



“Alkem Laboratories Q2 FY2018 Results
Conference Call”

November 10, 2017



ANALYST: MR. ANKEET PANDYA – MOTILAL OSWAL SECURITIES

MANAGEMENT: MR. SANDEEP SINGH –MANAGING DIRECTOR -ALKEM LABORATORIES
MR. RAJESH DUBEY – CHIEF FINANCIAL OFFICER - ALKEM LABORATORIES
MR. NITIN AGRAWAL – VICE PRESIDENT (FINANCE) - ALKEM LABORATORIES
MR. AMIT GHARE – PRESIDENT (INTERNATIONAL BUSINESS) - ALKEM LABORATORIES
MR. SATYEN MANIKANI – VICE PRESIDENT (BUSINESS DEVELOPMENT AND STRATEGY) - ALKEM LABORATORIES
MR. GAGAN BORANA – DEPUTY GENERAL MANAGER (INVESTOR RELATIONS) - ALKEM LABORATORIES



*Alkem Laboratories Limited
November 10, 2017*

Moderator: Ladies and gentlemen, good day and welcome to the Alkem Laboratories Q2 FY 2018 results conference call hosted by Motilal Oswal Securities. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankeet Pandya from Motilal Oswal Securities. Thank you, and over to you, Sir!

Ankeet Pandya: Good evening everyone. Thank you for joining this call. From Alkem Senior Management Team, we have with us Mr. Sandeep Singh, Managing Director; Mr. Rajesh Dubey, Chief Financial Officer; Mr. Nitin Agrawal, VP Finance; Mr. Amit Ghare, President, International Business; Mr. Satyen Manikani, VP, Business Development and Strategy; Mr. Gagan Borana, DGM, Investor Relations. Over to you, Gagan!

Gagan Borana: Thank you, Ankeet. Good evening everybody and thank you for taking your time and joining us for the Alkem Laboratories Q2 FY2018 earnings call. I am Gagan Borana 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 have the senior management team of Alkem to discuss the business performance and outlook going forward.

Before I proceed with this call, I would like to remind everybody that the call is being recorded, and the call transcript would 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 must be viewed in conjunction with the risks that our business faces.

At the end of this call, if any of the queries remain unanswered, please feel free to get in touch with me. With this, I would like to hand over the call to Mr. Sandeep Singh to present the key highlights of the quarter and the strategy going forward. Over to you, Sir!

Sandeep Singh: Thank you Gagan. Good evening everyone. Thanks for taking timeout everyone for attending this conference call. Early in the afternoon, we declared our Q2 results and six monthly financial results. I hope all of you will have gone through it. In second quarter of this financial year the company, delivered a healthy growth rate of 13.8% year-on-year in revenue and this growth was accompanied by more than 500 basis point of EBITDA margin expansion.

The company's EBITDA margin for the quarter stood at 24.7%. Adjusting for the GST impact, the like-on-like revenue growth for the quarter was even higher. The topline growth was broad based with both our businesses that is domestic as well as international business registering double-digit growth year-on-year.



Alkem Laboratories Limited
November 10, 2017

Recovering from GST led channel destocking in Q1FY2018; the domestic business registered a robust growth in this quarter recovering some part of the lost sales, which happened in the first quarter. Adjusting for GST impact, the domestic business grew in excess of 20% in this quarter.

While we continue to maintain our market leading positions in our established therapies like anti-infectives where we are number one, gastrointestinal, pain management and vitamins and minerals. A point to note is that our chronic business segment comprising of neuro, cardiac and anti-diabetes have also performed well. One thing, which I want to highlight, is that for the first time Alkem has entered top 10 of our chronic therapy, namely neuro CNS. So, we are in top 10 and for the current month, actually we are number 8, so that is a good development by Alkem, so in chronic we are making some headway now.

Also in cardiac and diabetes, we have gained some market share, nothing too much to talk about, but it is a good growth over there as well. So, this tells us that there is large headroom for us to grow even in the chronic segment, where we are very small. Point to note is that in cardiac and anti-diabetic, we are not even in top 25, so we see a lot of space over there for growth. Going forward, we are expanding our presence in the domestic business. We have increased our geographical reach. We have introduced new products and we have entered new therapy areas.

Over the last few months, as many of you would have noticed, we have been spending on various brand building and promotion activities to build our OTC business. While this is initial days, we are positive that our OTC business going forward will bear fruits. Another area, which we have entered, is Urology, because we believe that in the chronic space, we must enter more therapy areas. The Urology market is close to Rs.2000 Crores and enjoys a healthy growth rate. As you would be aware in the recent past, we have seen a lot of government regulatory changes that have been proposed or about to be announced by the government. We are preparing ourselves with the renewed strategies to mitigate the impact of these regulatory changes.

Now coming to our US business, we understand that the background is challenging because of vendor consolidation resulting in pricing pressure. Our US business performed well compared to our competition. We grew by 5% year-on-year in dollar terms. During the quarter, not only did we file four ANDAs, but we also received three final approvals. Also, during the quarter, two of our facilities underwent US FDA inspection, our bioequivalence facility in Taloja and manufacturing facility in Baddi.

For Taloja facility, we received no observations, while for Baddi facility, we received 2 483 and we have answered FDA and we hope to get a positive response by them in the due course of time. Lastly, couple of week's back our manufacturing facility in USA based in St. Louis



Alkem Laboratories Limited
November 10, 2017

cleared US FDA inspection without any observations. Given our relatively small base in US, own front-end, cGMP compliant status of our manufacturing facilities and more than half of our filings yet to be commercialized, we look forward to deliver healthy growth going forward in the US market. Apart from US, other key focus international markets like Australia; Chile, Kazakhstan has also recorded robust growths driven by new product introductions and some market share gains.

The growth rate would have been better if it had not been for adverse currency movement. We continue to invest in R&D. We look to strengthen our product pipeline for our key markets. Our investment in R&D for the quarter was higher by 38%. With six ANDAs already filed with the US FDA for the first half of this year, we are on track to meet our guidance of about 12 to 15 ANDA filings every year. On a cumulative basis, we have filed a total of 95 filings ANDAs with the US FDA, of which 38 are Para IV opportunities. We continue to increase our capabilities in terms of filing different dosage forms and developing complex products. I would also like to share that we have invested in Biosimilar through our 100% subsidy called Enzene, and if things work out as per our plans, we can expect to launch our first Biosimilar product from own manufacturing that is in the late calendar year 2020.

Despite the challenging comparative and regulatory landscape globally, we back ourselves to deliver sustainable and profitable growth going forward. By consolidating our strong presence in the domestic pharma market and growing our base in our select international markets. We continue to optimize our cost by driving operational efficiencies and improving productivity of our field force. We also continuously look out for various strategic alliances and collaborations to enhance our capabilities and strengthen our product portfolio for key markets. With this, I would like to open the floor for questions and answers. Thank you, everyone, for your patient listening.

Moderator: Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: Thank you for taking my question Sir. Sir, if I look at your growth rate in the first half for the India business even adjusted for GST, we are sort of flat first half of this year versus last year, so to take into account the lost sales of GST in 1 quarter and another, so how do you see this in the next 2 quarters given that we have the base impact of demonetization and thereafter what is our view on the domestic growth for Alkem?

Sandeep Singh: So, GST adjusted, we have still maintained that, we would at the yearend have a mid-teen growth rate in domestic business adjusting for GST and because we lose 7% of our top-line because of GST, if you adjust that, then we continue to maintain that, we will grow in mid-teens for the full year.



Alkem Laboratories Limited
November 10, 2017

- Neha Manpuria:** And so that would imply a very sharp acceleration in growth in the second half?
- Sandeep Singh:** I think we can get that on an annualized basis, please bear in mind that Q1 was impacted because of GST, not just for the 7% top-line impact, but there was tremendous destocking. So, the stockists and the retailers went to 17 days of inventory from around 45 days. So that is normalizing now. So you have to look at Q2 and obviously kind of it will not be every quarter. But that is not the case, as I reiterate, we will try for getting it and we feel confident, we will get GST-adjusted mid-teen growth in domestic business.
- Neha Manpuria:** Sir, in the 17 days of inventory that the industry went to, what were the inventory days for Alkem and how much of that lost sales have we recovered in the second quarter, just want to understand how much more can we recover?
- Sandeep Singh:** Yes, so I think for Alkem, we were in line with the industry, it was close to around 40 days, but they have still not gone back to the previous day, so it remains to be seen how much we will recover will depend on how they get back and that applies for the entire industry. So, the time will tell us how much will recover, but I think we are showing good growth rate in quarter 2.
- Neha Manpuria:** Second on the US business, given the issues and the challenges that we have in the US business, are we changing the strategy of how we approach this business in terms of the products of the filing or even our existing product basket, do you think there is a need for us to relook at certain products and the side that we need to exit, because it is just not meeting our threshold return?
- Sandeep Singh:** I will let Amit Ghare to answer that with the international business.
- Amit Ghare:** Thank you, Sandeep. So portfolio rationalization is a continuous exercise irrespective. So, we obviously keep doing that and obviously as we keep getting new approvals, we always look at rationalizing our portfolio. So to answer shortly, yes, we always look at that, and not just in light of what you said in terms of the pressures, but irrespective.
- Neha Manpuria:** And is there any change in the strategy, how we are approaching our pipeline or the launches given the consolidation in the faster approvals from the FDA?
- Amit Ghare:** Sure. So on that front also, if you recall in the previous calls, you know we have advised that when we started out few years ago, our initial filings not just that the numbers were less, but even the complexities were less and the dosage form range was also limited. And over the years both have increased, the numbers have increased, the complexities have increased and the dosage form width has increased as well and that is again also a continuous process. So, we keep looking at more complex products as well, we keep looking at first to files, we keep



*Alkem Laboratories Limited
November 10, 2017*

looking at challenging products, all of that is very much in the mix and of course, we keep looking at the new dosage forms as well.

Neha Manpuria: Sir, my last question, if you look at Alkem U.S. business let us say, two, three years out, is that a number that which we think we can achieve based on the pipeline that we have visibility for, because scale is becoming important in the US with your customer consolidation?

Amit Ghare: Sure. So, we do not give you any guidance for future, but suffice to say that I think we have said this in the past that the current average that we are doing on our ANDAs is probably slightly on the higher side compared to the industry, revenue versus divided by the number of ANDAs. So, I think our objective will be to try and maintain this momentum. And we still have more than 50% of our file portfolio yet to be approved and yet to be commercialized. So that is our arithmetic for growth.

Neha Manpuria: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Chirag Dagli from HDFC Mutual Funds. Please go ahead.

Chirag Dagli: Sir, thank you for the opportunity. Two questions here; one is, for the products that you are going to file or you have filed and your approvals are pending, how does your ROIC expectation change with whatever is happening in the US, is there any maths that you have evaluated?

Sandeep Singh: This is Sandeep, so, ROI expectation is, I mean, they should not change or will not change. So I would say that ROI expectation remains the same what it remained few years back. But I understand your question in terms of maybe your question is how do are we handling competition. So to that, I would say that for us, I think it has helped us, so we are the people who are kind of benefiting because of our low base and we are new entrant compared to competition, so that way I think it is helping us. ROI wise, I think we have the same expectations we had before. Amit just answered that we have average revenue of India, which is higher than competition and we will strive for that going forward.

Chirag Dagli: I mean the market still continues to remain attractive for new player like you or relatively new player like you?

Sandeep Singh: Correct.

Chirag Dagli: That does not change materially?

Sandeep Singh: Yes, it does not.



*Alkem Laboratories Limited
November 10, 2017*

- Chirag Dagli:** Sir, is there a band that you want to indicate of what gross margins are in the US, I mean the worse versus the best, the best is probably more understood, well understood, but the worst in gross contribution margins that you see in this business?
- Sandeep Singh:** So, Chirag honestly we do not give gross margin. So I think we will not do that, however we would like to tell you that US business makes money even post R&D, and it is shaping up well compared to two to three years back when, let us say, we are not breaking even, now we do break-even and we make a healthy margin even post R&D.
- Chirag Dagli:** That is very helpful Sir. Sir, my second question was on the India business. So, you alluded to a lot of regulatory changes, which of these are in your mind most concerning or disturbing to you?
- Sandeep Singh:** Yes, so I will not say it is more disturbing, but let us say what requires most thinking, this perhaps is the new pharma draft policy, it is something, I think, for not only Alkem, but the entire pharma industry has to think of the way to do business. It might change if this is implemented the way it is. So, that is something I think we spend lot of time and we would spend lot of time going ahead thinking about various strategies.
- Chirag Dagli:** So this one brand, one company policy, will it hurt a lot for our business?
- Sandeep Singh:** I mean if it comes through...
- Chirag Dagli:** What does it mean for Alkem?
- Sandeep Singh:** So in terms of turnover, we have some overlap, we have multiple brands not like some of other companies, but we have around close to 10% of our revenue on multiple molecules, so keep in mind that is just a number. If we eliminate the small molecules, it is not a very high number. Also keep in mind that this is a great opportunity to divest your brands also in case it is implemented the way it is. So we look at it and we see that even if it is implemented, we could turn it out to be a strategy for us to hive off those brands.
- Chirag Dagli:** Thank you.
- Moderator:** Thank you. The next question is from the line of Abdul Puranwala from B&K Securities. Please go ahead.
- Abdul Puranwala:** Sir thanks for taking my question, may I know the volume growth in the domestic business for the quarter?
- Sandeep Singh:** Can you repeat your question, please? Sorry.



Alkem Laboratories Limited
November 10, 2017

- Abdul Puranwala:** Can I know the volume growth for the domestic business in the quarter?
- Sandeep Singh:** We are refraining from giving any volume growth. We have not given that. It is our policy and we want to be consistent with it.
- Abdul Puranwala:** Sir, on the gross margin front, that is in 4Q as well as in the previous quarter, we had maintained somewhere around gross margins of 63%, but that has now fallen back to around like 61%, 62%. So, I mean going forward, how do we look at that number?
- Sandeep Singh:** Gross margin, we have in the range of, Mr. Dubey will take that question.
- Rajesh Dubey:** Hi, Rajesh Dubey here. Gross margin, we are going to have gross margin whatever we are having right now. I think one significant movement in gross margins; most of it is because of our sales mix, 1% here or there. But we are confident of, I mean, this kind of gross margin going forward also.
- Abdul Puranwala:** Correct. That is why I asked, because the contribution of chronic is increasing. So, ideally there should be a jump in gross margin, as well as because of GST, that is the elimination of excise and all, so that should have had the gross margins to increase, but that is not happening, so just wanted to know your comments on that.
- Sandeep Singh:** Sandeep here. See chronic going up is great, but please understand that is 10% to 15% only of our domestic business, so it is going to take some time before it starts really impacting on gross margins. Also, please keep in mind that US business is going up whether gross margins are not as much as, let us say chronic, so you have to see that balance and take a call on the long-term gross margins if you want to factor in.
- Moderator:** Thank you. The next question is from the line of Chunky Shah from Credit Suisse. Please go ahead.
- Chunky Shah:** This is Chunky here. So, one question was on the 7% number that you gave was the impact due to GST. So I just wanted to understand there, what would be the percentage, which will be due to the accounting change and what would be the real impact where you has two, where you could not increase prices or dollar stuff?
- Nitin Agrawal:** So see, the entire 7% has hit our top line. If we break this 7%, so there are two components of this. One is the regrouping of excise, which have hit our top line, but which has not hit our bottom line. So excise, we used to pay previously also, but it was accounted in the other expenses. Now, it is regrouped under sales. So, now it is getting netted off against sales. So, if you look at bottom line level, we got impacted by 2.5% to 3% based upon different products classification we have. But at top line level, the impact is 7%, but at net margin level, it is just 2.5% to 3% depending upon the product mix.



Alkem Laboratories Limited
November 10, 2017

- Chunky Shah:** So the excise impact is about 4.5% to 5% is what you are saying, right?
- Nitin Agrawal:** Sorry?
- Chunky Shah:** So the excise impacts, the regrouping, that has impacted sales by 4.5% to 5%?
- Nitin Agrawal:** Yes, you can say that.
- Chunky Shah:** My second question is on the OTC, we have seen a lot of adds picking up and all, so was there any expenditure in this quarter, so in the quarter it has gone by or that has picked up only from October, and what is the budget, what is the kind of spend that you are looking for, I have seen ads only for two products. We have launched, we have a portfolio of six products, so are these the two where we are going to concentrate on and what about Tiger Balm, so have we launched that in a big way?
- Sandeep Singh:** Yes, so Sandeep here. So, first things just for your understanding, we are not spending a huge amount on the advertising, it is you feel so then maybe we are doing a great job and it is all happening in the last 15-20 days to one month. So overall, we do not see it as a very dilutive expenditure, which we are thinking. So it is not much, and some of the expenditure, yes, has happened in Q2 and some of them, which are seeing, now is happening after that. But on Tiger Balm, please keep in mind that the brand belongs to someone else. We are just distributors for that and we are not spending too much money on advertisement of that brand. But overall, we do so on plans, but it is not a massive expenditure that would impact earnings.
- Chunky Shah:** So Tiger Balm, you are saying advertising part of it will be taken care by our pharma the guys who manufacture it.
- Sandeep Singh:** Yes.
- Chunky Shah:** So, we would be only interested in distributing it.
- Sandeep Singh:** Absolutely, we got that for very clear reasons, because it gives us distribution reach. It is a door opener with lot of time and that is why we did this.
- Chunky Shah:** So if you look at, just about the long-term plan on OTC, so if I look at the portfolio that we have built, so none of them are a product which is having some sort of specialty, it is more like the products which are fast-growing segments. None of them are related to pharma such as like Tiger Balm for example has a pharma angle to it right? So other prod cuts like condoms and the pregnancy kits do not have the pharma angle as such. So what is the game plan for long-term one? And second is, what is the product selection metal or what does go into our product selection over there?



Alkem Laboratories Limited
November 10, 2017

- Sandeep Singh:** So please keep in mind that these are early days. So what pipeline you see is not something, which is going to be the only thing for the next few years, so we continuously evaluate. And next year, there would be some launches where you might feel it is to do more with healthcare or pharma. So that is one, and your second question that they are big mass-market product, not speciality, so I think that the intention very clearly is to be in mass market. We could also do the speciality later on, but I think these are large markets; we are excited about them. And on the methodology front, please keep in mind that we have just entered OTC. We will see how it goes. And we will test ourselves going forward. It is a very dynamic market; it is new for us. So I think we cannot pinpoint the exact products, which we will do in the future.
- Chunky Shah:** Just one last follow-up on this OTC thing is, what would be the breakeven kind of timeframe that we are looking for?
- Sandeep Singh:** I will let Satyan answer that.
- Satyan Manikani:** Hello, this is Satyan here. We are looking at timeline of about 2 to 3 years for the breakeven.
- Chunky Shah:** And the combined spend could be somewhere in the range of Rs.30 Crores to Rs.50 Crores, is that a good number or that would be very higher number?
- Satyan Manikani:** It is very close to that.
- Moderator:** Thank you. We have the next question from the line of Rashmi Sancheti from Anand Rathi. Please go ahead.
- Rashmi Sancheti:** Thanks for the opportunity. Just want to understand related to R&D, out of your total R&D, how much is allocated to the U.S. business?
- Sandeep Singh:** Yes, Sandeep here. I think large part of our R&D is for U.S. business. I would say close to 90% is for U.S.
- Rashmi Sancheti:** And currently, our U.S. business is making profit at the PAT level?
- Sandeep Singh:** Yes.
- Rashmi Sancheti:** So, basically, it is breakeven plus profits you are getting, right?
- Sandeep Singh:** Correct, I said that, yes, absolutely.
- Rashmi Sancheti:** Thank you.



*Alkem Laboratories Limited
November 10, 2017*

- Moderator:** Thank you. The next question is from the line of Saion Mukherjee from Nomura Securities. Please go ahead.
- Saion Mukherjee:** Sandeep, you talked about this regulatory changes, So, I just wanted to hear your thoughts on controlling greater margins for trade generics business, have you done an assessment of whether it is likely, and if it happens, how should we think about it?
- Sandeep Singh:** Yes, so to be honest Saion, these are very tough questions to answer. But what I can say is, please keep in mind that we are the leaders in this trade generic. We are perhaps #2. So in trade margins if some cap come on them. I think we will still do very well compared to competition and we will still grow, because we have the brand recall, we have the connections, we have the customer connect with the stockists and great channel. So if the cap comes, then everybody will obviously then be on the same footing. I think we will continue to outgrow with the business. And keep in mind that if the generics closes on because of this, the ethical prescription business as we say would obviously pick up, where we have a larger stake. So I think we are not too worried about it. Obviously, we keep an eye for it, but I think we will do well either way.
- Saion Mukherjee:** So Sandeep, what you are saying essentially is that whatever space, because the trade generics is primarily because of the high-trade margins, right. So if that gets curtailed, you are basically saying that you would be able to make it up by growth in the prescription segment.
- Sandeep Singh:** Yes.
- Saion Mukherjee:** We will be able to take that volume.
- Sandeep Singh:** Correct.
- Saion Mukherjee:** Thank you.
- Moderator:** Thank you. The next question is from the line of Damayanti Kerai from HSBC. Please go ahead.
- Damayanti Kerai:** This is Damayanthi from HSBC. So, my question is regarding your St. Louis facility. It has been a while that we have acquired this, so what kind of utilization we are having there right now?
- Sandeep Singh:** So, I think in terms of utilization percentage, I think I would not be able to give that, because I think we are still filing, so it is unfair to expect that to be completely running fully loaded. All I can say is that we have commercialized products from there. We have started filing products from there. We have commercialized 2 products as we speak from St. Louis. And by the end of this financial year, we might launch the third product from there as well. So please keep in



*Alkem Laboratories Limited
November 10, 2017*

mind that we got this facility for long-term strategy. This is a controlled substance plant. And we have good amount of planning to file from this product from this facility in the next couple of years. So it has started now doing sales and we have also filed from there.

Damayanti Kerai: How many filings you have done from there so far?

Sandeep Singh: From there, we have got 3 filings.

Damayanti Kerai: Three filings, and these will be specifically for niche areas like complex or controlled substances, right.

Sandeep Singh: Yes, some of them also different dosage forms like a nasal spray. So I do not know whether it is niche or not, I do not know whether it is semi-solids we have filed from there, filed and commercialized from there as well, semi-solid.

Damayanti Kerai: But going ahead like which will be key therapy area which we will be focusing to file from this facilities, mainly the controlled substance or as you said, we have some semi-solid or...

Sandeep Singh: Going ahead, madam, controlled substance would be a fair assumption to make. That going ahead, it will be a controlled substance facility by and large; other than what we are doing, nasal sprays and semi-solids.

Damayanti Kerai: And when we should expect your first controlled substance product to come in market.

Sandeep Singh: I think we will refrain from giving a number, but in the coming few quarters, we would expect that our first oral solid controlled substance would come from that facility.

Moderator: The next question is we have a follow-up question from the line of Chunky Shah from Credit Suisse.

Chunky Shah: Thanks for giving me an opportunity again. On the U.S. side, I just wanted to know what is the current price erosion. Sequentially, QoQ how much has the price erosion hit us. And given that the consolidation is ongoing, what is our exposure to Econdisc, how much percentage of our sales comes from Econdisc.

Sandeep Singh: Yes, I will let Amit Ghare answer that.

Amit Ghare: So, Chunky, I will answer the first question. Quarter-on-quarter is sequential quarter-on-quarter is a little difficult for me to answer. But year-on-year, I can tell you that the price erosion is, for us, is still in middle single digits. So, that is the first question. Second question is for Econdisc if I remember, I am not sure why your asking, maybe because we are moving into WBAD and maybe that is why you are asking the question. We are not exposed too much to Econdisc.



Alkem Laboratories Limited
November 10, 2017

Having said that, we have great relationships with WBAD as well and WBAD runs now a separate formulary for Econdisc. So, we can retain most of our business as and when it ships to WBAD.

Chunky Shah: So, do we have a chance actually of picking up business from Econdisc?

Amit Ghare: So it will be now WBAD negotiating for the Econdisc formulary. And yes, we have very much chance of gaining market share as well. And I think Sandeep said a little while ago that in this consolidation, we have been net gainers certainly from market share perspective, and we have talked about that on the previous calls as well. While there has been price erosion and you have seen our quarterly results, we have still grown well in dollar terms, and that has been obviously on back of such things, which are essentially market share gains.

Chunky Shah: My second question is for Sandeep. Sir, do you have any plans of replacing Prabhat with the new CEO or you yourself would be taking over the entire helms of the company.

Sandeep Singh: Yes. So, no, there are no plans to replace Mr. Prabhat Agrawal. I am, as a Managing Director will function as a CEO as well.

Chunky Shah: And lastly on the inventory levels, this is for the India business. So you said that from 40 days for Alkem, it had come down to about 17 days. Can you help me with the number for the September when the quarter ended, and where are we currently? So basically AIOCD was showing that we have recouped up back to about 30 days. And where do we stand as on date?

Sandeep Singh: So, if I understood your question correctly, you are asking me the stockists have gone to what inventory days for Alkem in holding stock.

Chunky Shah: Right.

Sandeep Singh: So, it is around 30 days right now.

Chunky Shah: And what was this at the September end? So my question was what -- so this number today is about 30 days, what was this at the end of the quarter as of September 30.

Sandeep Singh: September 30...

Amit Ghare: I think it was the same.

Sandeep Singh: It was the same.

Chunky Shah: So in the last 1-1/2 months, it has not picked up for the...



Alkem Laboratories Limited
November 10, 2017

- Satyen Manikani:** Those are not released yet.
- Sandeep Singh:** Yes, the numbers are not released. But whatever closing inventory we track from the market from our own sales team closing statements, I think it has not change significantly. So to answer you, I do not think so we have gone back to the pre-GST era where there is to hold 40, 45 days of inventory very comfortably.
- Moderator:** Thank you. We have the next question from the line of Cyndrella Carvalho from Dolat Capital. Please go ahead.
- Cyndrella Carvalho:** Just wanted to have a color on the U.S. investments that we have done. Where are we in terms of breakeven and how do we expect that market for us over one or two years?
- Sandeep Singh:** I will let Amit answer that.
- Amit Ghare:** We do not give separate returns on investments. I think suffice to say what Sandeep said. So it obviously includes all the investments that we have done whether inorganic or our own capital investments or the R&D investments. After that, we have crossed the breakeven point. Could you get my response? Cyndrella, can you hear us.
- Cyndrella Carvalho:** Yes, I can hear you. How is the outlook, Sir, what is the perspective going ahead?
- Amit Ghare:** Sorry, which business, who?
- Cyndrella Carvalho:** U.S. business, Sir.
- Amit Ghare:** We are growing and we said we want to continue this momentum, and we want to continue obviously launching new products, and try and maintain our overall dollar revenue per ANDA target.
- Cyndrella Carvalho:** So the consolidation and the price erosion and whatever your peers are facing, in this environment also, we are very confident that we should continue at our pace and grow the business. Is that a correct understanding, Sir?
- Amit Ghare:** That is right. So, the growth obviously comes from market share acquisition, increase in market share that is and new product launches. While the existing business obviously faces price competition and we talked about that as well, price deflation I meant.
- Cyndrella Carvalho:** What is the target? How many ANDAs do we expect to file in this year and next year?
- Amit Ghare:** We have answered that before, 12 to 15 is our number.



*Alkem Laboratories Limited
November 10, 2017*

Cyndrella Carvalho: Thanks for repeating. And, Sir, coming to the chronic segment of domestic business for Alkem, how is it panning out and what is your view on that? And as just now you said that inventory days have come up to 30 days level for the domestic market, do we expect it to go back to our earlier level or we expect it to be around this?

Sandeep Singh: Yes, Sandeep here, your first question on chronic business. As I mentioned in my opening statement, it is still very early days for us. So, we are on a very low base, so we will continue to outperform the market, but that is not something, which excites us, we need to grow much faster. So please keep in mind that only neuro and CNS, we are in top 10, all others we are far behind competition. So, we will look at in-licensing opportunities. We will look at expanding field force at the right time, and as I mentioned, we have entered Urology in the chronic segment this year. So, we will do our best to grow the chronic, I think that remains a very important thing for Alkem as a whole. And coming back on the inventory days, see we really do not know how and when they will go back the trade will go back to 40, 45 days. So, I think it is best we focus on fundamental business like secondary and building our brands, worrying about when the trade will go back to its number of days is really not worth it right now for us. We rather focus on business.

Cyndrella Carvalho: Any more color on what kind of in-licensing opportunities, are there somewhere in near term any opportunity that we are targeting or like any further color that you can provide on that side?

Sandeep Singh: I will let Satyen speak on that, who heads the business development and strategy.

Satyen Manikani: Satyen here. We do have lots of opportunities on the core areas like anti-infectives. We have opportunities in the chronic segment as well, which is in the diabetes segment. And one of the products have completed successfully, the clinical trial in the diabetes segment and probably we should be getting the approval in the next six to eight months time for the diabetes product. It is in the DPP-4 segment, which is one of the most progressive segments in Diabetology.

Cyndrella Carvalho: That is quite helpful, Sir. Sir just gaining some thoughts on this like, in terms of the chronic segment as well as our acute focus, I mean where we are so strong. So how are we thinking in terms of going backward integrated or we will still remain marketing focus more and led third parties and other supporters on the manufacturing site, what is our view on that?

Sandeep Singh: Sandeep here. You rightly said that in acute and things like anti-infective we are very strong. Please keep in mind that we manufacture the own formulation for most of our brands. And backward integration, I think, is not a very strategic important thing for India, because it is a branded business, your gross margins are very high and the API as such for India business is not of any competitive advantage as of now. So, we have no plans to backward integrate for domestic market.



*Alkem Laboratories Limited
November 10, 2017*

- Cyndrella Carvalho:** That is very helpful Sir. All the best. Thank you.
- Moderator:** Thank you. Next, we have a follow-up question from the line of Chirag Dagli from HDFC Mutual Funds. Please go ahead.
- Chirag Dagli:** In the India business for the first half, if I add back 7% for the second quarter for GST adjustment, we are still flattish for the first half. In your assessment beyond that GST-related inventory, is there anything else that is happening in the business?
- Sandeep Singh:** Sandeep here. Beyond GST-related, I do not think so there is anything fundamentally happening in the Indian industry domestic. I do not know any reasons you asked, Chirag?
- Chirag Dagli:** No, I am just trying to think aloud, sir, in a sense that we have been seeing now for most of the players even adjusted for GST, very few players have actually shown significant growth.
- Sandeep Singh:** Because Q1 was a washout as you know, so that is one, 40% of our portfolio in India is anti-infective where the growth rate is not something to go back about, so I can speak for myself, that is the reason perhaps you might feel that combined, the growth rates are not something phenomenal.
- Chirag Dagli:** Fair point Sir. Sir, typically our second half is softer than the first half. Is that how even this year it will play out?
- Sandeep Singh:** Yes, I mean I do not think so, it will change this year, but keep in mind that last year we had expanded a lot in acute business, so that is really helping us this year, we were ahead of the curve, and in hindsight, I think we did the right thing. So, in spite of sluggish growth, I think we will outperform the market.
- Moderator:** Thank you. The next question is from the line of Saion Mukherjee from Nomura Securities. Please go ahead.
- Saion Mukherjee:** Thanks for taking the follow-up. One question on the margins, because there are a lot of moving parts, right. You have the pricing pressure in the U.S., you are investing in OTC, but at the same time you have new launches and cost control initiatives. So overall, when you put all those together, how should we think about margins from hereon?
- Sandeep Singh:** I will let our CFO take that question.
- Rajesh Dubey:** Saion, Rajesh Dubey here. In fact, we answered, on margin front, Sandeep already said, on the OTC front, we do not have any dilutive kind of abnormal expenditure this year or going forward also. As far as U.S. pricing pressure is concerned in normal course of our business, we are very optimistic. We have done what was required at our end on improvement of gross



Alkem Laboratories Limited
November 10, 2017

margin. And I think wherever chance was available for increase of price that is already carried out. We are very optimistic. We are going to have similar kind of margin going forward also. On EBITDA front, yes, this year GST impacted very significantly on our EBITDA margins.

Saion Mukherjee: You are saying like somewhere around high-teen kind of the numbers where...?

Rajesh Dubey: Yes, it is absolutely.

Saion Mukherjee: One question of the U.S. market, I mean you got approval for Nexium, is that a good opportunity now?

Sandeep Singh: Mr. Ghare would answer that.

Amit Ghare: We still think it is opportunity on Nexium generic. So, yes, we got the approval and we are in the launch phase now.

Saion Mukherjee: How should we think about, let us say, next year? Because right now you have few Para IVs and is that if you look at next couple of years or next three years, do you think that FY2019 will be a bigger year in that sense?

Amit Ghare: I do not want to predict that this moment. I do not want to give you guidance for FY2019, Saion.

Saion Mukherjee: No, I know there was lot of unpredictability. But just when you look at the pipeline, are there more opportunities in FY2019 versus FY2018?

Amit Ghare: Yes. Certainly, I would say I do not want to compare with FY2018, but in absolute terms, I can tell you as you know, we are now getting more approvals than what we have historically got at least until FY2017, and when we spoke for the current fiscal year, if you remember, we said we should be able to launch higher single-digit number of launches this fiscal, we are maintaining that, and I think that is what we will maintain for next year in terms of number of products.

Moderator: Thank you. Next, we have a follow-up question from the line of Abdul Puranwala from B&K Securities. Please go ahead.

Abdul Puranwala: Sir, just put comments on the generic application for Dronabinol. So I suspect that the innovator has involved in some sort of litigations. So, I mean would that have an early approval for our application and a subsequent early launch by the FDA or any flavor on that?

Sandeep Singh: Sandeep here. So, I think this is a normal FDA for Para IV, I think their litigation has no bearing on launch, the 30-month stay would be triggered most probably. So I mean we will not



Alkem Laboratories Limited
November 10, 2017

be able to comment how this will be impacted. I do not think so, it will result in early launch, since the litigation not started yet, I really cannot comment on anything.

Abdul Puranwala: Sir, can you just tell me what would be the market size for this product if possible?

Sandeep Singh: Market size also, we are refraining from and this is a newly launched product by the innovator. So, it would be difficult to give you market size and it would also be very misleading because the innovator has just launched the product few months back.

Moderator: Thank you very much. That was the last question. As there are no further questions, I would like to hand the conference back to the management for any closing comments.

Sandeep Singh: Thank you, everyone, for attending this call. If you have any queries have remained unanswered, you can please get in touch with me. Thank you very much.

Moderator: Thank you very much. On behalf of Motilal Oswal Securities, that concludes this conference. Thank you for joining us. You may now disconnect your lines.