



“Alkem Laboratories Limited Q3 FY2016
Earnings Conference Call”

February 12, 2016



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Moderator: Ladies and gentlemen good day and welcome to the Alkem Laboratories Q3 FY2016 earnings conference call hosted by Edelweiss Securities Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask the 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. Deepak Malik from Edelweiss Securities. Thank you and over to you Mr. Malik!



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Deepak Malik:

Thank you. On behalf of Edelweiss I welcome you all for Alkem Labs 3Q financial year 2016 earnings conference call. From Alkem today we have Mr. Prabhat Agrawal, CEO, Mr. Rajesh Dubey, CFO, Mr. Amit Ghare, Head Regulatory Market, Mr. Satyen Manikani, Head business development and strategy, Mr. Nitin Agrawal, AVP Finance and Mr. Gagan Borana, Investor Relations at Alkem. I would like to handover the conference to Gagan from Investor Relation team first. Over to you Gagan!

Gagan Borana:

Thank you Deepak. Good evening everybody and thank you for taking out time and joining us for the Alkem Laboratories Q3 and nine months fiscal 2016 earnings call. I am Gagan from the Alkem IR team. Earlier during the day, we have released our financial results and the same are also posted on our website. Today in this call we had the senior management team of Alkem to discuss the business performance and the outlook going forward. Before proceed to the call I would like to remind everyone that this call is being recorded and the transcript will be made available on our website as well.

I would also like to add that today's discussion may include forward-looking statements and the same has to be viewed in conjunction with the risk thereof business faces. After the end of this call if any of your queries remains unanswered please feel free to get in touch with me. With this I would like to handover the call to Mr. Prabhat Agrawal. Over to you Sir!

Prabhat Agrawal:

Thank you Gagan. Good evening to all of you and welcome again to the Alkem Lab 3Q earnings call. I will use the presentation that we uploaded on the site few hours back. So I just take you through the key slides from that presentation, I believe all of you have a copy of that presentation available with you.

Going to slide #3 on financial highlights, our revenues for this quarter grew by 29% so we ended with 1274 Crores in revenue as compared to 987 Crores in the corresponding quarter of the previous year. Our domestic business grew at a rate of 28.4% for this quarter. Our international revenues grew at a rate of 29.2% for this quarter. Our EBITDA grew by 37.6% and ended with 235 Crores for this quarter with an EBITDA margin of 18.5% which compares with 17.3% EBITDA margin in the corresponding quarter of the previous year. Our profit before tax grew at a rate of 35.2% our profit before tax for the quarter was 227 Crore with the 17.8% PBT margins which compare with 17% PBT margins in the corresponding quarter of the previous year.

So we had a growth in the business and also a margin expansion to certain extent. I will go to the next slide, which the same information being presented for nine months of the year.

For the first nine months of the year are net income from operations grew at 35.9% and for first nine months of the year we had total net income from operations of 3849 Crore. In terms of geographical split our domestic business grew at 32.6% and our international business grew at 46.3% for this quarter. Our EBITDA grew at 140% over the first nine months of the year we ended with EBITDA of 690 Crore which compares 287 Crores in the previous quarter so we had



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a significant expansion on the EBITDA margins our EBITDA margins for the first nine months we had 17.9% as compared to 10.1% previous quarter. Our profit before tax grew at 127% for the first nine months we had 681.2 Crores in PBT at a PBT margin of 17.7% which compares 10.6% PBT margin in the previous year nine months.

If we split the business into India and overseas we will take you through couple of slides on the India business. India sales contributed around 71% of total sales for the Q3 FY2016. During the quarter our secondary sales grew by 18.6% year-on-year which was higher than the Indian pharmaceutical market growth rate of 15.2% and we are using IMS SSA as a data proof for this and these are the numbers for the quarter specifically.

So we maintained our leadership position in key therapies or strong therapies of Alkem such as anti-infective, gastro-intestinal, pain, analgesics, vitamins, minerals, nutrients. We also improved our mark in ranking in certain emerging therapies like neuro, CNS, cardiac and anti-diabetic. Five of our brands feature amongst the top 50 brands of IMS and 13 of our brands featured amongst top 300 brands in IMS. If you look at our therapy wise breakup as per IMS we are 42% of our sales comes from anti-infective, 18 from gastro, 12 from pain and all other therapies contribute the rest.

If you compare our growth rate in each therapy area versus the market growth rate if you look at the top of the slide on the next slide which is slide #5, for anti-infective we maintained a No.1 position we grew at 18.5% in this quarter against the market growth rate of 14.5% so we continue to build our market share in anti-infective therapy.

Gastrointestinal we grew at 17.8% against the market growth rate of 16% we maintained our rank 3 in this therapy area. Pain we grew at 18.6% against the market growth rate of 13.5%. In for vitamins we grew at 17.3% against the market growth rate of 13.5% again we maintained our rank No.5 in this therapy area.

On the bottom of slide is the emerging therapeutic area of the Alkem if we call, we talked previously that there are certain key therapy areas where Alkem is pretty strong and the other emerging therapy areas where we are trying to buy market share and grow our sales.

In dermatology segment we are rank No.16 Company and we maintained our rank in this therapy area we grew at 15.1 vis-à-vis 14.5% market growth rate. On neuro we improved our rank by 1 so we are now 14th rank company for this quarter growing at 30.8% against 15.1% market growth rate. Cardiac again we improved a rank by 1 we grew at 24.1 as against a market growth rate of 13.5% and anti-diabetic we grew at 22.9% against the market growth rate of 19.9% again growing a rank in this therapy segment by one rank.

The next two slides are focused on the international business. The key focus market for us outside India is United States as of you know, so Q3 our sales for US market was 260 Crores



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growing at 18.9% growth rate for this market. For the first nine months of the year the business in US grew by 48.1% I mean the growth rate for over the last quarter has been affected by the higher base of the corresponding quarter of the previous year. US contributed 20.9% of total net sales for Q3 FY2016 we filed two ANDAS during the quarter taking the cumulative ANDA filings to 70 and ANDA which we filed before. We received 5 ANDA approvals during this quarter including one tentative approval. Cumulative ANDA approvals for 27 including 3 tentative approvals and one ANDA. So we today have 70 ANDA filed in the market out of which 43 is pending for approval.

Going to the next slide apart from US our business was 104 Crores for this quarter growing at 64.8% of course the company has present in more than 50 countries are other than US and other than India market totally contributes around 8.4% of total net sales for Q3 FY2016. Growths in other markets are driven by growth in our key focus markets such as Australia and Chile.

Strategy going forward, as we had mentioned before in our prospectus that India US remains our key focus market, for India we have very strong positions in the few therapy areas which we continue to drive growth by building on our brands. We are also driving growth in the chronic segments through market share acquisitions and new product introduction. We also working on improving field force productivity through sales force various sales force effectiveness initiatives that we are taking are in the phase of taking. We continue to focus on R&D to accelerate ANDA filing for the US market and develop a differentiated portfolio and of course we continue to look out for steady partnerships and collaborations to enhance capabilities and product portfolio for the focused market.

Going to the next slide, I will not go through all the numbers I will just highlights the key numbers for you. Net income from operations grew by 29% in this quarter with the gross margin of 60.1%, which was an improvement over last quarter of around 170 basis points. EBTIDA margin for the quarter was 18.5% against 17.3% of the last quarter so again a margin expansion here. In terms of shareholdings pattern for the company 66.64% of the company is held by promoter and promoter group, 27% by non-institutional shareholders and 6% by institutional shareholders.

I think I have given the highlights of the Q3 results. Thank you so much for attending the call and now we will open the floor for Q&A I believe.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Kumar Saurabh from Motilal Oswal Securities. Please go ahead.

Kumar Saurabh: Thanks for the opportunity. Sir, on the margins front the margins were quite strong despite a heavy contribution from income encash which I believe are lower margin subsidiaries so what is driving this strong margin performance and is this sustainable going forward?



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- Prabhat Agrawal:** Yes. In terms of margin expansion we are getting better in terms of our product portfolio if you look at our results the biggest margin expansion came from gross margin improvement which is driven by price increases better product mix and cost control measures.
- Kumar Saurabh:** Okay. So do you think that these kinds of margins are sustainable going forward as there is no like one off in this?
- Prabhat Agrawal:** Yes, there are no major one offs included in our results.
- Kumar Saurabh:** R&D expenses came in at around 3.4% do you expect it to remain at similar levels or should inch up?
- Prabhat Agrawal:** R&D expense was partly subdued because of timing differences there are some expenses that has been deferred but overall R&D expense as a percentage of sales was likely to be higher.
- Kumar Saurabh:** So do you want to give any numbers where should we look at it going forward?
- Prabhat Agrawal:** We have not given any number before but historically we have been between 5%-6%, 4% to 6% is a range that we can look forward to.
- Kumar Saurabh:** If you look at our US business the approval rate has improved in the last quarter significantly if you look at FY2017 how should we look at the year, do you expect there similar kind of run rate to continue in terms of the sales growth and in terms of approval rate?
- Prabhat Agrawal:** We have seen that the approval rates are improving and we hope that this trend continues going forward in the next year as well.
- Kumar Saurabh:** So in terms of numbers approvals during the year will it be in single digits or double digits what is your sense?
- Prabhat Agrawal:** I believe single digit would be a good indication.
- Kumar Saurabh:** Okay. Just on the tax rate front, the tax rate during the quarter was on the higher side is this the run rate which we should assume going forward?
- Prabhat Agrawal:** I think more or less we have given a guidance of effective tax rate of around 15% so plus minus some should be a comfortable range.
- Kumar Saurabh:** Okay. Fair enough I will get back in the queue.
- Moderator:** Thank you. The next question is from the line of Saravanan Viswanathan from SBI Cap Securities. Please go ahead.



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- Saravanan V:** Yes. Thanks for taking my question. Out of the 24 final approvals that you have received in the US how many have you launched so far?
- Prabhat Agrawal:** We have launched around 16 products.
- Saravanan V:** So the balance is available for launch or you are thinking about some strategies there?
- Prabhat Agrawal:** Some of them are not available for launch because we have ended settlement agreements some of them have not been launched because of commercial reasons.
- Saravanan V:** Okay so this 16 will represents your current base business in the US?
- Prabhat Agrawal:** Yes, plus 10 in-licensing products.
- Saravanan V:** In terms of aging of your ANDA filings how many out of the pending 43 how many is over two years?
- Prabhat Agrawal:** More than half of it.
- Saravanan V:** In terms of US business can we see a similar run rate as we have seen in quarterly because on a nine month basis its almost 48% but on a quarterly basis you have improved by 19% so this is the reasonable run rate to assume?
- Prabhat Agrawal:** The run rate going forward would depend to a large extent on the new product approvals the difference between the 3 months results and nine months results as per a US business grow post because of certain products that were launched in the corresponding quarter of the previous year came into the base in this quarter.
- Saravanan V:** Okay so the base business where do you see it growing?
- Amit Ghare:** The base business will essentially grow on market share acquisition and the new product launches will obviously add to it resulting into the ultimate numbers for the US business.
- Saravanan V:** Thanks a lot. I will join back the queue.
- Moderator:** Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.
- Prakash Agarwal:** Sir just trying in understanding the run rate from Q2 to Q3 if you could help us give us the Q2 breakup in terms of India business US and international so that we can understand if there is any seasonality in the India business that is point 1 and part B of the first question is similarly in the PAT if we see there is big spike in Q2 PAT which is 247 Crores now PAT is come down Q-o-Q so just trying to understand the seasonality and then request for the Q2 numbers please?



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- Prabhat Agrawal:** Prakash, I think we can take this question off-line. I can just give a general view on it. The results were also impacted by the application of AS-9 Accounting Standard-9 on revenue recognition on the closure of book certain sales were deferred from one to another quarter based on AS9 revenue recognition policy but generally there is a trend in the Indian Pharma market of the 2nd half of the year being not as strong as the first half.
- Prakash Agarwal:** Okay and that would have affected profitability as well.
- Prabhat Agrawal:** Yes, certainly.
- Prakash Agarwal:** And if I look at the note No.9 in your consolidated filing there is another 398 million kind of revenue, which is sales return if you could highlight what is this regarding?
- Prabhat Agrawal:** This is for the last year; this notes it's related to the previous year and not for the current year. In the previous year we change our accounting policy and provisions were made for anticipated sales return so that was the impact on the previous year because of application of that accounting policy.
- Prakash Agarwal:** Understood. And if I look at your standalone versus consolidated standalone is the much high number on the PAT front so do we anticipate that this more shipping that is happened in the US and its not booked in the US subsidiary is that the right understanding?
- Prabhat Agrawal:** Yes, Prakash your understanding is perfectly correct. We have done shipping from India but inventory is lying at USA so profit elimination from inventory has happened and that have been impacted this.
- Prakash Agarwal:** Okay. But trying and understand this further like you had five product approvals are these the launches of these five product approvals and which are the products we have launched?
- Prabhat Agrawal:** We launched one out of those five in the previous quarter I mean in this quarter.
- Prakash Agarwal:** And what is the outlook for the remaining launches Sir?
- Prabhat Agrawal:** Amit you want to take that.
- Amit Ghare:** Of the five approvals for the quarter obviously there is a tentative approval obviously which cannot be commercialized there is one approval which has already been settled so again that cannot be launched. For the other three obviously one is already launched so the two are under launch we are planned right now.
- Prakash Agarwal:** Which we could expect during the quarter Sir?
- Amit Ghare:** Either during the quarter or beginning next quarter.



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- Prakash Agarwal:** Lastly for the US just trying to understand you acquired long pharma during the year and the pipeline is 43 pending approvals how should we look at the US growth going forward because if I skip off depreciating currency benefit 19% growth seems to be on the lowest side for the quarter would have been 12%-13% so how should we look at it there any one off there because market share data seems to be steady so how should we look at next quarter and the following year Sir?
- Amit Ghare:** Prakash I think Prabhat mentioned a little while ago that previous fiscal Q3 we had the higher base effect if you look at the first half numbers of FY2015 and just the Q3 numbers you will be able to understand that I mean you look at nine month numbers and Q3 numbers for FY2015 I think you will be able to understand what high base we were talking about and that has resulted into only about 19-odd% growth for the current quarter over previous year same quarter. So I guess the base effect is the one, which is really affecting as you rightly said our market shares are steady. We have not lost any market share nor are there any price difference so the answer is more because of the base effect.
- Prakash Agarwal:** So would it be fair to say that there would have been quite a lot of stocking that would have happened and that is why the higher base and the outlook would be at least 20% plus going forward?
- Prabhat Agrawal:** Prakash, as we mentioned before the growth rate for next year would largely depend on the new product approvals coming in the next year so I would not hazard a guess on what exactly would be a growth rate in US the next year.
- Prakash Agarwal:** Understood. I will join back the queue. Thanks and all the best.
- Moderator:** The next question is from the line of Neha Manpuria from JP Morgan. Please go ahead.
- Neha Manpuria:** Thanks for taking my question. My first question is on the domestic business, since we have significant contribution from the generics business II and there has been news flow about the government looking at the margins structure for that business what was our growth in that business that is the first question and second is what is our outlook for that business going forward if there were to be any regulatory change? Thank you.
- Prabhat Agrawal:** Neha we have not given the breakup of our India business into various individual categories but your question about that business having a different regulatory impact, of course we are evaluating it that there is nothing concrete on table as of now there is a draft paper on that and we are in the process of evaluating what could be the impact and also there would be a lot of industry representation that would go on that draft note that the government is thinking about that business.



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- Neha Manpuria:** So but was the growth of this business high single digit, double digit how would you classify that, I mean was it a large contributor to our growth of the domestic business?
- Prabhat Agrawal:** No it is a double-digit growth in that business.
- Neha Manpuria:** Second, if you look our margins particularly the gross margin it seems like lot of improvement has come from the purchase of traded goods actually improving that is have to do with a launch pipeline in the US because you are launching more or your own products what would drive this improvement in revenue in that line item and the gross margins therefore?
- Prabhat Agrawal:** Gross margin is impacted by a multi-cut of factors one is the price increases mainly on the domestic front then the better product mix both in India and US business. These are the two main reasons for improving gross margins in the business.
- Neha Manpuria:** And should we see this improvement continues further I mean what is the satisfactory level of gross margin that you would consider say let us say for FY2017?
- Prabhat Agrawal:** It would be difficult to continue the same improvement and of course the management are there towards improving the gross margins but we are taking various measures and initiatives but there are various regulatory impact, which might work in the opposite direction as well. So I would say that the current gross margins are more sustainable.
- Neha Manpuria:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Nimish Mehta from Research Delta. Please go ahead.
- Nimish Mehta:** Just two questions from the domestic business. How many products has we launched in FY2016 so far in the nine months and do you foresee any impact of NLEM or new NLEM list that is coming out? Thanks.
- Prabhat Agrawal:** Our growth in domestic market is largely led by volume growth and not so much led by the new products introduction growth. Of course new product introduction contributes to the overall growth of the company. To answer your second part the new list of NLEM 2015 is out but the price ceiling prices have not been announced yet, so everyone is evaluating the impact what could be the impact on the individual company but it would be difficult to get exact impact till the time the ceiling prices are known.
- Nimish Mehta:** So how like what would be the exposure to that NLEM from our portfolio I understand you cannot give the impact because of the ceiling price not being there but how much is the portfolio exposed?
- Prabhat Agrawal:** In terms of NLEM 30% of our domestic sales would be exposed to NLEM.



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- Nimish Mehta:** Just a little bit on the domestic pharma you said most of the growth coming from volume, so will you be looking at changing the strategy going into new product introduction in newer areas or anything of that sort is there on the cards?
- Prabhat Agrawal:** Yes, we are continuously working on new product opportunities they are therapy gap that we are trying to always fulfill through new product offerings its an integral part of our strategic growth for the company.
- Nimish Mehta:** So I mean, I am just trying to understand whether there is the increase in the growth because of new introduction or it will continue the volume growth let say next one or two years?
- Satyen:** I think it is largely the growth is going to be from the existing product because there is lot of room left still for us to grow there but having said that new products would definitely be lined up as per the therapy areas and the gap that we have identified.
- Nimish Mehta:** Are we increasing the sales force because now that we are looking at volumes so we will also be looking at geography penetration there in the domestic?
- Prabhat Agrawal:** Yes, marginally but not significantly.
- Nimish Mehta:** Okay. Thank you.
- Moderator:** The next question is from the line of Vishal Gajwani from Birla Sunlife. Please go ahead.
- Vishal Gajwani:** Thanks for the opportunity. I wanted to know what is the nature of the other income that is reported every quarter?
- Rajesh Dubey:** Other income is mainly treasury income, as you must know we are sitting on cash and we deploy mainly in deposit or other secured instrument and the other income major component is interest income.
- Vishal Gajwani:** Sir in terms of margin expansion I have not got this understanding, on a nine month basis your margins have expanded by 700 basis points roughly so what is the reason why this kind of a exponential growth has happened?
- Prabhat Agrawal:** As we have explained before the large part of that came through an expansion in the gross margins which was led by price increases, procurement prices optimization and change in product mix both for domestic and international business and then we had a significant impact of operating leverages coming in.
- Vishal Gajwani:** Okay so therefore this is sustainable.
- Prabhat Agrawal:** Yes.



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- Vishal Gajwani:** NLEM you mentioned that 30% of domestic sales might be exposed at the moment how much of the portfolio is under NLEM already?
- Prabhat Agrawal:** Around 20%-24% was under NLEM and we were expecting another 7% to come under the new list.
- Vishal Gajwani:** That is it from my side. Thanks.
- Moderator:** The next question is from the line of Rakesh Naidu from Espirito Santo. Please go ahead.
- Rakesh Naidu:** Good afternoon. Thanks for the opportunity. My question is on the domestic pharma market and your prospectus and subsequent communications you had alluded that you will be building capabilities in Derma, Cardiovascular, skin and other chronic segments so could you briefly elaborate in terms of how this would cause you to increase your budgetary commitments for this segment and also in terms of how many what kind of products that you are targeting for these segments?
- Satyen Manikani:** Can you repeat the first part of the question please?
- Rakesh Naidu:** Sir essentially I wanted to understand your thoughts in terms of increased budgetary commitments that need to be allocated for your chronic segment for the domestic market. I understand that antiinfectives and GI are your core strength now when you are suggesting that you are planning to build capabilities in Derma and Neuro wanted to know how many products and how do you see this segment ramping up for you?
- Satyen Manikani:** These are the segments that we believe are going to be the growth drivers going forward for Alkem. Of course other segments are also going to grow but these are the segments that we have invested significantly in last few years. We mentioned before in the prospectus also that we have increased our field almost twice over last three years in these segment areas. We have build the initial critical mass we have build initial reputation and brand equity with the prescriber base and which we are going to leverage, we do not expect significant additional investments to be made in these segments.
- Rakesh Naidu:** So in terms of target market would this be the same markets or it will be a new territories that you would be targeting with these products?
- Satyen Manikani:** The same market but growth through improved productivity.
- Rakesh Naidu:** Okay and in terms of increased budgetary commitments what is that you are looking to allocate this segment?
- Satyen Manikani:** We are not expecting to add significant field force so there is no significant additional budgetary commitments or resources as such which is required for that.



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- Rakesh Naidu:** Thank you. I will join back the line.
- Moderator:** The next question is from the line of Deep Master from Enam Holdings. Please go ahead.
- Deep Master:** Thanks. Just on the NLEM part of the portfolio, your price hikes are WPI linked so another WPI is negative how you see that sort of thing or do you expect that you could move to CPI or will you have to reduce prices?
- Prabhat Agrawal:** As far as today is concerned it seems that the prices would have to be reduced.
- Deep Master:** Just on the domestic piece you have two businesses Cachet and the other business that you acquire so the revenues for Q3 FY2015 do they include the businesses or they do not?
- Prabhat Agrawal:** They do include.
- Deep Master:** So the revenue growth that you have for the domestic markets that is your organic revenue growth?
- Prabhat Agrawal:** No that is organic plus inorganic.
- Deep Master:** So what is the like to like revenue growth be for Alkem?
- Prabhat Agrawal:** In the mid teens.
- Deep Master:** Okay and just on the US piece your immunosuppressant CellCept how is that playing out is your revenue still intact or you are seeing some erosion there?
- Prabhat Agrawal:** We continue to be the only generic so the revenue was intact.
- Deep Master:** Do you see more opportunity in scaling that up?
- Prabhat Agrawal:** Certainly being the only generic there are always opportunities for market share acquisitions we pertain the certain levels is good.
- Deep Master:** Okay. What is the market size be in your view now?
- Prabhat Agrawal:** In terms of Dollars right, probably that is your question. I think in the range of about \$40 million to \$50 million.
- Deep Master:** Thanks that is all.
- Moderator:** Thank you. The next question is from the line of Ayan Dev from Nomura. Please go ahead.



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- Saion:** Sir this is Saion here from Nomura. Sir congratulations on good set of numbers. Sir my first question is related to this NLEM impact because next year we will probably have a reduction in prices for the currently controlled products and than an additional impact because of 2015 NLEM so what would be the total quantum of these two impact put together?
- Prabhat Agrawal:** Saion it is difficult to give you an estimate on the impact because we do not the ceiling prices of the new NLEM.
- Saion:** But the impact you said like the total coverage is going up by around 7%?
- Prabhat Agrawal:** Yes.
- Saion:** Okay. So the impact you think would be lower than what it was the last time NLEM was put in place?
- Prabhat Agrawal:** Again you asking me for the number but you know it depends on what is the ceiling price and where do we said stand against that ceiling price.
- Saion:** And the second question I had was regarding the seasonality of the business because we have not seen quarterly numbers before so in terms of Q4 how should we think about the quarter?
- Prabhat Agrawal:** Historically Q4 is not the strongest of the quarter in the year.
- Saion:** So can you just guide us like what percentage of your domestic revenues and sales happen in the first nine months versus the full year?
- Prabhat Agrawal:** Saion another impact that is coming for us is the application of AS9 and that is kind of that happens we should book revenue in this year because it closing period that we have.
- Saion:** Sir on the US market so your export growth has been very strong anything other than mycophenolate which is driving it on excluding that how is the rest of the portfolio doing?
- Prabhat Agrawal:** Saion the portfolio is driving very strong if you look at the IMS number for market shares are steady and in fact going up. So across the portfolio mycophenolate or otherwise there has been a strong growth.
- Sayan:** Thanks a lot and all the best.
- Moderator:** Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.



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- Ravi Naredi:** Sir have you made any dividend policy, first question is that. And we are having around 1500 cash so how much capex you will need in next two three years and what is your planning for this extra fund?
- Prabhat Agrawal:** For last one or two years we had declared around 10% of our profits as dividend but if we given the fact that we are sitting on cash and we are of course continuously looking for good growth opportunities and if you do not see opportunities where our cash could be utilized we might even increase our dividend rate.
- Ravi Naredi:** So but you have not made any policy dividend policy in the board?
- Prabhat Agrawal:** I will not in terms of giving exact dividend distribution rate.
- Ravi Naredi:** What is the cash planning any capex plan for next two three years?
- Prabhat Agrawal:** Traditionally we have done around 200-250 Crores of capex per year that might go up because for next one or two years given the fact that we are going for capacity expansion to cater to the strong growth that is existing in the market.
- Ravi Naredi:** Right, but cash generation is more than debt so as there any long term plans for this so much cash?
- Prabhat Agrawal:** As we said before we do not find good opportunity to convert cash to business opportunity then we will increase our dividend rate.
- Ravi Naredi:** Sir lastly can you bifurcate this profit into domestic sale and US sale how much profit we have come from domestic and how much net profit comes from US?
- Prabhat Agrawal:** We have not broken in that kind of data and given that kind of data.
- Ravi Naredi:** Okay. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Sunil Kothari from Unique Investments. Please go ahead.
- Sunil Kothari:** Sir basically my question is what a scope of improvement in margin over next year or two and which is the main lever?
- Prabhat Agrawal:** We have delivered significant margin expansion in this year as you can see, of course we continuously strive to improve it even better we are looking at gross margin expansion through better product mix and also through operating leverage but as we said before we talked the board DPCO and other things that could work in the other direction.



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- Sunil Kothari:** Sir next question is broadly we have grown 28%-29% domestic and international for this quarter and how you see this basically so we consider 20% growth rate as an organization or you can grow higher because of lower base in international market?
- Prabhat Agrawal:** We have not given any kind of guidance for future. Historically we have grown in mid-teen range in the domestic market and of course we grow at higher rate on international because of a small base as the base becomes bigger and bigger that growth rate is going to taper down.
- Sunil Kothari:** Sir last question is, do we have any US FDA approved plants in India or we are producing all supply from US manufacturing facility only?
- Prabhat Agrawal:** We have three US FDA approved plans in India and two USFDA approved plans in US.
- Sunil Kothari:** Okay. And all are recently approved.
- Prabhat Agrawal:** Not all are recently approved.
- Sunil Kothari:** Thank you.
- Moderator:** Thank you. The next question is from the line of Nishita Kankaria from New Berry Advisors. Please go ahead.
- Nishita Kankaria:** Sir I have a similar question on USFDA so out of the three plans in India like given the regulatory backdrop that we are having so many cases and from offlate so what are the preventive steps if any we have taken?
- Prabhat Agrawal:** We are always continuously on our toes to make sure that we are fully compliant with the US FDA guidelines one of the facility got inspected in the last year in current year 2015 and that inspection did not escalate or result into any warning letter or import letter. Of course a couple of more facilities are due for inspection in this year and we believe we are prepared for that.
- Nishita Kankaria:** That is it.
- Moderator:** Thank you. The next question is from the line of Charulata Gaidhani from Dalal and Broacha. Please go ahead.
- Charulata Gaidhani:** How big is the product basket in India how many products do you have?
- Prabhat Agrawal:** We have 700 brands in India.
- Charulata Gaidhani:** Can you give a breakup of the therapy wise revenues?
- Prabhat Agrawal:** You can take that out from even my presentation.



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- Charulata Gaidhani:** Okay and how big is the sales force?
- Prabhat Agrawal:** We have around 5500 people.
- Charulata Gaidhani:** Yes fine. How do you propose to grow the business in India?
- Prabhat Agrawal:** We have many growth drivers, we have historically grown and mid-team growth is driven by volume growth on existing product price growth and also from new products that we continue to offer every year.
- Charulata Gaidhani:** Is it a how many new products do you plan to launch every year?
- Prabhat Agrawal:** Historically if you look at our growth and a split around 3% to 4% of growth comes from the new products.
- Charulata Gaidhani:** Okay. Fine thank you.
- Moderator:** The next question is from the line of Karan Doshi from Subhkam Ventures. Please go ahead.
- Karan Doshi:** Sir my question relates to the manufacturing facilities that we have. If I am not mistaken we have one Baddi one plant in Daman and one plant in Ankleshwar can you just tell us which plant was inspected last year?
- Prabhat Agrawal:** Baddi was inspected last year.
- Karan Doshi:** Okay and when is the inspection due for Daman and Ankleshwar?
- Prabhat Agrawal:** This year.
- Karan Doshi:** Is there any timeline I mean in the next three to six months or more than that?
- Prabhat Agrawal:** In three to six months or it could be even earlier than that.
- Karan Doshi:** Okay and about the two plants in US when were they last inspected?
- Prabhat Agrawal:** Both of them were inspected in the last year.
- Karan Doshi:** Sir what is the ANDA filing target per year?
- Prabhat Agrawal:** We have not given the filing target as such. We can expect between 12 and 15 per year.
- Karan Doshi:** Okay and year-to-date how many are we filed this year?



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- Prabhat Agrawal:** We have filed more than six.
- Karan Doshi:** Sir one last question on a capex, Sir you said that increment from 200 to 250 Crores per year so how much capex should we assume per year?
- Prabhat Agrawal:** We have not given either the capex for every year going forward but as I said we are increasing our capacities so in next one year at least we can see a higher capex numbers.
- Karan Doshi:** Okay. That would be for the domestic market growth or the exports?
- Prabhat Agrawal:** Both domestic and exports.
- Karan Doshi:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Sri Srihari from PCS Securities. Please go ahead.
- Sri Srihari:** Two questions basically, No.1 if I look at the cost of the sold the share of traded goods is nearly as much as raw material so I would like to know the logic for that and secondly as for the US market for the next 12 to 18 months are there any particular big launches that you have? Thank you.
- Prabhat Agrawal:** Let me answer your second part of the question first. Of course we have 43 products waiting for approval for US market and it's a good mix of all kinds of products with different levels of competition expertise competition so it will be difficult to forecast what each individual product would end up into revenues in the next year.
- Sri Srihari:** Okay any let say significant of let say \$100 million plus kind of an opportunity?
- Prabhat Agrawal:** We cannot say it is difficult to say that but the likelihood would be low.
- Sri Srihari:** What is the target action this year?
- Prabhat Agrawal:** On the decided action days are different for different products right.
- Sri Srihari:** No let say you have a tenure right I mean over the next 12-month or 18 months or whatever?
- Prabhat Agrawal:** Yes but then it is different for different ANDAS right, different ANDA have different target dates some of the ANDAs do not have even target action date.
- Sri Srihari:** Then relating to the first question I mean the high share of traded goods in other raw material cost?



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- Rajesh Dubey:** Generally the composition of our traded goods is 25% to 30% I think same thing is maintained there if you see our standalone financial. US we have in licensing products also and that also is in normal range only.
- Nitin Agrawal:** You see in the last year we have not consolidated our Indchemie and Cachet so the purchase from these companies is included purchase line item. Current year is low as compared to the last year.
- Sri Srihari:** So would it be right to say that it is predominantly because of the US business?
- Prabhat Agrawal:** Even domestically also we have good proportion of traded goods of course US is adding to it.
- Sir Srihari:** Thank you.
- Moderator:** Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.
- Nitin Agrawal:** Sir you mentioned that the R&D cost is about 3.5% now and when do you see that scaling up to the 4% to 5% number you talked about?
- Prabhat Agrawal:** Actually 3-3.5 is the little bit of anomaly its little bit lower than that average that we had so we expected to move back to 5% to 6% in a shorter period of time.
- Nitin Agrawal:** Combined the fact that you know we probably may have some earnings pressure margin pressure that may come through with the NLEM sort of price adjustments that will come through, material step up in R&D cost so where do we have the levers to sort of neutralize these increases?
- Prabhat Agrawal:** Neutralise the decreases coming from NLEM?
- Nitin Agrawal:** Any pressures on the NLEM and coming to NLEM pricing as well as the higher R&D cost?
- Prabhat Agrawal:** Yes, of course we are working on various cost control initiatives we talked about some of the program that we are doing on procurement optimization we are de-setting some of our products we are making improvements in packaging so plus operating leverage productivity growth on the field force these kind of levers we have available to negate the impact of NLEM.
- Nitin Agrawal:** Thank you.
- Moderator:** The next question is from the line of Vivek Kumar from GC Investment. Please go ahead.
- Vivek Kumar:** I just wanted to get some flavour about the US business operating levels how you are started doing now have you reach the breakeven or do you think that its going to be happening in some quarters from now?



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- Prabhat Agrawal:** Vivek we have not given geography wise profit numbers.
- Vivek Kumar:** But is this segment you are operating at a good profit level I mean is it into the profits in terms of the breakeven or is it just give me some color at least so that we can get some understanding about whether you have done with the R&D expense that you are trying to do 3.5% -4% you have already making profit.
- Prabhat Agrawal:** At a BU level yes, before allocating R&D spend and corporate overheads they are doing well.
- Vivek Kumar:** Just one more thing on the tax side did you say that this year your taxes should be effective tax rate should be about 15% is that understanding correct?
- Prabhat Agrawal:** Yes it will be somewhere between 15 and 18% kind.
- Vivek Kumar:** Just final the incremental approvals that you have got in the recent few quarters this is being coming right from the Daman but the all the facilities or its specifically dedicated for one facility this approvals are being shown?
- Prabhat Agrawal:** From both the facilities.
- Vivek Kumar:** Have you seen any new launches in the last two quarters that you have done are from both of these facilities?
- Prabhat Agrawal:** Yes.
- Vivek Kumar:** Yes, thank you so much.
- Moderator:** Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.
- Prakash Agarwal:** Sir just trying in understanding this tax thing, you were at 5% tax rate at the first half of the year and what I understand is you have several facilities in Sikkim which protects us from tax so what is really driving the higher tax rate from 5% to 15% of guidance for the year so 15% would mean your tax rate for the 4th quarter would be apart of 30%?
- Rajesh Dubey:** See Prakash, on standalone basis we see some good amount of inventory for our US requirement so that profit has come from non tax exempted plant but generally on annual basis effective tax is historically also it was in the range of 13% to 15% and we expect to remain somewhere between 15% to 20% kind of.
- Prakash Agarwal:** I do not know whether my understanding is wrong so effective tax rate is the cash tax rate you are talking about which goes through cash flow?



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- Rajesh Dubey:** It is inclusive of deferred tax also so it is current tax as well as deferred tax.
- Prakash Agarwal:** On the reported basis tax what is the tax rate you expect?
- Nitin Agrawal:** In the range of say 12% to 13% for the current year but it may increase going forward because since our export is in increasing so this entire profit from export is taxable.
- Prakash Agarwal:** So there is a MAT credit sitting about 500 plus Crores how should we think about that?
- Rajesh Dubey:** So far we expect we are going to utilize all this MAT credit and mainly major component is recent one last three years or four years so we will be in position to utilize MAT credit going forward considering our growth in international market and international market our facilities we are not in tax exempted.
- Prakash Agarwal:** Understood and if you could highlight the question for Prabhat Sir on the margin expansion that you would talk about in terms of procurement spend and there is mention of consultant being hired for cost saving initiatives so in terms of percentage terms that 60% plus gross margin what is the additional percentages that we can think off could it be in the range of 100% to 200% for the next 12 to 18 months leaving aside the NLEM Sir just on this initiatives?
- Prabhat Agrawal:** Of course the project that we are working on both is internal team and external consultant that project is very much on track. It is going very well for us we are expecting improvements on gross margins part of that improvement is already started to flow in the quarterly results also. 200 basis points is something that can be achieved.
- Prakash Agarwal:** Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Deep Master from Enam Holdings. Please go ahead.
- Deep Master:** Sir one question on your US FDA inspection I think you have one pending inspection this year so has they happened yet or is it still due?
- Prabhat Agrawal:** No we are expecting inspection on couple of our facilities.
- Deep Master:** Which facilities are those?
- Prabhat Agrawal:** Daman and Ankleshwar.
- Deep Master:** How many pending ANDAs we have from these facilities?



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- Prabhat Agrawal:** For Ankleshwar is the API manufacturing facility for Daman haven given exact number of ANDA spending from there but normally 60% to 70% of ANDA have been filed from Daman side and around 30% to 40% have been filed from the site.
- Deep Master:** That is all Sir. Thank you.
- Moderator:** We take a last question from the line of Ravi Naredi from Naredi Investment. Please go ahead.
- Ravi Naredi:** Sir what is the reason for low tax rate?
- Prabhat Agrawal:** Our domestic requirement we meet from Sikkim so Sikkim plants have exempted?
- Ravi Naredi:** 100% exempt in tax?
- Prabhat Agrawal:** It is not exempted. We have excise benefit and for income tax purpose its have ATIE benefit so 100% profit from those plants.
- Ravi Naredi:** Thank you Sir.
- Moderator:** Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Deepak Malik for closing comments.
- Deepak Malik:** Thank you for logging in the call. If you have any questions you can ask the company directly. Thank you.
- Prabhat Agrawal:** Thank you.
- Moderator:** On behalf of Edelweiss Securities Limited that concludes this conference. Thank you for joining us. You may disconnect your lines.