"Alkem Laboratories Q4 FY2016 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to Alkem Laboratories Q4 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 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 would now like to hand the conference over to Mr. Deepak Malik. Thank you and over to you Sir!

Deepak Malik: Thank you. On behalf of Edelweiss I welcome you all for the Alkem Labs fourth quarter financial year 2016 earnings conference call. From Alkem today, we have Mr. Prabhat Agrawal, CEO, Mr. Rajesh Dubey, CFO, Mr. Amit Ghare, Head International Business, Mr. Satyen Manikani, Head Business Development and Strategy, Mr. Nitin Agrawal, AVP Finance and Mr. Gagan Borana, DGM - 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 thanks for taking out time and joining us for Alkem Laboratories Q4 and full year fiscal 2016 earnings call. I am Gagan Borana from the Alkem Laboratories 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 outlook going forward. Before I proceed with this call I would like to remind everyone that this 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 you have any queries, 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: Good evening everybody. We have uploaded the presentation on the site and I am going to take you through the same presentation. I believe all of you have a copy of that.

We will go to the first slide where we are summarizing the performance of the company for the financial year 2015-2016. Financial year 2015-2016 was a very eventful year for the company as a whole. The company changed from being a privately held company to a public listed company. We got listed on the stock exchange on December 23, 2015 with a very strong demand of our stock coming across all sections of investors.

2015-2016 was also year where we grew at 33.3% at consolidated revenue level, but this growth was a very profitable growth. It was accompanied by a solid margin expansion of more than 500 basis points. Our EBITDA margins improved from close to 11.5% in the previous year to close to 17% in the financial year 2015-2016, so a very profitable growth the company has achieved.

A very strong further improvement in the balance sheet position of the company. The company generated a net cash of 378 Crores during the year and also most of its return ratios improved which we will discuss in few slides subsequently.

The growth was led by a very strong performance in the domestic markets where company continue to grow ahead of the Indian pharmaceutical market by 200 basis points with a very strong position and further market share gains in key therapy areas where we have leadership and also in certain emerging therapy areas where we have made a recent investments.

2015-2016 was a year where we got 12 ANDA approvals, one of the highest that we have received so far in the company. In terms of regulatory inspections and compliance in the previous year we got three of our facilities inspected by USFDA including Baddi facility in India, St. Louis acquired facility in Missouri and our API facility in California. All three went through successful inspection from USFDA and on top of it our API facility in Mandva got inspected and cleared. So it joined our list of already six approved USFDA approved facilities and now we have six USFDA approved facilities in our portfolio.

We also acquired a formulation manufacturing facility in US, St. Louis to further build our capabilities in US to give us dosage form capabilities of liquid, semi-solid and nasal sprays and also having a formulation manufacturing foothold in US which will be key markets going forward as well.

I will move to the next slide, in the next slide I will take you through certain key financial highlights. Our revenue from operations grew by 25.3% to Rs.11.4 billion. The split in terms of domestic and international, the domestic operations grew by 22.8% for the quarter and international business grew by 28.8% for the quarter.

Our EBITDA grew by 17.5% from Rs.1.3 billion to Rs.1.58 billion. There is a margin decline from 14.8% to 13.8% mainly on account of the increase in other expenses. We will talk about it in subsequent slides.

Our profit before tax grew by 9% from Rs.1.5 billion to Rs.1.3 billion. The same highlights are presented in the next slide for the full year. On a full year basis our revenue grew 33.3% to Rs.49.9 billion.

Our domestic operations grew by 30.4% during the year and our international business, which has been delivering solid growth, grew by 41.3%. There has been a significant improvement on EBITDA margins for the year. If you look at our EBITDA margins grew from 11.3% to 17% in the year from 421 Crores in the prior year to 844 Crores in the year 2015-2016 and same has been the impact on the profit before tax, which grew by 87.5% from our PBT margin of 12% we ended up with 16.9% PBT margin in the FY2016.

On the next slide, we are presenting more information and commentary on the India business, which remains the largest chunk of our business. Our India business contributed close to 70% of our total sales in Q4 FY2016 and the business grew 22.8%, India business grew 22.8%. Of course this includes the consolidation of two subsidiaries that were acquired during the year.

During the quarter and the year our secondary sales taken from IMS database grew by 13.2% and 14.4% respectively for the quarter and the year, which is higher than the IPM growth rate of 12.1% and 13.5%. So we continue to beat the market growth rate and consolidate further our market share. We talk about our performance in various therapy areas in the subsequent slides, where each of these therapy areas we either improved our market share or grew higher than the market growth rates. Especially in the emerging therapy areas of Neuropsychiatry, Cardiac and AntiDiabetic we have improvement our market ranking and one of our brands for Vitamin D Uprise-D3 entered the top 300 brands in India and now we have 14 brands among the top 300 brands in India.

Going to the next slide, which gives our performance on a therapy level. If you look at anti-infective, which is the largest chunk of our business contributing close to 42% of our domestic revenue grew 9.4% as against the market growth rate of 4.9% so we continue to maintain leadership in this therapy area which is the largest therapy area in the IPM. We further build our market share and consolidated our market share. Gastro-intestinal which grew by 12.5% we grew 20.6% during the quarter we maintain our ranking three in the therapy, but we improve our market shares further.

In pain and analgesics the market grew 8% while we grew 12.2% again we improved our rank by one and now we are third rank company in this therapy area. In vitamins/minerals/nutrients the market grew 15.9% while we grew 17.4% further improvement of market share and a gain of rank by two.

Derma we did not do as well as the expected. We grew little bit lower than the market growth rate. On Neuro/CNS we grew28.6% against the market growth rate of 15% further improved our rank by two. Same for Cardiac we grew 19.9% against the market growth rate of 12.5% further improved our rank by 1%, anti-diabetic we grew 22.8% versus market growth rate of 17.5% and improved our ranking by 1% in this therapy areas.

So across all therapy areas we have delivered robust growth, a growth, which is higher than the market growth rate, which we believe is based on our very strong India franchise.

On the next slide, we present the US business highlight. The US business grew by 17.9% during the quarter. We file six ANDAs during the quarter, taking the cumulative ANDA filings to 76 and one ANDA. We received three ANDA approvals including one tentative approval during the quarter, taking cumulative ANDA approvals to 30 including four tentative approvals and one

NDA as on March 31, 2016. On the full year basis, we filed 12 ANDAs and received 12 approvals including three tentative approvals.

On other international markets, which contribute less than 10% of our sales, we delivered again a robust growth of 65.8% for the quarter. Primarily this growth came from strong underlying demand in markets such as Australia, Chile and Kazakhstan and this is in spite currency headwinds that we encountered in some of the emerging markets.

The strategy going forward we have discussed the strategy even in the previous earnings call. We continue to grow and consolidate our leadership position in the acute segment where we have traditionally we have been very strong by further growth in our mega brands and you will see that one of the brands entered among the top 300 brands during the quarter. Further improve our market share in chronic segment through market share acquisition and new product introductions and you would see during the quarter our delivery on this strategy and in most of the emerging therapy areas where we have delivered a growth higher than the market growth rate and we have improved our market ranking in each of these therapy areas.

Improve our field force productivity through sales force effectiveness initiatives which we have been progressing very well a lot of the growth is productivity growth and not growth delivered through manpower expansion. Continued focus on R&D to accelerate ANDA filings for the US market and develop differentiated portfolio. In the quarter we filed six ANDAs in US markets and of course we continue to look for strategic partners in collaborations to enhance capabilities and the product portfolio for focused markets.

Now I will hand over to Mr. Rajesh Dubey our CFO who will take you through the next couple of slides on the key financial and P&L items.

Rajesh Dubey: Thank you Prabhat. I will be taking you through the P&L item on consolidated basis of our financials. All amounts are mentioned in rupees million. Net income from operations for the current quarter it was 11426 million against 9119 of last quarter. Gross profit it is 7147 million against last year's quarter 5207 million. Gross profit margin in current quarter was 62.6% against 57.1% of last year's quarter.

EBITDA margin, EBTIDA was 1580 million against 1346 million of last year; margin was 13.8% against 14.8% of last year. PBT it is 1639 million against 1504 of last year. PBT margin, which is 14.3% against 16.5% of last year. PAT after minority interest it is 567, this is after taking write-off of MAT of 834 million whereas in last year's quarter it was 1315 million. PAT margin is at 5% in this quarter against last year Q4 it was 14.4%. EPS was Rs.4.70 against 11 last year.

I will be taking you through on annual basis. In financial year 2016 our – on annual basis our net income from operations it is 49915 against last year 37434 that is growth of 33.3%. Gross profit it is 30304 against last year's 20528 million gross profit margins it is 60.7% against 54.8% of last year. EBITDA it is 8482 against 4218 million of last year. EBITDA margin is 17% against the 11.3% of last year. PBT it is get 8451 against 4508 million of last year and margin is 16.9% against 12% of last year. PAT after minority interests it is 6731 against 3916 of last year. PAT margin is 13.5% against 10.5% of last year. Earnings per share it is Rs.56.30 against Rs.32.80 of last year.

I will take you through some key ratios of balance sheet return on networth it is 19.2% whereas in last year it was 13.1%. Book value per share in rupees it is 292.9 against 250.8 of last year. Debt to equity ratio it is 0.19 against last year it is 0.44.

Receivable days it has decreased from 51 to 41, inventory days also decreased from 77 to 67, payable it also has come down from 45 to 42 days, gross debt in million it is 6554 against 13059 of last year. Net cash available with the company it is 8652 million against last year's 4873 million.

Prabhat Agrawal: If you look through on most of the balance sheet items we have delivered an improvement on most of the ratios, working capital days have been reduced. We had a significant gross debt which has been almost brought it to half the level of earlier year. A very strong generation of cash close to 378 Crores cash generation taking the cash sending cash balance to close to 865 Crores in the year.

Thank you so much for listening to me. Can you start with the Q&A?

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Kumar Saurabh from Motilal Oswal Securities. Please go ahead.

Kumar Saurabh: Thanks for taking my question. First one on FY2017 how should we look at the year going forward in terms of growth and margins given the fact that on domestic side three regulatory developments will hit us; however, when I look at the IMS data we reported quite strong growth for the month of April. So a) does the April month data include all the impact of FDC done as well as WPI deflation and new NLEM list and b) how should we look at the growth trajectory and margins shaping up in FY2017?

Prabhat Agrawal: Saurabh, you are absolutely right there are certain headwinds in the industry mainly in the form of price control that has been which has brought in close to 100 molecules in the list and also certain old molecules also the further price revisions have been made, that certainly brings a pressure on the growth and also on the margins, but then certainly we would try to mitigate that through very aggressive volume push given the fact that prices for certain of our key brands have been reduced that gives us an opportunity to address certain segments of the market that we were not aggressing before because of the price differential. So this new segment opens up for us and we would aggressively push for volume growth to capture the lost value on the pricing and we will continue to drive cost optimization further in the company to regain some of the pressure on margins on our product brought in through DPCO.

Regarding FDC it has impacted to a certain extent not to a very large extent. Of course close to 2%, 2.5% of our sales covered under fixed dose combinations which is covered by the band notification that the Government of India came out on 11th of March the update is that the order is in the Delhi High Court and we continue to sell those brands at the same time we have a very robust backup plan in case those products have to be withdrawn from the market. We will capture the market opportunity through alternative formulations that is ready with us and also with FDC brand close to 5000 market has opened up which all the companies including us would go after through our single dose combination. So the strong headwinds remain but we have a robust plan to tackle with efforts.

Kumar Saurabh: So vis-à-vis FY2016 in terms of growth is it fair to assume that we should be delivering especially in domestic markets mid-teams kind of growth and the margins because of the fact that operating leverage should play at least in a chronic segment as well as in the US business our margins should stay at current levels if not improve?

Prabhat Agrawal: There would be specify margins coming from the DPCO well as I mentioned before we would be driving those mitigating factors that we talked about and try to sustain the margins.

Kumar Saurabh: I have further questions 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 first question on the gross margin improvement if you could help us understand the especially Q-on-Q gross margin improvement of 250 bps and the part II is the subsequent EBITDA margin drop so are there any one off apart from higher R&D?

Prabhat Agrawal: Sorry Prakash can you please repeat again I could not here very well.

Prakash Agarwal: Gross margin improvement Q-on-Q of 250 BPS Q-on-Q for 60% to 60.6% so if you can help us what has really led to gross margin expansion it is product mix the India, US because so if you could help us understand that?

Prabhat Agrawal: Prakash, it is a mix of both, both product mix is better than before in the previous quarter and also certain price increases that have come into play and is routine depending on 12 months price cycle whenever gets over we increase our prices for the scheduled drug. So it is a combination of a better product mix with price increases.

Prakash Agarwal: So price increase starts from April, 01 sorry if I am not wrong.

Prabhat Agrawal: No it depends the price on DPCO molecules you can increase the price 12 months after the previous price increase so it is not all price does not increase on April 1 but increases as soon as your 12 months gets over.

Prakash Agarwal: When you say product mix how should we read higher India versus US because US has been much slow or what really the product mix you are hinting at?

Prabhat Agrawal: Both product mix at India level also the launches that we have been doing in India is also at a higher gross margin levels and also certain top brands that we are delivering good growth are coming at a higher margin and cost optimization program that we have been doing which we informed you before on improving the procurement and packaging specification improvements and all that. So all this is coming into play as we move quarter-to-quarter.

Prakash Agarwal: If you could explain the higher other expenses and lower EBITDA apart from higher R&D what is really driving the other cost?

Prabhat Agrawal: Yes other expenses there is 6% increase vis-à-vis last year, it is a mixture of two things one is the timing difference certain expenses that we have incurred last year in the third quarter versus incurred in the quarter four of this year for example certain marketing conference expenses for domestic markets it happened in the last year in the quarter three but this year it happened in quarter four there are certain one off items on inventories and assets and interest subsidies tantamount close to 1.5% and then certain higher litigation cost in international markets that also kind of one off in nature. For total if I accumulate all of it, it is around 3%, 3.5% in nonrecurring nature. So on a normalized basis our other expenses were in the range of 28%.

Prakash Agarwal: You are saying 3%, 3.5% is nonrecurring.

Prabhat Agrawal: Yes around 2% 2.5% is nonrecurring.

Prakash Agarwal: This is after accounting for higher R&D?

Prabhat Agrawal: Yes. Part of the R&D also especially the litigation cost that we are including in R&D is at that level we are not likely to incur.

Prakash Agarwal: You did mention on write-off if you could just what write-off you might have taken?

Prabhat Agrawal: Certain interest subsidy approvals in our books that they provided for.

Prakash Agarwal: Sir second question on the India business if we look at Indchemie and Cachet's for the quarter and for the year.

Prabhat Agrawal: India growth.

Prakash Agarwal: Yes.

Prabhat Agrawal: EX of Indchemie and Cachet.

Prabhat Agrawal: For the year it was 22% plus and for the quarter it was 15%.

Prakash Agarwal: Without Indchemie and Cachet India growth was 15% plus.

Prabhat Agrawal: Yes.

Prakash Agarwal: And for the year it was?

Prabhat Agrawal: Are you talking only about India or consolidated?

Prakash Agarwal: India Sir.

Prabhat Agrawal: For the year I think it was 16% Ex Inchemie and Cachet to be accurate it is 16.6% and for the quarter was close to 12% it was basically impacted by the revenue recognition policy wherein for this year the revenue that got shifted from quarter three to quarter four was much smaller as compared to the revenue that got shifted from quarter three to quarter four in the prior year which is much bigger so if we normalize that then the quarter growth X Inchemie and Cachet would be in the range of 20%.

Prakash Agarwal: One more question on India business again the IMS number shows about 13% growth for the quarter as such for your company but if I see your segmental breakup in each of these therapies you are showing about 20%, 17% so I do not know the numbers don't add up and AIOCD show a 6% growth so how should we think about tracking our India growth if you could help us understand.

Prabhat Agrawal: Therapy wise if you apply the weightage of our individual therapies in our portfolio it will add up because for us the biggest part of our therapy is anti-infective which is like 40% plus and that grew by 9.4% so if you apply that weighted average it would add up.

Prakash Agarwal: And how should we think about AIOCD numbers showing 6%?

Prabhat Agrawal: AOCD we are not tracking so much, we believe more in the sales projections of IMS.

Prakash Agarwal: And any guidance you are giving in terms of domestic growth sir.

Prabhat Agrawal: See historically we have been beating the market by 200, 300 basis points and that is what we would continue to strive doing.

Prakash Agarwal: And since you are the industry leader if you can help us understand the industry growth expectation.

Prabhat Agrawal: The industry growth expectation was 12% to 14% pre DPCO right so I don't know what will be the impact of DPCO on the entire industry growth rate but we would continue to target mid-teens growth rate.

Prakash Agarwal: Perfect that helps thank you so much I have more questions I will join back the queue.

Moderator: Thank you. We take the next question is from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: My first question is on the US business if I were to look at your quarter-on-quarter trend there seems to have been a decline, we got a couple of approvals in the quarter, last quarter you also indicated your market share going you up, if you could help us understand what drove the quarter-on-quarter decline?

Amit Ghare: Actually on quarter-on-quarter we have not really declined in dollar terms. It has been more or less flat, there are some products, which have gone up, and obviously some new launches have come in and some products of course have gone down as well. So it has been more or less flat may be a percent down here or there. Quarter-on-quarter sequential quarter is your question I assume.

Neha Manpuria: Yes that is right. So sir it's not as if we are losing market share in any of our products I should not treat that into this trend or seeing significant pricing erosion.

Amit Ghare: So pricing erosion will always be there and it affects us on some of the products and it obviously varies from product-to-product but as a sum total is what I gave you at the company level and IMS also more or less reflects the same.

Neha Manpuria: And if I were to look at FY17 for what sort of based on our TADs and pipeline that you are aware of what sort of number of launches are you looking at into next year?

Amit Ghare: So our number of launches will certainly be higher than what we have historically launched and we are targeting higher single digit number of launches during the full year.

Neha Manpuria: And filing would be 12 to 15 that you have guided in that range the similar range.

Amit Ghare: That is correct.

Neha Manpuria: And then R&D you have given the spend significantly higher in R&D with higher number of filings how should we look at R&D for the next year?

Prabhat Agrawal: Around 5% is what we expect to spend on R&D.

Neha Manpuria: And my last question tax rate, will this start to trend up from the next year so 15% sort of number or how should we look at tax rate?

Rajesh Dubey: For next year our tax rate it will be in the range of 12% to 14%, will be somewhere close to that rate.

Neha Manpuria: Thanks for taking my question.

Moderator: Thank you. We will take the next question is from the line of Sunil Kothari from Unique Investments. Please go ahead.

Sunil Kothari: Can you repeat sir this tax rate you said this 12 to 14% is a corporation or it is a domestic and interest will be different.

Rajesh Dubey: It is effective tax rate on accounts basis.

Sunil Kothari: 12% to 14%.

Rajesh Dubey: Yes.

Sunil Kothari: Sir are we giving any growth guidance for US business and other international business?

Prabhat Agrawal: We have not given any kind of guidance, it totally depends on the product that we are able to launch next year so it is a lot dependent on that so that is why we have not given any kind of guidance on that.

Sunil Kothari: So can we take any past trend as indication?

Prabhat Agrawal: Historically we have grown significantly our international business but that happened on a very low base, as we continue to improve our base a lot will depend on the new product launches going forward so I would not say historically what we have done is something that we would be able to continue with.

Sunil Kothari: And about your US market.

Prabhat Agrawal: The same for US market.

Sunil Kothari: Thank you very much.

Moderator: Thank you. The next question is from the line of Chetan Vadia from JHP Securities. Please go ahead.

Chetan Vadia: Sir what kind of R&D expenses you are looking out as a percentage of revenue for FY17 on a consolidated basis.

Prabhat Agrawal: That is what we said Sunil a few minutes back around 5%.

Chetan Vadia: Sir if you can reiterate the percentage.

Rajesh Dubey: Around 5%.

Chetan Vadia: If I look at the QoQ numbers the profitability, which has, get update so how to read the Q4 number.

Prabhat Agrawal: Q4 numbers there are two exceptional items we talked about. One exceptional item is about certain nonrecurring expenses included in the other expenses. Second exceptional item was the MAT credit write-down that we took in the quarter of around 83.5 Crores this was based on the new investments that we are doing for domestic market and based on our projection about future taxable profits and utilization of MAT so based on a prudent basis we took a write-off of 83.5 Crores on MAT but of course we continue to maintain our legal right to claim the MAT in the tax book and depending on the taxable profit going forward we would use that MAT credit.

Chetan Vadia: Is there any kind of a medium to long-term targeted revenue that you are currently working on that you would like to reach by FY2019 or 2020.

Prabhat Agrawal: No we have not given guidance for long-term revenue growth rate.

Chetan Vadia: That is it from my side thank you very much.

Moderator: Thank you. The next question is from the line of Saravanan Vishwanathan from Unify Capital. Please go ahead.

S. Vishwanathan: Capex for FY17 what can we expect?

Prabhat Agrawal: The Capex for FY17 would be higher because we are making investments in our Sikkim facility given the fact that there is a sunset clause for fiscal benefit which is expiring on March 31, 2017 so most of the pharma companies are making investment to extend the fiscal benefit for another ten years and also given the fact that a lot of growth we are witnessing in international market so we are augmenting our capacities to serve this market demand so the Capex for this year is definitely going to be more than two times of previous year.

S. Vishwanathan: The second question is about this German regulators finding out some discrepancies in the clinical trials date so what is the status now?

Amit Ghare: The German inspection actually was more than a year ago and report has already been closed out, in December we received the final report as well. As far as the inspection and the report is concerned that's already closed out.

S. Vishwanathan: Can we take it as cleared?

Amit Ghare: The German Inspection specifically I am answering that led to and EMA article 31 referral, if you are asking that question, that is on and we were suppose to respond on May 12th we have already responded on that and we are waiting for EMA to give us the clearance.

S. Vishwanathan: But your existing business to EU is continuing nothing has undergone any change that is right.

Amit Ghare: Absolutely, so the existing business is obviously multiple products what EMA questioned us referred only to two products of which one only was in the market so we are only commercialized one of that and even for that product the business continues.

S. Vishwanathan: Thank you that is it.

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

Prakash Agarwal: Question on US, we have literally 9% dollar term growth YoY so I understand there was a big product last year but we saw several approvals also so is there being delay or what is the plan in terms of what kind of launches have been done and what is the plan for launches for fiscal 2017?

Amit Ghare: Prakash I think we answered a little while ago this year we are expecting higher single digit launches for the full fiscal. There is some of the approvals which came towards in quarter four of last fiscal we are in the process of launching them in this quarter.

Prakash Agarwal: Could you name those products sir?

Amit Ghare: I would not like to name them at this moment. You know the approvals which have come so it would be some of them I think once we commercialize that I think that will be the correct time to talk about them.

Prakash Agarwal: So what I was trying to understand is of the 12 approvals how many we actually launched during this fiscal.

Amit Ghare: Three we launched in this fiscal, you are talking about FY 2016 I assume.

Prakash Agarwal: That is right sir.

Amit Ghare: Yes, three we launched there were lot of tentative approvals there were couple of final approvals that we received but we had settled as far as the patents are concerned so I think out of the five what takes a little higher actually including the ones in the last quarter we launched three last year.

Prakash Agarwal: So this includes high single digit includes the approvals for last year as well.

Amit Ghare: That is correct.

Prakash Agarwal: And given the base of about $150 million so it is a good base you see a more launches coming in so is it fair that like Prabhat mentioned India business to grow at mid teens any color directionally if you could give in the US business.

Prabhat Agrawal: Prakash even the mid teens that I have told you in line with what we done historically but you cannot take historic as a guidance for future right, it totally depends on the products that you are able to launch, the market share that you are able gain, timing of those launches and all that so it is difficult to give a guidance for US business specifically for future.

Prakash Agarwal: What I am trying to get that is like how sustainable is Mycophenolate and Benzonatate. We are already seeing some competition coming up so if you could throw some light on sustainability of these two large products?

Prabhat Agrawal: Prakash we have not given any product specific details right so on a consolidated basis what we are maintaining is that we are not issuing any guidance for US going forward. It would depend on the launch, the timing of those launches and the market share that we are able to acquire in those product categories.

Prakash Agarwal: Sir question on tax rate again if I see this MAT credit reversal practically means the effective tax rate was 19% for the year and we are guiding for 12% to 14% tax rate despite the fact that one of our SEZs or the Sikkim plant I think would come under some taxation so in 19. You could help us understand how it will be lower versus fiscal 2016?

Rajesh Dubey: Prakash, our Sikkim plant Tax benefit is getting exhausted by March 2017 so this year we will keep on getting tax benefits from Sikkim plant, both the plants, that is the reason, this year we have taken write-off of MAT and that is leading to 19%, if you take out that then it is 9% only.

Prakash Agarwal: So this is particularly for this year accumulated over the past few years.

Rajesh Dubey: Are you referring to MAT writing off?

Prakash Agarwal: Yes sir.

Rajesh Dubey: No it is not for one year it is extend of accumulation of two, three years.

Prakash Agarwal: And lastly on the cash side significant accretion on the cash so there is a comment also made in terms of market share acquisition if you could highlight what is the plan to use the cash sir?

Prabhat Agrawal: I did not understand Prakash we did not make any comment on market share acquisition and linked it to cash.

Prakash Agarwal: Sir there is a slide #9 which talks about increase of market share in chronic segment through market share acquisition.

Prabhat Agrawal: No it is organic, we are referring here organic growth through market share acquisition, not acquisition as such, but gaining market share.

Prakash Agarwal: But how do you plan to use the cash given that this year also you will generate significant cash?

Prabhat Agrawal: But this year as we said the Capex is going to be higher so we have to make investments in our capacity to catch up with the growth that we are expecting so this year we are not likely to generate as much cash as we did in the last year and of course we continue to look out for good opportunities both domestic and international, we have a cash reserve to capitalize on any opportunity that comes across.

Prakash Agarwal: So what was the Capex fiscal 2016 and what you plan for 2017?

Prabhat Agrawal: Fiscal 2016 was 230 Crores and fiscal 2017 would definitely be more than 500 Crores.

Prakash Agarwal: Could you just help us broadly break that up sir?

Prabhat Agrawal: It will be across all our facilities both in India and international, the international facility that we acquired we are ramping up we are upgrading that facility and in India we are making investments in both our regulated plants and domestic plants especially for domestic plants we are making investment so that we could continue our fiscal benefits going forward, so we are putting in capacities before the sunset clause which expires on March 31, 2017 so we are making investments so that we can continue with our tax benefit for next ten years and in our regulated plants we are making investments to make capacities available to launch the kind of launches that Amit mentioned before.

Prakash Agarwal: And last one if I can squeeze on, the liquid formulation manufacturing facility in the US, so what are the plans ahead have, we started filing and when do we start seeing this liquids, semi-solids and nasal sprays.

Amit Ghare: Prakash if you recall we have discussed in the past that we had already used that facility as a CMO for filing some of our ANDA so there are already ANDAs which have been filed from this facility historically so in a very objective manner of speaking FY17 current fiscal we do not see those ANDAs getting approved and getting commercialized subsequent to our acquisition obviously we have started doing our work in terms of filing from this facility and very soon we will be starting our ANDA filing from the facility.

Prakash Agarwal: In respective therapies, in forms, nasals also you started filing.

Amit Ghare: Yes, so we have started work, dosage forms that we have acquired we are filing in all the dosage forms.

Prakash Agarwal: Thanks and all the best.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: What proportion of our business with the domestic are heavily covered on NLM right now after the recent decision?

Prabhat Agrawal: Close to 30%.

Nitin Agarwal: On the US business what has been the experience with the impact of the consolidation, which has happened in terms of the price erosion now that has come through on the portfolio over the last year or so?

Prabhat Agrawal: You are talking about domestic.

Nitin Agarwal: On the US business.

Amit Ghare: Consolidation as we have mentioned earlier we have actually companies like us who are mid sized companies, we have actually seen the benefit when the larger customers have become larger they have split the single product either by strength or based on their requirement and that is where it has given us some opportunities to pick up market share so overall I would say it has been positive for us and on the price erosion we have not witnessed anything which is matter of concern for us.

Nitin Agarwal: So typically the company has been maintaining mostly the price erosions have been in the region of around 4% on an annual basis so you try to say we would not be too away from those normal industry trends.

Amit Ghare: Yes I would agree with that.

Nitin Agarwal: And lastly on the tax rate while 17 you mentioned 12% to 14% but is it fair to assume a similar set of tax rate even for the outer year or the tax rate would typically begin to move up beyond that?

Management Beyond that it will be somewhere close to MAT tax rate.

Nitin Agarwal: So from FY18 it will be closer to 20%.

Rajesh Dubey: It could be around that.

Nitin Agarwal: So this is the last year of the tax advantage that we have in the Sikkim clause.

Rajesh Dubey: No we have tax advantage for our remaining plants in our upcoming plants also going forward but right now if we have to see beyond 2017 our estimate will be around to MAT rate.

Nitin Agarwal: Thank you.

Moderator: Thank you. The next question is from the line of Damayanti Kerai from HSBC Asset Management. Please go ahead.

Damayanti Kerai: Sir I just want clarification on BSE release, which says that company has two segments like pharma and investing, so what is the investing segment because we see the revenue is a small portion but if I look at the capital employed it is a significant portion of total capital employed. So can you clarify this?

Rajesh Dubey: Investing activity is basically our treasury operation that is the reason why we have kept it separate from pharma.

Damayanti Kerai: So it will be at similar level like what we are seeing for this quarter on 400 million levels like we are booking it in other income right.

Rajesh Dubey: Yes we are taking in other income.

Damayanti Kerai: Thanks.

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

Ayan Deb: Just wanted to understand this Taloja BE center when was the last time USFDA inspected this BE center?

Amit Ghare: It was inspected in 2015.

Ayan Deb: Is it right to assume that some of the ANDAs that are approved currently and some of the BE study must have been done from this center as well?

Amit Ghare: That is correct.

Ayan Deb: We have tentative approval for Crestor, qualitatively, how do you see that product panning out for you, is it something the company is looking forward to?

Amit Ghare: Qualitatively did you say?

Ayan Deb: Yes.

Amit Ghare: I am not sure of what you think qualitatively, we were not the first to file that is the public knowledge, FDA we believe hasn't taken a decision on exclusivity even though the Watson Letter talks about that as well but we are not 100% sure, we have two dates for launches and we are waiting to hear back from FDA in the next few weeks.

Ayan Deb: That is all from my side thank you so much.

Moderator: Thank you. The next question is from the line of Vivek Kumar from Geecee Investment. Please go ahead.

Vivek Kumar: Just on the Capex side since you have guided for about 500 odd Crores for FY17 just wanted how much of it going to be getting capitalized in FY17?

Rajesh Dubey: Most of it.

Vivek Kumar: And for FY18 also similar kind of a run rate has you would look at?

Rajesh Dubey: As we said FY2017 it will be on higher side because of our domestic as well as our international business but going forward it would not be 500 it will be on lower side?

Prabhat Agrawal: Next year is a special year for us in terms of investment it to go even little bit higher than 500 as well.

Vivek Kumar: And just wanted to pick some color on the quality or very qualitatively on the margins for domestic formulation how it has worked out versus last year this year is it flat, is it higher or is it going to be like slightly lower how is it that one should get this the domestic formulation business.

Prabhat Agrawal: No this year is of course higher than last year on the margin front.

Vivek Kumar: So is it more than like 200, 300 bps or it is going to be little plus around 100 bps something on this.

Prabhat Agrawal: No we haven't given segment wise margins but overall you have seen that our EBITDA margins is close to 600 bps higher than last year so it has come both from domestic and international, all segments of the business have improved margins.

Vivek Kumar: Both would have got an equal contribution in terms of the incremental margins right one should understand that?

Prabhat Agrawal: Not necessarily equal but well spread out.

Vivek Kumar: And last thing I would have missed on your initial comments have you said anything on the Daman facility if you have got any inspection done out there or you are still waiting for the inspection there.

Prabhat Agrawal: We are waiting for the inspection there.

Vivek Kumar: Thank you so much.

Moderator: Thank you. The next question is from the line of Kumar Sourabh from Motilal Oswal Securities. Please go ahead.

Kumar Sourabh: If we look at your other income that was around Rs. 42 Crores this quarter and for the full year little over Rs. 160 Crores, but as cash yield it comes to very significant number. I believe we had from real estate exposure. A – What is the exposure currently to real estate investment and B – how should we look at this other income going forward?

Rajesh Dubey: Our exposure to real estate is somewhere around Rs. 190 Crores. As far as other income is concerned, yes, this year we had cash accumulation but interest rate, if I compare with previous on deposits and – because that is mainly in form of deposits and investment in quality papers. Now interest rate reducing, it is having pressure. So we feel it is going to be in this range only going forward also.

Kumar Sourabh: Okay, so sir I believe that this real estate exposure we were planning to bring down, so what are the plans for that and second sir, even if it stays at these levels, this other income, then also on a base of if I look at, your gross cash would be somewhere around Rs. 1500 Crores, other income of Rs. 160 Crores looks to be on the higher side. So from where this higher other income is coming and what gives us confidence that it will continue going forward?

Rajesh Dubey: See, on net level when we see our cash position as of 31st March, it is somewhere around Rs. 870 Crores but we have advantage of working capital borrowings where we have very fine rate, of course, it is much more below whatever we are earning. That is the reason why we have better other income. As for as real estate exit is concerned, of course, it is in our agenda and will try to come out from real estate at the earliest possible but I think it will be taking some time, most probably not 2016-2017, 2017-2018 majority of exit we expect.

Kumar Sourabh: Is there some kind of lock in which is there, because of which we are not able to exit or how should we look at it?

Prabhat Agrawal: There is no lock in but we are not very desperate to exit at losses.

Rajesh Dubey: See, it is a fund. So they have invested in certain projects and the project has a maturity period. As and when these projects get completed and the units are sold, we would come out of it. We are not pushing it to do an early exit at a compromised return.

Kumar Sourabh: Okay, makes sense. And secondly sir, when we say that FY 2018 our tax rates would go up to MAT rates, I believe that from FY 2018 onwards there should be couple of plants which should come, which should give us tax advantage. When one plant is going out of this tax advantage zone, one to two plants should add on to our current portfolio. How should we look at it, is it a conservative estimate, should we look at it, when we say that the taxes should go to MAT levels or is there a possibility that tax rate could actually remain much lower than that.

Prabhat Agrawal: For 2018, immediately we cannot shift all production manufactured at exempted unit right now we have. It has to be both only. That is the reason we feel that 2018 and onward, which we are having more business from our taxable plant and which we are having it from the exempted plant also, but considering both these, we feel we will be somewhere close to MAT.

Moderator: Thank you. Ladies and gentlemen, we will be taking the last two questions. The next question is from the line of Neha Manpuria from JP Morgan, please go ahead.

Neha Manpuria: Thanks for taking my follow up. One clarification, if I look at your balance sheet the non-current investment that has declined significantly from September. Does this have to do with the transaction on the real estate side or what led to this reduction?

Rajesh Dubey: It is transfer from non current to current, we mean to say.

Neha Manpuria: So, there is no change to the remaining the 2.2 billion, which is there, is related to our real estate investment in that case.

Rajesh Dubey: It is Rs. 190 Crores somewhere.

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

Prakash Agarwal: Thanks for the opportunity again sir, some book keeping questions – firstly, what is the MR strength sir?

Rajesh Dubey: Close to 6000

Prakash Agarwal: So, we have added during the year, I understand around 5500 was there.

Rajesh Dubey: No, very marginal increase.

Prakash Agarwal: Okay, and on the non current assets, if you could help us understand what are the bank deposits?

Prabhat Agrawal: Prakash we will take your question offline, we will be providing this detail to you.

Prakash Agarwal: And sir also on the current maturities of the long-term loans

Amit Ghare: Current maturity of long-term loan is I think it is $4.5 million ECB, which is getting matured in October

Prakash Agarwal: And the MAT credit intended which is sitting on the books

Rajesh Dubey: It is around Rs. 508 Crores

Moderator: Ladies and gentlemen, that is the last question. I would now like to hand the conference over to the management for their closing remarks.

Prabhat Agrawal: Thank you so much for attending this earnings call. We appreciate your questions, hopefully we have been able to answer all of them and of course our investor relations team is available to answer any queries on this call. Thank you so much for joining.

Moderator: Thank you. Ladies and gentlemen, on behalf of Edelweiss that concludes this conference. Thanks for joining you and us may now disconnect your lines.