"Alkem Laboratories Q4 FY2017 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Alkem Laboratories Limited Q4 FY2017 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 Sir!

Kumar Saurabh: Thank you. Hello everyone. We welcome you all on behalf of Motilal Oswal Securities. Today from the Senior Management team of Alkem we have with us Mr. Prabhat Agrawal - Chief Executive Officer, Mr. Rajesh Dubey – Chief Financial Officer, Mr. Amit Ghare – President International Business, Mr. Nitin Agrawal – AVP, Finance, Mr. Gagan Borana – DGM, Investor Relations. Gagan over to you for opening remarks.

Gagan Borana: Thank you Saurabh. Good evening everybody and thank you for taking out time and joining us for the Alkem Laboratories Q4 FY2017 earnings call. I am Gagan Borana from the Alkem IR Team. Earlier during the day we have released our financial results and the same are also posted on our website. Today in this call we have the senior management team of Alkem to discuss the business performance and outlook going forward. Before I proceed with this call I would like to remind everybody that 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. After 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 hand over the call to Mr. Prabhat Agrawal. Over to you Sir!

Prabhat Agrawal: Good evening everyone. I hope you have been able to download our presentation from our website, which we uploaded sometime back. I will take you through the slide #3 on the presentation.

Before we get into the quarterly discussion on the results and the performance, I will try to highlight for you and I will try to put in front of you some of the highlight for the quarter and for the year as well. If you look at financial year 2016-2017 was quite challenging year for the entire pharmaceutical industry in India.

There were price cuts determine by DPCO, some of the ceiling prices were revised down by the government, there were negative WPI inflation and there were 2% cut in the prices that had to be done for all the scheduled products. Apart from the government action on demonetization in November of last year, which also had an impact an overall market forces. However, in spite of these challenges and also related to uncertainty about GST rates and timing, we still delivered a very good growth rate, mid teens. We delivered in India growth of 15.6% for the full year through our robust strategy and strong execution. The growth for the quarter was 7% for India business.

In US we continued to file 14 ANDAs during the year with US FDA and we received 9 approvals during the year including four tentative approvals. During the year the company launched 7 products in US - out of 7, 5 were from our own portfolios and two in-license products.

Company also identified OTC as a great opportunity and we made certain investments in the fourth quarter of the year. We believe this is a very attractive market opportunity and given the vast distribution network of Alkem and is capability to built market-leading brands it presents good opportunity to leverage our stance.

We further improved our margins during the year in spite of pricing pressure in India as well as US. The Company delivered 15.9% growth company with margin expansion. EBITDA margins went up albeit a very marginal increase though but still have increased.

During the year we completed three inspections at Daman, Baddi, and Ankleshwar and all of these facilities are current, which shows the Company strong commitment towards the quality and compliance.

We made an investment of close to Rs.627 Crores given huge ANDA pipeline that we have in front of us which we want to commercialize as they receive approvals. So we are preparing the right capacity to make sure that we are able to sell in the market once approvals are received. Company remains financially very healthy with the net cash of close to Rs.720 Crores on company balance sheet as at March 31, 2017.

I will take you through the next slide. Key numbers for Q4 as we said total revenue growth was 9% from Rs.11.4 billion to Rs.12.5 billion. Domestic sales grew by 7% during the quarter and international sales grew by 14.5% during the quarter. We will get into the details of these growth rates in subsequent slides.

We go to the next slide, our gross margins improved further from 62.5% in the last year to 63.2% during the year in spite of having pressures on pricing. We have been if you look at for the last year to nine quarters continuously we have been able to improve our gross margins and this is primarily coming from the better products mix that we have been able to sell.

EBITDA were more or less flat compared to 1.5 billion we delivered EBITDA of 1.49 billion small decline of 4.2%. Of course the sales growth was not that good for the quarter and consequently our EBITDA margins traditionally fourth quarter of the year is not a strong quarter for the Company as a whole and inline with that EBITDA values are more or less flat.

Profit before tax was 1.36 billion for the quarter as compared to the 2.25 billion for the previous year and there are certain one-off adjustments related to Ind-AS adjustments. This is the first year when the company prepared the results under new accounting standard of Ind-AS and based on those standards in the previous year we recognized close to 540 Million as fair value adjustment for real estate investments that the company did so it increased the base of the last year.

Our profit after tax increased by 58.1% to 1.3 billion as compared to 867 million last year primarily there was also one-off the item in the last year. Last year we had taken a MAT right off of 834 million and this year as the government announced in the latest budget, the MAT utilization period was increased from 10 years to 15 years and that has helped us and we continued to recognize MAT credit in our balance sheet.

We will go to the next slide. The overall financial performance and key numbers for the financial year 2017 as we said revenues grew 15.9% for the full year, gross profit margin increased from 61.1% to 62%. Our EBITDA margins improved from 16.9% to 17.1% in spite of all the price challenges that we discussed before.

Our profit before tax was 9.64 billion as compared to 9.28 billion but as we said before the last year included certain one-off items like Ind-AS adjustments on fair value recognition of real estate investment and also profit on sale of certain brands that we did last year.

Profit after tax increased by 20.3% from 7.4 billion to 8.92 billion. We had a pretty good low effective tax rate during this year based on the investments that we have made in tax-exempt zone and R&D investments that we are doing. EPS per share remained at 74.61 as compared to 62.02 per share in the last year.

In the next few slides, we will discuss a more about the India business. India business for Q4 was 7% growth, which is if you look at our annual growth on India business was more close to 15.5% so this quarter was a little muted quarter in terms of growth and there are two prime reasons for that. One of the reasons was lower growth in the anti-infective market as a whole, which we will show you in the next slide and the second is the impact coming from the demonetization. One of the segments of the Company was impacted by demonetization which serves mainly in the interior markets and where there were payment delays and to strengthen and streamline our working capital we kind of limited risk in that area.

For the year if you look at IMS data we grew faster than the market. The market grew 9.1% while we grew 11.4% as reflected in the IMS database even though as per our reported numbers we grew 15.4% against the market growth of 9.1%.

We will go to the next slide, which we will present the therapy wise growth rate both for Q4 and then for the full year. If you look at our therapy wise performance in every therapy that we represent we have been either able to maintain our ranks or able to improve our ranks. So for example in anti-infective we were No.1 company, gastro No.3 company and everywhere we have been able to deliver a growth rate, which is higher than the therapy growth rate. If you look at anti-infective where the market degrew 4.5%, our degrowth was lower than the market degrowth. This de-growth impacted overall growth rate for the Company as a whole for the quarter.

If you look at anti-infective contributes close to 40% of domestic revenues and this is where the market degrow significantly impacts our growth rate overall. Gastro-intestinal which contributes close to 20%, we grew better than market. Pain management we grew better than the market. Vitamins/minerals/nutrients we grew better than market and in the chronic therapy area which remain our key growth drivers as we have discussed many times before we have been able to grow almost twice the market growth rate. We see neuro/CNS we have been able to grow at 17% against the market growth rate of 8%. Dermatology we improved our ranks and we grew 26% as against market growth rate of 18%. Cardiac we improved our ranks by 2, we grew 16% against the market growth rate of 6.7 and anti-diabetes we grew 31% against the market growth rate of 18.4 as growing our ranks by four places in anti-diabetic area, but the overall growth rate was severely impacted by degrowth in anti-infective for the quarter.

If you look at our performance therapy wise for the full year as a whole it is a similar story. We maintained our fifth rank in the IPM. Again anti-infective we remained No.1 we deliver 9.4% growth as against 4.8% industry growth. Gastro we grew 14.2% against the 8.5% of the market growth. Pain 12.8% versus 7.8% and similarly if you look at chronic areas we grew CNS 19.3% versus 10.2%.

Derma is one area where our growth rate was very close to the market growth rate but if you look at quarterly performance on derma we have improved significantly where we grew 26% for the quarter as against only 15% for the year. Cardiac we have been outgrowing the market and of course in anti-diabetic we have grown 27.5% against 17.6% and some of the chronic therapy areas we have grown our ranks in IPM. If you look at overall we are on course to drive a higher growth in chronic segment and we are further consolidating our market position in the acute therapy areas as well.

Another highlight for us is the investments that we are making in India OTC market. India OTC market is close to 15000 Crores and given the strong position that Alkem has in brand building and distribution leverage that we have in India, we will bring those strengths to market. These are product that we are currently selling in OTC segment, which we have identified as a key growth going forward.

We have a pipeline that we are planning to launch in the segment going forward as well. So I will hand over to Amit who will take you through the international business in subsequent few slides.

Amit Ghare: Thanks Prabhat. Good evening everyone. Quickly covering our US business for the quarter, Q4 of FY2017 sales in the US where Indian Rs.2.9 billion, which was 19.5% year-on-year growth. US sales incidentally contributed 23.5% to the total sales of Alkem consolidated.

Growth was essentially driven by market share gains in existing products as well as the new products that we launched during the year as we mentioned earlier we had 7 launches in the year.

Particularly talking about Q4 if you all recall we had guided that our total filing for the year, we had expected between 12 to 15 and I am happy to say that our R&D delivered finally. We submitted 14 ANDAs for the full year and Q4 was lumpy that 13 out of those 14 were actually filed in Q4.

We also received 5 approvals in Q4 including tentative approval taking our total approvals for the year to 9 including the four tentative. So as of March 31, 2017, company has total of 90 ANDAs and one NDA we filed with FDA having received 39 approvals. So the balance 52 our pending for approval.

The chart below essentially shows how the growth has been for the quarter and for the full year for the US business as I mentioned 19.5% growth for Q4FY17 and for the full year the growth was 21.5%.

Moving quickly on to the next couple of slides, quick update on our FDA inspections. Prabhat did mention it in the overall summary and all I just wanted to point here is that three facilities underwent inspection in last fiscal and for all those three facilities we are current with FDA. We have received all the EIRs and all six facilities of the company are current with FDA.

Moving to other international markets for Q4 witnessed a small growth 1.6% year-on-year and the business stood at Rs.946 million in total, which contributed or worked out to 7.5% of our consolidated revenues.

Our key markets during the entire fiscal Australia, Chile, Kazakhstan, Philippines did continue to show expected growth as we have focused on them and as we have guided in the past as well, essentially we are focusing on few select key geographies and that story or that strategy overall continue, so we are focusing on a few select markets and we will continue witnessing strong growth in those markets. Back to you Prabhat!

Prabhat Agrawal: Thank you Amit. In the next slide, we will just very quickly highlight key ratios and balance sheet items on consolidated basis. So return on capital employed remains at 21%, 22%, return on networth remains at 20%, book value per share of 374, networking capital days of 73, gross debt more or less remain as same as last year.

Overall the Company is a net cash company and we have total cash plus investments in the company is close to 717 Crores, which is like 200 Crores decline based on the capex investments that we did during the year as we mentioned in one of the earlier slides, so very strong financial record of the company, very strong and healthy balance sheet.

If you look at our strategy, which is consistently we have been following and very strongly following up for execution. India in acute therapy we are trying to consolidate our leadership position and as we quarter-and-quarter update you, you would see that every acute therapy area we have been building incremental market share.

The other growth lever for the company as we have spoken many times before remains the chronic segment and we have been trying to grow at least two times the market growth rates in these two market share acquisitions as well as new product introduction. To improve our field force productivity we are taking many initiatives to improve our field force productivity through a SFE program that we have build in the company, continued focus on R&D to accelerate ANDA filings for the US market and differentiated portfolio and of course we remain open to strategic partnership and collaboration to enhance capabilities and product portfolio for focused market. You would recall that we did one in licensing for the India market in terms of Tiger Balm that we reported couple of months back.

The overall shareholdings pattern remains more or less same as earlier. I have no more to talk about on that. Thank you so much for patiently listening to us and we can open the floor for Q&A.

Moderator: Thank you very much. Ladies and gentlemen we will now begin with the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. We take the first question from the line of Saion Mukherjee from Nomura Securities. Please go ahead.

Saion Mukherjee: Thanks for taking my question. My first question would be on the OTC segment. You talked about investment in OTC. Can you throw some light what kind of investment we are looking at manpower etc., and how do you see the profitability of this segment, will it add or dilute the margins in the next couple of years?

Prabhat Agrawal: Saion, this is Prabhat here. OTC segment as of now is not going to be a very big segment for the company as a whole. It is not going to have any dilutive or incremental impact on the overall consolidated position of the company. Of course if you look at segment itself it will take few years where we are going to build brands and hence we are going to pump in some money in mass media, campaign and advertising that is not going to be a very significant amount as compared to the overall investments that we are doing in the Company, Saion.

Saion Mukherjee: My second question was related to GST, what is the kind of impact you are seeing on ground and what kind of impact should we factor in for next fiscal year?

Prabhat Agrawal: I will try to give a little bit brief and then Mr. Dubey will join in an elaborate more. As everyone knows in Pharma industry that based on the new tax rates that GST counsel has declared the effective indirect taxes on Pharma industry has gone up, it is almost 2.5% higher tax rate, 12% versus 9.5% and of course that would have an impact unless and until we are able to increase the final prices or we are able to pass on this higher tax incidence to the consumers for which we have made through industry associations representation to the government to allow us to increase prices to that extent, so we are still waiting to hear from them, so overall it will have an impact, how much it would have would depend on how much prices we are able to increase.

Saion Mukherjee: How should we think about growth, I mean destocking, etc., is that something you are seeing?

Prabhat Agrawal: Yes I think this quarter would be challenging because there is an uncertainty related to GST how the credits would be reimbursed to the stockists, stockists do not want to be caught on wrong end of GST transition. So everyone is trying to maintain only minimum stock, which is required to fulfill the demand, so there is a bit of destocking going on in the industry and of course Alkem would also be impacted because of that.

Saion Mukherjee: My final question would be on US, any commentary on the pricing environment and how do you think about your base business going forward?

Amit Ghare: Sure Saion, so Saion obviously in terms of prices and business overall obviously the environment is challenging as you know, there are lot of headwinds for the industry overall mainly coming from I guess customer consolidation, so that is I think one of the primary reasons, for us. Obviously the impact has been lower in terms of deflation of prices, so we have been able to hold most of our prices, but in some cases it may have impacted our market shares. Having said that we have obviously compensated that through market share gains in the existing products and of course new product launches, so both those factors have been able to deliver the growth for us that you witnessed.

Saion Mukherjee: Sir just one clarification whatever you had anticipated the started of the year from contribution from new launches has that been in line with that your expectation or you saw the intensity high and therefore the contribution from these launches were materially lower?

Prabhat Agrawal: So honestly Saion we had guided that we will do higher single digit number of launches in the year, so we stuck to that, we actually launched seven products in the year in US, but some of it was unfortunately back ended for us, so in terms of total numbers our contribution came I would say a little more from the existing products than what we had expected versus new products.

Saion Mukherjee: You were earlier guided for doubling your revenues in the US in two or three years do you see in this environment it would be possible to achieve that?

Prabhat Agrawal: You are probably talking Saion when we had gone for our IPO. Yes I remember and we had talked about that with respect to doubling up our portfolio and saying that if we maintain our per ANDA average than that is how the math would workout, so what I can say as of now with our per ANDA average continues to be what it was historically a few quarters back, so that is all I can say, in terms of the approvals that way we get and if we are able to maintain our average we will certainly be able to deliver the numbers that we talked about.

Saion Mukherjee: Thank you.

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

Neha Manpuria: My first question is on the India business, if I look at market share on an annual basis in three or four big large segments we have seen market share come off in anti-infective and vitamin slightly, so is that the reason why growth has been impacted other than the degrowth like in the AI market itself?

Prabhat Agrawal: So where you are seeing market share decline, Neha?

Neha Manpuria: If I look at the market share data that you have given this year versus the market share data that you gave in the presentation the last year?

Prabhat Agrawal: If you look at everywhere growth is higher than the market growth rate, so that means we have increased the market share.

Neha Manpuria: Yes that is what I was just wondering if there is any other reason for the decline that you are showing presentation to presentation?

Prabhat Agrawal: No I need to check the last years market growth rate numbers, these all numbers reported in the IMS.

Neha Manpuria: I will probably check this offline. My second question was on the US. What sort of launches should we expect in this year, are we still seeing high single-digit or should that launch momentum pickup in line with their filings?

Amit Ghare: No, Neha we are still saying a higher single digit or we would say higher single digit for the current year as well.

Neha Manpuria: So when do we see this catch up in launches because obviously we have done quite a few filings this year with the approval time lag shortening, when should we start seeing an improvement in the launch momentum?

Amit Ghare: We are hoping it will be this year, but since you asked the question as to what to expect I think I answered by saying that by I think higher single digit this year.

Neha Manpuria: Okay and my last question if I look at our working capital there has been an increase in our inventory and receivables, any specific reason for that from last year?

Rajesh Dubey: Our inventory and receivable position it has gone up compared to March. We just wanted to have a larger inventory just to have opportunities and for our US operation of course inventory level is on higher side, it is intentional to take care of Q1 and Q2 requirements also.

Neha Manpuria: Okay, so given we are going into GST quarter that is why I was wondering how come the inventories are higher, but this is all intentional, which should normalize over the year?

Rajesh Dubey: Yes.

Neha Manpuria: Okay and my last question on margins, how should we look at that given the GST disruption?

Prabhat Agrawal: Neha, we are still to evaluate a complete impact that is going to come from GST right and as I told you the impact could be based on how we are sharing the impact, how much the company will retain, how much will be passed onto the consumers and how much will be passed onto the trade partners?

Neha Manpuria: No Sir I was more talking about from the destocking, etc., because if our India growth is lower would that limit our ability to actually improve margins into FY2018 irrespective of what happens to the additional cost associated with GST?

Prabhat Agrawal: GST you are talking about the destocking that only a short term right, so only for the quarter. We expect as long as we maintain our secondary sales position as long as we have enough prescription generation and enough customers in the market this transition phase is going to be a temporary phase only, whatever sales slowing down and it is only temporary phenomenon, once we get over the GST we would be able to recover backed growth.

Neha Manpuria: So then we should expect improvement in margins going to FY2018 would that be a fair assumption?

Prabhat Agrawal: This year as we told we will have certain challenges as we said overall how much impact on GST – it is not only for us for entire industry, the overall margins would also depend on how the GST impact is absorbed.

Neha Manpuria: Got it, okay. Thank you so much Sir.

Moderator: Thank you. We take the next question from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.

Sangam Iyer: Sir just wanted to clarify one thing is there any seasonality in the US business because I was of the opinion that since we are incrementally launching new products it is more like a step function in the initial stages for us in the US in terms of revenue, so the decline that we saw from Q3 to Q4 is there any seasonality or something that you could throw some light upon?

Amit Ghare: Sure Sangam we have said that in the past that we do have seasonality. We have a strong winter portfolio and therefore in the winter months, which is typically the Q3 the buy for the winter month obviously, so typically Q3 is our highest quarter as far as the US business is concerned.

Sangam Iyer: So that is why the dip that has happened there?

Amit Ghare: Sequentially we had said also in the last call that on sequential quarter basis Q4 will always be lower than Q3.

Sangam Iyer: Okay, but given that you had launches coming through in the second half, I thought that the ramp up of those launches would more than offset for the seasonality over there?

Amit Ghare: Yes, so the correct parameters there to look at year-on-year if we do comparison and there you saw we had 19.5% growth.

Sangam Iyer: One more thing since you alluded to the fact that the stockists, etc. are now not actually stocking in given the GST uncertainty, so would that mean that even in H1 which is typically Q1 and Q2, which are typically strong anti-infective quarters there we will actually miss the bus this year because of this phenomenon that is prevailing?

Prabhat Agrawal: Overall, this we said as long as there is continuous consumption of medicines in the market. We are reporting to you the primary sales as long as though secondary and sales is maintained. The impact is only going to be difference in Q1 versus Q2. The issue was Q1 to Q2 might change. You might see a destocking in Q1, but then it will be more than compensated in quarter two sales, that is what all of us are hoping for.

Sangam Iyer: Predominantly the margins will also move accordingly. There will be sharp spike post Q2 when the normalization of the business comes into what?

Rajesh Dubey: Margins go along with the sales. There is a lot of fixed cost sitting in the company based on we have close to 8000 overall people.

Sangam Iyer: One more question on the India business, given that this is more quarterly phenomenon, it will get offset in Q2, how should we look at the overall growth from India this year?

Prabhat Agrawal: Sorry, I did not get your question?

Sangam Iyer: I was just looking at could you throw some light in terms of what is a kind of growth that you are looking at from the India business this year given that GST is more quarterly phenomenon if not this quarter or the next quarter the sales are going to come back, so how should we want to be looking at the overall year-on-year growth from India?

Prabhat Agrawal: As we said Sangam, in previous calls also, we are always targeting for a mid-teen growth in India.

Sangam Iyer: Great Sir and all the best.

Moderator: Thank you. We will take the next question from the line of Cyndrella Carvalho from Dolat Capital. Please go ahead.

Cyndrella Carvalho: My question is on the US line, so I was just trying to understand if we look at our overall US portfolio with 90 ANDAs pending and if we look at the kind of US pricing pressure right now, what is your sense in terms of how should it look going ahead based on the consolidation in the shares and in terms of versus established players how is it for a fairly new player in the market to compete, so we just wanted to know your view on that?

Amit Ghare: Couple of answers. The first one is we do not have 90 pending, we have total 90 filings, so about 50 are pending Cyndrella, for your clarification. Now the other part your question really is that as I mentioned so far we have maintained our ANDA average in terms of per ANDA average, revenue average for the company, so essentially going forward yes there will always be challenges, there will be headwinds, there will be customer consolidation. At the same time, there is manufacturer consolidation also to some extent, which helps us. All I can say is going by the experience in the products that we are in our market shares in most of the product and most of our portfolio are commensurate with our date of entry or time of entry and number of players, so I will only go by history and our team capability and therefore we feel very confident that as long as things are similar for everyone which they are. We should be able to get our targeted market shares.

Cyndrella Carvalho: As we have seen the market share gain in existing products like how long do you think it is sustainable, is it normal phenomena that you can achieve in most of the products or there is something that you would like to specifically to achieve this keep achieving the market share again?

Amit Ghare: There will always be limit to how much you can gain market shares to be fair, so the growth essentially always comes from new products, because market share gain in existing portfolio to some extent gets offset by price deflation as well.

Cyndrella Carvalho: So, what is the average price erosion that you saw in this quarter in base business?

Amit Ghare: We have not reported that specifically. We do not report geography wise, but we certainly offsetted it that by market share gain.

Cyndrella Carvalho: Is it like the general practice that everybody saying around higher double-digit number or higher single digit number?

Amit Ghare: It is certainly single digit in terms of price deflation if you are asking?

Cyndrella Carvalho: Yes, I am asking about the price deflation.

Amit Ghare: It is higher single-digit is what I would say mid-to-higher single digit. This is for industry I am answering, I am not answering for us.

Cyndrella Carvalho: Yes, of course and in terms of the domestic market again the GST, another animal after demonetisation that we will be facing I mean the entire industry will be facing what we have generally observed there is a lot of destocking and we are saying that we will come back as the demand persists it will be deferment, but do not you think the trade is quite not certain with the kind of tax computations on the inventory that they will have to do, so do you think it will prolong for sometime? What is your understanding?

Prabhat Agrawal: Cyndrella, we are doing a bit to educate our trade partners, we are holding training sessions for them to make them comply and make them understand the procedural requirements under GST. Did you get what I said?

Cyndrella Carvalho: You are conducting some training sessions, but do you see any time the prolong hassle because of GST or do you think one quarter is what you should look at it?

Prabhat Agrawal: Once people have clarity on GST, once they understand and once they get into the GST mood, things will get back to normal. The Prime Minister of India and the Finance Minister of India is expecting great economic move from GST.

Cyndrella Carvalho: Similarly was expected by them also, any which ways just on the maintenance side, what will be the capex guidance for FY2018?

Rajesh Dubey: Capex will be somewhere around Rs.600 Crores in 2017-2019.

Cyndrella Carvalho: Thank you. That is all from my side. I will join back the queue.

Moderator: Thank you. We will take the next question from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

Nitin Gosar: You mentioned about the GST change in rates, overall indirect tax rate and the representation has been made to the government for increase in prices, this we are talking with regard to see products which are already covered under the NLEM or this we are talking about for the overall general pricing?

Prabhat Agrawal: We are talking about both on NLEM there is a price increase cap of WPI for non-NLEM it is 10%, so we are asking for commensurate increase on both the classes.

Nitin Gosar: The prices which are right now under consolidated are the products where the prices under control, you are asking for price hike only in that particular portion, but remaining piece is open for us to take a call?

Prabhat Agrawal: That feel was always opened for us to increase the prices up to 10% right, so we are asking the government to make it 10% plus GST versus existing tax different.

Nitin Gosar: Thank you.

Moderator: Thank you. We will take the next question from the line of Ashish Thakkar from Motilal Oswal Asset Management Company. Please go ahead.

Ashish Thakkar: Thanks for the opportunity. Since we have broken even in the US business, could you give some colour on the fixed cost component and the variable cost component and at what gross margin would there be operating leverage?

Rajesh Dubey: Sorry Ashish, we have not given any geography wise numbers apart from the topline.

Ashish Thakkar: Okay, no issues. How long-term we had this Lidocain launch right, we have launched product in the market?

Amit Ghare: This is not in the Q4 FY2017 Ashish.

Ashish Thakkar: FY2018 would reflect?

Amit Ghare: That is right.

Ashish Thakkar: Okay, in Baddi, we have this EIR coming through. There is a 40% of the pending ANDAs are from this facility, so how do you see and also basically what are your expectations in terms of ANDA approvals in FY2018 and how many do you plan to launch?

Amit Ghare: I will answer the last question first. So in terms of number of launches we have said higher single digit and in terms of approvals honestly facility was never a concern for us or never really a bottleneck for us. There was a brief period last year because of Daman that we were unsure therefore we had talked at that time that we do not know whether Rosuvastatin in particular approval was held up because of our facility but it turned out perhaps not to be true in any case. So as of now all our six facilities are current with FDA and from a facility perspective there is no bottleneck for approval.

Ashish Thakkar: Okay and finally on R&D like we still be investing a larger proportion of the planned R&D on the US, so that is right assumption?

Prabhat Agrawal: That is correct.

Ashish Thakkar: What are you guiding for in terms of R&D for the next two years broadly?

Amit Ghare: We have given guidance of around 6%.

Ashish Thakkar: For the next two years?

Amit Ghare: At least for next year, for the current year, sorry.

Ashish Thakkar: In terms of taxation since we have this facility coming up?

Rajesh Dubey: Our Sikkim old facilities coming out. It has already come out of that and this year it will be subject to tax, but we have gone for few more facilities there in Sikkim and those facilities there will be having tax benefit going forward also. We are not be able to use that facility completely, so going forward also till 2027, we have benefit of that advantage and that will be having.

Ashish Thakkar: So broadly FY2018, FY2019, how much tax could we assume?

Rajesh Dubey: FY2017-18, effective tax rate it will be on higher side, it will be somewhere close to MAT rate and FY2018-19, our estimate is will be somewhere in between 12% and 15%.

Ashish Thakkar: Finally last question on the capex, so Rs.600 Crores for FY2018, so broadly we will be going for expansion of manufacturing facilities or these would be largely investments in new therapies, you could broadly give us some?

Prabhat Agrawal: Largely it is for facilities.

Ashish Thakkar: Okay, US based facilities.

Prabhat Agrawal: Both domestic as well as for our exports also.

Ashish Thakkar: That was it from my side. Thanks a lot and all the best.

Moderator: Thank you. We will take the followup question from the line of Neha Manpuria from J.P. Morgan. Please go ahead.

Neha Manpuria: Just two questions. First, what is the filing targeted for this year similar to last year, should that improve?

Amit Ghare: No, we are again targeting same number Neha.

Neha Manpuria: Okay and my second on the ROW business that growth seems to have sort of come off in the recent quarters. I know it is not a very large part of our business but how should we look at growth in this business particularly given your commentary that your larger markets are doing well?

Amit Ghare: Again we are not guiding anything for the quarter or for the year, but on the overall emerging market side, what I can say is that we are focusing on a few markets like we guided last time also. So four of those we have named always and we may be exiting from some of the other markets, so that is the planned exit and that is what you sometime see which has affected for the growth. The focussed markets are certainly growing much faster than the growth that we report for the overall business and there are some markets that we are exiting and then there are some B2B businesses that we are exiting. So basically it is a portfolio, market, customer rationalization and more on the emerging market side, which is what is leading to this kind of growth.

Neha Manpuria: Thank you so much.

Moderator: Thank you. We will take the next question from the line of Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai: Thanks for taking my question. I just have two questions. First, how much of your India sales is coming from generic, generic portfolio?

Prabhat Agrawal: We do not have anything like generic, generic, we have part of our sales is trade generics.

Damayanti Kerai: So how much is trade generic portion for overall India?

Prabhat Agrawal: It is 10% plus.

Damayanti Kerai: 10% plus, so any broader thought on this government push for doctors to mandatory prescribe in this trade generic versus branded generic, any thought there?

Prabhat Agrawal: I think more or less the confusion on that side is more clear as of now as compared to what we had when speech from our honourable Prime Minister came in April. The regulation said that the physician should write only generic name, it has been clarified by IMA that there is no restriction on mentioning the brand name on the prescription of a physician, so you can write both.

Damayanti Kerai: Thank you.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.

Prabhat Agrawal: Thank you so much for attending this call. I know you would have a busy day-to-day, but if you feel any of your questions remain unanswered then our investor relation department is always available to answer your queries offline as well. Thank you so much for attending the call.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Motilal Oswal Securities that concludes this conference. Thank you for joining us. You may now disconnect your line.