineet Gala: Sir, in terms of our API capacity you mentioned like there is a possibility of increase in our API capacity due to recent policy change. So is that **…**

Pranav Amin: Both, API-I and API – II this decision will help both our capacities.

Vineet Gala: Okay. Sir, and when will these two plants be available for the US market?

Pranav Amin: They are already available. Both are audited by the US FDA. It is a matter of how we put the balancing equipment, what kind of machines we get, I think 6 months or so is what we take a look and we get a better perspective, better idea in that.

Vineet Gala: Okay sir, and sir last question from my side. Sir, what percentage of API do we export specifically to the US market?

Pranav Amin: I don't have that figure, it is tough to say because directly or indirectly they may end up in the US because we may supply to Indian supplier who are then using in the US, so it is tough to give that answer.

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

Prakash Agarwal: So, just trying to understand like, with the extended winters and this coronavirus being there for last one month now, would it be fair to assume lot of pre buying by the patients in India just to stop or and also pick up especially in the acute segment of your business?

Shaunak Amin: If you see in terms of all this scale up, about exactly two weeks now, we have seen a rapid scale up in the last 10 days in terms

of the Governments as well as the response to people in the country. I can't give you an answer whether there has been lot of pre-buying on this. It is hard for me to answer it at this point because literally we are just seeing things happening, unfolding in a very quick fashion. As of now our sales trends are matching, It is exactly in line with how we have been seeing our sales progress. If compare with 20th of January-February-December last year, I think it is more or less exactly in that range.

Prakash Agarwal: Understood, fair enough. And on the other side when we look at the Maharashtra lockdown and all, would it be difficult for us making distributors to send shipments and products to the retailers while the retailers have shops around, but the transportation would be a big issue because of this, so what is the view there?

Shaunak Amin: As of now because they are essential commodities it is imperative that all whole supply chain has to stay open starting from plant all the way to the retailer, retail level which includes CFA as well a stockist. As of now we don't see any impact of that or transportation related issues

Prakash Agarwal: And lastly on the sartans, just to understand in terms of our preparedness we talk in the last call that it is a more medium term opportunity versus near term opportunity, given the disruption in supply side, both for raw materials as well our shipments. Would we see any risk to this ?

Pranav Amin: Yes. No change. I think we are seeing business as usual. No change from what I said in the last call.

Prakash Agarwal: Could it actually see a positive impact given more disruption across place or…?

Pranav Amin: As I said in my opening statement, our strategy is based on being a nimble supply chain and catering the disruptions. So, it could be and we always gear up and try moving fast on that. So there could be disruptions on many products, not just sartans. So let us see what happens, we will know in the next few weeks.

Moderator: Thank you. The next question is from the line of Kunal Mehta from Valorem Capital. Please go ahead.

Kunal Mehta: I just wanted to clarify one government decision which was made by with respect to contributing to the profits you said you would liquidate to the extent of backward integration of intermediates is that correct?

Pranav Amin: It is very tough to say, it is an ongoing process, the backward integration of intermediates. We continue doing that depending on which products were, I don't have the figure handy in terms of percentage.

Kunal Mehta: But it should have been key products which we contribute to the profits for us will be the backward integrated. Will that be a fair statement, sir?

Mitanshu Shah: I would say that because these are some old products on the API side, we almost everything is backwardly integrated here.

Kunal Mehta: I was asking from the US perspective.

Mitanshu Shah: Yes, from US perspective as well.

Moderator: Thank you. The next question is from the line of Surya Patra from PhillipCapital. Please go ahead.

Surya Patra: Just wanted to ask, have a sense that, you mentioned that now the policy changes about the capacity addition in the API side, they have added, means how is the new capacity so far as the environmental clearance is concerned we have put under the category B2 thing. So what practical benefit that US would be getting whether it is a just a relaxation on this front or it is some benefit also that we have to try to provide?

Pranav Amin: The benefit is as you know the industry, the international generic industry is very dynamic industry and the volumes are very high and especially in the wake of disruptions we need capacity that can scaled up or scaled down very fast. So we always wanted to increase the API capacity to get ready for this. All that this new ruling does it, it removes a lot of bureaucracy and makes it much faster to apply and increase plant capacity.

Surya Patra: Okay. And any other on the financial front any benefit or any relaxation or anything of that sort is there or always the argument was that kind of fiscal advantage what Chinese are getting and the scale at which they are operating, that is making the kind of a difference.

R. K. Baheti: Surya, I think there are two different announcements. What Pranav is referring to is ease in setting up or expanding the API facility. The advantage to industry would be the faster approvals. Earlier the process of getting environment clearance, the local pollution control board clearances were very long, that hopefully should be faster. We need to see that happening on the ground. They have also announced some fiscal benefits for setting up new API facility. I think the details are yet to be out. If they are

out at least we have not studied it and see they are talking of setting up a pharma dedicated park somewhere in the Telangana and they are inviting API manufacturing companies to set up their facilities there and it will carry lot of value addition. All those details are being worked up and those are medium to long term measures, I don't think that would have an impact immediately.

Surya Patra: Okay. And next question on the logistic part sir, anything that you are anticipating, as of now we are not seeing, nobody has possibly from the industry side witnessed any logistic issue whether it is so far international trade or the domestic trade. So given the kind of scenario are you seeing anything that can evolve, things as an evolving scenario?

Pranav Amin: The only place that we may see some is on the outbound logistics, as you know some flights are getting rescheduled and some flights have got cancelled and some people are flying to the US. So there may be some reshuffling of dispatches, but apart from that I don't see anything else in terms of logistics.

Surya Patra: And largely the 80% outbound logistics is through air what you mentioned it is because the combination only even or even the APIs are also as you said?

R. K. Baheti: In context of formulation, mainly formulation.

Surya Patra: Okay. And just last one question sir. One the digital marketing front what you mentioned, can you share something more on the how efficiently and how effective that is happening on the cost side**?**

R. K. Baheti: No, I think it is a routine stuff. I don't think I need to give lot of details because MRs are not encouraged to go to the field and meet doctors in the chambers. Doctors are also avoiding it. We are doing our bit of promotional activities on our product detailing as we call it, through mails and through mobiles and so on. So it is a standard stuff.

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

Rahul Sharma: So just wanted to get clarity on the plant which was inspected and we got 4 observations. So what time are we looking at for resolving this and will there be a time lag in approval process in the launches which are there?

Pranav Amin: No. I don't expect delay in any of the launches there. These are general observations which we will reply to them in the next few weeks and we should get an EIR hopefully soon. No launches are going to be held up because it is not a warning letter. This is quite benign as I mentioned, they are quite procedural in nature. So I don't expect it to escalate.

Rahul Sharma: Okay, another thing just wanted to know what is the capacity of azithromycin and how much do we plan to cater if the opportunity presents for India US markets?

Pranav Amin: Actually we don't disclose our capacities, in terms of API we do have multi product plants, again on azithromycin there is different grades of azithromycin depending on where the product is going. We are in India, the largest manufacturers of azithromycin that I know of about for a fact. So we are working on capacities. It just depends which grade, where and what we want to capture.

Shaunak Amin: I think from a domestic point we have covered up till July, if I remember that correctly.

Rahul Sharma: This product, is it currently under NLEM?

Shaunak Amin: Yes, in India.

Moderator: Thank you. The next question is from the line of Bhagawan Chaudhary from Sunidhi Securities. Please go ahead.

Bhagawan Chaudhary: Just one question on the US part, there is also almost locked down. Are you seeing any client instruction within the country?

Pranav Amin: I said in the opening statement, we are not seeing any disruption in the US. People are working from home. Dispatches are taking place and sales are also taking place. So I am not seeing any disruption so far.

Moderator: Thank you. The next question is from the line of Dinesh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: In the domestic business you know we had some hygiene issues and you are underperforming for the last 2-3 quarters. So any comment you can make on that, like how is the traction there?

Shaunak Amin: Going forward, this quarter we have seen substantial retraction. We are seeing things on track. We moved beyond disruptions in the domestic business. Things are rolling out very smoothly. Like I said, even this month and this quarter we hope that things should go smoothly. Now looking at all the measures we have taken over the last one year, we are seeing a big meaningful

impact at this moment. And we foresee that impact in couple of quarters definitely.

Dinesh Pathak: We will see the primary sale growth that you report in line with the market growth rate or better than that in terms on a reported basis?

Shaunak Amin: Yes, better than the markets.

Moderator: Thank you. Next question is from the line of Shivan Sarvaiya from JHP Securities. Please go ahead.

Shivan Sarvaiya: Sir, my question is general for the US market for Pranav sir. Sir, what would be the broad parameters that the company would evaluate before going ahead incurring the R&D cost and filing for a drug, because sir lot of the approvals that we have been getting are for drugs which have been having small market sizes and lot of players already present in the market. So just wanted to get your understanding on that. Thank you.

Pranav Amin: That's of basic question than COVID related. So, what we have done over the last few years in terms of which products makes sense for us, what are the patent expiry dates, what is the complexity, what is the API availability, what is the market opportunity. Now when we evaluate it versus what happens in the market is also different. Sometimes when you have fewer products, first of all there is not too many product left where there is only one or two people in the market, like this one. So, we do a P&L and we have an internal IRR per product and we evaluate the whole grid across different forms, that is why one of the reasons we went into injectables, derm, ophthalmic, oncology. So we can differentiate the portfolio as well.

Shivan Sarvaiya: Sir, what would be that IRR, if you could give a broad range?

Mitanshu Shah: You have seen all the numbers that we have been rolling around actually. It is around 30%-35% is the number that we are looking at, I mean, internal would be like 20-25.

Moderator: Thank you. The next question is a follow up question from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: I have one general question for Alembic as well as industry participants. We have seen that manufactured API which we were otherwise not manufacturing. Will we able to match our cost with the China prices? In other sense is it not likely to increase input cost to those, that was the whole idea importing from China?

Pranav Amin: No. It is very tough to match the Chinese cost in terms of products. You have to see where the selling price of the end market is high and where the cost of supply or the de-risk of supply per se where it is worth it**.** So product-to-product China is much cheaper than India.

Nimish Mehta: But in general what do you think could be the differential that might occur because of let us say lot of API or intermediates being manufactured in India which were earlier**?**

Pranav Amin: Very tough to answer because very product and intermediate specific depending what scale you are manufacturing, what you are doing, this is very tough to answer that.

Nimish Mehta: Okay, no issues. Second, again more or less on the same line, like in terms of the manufacturing value chain, let us say right from the basic raw material from there to intermediate to API to

formulation like barring intermediates and some of the API, are we also kind of self-dependent as the country on basic raw materials for intermediate or how is that scenario?

Pranav Amin: For the international business, we don't buy any API from China, it is only intermediates. For domestic, we buy few APIs and all the other stuff we buy is either from India or Europe or any of the other nations, we don't buy the rest from China.

Nimish Mehta: No, I understand, as I said more to understand from an industry participant more than Alembic per se So can we say how much are we dependent on China, even if we were to manufacture API and then let us say manufacture internally, is that true that the raw material for intermediate still comes from China. I am just trying to understand…

Pranav Amin: Someone asked the question earlier and they gave a figure that lot of people in the industry said that 60%-70% of the intermediates come from China. So, that is there. The other issue on a broader level is that for some of the starting blocks of penicillin and cephalosporin based materials like pen G, those are all coming from China where we are fully 100% dependent on China.

Nimish Mehta: Okay. So it would take a long way for India as a country to find reduce the dependence on China.

Pranav Amin: Yes, for these products what I mentioned, yes.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. R. K. Baheti for closing comments. Thank you and over to you sir.

R. K. Baheti: Thank you and thank you everyone for participation. It is always exciting to talk to the learned group you all and when we talk to each other again after our Q4 annual results, by that time hopefully there will be lot more clarity on COVID-19, its subsequent impact and all of that. So look forward to talking to all of you at that time. In the meantime in case if you have any questions on this subject, you can always mail it to me or Mitanshu or Ajay. So with this I wish you a good, happy weekend, stay safe and take care. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Alembic Pharmaceuticals Limited that concludes today's call. Thank you all for joining us and you may now disconnect your lines.