"Alkem Laboratories Limited Q4 FY-18 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Alkem Laboratories Limited Q4 FY18 Earnings 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kumar Saurabh from Motilal Oswal Securities. Thank you and over to you.

Kumar Saurabh: Good evening everyone. Thanks 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 – Vice President-Business Development & Strategy and Mr. Gagan Borana – DGM-Investor Relations. Gagan, over to you.

Gagan Borana: Thank you, Kumar. Good afternoon everybody and thank you for taking out time and joining us for Alkem Laboratories' Q4 FY18 Earnings call. I am Gagan from the Alkem IR team.

Already 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 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 face with. At the end of this call if any of your queries remain unanswered, please feel free to get in touch with me.

With this I would like to handover this call to Mr. Sandeep Singh to present the key highlights of the quarter and strategy going forward. Over to you, sir.

Sandeep Singh: Thank you very much. So good evening everyone. Thank you for taking out time and attending our Conference Call.

Earlier today we announced our 4th quarter and full year FY18 results. I hope all of you would have got some time to go through it. We have also put out a detailed press release and a presentation to showcase our key highlights of the quarter and the year gone by. I will briefly touch up on some of these highlights and then would leave the floor open for questions and answers.

As all of you would be aware that for the last two to three years there have been quite a few challenges for the pharma industry with the two key markets for us India and US being impacted by several regulatory and competitive headwinds. In this background, I am pleased to see that Alkem has navigated relatively well. In the financial year 2018, both our key markets, India and US have done well. India, specially adjusted for the GST impact has delivered double digit growth.

As per secondary sales data reported by IMS, we continue to outperform the India pharma market in most of major therapy areas. We have maintained our leading position in acute therapy. In chronic therapy we continue to grow ahead of the market on a relatively small base. We have a large room to grow in chronic segment. In Neuro and CNS segment, we now feature among the top10 companies in India which is a good achievement by our team.

Coming to our international business, I am happy to share that our US business crossed an important revenue milestone of $200 million this year. We filed 19 ANDAs this year and received 13 approvals which include one tentative approval. With more than 100 ANDAs already filed with USFDA, we continue to invest in our R&D and look to further strengthen our product pipeline.

Couple of months back our manufacturing facility at Daman and St. Louis were inspected by USFDA. We received 13 observations for our Daman facility, and 1 observation for St Louis facility. We have already replied to USFDA with a detailed corrective and preventive action plans to address these observations. We have also sent a monthly update to FDA on our remediation efforts at Daman. We wait to hear from the USFDA on the same.

Over the last 12 to 18 months, we have invested significantly to increase our manufacturing capacities, ventured into new therapy areas, added medical reps to further improve our reach. I am hopeful that these investments will drive growth and profitability going forward. So summing up the performance for the quarter and the year gone by, I would like to say that I am relatively pleased with the progress we have made in our key markets. However, we continue to look for newer avenues of growth in this evolving market, new segments, new technologies and new markets.

We continue to optimize the cost by driving operational efficiencies and improving the productivity of our field force. With all these initiatives, we look to deliver sustainable and profitable growth going forward. Thank you for your patient listening. With this I would like to open the floor for questions and answers. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: My question is with reference to the domestic market. Can you give some color, because many companies have reported a flattish growth in domestic market due to one or other reasons? So you can give some color whether it is anything to do with the pricing or is it according to the competition, why the growth is becoming subdued for the entire industry?

Sandeep Singh: I would answer for Alkem specifically because what others are doing that might be their own doing for some reasons. So as I mentioned in my opening remarks that we have added aggressively medical reps this year, strategically so we have been little ahead of the curve, so we added close to 1,000 medical reps this year. So all that has helped us grow and we have always been a sales and marketing led company, very strong in brand building. So that is what has worked for us.

Rajesh Kothari: But even our growth is only 7%, right? So I am saying why it is very low single digit?

Sandeep Singh: If you do the GST adjustment I think overall for the year you still have your double digits growth.

Rajesh Kothari: So this is basically because of the excise duty is not part of the, not comparable, is it Ind-AS or you are saying it is GST?

Sandeep Singh: Nitin, would you like to comment?

Nitin Agrawal: Yes, you are right. These numbers are not comparable because till last year excise was actually not netted off against sales. So the reported sales were gross of excise. So one element is gross of excise which has impacted our sales growth by 4% and the other element also is that GST rate as compared to rate of excise and VAT is higher by 3%. So our prescription business growth got impacted by almost 6% because of these two reasons. Excise regrouping and second one is higher indirect tax rates.

Rajesh Kothari: So basically on like to like basis, what is our domestic business growth for FY18 and Quarter 4?

Nitin Agrawal: For full year it will be between 11% to 12% and for Q4 it will be around 17% to 18%.

Rajesh Kothari: How do you see the domestic business over next 2 to 3 years?

Sandeep Singh: We have always maintained that we will continue to outperform the market and grow in mid-teens

Rajesh Kothari: Can you give some color on your strategy of the domestic business? This growth is going to be driven by high productivity, new segments, new products?

Sandeep Singh: So it is a combination of all, as I said higher productivity is obviously the driving force because we have just added people this year, close to 1,000. And I have mentioned in my opening remarks that chronic segment continued to be not where we want to be. So chronic growth along with continue to dominate our good therapy and increase in productivity. These will drive our growth.

Rajesh Kothari: What is the current productivity?

Sandeep Singh: I do not think so we give out numbers. We will not do that. But our productivity in chronic will only rise significantly going forward.

Moderator: Thank you. The next question is a follow up from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: My first question is on the Gross margins. They seem to have come off very sharply quarter-on-quarter. Even if I look versus last year I agree that there is some impact of the grossing. But how should we look at the Gross margin numbers for the full year for FY19?

Nitin Agrawal: So Neha, first I will answer your first question on Quarter 4 margin. So quarter 4 margin got impacted because of 2 or 3 reasons. The first one is higher contribution from international business sales where our margins are lower as compared to domestic business. So as we have reported in the analyst presentation, our contribution of international business has increased from 31% to 35%. So that has impacted our margins for this quarter.

The second reason is the GST, which was not there in the last year corresponding quarter. That has reduced our net realization by 2% or 3%. So there is an impact of GST also the gross margin reduction. And the third impact is, impacts of API. Next year we may be impacted by increasing API price which may bring down our GC by say 0.5% or 1%.

Neha Manpuria: But even quarter-on-quarter what would be the reason for the deterioration other than the fact that API prices started to go up?

Nitin Agrawal: So quarter-on-quarter also the international contribution has increased. If you look Quarter 3 contribution of international business and compare it with Quarter 4 contribution, so there is a significant increase in contribution.

Neha Manpuria: There is no one-off in the gross margins in the quarter, right?

Nitin Agrawal: There is no one off. The only one-off is the higher sales, or you can say that generally in Quarter 4 our international business contributes more because lower sales in domestic but this year it was exceptional from international business and that has impacted the growth.

Neha Manpuria: Now again continuing on the margins. If I look at the EBITDA, that has fluctuated pretty sharply quarter-on-quarter because of GST, certain one-off that we had, given you expect pressure on gross margins and chances are our US approvals will be slow, how should we look at margin trajectory for Alkem over FY19 and slightly long over the medium term? Do we still believe we can expand margins from the existing mid to high teen levels that we have been seeing?

Nitin Agrawal: If you look at current year margin, we have reported 16%. One of item of loss, which we have booked on account of real estate revaluation which is Rs. 38 crores amount. If you adjust that our adjusted margin is 16.6%. So next year we will try to improve it maybe we will improve by 0.5% and we should try to reach the same level which was there in 2016-17. And this improvement should continue gradually. It should be close to our competitors maybe in 2 to 3 years down the line.

Neha Manpuria: My last question is on Daman. Sandeep, there are quite a few repeat observations in Daman. Given this facility was inspected quite quickly after the last one, are you concerned about your ability to probably solve this? What is your thought process and how we are trying to sort of make sure this does not happen in another facilities?

Sandeep Singh: Obviously we got 13 observations. But you know the repeat are not basically exact repeats. We have most citations which fallen under the same observation, but the observation per se, most of them are not repeats baring couple of them. We believe that we got a reasonable chance of coming out of it but obviously you cannot predict the FDA. So we will take some time to really know what is happening there.

We have taken the learnings and we always do and Baddi inspections might happen anytime, so on that we are all implementing the learnings, be more careful, have better systems and things like that. So yes, we understand that it is a concern, but we have spoken to investors in the past, some of the observations were not totally correct if I can say that and we have answered to FDA accordingly.

Neha Manpuria: And both Baddi and Daman account for equal proportion of our pending ANDAs? Is that understanding correct?

Sandeep Singh: Yes, by and large Yes.

Moderator: Thank you. The next question is a follow up from the line of Ashish Thakkar from Motilal Oswal. Please go ahead.

Ashish Thakkar: Just a follow up to earlier participant question on our gross contribution, you mentioned that our contribution could go down by 0.5% points. So just wanted to know whether we have also taken into consideration the rupee depreciation?

Nitin Agrawal: If you look at the last few months rate, actually our gross margin was improved because of fluctuation in exchange rate. So we do not have much dependence on imports of our API, so our international business will actually get benefited if there is further rupee depreciation in coming months. On Gross margins, like I told that, it may get impacted by increase in API price by say 0.5% but we will try to recover it from some cost reduction programs and try to maintain our GC what we have reported in this year.

Ashish Thakkar: Below this gross margin levels you feel the employee cost would increase from here on or you feel the current quarter rate can be taken as an annualized number?

Nitin Agrawal: Most of the employee expansion has already taken place. I think the next year or this year we will try to get more productivity out of the employees who have joined in 2017-18. So it should actually reduce our manpower cost as a percentage of sales in the current year.

Ashish Thakkar: Another question is on the US business. Since you know we have this now facility non-compliance issue ongoing, how do you see the US business panning out? Are you expecting any approvals this year? And how should we read? Because we have volumes like $210 million this fiscal. How should we read the US business?

Amit Ghare: So we do not give market wide guidance as you know. However, what I can certainly say is in terms of approvals we have given a broad guidance of higher single digit number of approvals during the year and we are maintaining that.

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

Prakash Agarwal: First question is on the 12 filings that you have made this quarter. Trying to understand that this would be largely or mostly from the Baddi facility or does it also include Daman and the US?

Amit Ghare: All three, Prakash.

Prakash Agarwal: And coming into other expenses line item where there is a one-off item on the real estate side, so could we know the current value post the write-off?

Rajesh Dubey: Prakash, Rajesh Dubey here. We have taken more cautious kind of call on fair valuation of our investments, particularly our investment in real estate. So if you see fair valuation of our real estate fund is Rs. 225 crores and in fact we have taken off Rs. 38 crores on that account but there were some gains also in that to the tune of Rs. 12 crores. That is why net impact is Rs. 26 crores what is appearing in other expenses.

Prakash Agarwal: So post the write-off it is Rs. 225 crores or pre write-off it was Rs. 225 crores?

Rajesh Dubey: It is post write-off.

Prakash Agarwal: And current value is Rs. 225 crores?

Rajesh Dubey: Yes.

Prakash Agarwal: And is there a thought in terms of monetizing the same in next 6 to 12 months or it can take longer?

Rajesh Dubey: We are trying our best and intention is to come out quickly but you know real estate the liquidity of real estate but our intention is to come out as early as possible.

Prakash Agarwal: And in the India business, since we have already invested into higher MRs and given that we have a good sales and marketing and branding team, and given the fact that last year was a low base, what is the expectation in terms of growth for this year?

Sandeep Singh: We are not changing our statement. Mid-teens is something is which we stick to.

Prakash Agarwal: Do not you think it could be higher given the fact that we are on a lower base, and we would have that GST YOY that could also come off. So, would you like to revise it or mid-teens is what you feel realistic?

Sandeep Singh: No, we would not like to revise it, Prakash. Because the guidance if you are giving is sort of medium term so we will stick to it. I think we will be happy with that kind of growth because you know the competitive scenario is also really tough.

Prakash Agarwal: Lastly, some data points in terms of what is the total MR today? CAPEX and tax rate for future?

Gagan Borana: Total MR would be somewhere around 8,000 MRs. Last year I think we reported about 7,000, we added about 1,000 MRs this year.

Prakash Agarwal: Your CAPEX this year and next year?

Gagan Borana: Our CAPEX this year was around Rs. 675 crores, next year number would come down closer to Rs. 550 crores or Rs. 600 crores.

Prakash Agarwal: Lastly, on the tax rates. How would you think this panning out for fiscal 19 and fiscal 20 given the fact that we have this new facility at Sikkim?

Rajesh Dubey: We have already given guidelines for our tax rate from 2019-20. And that is going to be somewhere close to MAT rate only. Around 20% is MAT rate so it has to be somewhere close to it.

Prakash Agarwal: 20%?

Rajesh Dubey: Yes, for current year 2018-19.

Prakash Agarwal: 18% to 19%?

Rajesh Dubey: For the year 2018-19, it would be close to MAT rates means from 18% to 20%.

Moderator: Thank you. The next question is from the line of Cinderella Carvalho from Dolat Capital. Please go ahead.

Cinderella Carvalho: I just wanted some update on the Daman facility. So have we filed our CAPA and what would be last response date on that?

Sandeep Singh: Yes, we have filed a CAPA. And we have to give monthly updates and that is going on. So in June again it is due. And with that second update would be going that time.

Cinderella Carvalho: Any color that you can help us with, how much would be US sales per se from Baddi and Daman put together?

Amit Ghare: From Daman it was one-third.

Cinderella Carvalho: And Baddi would be slightly more

Sandeep Singh: Slightly more. Yes, one-third I guess.

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

Damayanti Kerai: Can you comment on the increase in raw material prices which some of the competitors are talking about due to Chinese crackdown on pollution? Are you seeing significant increase in raw material prices?

Nitin Agrawal: In the last quarter we did not see a major impact, but you are right that going forward there will be impact on gross margin because of increase in price of APIs. So maybe it will get impacted by 0.5% to 1% but we will try to manage this in fact from our cost reduction and other efficiencies.

Damayanti Kerai: So you are already seeing this impact coming in right? Or this will be addition to what we are already seeing in current quarter and all?

Nitin Agrawal: In 2018-19 our gross margin if you compare with 2017-18 margin which we have reported, it may get impacted by 0.5% because of higher API price.

Damayanti Kerai: Some clarification on working capital. We have seen a significant jump in receivables, I think 50% and all. So what is happening on that front? I think Inventory also we are seeing around 20% jump, if I look at the balance sheet?

Rajesh Dubey: Our working capital is in line with our estimates only. Strategically, at some places we want more inventory to be there just to cater our business requirements. I think it is well within our control and we understand the requirement and to meet that requirement, inventory stocking has happened. I think that is not abnormal kind of. Our working capital we are comfortable.

Damayanti Kerai: Okay, that is more for the US market if I understand correctly the inventory buildup?

Rajesh Dubey: It is US market also. So we want better inventory to be there. To optimize other related cost also, it is required to have comfortable kind of inventory.

Damayanti Kerai: Did you mentioned like what is the MR productivity as of now for our India formulation business?

Sandeep Singh: We did not mention it. We do not.

Moderator: Thank you. The next question is a follow up from the line of Abhishek Sharma from IIFL. Please go ahead.

Abhishek Sharma: Just one clarification. You just mentioned about increase in raw material prices but on the other side, I did hear in a response to one of the question that you said that most of your API procurement is not from outside. Did I hear that correctly?

Nitin Agrawal: What I said was that our revenue from International business is much more than what we import as raw material. So if there is say rupee depreciation, we will actually get benefitted. So we have not said percentage of import as a part of total import which we do, or total raw material consumption which we do.

Abhishek Sharma: Right, but is your ratio different from the industry? Just wanted to understand that because then you would be impacted equally on account of rupee depreciation just like everybody else in the industry?

Nitin Agrawal: If you look at our contribution of domestic business, almost say 70% as compared to competitors, it is much higher, so our proportion of imports maybe lower compared to our competitors.

Abhishek Sharma: So, then would it be right to say that the RM prices impact on you will also be lesser as compared to your peers?

Nitin Agrawal: Frankly, we have not compared how our competitors are going to get impacted but we will be impacted in the range of 0.5% to 1%

Sandeep Singh: If I can add to that Abhishek, you are aware that even though the APIs may be brought from India, there is always a component which is imported of key starting materials. So, somewhere it comes back.

Moderator: Thank you. The next question is a follow up from the line of Ashish Thakkar from Motilal Oswal. Please go ahead.

Ashish Thakkar: I was bit surprised when you said you expect some 0.5% improvement in EBITDA margin from FY18 levels, primarily because of the fact that you know we have currency benefits then we would also be having lesser OTC spends YOY plus there would be improving realization from our chronic segment as well. So I was bit surprised on your numbers, you feel that there are enough margin levers in the business or at current juncture you need to manage the…..

Nitin Agrawal: Definitely chronic is going to help us, but if you look at our contribution of international business, it is increasing every year. And there are some small amounts of pressure from pricing in US, so we have seen some price decrease in US, in say lower single digits, so all this consolidated impact may improve our margins by half a percent. That is why we expect that we should target a 0.5% increase in our margins from next year.

Ashish Thakkar: So, would it be fair to say that US business is EBITDA negative now again?

Sandeep Singh: It is not EBITDA negative, but if you compare with domestic definitely international business margins are lower as compared to domestic.

Ashish Thakkar: So compared to FY17, you feel the year we have ended FY18 we are better off at EBITDA, that is a fair assumption?

Sandeep Singh: No. You are talking about FY18 or FY19?

Ashish Thakkar: The year gone by Fiscal 18, if I compare the Fiscal 18 with Fiscal 17 you feel we have improved on our margin profile in the US business?

Sandeep Singh: No, I will not say that because there were pricing pressure in US. So our margin maybe lower by 1% or 2% but we have not improved our margins like other companies.

Ashish Thakkar: What is your view on the pricing scenario in the US? You feel the channel consolidation might be in its last leg?

Amit Ghare: The answer to that is, yes. They cannot go beyond 100% is not it? To that extent, yes. But it continues to consolidate, so we keep getting news every other week of either someone joining the big three or one of the constituents of the big three acquiring something else. So the consolidation continues. That is here to stay.

Ashish Thakkar: Do you feel at some point in time there would be flattening of the price erosion in the US?

Amit Ghare: As of now, we can speak for what is now today. And today the headwinds continue from a pricing perspective. They have been there in the past and they continue right now. So that is all that I think we can speak off.

Ashish Thakkar: My second question is on the India business. So we had also taken price hikes, right? There is a mandate from something which is coming up from the government side where the non-scheduled drugs would also be linked to the WPI? How do you read this situation?

Satyen Manikani: This would be negative for the industry, but I think it is speculation right now. So for me to comment on it, it would be unfair right now.

Ashish Thakkar: But typically, would any of the Indian pharma company would take a hike which is like in excess of 7% or 8% because I was wondering that since the DPCO portfolio would have like 3 to 3.5 based on WPI index. Would the non-DPCO portfolio would also be in similar lines?

Satyen Manikani: We cannot comment on that honestly. No, but whether the company take it or not is a question, either companies will take 7% to 8%. I think it depends on competitive scenarios and lot of other factors not just what government allows you. So for me to give a blanket answer what industry might do, I think I will not be in a position to tell you that.

Ashish Thakkar: For our company, how are we placed?

Satyen Manikani: Generally, we go for price hike for all the products which are not under DPCO. So we look at the competition, we look at the price luxury of the product and based up on that we take a call. But you may take say 5% to 6% price hike on a overall basis for domestic products including the DPCO products also.

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

Chirag Dagli: FY17 annual report suggests about Rs. 190 crores of imports, Is this largely from China?

Sandeep Singh: Yes, by and large.

Chirag Dagli: And this would have naturally increased in FY18 in line with increased Volumes?

Sandeep Singh: Yes.

Chirag Dagli: Is there any dramatic availability issue that you are suffering given that you are present in some of these large volume products?

Sandeep Singh: So, there are some constraints, but I would not say dramatic or something like alarmed off as of now. End of the day, China is also very entrepreneurial country. They find out ways to do things, so initially some constraints but it has been managed so far and I think in the future also it would be.

Chirag Dagli: Have you split out the domestic business between branded and generic generics?

Sandeep Singh: We do not give numbers on that but we do have a generic-generic component which we have to sit in the past as well.

Chirag Dagli: This business in terms of whatever is happening in terms of trade margins etc, at some point there will be a part of your branded business which is getting impacted by others generic-generic business. When you sort of think about this business, do you think this will be a net positive for you, if by regulatory action this business is not viable for you as well as our competitors?

Sandeep Singh: I think that is a very tough question. I will speak about what we do. Normally, wherever we have a prescription brand, we kind of avoid doing generic-generic business. That is how we take care of ourselves. But I understand your question is what if all the industry pulls out.

Chirag Dagli: Yes, so for your branded business also somebody else must be doing the same thing. So then you would benefit being a large well-known brand, I do not know what your thoughts are in terms of the whole industry sort of gives up on this and will this be a net benefit for Alkem or will this be a net loss?

Sandeep Singh: No, it could benefit us honestly. The whole industry pulls out at the same time and at the same conditions but those are more fantasies I think right now.

Chirag Dagli: Last question. Of the Rs. 600 crores CAPEX and possibly of the Rs. 675 crores that you have done in FY18, what part of this would be for the US market?

Sandeep Singh: We have spent substantial for our US requirement and basically facilities at Daman and expansion at Baddi as well as in US also. So reasonably big size it has gone for our US requirement.

Chirag Dagli: More than half of this CAPEX last 2 years or rather FY18 and FY19 would be towards the US. Is that a fair assessment?

Sandeep Singh: I will take 675 somewhere around.

Moderator: Thank you. The next question is from the line of Surjeet Pal from Prabhudas Lilladher. Please go ahead.

Surjeet Pal: Could you please tell me what could be the impact of the new GST in our regulation where our saying is that when companies are giving any kind of freebies to the distributor or additional things under the same price plan, it will attract additional GST. So will that also impact the margin going forward?

Rajesh Dubey: Currently we are not charging GST on our free bonus quantity. You are referring to today's newspaper clipping. We need to do study on that. And whatever companies and our peers, as well as we also on bonus quantity GST was not charged

Surjeet Pal: Second point is that if I evaluate Alkem's business, Domestic versus US, and given the current scenario in US the competitive scenario, the price erosion and Alkem is not making much out of it vis-a-vis with our domestic is earning. Do you think Alkem is better off without US going forward given the current economic scenario in the US?

Sandeeep Singh: No. So to answer it straight, I do not think so Alkem is better off. And there is no hesitation on our strategy. US and India, both are very important and Alkem will continue to invest in it.

Moderator: Thank you. The next question is from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.

Aditya Khemka: Sandeep, if I can ask you on the EBITDA margin that you said could be marginally higher than what you reported in FY18. So what are your underlying assumptions in terms of to what happens to let us say Mycophenolate in FY19 and also do not you think it is a bit conservative and understanding that in FY18 you had a quarter which had the GST disruption there that was brought off destocking margins were meaningfully lower?

Sandeep Singh: I think you are asking why are we guiding lower margin expansion or the reverse, Aditya is your question?

Aditya Khemka: No, my question is that if you are guiding 0.5% sort of an improvement in margin, then what are you assuming for Mycophenolate as you were the solo supplier in this year? What is your assumption for next year?

Sandeep Singh: So on Mycophenolate suspension to break that question, so this part we are not assuming any new entrants. That is our assumption in FY19.

Aditya Khemka: And then so that part remains intact, then in FY18 you had a quarter where you had a GST disruption which led to you to report much lower margins and in that GST quarter and then in FY19 you will not probably have any such disruptions, so ideally your margin should have improved much more than 0.5%?

Sandeep Singh: I think in the last conference call also we discussed this and I know lot of you might find it surprising why are we guiding such a small expansion but do not forget that we have some pipeline where we have increased filings from 13 to let us say 19. This year also we will try to stick to it and may be do some complex products and so we just want to have flexibility. We have also expanded some capacities as you know. So taking those into picture, I think I am not comfortable giving a higher guidance on that honestly.

Aditya Khemka: On your guidance of 8 to 10 or whatever higher single digit approvals in US for FY19, what is the outcome that you have assumed for Daman facility from the USFDA side?

Amit Ghare: So Aditya, I do not want to get into specifics, but as you know 50% of our remaining ANDAs, they are equally from both the sides. So obviously we will assume higher number form Baddi. We also have licensed products and of course we have Daman products as well. So it is an overall mix that we have assumed. Last fiscal we obviously got 13 approvals. For the next year in that sense you can say we have assumed lower than what the actual for this year has been. But our guidance overall continues to remain in that 8 to 10 number, higher single digit number.

Aditya Khemka: Lastly, if I may on the cash flow that we are generating, the free cash given the CAPEX and given the quality of the India business, what are the reinvestment plans? So I understand the CAPEX number is there, but despite that you will have free cash flow, so what is the plan of utilization? Are you looking at any inorganic opportunities? Are you looking at giving it back to shareholders as buyback, dividend? What are you thinking of?

Sandeep Singh: We are not thinking anything very different from what we have said. We will give dividend close to 20% to 25% of our PAT. There is no question of buyback. I think it is a little premature for that. And we have invested recently a lot in US, so we will just wait for those investments to come back and if ever the cash accumulation is let us say substantial I think then we can think of those questions. A valid question but currently I do not think so we have so much surplus cash that we have to worry about. And no acquisition plan or anything like that.

Aditya Khemka: On the India business side, obviously chronic you said will grow faster, and then the chronic market. But on the acute side are you anticipating entering new therapy areas or do you want to go in the therapy areas with your currently present to beat the market?

Satyen Manikani: So on the Acute side, our focus is going to be on gastro, because gastro is one area where there are lot of areas which are unexplored in terms of sub segments. So apart from consolidating our presence in anti infective segment, we have gastro as our priority.

Moderator: Thank you. The next question is a follow up from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: One clarification about R&D. How do we look at R&D spend for FY19-20? Could it be in the 5.5% to 6% range or higher or lower?

Sandeep Singh: I think Yes, 6% assumption is a pretty decent assumption even for FY19-20.

Neha Manpuria: And second on the India OTC business since you have completing close to a year for the product launches that we did last year how have you seeing this scale up and how should we look at new product launches for the next let us say in the medium term? Would we still see the same pace of launches that we have seen last year or probably wait for these to ramp up and then launch new products?

Sandeep Singh: Yes, so Neha, honestly, we will wait and watch because last call also I had said we will have to test the waters a little bit. So there is no expansion or any major thrust on OTC compared to what we have done in the last. So there is not going to be any new launches in the next few quarters. We will watch out, we will go little slow there.

Neha Manpuria: And any reason for that because it seems like that is a fairly sticky business not as regulated, does not have the same kind of disruption and your domestic branded business could have and you could probably you look at capital allocation towards that business. Does not it make sense to be a little more aggressive in that business?

Sandeep Singh: Absolutely right but we will have to recalibrate the kind of products you want to do because if you see what products we have done these are not strictly pharma OTC kind of products. So we will have to relook at the portfolio and if at all what you are saying is right but the products have to be different. So we will have to kind of wait and watch we set our mindset and then look at it again.

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

Prakash Agarwal: Question on the US business actually. So Very strong growth, I can see you had some very good approvals. Of the approvals this year in the last six, nine months like as azelastine, esomeprazole, minocycline. What are the few large ones which we have launched in the last three, six months?

Sandeep Singh: Prakash, we do not report at product level internal numbers as you know. You will be able to see that in IMS. Most of the launches that we had we have been able to commercialize that. Let me put it like this and therefore if you recall in the last call we talked about getting approvals towards the fag-end of the quarter, quarter 3 that is and we said we are going to launch those and some of those were already launched when we had the call. And that is what has also resulted in to this growth.

Prakash Agarwal: So what I am trying to understand is that the current rate that we have achieved now would that be a function of launches bunching up and this can continue or there is some one-off element as well because we had a fantastic growth this quarter?

Sandeep Singh: So obviously there is no one-off element in a strictest sense of one-off but if you are asking me can we go 40% quarter-on-quarter the answer is not really. So there is a bunching effect, there is an effect of higher market share acquisition and of course there is an effect of new launches that we just talked about.

Prakash Agarwal: But we are good to grow on this base despite all the pricing noise and all those things?

Sandeep Singh: Certainly.

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

Gautam Roy: Got into the call slightly late. So just wanted to understand what is the source of pressure of margin and secondly given the pressures in the US business, does it make sense to even focus too much on that business and not focused your energies in the domestic business?

Sandeep Singh: So I think second question I can take. So there is another way to ask somebody asked before whether we should look at US. So we just have two businesses, two specific countries where we are focusing energies. So it is not that we are spread too thin and we need to choose between the two. I think very clearly we have to stick with both businesses both have their plus and minuses. But we have to build both businesses very clearly.

On the second part on the margin front I will leave this to Ghare to answer that on the US.

Amit Ghare: No, that was overall margin so let Nitin handle that.

Nitin Agrawal: Okay Gautam, actually we discussed in detail about the margin part. So there were few impacts on gross margin like higher contribution of international business, GST higher rate of indirect tax. So that has and this say one-off of Rs. 38 crores of write off or say revalidation we have done for real estate. So that has resulting to lower margin for the current year. So next year we are trying to reach back to our levels which we were at in 2016-17. So if you want any further details I can share with you.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. On behalf of Motilal Oswal Securities, that conclusdes this conference. Thank you for joining us and you may now disconnect your lines.