"Alkem Laboratories Limited
Q1 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Laboratories Limited Q1 FY2020 Earnings Conference Call hosted by Motilal Oswal Financial Services Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Tushar Manudhane from Motilal Oswal Financial Services. Thank you, and over to you!

Tushar Manudhane: Thanks, Stephen. Good morning, everyone. Thanks for joining this call. From Alkem Senior Management team, we have Mr. Sandeep Singh, Managing Director; Mr. Rajesh Dubey, Chief Financial Officer; Mr. Amit Ghare, President, International Business; Mr. Yogesh Kaushal, Senior Vice President, Chronic Division; and Mr. Gagan Borana from Investor Relations.

Gagan Borana: Thank you, Tushar. Good morning, everybody, and thank you for taking your time and joining us for Alkem Laboratories' Q1 FY2020 Earnings Call. Yesterday, we have released our financial results and the same also posted on our website.

Today in this call, we have the senior management team of Alkem to discuss the business performance and outlook going forward.

Before I proceed with this call, I would like to remind everybody that the call is being recorded and the call transcript would be made available on our website as well.

A brief disclaimer for today's call. Today's discussion may include forward-looking statements and the same must be viewed in conjunction with the risks that our business faces. At the end of this call, if any of the queries remain unanswered, please feel free to get in touch with me.

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

Sandeep Singh: Thank you, Gagan. Good morning, everyone. I am pleased to share that we have made positive start to the financial year with both our India business and International business, delivering a steady double-digit year-on-year growth during the quarter.

Our EBITDA margin has also shown a healthy year-on-year improvement of 200 basis points during the quarter, highlighting our continuous effort towards cost optimization and productivity improvement. This, coupled with lower effective tax rate on account of investments made in manufacturing facilities that are entitled to fiscal benefits, we have delivered a robust net profit growth of 36% compared to the previous year.

On the working capital front also, we showed good improvement over the last year, which has translated into better operating cash flow during the quarter.

Talking in greater details about the India business, I am happy to share that as per IQVIA data for the 12 months ended June 2019, Alkem has gained 1 rank and now is ranked the fifth largest company in India. This has been achieved on back of continuous outperformance by the company vis-à-vis industry, driven by strong brand, formidable product portfolio, extensive marketing and distribution network and an experience of over 40 years in the Indian pharma market. Also, during the quarter, the company's secondary sales growth reported by IQVIA was 18.7%, which was significantly ahead of the market growth of 10.4%.

In our established therapy areas of anti-infectives, gastrointestinal and vitamins, minerals and nutrients, our growth was much ahead of the therapy growth rates. Also, in the chronic therapy segment, the company delivered a growth that was higher than the therapy growth rate.

During the quarter, we gained 2 ranks in CNS and neuro segment and now, we are positioned as the sixth largest CNS/neuro company in India.

Moving to international business. Our U.S. business delivered a steady growth of 13.7% year-on-year during the quarter. This growth has been achieved on the high base of last year, where we grew by almost 40%. The growth in the U.S. business was mainly on the back of new product launches and scale up in the existing products.

During the quarter, we invested about Rs.103 Crores in R&D, which is about 5.6% of our total revenue. We filed 2 ANDAs during the quarter and received 5 approvals, which included 2 tentative approvals.

We now have a fairly strong pipeline of 127 ANDAs already filed with U.S. FDA, with over half of them yet to be commercialized. Timely new product approvals and the commercialization would be a key driver of growth going forward in the U.S. market.

On the regulatory front, we recently received an EIR for our formulation manufacturing facility at Baddi, which was inspected in the month of May 2019. With this, all our manufacturing facilities, except the St Louis facility in U.S., we have an EIR in place.

In regards to St. Louis facility where we have an OAI, our team is working towards addressing the observation and resolving them. Currently, this facility accounts for less than 3% of our U.S. sales, but it is an important facility from the future point of view given that we have plans to introduce our non-oral products and controlled substances from this facility.

Summing up the performance of the quarter gone by, I would say that we have made a good start to the financial year in terms of revenue growth, improvement in profit margins and better cash flows. I am hopeful that the significant investments we have made in our infrastructure and in our people over the last couple of years will help us sustain this momentum for the remaining quarters as well.

Last but not the least, cost optimization and productivity improvement will be one of the most important aspects of our strategy going forward.

With this, I would like to open the floor for question 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 Rashmi Sancheti from Anand Rathi.

Rashmi Sancheti: Thanks for the opportunity. In terms of domestic business growth, can you split between branded business and trade generics during the quarter? And how are we looking for the entire year. And in domestic business itself, I want to know number of inventory days and total MRs as on date. Have we added anything beyond 9000?

Sandeep Singh: Yes. So we normally do not disclose quarter-on-quarter, the business split-up between generic and trade generics, so we will likely avoid. But roughly, I mean we have always maintained in the past calls as well that trade generic is close to 15% of our India business.

Rashmi Sancheti: Okay. And Sir, but currently, this trade generics business are showing growth?

Sandeep Singh: Yes. Yes.

Rashmi Sancheti: Okay. And how are we looking for the entire year, both clubbed together?

Sandeep Singh: What do you mean?

Rashmi Sancheti: For the entire year, any guidance on domestic business?

Sandeep Singh: We always maintain that we will outperform the industry by, let us say, 200 basis points. So I think that will continue, and there is no reason for us to change that guidance.

Rashmi Sancheti: Okay. And Sir, on total MR as on date?

Sandeep Singh: So what we said last time, we have close to 10000 medical reps on the ground.

Rashmi Sancheti: You mean to say, the exact field force, excluding the sales manager?

Sandeep Singh: Absolutely, yes.

Rashmi Sancheti: Sir, my second question is related to U.S. sales. We have not seen much decline even though mycophenolate has seen competition. So is it because that valsartan has picked up during the quarter? Or it is a combination of many products?

Amit Ghare: It is a combination of many products, Rashmi.

Rashmi Sancheti: Lastly, on gross debt and capex figure. If you can give how much is the gross debt as on date? And what would be the capex guidance for the entire year in FY2020 and FY2021?

Rajesh Dubey: Rashmi, our gross debt is somewhere close to Rs.1050 Crores and on net level, our debt is Rs.120 Crores, kind of. And sorry, I missed your second question.

Rashmi Sancheti: Sir, on capex guidance?

Rajesh Dubey: Yes, capex this quarter, our cash flow on capex, it was around Rs. 96 Crores, but for this year, we will be landing somewhere between Rs. 400 Crores to Rs. 450 Crores.

Rashmi Sancheti: Rs. 400 Crores to Rs. 450 Crores. And how much would be the maintenance out of that Rs. 450 Crores?

Rajesh Dubey: Maintenance is around Rs. 100 Crores, Rs. 125 Crores.

Rashmi Sancheti: Largely, the capex would be spent on which facilities?

Rajesh Dubey: It would be our bio facilities going on. So that is one. Then we have our Indore facility and that existing facility, there are expansions also. But I think more or less, we are through with our capex requirement. And all of this Rs. 400 Crores, Rs. 450 Crores, what I mentioned, there are carry forwards also of last year. So I think more or less, we are through with capex and we are going to be the business normalized capex going forward.

Rashmi Sancheti: So in FY 2021, we can expect a maintenance capex of Rs. 150 Crores to Rs. 200 Crores, kind of?

Rajesh Dubey: Along with maintenance, some are other expansion, it goes on and the automation also, it goes on so we believe going forward, our capex will be in the range of Rs. 350 Crores.

Rashmi Sancheti: Thanks. That is it from my side.

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

Prakash Agarwal: Thanks for the opportunity. Good morning to all. Sir, my question is on the India business growth. So 12%, I think one of the best in the peer group that we see, but if you could split between the volumes, new product and you include this price increase for the quarter?

Yogesh Koushal: Let us see. For the quarter, our unit growth is close to around 3.5% and on price increase, around 5% and new product also is around 4.5%. Prakash, I stand corrected. It is around 2.7%.

Prakash Agarwal: What is 2.7%, Sir?

Yogesh Koushal: The new introductions.

Prakash Agarwal: New introduction is 2.7% instead of 4.5% what you said?

Yogesh Koushal: Yes.

Prakash Agarwal: Okay, understood. Sir, in terms of volume uptick, I think the April and May were very soft. June is where we started to see some rains and volume pick up, especially on acute segment. How do we see the volume picking up in July and August? Was the disruption largely due to low seasonal offtake in acute or it is a confluence of many factors like we can also include the economic slowdown or the Jan Aushadhi if you can share the outlook. How do we see the volume picking up or we expect this to be similar levels?

Yogesh Koushal: See, the first two months, we can attribute, to a certain extent, seasonality for sure and there is certainly a change in the disease pattern also. So there is some correction you will have seen in the first quarter. So waterborne disease and your vector borne disease, there are some challenges, okay? But then, along with these diseases, certain molecules which are associated with this disease, they also are part of the treatment. So they also get reduced. So in second quarter or you would have seen even if you see last around 8 to 10 months trend. You would have seen unit growth slightly diluting because of these diseases and going forward from here, if you see, I see a correction in the industry. So last month, unit growth is around 3.5% to 4% again. So it is, again, coming back to faster unit growth. Now I see a similar pattern in the coming time also.

Prakash Agarwal: Okay. From flattish, you're expecting for the year to be around 3% to 4%? Is that correct inference?

Yogesh Koushal: Yes.

Prakash Agarwal: Okay, understood. Sir, on you are clearly growing much higher in anti-infectives despite having a large base. What are the strategies we are implementing to keep the growth momentum, which is 2x of the industry growth? That is the first part. And secondly, what incremental we have done in the CNS portfolio to have gone up to merchants and banking?

Yogesh Koushal: Yes, still related to our domestic growth, I think last two years, if you see during our last session, also so we said, we are working on a strategy, which is reach. So we have added close to around 2000-plus medical reps in the last two years. So I think that strategy is paying dividends. So that is the reason we are growing faster than the industry, so particularly our acute business has massively expanded in last two years. So we are sustaining our volume growth there as well, overall growth in acute. We know that the future of industry will be chronic, where we were not literally so strong. So in last two to three years, there have been equal massive expansions in chronic also. So the unit growth and all we have to sustain and we will continue growing more than the market, then chronic has to contribute a little bit better than what we have today, and that is what our second strategy. So, acute strategy is reach. And again, we are working on productivity and that is strengthening chronic so that we come to the industry balance. We know that it will take time, but this also has started showing dividends.

Prakash Agarwal: But anything special you have done on the CNS to move up too much?

Yogesh Koushal: I think CNS, we were very focused. We chose three to four therapies. We did not want it to go everywhere. So our forte was Alzheimer where we have become number one. We are close to 37% market share and then we chose two more therapies to be leaders there. So there are eight to nine therapies, and we focus only on 3 major to build our CNS portfolio. That is paying now dividend to us.

Prakash Agarwal: Great. I will join back the queue. Thank you.

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

Aditya Khemka: Thanks for the opportunity. So a couple of questions. The first one for you, Amit. So now the U.S., if you could just take me through the kind of filings we are doing and the R&D budget? And how do you see the plain vanilla market or a solid market in U.S. currently versus the more complex derma, respiratory market?

Amit Ghare: Let me answer the internal question first. R&D budget remains between 5% and 6% of our revenue, and I think we have been very consistent there over the years, and that is what we continue to maintain. Some ANDA filings over the years have been up and down in terms of numbers, but the overall spend will continue to be in that range that we talked about. Aditya, I'm sorry, I missed your second question. I think you were talking about?

Aditya Khemka: The environment regarding plain vanilla versus the complex derma/onco/injectable market, how is the pricing environment there? And what is interesting to you right now?

Amit Ghare: Right. So we continue to work across a cross-section of our portfolio. I mean a portfolio available in the market for genericization and consciously we have made efforts to also develop and register ANDAs in non-oral solids category. So I do not want to just say complex generics, but at least from a dosage form perspective, non-oral solids. As you know, we already are commercial in a few products on all those categories. And it is a work in progress. So as we continue doing more and more development, we will continue doing development of other dosage forms. Mind you, oral solids continues to be 80% of the market, and it will be same, maybe a little higher spread for us as well. In the marketplace, ultimately, what really gets decided in terms of either genericization or erosion of pricing, whatever you want to call, is a complex factor of competitive landscape for that particular molecule or that particular product versus, of course, the customers for that product. So there are products, which are complex generics, but will show pricing trends like just of a vanilla generic and then there will always be somewhere some vanilla generic, which will have different competitive landscape and therefore, a different pricing structure. But I do not think I can answer your question in a very general way for a very product specific case, specific reason.

Aditya Khemka: Yes, that is fair enough. So let me put it the other way around. In your base business, excluding, let us say, a non-oral form, are you still seeing you had a double-digit price erosion or has the price erosion drop to a lower single-digit or almost zero?

Amit Ghare: Well, the price erosion for us was always single digits, Aditya, at least in the molecules that we used to operate in. Yes the market at some point of time had gone to a slightly higher number. But since last 12 months, I would say the market is already in terms of price erosion, is in single digits.

Aditya Khemka: And for us, is it mid-single digit, low-single digit? Any qualitative colour?

Amit Ghare: Yes, mid-single digit, it is for us, very much in line with the trend and the industry.

Aditya Khemka: Fair enough. Second question for Dubey Sir. Sir, on the material cost, so it's now 38.5% for us, this gross margin. So would you say the reduction in cost of the raw material coming in from China that is fully reflected in this quarter? Or there is still more benefit to go on the gross margin side from the Chinese cooling off of prices of raw material?

Rajesh Dubey: Aditya, you said very correct. Actually, a lot of it started in Q2, but Q3 and Q4, it was affected significantly. You very rightly said on softening of API prices out of China-related issues, we witnessed API prices coming down. But this was our first quarter. So whatever we have already procured in Q4 of last year that is having impact on COGS still in Q1 also. We expect going forward in Q2 and after that, we expect a good amount of improvement as far as COGS is concerned. So if you see last year's Q1, our COGS was 38% and this time, it is 38.5%. And I think going forward we expect somewhere close to 38% kind of. That is our estimate.

Aditya Khemka: Rajesh Sir when you procure material from these Chinese manufacturers, do they invoice you in dollars or they do invoice you in RMB?

Rajesh Dubey: See, we have our major procurement is happening domestically, of course, this material is from China. So that is having impact. So we do have some imports also.

Amit Ghare: I think dollars.

Sandeep Singh: We do have some small procurement in dollars also but rest in Rupees.

Aditya Khemka: My question actually was that, given the recent changes in the exchange rates between Chinese currency and the USD, would that inflate our material prices because we are importing from there and their currency has depreciated or the other way around I mean?

Rajesh Dubey: We do not see any much impact because we are not importing in Chinese currency, first of all.

Aditya Khemka: You are not importing, okay.

Sandeep Singh: Our dollar importing is also not very significant.

Aditya Khemka: Fair enough. Last question for you, Sandeep, then I will get back in the queue. So now that most of your capex seems to be behind and Rajesh Sir alluded to slightly some capacity debottlenecking here and there. What is the incremental plan for the cash flow deployment? So you will have some surplus cash that will submit from operations. You could use it to acquire companies, do bolt-on acquisitions or you can return it to shareholders by way of dividend or buyback. So what is the management currently thinking in terms of how to utilize this excess cash that you will generate?

Sandeep Singh: So we always maintain, our dividend policy is that we give 20%, 25% of profits. So we stand on that. I think the problem of plenty whenever you come to it, we could discuss it, but I think it is still far away where we have pressure of, let us say, having too much cash. And I think that will be a great problem to have. So until we do not come to that, I think, that is premature. You know you heard Mr. Dubey. He said we have a gross debt of Rs. 1000 Crores plus and net level also, we have around Rs.100 Crores. So it is not that we are sitting on cash currently and it is plenty we have, when we have Aditya, will discuss, we will talk to shareholders, we will take feedback, we will look at our business plans once again. But just to be very clear, we do not think that we will make any large acquisitions; that is not something which we plan to. Yes, small bets, we will be taking some the innovation and all that, but later on, Aditya. So I am very happy you keep asking us. You are very confident that we will do it. But we will wait for some time.

Aditya Khemka: Thanks a lot gentlemen and all the best.

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

Neha Manpuria: Thank you for taking my question. Sir, on India, qualitatively, we had indicated last time that we were tightening credit to some extent on the GX segmenta and now has the growth there normalized from taking initiatives and tightening credit, etc? Just wanted to understand was the Rx business growing faster in this quarter versus GX?

Sandeep Singh: So you are totally right. Last time, we had tightened. We had cleaned up some business. This quarter, I think we have normalized. And it is as per our expectations. To answer you, both of them more or less on the same growth rate. So it is not that Rx is doing much better than a prescription branded generics or something like that. It is more in line with the business of overall domestic business.

Neha Manpuria: Sir, one of the large peers is changing their distribution in the quarter. Would that benefit Alkem in any way being another large player in the GX segment given this is a sort of supply heavy business?

Sandeep Singh: Maybe in a very short term, but I think we have a lot of respect for the company you are talking about. They have just change the business model. So they will be impacted for maybe 3 to 4 months and it is more at the primary level. So I do not think so there is something up for grabs immediately and it is not something, which any company, whether Alkem or anybody, can exploit it immediately and grow.

Neha Manpuria: Understood, understood. Fair enough. Then second question is on the other expenses. If I were to strip out R&D, other expenses still seem pretty high. Quarter-on-quarter, there has been an increase even though year-on-year, it is not as much. And given we had some 1 month Ind-As 116 impact, any reason or is there any one-off in this quarter? This is the number that we should be looking at?

Rajesh Dubey: Yes, I may have initial figure. Actually, if you see my other expenses, it is around Rs. 483 Crores in this quarter, whereas in last year's Q1, it was Rs. 485 Crores. So in fact, if you see, there is a reduction of around Rs.3 Crores in this quarter. So I do not know in other expenses, it is mainly marketing expenses or R&D expenses, excluding payroll cost. So I think things are in line with our estimates only and we do not see any one-off kind of thing. Yes, something or other it happens depending on nature of expenditure, but it is in line, yes. I would like to mention here, operating leverage, we have started because our production volume, it has increased and definitely, that is going better operating levels as far as production cost is concerned. So that advantage we are having. R&D spend, we already Mr. Sandeep Singh already mentioned. It is going to over close to fixed cost and that estimate is always there. And even in Q1 also, it is in line with that.

Neha Manpuria: Sir, is it fair to then assume, Sir, that the improvement in margins that we want to see over the full year, would be a result of gross margins rather than and to some extent, operating leverage because we are not seeing too much in terms of cost reduction that we mentioned in the opening comments.

Rajesh Dubey: No, actually, cost reduction is also there. As I mentioned, the operating leverage we are going to have. I think Mr. Sandeep Singh has already covered. So we are very cautious on costs. That was the reason why I explained further operating leverage we are having. That we are going to get continuously going forward also. See, on EBITDA margin, our guidance, I think it was 125 to 150 basis points and at the time of giving guidance, 116, it was already captured. So we are having impact of 30 basis points in that. We hope and we are very confident we are going to meet the guidance.

Sandeep Singh: Neha, this is Sandeep here. I would yes, I think you have a point there. We mentioned costs, and we are working on that. A large part of the expansion will come from operating leverage and gross margin. So I think I agree with you now.

Rajesh Dubey: Even material costs also.

Sandeep Singh: Yes.

Rajesh Dubey: Softening of material costs. Neha, just to mention something, just one thing to keep in mind Q1 FY2019, there has been some reclassification one item between the raw material and other expenses.

Neha Manpuria: Yes, yes, that is fine. No, that's why I was looking from a full year basis, not necessarily quarter-on-quarter and my last question is on the tax rate. I think we've guided to about 20% but this quarter has been 11% so what should we be looking?

Rajesh Dubey: Our tax rate of 20%, it was for last year. So if you see last year, we are 19%. And guidance for this year is somewhere between 12% and 14%.

Neha Manpuria: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Nimish Mehta from Research Delta Data Advisors.

Nimish Mehta: All of my questions have been answered. Thank you very much.

Moderator: Thank you. The next question is from the line of Ashish Thavkar from Motilal Oswal Securities Limited. Please go ahead.

Ashish Thavkar: Thanks. On the India piece, there seems to be some volatility concerning the fact that last year, we had made some changes in the distribution policy. So this full financial year, all the quarters will be comparable on a like-for-like basis? Or we should think it in a different way?

Rajesh Dubey: Ashish, cut-off process Ind-As 115 it was implemented last year. But when you see last year's Q1and this year's Q1, our cut-off shifting of sales it is more or less comparable, it is equivalent amount it has got shifted.

Ashish Thavkar: Okay. Given that the second quarter of last fiscal was pretty strong for us, you could say that even this second quarter on a like-to-like basis would be in a similar nature?

Sandeep Singh: Hope so, yes. It is comparable to reiterate.

Gagan Borana: In terms of topline and the margin across the last year, four quarters, the trend will remain the same.

Ashish Thavkar: Okay. Can we have the numbers for primary and secondary growth? Just wanted to see if there's a mismatch there?

Sandeep Singh: Primary and secondary internal numbers, we do not share. IMS which we have and I told in the opening comments as well.

Ashish Thavkar: Finally, the last question on this tax, again. Since Sikkim tax benefit are till 2027 so would you like to guide for the next two to three years, the kind of tax rate that we could assume on a consolidated basis?

Rajesh Dubey: This year, we will be there between 12% and 14%. Next year, since that effect most probably going away so that we add a percent kind of, so between 13% and 15%. But I think always tax is so dynamic, we do not want to give guidance beyond 2 years. So this year, 12% to 14%; and next year, 13% to 15% is our estimate.

Ashish Thavkar: That is it from my side. Thanks and all the best.

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

Surajit Pal: Good morning. I have three questions. One question is that on this currency front, since you have done mostly in INR, so if Chinese currency devalued, the realization definitely for the Chinese exporter would be lower. So do you expect that the invoice in Rupee will be increased because of that?

Rajesh Dubey: We do not have any invoice in Chinese currency. Our export is mainly, it is in U.S. dollar. So I do not think devaluation of Chinese currency is directly impacting.

Surajit Pal: My point is not from your point of view. What I am saying is that the Chinese guy his realization from that perspective, will that be changed? It will be increased or decreased in that point of view?

Rajesh Dubey: So I think your question is not…

Surajit Pal: The point is that since it is INR, so they will be benefited. They will be receiving more money in companies when they'll be converting.

Sandeep Singh: So you are saying we should use it to negotiate to get them down on the price?

Surajit Pal: Yes.

Sandeep Singh: Yes, we could, as Mr. Dubey said, we do not import a lot of API from there. So it might not be very significant to us. But that is a good point that we can try it but it is not significant.

Surajit Pal: Okay, so that is one. Second point is that, which is a bit of confusing in terms of trade generics in domestic front because from large guys, we are hearing there is a disruption, that is a common thing which we are hearing along the distribution level. What we are hearing, not in unison is that the kind of problem? Because one company is saying, is that there are a differential pricing available of their product in the system because of GST implementation, which has happened in 2017, in July, right? So this is July, August 2019. I do not think any shelf stock price or tenure of any product is sustainability at that time, mostly 3 to 4 months, maximum 6 months. So do you think that is a problem? Or do you think that there is some other problem we're talking about?

Sandeep Singh: On the company we spoke, changing the business model therefore you have seen is disruption. I do not think there is any greater reason for that. So I do not think that should be confusing to anyone. It is very clear they change the business model and we have not so there is no reason for us to disrupt anything.

Surajit Pal: Okay. So what is the actual issue? That is what I wanted to hear.

Sandeep Singh: What do you mean, Sir? Whose issue?

Surajit Pal: In trade generics, what is the issue?

Sandeep Singh: There is no issue, Sir? Where is the issue, Sir? Can you tell me?

Surajit Pal: This is why the larger companies are saying is that their business in trade generics is impacted because of the surplus.

Sandeep Singh: No, other than Cipla which all you heard please educate us Sir?

Surajit Pal: Yes, there are companies which I will share offline.

Sandeep Singh: Please. If you do, then I can tell you.

Surajit Pal: Thank you.

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

Prakash Agarwal: Thanks for the opportunity again. Just trying to understand a couple of things. One is, as per your annual report, you talked about your recent launch of evogliptin. If you could help us understand how that has picked up and what kind of incremental growth or traction you are seeing?

Yogesh Koushal: I shall answer your first question. With incremental growth, I did not understand your question again because so far as this molecule has a certain strength compared to the established player like **other gliptins** so we are basically going behind science and we are promoting largely the virtues of this molecule. We have done massive CMEs, we have educated close to around 6000 doctors across the country and the entire endocrinology body is with us who have understood this molecule. So the reason behind establishing this molecule is pure science. So that is what we have been driving. Now traction for growth, we are assuming that this brand will give us close to around Rs. 15 Crores by end of the year if everything goes right. So it may give us traction of close to around additional 3% to 4% growth over what we are doing now.

Prakash Agarwal: Rs. 15 Crores annually?

Yogesh Koushal: Annually, yes.

Prakash Agarwal: There is also mention of we are looking at more such opportunities here, if you could throw some light there?

Yogesh Koushal: There are not many now in the space of diabetes, Sir. You are only left with the GLT2s, which are patented 2024 and 2025. So right now, we have to build on productivity instead of spending more time on innovations and new launches.

Prakash Agarwal: Understood. And there is also a comment on the biosimilar being the next leg of growth for us in the annual report. If you could throw some light what we plan for India and emerging market to start with and where is the facility in terms of commercialization?

Sandeep Singh: So Prakash, I think next year, around, I think, Q2, we would be launching one or two products in India. So first is, we want to launch products in India and then take to emerging markets. So as you know, biotech is a long-term plan. So for the first couple of years from now, I think we will be focusing on India. We will try to do some emerging markets, but not very significantly. A plant is being constructed in Pune and I think by April next year, I think our plant would be ready for taking batches commercially.

Prakash Agarwal: Are we disclosing the products, what kind of products we're developing in?

Sandeep Singh: Not right now. We will wait until we launch and then closer to when we are launching, we will be far more sharing because it might be premature right now. So some of them in also the ortho, arthritis space and bone health, and some could be on onco, typical stuff Prakash, which, I think, once we are closer, we will disclose more.

Prakash Agarwal: Lastly, one clarification on the MR strength. So I think last time, what I heard was adding 2000 from 7000 to 9000, and the plan was to add one more thousand during the year to 10000. What I heard in the call is the current strength is 10000. So have we added 1000 already in the quarter?

Rajesh Dubey: So we have 10000. What was your question? Sorry, I did not understand, Prakash.

Prakash Agarwal: I think in the last call, you mentioned that we have added 2000 people over the last couple of years from 7000 to 9000, correct?

Rajesh Dubey: We must have added some of them previous quarter. I mean, some of them must be just being completed as of now. The question was how much we have as of now so some could be just added the last 15 days also as well.

Prakash Agarwal: Okay. So 10000 is the current strength. And what is the plan for the year?

Sandeep Singh: No, I think we are done. We do not need to add anything further. This is more than enough, I would say.

Prakash Agarwal: Great. Thank you and all the best.

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

Damayanti Kerai: Thanks for the opportunity. Sir, do you have any update to share on the progress of OTC portfolio in India? Because last time, I believe you mentioned that depending on the performance of launch products in the market, will decide strategy ahead, so anything to share here?

Sandeep Singh: No, I think OTC we are kind of going very slow. We have put it on a backburner. We are running it down a little bit. So we do not plan to invest in advertising and above the line, things like that. So OTC, it is not a priority now.

Damayanti Kerai: Okay. So we are not looking to invest a lot in this part of business, right?

Sandeep Singh: That is right. That's right.

Damayanti Kerai: My second question, you said biotech plant will be ready by April next year. When we are expecting completion of Indore plant?

Sandeep Singh: Indore plant, I think, is more or less ready. I think we will commercialize in April before April. In Feb, March, we will commercialize this year. Yes.

Damayanti Kerai: Sir, you mean 2020, right? March, April?

Sandeep Singh: Yes, absolutely. Yes. This fiscal year, correct.

Damayanti Kerai: That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Saion Mukherjee from Nomura Securities. Please go ahead.

Saion Mukherjee: Thanks for the opportunity. Sir, just one question on U.S., you have some launches, particularly pregabalin, cinacalcet very recently. Are there interesting opportunities in terms of size you see? I mean, on an average, you do 5 million, 7 million, right, per product? How would you rate some of these recent launches?

Amit Ghare: Pregabalin, day 1 had 12 approvals and more approvals came later. So that is the order of the day, Saion, you know that very well. As we go forward, obviously, we will see more players come or some players exit. We will be there in the market for sure. So we have got our market share, I would say, commensurate with what our expectation was, also, in terms of competition. So we are there in the market. Cinacalcet is a different volume altogether. It is an at risk launch, as you are aware. And so it is a different product. It is a little different discussion overall.

Saion Mukherjee: But is that going to be meaningful for you?

Amit Ghare: Now Cinacalcet, meaningful in light of what you said, 5 million to 7 million, it will probably only be in that range.

Saion Mukherjee: Thank you.

Moderator: Thank you. The next question is from the line of Kunal Randeria from Antique Stockbroking. Please go ahead.

Kunal Randeria: Good morning. Thanks for taking my question. One question on the U.S. front in several products, we have seen that we are fifth or sixth entrants but have ramped quite impressive on market shares. So just trying to understand the reasons behind this? Is it purely driven by shortages or are we being aggressive on the pricing front?

Amit Ghare: I guess, the answer is basically our relationship with our customers and which allows us, even though we may not be entrant #1, it allows us a certain market share. I think that is a very general answer, but unfortunately, for a general question that is what I can answer.

Kunal Randeria: I mean, okay. So if I'm being a bit more direct here, so are we, I mean, ramping up market share because of profitability?

Amit Ghare: No, we do not do that.

Kunal Randeria: Just on the oral solids front, we are seeing a lot more shortages in the U.S. market. So do we see any opportunities where we can exploit in the next few quarters?

Amit Ghare: From our portfolio, there is nothing right now, honestly, which is in the shortages list or where there are onetime opportunities.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Gagan Borana from Alkem Laboratories for closing comments.

Gagan Borana: Thank you, everyone, for attending this call. If any of your queries have remained unanswered, please feel free to get in touch with me. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Motilal Oswal Financial Services, that concludes this conference. Thank you for joining us. You may now disconnect your lines.