"Alkem Laboratories Limited
Q4 FY2020 Earnings Conference Call"

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

Tushar Manudhane: Thanks Steve. Welcome to the 4Q FY2020 earnings call of Alkem Laboratories. From the management side, 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. 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 FY2020 and full year FY2020 earnings call. Earlier during the day we have released our financial results and the same are also posted on our website. To discuss our business performance and outlook going forward, we have on this call the senior management team of Alkem. Before I proceed with this call, I would like to remind everybody that the call is being recorded and the call transcript will 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 this call to Mr. Sandeep Singh to present the key highlights of the quarter and the year gone by and the strategy going forward. Over to you Sir!

Sandeep Singh: Thank you Gagan. Good evening everyone. Thank you for taking out time and joining us for our Q4 and full year FY2020 results. I will briefly touch upon some of the key performance highlights of the quarter and the year gone by and would leave the floor open for Q&A.

As most of you would be knowing that the lockdown was imposed in the entire country from March 22, 2020, which led to significant delays in transportation resulting in lower booking of sales for the month of March and quarter ended March 2020. Adjusting for this impact the India business delivered a healthy double-digit growth during Q4. During the quarter, our international business also registered a robust 23.4% growth led by U.S. business, which grew by 25.8%. The growth in the U.S. business during the quarter in dollar term was also strong at 22.7%. This growth driven by a mix of both new product launches and market share gains in our existing products. For the full year, our India business grew by 11.9% and crossed Rs.5000 Crores of revenue mark. Again adjusting for the impact of delay in transportation due to lockdown in the month of March the growth in India business was even higher. This is reflected in our robust secondary sales data by IQVIA, which shows that for the full year our growth was 16.9% year-on-year compared to the industry growth of 10.8%. In anti-infectives and vitamins and minerals, we grew at 1.5 to 2x the therapy growth rate. Also in the chronic therapy areas of neuro, diabetes, cardiac and derma, our growth was much ahead of the market thereby gaining market share. Talking about the full year performance of our U.S. business, it grew by 16% year-on-year and crossed the important revenue milestone of $300 million during the year.

Coming to profitability, I am happy to share that in the quarter, our EBITDA margin expanded by 220 basis points year-on-year, similarly for the full year our EBITDA margin improved by 250 basis points to reach 17.7%. Our ongoing effort towards cost containment and improvement in efficiency and productivity of our people and also assets have started to show results. Going forward, operating leverage in our U.S. business and India chronic business, better productivity of recently added field force and higher utilization of our newly added capacities remain the key drivers of EBITDA margin. R&D is an important pillar of our growth. During the year we invested Rs.473 Crores in R&D, which was 5.7% of operating revenue. We filed 18 ANDAs during the year and received 22 approvals out of which 6 were tentative approvals. With this, we now have a fairly strong product pipeline of 144 ANDAs already filed with the U.S. FDA with over half of them yet to be commercialized. Timely new product approval and their commercialization would be our key focus to drive growth in the U.S. market.

Talking about updates on regulatory inspections, I am happy to share that all our 6 manufacturing facilities in India and U.S. supplying to the U.S. market has received an EIR as on date. All the U.S. FDA inspections so far at these 6 facilities have been successfully closed by the company. We continue to invest in our people and technology to ensure our facilities comply with the regulatory current standards.

Before I close, I would like to share our assessment of the current situation and how we are dealing with it. While we have seen muted start to the financial year, owing to slowdown in new prescription generation, shutdown of OPDs and deferment of surgeries, we expect activity to pickup in hospitals and clinics as and when the lockdown rules are relaxed in various parts of the country. We are enabling our marketing team with digital tools to engage with the medical fraternity and health care providers. We are taking all the necessary steps to ensure safety and hygiene of employees working in the manufacturing facilities, R&D center, supply chain and other support functions. Our senior management team is continuously monitoring the on-ground situation and taking the necessary steps to optimize our production levels, control our receivables and inventories, maintain adequate stock of raw materials and ensure availability of our products in our key market. Because of the current situation while there could be some slowdown in near term but we back ourselves to navigate through these tough times on back of the strength that we have built over the years. Those are strong brands, large field force, extensive product portfolio, pan India distribution and an experienced management. Thank you for listening. With this I would like to open the floor for Q&A. 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 CGS-CIMB. Please go ahead.

Rashmi Sancheti: Just want to know that during Q4 our gross margins have dipped, which I believe is maybe due to the higher API prices during Chinese lockdown, so can you just say that is the entire impact seen in Q4 or it is likely to come in Q1 also?

Rajesh Dubey: In Q4 impact on our gross margin, to certain extent it is due to API but major portion it goes to our business mix. During the quarter, it was a composition of our international sales it was higher as well as trade generic sales it was better, that is the reason. A little bit component is there of API, but we do not see very significant kind of impact going forward.

Rashmi Sancheti: As per that our 9 months gross margins were around 61%, so is it safe to assume that in the subsequent quarter we will get back to the same kind of gross margin?

Rajesh Dubey: Our expectation it remains somewhere close to 60% and I do not see any reason why we should change our views. We do not have any long-term kind of thing, which is bothering us here, so we remain with our estimate of 60%.

Rashmi Sancheti: How many product launches have you done in U.S. business and if you can tell us total products commercialized as of date in U.S. and have you seen any price rises in your base portfolio?

Amit Ghare: During the quarter we had 2 launches, during the entire fiscal we had 14 launches, which has been our best year so far in terms of new launches in the U.S. market, the entire fiscal that is and the other question was how many products we commercialized here, we have commercialized probably more than 60 ANDAs or close to 60 ANDAs now cumulative.

Rashmi Sancheti: 60 products?

Amit Ghare: 60.

Rashmi Sancheti: About price rises in your base portfolio?

Amit Ghare: Nothing really significant to report there.

Rashmi Sancheti: But we have not seen any kind of major erosion in FY2020 U.S. base portfolio?

Amit Ghare: Well the business is deflationary as you know, so overall there will always be deflation year-on-year.

Rashmi Sancheti: Lastly on capex guidance how much capex have you spent during the year and what is the guidance availed for FY2021?

Rajesh Dubey: So for 2021 we have already given our guidelines it is going to be 350 Crores and more or less equivalent amount in this year also 10, 15 Crores more I think it was 380 Crores kind of and next year is going to be somewhere close to 350 Crores.

Rashmi Sancheti: So that means FY2020 we have spent around 350 Crores, right?

Rajesh Dubey: FY2020, it was 380 Crores, 385 Crores, but 2021 our estimate is 350 Crores.

Rashmi Sancheti: How much is the maintenance out of that?

Rajesh Dubey: Major is for replacement or automation, but some component is there of maintenance kind of capex. As you know we have already completed our Greenfield projects, so nothing much investing that. Actually automation and capacity enhancement-related capex is expected this year.

Rashmi Sancheti: Alright. Thank you Sir.

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

Prakash Agarwal: First question on this India business only, so would that be correct to understand that there is a spillover, which will flow into Q1 to the extent of 100 Crores, 150 Crores?

Sandeep Singh: Yes, fair statement.

Prakash Agarwal: With some unlocking that we are already seeing on the ground, have you seen business pickup that is happening already in the initial week or it is too early to comment?

Yogesh Kaushal: It is a mix actually. It is too early to comment because although the clinics are opening, but the patient flow is still very slow. So we hope that by last 2 weeks of this month the picture will be clearer, but as of now the patient flow is slow.

Prakash Agarwal: Okay understand and since Q2, Q3 are our main quarters in terms of seasonality and monsoons being normal is there any outlook that we can share very ballpark that we have always said we will do better than industry given this is a little unique situation, any ballpark color you can give for the year?

Yogesh Kaushal: I will tell you that again very difficult to predict, but what we can say right now that since we have a very high dependency on antibacterials and hygiene factors, so that part may be a little challenged, but all those surgical aspects because we have a huge business even on a surgical aspect also. So the parental antibacterials, which we use right, so 3 months there was a blockade of dental, surgical and ENT, so you cannot stop those treatment. So all those patients who are sitting right now will now start surging, so we expect that maybe July onwards as you rightly said that second quarter and third quarter are very important for our business. So we expect a good surge because of this, the patients who are like, so parental will surely show upward trend.

Sandeep Singh: We will outperform the industry for sure to answer you more specifically, but we do not know what the industry would grow. So obviously our estimates have undergone some change. We will not be growing at high teens and things like that, which we always say that we would, but we also say that we will outperform by 200 basis points I think that will continue.

Prakash Agarwal: Fair enough and last question just trying to understand the dynamics of acute business better, so understand the competition is much higher and in this kind of environment the weaker guys will shove off and the bigger guys who have stronger brands will continue to gain market share, this has been actually positive for us in the medium to long term?

Sandeep Singh: Yes, for sure. Yogesh, please.

Yogesh Kaushal: Recently IQVIA has released a very interesting data wherein they have given a slab-wise analysis of brands and companies on those who are high threshold and those who are low, so anything which is above 50 Crores and those who are the brand, particularly I am referring to right now, and brand, which are 100 Crores or 200 Crores in size they actually have gained even during this lockdown time and even companies, those amongst top 20 companies there is a gain of almost 1 to 1.5 percentage points, so what you are saying is absolutely right that the big brands and the big companies will gain out of this.

Prakash Agarwal: On the employee cost side would it be correct to understand it is lower because it would be incentive linked and that is why the employee cost seems lower?

Rajesh Dubey: Employee cost is lower because last year there were a few one-offs, but they were not very substantial, but there were some one-offs in last year's Q4 and this year Q4 our sales incentive compared to Q4 of last year it was more rationalized and evenly distributed in all four quarters that was the reason, so we debited P&L by lesser amount on incentive front as well as last year's Q4 one-off, which was not there in Q4 of current year that is the reason why quarterly employee costs you see it is on lower side.

Prakash Agarwal: Understand. There is a spike on depreciation Sir any particular reason?

Rajesh Dubey: Yes, depreciation spike is there because one is AS 116 because of that our lease understanding now it is termed as intangible assets so that one depreciation is there on that front as well as we have provided accelerated depreciation for a few of our assets, we think it needs to be, let us say, because of nature of deals, so both these amounts I think the first one is not one-off, but second one is definitely one-off, so around 18 Crores accelerated depreciation, which has gone in our P&L you can consider that as a one-off for this quarter.

Prakash Agarwal: I should remove that 18 Crores and look at 60 Crores, 65 Crores run rate for the upcoming quarters with some inflation?

Rajesh Dubey: Yes and obviously that is going to be there because we capitalize also in this quarter a few of our facilities that is another reason, but yes you said very well Prakash you take out 18 Crores and then it becomes small.

Prakash Agarwal: Okay Sir. Thank you and all the best.

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

Neha Manpuria: Amit, my first question on the U.S. business. If I were to look at the momentum is it fair to assume that a large part of the strong launch momentum that we have seen is captured in the fourth quarter numbers because we have pretty much seen quarter-on-quarter improvement in the U.S. business despite the competition in mycophenolate?

Amit Ghare: No. So you asked specifically for mycophenolate, but I will answer more for the first part of your question. So overall number of launches as I said were higher current year and in fact the largest of any period that we have had so far and when we are not the first generic or let us say first wave of entrants launching, day 1 or day 181, in that case when we are launching our product as a follow-on generic typically it takes anywhere between 2 to 4 quarters to reach our aspirational market shares. So in effect what happens is that even if I launch let us say 5 products in a quarter, which is let us say on the higher side you may or may not see the effect of that immediately in that quarter, but say 2 quarters later that certainly you will be able to see a good reflection on growth and that is exactly what has happened as far as this quarter is concerned, but if you take on an overall annualized basis that is very much, part of the launches have certainly contributed, and part of the launches will continue contributing.

Neha Manpuria: Is it fair to assume that the number in this quarter is more a reflection of our launch momentum and not so much upstocking that we might have seen in the year?

Amit Ghare: No, I would not say too much on that. I understood your question, not so much of March momentum. The performance overall was more launches during the year for us, which were in Q2 and Q3.

Neha Manpuria: Understood. My second question related is how should we look at the launch momentum going ahead because our filing still remains strong, can we maintain the same number of launches or bunching up of launches that we saw this year?

Amit Ghare: So we are hoping to land first time if you recall we had given a guidance that our number of launches will be in double digits, low double digits and we managed to do that with 14 launches during the year. I think for this year our overall broad guidance would be around 10 launches in the year.

Neha Manpuria: Understood. My second question is on the working capital. I understand that probably decreases are high this quarter because of the lockdown impact in collection, what is the trend we have seen in April and May has this normalized or are we still seeing elevated working capital in the India business?

Rajesh Dubey: Yes. April and May, as you know, sales it was impacted, so obviously on a working capital front also a similar kind of issue it continued and yes we do have inventory as well as we have extended some credit period to our stockist also if I talk domestic market. We do not see any major improvement in these 2 months, but going forward definitely we are working on that and we think we will be doing better on working capital front.

Neha Manpuria: Sir, how many days have you extended this and would this be for trade generic and branded?

Rajesh Dubey: No, trade generic we have not given any extension of credit days, but ethical yes of course we have given 15 days, stockists those who are on credit we have extended by 15 days.

Neha Manpuria: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Nithya Balasubramanian from Bernstein Research. Please go ahead.

Nithya B Subramanian: My question was actually on the India business, so as you are observing patients come back to the clinic is it true that patients are actually biased towards private clinics and are still staying away from hospitals and does this mean that your parental anti-infectives business will see a much slower recovery than the rest of your business?

Yogesh Kaushal: Not very sure, but yes since most of the hospitals are only taking selected cases so initially there will be little slow beginning in hospitals compared to the private clinics, but with surgeries you cannot really delay for beyond a particular time, there is a reason we are a little optimistic on parental antibiotics. So they would have delayed the surgeries maybe for two, three, four months' time, but from July, August onwards you can see a surge in even surgical cases as well even in hospitals, but currently the private clinics are more active compared to the hospitals.

Nithya B Subramanian: Got it. What portion of your business would be parental anti-infectives?

Yogesh Kaushal: See, on the antibacterial side our dependency would be roughly around 30%.

Nithya B Subramanian: Got it and if you were to look at all products that are related to surgeries or procedures?

Yogesh Kaushal: Sorry can you repeat your question?

Nithya B Subramanian: You said 30% is parental anti-infectives, but if you were to look at all your products that are related to surgery related, pre and post-surgery related?

Yogesh Kaushal: So overall anti-infectives that is what you asked the question that overall anti-infectives, which is used in hospitals including parenteral and oral will be approximate around 40%.

Nithya B Subramanian: Understood. My next question was actually on the U.S. So one question I had was your India business is obviously far more profitable than U.S. and if we were to do some back calculation of course and if you look at Indian peers ROCE also seems to be lower in the U.S. business, so given how well you are doing in India, does it make sense for you to continue investing in the U.S., are you not better off allocating resources and capital in India?

Sandeep Singh: Yes. Great question. Different businesses will have different return on capital, so I think that is something we have to live with. Even in a domestic business we have a far different ROCE in generic, trade generic is different, in acute is different, in chronic is different, so similarly international business if we start seeing from the India lens then I think all the Indian companies should shut it down, which I think would be wrong because it is important for growth that companies are into that. On long-term basis does it yield you a higher return on capital than compared to, let us say, nonrisk-free asset or I think that is the right way to look at it because theoretically even if you shut down U.S. business it does not mean I am going to get that same business in India, so I think it is a good comparison, but maybe it does not hold true in practical world.

Nithya B Subramanian: Fair enough. I think the reason I brought this up was because right now you have a slightly lower base in the U.S. compared to your peers.

Sandeep Singh: True.

Nithya B Subramanian: So for a lot of them they also have legacy issues, incumbency issues, which those hang-ups you do not have.

Sandeep Singh: True.

Nithya B Subramanian: So which is why I was wondering if we have actually made the conscious stories of trying to push through and scaling up in the U.S. versus investing in equally attractive opportunities there?

Sandeep Singh: Yes, equally attractive sure. So please understand that we have not acquired anything large in U.S. or for that matter anywhere, so we understand what you say. We will not kind of chase aggressive growth in U.S. just in terms of size. I think if you run international business well, in U.S. in particular we can still have a return on capital or return on equity of about 15%. Currently we are not there, but I think over the next 4 to 5 years we can get there and that is something, which we aim at.

Nithya B Subramanian: Thank you. Thank you for that.

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

Anubhav Aggarwal: I just have one question. I just wanted to understand this mycophenolate impact is it fully flown in this quarter and not entirely, but is this one of the key factors for lower gross margin this quarter?

Amit Ghare: No. I think the growth margin was already answered by CFO, which was more because of the composition of three businesses that we have, ethical, trade generics and international, their contribution in the quarter, so mycophenolate per se certainly will contribute, but that is not the sole reason for gross margin profile that you see.

Anubhav Aggarwal: But have we seen most of the impact flowing through this quarter or some impact will flow in the future quarters also?

Amit Ghare: No, most of it is we have seen through, as far as mycophenolate is concerned.

Anubhav Aggarwal: Just on the mix thing within India, what you would have deferred to next quarter, 100 Crores, 150 Crores, just asking the chronic component should have been higher for us in the Rx segment this quarter right?

Yogesh Kaushal: Yes. Relatively, on chronic we are better off.

Anubhav Aggarwal: So I am just trying to understand the bigger contributor was that business mix, but within business India would not have been like so worse off?

Gagan Borana: So Anubhav, if we adjust the deferred sale, which moved from April or March to April, if we had booked it in March itself then the gross margin would have not been on the lower side it would have been very much in comparison to what it was last year.

Anubhav Aggarwal: Okay, sure. Thank you.

Moderator: Thank you. The next question is from the line of Saket Bansal from Opulent. Please go ahead.

Saket Bansal: I have a few questions regarding the employee cost, Sir what percentage of employee cost is variable in nature?

Rajesh Dubey: Variable in nature?

Saket Bansal: Yes, like incentives and...

Rajesh Dubey: I think it would not be significant. Most of the employees they are on roll except some contract employees at manufacturing...

Saket Bansal: No, including incentives.

Amit Ghare: It is more on how much part of the MR cost is fixed and how much is variable that is proportionately…

Sandeep Singh: That we are assuming that.

Amit Ghare: You are going at the company level.

Sandeep Singh: Yes exactly.

Rajesh Dubey: So the variable...

Saket Bansal: I was asking that I really want that answer.

Gagan Borana: Saket, is my understanding right? You want what part is fixed and what part is variable from incentive perspective is that right?

Saket Bansal: Yes, correct.

Rajesh Dubey: Around 15% it would be variable, rest of the cost is fixed.

Saket Bansal: Okay. Sir, my other question is there are 40 new drugs, which are combination drugs, which have come into the new pricing regime or something so the news was yesterday, so any of our products are into that?

Rajesh Dubey: No, we do not have any of our products and we have not impacted by that.

Saket Bansal: Okay and Sir Can we take a price hike in our base portfolio, which we have currently for the next year also?

Rajesh Dubey: For which market?

Saket Bansal: For the India market.

Yogesh Kaushal: We take decision as we go on because now the price increase is dependent on inflation and plus the regulatory so as per whatever regulatory permits we take price increase accordingly.

Saket Bansal: So what percentage of your portfolio is into DPCO?

Gagan Borana: 26% of India portfolio.

Saket Bansal: How much percentage I could not hear.

Gagan Borana: 26%.

Saket Bansal: That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Nikhil Mathur from Ambit Capital. Please go ahead.

Nikhil Mathur: My question is regarding the MR sales force strength that Alkem envisages to have in FY2021. Now my understanding was that through 9 months FY2020 the company was entering a phase that the requirement of new MR additions were going slow and usually there is a churn that keeps happening, certain MRs leave organization and you replace them with new MRs, So there is a natural churn of MRs in FY2021 would you be looking to replace that or no there would not be any additions possibly in FY2021 and extending into FY2022 as well?

Yogesh Kaushal: So if your question is related to expansion then I do not think, but replacement, yes, whichever current strength we have and which is approved and if there are vacancies we will keep on replacing them, but no new expansions.

Nikhil Mathur: Okay and on the chronic side what is your strategy, does the current situation gives you a setback on your need to push your chronic sales or does the current situation change the things any which way on the chronic side?

Yogesh Kaushal: See the impact is across industry it is not specific to Alkem. Here the only difference is those molecules, which were launched in the last Q4 of the last year, usually their activities are accelerated in the first and second year so that acceleration will get impacted for sure.

Nikhil Mathur: Okay and the final question is on, can you give us a sales split of the domestic business into urban areas and semi-urban rural areas is it possible to give some color on that?

Yogesh Kaushal: Right now you can get this through IQVIA here, but internally it is difficult we do not track.

Nikhil Mathur: Okay, sure. Thanks a lot.

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

Saion Mukherjee: Sandeep your statement on growing ahead of the market, 200, 300 basis points is quite encouraging the general belief is companies, which have a large anti-infective and acute therapies will suffer because of hygiene factors going up and stuff like that and whatever secondary market data we have seen on AIOCD for instance indicate that in April the growth has been lower than the broader market, so the question is what gives you this confidence of beating market in fiscal 2021?

Sandeep Singh: No, I think, see, inherent strength what we already have and please remember that April, May perhaps you saw the peak of lockdown and everything, so I think to extrapolate from April, May would be incorrect, so once we open up I think we will be in a much better position and I said that we will outperform the market, so if the market is down we will also be down, but we know that we have historically beaten by 200, 300 basis points and we will do it, so we are reaching out on different platforms, we are doing something innovative like reaching them through digital channels and things like that, so it gives me quite confidence that yes we will beat the market. Obviously we will not grow at mid-teens or things like that, but we still aspire that we will kind of try to go to double digits close to that.

Saion Mukherjee: The sales data that you are seeing, would you say the month of May there is a revival over what you saw in April?

Sandeep Singh: No, I will not say that. Second thing Saion just to complete my answer, whatever numbers you are seeing you do not see trade generics, which Alkem is a second largest player now in India, so keep that in mind.

Saion Mukherjee: Yes that is exactly what I was thinking. So you mentioned like in Q4 also there was greater contribution so any color you can give I understand like there is a huge demand there so any color you think it will be like very, very strong double-digit kind of a contribution of growth that you see?

Sandeep Singh: Yes. So Saion, at this moment, I would just like to say that in trade generics component our domestic business will grow this year because the prescription business is under tremendous pressure and trade generics is growing so its contribution to domestic business will be higher than what it was last year that is a very fair statement and it is growing on a healthy double-digit even in this down market.

Saion Mukherjee: Okay, understood. Second question on the U.S. market very strong number of launches kind of expect it to continue 10-plus launches you were mentioning. I think the pricing environment also you made a comment is largely okay and stable, how do you see in terms of growth, fiscal 2021-2022 maybe do you see an acceleration in growth given that the number of launches or the kind of launches you are getting any qualitative I know it is difficult, but do you feel the growth would accelerate or remain at the same pace?

Amit Ghare: No, our base is increasing, Saion, as you know. So now we crossed the 300 million, which we proudly stated. So in that larger base I think we will aspire to grow somewhere close to mid-teens and I think that will be a fair assumption in terms of new launches, the portfolio that we hold. I think that is what we will aspire for. This year we may end up low to mid-teens, but I think our overall aim will continue to be mid-teen growth over a 2-year period.

Saion Mukherjee: Okay that is helpful and just finally in all the pluses and minuses put together, earlier interaction suggested there was some pressure in raw material prices. It seems that has also come down, so you have an aspiration of expanding margins by 100 basis, 150 basis every year, of course this year is an aberration, so how should we think about margin this year or maybe over a 2-year period anything that you would like to guide there?

Sandeep Singh: Yes. So Saion, even for this year, I would say that we still are hopeful that we are able to expand our EBITDA margin. We will do it for this year as well and what we said last time, yes that still continues that we will expand EBITDA margin 20% plus in the next 2 to 3 years, but this year you will also see growth in EBITDA margin.

Saion Mukherjee: Thanks a lot, I will join back. Thank you.

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

Ashish Thavkar: Sir, on the debt part we have seen some increase in the debt so if you could help us understand what was it toward?

Rajesh Dubey: Ashish what exactly you want to do? Yes, increase in debt is there. Actually sometimes back we have funded our working capital to a certain extent and we have paid good dividend to take advantage of dividend distribution tax so if you see this year a major portion of our dividend amount it has interim dividend as well as final dividend of last year so these are the two things, which have increased our debt compared to last year.

Ashish Thavkar: Fair enough. Just one last question. On the tax, so we ended this year with 10% tax on the reported basis if you could help us guide what should be modeling for the next two, three years will be helpful?

Rajesh Dubey: Next year we are going to remain between 12 to 14%. I think we have already given our views to the investor community.

Ashish Thavkar: That is helpful. Thank you, that was it, all the best.

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

Aditya Khemka: Sandeep bhai, on the trade generic business, fantastic commentary on growing double digits even in this environment I think that is very commendable, but the trade generic there was larger than you in India in his conversations with investors has been talking about a strategy where they are trying to switch the trade generic brands to more OTC, OTX platform and thereby maybe even improving margins of the trade generic products where already brands are strong and maybe leverage the distribution of the OTX, OTC platform more than leveraging just the trade generic platform any thoughts on that, what do you think about that strategy and is it at all applicable to what Alkem is also doing?

Sandeep Singh: Great question and it is applicable and complement them it is very much possible to do. Just one thing I want to say Aditya that though we call it trade generic, sometimes we underestimate the power of those brands, so for example there are some brands in a trade generic that they are brands much larger with a better recall value in prescription generic, so they already have a brand component, which sometimes we do not appreciate. It is very much possible Aditya to take it to OTX kind of route. My only point is they are already kind of an OTX, some of them, it is a good brand and certainly that is possible Aditya, but just to be completely clear we do advertise some of our brands a little bit, but we do not have an aggressive plan as of now, but it is a very interesting thought and we do delve on it sometimes and yes that could be work in progress, a lot of things we could do. For example, I am extending the question, maybe the answer for example whenever there is a risk of margin, putting cap margins on trade generics on that front also you can restructure your business these are great brands, you could always stick around the ethical prescription route as well so some restructuring and smart move over there can grow the business much more than historically it has grown.

Aditya Khemka: That is a very interesting part. You can probably take a trade generic because it is already an established brand, to take it to the Rx front also and maybe the doctors would be amenable to those brands, but Sandeep bhai can you talk about the pros and cons, you seem to be sounding a little comprehendible to this policy or to this strategy whereas your largest competitor is sounding very bullish and very aggressive on this strategy, so I do not want you to comment on his strategy, but on your thoughts on the strategy what are the pros and cons?

Sandeep Singh: In what, Aditya?

Aditya Khemka: In taking the trade generics to a more OTC or a more Rx platform why would you not go aggressive on doing that and why would you go slowly and think about that?

Sandeep Singh: First thing is why mend something which is not broken. We are already doing well it is growing well so that is first part. Second OTC is a different scale game. Very honestly we are hardcore prescription business, pharma business. We have not done that in the past. Of course we could go ahead and learn it, get talent, but that would have a learning curve. I do not foresee any reason to do it as of now, but we still evaluate it so that is one con you will end up spending a lot and you could realize it much later that it is working or not working unlike what we are doing right now.

Aditya Khemka: Right and this is to draw from your OTC business experience in some of the consumer products that you have tried at home.

Sandeep Singh: Yes.

Aditya Khemka: I completely get that. Just one more question...

Sandeep Singh: I think that is a great point and we are open to it and it is not that we are close-minded we are just cautious about doing it, but it is a good idea honestly.

Aditya Khemka: Fantastic. Okay. Just one more question on the overall margin profile of the business and more to Mr. Dubey Sir's point on financing, working capital so Dubey Sir do you guys also do factoring and with recourse without recourse for your receivables to manage or to leverage your working capital?

Rajesh Dubey: No. So far we have not done. We do not think actually within our normal working capital requirement we are very comfortable, this is not permanent kind of amount involved in working capital Aditya and we think we will come back to our normalcy very quickly.

Aditya Khemka: Dubey Sir one more followup on that so you mentioned 350 Crore capex plan, where are we increasing capacity, in which plants and where do those plants cater to as a market?

Rajesh Dubey: No, we are having capex requirement all across to all our manufacturing, but Indore is our new facility, so we have reasonably higher capex there, but more or less we have everywhere.

Aditya Khemka: Understood. One question for the U.S. business as well. Sir you said that in the U.S. business you are anticipating 10 odd launches how many filings do you foresee filing for the U.S. market, number one, number two, which are the areas that you are targeting, so now we are signed in an era where oral solids are a foregone conclusion, some of the oral solid products do make sense yes, but majority of them do not make much money and then the complex products have a very high R&D barrier, could you talk a little bit about how are you strategizing on your U.S. business?

Amit Ghare: Sure, so the number of filings remain the same ambition that we have always carried forward consistently over the last 5 years that number is 12 to 15 that we have stated so that continues to remain the same. I know last 3 years we have overshot, but then that also is some legacy carry forward from GDUFA regimen, pre-GDUFA, initial GDUFA regimen, so 12 to 15 remains our answer. To the second part of your question, even today the U.S. business and overall business 80% continues to be oral product, oral solids also to that extent. Going forward obviously our investments consciously like you have said are going across not just dosage forms and therapy areas, but into complex generics also, follow-on generics also some of the old products also because of lower competition depict far better return on investment and we consciously do a mix of everything, you cannot have 12 filings in a year where you will get let us say approved in 15 months' time, but then you are waiting for another 2 to 3 years for launch because these are all ahead of time so everything needs to be looked at from a mix perspective and we are working on all the possible areas that where we have capabilities and which we can afford at the same time.

Aditya Khemka: Just one last followup on this, so in his comments Sandeep bhai mentioned that 15% ROE number that one can do in the U.S. business is that the same standard you hold yourself to when you budget the R&D expenditure on these projects?

Amit Ghare: R&D expenditure we were actually talking the R&D expenditure for this year does it result in revenues for this year or margin for this year? Obviously the answer is no. The gestations are actually 3 to 4 years, so we really see dollar invested today. Can it return me 15% when it is actually invested through working capital, capex and all of that? I think the answer is, yes, that is the minimum that we should aspire for.

Amit Ghare: Perfect. Thank you and all the best guys.

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

Nimish Mehta: I just have one question. For the year FY2020 when we have reported 12% growth in our domestic business can you just break it up into the growth from price increase and the growth from volume increase and also if you can compare the same with the industry and what do you think it is the trajectory likely to be going forward?

Gagan Borana: So I think if you break up the India growth, so it would be about 3% it would be new product introduction, about 4% would be price increase, and the remaining would be volume growth.

Nimish Mehta: If I am not wrong, I think the industry comparisons are much higher in terms of price increase is that right?

Gagan Borana: I think yes. So we are around the same. So industry would be around 4% so we are also around 3.5%, 4%, that is where we are.

Nimish Mehta: Particularly on the price increase do you think this is likely to continue for next few years as well for both the industry as well as for our company?

Gagan Borana: Yes, 3% to 4% price increase is doable every year that is the average, if you can see over the last 4 years, 3% to 4% has been the average over the last 3, 4 years.

Nimish Mehta: Yes that I understand. I am just talking with perspective that there is a demand dip in the next let us say this quarter, maybe in the second quarter as well and whereby people would try to push their products many of the competitors might want to push their products by lower pricing and hence there might be a price dip, which is the worry that I am coming from and whether we will be able to increase the price at an industry business?

Yogesh Kaushal: Yes. From a business perspective, Nimish, I will answer that. It really does not work because when you have a power of prescription then prices are not significant, so 3% to 4% price increase irrespective of environment will not be a challenge. Yes, it will do work in generics, but in ethical business as and when regulatory permits we can take a price increase, it will not deter the business flow.

Nimish Mehta: Okay fine. Thank you very much.

Moderator: Thank you. Next question is from the line of Sangeeta Purushottam from Cogito Advisors. Please go ahead.

Sangeeta Purushottam: I had two questions. One is that given the nature of your business and the dependence on acute, would it be right to assume that a lot of the sales in the domestic business, which have not happened as a result of the lockdown are in a sense loss to us or that is they will not come back in the months after the lockdown opened that is one question and my second question relates to guidance on the tax rate how do we see the tax rate for the next couple of years and if I may add one more followup question on something an earlier participant had asked you mentioned that your R&D expenditure is about 5.3% of sales and is 473 Crores how much of that is for the domestic business and how much of it is for the U.S. filings?

Yogesh Kaushal: There are three questions. The business, which we have lost in first two months I would say it is difficult because those are prescriptions of 7 to 10 days and once the time is over you cannot really recover them so that is a business, which we have lost and is difficult to recover in balance 8 to 10-months time. I will just ask my CFO to answer.

Rajesh Dubey: Yes. I think I have already given figures for our tax rate. I think I have given for next year and beyond two years I think difficult to predict up to a certain level, but we are going to remain within 15% for next two years. Next year we think we will be somewhere between 12% to14%.

Sangeeta Purushottam: Alright and on the R&D if you could just answer that?

Rajesh Dubey: R&D spending generally up to 10% kind of expenditure it is for domestic and the rest is for international.

Sangeeta Purushottam: Right. So if you allocate the R&D costs to the international operations then are we making money at the EBITDA level on the international operations?

Rajesh Dubey: Yes we are making money after taking out R&D costs.

Sandeep Singh: Post R&D low single-digit EBITDA margin.

Sangeeta Purushottam: Low single digits. Okay.

Andrey Purushottam: In a normal year, not in a post-COVID year what is the Q1, Q2, Q3, and Q4 of revenue and what is the underlying reason for the seasonality in your sales?

Yogesh Kaushal: Usually our first half we are at around 54% of business and second half we do 46%, but since we have acute to chronic split so this is acute and chronic it is other way around we do around 50% to 52% and then 48% in the next half, so there are different SKUs. So the SKUs are aligned with the season, so our antibacterial season is largely in the second half and the third half so that gives us traction so the phasing is done on the basis of season, so the season is more critical.

Sandeep Singh: Monsoon and waterborne disease and things like that, that impact.

Andrey Purushottam: So I was just trying to understand your last year results. Your Q4 results if you do a year-on-year comparisons they are very good, but if you compare with the previous quarter they do not look so good so what is the underlying reason for that?

Gagan Borana: That is what has been explained, correct. 40% of our India business is anti-infective, which is seasonal in nature. So monsoon are the peak time for the anti-infective business. So once monsoon goes by October then you see a sequential decline in those sales that is the reason you will see Q4 being the weakest and Q2, Q3 and Q1 being the better ones.

Andrey Purushottam: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Anupam Agarwal from Lucky Investment. Please go ahead.

Anupam Agarwal: My question was just adding to the previous participant on U.S., so at what level of sales would be breakeven in the U.S.?

Amit Ghare: We are already crossed the breakeven point. I think that is the question which was asked, do we generate positive EBITDA and the answer was given.

Anupam Agarwal: Right, but is it possible for you to give me a figure at what level did we breakeven?

Amit Ghare: Probably $100 million, maybe at $200 million level.

Anupam Agarwal: Incrementally, let us suppose, every dollar would be what percentage of margin?

Amit Ghare: I do not think I can answer that question.

Anupam Agarwal: We have always been talking about cost optimization and efficiency so how much of percentage have we already achieved and how much is left to be achieved?

Rajesh Dubey: It is a continuous exercise going on. Cost optimization it has to go on and that is what we are doing and we do have ongoing program also so it has to happen all across.

Anupam Agarwal: Is it possible to give me your concentration in the U.S. in terms of top 5 or top 10 products?

Sandeep Singh: I think that is public information, you can get it. We do not share, but we will get from IQVIA and all that.

Anupam Agarwal: No problem Sir. Thank you and all the best.

Moderator: Thank you. Next question is from the line of Anil Karmarkar from Dalal & Broacha. Please go ahead.

Anil Karmarkar: Most of my questions have been answered. Just one question, some clarification. In U.S. you said that your aspirational returns are 15% I just wanted to confirm whether it is an ROE or ROCE?

Amit Ghare: That was ROCE.

Anil Karmarkar: How large can your U.S. business become say, 5, 6 years down the line?

Amit Ghare: Well, mid-teen, if we aspire, you can calculate based on CAGR of mid-teen.

Anil Karmarkar: Around 15% CAGR?

Amit Ghare: 15% growth is what we aspire year-on-year. If you take that, you know in 15%...

Anil Karmarkar: Fair enough. Okay, thank you very much and all the best.

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

Kunal Mehta: I have a single question. In response to a previous participant question that you expect the margin to improve in this year is also at the company level so just want to understand the reason behind this statement because in an environment like this where you are able to leverage your costs and on operating leverage out of lot of the fixed costs, especially your MR cost would be constrained so can you give any sense of how do you wish to go about this?

Sandeep Singh: Yes, how I wish to go about it is because there is variable cost also in business and so medical rep cost, which is mentioned is just one expense. You have promo expense, you have incentives, travel is completely down, and we are not responsible for it, so there is a lot of costs we are confident we can grow the EBITDA margin even in this circumstances. The expense just basically takes a big hit. It is not because we are geniuses. I think most people will do that honestly.

Kunal Mehta: Sure, I get your point but because your productivity of the MRs especially when you visit the clinic or then the doctor does not want MRs to visit clinics especially doctor would be hesitant to contact with corona so that reduced productivity, the profit per person, there is a trade generic for you so would you still say that the cost reductions which would take place this year, would be able to offset that reduction, that decline in productivity?

Sandeep Singh: Yes, what I said, if you recall, I said EBITDA margin would increase, so that is possible. Sir, I restate what I said it is possible 100%.

Kunal Mehta: Okay, sure. Thank you.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question. I now hand the conference over to Mr. Tushar Manudhane for closing comments.

Tushar Manudhane: Thanks a lot for this call. I thank the management as well for spending the time and providing the outlook for the different business segments. Thank you Sir.

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