"Alkem Laboratories
Q4 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Alkem Laboratories Limited Q4 FY2019 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 Securities Limited. Thank you and over to you Sir!

Tushar Manudhane: Thanks Steven. Good evening everyone. Thanks for joining this call. From Alkem senior management team, we have with us Mr. Sandeep Singh, Managing Director; Mr. Rajesh Dubey, Chief Financial Officer; Mr. Amit Ghare, President, International Business; Mr. Yogesh Kaushal, Senior Vice President, Chronic Division and Mr. Gagan Borana from Investor Relations. Over to you, Gagan!

Gagan Borana: Thank you, Tushar. Good afternoon, everybody, and thank you for taking out time and joining us for Alkem Laboratories Q4 FY2019 Earnings Call. Earlier during the day, we have released the 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 the call is being recorded and a call transcript would be made available on our website as well. I would also like to add that today's discussions 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 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 afternoon, everyone. FY2019 has been a mixed year for the company. While our international business mainly led by U.S. delivered a robust year-on-year growth, our India business faced challenges on account of FDC ban on selected products, relatively weak anti-infective season and muted growth in our trade generic business due to tightening of credit terms by the company.

Our EBITDA margin dipped year-on-year by 60 basis points on account of higher API price and change in revenue mix. However, on the working capital front, we showed good improvement over the last year, which translated into better operating cash flows during the year.

Coming to our performance in Q4, the company reported a healthy revenue year-on-year growth of about 24%, led by 27% growth in our India business and 19% growth in our international business. Reported year-on-year growth in India business during the quarter was helped by change in distribution policy, which had led to the shifting of sales between the quarters. Adjusting for this, the India business still delivered a 13% growth during the quarter. Please note that the impact of this change in distribution policy normalized on the full year basis.

During the quarter, the impact of high API price along with change in revenue mix resulted in 300 basis points year-on-year decline in gross margin. However, with some early trends of moderation in API prices, we expect some improvements in gross margins in the coming quarters.

R&D expenses during the quarter was about Rs.140 Crores, which is about 7.5% of operating revenues, a little higher compared to annual spending of 6.3% of operating revenues.

Talking a bit more about our India business. As you can see from IMS data, Alkem continues to significantly outperform the Indian pharmaceutical market in almost all the major therapies during the quarter and for the full year. During the quarter, we grew by 14.6% compared to 7.7% reported by the IPM. Similarly, for the full year, we reported a year-on-year growth of 14.3% compared to IPM growth of 10.5%. We continue to maintain our leading positions in established therapy areas of anti-infectives, gastrointestinal, pain management and vitamins and nutrition. Also in the chronic business, we continue to grow ahead of the market growth rate, thereby improving a market share and market rankings in therapy segments of Neuro, CNS, Anti-Diabetic, Cardiac and Derma.

I am also pleased to share that earlier this month, we introduced two novel molecules in India Arbekacin in Anti-Infective segment and Evogliptin in Anti-Diabetic segment. Both of these are in-license products and would be exclusively marketed by Alkem as per the terms of the agreement. We have also added about 2000 medical reps in the last two years to expand our reach in the Indian market and increased focus on our key brands. Improving their productivity would be one of the key areas, which we would be looking to work upon going ahead.

Moving to our international business. Our U.S. business delivered a healthy growth of 18.5% year-on-year during the quarter and ended the financial year with a growth of 38.8% year-on-year. While there was some help from the depreciating rupee versus the dollar, but the large part of the growth came on the back of new product launches and scale up in the existing products.

During the year, we invested about Rs.462 Crores in R&D, which is 27% higher than what we had spent in the corresponding period last year. We filed 23 ANDAs during the year and received 21 approvals, which includes 6 tentative approvals. This is the highest number of filings and approvals received by the company in a year.

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

On the regulatory front, we had a mixed year with 4 U.S. FDA inspections between August 2018 and January 2019 at our manufacturing facilities at Baddi, Daman and California and also a bioequivalence centre at Taloja, being closed successfully without any observations.

However, in the U.S. FDA inspection at St Louis and Baddi facilities in Jan 2019 and May 2019, respectively, we received a few observations, to which we have replied within the stipulated time lines. Facility at St. Louis has been classified as an OAI, and we are working towards resolving the observations. Apart from the U.S., amongst the other key international markets, Chile and Philippines registered robust growth during the quarter, both in local currency as well as Indian rupees.

Summing up the performance of the quarter and full year gone by, I would like to reiterate that it has been a mixed year for the company, however, I am confident that the significant investments that we have made in our infrastructure and in our people over the past couple of years, will deliver good results in the quarters to come. We have made steady start in the new financial year and look forward to deliver a better all-round performance in the current financial year.

With this, I would like to open the floor for question and answers. Thank you very much.

Moderator: Thank you very much Sir. We will now begin with the question and answer session. The first question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Thanks for the opportunity and congratulations on good numbers. Sir, just trying to understand like as you mentioned on gave some colour on gross margins that it is looking better given the moderation in API prices. Some colour if you could give on the topline and EBITDA margins given the fact that you already spent on this MR expansion and all that would be helpful.

Sandeep Singh: So, Prakash, sorry, your question is what specifically forward-looking statements...

Prakash Agarwal: Some colour on topline and EBITDA margins, Sir.

Sandeep Singh: Of the quarter gone by?

Prakash Agarwal: No. Of fiscal 2020 Sir, outlook.

Sandeep Singh: Prakash, we normally kind of we avoid giving forward-looking statements, but as I also mentioned that we see that the API prices are easing out a bit, not dramatically, but I think the peak API prices we have seen, which resulted from China, so we expect some relief coming there in the next few months or 2, maybe a few quarters. But we have to watch out. We cannot be for sure. But I expect that it will be easing out. And we have added few people last year. They would get much more productive. That would again take a few quarters. However, please note that we are hiring about 1000 people this year so they will take some time to kind of really get productive so in this account, I think we will see a mild improvement, but not something dramatic.

Prakash Agarwal: You plan to add 1000 more this year?

Sandeep Singh: Yes.

Prakash Agarwal: Okay so given the growth visibility and that is why we expanded 2000 and expanded 1000 more. Is that the right way to think?

Sandeep Singh: Yes. That is the right way to think, growth visibility. And we build large brands; Alkem is known for brand building. So this is also for decluttering and planning for the future. Because you will appreciate the fact that most of the times, we outperform the pharma market and so it is just preparing for the growth for this year and being ready for the times to come as well.

Prakash Agarwal: So in the past, you have given some colour in terms of performing vis-à-vis the market. Somehow last year because of the little weak acute season, we have like at par or marginally lower than the market. So what is giving us confidence in terms of fiscal 2020 growth? In terms of can we say that at least we expect to beat the market this year?

Sandeep Singh: Yes. I would like to say that even last year we have beaten the market depends on what data you look at. But we believe, we have beaten the market last year as well. This year will be no different. To answer your question what gives us confidence, please realize that we had some legacy brands, which had to be restructured, which we did in the last year. And those were very large brands like Rs.100 Crores plus. That restructuring obviously takes time, which has happened. And the trend is positive. So I think we have recreated our large acute brands, which would add to growth and this year would be a much better year.

Prakash Agarwal: Okay thank you and more questions I will join back later.

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

Neha Manpuria: Thank you for taking my questions so if I look at our gross margins, we have done roughly about 60% for FY2019, but the quarter seems more like 58%. So is 58% the right base to look at when you are even indicating moderation of API prices, etc? I am asking this particularly because we saw competition in one of our big products in the U.S.

Rajesh Dubey: Yes. Neha, you correctly mentioned. Gross margin for this quarter, it was under some kind of pressure and being 58%. But I think gross margin as we earlier also discussed and particularly looking in this scenario with API prices, we think it is getting diluted to some extent. Some kind of 60% kind of margin is our expectation to deliver.

Neha Manpuria: Okay. So 60% is the right base to look at when I am looking at gross margins?

Rajesh Dubey: Somewhere close to that.

Neha Manpuria: Okay. And my second question is if I look at your cost base, particularly for this year, can we give some colour on, one, how R&D expenses would move next year? And second is for the other expenses, is there anything that we need to spend other than R&D excluding MR that could potentially increase our cost base? I am just surprised by the commentary that margin expansion would be mild next year if growth is on track.

Sandeep Singh: Yes. So Neha, this is so on your first question on R&D, giving colour to what the direction could be, so I have always maintained that it will be between 5% and 6%. Last year was 6.3%, but that I think was slight upgradations. We do not anticipate that we will go beyond 6%. So 5% to 6%, we stick to that guidance. And no, we do not foresee any other large cost item, which should be a onetime expense or increasing our overheads.

Neha Manpuria: So in that case the 2000 MRs that we have added over the last 2 years, should not the operating leverage from that help improve margins more than just a mild margin expansion that you alluded to in the previous question?

Sandeep Singh: But how much is mild we did not discuss. It is subjective. But please understand that we are still acute-driven. Under any circumstances, if the season does not support or things like that then your growth and the productivity takes a hit. So under those circumstances that are the reason I said, it is better to be cautious on our outlook.

Neha Manpuria: Understood. And my last question is on the U.S. business. So the quarter-on-quarter decline is essentially on the back of the big products in competition or is there any the factor for that?

Amit Ghare: There is no decline, right? I mean, I missed that.

Neha Manpuria: Quarter-on-quarter?

Amit Ghare: Oh, sequential, so sequential quarter is, yes, because of competition and also because we had very heavy first 3 quarters this year.

Neha Manpuria: Okay so not all of the decline can be attributed to mycophenolate?

Amit Ghare: Some attributed to mycophenolate, some attributed to seasonality and some attributed to higher sales in the previous quarters.

Neha Manpuria: Understood. And Sir, as we look at FY2020, previously, you have mentioned high single-digit launches, is that what we are sticking to? Because we are seeing a very good momentum when it comes to our approvals, like, sir mentioned, highest approvals historically. So should not our launch momentum improve in the U.S.?

Amit Ghare: The answer is yes. Our launch momentum has certainly improved and while we used to keep saying higher single digits, I think we can say now double digits, but still lower double digits. Because when Sandeep was giving his initial commentary, you must have seen, while we received 21 approvals, there were some tentative approvals there as well. So you do keep that in mind.

Neha Manpuria: Sir how many launches did we have in FY2019?

Amit Ghare: I do not have a clear number right now in front of me maybe we will get back.

Neha Manpuria: Ok right. Thank you so much.

Moderator: Thank you. The next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: Thanks Sir. Just some data points. What is the productivity of field force in India right now?

Sandeep Singh: You are taking it, Yogesh?

Yogesh Kaushal: See, we have field force productivity is very variable so in acute, it is around 86% of our business or 84% of business. We have a productivity range of around Rs.10 lakhs to Rs.4.5 lakhs that is in acute business. And in chronic, it averages around Rs.2.5 lakhs to Rs.3 lakhs so there is a parity between acute and chronic so average acute would be around Rs.5 lakhs to Rs.5.5 lakhs and chronic will be in the range of around Rs.2 lakhs to Rs.2.5 lakhs.

Anubhav Agarwal: And what is the total MR base that we have?

Yogesh Kaushal: The total, across India, we are around the 10,000 MRs.

Anubhav Agarwal: 10000 MRs. Okay.

Amit Ghare: It is 9000 MRs, it will be 10000 this year.

Yogesh Kaushal: Yes, after expansion.

Anubhav Agarwal: And just with the 13% growth that we had, adjusted growth, in this quarter, can you just put in context how much did the trade generic business, was it higher or lower? And how much was a chronic portfolio growth in this quarter?

Yogesh Kaushal: Yes. So our...

Sandeep Singh: Yes, so generic growth was pretty healthy this quarter. And the component was close to maybe 20%. And what is your second part of the questions, Sir?

Anubhav Agarwal: How did chronic portfolio grow?

Sandeep Singh: Chronic did well. We grew back I think 22% reported.

Anubhav Agarwal: 22% growth.

Sandeep Singh: Yes.

Anubhav Agarwal: Okay so that means the acute business would have grown for us about 8%, 9%?

Sandeep Singh: Yes, absolutely.

Anubhav Agarwal: And in the U.S., the Valsartan opportunity contributed in this quarter or it will contribute from the next quarter?

Amit Ghare: It will contribute in first quarter of fiscal 2020.

Anubhav Agarwal: Okay thank you.

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

Nimish Mehta: Thanks for the opportunity. Just wanted to understand when you talk about the restructuring of legacy brands, so what exactly are you talking about those brands? I mean what is the strategy there?

Sandeep Singh: So strategy there, so as you know that we have some large brands and we have sometimes multiple large brands in the same SBU. So a lot of times, you cannot do justice with those brands, so you need to declutter them so you need to have another division or SBU or and therefore, recruit a lot of MRs so that is what I am talking about. So obviously some details I would not like to get into, but some legacy brands were restructured in different divisions this last year.

Nimish Mehta: So that essentially, the things we are looking at increasing the numbers of patients, right?

Sandeep Singh: You could say that in a way, yes.

Nimish Mehta: Got it. And second just for my understanding when you talk about the increase in the API prices so which are typically the brands that got impacted because of that, I mean give us some colour on...

Sandeep Singh: No. We cannot give any colour on that. It is too specific and we refrain from giving such comments.

Nimish Mehta: Okay.

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

Prakash Agarwal: Sir, you mentioned about improvement in working capital and improvement in cash flows. If I see my numbers as per the disclosure, I mean there is a couple of days of networking capital improvement. Am I missing here something? If you can just elaborate.

Rajesh Dubey: Prakash, you are maybe right. See, improvement, it cannot be drastic. So you are very true. There is improvement of 4 to 5 days, on overall business, even 5 days is a material working capital decrease.

Prakash Agarwal: Okay. Okay. And what was the, Sir, net free cash flow generated for the year?

Rajesh Dubey: Actually, it is more or less neutralized kind of, so there is no negative free cash flow so what used to happen earlier since our capex, it was on the higher side and working capital requirement also so we used to have ultimate cash generation in negative, which is not the position this time.

Prakash Agarwal: Okay. And this is in a scenario where the growth in India, which is the key market being softer, with growth getting back to double-digit, we would probably generate more free cash flow. Is that the right way to think?

Rajesh Dubey: Yes. Even we also expect in similar lines.

Prakash Agarwal: Okay. And what was the capex for this year, fiscal 2019 and expectation for next year?

Rajesh Dubey: Fiscal 2019, our cash outflow on capex, it was in the range of Rs.525 Crores.

Prakash Agarwal: And expectations, Sir, next year?

Rajesh Dubey: Next year, we will be somewhere close to Rs.400 Crores, Prakash.

Prakash Agarwal: Okay. And this is largely the Sikkim plant along with some expansion for FDA, plants or...

Rajesh Dubey: No, more or less our earlier capex, more or less they are at the completion. We have some loose ends and shifting from this year to next year so our cash outflow will be there and almost we have completed most of our project. Routine capex will be there so nothing very big capex kind of thing so most of carry forward of cash flow is going to happen next year plus maintenance capex.

Prakash Agarwal: Okay. And Sir, if you could help us understand the Valsartan opportunity since we have launched during the current quarter, how has been the uptake?

Amit Ghare: So Prakash, we do not generally comment at product specific levels, but certainly, I will add a couple of sentences here. The supply situation overall in Valsartan market has quite stabilized from what it was. And it is also a function of demand going down rather than supply drastically improving because of number of suppliers. That is what I meant so overall, the situation is not something where it is a market where people are chasing the product. It is like while I do not want to say, it is like any other product, but it is not something that it was probably two quarters ago.

Prakash Agarwal: Understood and especially on the backdrop of this mycophenolate generic competition, is the erosion stabilized now being only 1-player market? Or I mean how we are seeing April, May? Or what is outlook for fiscal 2020, especially for the U.S. market with mycophenolate generic competition and new launches?

Amit Ghare: Certainly for micro suspension, I do not want to single that out or give you any specific guidance, but I certainly answer first part of the question so the erosion that you have seen is based on what our expectation was. And to that extent, market has not changed so much beyond what our expectation was. In terms of the overall outlook we just talked about that we are hoping to have some better launches in number terms at least in the current year and we are expecting strong growth as well.

Prakash Agarwal: Growth on the base of fiscal 2019?

Amit Ghare: Growth on the base of fiscal 2019. That is correct.

Prakash Agarwal: Okay great. Thank you so much. I will join back in the queue.

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

Ashish Thakkar: On the MMF suspension, obviously, it was a really high gross margin EBITDA margin product for us so as you said, we expect to launch products in FY2020 and expect a strong growth so in terms of profitability, what would your assessment be like would you maintain the profitability at FY2019 levels in FY2020 for the U.S. segment as such?

Amit Ghare: It is for mycophenolate. Well, we do not answer international and domestic. So I am referring it back to you.

Rajesh Dubey: Ashish, as far as profitability is concerned, our EBITDA margin is concerned, actually we have already given guidelines. This year, it was under pressure, but next year, definitely, we are looking for better margins and improvement by 100 or 125 basis points.

Ashish Thakkar: Probably, in the U.S. business?

Rajesh Dubey: No, in India business. U.S. business is mycophenolate, where we have competition and it was highest contributing product also. But on overall basis, I think we will be improving our EBITDA.

Amit Ghare: I just want to clarify one thing here that when I said strong growth, I meant growth in revenue terms. And the word strong should also be taken in context of the historical growth that we have had. So if you recall for many calls, we have given a guidance that our generally, growth in the international business being the smaller segment in the overall Alkem business has grown faster than the overall company average or the domestic business and that trend will continue. That is what I meant.

Ashish Thakkar: Okay. But even in the U.S. now, we have achieved a sizable scale at $270 million plus. So when can we see material contribution coming from this business segment at least in terms of EBITDA delivery?

Amit Ghare: Again, I will leave it to Mr. Dubey, CFO, to answer the question because we do not break up our EBITDA based on domestic or international, so I will let CFO answer the question.

Rajesh Dubey: Actually, in fact, I have already covered that in and very rightly said by Amit Ghare. We do not see our EBITDA classifying under U.S. or domestic, but yes, for our internal assessment, definitely we see. We are confident either from the U.S. or India, but we have to improve our EBITDA margin and I think we are on track of that.

Ashish Thakkar: Okay thanks a lot. I will get back in the queue.

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

Aditya Khemka: Thanks for the opportunity. Sir, did I hear you correctly, Dubey, Sir, when you said that 60%, is the gross margin we should be working with?

Rajesh Dubey: See, my estimate or expectation is around that. Because in this quarter, we had gross margin of 58.2% and we believe...

Aditya Khemka: No right. That is fair so then in that case and just in terms of gross margin of 60% in FY2020 compared to our FY2019 gross margin, our margins are already expanding by 4% to 5%, if I am not mistaken, year-over-year. And then why should that not translate to higher EBITDA expansion is what I am struggling with.

Rajesh Dubey: See, as far as EBITDA is concerned, we have already given our guidance, but we are expecting improvement. But that improvement, it is to be in the range of 100 or 125 basis points. It cannot go beyond that because as Mr. Sandeep Singh said, even this year in 2019 also, we recruited around a 1000 field people and they are yet to deliver the productivity so and as well as our spending also, it has to go accordingly so on EBITDA front, our estimate is 100 to 125 basis points.

Aditya Khemka: Understood, Sir so that means with R&D keeping in check and so our R&D supposed to be marginally lower than this year, right, to 6.3% this year, 5% to 6% next year, also gross margin expanding about 4%, 5%, so add that so you get about 5% expansions, so which means you are...

Sandeep Singh: Aditya, it was 60% on full year basis and we are saying that it will be a small increase in the gross margin in FY2020 so it is not only 300 basis points or 400 basis points, a smaller amount in the gross margin.

Aditya Khemka: What is your gross margin for full year FY2019?

Rajesh Dubey: Actually, we are talking same. It is for Q4; we saw a gross margin of 58%. We expect we will be coming back to 60%.

Aditya Khemka: Understood sir. Does that mean that your other expenses will be higher as a percentage of sales because whatever you are gaining from your R&D is basically what you are gaining on your EBITDA? So whatever you are gaining on your gross margin, you are basically you need to spend on your other expenses.

Rajesh Dubey: See, R&D, we think we will be somewhere close to 6%. Yes, definitely, we will not like to spend more whatever we have spent this year or at this strong percentage where we would like to have some improvement, but we do not see drastic reduction over there. As I say, 1000 field guys, they are on the board. And accordingly, our marketing spend also it has to be in line so our calculation says, if we maintain gross margin of 60%, definitely, we will try and improve our EBITDA by 100 to 125 basis points.

Sandeep Singh: Aditya, what is in your mind? What do you think it should be?

Aditya Khemka: I would rather tell that to you on one-on-one rather than on the call.

Sandeep Singh: 100 basis points, I am sure. Anyway, thank you. Yes, Aditya, we will talk.

Aditya Khemka: Thank you.

Moderator: Thank you. The next question is from the line of Sriram Rathi from ICICI Securities. Please go ahead.

Sriram Rathi: Thanks for taking my questions. I mean, of course, I think, it has been answered partly. so in the last call, we mentioned that our EBITDA margin target will be around 18% in the next 2 years by FY2021. So are we still on track for that?

Sandeep Singh: Yes, 2021.

Sriram Rathi: Okay. Perfect. And Sir, I mean, there has been some regrouping of costs that are I believe in the P&L for the previous quarter, any specific reason for that?

Rajesh Dubey: Sriram, actually, yes, some regrouping has happened, in fact, we have to see all the quarters. After regroup number, there is no impact on EBITDA. In fact, processing charges, our loan license manufacturing charges, in our subsidiary, in case of USA, it was featuring under COGS and rightfully it is regrouped along with parent company, which we show under other expenses. So this regrouping has happened. There is no impact on EBITDA margin. For correct comparison, you have to put all quarters, regroup numbers and then you have to see.

Sriram Rathi: Okay. Got it. And...

Gagan Borana: Just see the COGS and other operating expenses in Q3 FY2019, which we have reported along with this result and Q4 FY2018, those numbers have also changed so if you put the restated numbers now, okay, then you will not see a certain spike in the other expenses on Q-o-Q basis.

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

Prakash Agarwal: Just last one. In terms of base business pricing erosion, I mean the portfolio that we have, $250 million plus, how has been the price erosion in the base portfolio ex of mycophenolate?

Amit Ghare: Ex of mycophenolate, it is mid single digits.

Prakash Agarwal: Okay. And would it be fair to say that in terms of launches, there would be the approved products that we already got approved and that would also be a part of launches? Or we have mostly in-sync with what we got approved has already been launched?

Amit Ghare: Bit of both, so there have been some approvals in the Q4, which may not have got launched. There are tentative approvals, which may be coming up during the year as patent expires. And of course, there will be some new launches through the new approvals that will come in, in fiscal 2020.

Prakash Agarwal: Okay. And I missed the comment. There is some margin guidance for fiscal 2021? I mean somebody was reiterating that number, which you agreed to.

Sandeep Singh: Oh my God. No. I think directionally we always maintain that the EBITDA margins would go up. Hello?

Prakash Agarwal: Yes. We are there.

Sandeep Singh: Yes, Prakash.

Prakash Agarwal: Yes. So was there a mention of fiscal 2021 EBITDA margin target or escalation.

Sandeep Singh: Yes.

Prakash Agarwal: Would appreciate if you could repeat that, Sir?

Gagan Borana: So Prakash, we had mentioned about 18% kind of a number for FY2021, okay, we are currently at 15.2% so it is about 100 to 150 basis points kind of expansion if you look year-after-year, so if you put that in number perspective, yes, 18% looks achievable.

Prakash Agarwal: Okay. And this is assuming a mid-level season or what are we factoring as base case?

Amit Ghare: Catch over there 100 to 150 basis points is that we grew India business at about mid-teens kind of number because that is the big data, but, yes, changes the entire the guidance...

Sandeep Singh: Prakash, Sandeep here. Good season is an assumption because we are acute-focused.

Prakash Agarwal: Okay. So you were saying something Sandeep?

Sandeep Singh: This is what I was saying. I have said what I said so you asked about the assumption of the season. For us, to add the number, we will need mid to a good season so this may not happen on a, let us say, on a very bad season or one-off seasons, which are not good for acute divisions.

Prakash Agarwal: Understood, fair enough. Okay. Great. And one more if I may on the non-U. S. piece so I think in the past, the growth has been high-double digit. However, this year I think, there was a comment made given some slowdown there, just if you could share broad level outlook?

Amit Ghare: No. I think if you remember Prakash, we have been advising that non-U. S. business, we are focusing only a few key markets. And what we are essentially doing is we are structuring it in such a manner that we do not have overall degrowth and we have a small growth. And I think that is a broad target that we're working with. And we are continuing on that plan. So that we focus on a few key markets, but we continue to have growth in the overall portfolio. And that will be the same guidance and same strategy that we will keep for fiscal year 2020.

Prakash Agarwal: Okay. So focus on profitability versus growth is what you are saying?

Amit Ghare: Focus on few key markets, obviously, growth in those markets and market shares. That is what I meant.

Prakash Agarwal: And if you could share, which key markets if you can share that?

Amit Ghare: Yes. So that is the Australia, Chile, some markets in Europe and few emerging markets like Philippines, Kazakhstan and East Africa. Those are the markets that we need.

Prakash Agarwal: Perfect great. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Kunal Mehta from Vallum Capital. Please go ahead.

Kunal Mehta: Thank you for the opportunity. Just two questions. Sir, so the 2000 MRs you have added in the two years, would you be able to allocate how much of those would be for acute division and how much would be for the chronic division and same for the 1000 addition this year?

Rajesh Dubey: So in last two years, close to around 30-odd-percent we have added in chronic and 70% we have added in acute so this is, as Sandeep spoke in the beginning, in acute, it was largely to declutter establish brands and to make them grow faster and in chronic, we have added more people in cardiovascular therapy, which is today one of the largest therapy in chronic business.

Kunal Mehta: Okay. And Sir, so as at the end of this year for 9000 MRs, what would be the split between chronic and acute?

Rajesh Dubey: So out of 9000, around 2700 are in chronic and balance are in acute. So the ratio is around 70%, 30%.

Kunal Mehta: Sure and just a question on the factors driving the business so as was mentioned that the season matters a lot for an acute-focused company like ours. So if you can summarize for this year, for financial year FY2019, what factors did not work out in our favour seasonally? I mean we have been tracking the numbers, but if you can just elaborate those factors in a specific stage you operate where you have the maximum revenue concentration, what factors did not work out this year as far as the season is concerned?

Sandeep Singh: It is the basic seasonality. Sometimes because of the heat waves, what happens, it is very hot and heat waves are there, the patients do not like to visit the doctors. And in a general rain and these also impact on the infections rate and also. It is a factor of all these things.

Kunal Mehta: Yes, but historically, I mean, you have had a lot more stability into the business. So would you consider this year as of one-off? Or this is something, which has a potential to recur every 2, 3 years. How we are supposed to look at it?

Sandeep Singh: Honestly, it is difficult. What I would say that assumption of one off-season or bad year every 2, 3 years is not a bad assumption because I think assuming the other end is so dicey because every year will not be a great season for sure so this I think the assumption is fair. Every 2, 3 years, it is possible to have an average to down season.

Gagan Borana: Kunal, we also had an impact of the FDC ban and also we had mentioned that in the trade generic business, which has also contributed significantly to our Indian business, we had taken tightening of credit terms, so that led to some soft growth over there. So those things will not reoccur in FY20 and going forward as well.

Moderator: Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Sir, can you provide some clarity on the Sensipar launch?

Amit Ghare: Obviously, we are evaluating, Tushar, as you know. It is something, which is everyone perhaps evaluating. It is also at-risk launch so like anyone else, we are evaluating.

Tushar Manudhane: Okay and secondly, on conceptually, on the domestic formulation side, I mean, we are saying trade generics or even Jan Aushadhi getting bit aggressive. I mean, government getting aggressive on the setting of stores or even for the more medicines to be sold at significant discount. Even few manufacturers are propagating trade generic so the MR like business model, do you think it is sustainable? Or you see that risk I mean no doubt you have been adding MRs, but just, as a structural theme, does it pose big risk or it is still too gradual?

Yogesh Kaushal: Yes. I think on immediate run; we do not see any major risk there. But yes, as patient and overall public becomes aware about this, we see a little dilution on a long term. But on an immediate term, we really do not see much risk over there.

Tushar Manudhane: Okay. Because I think when it comes to MR where pricing is at an elevated level, everybody enjoys in the system.

Yogesh Kaushal: Yes. let me try answer that. In immediate run, we do not really see this because, see, end of the day, patient trust more what doctor has written. And in India today, at least patients do not trust what retailer gives. So in Jan Aushadhi it will be a retailer's prerogative to give whatever they want and that will take long time for even patients to build that trust on retailers. So it will be more prescription-driven and doctor-driven business at least 4 to 5 years' time.

Tushar Manudhane: Thank you.

Moderator: Thank you. The next question is from the line Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: My question pertains to the India business. What are the challenges that you see because in improving profitability?

Rajesh Dubey: Sir, it is on profitability. Yes.

Sandeep Singh: Yes, so the challenges are that we have added many medical reps in the last 3 years including what we added this year. So I think it is just to control attrition, make sure that they are there and the ultimate we increase productivity. So I think this is the internal challenge. External challenge always remains with what the government will do next we don't know so these are the 2 things we just have to worry about. And actually is worry about the first thing, second thing is not into our hand.

Charulata Gaidhani: Thank you.

Moderator: Thank you. The next question is from the line of Ananda Padmanathan from Premerica Mutual Fund. Please go ahead.

Ananda Padmanathan: Sir, could you throw some light on your OTC portfolio? What is the size of it? What is the great strategy going forward and how should one look at it?

Sandeep Singh: Yes. Currently I think FDC size is below Rs.100 Crores, currently, as we speak. You said FDC or OTC, sorry Sir.

Ananda Padmanathan: OTC.

Sandeep Singh: OTC. Okay. Yes. That is correct. The number is around that.

Ananda Padmanathan: OTC portfolio is around Rs.100 Crores.

Sandeep Singh: Less than Rs.100 Crores, yes.

Ananda Padmanathan: Less than Rs.100 Crores and how should one look at it in terms of number of newer brands getting added into that portfolio? Or what is your strategy for that portfolio?

Sandeep Singh: Sure. We are going slow on it. We are not allocating any large resource to it. We are slightly winding it down, not really going aggressive after it.

Ananda Padmanathan: Okay. And rationale for that being?

Sandeep Singh: Rationale for that being is that we tested the water a little bit with some consumer brands, which were not really OTC-driven, more like consumer brands. Looking at it, I do not think so it, I mean, makes immense sense to market those. So we are really winding it down. And in the near future, maybe in the next 2 to 3 years when we have done the stuff, which are immediate needs, then we will evaluate whether we need to get into OTC. And this time get into real OTC like vitamins or pain like which are mostly related to pharmaceuticals rather than things like play guard and all that we did in the past.

Ananda Padmanathan: Thanks that is all from my side.

Moderator: Thank you. The next question is from the line of Abhishek Sharma from India Infoline. Please go ahead.

Abhishek Sharma: Yes, just one question from my side. As compared to the last year, did you see any kind of a price inflation on the trade generic side in your portfolio as well as in the industry?

Sandeep Singh: No. So I think by and large, we did not. But I will let Mr. Dubey comment if there is something, but I do not think so.

Rajesh Dubey: Yes. Your question was price inflation on...

Abhishek Sharma: Trade generics India.

Rajesh Dubey: Trade generic. I do not think actually; we increase our prices wherever possibilities are there. But we do not see any price increase opportunity because it is a very competitive kind of business. But definitely, we will be having better margin contribution from it because of API price declining trend.

Abhishek Sharma: Thank you.

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

Ashish Thakkar: Just one question. Sir, last call, we had alluded to the fact that we will be looking for a dividend payout of around 25%. So any comments on that?

Sandeep Singh: No. So we stand by it. We have not changed the dividend policy since last call.

Ashish Thakkar: Okay. But this year we had like paid out like less than 15% right? If I am not wrong.

Sandeep Singh: What? Less than what?

Ashish Thakkar: 15% or so?

Sandeep Singh: No, no, I do not think so. But I will let my CFO speak.

Rajesh Dubey: Yes. Ashish, we exactly stick to our dividend policy and as we said in our last call. Today, we declared our final dividend, an interim and final dividend, both put together, it is 25% of that. So I think we remain with our dividend policy.

Ashish Thakkar: Okay fair enough. Thanks and all the best.

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

Gagan Borana: Thank you, everyone, for attending this call. If you have any queries, you can get in touch with me. Thank you.

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