



“Alkem Laboratories Q1 FY2017
Earnings Call”

August 12, 2016



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*Alkem Laboratories Limited
August 12, 2016*

Moderator: Ladies and gentlemen good day and welcome to the Q1 FY2017 Alkem Labs earnings 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 Sir!

Kumar Saurabh: Thanks a lot. Hello good evening everyone and very warm welcome to Alkem Labs Q1 FY2017 earnings call hosted by Motilal Oswal Securities. On the call today we have representing Alkem management, Mr. Prabhat Agrawal, Chief Executive Officer, Mr. Rajesh Dubey, Chief Financial Officer, Mr. Amit Ghare, President International Business, Mr. Satyen Manikani, Vice President, Business Development and Strategy, Mr. Nitin Agrawal, AVP Finance and Mr. Gagan Borana, DGM - Investor Relations. I hand over the conference to Gagan to make opening comment and to take the call from here on. Over to you Gagan!

Gagan Borana: Thank you. Good Afternoon ladies and gentlemen and welcome to the Alkem Labs Q1 FY2017 earnings call. I am Gagan from the Alkem IR team. Earlier during the day, we have released our financial results and the same are also posted on our website. Today in this call we had the senior management team of Alkem to discuss the business performance and 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 that must be viewed in conjunction with the risks that our business faces. After the end of this call if any of your queries remains unanswered please feel free to get in touch with me. With this I would like to handover the call to Mr. Prabhat Agrawal. Over to you Sir!

Prabhat Agrawal: Thank you Gagan and once again good evening to everyone. I will use the presentation that we posted on the website of Alkem a few hours back. I will refer to the slide # 3.

The financial highlights for quarter one financial year 2017 for you to go through. This quarter our net revenue from operations grew by 20.7% to Rs.14579 million. If we break our turnover into domestic and international our domestic sales grew by 22.4% to Rs.1080 Crores. Our international sales grew by 14.6% to Rs.359 Crores during this quarter. I would explain more details on the sales front for both domestic and international in the subsequent slides.

If we move over to the next slide, which gives details about the margin achieved by the company in this quarter, the gross margin for the quarter was 60.3% as against 60.7% in the corresponding quarter of the previous year, which is a growth of 19.9%. The gross margins for the quarter was impacted by the impact that we felt from the NELM expansion and WPI induced price cuts



Alkem Laboratories Limited
August 12, 2016

which effected certain key brands of us. So the impact was much higher, but we were able to offset that impact through various other cost optimization programs and price increases on other product and operating leverage.

Our EBITDA margin grew from 17.1% to 18.6%, which is growth of 31.5% during the quarter. So if you look at it, in spite of these regulatory headwinds and various other challenges, we were able to deliver a very profitable growth, a growth which was accompanied by margin expansion of 150-basis point. Our profit before tax increased by 26.4% to 266.3 Crores during the quarter and our profit after tax after minority interest grew by 18.7% to 238 Crores during this quarter. All the quarterly financials for this year, first time is reported under Ind-AS and previous year's figures have been accordingly adjusted to that level.

If we go to next slide, which we give more details about our domestic business which represents close to 75% of our total sales. On the domestic business our growth was 22.4% for the quarter and we mentioned before that the quarter was impacted by various regulatory headwinds and specific to that was expansion in the NELM list, WPI led price cuts and further NPPA led downward price in some of our key brands that impacted both the growth and profitability for the quarter. If we look at the sales reported under IMS, our secondary sales grew by 10.6%, which is higher than industry growth of 8.6%.

I would like to also clarify this growth of 22.4% if we look this growth was also impacted to an extent by the accounting policy, which I mean is certain sales adjustments were made to recognize the impact of dispatches at the cut-off date, so basically certain sales for the previous year and this year reversed, because they did not meet the revenue recognition criteria and if you look at on in normalized basis, our growth was between 15% and 16% on the domestic sales.

Nonetheless, we continue to grow much beyond the industry growth rate. Our total prescription growth for the quarter was close to 25%. So sales growth was driven by a very strong prescription backing and a very strong execution. As we mentioned we will talk about more about therapy wise growth in our subsequent slides. If we look at anti-infective, which contributes close to 40% of our domestic business portfolio, we delivered an outstanding growth of 9.4% as compared to the segment or the therapy that grew only 3.3% during the quarter. Our gastrointestinal, which contributes close to 20% to our business portfolio in domestic segment, we grew at a rate of 14.6% almost double to what industry grew during this period. We continued to maintain our leadership rank in all these therapies. If you look down below on the bottom of the slide where we present the chronic therapy areas as you would recall, we had mentioned at various times before this is our thrust area for future and these are the areas we are looking forward for as a growth driver in the company.

We continue to deliver to impressive growth rate for example antidiabetic we grew at 22.9% as against the therapy growth rate of 15.8% and gained three ranks in this therapy area. Same with neuro and CNS we continue to grow at 22.7% against market growth rate of 11.2% and similarly



Alkem Laboratories Limited
August 12, 2016

for cardiac and derma, of course derma growth were a little bit subdued. We did certain restructuring in the previous year, but we are confident about recovering the growth as we move along in the subsequent quarters.

I will hand over to Mr. Amit Ghare. He will take you through the US International Business in the subsequent slides.

Amit Ghare:

Thank you Prabhat. First let us talk quickly about our US business which is absolutely the key business as far as Alkem is concerned. So the US sales as a percentage of total Alkem revenues in the quarter that went by contributed to about 19%. During this quarter we also launched three products. These were launched towards the very end of the quarter. So we have really seen too many benefits coming from these three for the quarter; one of those was a license product as well, two were our own products.

During the quarter we also received three ANDA approvals, all of them were tentative. One of them, we will be able to launch in the subsequent quarter and the other one is an opportunity which will be for the next fiscal year, third one is slightly long-term opportunity. In terms of our cumulative ANDA filings we basically have 26 final approvals and seven tentative and our total number of ANDAs filed till date stands of 76 towards the end of the quarter.

For the other international markets moving on, the other international market witnessed growth of 24% year-on-year for the first quarter fiscal 2017 and they contributed 6% of the net sales. Our products are sold in more than 50 countries other than India and US and we witnessed some good growth in some of our key focus markets of Australia, Chile and Kazakhstan. Back to you Prabhat!

Prabhat Agrawal:

Of course we remain focused on delivering on our strategy and a very strong focus on executing this strategy and some of it you can see in the quarterly results that we are presenting to you. India sales you know our strategy in acute business is to further consolidate our leadership position and drive growth in our major brands. On the chronic side we are focusing to acquire market share through new product launches and prescription growth and you would see that in both these therapy areas we had been continuously executing the way we have planned and it is very well reflected in the results. Continuously we have been improving our productivity with a growth rate of 20%. Of course we not added significant manpower, so it has been more a productivity led growth and an expansion led growth. We continue to focus on R&D to accelerate our ANDA filings and of course we are open to strategic partnerships and collaborations to further enhance our capabilities and product portfolio for our key focused markets. I invite Mr. Rajesh Dubey he will take you through very quickly through the financials in the subsequent slides.

Rajesh Dubey:

Thank you Prabhat. I will take you through the financials. As Prabhat Ji mentioned this time we are presenting all the financials as per Ind-AS.



*Alkem Laboratories Limited
August 12, 2016*

Income from our operations is 14579 million against 12075 million of Q1 2016. So YOY growth is 20.7%. Gross profit 6790 million against 7331 million of Q1 2016 so growth on that is 19.9%. Gross profit margin it is 60.3% compared to 60.7 we witnessed in the preceding quarter. EBITDA is 2711 million against 2062 million of preceding quarter. So growth in EBITDA margin is 31.5%.

EBITDA margin percentage is 18.6% in this quarter against 17.1% of preceding quarter. Profit before tax it is 2663 million against 2107 million. So there is a growth of 26.4%. PBT margin is 18.3% against 17.4%. PAT after minority interest is 2388 million against 2011 million of corresponding previous quarter. So the growth is there 18.7%. PAT margin is 16.4% against 16.7% of the preceding quarter.

Earnings per share is 19.97% against 16.82% of the preceding quarter and total comprehensive income is 2434 million against 2043 million of preceding quarter. So there is a growth of 19.1%.

Now back to you Prabhat.

Prabhat Agarwal: The next slide just presents the shareholding pattern on the company as on June 30 with the promoter shareholding being at 66.8% and the balance is distributed between non-institutions and institutional shareholders. With this we end the presentation and we will open the floor for Q&A. Thank you so much for listening to the call.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Sayan Mukherjee from Nomura. Please go ahead.

Sayan Mukherjee: Thanks for taking the question. Congratulations on good growth. I have a few questions primarily on the domestic market. When you say 22.4% adjusted basis 15% to 16% is it like some sales, which were booked in the fourth quarter, is now booked in the first quarter? Is that what has happened?

Prabhat Agarwal: More than that you know there were some sales that were booked in Q1 of last year, which was after the cut off date so they had to be reversed, and it is going to come in the second quarter of last year. More than that there were certain sales that were booked in quarter one of last year which was after the cut off date so they had to be reversed and it is going to come in the second quarter of last year, so that reduced the base for the last year and same reversal for this quarter was significantly less as compared to that one, so that is why on adjusted basis we are seeing a growth of 15% to 16%.

Sayan Mukherjee: For the full year, you think 15% to 16% growth would be achieved?

Prabhat Agarwal: This is what we have always been striving for mid teen growth in the domestic market.



*Alkem Laboratories Limited
August 12, 2016*

- Sayan Mukherjee:** In terms of impact because of NLEM, WPI on the FDC, can you individually state what kind of annualized impact these three components have on your business?
- Prabhat Agarwal:** Annualized impact for NLEM was around I mean NLEM when I am saying it is consisting of three components. One is negative WPI impact then inclusion of new molecules under the new DPCO order 2015 and third is revising the prices downwards of the molecules that were there in 2013 order. Cumulatively all the three put together it is close to 4% to 5% of sales.
- Sayan Mukherjee:** Of the domestic sales?
- Prabhat Agarwal:** Yes.
- Sayan Mukherjee:** Okay and about FDC?
- Prabhat Agarwal:** FDC is representing close to 3% to 4% of our sales and on FDCs the growth rates are not as high as what we have achieved on non-FDC products.
- Sayan Mukherjee:** You continue to sell the products after the High Court has given a favorable judgment?
- Prabhat Agarwal:** I would not say that High Court have given judgment. They have just stayed the ban.
- Sayan Mukherjee:** You continue to sell those products in the markets?
- Prabhat Agarwal:** We continue to sell those products but then acceptability of those products have reduced in the market.
- Sayan Mukherjee:** The big brands which are expected to be impacted like Taxim AZ and Lencef, in terms of strategy what are you doing? I mean are you shifting it to the other brands and how far as we have progressed?
- Prabhat Agarwal:** We have backup strategy for all these products in expectation that the High Court may vacate the stay on the ban or give a judgment in favor of the government and we have backup plan in terms of alternative formulation, moving the product to other molecules.
- Sayan Mukherjee:** How far we have progressed there?
- Prabhat Agarwal:** We have developed the formulations, which is going to be launched in the market as and when we feel that the products will be withdrawn.
- Sayan Mukherjee:** I am just wondering is not it right to do now itself and rather than wait for the ban coming to?
- Prabhat Agarwal:** To be honest for FDC products there is a negative growth rate, which means that if we have delivered 15% to 16% growth that means growth on other products are much higher and which in



*Alkem Laboratories Limited
August 12, 2016*

fact means that the products are already shifting. There is already shifting to other brands. Satyen Manikani you want to add anything?

Satyen Manikani: As far as backup is concerned, we have already taken that factor into consideration and our R&D team has already working on the formulation approved by DPCO.

Sayan Mukherjee: My second point is regarding the margins we are seeing very good improvement in margins despite all these adverse impact of price control. So how far on that margin expansions path we have reached and how much more expansion you can see and also particularly on the acquired entity of Indchemie and Cachet where the margins are really very low there, so will that be possible to expand the margins there?

Prabhat Agarwal: Of course there is a continuous focus on expanding the margins and you have seen that in the last four quarter results also, the new DPCO order actually took away a little bit of thrust on improving the margins. But it is good 12 to 18 months back only we started working on various cost optimization programs, so these program are now yielding results and that is what is recovering the margins lost under DPCO.

Sayan Mukherjee: When I look at your profile it is a bit seasonal, so Q2, Q3 are generally stronger quarters, so you expect the margins even better in Q2 and Q3 then what you have been in Q1?

Prabhat Agarwal: Q2, as we said it is going to see the full impact of DPCO. Sayan as you know the list for ceiling prices kept on coming throughout the quarter, so all the molecules did not see the impact for the full three months of the quarter and they will see the impact in the Q2. The impact of DPCO will be felt even more in quarter two rather than in quarter one.

Sayan Mukherjee: Can you guide us some margin number as to how should we think about the margin for the full year, EBITDA margin?

Prabhat Agarwal: As we mentioned last year we had 17% odd margin we would always strive to sustain and further improve on that.

Sayan Mukherjee: Thanks a lot.

Moderator: Thank you very much. We now have the next question from the line of Prakash Agarwal. Please go ahead.

Prakash Agarwal: Thanks for the opportunity and congrats on good set of numbers. Question on India business, I understand you said that given the low base Q1 2016 growth is about 15%, 16% but this quarter absolute number remains. There is no one-off in this quarter right?

Prabhat Agarwal: No one-off yes, we said that at 15%, 16% the growth that we are talking about it is adjusted growth without any one off.



*Alkem Laboratories Limited
August 12, 2016*

- Prakash Agarwal:** Readjusted base of quarter one last year?
- Prabhat Agarwal:** Yes.
- Prakash Agarwal:** Okay and if I just take forward in terms of the DPCO impact which you said that has been felt not to full extent, what would be that impact like?
- Prabhat Agarwal:** That impact was close to 2%.
- Prakash Agarwal:** Close to 2%, so I am trying to understand the gross margin given that you talked about that Mega brands in all have done much better which had better margins. So what is really pulled back the gross margins because India business, which is higher gross, margins seen such as sharp growth?
- Prabhat Agarwal:** On the gross margins front as we mentioned before Prakash, we had done lot of cost optimization programs through a project that we were working in Alkem for the last close to 18 months now right. So lot of material prices, lot of speck optimization has happened and these are all coming into full force now.
- Prakash Agarwal:** I am saying why it is not increased as much it should have?
- Prabhat Agarwal:** Some of it was eaten away by the DPCO impact.
- Prakash Agarwal:** So largely it is the DPCO impact which results in a flattish kind of gross margins?
- Prabhat Agarwal:** Yes and the impact was significant.
- Prakash Agarwal:** You are saying impact is likely to be higher next quarter?
- Prabhat Agarwal:** Yes.
- Prakash Agarwal:** Just on the outlook side, we have seen sharp revival in the anti-infective and gastro side where you are key leaders if you could just give some colour how has been the off take into July and August?
- Prabhat Agarwal:** Without going into very specific month wise and forward-looking, everyone knows that the monsoon has been pretty good in the last two months and that has positively impacted the overall market growth rates and we being the leader in that therapy segment we would definitely benefit from it.
- Prakash Agarwal:** Amit on US, we have seen the high base of last year in the growth is kind of tapering, so what kind of growth with the new launches that you spoke about and the Crestor possible launch next quarter, how should we look the growth for the year?



Alkem Laboratories Limited
August 12, 2016

- Amit Ghare:** We would love to maintain the historical growth rates that we have witnessed, so obviously in this quarter as you rightly said we did not have any new product launch. We also had higher base last year especially because of one of the products where last year we got very good growth, but despite that the fact is that we have grown, we have grown at a decent rate on the existing portfolio I mean. So going forward with the new launches and the opportunities that we have, we think we will certainly be able to maintain a good rate of growth.
- Prakash Agarwal:** Have you seen any price erosion in any of our key products like Mycophenolate, Benzonatate?
- Amit Ghare:** See price erosion is always there in US market place. Price erosion for existing portfolio is a given, but we have not witnessed anything which is out of market front or out of place let me put it like that.
- Prakash Agarwal:** I am trying to understand what is leading to the growth, because we have not had new launches it came only fag end of the quarters, so is there any volume jump or market share gain we have seen across few products or what is leading to this kind of dollar growth?
- Prabhat Agarwal:** Essentially the growth is because of market share addition.
- Prakash Agarwal:** I have more question, I will join back the queue.
- Moderator:** Thank you very much. We have the next question from the line of Neha Manpuriya from JP Morgan. Please go ahead.
- Neha Manpuriya:** Thanks for taking my question. If I heard you correct you also mentioned that the slippages of sales into second quarter, which led to the lower base last year, was lower in this year. So is it fair to assume that our sales in the second quarter will be lower because of the higher billing in the first quarter and therefore margins could be lower than what we have done in the first quarter?
- Prabhat Agarwal:** If that was the only case but then there are various other factors that would also play in right. As we just mentioned about good season, good growths especially with the good monsoons the other growth factors that will come into play.
- Neha Manpuriya:** What you are trying to say is that 18.6% margin that we have reported is sustainable through the year?
- Prabhat Agarwal:** Neha this is not exactly what I said.
- Neha Manpuriya:** Let me rephrase my question Sir. What is this risk to this margin other than the DPCO impact, which will incrementally come through, because US performance is only going to improve going forward and if we are seeing 15% to 16% growth in India that should be more than able to offset the DPCO impact? Is that fair assumption?



Alkem Laboratories Limited
August 12, 2016

- Prabhat Agarwal:** The biggest impact that we expect to see is from DPCO on the margins this year, but then as we said before that we had put a lot of cost optimization programs in the previous year and as we realize the benefits of those programs we are trying to offset all the impact that we received from DPCO.
- Neha Manpuriya:** The second question on R&D, I saw that our R&D expense was good 5.5% of sales, but we did not really file any ANDAs in the quarter. Had this to do anything with the pending inspection of the Talaja facility and should we expect filing to pick up?
- Prabhat Agarwal:** This is only timing issue it is not related to any regulatory issues.
- Neha Manpuriya:** How many filing should we target for FY2017?
- Prabhat Agarwal:** As we have mentioned before Neha in previous calls also, we are targeting 12 to 15 filings in a year.
- Neha Manpuriya:** Thank you so much.
- Moderator:** Thank you very much. We have the next question from the line of Damayanti Kerai from HSBC. Please go ahead.
- Damayanti Kerai:** Thanks for taking my question. Coming back to India formulations again. Can you give us broad split of your India growth say like we are having this 15%, 16% kind of normalized growth or say like 20% on an sustainable level, so how much of that will be volume and how much price and new launch contribution?
- Prabhat Agarwal:** It is significantly volumes specifically in this quarter, because on the pricing front you know that we had impact on DPCO. So it is substantially volume.
- Damayanti Kerai:** Okay and substantially means we can assume more than like 70%, 80% will be driven by volume and remaining by price and the new launches?
- Prabhat Agarwal:** Yes.
- Damayanti Kerai:** Has your India chronic business achieved EBITDA breakeven levels?
- Prabhat Agarwal:** We are not giving EBITDA by individual therapy. Overall consolidated EBITDA as you know is 18.6%.
- Damayanti Kerai:** Just I am asking in terms that your major EBITDA contribution is coming from your India acute portfolio and recently US business has like achieved breakeven, so just in that perspective, just like it as achieved or not?



*Alkem Laboratories Limited
August 12, 2016*

- Prabhat Agarwal:** As we have mentioned before, both acute business and chronic business have different margin profiles. Acute has reached a certain level of scale, a certain level of productivity which of course the chronic business is yet to achieve, but with the kind of growth rate that we are witnessing we are also improving the productivity and margin levels in chronic business as well.
- Damayanti Kerai:** Can you give us FDA audit status of all facilities dedicated for US market?
- Prabhat Agarwal:** We have six facilities, out of which Baddi formulation was inspected last year July or somewhere, one facility in Daman is expected this year and in fact let me put it this way St. Louis, the formulation facility in US, Baddi, and one of the API facility in US were inspected successfully in 2015. One API facility in India, Mandva facility was inspected successfully in 2016 and one of our formulation facility in Daman and one of our API facility in Ankleshwar is expected to be inspected sometime this year.
- Damayanti Kerai:** Thank you very much.
- Moderator:** Thank you. We have the next question from the line of Ashish Thakar from Motilal Oswal Asset Management. Please go ahead.
- Ashish Thakar:** Thanks for the opportunity. We had acquired this long pharma and the corresponding manufacturing assets. So what are long terms plans we have been talking about filings of solid, semi solid and nasal formulation, so have we made any progress on the R&D front?
- Amit Ghare:** Yes Ashish we have started development of all these formulations. In fact we had started prior itself and now we are simultaneously taking batches at these sites. We also have some products which we sell in the US, which we get contract manufactured outside, so those also we will try and bring into this facility and the new filings which I talked about. So that is a dual strategy that we have.
- Ashish Thakar:** But these are relatively in niche areas right as we had spoken early about this?
- Amit Ghare:** That is correct.
- Ashish Thakar:** So, we would see meaningful monetization of opportunity from this facility?
- Amit Ghare:** I am not sure what you mean by monetization, but yes can we see products getting commercialized from these facilities, I think it should be sometime next fiscal year that we could start with products which are already being sold in the US as I said so the site transfer for those and the new filings as you know take closed to two years to commercialization after filing.
- Ashish Thakar:** Got it, could you give us a more flavor on whatever 43 pending ANDAs that we have and broadly the composition as to how many FTF opportunities that we have and accordingly if you



Alkem Laboratories Limited
August 12, 2016

could help us understand what are the near-term opportunity that we are looking from FY2017 and FY2018 standpoint?

Amit Ghare: I can certainly speak for the next three quarters from product launch perspective. Overall 43 I think those which are pending obviously there are a lot of Para-IV's there, there are some FTF's there which obviously have longer gestation and then there are others which have near term commercial expectation. For the balance three quarters during the year we are expecting to launch another I would say four, five products at least bringing our total number for the fiscal year closed to 8 to 10 which is what the broad guidance we have had given earlier as well.

Ashish Thakar: So any meaningful opportunities of this four to five and your take on Crestor?

Amit Ghare: Okay two questions, so obviously the product that we are launching may have some meaningful things, but only time tells as you launch the product, so we are very hopeful in terms of getting commensurate market share let me put it like this. As far as Crestor is concerned we were not first filers, I think we had talked about that also earlier, so since the first filers have 180 day exclusivity our date of launch will now be November 1.

Ashish Thakar: So you will be expecting few other players along with you?

Amit Ghare: At the moment on the tentative approval side other than us it is only one more company which has only one strength, so that is the scenario that I had looked at couple of weeks back, but obviously as you know between today and November 1 there are still two and a half months to go, so there could always be more players.

Ashish Thakar: Sir of the four to five launches that you said would be doing it over the next three quarters, are there any date certain launches?

Amit Ghare: So Crestor certainly is a date certain launch, other than that I cannot think of immediately anything, Benicar would have been, but most likely Benicar is going to receive 180 day exclusivity, so it is going to go into the next fiscal year for all of us.

Ashish Thakar: Last question would be on R&D where are our most of the resources channelized in terms of, are we still focusing on Para-IV opportunities, we are also thinking of some complex generic products?

Amit Ghare: We always have a mix Ashish, so we always have Para-IV's, we always have first to file, we always have niche products, we always have blockbusters, so it has to be a mix of everything. If we only focus on Para-IV's and FTFs we will have no near launch opportunity.

Ashish Thakar: That is all from my side. All the best.



Alkem Laboratories Limited
August 12, 2016

- Moderator:** Thank you very much. We have the next question from the line of Abhishek Sharma from IIFL Wealth Management. Please go ahead.
- Abhishek Sharma:** Thanks for taking my question. Sir I just wanted to understand what is the reversal that you saw in this quarter because of which you had to adjust your India numbers?
- Rajesh Dubey:** Abhishek, reversal what Prabhat referred when we see Q1 of 2016 our invoice, at the date of cut off where delivery has not happened or as per accounting standards where we cannot book revenue those are shifted in Q2, so obviously Q1 of last year we still has got shifted to Q2 which if we see current quarter of 2016-2017 even though revenue recognition is there also, but that shift is not of that volume that is the reason why growth is looking on higher side and if that is adjusted normalize growth it comes 16%.
- Abhishek Sharma:** Fair enough, but we do not see it other Pharma companies Sir, is it that, I do not know when some systems need to be put into place or?
- Prabhat Agarwal:** I think it happens in every company, the cut off procedures are observed and when you have a delivery where the risk and reward has not been passed on to the customer then you cannot recognize that as an our revenue, it happens in both domestic and international business for most of the company. The systems are good in place, the systems are even more stronger this year, last year we were not even listed, so we were privately held company and we were not reporting results every quarter, so of course more stringent systems have been put this year and that is why the reversal are much lower in this year compared to last year.
- Abhishek Sharma:** Sure and my other question is to Amit, so you said this quarter basically the US gained on account of volumes. Did it come at the cost of margins?
- Amit Ghare:** I do not think so, we do not report margin separately Abhishek as you know, but I can tell you that it did not.
- Abhishek Sharma:** Thank you.
- Moderator:** Thank you very much. We have the next question from the line of Prakash Agarwal from Axis Capital. Please go ahead.
- Prakash Agarwal:** Thanks for the opportunity again. Sir what was the corresponding number for R&D Q1 fiscal 2016?
- Prabhat Agarwal:** 3.6%.
- Prakash Agarwal:** Perfect and just a follow up on the previous participant in terms of filing and development I did hear about the development work have started for semi solid and other niche areas like topical. When do we start filing for these?



*Alkem Laboratories Limited
August 12, 2016*

- Prabhat Agarwal:** Sometime later this year or more likely from next fiscal onwards.
- Prakash Agarwal:** And the nasal product has been filed yet or is about to?
- Prabhat Agarwal:** One has been filed and others may be under development.
- Prakash Agarwal:** Second question for Mr. Rajesh on the financials, what was the cash position as on the quarter and the capex we have done for the quarter?
- Rajesh Dubey:** Our capex was somewhere close to Rs.80 Crores. In fact it was somewhere Rs.80 Crores or Rs.85 Crores and cash position we have around Rs.760 Crores cash available with us.
- Prakash Agarwal:** So is there any thought in terms of as you mentioned in your opening remarks about some acquisition of some brands in chronic?
- Prabhat Agarwal:** So we are always open to looking at opportunities and we continuously evaluate opportunities.
- Prakash Agarwal:** This would be largely India focussed acquisition?
- Prabhat Agarwal:** India as well as international.
- Prakash Agarwal:** If you could just help us know, you had a portion of generic generics in the India business, how would that have grown?
- Prabhat Agarwal:** That is also growing well, Prakash.
- Prakash Agarwal:** Could you just give a very broad breakup of the acute, chronic and generics as it stands today?
- Prabhat Agarwal:** So we have not given that kind of breakup in our results, so it will not be fair for me to give that kind of breakup, Prakash.
- Prakash Agarwal:** Thank you.
- Moderator:** Thank you very much. We have the next question from the line of Sayan Mukherjee from Nomura. Please go ahead.
- Sayan Mukherjee:** Just one question on US launches, Sir you mentioned four to five launches in the rest of the year, so out of this 43 pending over the next three years how many likely to be commercialized, let us say by FY2019?
- Amit Ghare:** I would expect about three-fourth of that to get approved and majority of that to be launched.



*Alkem Laboratories Limited
August 12, 2016*

- Sayan Mukherjee:** And when you look at the value of those assets I do not know whether you have shared, can you share the size of the pending ANDAs?
- Amit Ghare:** The size that you know, Sayan it could be in multi billion dollars because some of these are under patent as you know and therefore size is always is very large.
- Sayan Mukherjee:** Sir in terms of the revenue potential of these launches compared to what you are doing currently how should we compare it?
- Amit Ghare:** Let me put it like this, I mean again we have not given any guidance, but let me put it like this that currently we have close to around 22 to 23 products in the market. We are basically talking about launching a similar number over the next two years and the balance of this fiscal, so if we do a good job in terms of market share on a similar basis and at the broad average ANDA output then I think we are looking at going double basically.
- Sayan Mukherjee:** You licensed one product this quarter as well, so what is the strategy there in terms of licensing in ANDAs?
- Amit Ghare:** Well the strategy remains the same as we have discussed always while our own filings are 12 to 15 every year wherever we have gaps in our portfolio either because of capabilities or because we cannot take it up based on our bandwidth, we always look to see if we can license such product from other third parties.
- Sayan Mukherjee:** One last question again on the US in terms of selling it to third party, do you do that business and does it make sense for Alkem?
- Amit Ghare:** We do not do that business Sayan. All the products we in license, we do not out license.
- Sayan Mukherjee:** Thank you.
- Moderator:** Thank you very much. We have the next question from the line of Prakash Agarwal from Axis Capital. Please go ahead.
- Prakash Agarwal:** Thanks for the follow up again. First of all congrats on this Taloja Facility getting nod for 483 for R&D facility just if you could help us to understand what is the status with the other European regulators?
- Amit Ghare:** UK MHRA we have received final inspection report and it is cleared and EMA as you know we have published before that one of the product has continued to retain the marketing authorization, we submitted an alternative B report to them and one product they asked us to withdraw the marketing authorization, but it was suspended.
- Prabhat Agarwal:** Suspended, but that product was not commercialized.



*Alkem Laboratories Limited
August 12, 2016*

- Prakash Agarwal:** So is it like, it is cleared from all regulatory perspective?
- Amit Ghare:** Yes, you can say that.
- Prakash Agarwal:** Thanks.
- Moderator:** Thank you very much. We have the next question from the line of Ashish Thakar from Motilal Oswal Asset Management. Please go ahead.
- Ashish Thakar:** Thanks for follow up. Just one question on the biosimilars, what are our plans here and how are we planning to move ahead with this?
- Prabhat Agarwal:** Ashish, as we mentioned before we are investing in biosimilar, we are investing in the development of biosimilar products from our R&D facility in Pune, but we are still sometime away from commercially launching them from our own portfolio, we are selling some biosimilars, but they are all in-license from third parties.
- Ashish Thakar:** So the strategy would be to go into the emerging markets first and then the developed markets?
- Prabhat Agarwal:** Will start with India and then will take on other countries.
- Ashish Thakar:** Broadly whatever eight or nine molecules that you have in the development stages based on the development stages, what is your thought process, you are seeing FY2019 is the time where you know we should be actually talking these products?
- Prabhat Agarwal:** Yes we should be launching some of them prior to that event.
- Ashish Thakar:** Prior to that event. Thanks a lot Sir.
- Moderator:** Thank you very much. Next question comes from the line of Ankit Sancheti from Kotak Securities. Please go ahead.
- Ankit Sancheti:** Sir, just one clarification you spoke about the sales growth rate to be around 15%, 16% compared to 22%, 24% reported, just wondering on the cost side, do we need to adjust something on the cost side in terms of margins, which might be there, which might have got removed in Q1 last year?
- Prabhat Agarwal:** When cut off process is applied and sales is getting shifted to next period, of course it is going along with cost also, so it is automatically adjusted.
- Rajesh Dubey:** At the gross margin level, most of the costs get shifted, but of course some of the operating cost stays.



*Alkem Laboratories Limited
August 12, 2016*

- Ankit Sancheti:** Okay, so the cost stays, I mean there is no adjustment?
- Rajesh Dubey:** I mean at the operating.
- Ankit Sancheti:** Whatever adjustment, it is all being taken care at the gross margin level?
- Rajesh Dubey:** Yes.
- Ankit Sancheti:** Thanks a lot.
- Moderator:** Thank you very much. We have the next question from the line of Damayanti Kerai from HSBC. Please go ahead.
- Damayanti Kerai:** Thanks for opportunity. Can you give us outlook for capex and tax rate for this year and FY2018?
- Prabhat Agarwal:** This year we expect our effective tax rate to be in the range of 12% to 15%.
- Damayanti Kerai:** 12% to 15% and for capex?
- Prabhat Agarwal:** Capex, it will be around Rs.500 Crores.
- Rajesh Dubey:** This year, every capex year, we are expanding, you know the sunset clause in north eastern states coming around the corner, so we are investing in expanding the facilities there and take benefit of extending our fiscal benefit, so one of the reasons for high capex this year.
- Damayanti Kerai:** So this Rs.500 Crores kind of level will sustain right, at least in near term?
- Prabhat Agarwal:** We do not see the same level of capex in next one to two years, but of course we are continuously evaluating our demand versus capacity situation and as it requires we would make the right investments.
- Damayanti Kerai:** Thank you.
- Moderator:** Thank you very much. At this point since we have no further questions, I can now hand the conference back to the management for any closing comments.
- Prabhat Agarwal:** Thank you. Thank you so much for attending this call and as we made a great start to the year with a good set of numbers and we hope to continue the same momentum going forward. Thank you once again for joining the call.
- 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.