"Alkem Laboratories Ltd. Q4 FY21 Earnings Conference Call"

May 25, 2021

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Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY'21 Earnings Conference Call of Alkem Laboratories Limited hosted by Motilal Oswal Financial Services. 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, Margaret. Welcome to Q4 FY'21 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 – President (Chronic Division) and Mr. Gagan Borana from Investor Relations. Over to you, Gagan for the opening remarks.

Gagan Borana: Thank you, Tushar. Good evening, everybody and thank you for taking out time and joining us for Q4 & Full Year FY'21 Earnings Call. Earlier during the day, we have released our Financial Results and the same is also posted on our website. To discuss the 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 transcript would be made available on our website as well. I would also like to add that today's discussion may include forward-looking statements and the same must be viewed in conjunction with the risks that our business faces. At the end of this call, if any of your queries remain unanswered, please feel free to get in touch with me.

With this, I would like to hand over the call to Mr. 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 once again. We welcome you to our Q4 & Full Year FY'21 Results Conference Call. I would briefly touch upon the Key Performance Highlights of the Quarter and the Year gone by and then we will open the floor for question-and-answer.

So FY'21 was an unprecedented year for everyone, marked by disruptions and restrictions because of COVID-19 pandemic. For a pharmaceutical company like us and the industry likewise, FY'21 was a year of immense learnings on managing various headwinds like manpower shortages, changes in demand of various drugs and limitation in carrying out marketing exercises.

Amidst these challenges, company performed well in FY'21 with the revenue growth of 6% year-on-year, EBITDA margin improvement of more than 400 basis points and net profit growth of more than 40% year-on-year. We also ended the year with a healthy balance sheet, a net cash position of more than Rs.500 crores.

Talking about the India business, we registered a growth of 17.1% in the quarter and 4.5% in the full year. In the first half of the year, while the business saw significant pressure owing to lockdowns, lesser footfalls at the hospital OPDs and clinics and postponement of lockdown. So certainly there was a healthy recovery in second half of the year with relaxation in lockdown guidelines. During the year, there was a severe slowdown in acute therapies particularly in Anti-Infective segment due to slowdown in new prescription generations and heightened focus on personal hygiene and sanitation. Using of masks and sanitizers also helped bring down the infection rate. This had a significant bearing on the company’s domestic business.

We derived more than 80% of revenue from acute therapies in domestic and Anti-Infectives contributes close to 40%. However, robust growth in segments like Vitamin, Minerals, Nutrients and Trade Generics, helped us offset the pressure of the acute business to some extent. Most of our mega brands continue to outperform in the respective markets whereby we maintained our leading position. Last month, we commercialized our first product biosimilar from our subsidiary and we are looking forward to more launches over the next few years.

Moving on to our international business which now contributes about one-third of our overall revenue. During the year, international business grew by 10.6% year-on-year and crossed a revenue of Rs.3,000 crores. This was largely driven by a US business, which grew by 11.4% in the fiscal year gone by. During the year, we filed nine ANDAs with the USFDA and received 25 approvals including six tentative approvals. This bodes well for the future growth in US market which has largely been driven by new product launches.

Apart from US, among the other international markets, Chile, Kazakhstan and UK registered healthy growth during the year. We continue to judiciously invest in R&D which is an important pillar of our growth; during the year we invested about 532 crores in R&D which is about 13% higher than last year. We now have 152 products filed with USFDA, of which we have received 110 approvals including 16 tentative approvals.

In terms of regulatory status of our manufacturing facility, all our six manufacturing facilities supplying to the US market availing EIR as on date. Only my manufacturing facility at Indore is awaiting pre-approval inspection by the USFDA.

We continue to invest in our people, in technologies so that we ensure facilities comply to global regulatory CGMP standards.

With this I would like to open the floor for Q&A. Thank you, everyone.

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

Saion Mukherjee: Just wanted to understand the drop in gross margins during the quarter. Can you just explain what led to that? And also, the fall in US revenues on a quarter-on-quarter basis?

Rajesh Dubey: In fact this quarter's gross margin, there is impact of one, I should not say exceptional but extraordinary item that is inventory provision to the quantum of Rs.80 crores mainly for one of our products in USA. That's the reason why gross margin looks surpressed for the quarter as well as having some impact for it on yearly basis also.

Saion Mukherjee: And sir, any particular reason why this charge has come, I mean, you say it's not one-off, how should we think about it if you can give some more color on the reasons for these charges?

Rajesh Dubey: Actually as per our policy, any inventory having shelf life less than six months needs to be provided, that is as per past history. But wherever we see we are not in position to realize complete amount of that inventory or is having an early pressure, in that case it is prudent to have correct inventory on your balance sheet and you have to go ahead and provide for whatever amount you feel not realizable. So this product having shelf life between six months to 12 months, we strongly believe we have not been positioned to realize completely and that's the reason why we have gone ahead and provided for it. If any realization happens, which at this point of time we see not very easy but if something happens, then it will go to our bottom line.

Amit Ghare: On the fall in US revenue question, we do about 10% year-on-year on Q4'21 over Q4'20. A couple of reasons for that; first and foremost the strongest reason perhaps have been decline in our overall acute portfolio for the US market because of COVID. So essentially all our winter season products we always have strong Q3 and Q4, this year we did not witness it, on the other hand we actually had degrowth in that portfolio. So that has been one of the primary reasons. Second reason has been maybe some loss of market share on one of the products, I mean, year-on-year basis purely I'm comparing. And third reason has been perhaps less number of products or tail ending launching of new products in the quarter compared to last year. Also, remember last year when COVID broke out particularly in the month of March 2020, there has been a little bit of panic buying and we have seen some one-time sales which came in Q4 which obviously got adjusted during the entire fiscal year, but when we purely compare Q4 over Q4 there is an impact because of that as well. So these are three or four main reasons that we have witnessed year-on-year decline.

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

Neha Manpuria: Just a follow up on the US business. Given we had 25 approvals if I heard correctly during the year, I am not able to understand the quarter-on-quarter decline in the revenue. Was there any product where we significantly lost market share or surprising erosion or is there any product that we haven't launched from the 25 approvals which can come through in the next year?

Amit Ghare: Neha, quarter-on-quarter, winter season generally starts buying from retailers when we start around October, November and lasts until February, so in the months of January and February which is part of the winter season, this year our sales hugely declined compared to last year and that is one of the primary reasons including the other couple of reasons I gave. And specifically on your question with respect to new launches, as I mentioned to you, we haven't launched all the 25 that we received approvals on six were tentative so obviously those are not launched, of the remaining 19 and of some of the other products that we had received approvals in the previous fiscal year, all of them were available for launch, about less than 50% of those were launched in the entire fiscal year. So there has been a little bit of back ending in terms of the new launches as well.

Neha Manpuria: Just to get it right, less than 50% of the 19 approvals that we got has been launched and the rest will be launched in the next fiscal, is that correct?

Amit Ghare: That's correct. We actually have launched about 12 products if I remember during the entire fiscal year and I don't exactly remember if all 12 were part of that 19 or there was something in the previous fiscal year which also got launched.

Neha Manpuria: You usually mention about eight to ten launches per year, so then should I assume that the launch momentum will be higher because of these products spilling over from FY'21?

Amit Ghare: Definitely, yes, we are looking for certainly a double-digit number of launches during this fiscal year.

Neha Manpuria: On the India business, could you throw some color on how the India business been doing particularly in April and May, have we seen some impact on the recovery that was happening or is this second wave very different from what happened last time when there was a lockdown on improving COVID cases?

Sandeep Singh: Neha, a question is more for what is happening currently, not so much of Q4 which we are discussing. So I think as you are aware, the IMS numbers which we have seen, we have seen a huge growth in the pharmaceutical industry as such. In the second wave what is very different is that in the first year antibiotic sale has kind of collapsed if I can say, this time it seems that doctors are using much more aggressive regimen to treat the drug because of let's say some acute pneumonia and Yogesh can talk about it, I think there's a strong recovery for us and for the industry in the last couple of months when it comes to pharmaceuticals sales. Yogesh, you can please add some color to it.

Yogesh Kaushal: I think Sandeep, you answered absolutely perfect because last year one is that people were confined to home, this time they are moving, so patient literally are there and therefore the infection rates are high and in last year COVID, the secondary infection of pneumonia wasn't there which is extremely high this year. So this is a different way compared to the previous one. So the antibiotics have shown a very good revival and of course the allied therapies which are parentals of acid managements and Vitamin Cs and multivitamins, zinc preparation, they also have shown a very good increase. The reason we foresee Q1 should go much better compared to last year.

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

Nitya Balasubramanian: My question is actually on the sales and marketing expenses in India. Of course, Q1 and Q2 were extraordinary quarters where like a lot of savings, but if you can talk to us about was Q4 largely a normal quarter in terms of how much you would normally spend on the ground and what is your outlook for Q1 now and the rest of the year in terms of marketing spends in India?

Yogesh Kaushal: Q4 I would say that our marketing spend was a little higher because we were preparing intentionally for our first quarter. April I believe has gone almost normal, so our investment even in the month also was quite okay. May we are seeing slight additionals in marketing activities but the way the cases are receding I think from mid-June or July onwards we should be back to the normal in terms of marketing spend.

Nitya Balasubramanian: In some of the previous calls we have spoken about some savings that you might realize which could prove to be sticky. So in terms of that, are you seeing anything that you're able to realize and keep control over now that we are in FY'22?

Yogesh Kaushal: Other than our in-clinic activities which constitute close to around 60-65% of a spend, rest which is related to conferences or CMEs, they all will become virtual, so those savings we foresee and the way the trend is unlikely that doctors or people will start traveling to the international or domestic destinations, so they will go virtual and that will certainly get some savings to us.

Nitya Balasubramanian: The market saw some revival in Q4. What impact did it have on your Trade Generics business and the growth there? And again now that we are in wave-2, any changes you have seen to the mix of branded generics in place for contribution?

Sandeep Singh: I think the mix has not changed dramatically in the last couple of months for us, mix is resilient, in fact the mix would have slightly gone down for Trade Generics because of the strong revival in Acute Prescription business. Q4 I think we are discussing, Trade Generics was close to around 20% of our revenue of domestic.

Moderator: Thank you. The next question is from the line of Rashmi Sancheti from InCred Capital. Please go ahead.

Rashmi Sancheti: A little more on India business. How are we seeing the hospital portfolio? I understand that the prescription product in the Acute segment and the seasonal sales is something which would support the growth in near-term, but the elective surgeries and everything is still getting postponing in the hospital due to the COVID surge. So how do we see our antibiotic or anti-infective sales specially catering to the hospital therapies?

Yogesh Kaushal: Hospital elective surgeries will still take time, I don't see at least for next one quarter more. Unless and until the emergencies they will go for the surgeries. But incidentally the OPD patients are very high. So whatever gap we had because of hospital business is almost getting offset because of very high OPD patients. So our Anti-Infectives in orals and antacids in parental, there we are almost on, so you are not suffering. Some of our antibiotic injections may have some challenge, but that will be offset by the other therapies which are helping us or supporting us.

Rashmi Sancheti: Can you give the contribution like how much domestic sales comes from this part of the segment, if you can give in a normalized business level?

Sandeep Singh: Gagan will send the information on hospitals business for sure.

Rashmi Sancheti: Any guidance on India business for FY'22.

Sandeep Singh: We are working on the same guidance in kind of mid-teens. Maybe if things are as high as what was in April and May, then maybe we will do a higher band of that, but our guidance has not changed now.

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

Prakash Agarwal: On the strong cash flow that we have seen in this year, so how do we plan to use the cash as well as how should we look next year for CAPEX, dividend policy, some M&A in the works or anything that you're thinking over the next 12, 24 months?

Sandeep Singh: This question is asked to us and we always keep saying the same thing. So nothing has changed. We will have some cash surplus end of the year obviously, but we stick to our dividend policy, there's nothing new changing in CAPEX plans nor as a company we have any large M&A plans that's not in our DNA. So steady as it goes. In three, four years, where we really think we have a problem of plenty of cash we will obviously discuss a few things before that and kind of share, but nothing changes right now, Prakash.

Prakash Agarwal: The question why I asked is we have seen some inventory moving up quite a bit and in the past you have said given COVID you are keeping higher inventory and all but I hope this will reverse in the next six months, so you will have…

Sandeep Singh: I think it should.

Prakash Agarwal: Yeah that and plus India outlook being mid-teens, so you would have a much stronger cash flow is what I understand in '22 versus last year also?

Sandeep Singh: Yes, Prakash. Cash is a good thing to have.

Prakash Agarwal: Yes, it is. So I was just asking like if there are any plans for use of cash. Secondly, on US, when we think of pipeline we have seen gradual increase in your R&D as well. So where is our thought process in terms of what are the kind of products we should see in the next 12, 24 months, are there CGT products, FTFs, any color would help?

Amit Ghare: It's actually going to be much of the same. Our focus continues to be obviously Oral Solid. So, you're going to see more of that. And we of course at the same time do work on Oral Liquids and Powders and some Solids as well. So there is work happening on all the fronts, but there's really nothing that I can guide for future in terms of what we're working on.

Sandeep Singh: Potentially there could be some CGT at risk or loss and things like that, Prakash. We're not very sure. So to say that it will happen might be a little bit of adventurous statement, Prakash, but we have in us, we could do it, but we are not sure right now, Prakash.

Prakash Agarwal: Lastly on the margin outlook. Since we have a positive outlook on the India business and the mix would improve I understand that. So our gross margin and EBITDA margin should improve even on the high base of last year or with cost increasing it should stabilize at that level, what is the outlook please?

Sandeep Singh: I think that's a great question, Prakash. You know why? Please keep in mind that gross margin will be impacted one, because cost is going up, the mix ratio would change compared to last year, and also API prices have moved up in the last few months. We don't know how much that would sustain and what would happen. So I would say that we could factor in 100 basis points of impact on gross margins by and large. We obviously can't predict, we don't know very well, but that's what's going to happen more you think.

Rajesh Dubey: Sandeep sir, you have covered it very well. Same thing, even though our business mix it may be favorable, Prakash, not only API even packaging material also. So we see a lot of material prices substantially has increased. Obviously, the impact of that is going to be there on our gross margin of next year and as managing director rightly said we foresee 100 and 150 basis points kind of impact there But we stick to our guidance on EBITDA margin, we will ensure that and we are very optimistic this is not going to last for a very longer time but we will manage our EBITDA margin and we are going to stick to our guidance.

Prakash Agarwal: What is the guidance if you can repeat?

Rajesh Dubey: Guidance of EBITDA margin actually if we are taking FY20 as a base then our guidance is to improve by 200 basis points, so 17.7% if you recollect it was our EBITDA margin in '20, so we will be very close to 20%.

Moderator: Thank you. The next question is from the line of Ranvir Singh from Sunidhi Securities. Please go ahead.

Ranvir Singh: I just wanted clarity on that 80 crores chargeback we have taken in US. So for this quarter US business is a EBITDA positive or EBITDA has gone due to this provision?

Rajesh Dubey: After taking the charge of Rs.80 crores, I'm talking for the quarter, at EBITDA level also we see big pressure and it is not in positive, but of course, on yearly basis it's quite comfortable.

Ranvir Singh: Normally the US business generates better than average EBITDA margin of company or this is lower or higher than the company's average?

Rajesh Dubey: Domestic business is having better EBITDA margin, but even US business is also having reasonable EBITDA margin.

Ranvir Singh: So it stands up below the company's EBITDA margin very clearly?

Rajesh Dubey: Yeah.

Ranvir Singh: On India business you commented marketing expenses or other expenses rather in this quarter is higher because we are catering for next quarter. So that I wanted to understand that means what you are saying that we have budgeted in this quarter for sales or promotion, that would be used in next quarter, how that means?

Sandeep Singh: I'll ask Mr. Yogesh to answer, but before that see, if you remember our Q1 and Q2 marketing initiatives were lower and we were not standing because of lockdown, so in Q3 we step up and in Q4 whatever our marketing activities we step up to the highest in the month in the last quarter so that we prepare for the next quarter which is Q1, that was my answer.

Ranvir Singh: What I understand is normally the kind of incentive or marketing expenses whatever is accumulated for Q1, Q2, normally you can pay in Q4 that's what you want to do so that the next two, three quarters again that will be accumulated to be paid on Q4, that's what you are saying?

Yogesh Kaushal: No, no, this was purely marketing activity specific answer, not about incentive.

Ranvir Singh: Next on biosimilar product we launched, how are the things going there, for that particular product what kind of revenue we can build for FY'22?

Sandeep Singh: To be honest, product-wise we never talk about revenues, my apology, but the product which we have launched and we already marketed this product before, this was manufactured by somebody else, we are marketing it, so these are running products for us and now this is coming out. So this is not something earth shuttling for us, but this is the beginning. So the first product is a peptide but going forward with our monoclonal antibodies and things like that. In terms of revenue impact, it might not move needle this product.

Ranvir Singh: Earlier you indicated that we could go up to Rs.2,000 crores in four, five years. That perspective I want to understand. So this is just then a small product and we have a bigger product later in course of time…

Sandeep Singh: Yeah, will always be more than one product. So we do have that, but it will take a lot of time for the products to come in and for us to really move the needle substantially big time. This is the first month of that five years and as you know in biotech and in science most of the things back ended. So this is going to be a very slow process. Most of all here have seen the journey of the large pharma companies. This is going to take a lot of time and we will have to be patient and watch it. It can't change quarter-to-quarter.

Moderator: Thank you. The next question is from the line of Sameer Deshpande. from Fairdeal Investment. Please go ahead.

Sameer Deshpande: Regarding this guidance you mentioned that the revenues or sales are likely to grow in mid-teens for the year and the operating margin you mentioned that around 20%. So this year we had operating margin of around 22%, so it will be lower by 2%?

Sandeep Singh: Yes, 100%, that's what Mr. Dubey said that you have to compare with not last year but last to last year because last year was an extraordinary year, once in 100 years these things happen, there's a three-month kind of complete lockdown in India, so obviously there's a lot of exceptional savings which cannot have in every year, that is the reason.

Sameer Deshpande: This inventory write-off which we took off of about Rs.80 crores in this quarter, normally these type of things also aberration or they keep on happening?

Sandeep Singh: This is a large amount. This has happened maybe very rarely for the first time. The write-offs happen, but not such a big quantum, yes, these were exceptional business wise.

Sameer Deshpande: Regarding our acute therapy which is our main product line contributing majorly to our profits which currently is down due to COVID, as you mentioned in Q1 and Q2 also may witness some impacts on the surgeries, etc., but other anti-infectives and antibiotics, etc., you hope we will be able to grow overall in this Q1, Q2 also?

Sandeep Singh: Surely, I think we will.

Yogesh Kaushal: Just to add to what Sandeep you said that antibiotics almost back to normal, so may not be in a same indication but because of a very pneumonia existing and the secondary infection, if you see first two months trend, April and May, there is a very good traction in antibiotic and we expect this to continue at least for two to three months more.

Sameer Deshpande: The setback which we are getting in our acute therapies because of lack of surgeries and postponement, will we be able to compensate with this sales of anti-infectives and antibiotics?

Yogesh Kaushal: That is exactly what I said that because of OPD increasing so whatever traction we might get on a lower side from hospital will certainly get offset from the OPD increase. That is what we are witnessing in last two months.

Sameer Deshpande: The financial management we have done really very well. So it is nice to hear that we are net cash available with our Rs.500 crores. So, these long-term loans which we are currently having about 1,600-odd crores, so do we plan to repay them significantly because of the good cash accruals?

Rajesh Dubey: Actually we don't have any long-term debt, we do have debt in form of packing credits mostly of OD, these are short-term loan, but we do have some term loan in our US subsidy, but that amount is only 7.5 or 10 million kind of, so not beyond Rs.75 crores. Yes, of course, that will be repaid wherever it is due for repayment and we do have cash in our hand and when we talk cash we always talk net of debt. So what we have a figure, we are talking 500 plus, that is net of all these debt including short-term and long-term.

Moderator: Thank you. The next question is from the line of Ritesh Rathod from Nippon India Mutual Fund. Please go ahead.

Ritesh Rathod: Can you help me understand what's this price revision in the US business particularly in last quarter and what's the outlook on the pricing side on a like-to-like basis?

Amit Ghare: Purely in Q4 compared to the last year, the price deflation has been in higher single digit.

Ritesh Rathod: How is the outlook for next year what are the conversations you are having with your customers since supply chain sustainability and the fear of supply chain is out, has pricing become a main point of discussion with your customers and would that be very severe in next year?

Amit Ghare: The pricing is always important and no customer is going to pay a premium generally but the deflation obviously in Q4 and even Q3 during the year overall prices was certainly higher than what we have witnessed in the past, some of it maybe has to do with our product mix also wherever we had our seasons products because of degrowth in the market itself, maybe it also witnessed a higher price deflation. Overall, going forward, the deflation will always be there, but we hope that it is not going to be similar to FY'21.

Ritesh Rathod: So overall FY'21 was in high single digit?

Amit Ghare: That's correct.

Ritesh Rathod: Maybe my second question, you gave some answer to one of the questions which was asked. So last two years has been strong cash generation and your CAPEX has not been that high, approximately last two years number is Rs.500 crores and your operating cash flow is Rs.1,800 crores. On a next three to five year basis, which are the areas or geographies in which you will invest and on your cash generation, what is your plan because your investment requirement may not be that very high, so if you can help us understand on that??

Amit Ghare: Look for other countries, we are very focused, we operate only in a few countries and like we have mentioned in the past and you have seen overall as well, our growth mainly comes from three or four markets, this year in our emerging markets particularly the markets where we depend upon prescription generation has witnessed a degrowth pretty much for the same reasons that our India business has grown significantly less than what we've grown in the past and we certainly don't have that kind of muscle that we have in India in some of these other retailing markets. But going forward we will continue focusing on our key geographies, Australia, Chile, Europe are three main geographies that we are focusing on and a few more markets like Kazakhstan and Philippines, East Africa on the retailing side, on the emerging markets side, so those are the ones that we will continue focusing.

Ritesh Rathod: My point was more on which area, which geography which you invest in next three to five years irrespective of India or outside India as Alkem given the way we ramped up the US in the last four years, we have doubled US business?

Sandeep Singh: You asked India our US and overall. We look for India overall investment kind of already done in terms of expansion of field force, for chronic which was in the end of the curve and things like that. So India will not pick up that much of kind of capital anyways and please keep in mind when we say that we want to discuss with the country, I think bear in mind that US itself we have not kind of reached our potential, so just because it's good time to go into other countries, I don't think so we should do that, I think we are still less than half of what we can do in US. So clearly we will keep continue to invest in US and no other country that much. US is a primary growth driver for us in the next five years. Where we could perhaps look at a few things is product pipeline and things like that like doing some biosimilars for US markets but that will also be a four, five-year game plan.

Amit Ghare: Sandeep, you completely absolutely bang on answers and India and US are growth levers and even during the full fiscal year as you notice US business has grown higher than our other markets and that is pretty much the story for several previous fiscal years and I guess the main growth lever will come from US as far as international business is concerned.

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

Kunal Randeria: So my first question is on your vitamins portfolio. So the growth has been very impressive this year. I am sure a large part of this growth could be because of the COVID crisis in India. So just wondering about the stickiness of this portfolio. Once the COVID recedes, then do you expect pressure on this business or there's an element of stickiness here?

Yogesh Kaushal: Post-COVID product mix we have is very versatile in nature. so even slight impact if you see in the latter half of the year on Anti-Bacterials, we have a very strong portfolio on Acute front and Vitamin D3, Multivitamin, Zinc preparation and Antacids. This is also now supported by a reasonably good portfolio on a chronic front, so which contributes close to around 16% of the business and on a quarter it was 18%. So chronic should continue the growth and acute growth driver in assuming that later half of the year the antibiotics may not show as robust growth as they are showing in the first half, will be compensated by the other portfolios which are there like as I said Vitamin D3 and other preparations. So overall the portfolio mix should drive the given guidance why Mr. Dubey told you all.

Kunal Randeria: I'm just wondering whether this business could potentially see some decline also because we have around 27% in FY'21. So once it proceeds I'm just thinking whether there'll be a decline or not in this portfolio?

Yogesh Kaushal: That's what I said, some amount of rationalization would certainly happen because first quarter will see extraordinary growth because of COVID, so whether it is antibiotics, whether it is vitamins, minerals, the antacids, they all will show excellent growth in the first quarter, so April, May, June will go extraordinary and then it will settle to a normal growth, normally the industry grows at around 9.5% to 10%, so we expect industry to grow at a similar rate in the balance eight to nine months of the year.

Kunal Randeria: My second question is on Duexis. I think you are the only company to get tentative approval also in the district court. Do you expect to launch this product this year and the kind of competition you expect in this product?

Amit Ghare: As we responded in the last quarter, the brand has obviously appealed in the federal circuit and we are right now litigating in the federal circuit and we don't have a final approval as well from FDA. Yes, we do have the tentative approval. So, that's the answer to the question from a launch perspective. Competition-wise we are not first filers. So, obviously that is the first filer that is there, there's another company which is litigating which is in the public domain. So all of those are potential competitors, authorized generic is always a potential competition. So all that we always have to factor.

Kunal Randeria: What tax rate should we expect for the next couple of years?

Rajesh Dubey: Actually I will again stick to my guidelines given earlier, so for '21-22 will be somewhere in the range of 13% to 14%. The same similar situation, 50 or 100 basis points plus or minus we are expecting for next three years. I think after three years we will discuss again depending on situation, tax laws and so many factors are there.

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

Sriraam Rathi: Just one question on this Rs.80 crores of inventory provisioning in the US market. Is it possible to share this provisioning and is there any relation that this Q4 revenue is lower that you reported with this provision?

Rajesh Dubey: It's US required products and is featuring in one of the top, mainly is that besides that small, small other few products are also there where we feel even though they have shelf life more than six months but less than 12 months, we are not…

Sandeep Singh: The largest product you can tell them just…?

Rajesh Dubey: Ibuprofen is the product where we have taken maximum. Major chunk of Rs.80 crores has gone in that.

Sriraam Rathi: So in this quarter the revenue which is lower, is there any relation with this provision or it is normal run rate now?

Rajesh Dubey: Of course, when provision has gone in COGS, obviously it is going to bring down EBITDA and as well as entire profitability, so impact is there as well as we have lower sales also because we have competitor also there and in this quarter also we are having lower sale for Ibuprofen.

Sriraam Rathi: Just a follow-up to that, so this quarter we have around $73 million, $74 million kind of sales which is of course much lower than what we have for the full year run rate, so in FY'22, should we except that the overall business for the US market should grow?

Sandeep Singh: Yes, absolutely, we are expecting growth on our overall portfolio on a pure entire fiscal year basis and mind you in FY'21 also on entire fiscal year basis we've grown over FY'20. So to answer your question, yes, we are expecting growth on overall fiscal year basis.

Moderator: Thank you. The next question is from the line of Shrikant Akolkar from Asian Market Securities. Please go ahead.

Shrikant Akolkar: In FY'21 we have done very well in the Trade Generics business and it is now contributing one-fifth of domestic business. How should we see Trade Generics business growing in FY'22?

Sandeep Singh: It should grow in double digits, that's all I can say right now.

Shrikant Akolkar: I think from the first quarter onwards we have contribution probably has gone down, I think it was probably one-fourth of the total business, now it is one-fifth. So do you think that this will continue till this business is contributing about 15% just like some time back?

Gagan Borana: The contribution of Trade Generics has gone down not because the Trade Generics business has slowed down, it is because the prescription business has picked up significantly. In terms of the momentum for Trade Generics for Q4 and even in the first two months of FY'22, it is still good, we are maintaining the momentum of FY'21 in FY'22 as well.

Shrikant Akolkar: So we should expect a double-digit growth in that portfolio?

Gagan Borana: Yes, so whatever is the guidance for India business I think Trade Generics business is to go in sync with that.

Shrikant Akolkar: Another question is on the overall color on the US EBITDA margins in the quarter when we have taken inventory provision and overall in the fiscal year '21?

Rajesh Dubey: On overall basis of fiscal year, I think a reasonable kind of EBITDA margin we have, somewhere close to double-digit kind of EBITDA margin. Yes, as I mentioned for this quarter because of this inventory write-off, we do not have positive EBITDA margin, but definitely for US we have reasonable EBITDA margin of double digit.

Shrikant Akolkar: There are two questions. One is if you can provide color on the Indore facility kind of capabilities it has? And how many products can be filed from this facility in FY'22?

Rajesh Dubey: We have already started taking filing batches and in fact we have filed one or two products and we are awaiting audit of USFDA. So on that front we are very comfortable and it's going as per our plan. Definitely, we are going to have more and more number of products filed from this Indore facility. Objective is to have the best advantage of SEZ plant and it's growing as per our estimate only. So we feel we will be able to start commercial production in a reasonably well manner and obviously it is going to add up as and when new filing happens from this Indore facility. Right now we have selected good products, having good margin and so we are very optimistic having complete usage of this plant for improving our margins as well as profit after tax.

Moderator: Thank you. We'll take one last question from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Sandeep, on the chronic segment in India, I understand based on the IMS or AIOCD data, it's kind of more or less equally spread between Diabetes, Cardiac, Neuro and CNS. How should we think about this growing for the next three to five years and what would drive -- is it new launch opportunities that you get in this space or market share gains in older products, if you can make us understand what would be the key driver and if you can guide for a number that would be helpful?

Sandeep Singh: Most of our growth will derive from cardio-diabetes in the chronic segment, I think that is very clear, mainly for two reasons; one is obviously internal, the other is just a large market size of these products are phenomenon and a lot of new launches. To answer your second question, the growth will be driven by gaining market share what we have, and second, there are some product going off-patent in the next couple of years. So new launches would also play a role there, no doubt about it. This would be driven mainly by cardiac and diabetes. In terms of guidance, we will reiterate that the business is still on a low base, we will double this in the next three to four years.

Yogesh Kaushal: Sandeep, you perfectly answered and complete that major focus will be on diabetes-cardio because they contribute almost 52% to the chronic business in industry. So, if we have to build our chronic portfolio, then cardiac, diabetes we have to make big. And as you rightly said that we are looking at doubling up our business in around three and a half to four years' time and there will be a mix of both. If there are some good opportunities coming in forms of DPP4 and SGLT2s, so in next two years we'll have at least three such products which are blockbusters, and at the same time we are also consolidating our current portfolio. So we are in process of building brands of Rs.100 crores and Rs.50 crores in a year or two years' time. So building large brands and also exploring the future potentials which can make us big. These two will be the growth driver for cardio-diabetes.

Saion Mukherjee: On your MR strength, what is it now? I understand you said you're not expanding it further. But if you can just share the number and how has your market coverage increased over the years or you're using the higher MR strength to focus on brands or reaching out to more doctors?

Yogesh Kaushal: It's a mix of both. Currently, as Alkem group we have roughly around 12,000 people working and in Acute we have a clear focus of reach because we already have a large portfolio there, so we have expanded this year by close to around 600 people and this is basically to focus on some of the critical brands like Clavam and PAN and also with an approach of reach also. So it's a both way kind of approach for Acute. In Chronic, we focus more on building productivity because here we have a reasonable good field force and our productivity is an average range, so we want to increase the productivity in chronic. So this is how we are driving both Acute and Chronic portfolio.

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

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

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