# "Alkem Laboratories Q2 FY20 Earnings Conference Call"

**November 11, 2019**

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| **MODERATOR:** | **MR. TUSHAR MANUDHANE – MOTILAL OSWAL FINANCIAL SERVICES LIMITED** |

**Moderator:** Ladies and gentlemen, good day, and welcome to the Alkem Laboratories Q2 FY '20 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Tushar Manudhane from Motilal Oswal Financial Services. Thank you, and over to you, sir.

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

**Gagan Borana:** Thank you, Tushar. Good evening, everybody, and thank you for taking out time and joining us for Alkem Laboratories Q2 FY '20 Earnings Call. Today, we have released our financial results, and the same was also posted on our website. In this call, we have our senior management team of Alkem to discuss the business performance and outlook going forward. Before I proceed with this call, I would like to remind everybody that the call is being recorded and the call's transcript would be made available on our website.

A brief disclaimer for today's call. Today's discussion may include forward-looking statements, and the same must be viewed in conjunction with the risks that our business faces. At the end of the call if any of the queries remain unanswered, please feel free to get in touch with me. With this, I would like to hand over the call to Mr. Sandeep Singh to present the key highlights of the quarter and strategy going forward. Over to you, sir.

**Sandeep Singh**: Thank you, Gagan. Good evening, everyone. Thank you for taking out time and joining us for quarter 2 and half year FY'20 results conference call. I would briefly touch upon some of the key performance highlights and would then leave the floor open for questions and answers.

Quarter 2 of FY '20 has been a strong quarter for the company with revenue growth of 18%, EBITDA margin of 20%, which is 100 basis points improvement over the last year, and a net profit growth of close to 46%. Our India business, which contributed about 70% to our overall sales, grew by 17.6% during the quarter. This was largely led by significant growth in our anti-infective portfolio, which registered a secondary sales growth of more than 30% as reported by IQVIA. Apart from anti-infectives, our other established therapy areas like gastrointestinal, pain management and vitamins also delivered growth, which was higher than the market growth rate, thereby maintaining a lead position in these therapies. In our chronic segments like neuro, CNS, cardiac, antidiabetics and derma, we continue to build out on a growing base with growth rates infinitely ahead of the therapy growth rate, thereby improving our rank and market share. Our large field force, strong brands, comprehensive product portfolio, Pan India distribution network and effective sales and marketing strategies underpin our performance in the India market.

Our International business, which contributed around 30% to overall sales also delivered a healthy growth of about 15% during the quarter. This was mainly driven by our U.S. business, which grew by 12% on the back of new product launches and gaining market share in existing products. Besides U.S., the international markets like Australia, Chile, Kazakhstan also registered good growth, both in local currency as well as Indian rupees.

During the quarter, we invested Rs.123 crores in R&D, which is about 18% higher than the same quarter last year. We filed 5 ANDAs during the quarter and received 7 approvals, which included 2 tentative approvals. With this, we now have a fairly strong product pipeline of 132 ANDAs already filed with the USFDA with over half of them yet to be commercialized. Timely new product approvals and the commercialization would be our key focus to drive growth in the U.S. market.

Talking about updates on regulatory inspections, I'm happy to share that both our formulation facilities in India at Daman and Baddi have received EIR. Bulk of our filings are from these facilities. Also, on the St. Louis facility in the U.S. where we received an OAI, our team is working towards addressing the observations and resolving them. Currently, this facility accounts for less than 3% of our U.S. sales.

Just touching upon our half yearly performance, we have delivered 15% revenue growth, coupled with 150 basis points of improvement in EBITDA margin and a net profit growth of close to 43%. Improvement in our EBITDA margins is mainly driven by our continuous effort towards cost optimization and productivity improvement. This, along with lower tax rate due to investments made in manufacturing facilities that are entitled to fiscal benefits have driven our strong bottom-line growth. I am hopeful that the significant investments that we have made in our infrastructure and in our people over the past couple of years will help us sustain this momentum for the coming quarters.

Thank you for listening. With this, I would like to open the floor for questions and answers.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Neha Manpuria from JPMorgan. Please go ahead.

**Neha Manpuria:** First, on the domestic business, while I understand seasonality helped the quarter quite a bit. If you look at industry numbers from secondary data, it seems to be indicating a volume slowdown. Are we seeing any such trend as we enter into October, putting aside the seasonality aspect?

**Yogesh Kaushal**: This is Yogesh Kaushal. There was some depression seen in the first quarter. But if you see the last month report, there is again a revival in unit, where close to around 1.5% to 2%-unit growth is seen. And see there's no therapy challenge if you see or there is no change in the pattern of disease management. So, we actually don't see any major challenge in coming time in unit growth.

**Neha Manpuria**: Sir, are you seeing increasing volume probably shifting towards trade generic? Have you seen that trend? I mean are trade generic business growing faster than the Rx business?

**Yogesh Kaushal:** Not really. If you look at even prescription revival today, the prescriptions are showing a very healthy trend across. And in fact, internally also if you see, our generic contribution to overall portfolio has remained same. So, this growth is largely driven by unit and prescription. Even in industry, there is a good revival of prescription network.

**Neha Manpuria:** Understood. And my second question is on the U.S. business. In the opening comment, you mentioned new launches and market share gain. The quarter-on-quarter improvement, was that driven by one of these factors or both of the factors?

**Amit Ghare**: Both the factors, Neha.

**Neha Manpuria**: Okay. And sir, you also mentioned that there are certain ANDAs that we haven't commercialized, which you have got approval for. Is this because these are not viable? Or should we expect an acceleration in the number of launches as we go ahead?

**Amit Ghare**: I'll answer the second part first. The acceleration in number of launches will certainly happen because there was a time, if you recall, a few quarters ago, our approvals were probably 8-10 a year. Now this quarter itself, we have received 7 approvals. So certainly, the number of approvals is increasing, and therefore, number of new launches would increase. I forgot the first question, Neha. Can just remind me, please?

**Neha Manpuria**: Are all the approved pipeline that we have, which we haven't commercialized, are these all viable to be launched in the market? Or do you think some of these probably will not, you will probably stay away from launching these products?

**Amit Ghare**: So, as you have heard from the commentary, there are obviously some tentative approvals as well. So obviously those are waiting for final approval for expiration of the patents. But yes, there will always be some part of the portfolio, which is, by the time it gets approved, the economics and dynamics change. And therefore, we may not be in a position to launch, and there are some products that for other reasons also we may not be able to launch. For example, our API vendor probably has some issue or some concern that could be those sartans, which have continued issues and things like that. So, to answer your question, there will always be some portfolio, part of the portfolio that we will not be able to commercialize.

**Neha Manpuria:** Sir, how many launches have you done so far in the first half?

**Amit Ghare**: I don't have the numbers in front of me right now. But I think the number is about 7.

**Neha Manpuria:** And would this number be the same in the second half? Or should I assume a better launch momentum in the second half?

**Amit Ghare**: No, I think if we do about 12 in the whole year, I think it will be a great achievement. It will be our highest ever; 10 to 12 will be a big number for us.

**Neha Manpuria:** Understood. And last question, if I may. Gross margins, we have seen them moderating about 150 basis points quarter-on-quarter. While I do understand there's a higher share of anti-infective. Given how strong U.S. was, a little surprised by how much it is moderate. If you could give us some color there?

**Rajesh Dubey:** Neha, as you pointed out very well, actually, we sold more anti-infective compared to non-DPCO-covered products. Growth is at both the places, but growth is very high here. And that is one of the reasons. Besides this, we have one-off, I think, also in this gross margin. We utilized R&D material significantly by the tune of say around 1%. So, both these factors, they have lowered down gross margin. I think it's a temporary phenomenon. We'll come back to our original position.

**Neha Manpuria:** Sir, what was the second one, one-off impact? I didn't quite understand that.

**Rajesh Dubey**: Material used for R&D activities.

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

**Damayanti Kerai:** My question is regarding the U.S. sales. So, has sartans contributed significantly towards our U.S. sales or it's broad-based performance which we are seeing?

**Amit Ghare**: No, sartans haven't contributed anything significant to our sales. This is broad-based.

**Damayanti Kerai:** Okay. So, adjusting plus new launches as you commented in the opening remarks, right?

**Amit Ghare**: Yes.

**Damayanti Kerai**: Okay. Coming to India, I think, we obviously are, I think, picking up well on the specialty part. So last year, if I remember correctly, I think on the diabetic portfolio, we are almost present in all the new launches, except the SGLT2 part. So, are we going to launch that category in near term?

**Yogesh Kaushal**: Yes, we are. See, there are 3 key SGLT2s, which are in pipeline now. They will go off-patent in next 1.5 to 2 years' time. The first is Empagliflozin, which will go out of patent in 2022-23. So, we should be eyeing for this. Plus, we are also looking at some of the Japanese SGLT2, but we are more bullish on the one which are approved by FDA. So, we might wait for 2 years and launch those.

**Damayanti Kerai**: Okay. So maybe 2 years from now, we'll be seeing launch of these products, right? Start of launch of these products?

**Yogesh Kaushal**: Yes.

**Damayanti Kerai**: Sir, one question regarding your balance sheet. I think if I'm looking at intangibles, it went up to some 1,380 million compared to 442 in March period. So, what is leading to this increase?

**Rajesh Dubey**: Actually, in intangibles, major contribution is of right-to-use assets because of change of accounting standard AS-116. So earlier, whatever lease arrangements were there, now it has come as intangible assets recognized in the balance sheet. And that's major contribution by which it has increased. So, it's accounting adjustment.

**Damayanti Kerai**: Accounting change, okay. Finally, sir, how should we look at the effective tax rate for this year and coming years?

**Rajesh Dubey**: Damayanti, we are going to remain somewhere close to 10% for this year. And if you recollect our guidelines, it was 12%-13%. I think we'll remain in that. So, there is no change in our guidelines as far as tax is concerned.

**Damayanti Kerai**: Sir, 10% you said for this fiscal and then 12%, 13% for next year?

**Rajesh Dubey**: Correct.

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

**Prakash Agarwal**: First question on Sandeep's comment on cost optimization and improvement in productivity. So just wanted, where are we in terms of, so WIP is mentioned and we have seen some improvement, but is it half done and half yet to achieve? Where are we in the overall scheme of things? And what are the 2, 3 big steps we have taken in the past and which is still WIP?

**Sandeep Singh**: Yes. So, Prakash, so one of the broad things, which as you rightly said it's ongoing, one is on the procurement part. So, API price, if you remember, last year was a big issue. Chinese issues were causing the prices to go up. So, we overtook a program where we said how we could contain this. So that is under progress. That has, I would not say, completely hit our numbers, I think going forward in H2, it will play out better. And honestly, for the complete effect, it will still take longer. So, procurement is something which we're focusing on. Second is just basically overheads of plants and all. We are focusing there. There also we have got some results. Again, that is work in progress. Last but not the least, on your supply chain and working capital, also something which we are working on. But Prakash, these are ongoing things, very difficult to say that we have done it because honestly, it has been part of our operating framework. So, I will never say it's done. They're always ongoing, and yes, it will give us results. And they are giving us some results. But to pan out completely, it'll take another 1 year.

**Prakash Agarwal**: I see that actually. I mean if I see the other cost. I mean there's a very big Y-o-Y also improvement, but not able to see that in the staff cost percentage to sales. I mean I understand these are all linked to incentives or performance, so…

**Sandeep Singh**: Absolutely. So, we did very well. So, if we're happy, we paid them incentive. So, yes.

**Prakash Agarwal**: Okay. So how do we look the year going ahead. I mean the season seems to be continuing. October and November, there are still rains. So how do we see the remaining year, what is the outlook?

**Sandeep Singh**: See Prakash, it has been a good season, obviously, referring the numbers. So, if season continues, we will outperform whatever we have told you. But we maintain our guidance of mid-teens. It looks like this year, we would be close to that, it will be 15%. Beyond that, trying to predict, we don't like to give guidance. So, I'll refrain from that. But if season continues, we will outperform what we have told you in the past.

**Prakash Agarwal:** Okay. And just reiteration on the margin front, sir?

**Sandeep Singh**: Yes. What reiteration, sir?

**Prakash Agarwal**: I mean what you mentioned in the past, on the margin side, are we on?

**Sandeep Singh**: Yes, we are certainly in line with that. We will hit those EBITDA percentage improvements of 100 basis points roughly, which we discussed in the last call. And last couple of calls, actually, we are in line. So, you will see EBITDA percentage improvement this year and going forward.

**Prakash Agarwal**: Perfect. And second question on actually on Pan. There's some disruption in ranitidine. So, have you started to see the positive impact on Pan? And do you think these issues will be resolved and events will eventually neutralize? Or we are aggressively taking the market share?

**Sandeep Singh**: Prakash, it's a little early for us to really predict anything, but I think initial traction is there. We are getting some market share, but though we'll hold on with really commenting how much we could get off it all because still early days, honestly. So, we are trying to capitalize on it, but it is for certainly be positive, but to quantify it right now, we are not in a position to do that.

**Prakash Agarwal**: Okay. And lastly, if I see the debt has actually come up. So, is there a new CAPEX plan? Or what is it happening on the debt side?

**Rajesh Dubey**: Prakash, Rajesh Dubey here. Yes, you very rightly see, debt number has gone up a little bit, but that is mainly on account of our more working capital requirement, which is going to ease out in coming quarters. So, by year-end, in fact, we would like to make this statement, debt will gone down and which we are going to do. But for time being, it is mainly on account of more working capital utilization.

**Prakash Agarwal**: Okay. So, which are the facilities which are ongoing sir? Sikkim is largely done if I understand, right?

**Rajesh Dubey**: On what?

**Prakash Agarwal**: CAPEX plan? Where is the CAPEX going currently?

**Rajesh Dubey**: See major CAPEX is already over and some places it is going on. So, Indore, bio is there. And then we have some API plant CAPEX also. So, it is unlike greenfield kind of CAPEX, but some or other expansion, it is happening. I think last time also, we give guidelines of around 450 crores for this year. I think that is sufficient for our CAPEX requirement.

**Prakash Agarwal:** And next year, sir?

**Rajesh Dubey:** Next year, around 400 crores.

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

**Aditya Khemka:** Yes. Actually, my question links to somewhat what Prakash was asking about. So, in terms of the net debt, right? And Dubey sir, you mentioned that working capital requirement has gone up. So, when I analyze that, what I see is, your payable days have actually come off significantly, which is causing more utilization of cash. So, was there a one-time big payable sitting in your balance sheet in FY '19, which you had to pay off? Or is this like a general reduction in payables that you have to cut down?

**Rajesh Dubey**: No. Everything is general, actually. We do not have anything one-time as far as payables or receivables are concerned. See working capital is mainly on these 2 fronts. Inventory, we have a little bit higher inventory looking to our going forward requirement. And at U.S., we have some increase in few numbers of days in our receivables. As far as payable is concerned, actually, we are more meticulous for these small-scale industries and where we have to pay early, and we are complying it completely. I think that will be the reason of coming down by 1 or 2 days, not beyond that.

**Aditya Khemka**: Right. And could you also comment on how the input prices are now stabilizing or moving. So, our gross margins have been quite volatile, and I understand that depends on the input price mix as well as the business mix. But having grown so well, we are still not able to sort of improve on the gross margin aspect, at least quarter-over-quarter, we have not done that. So just trying to understand, is the input prices still rising, stable or in pockets they have started declining? What is the situation?

**Rajesh Dubey**: Aditya, input prices, it has started softening. And I think, we will be evidencing the softness going forward in quarter 3 and quarter 4. Our gross margin, yes, I understand, and I think in my first answer I already replied. But again, I will reiterate it. Actually, there are 2 factors in that. One additional R&D material requirement, which sits in COGS only. So that is one-time kind of requirement. It has gone there. And second, in our domestic sales, actually, we got very high sales of DPCO-covered anti-infective, which comparatively gross margin, it is not very lucrative what we have for non-DPCO. So that is change of mix of product, it has contributed. But as I said, going forward, you'll witness good improvement there. And of course, softening of input prices also is going to make positive.

**Aditya Khemka**: Fair enough. And Sandeep, could you break up for us the primary growth that you saw in your acute and chronic business, just to get a sense of how the 2 businesses grew this quarter?

**Yogesh Kaushal**: Yes, so see overall, close to around in 18% growth, if you see, 15-odd percent has come through acute and around 24% has come from chronic.

**Aditya Khemka**: Okay. And what is the number of MRs we now have in each of these segments?

**Yogesh Kaushal**: See out of around 8,000, our 65% field force is in acute and 35% in chronic. So, in last 2, 3 years, there is a good expansion in chronic. But at the same time, we are also consolidating our acute. So out of 2-odd thousand field force expansion, close to around 1,200 is in acute and 800 is in chronic.

**Aditya Khemka:** And total number of MRs today stands at 8,000, is what you said?

**Gagan Borana**: So, on consolidated basis, it will be around 10,000.

**Yogesh Kaushal**: Including managers.

**Aditya Khemka**: Including managers, it is 10,000. Okay. That's good. Just one last question. So, when you pay incentives to MRs, that comes under other expenses and not under salary, right?

**Yogesh Kaushal**: No, that is others expenses.

**Rajesh Dubey:** This is under personnel cost.

**Aditya Khemka**: So, the incentive paid is under personnel cost, right?

**Rajesh Dubey**: Yes, employee benefit expenses.

**Aditya Khemka**: Okay. So then compared to the first quarter in our...

**Rajesh Dubey**: In our grouping, it comes under employee benefit expenses.

**Aditya Khemka**: Yes, employee benefit expense. So, in the fourth quarter of FY '20, your employee benefit expense was 390 crores. And second quarter, it is still 390 crores, despite my general understanding that this quarter you would have paid higher incentives to your field force. So, could you reconcile this?

**Rajesh Dubey:** See the incentive mainly depends on achievement of targets. So, I should not say quarter 1 people, they have made missed their target. Yes, if you see last year compared to 320 crores, what was last year's quarter 2? It is on higher side. But yes, we paid due incentive to our field employees because they have achieved their targets.

**Aditya Khemka**: One last question. What is our total attrition rate right now in the MR force?

**Yogesh Kaushal**: At a domestic front level, we are in the range of around 24%.

**Aditya Khemka:** 24% attrition, okay.

**Moderator:** Thank you. We take the next question from the line of Ashish Thavkar from Motilal Oswal. Please go ahead.

**Ashish Thavkar**: So, on the U.S. business, post a generic player entering in the MMF suspension, I know you don't give EBITDA numbers, but where are we in terms of the margin profile for the U.S. business, comparing now and then?

**Sandeep Singh**: Mr. Dubey, margin for U.S. business. I won't comment on finance number.

**Rajesh Dubey**: See margin of U.S. business, I don't think there are any major significant change in this quarter. And it is more or less identical of last year. Yes, after Mycophenolate suspension additional player, we managed it so well. I don't see any negative side as far as margin is concerned. So, it remains in the same range only.

**Ashish Thavkar**: But have we lost a major share to the…?

**Rajesh Dubey**: No, it is not major share loss. But yes, of course, some share of market, it has gone to new player also.

**Ashish Thavkar**: Okay, great. And on the trade generic side of the business in India, if you could comment on the prospects for this business? And how should we look at this business in the coming years?

**Sandeep Singh**: The prospects have always been good. It's the same what it was last quarter, what it was last year. It's the same.

**Ashish Thavkar:** Okay. And would you like to comment on the working capital involved in this business if I compare with the branded business that we have?

**Rajesh Dubey**: Yes, we do require some higher working capital into this business, but it is not like abnormally high. I think there's no change compared to earlier quarters in this quarter. So, if in range actually, in fact, we have improved only because of strengthening of period and all other related. So, I think, yes, of course, from branded, it is a little bit more, but it's in our range only.

**Ashish Thavkar**: And would it be fair to say that you would be like equally more enthusiastic on this business compared to say what you were like 1 or 1.5 years back?

**Sandeep Singh**: So, we are as enthusiastic we were last year. Why will it be less or more? So, this is important business for us. It has been and it will be.

**Ashish Thavkar:** Okay, great. Last question on this MR addition side, like you're already at 8,000 numbers, any plans to add the MRs?

**Yogesh Kaushal**: See we had massive expansions in the last 2 years. At least for the next 2 to 3 years, we see more consolidation and working on productivity. Yes, as and when, in certain cases, wherever we need to improve our reach further, those expansions will be marginal, but not the way we did for the last 2 to 3 years.

**Ashish Thavkar:** Okay, but you are happy with this 8,000 number as of now?

**Yogesh Kaushal**: On about happy and all, it depends on the need. So, if we really need to go further deep, we will do that. But as of now, we see our reach quite satisfactory.

**Moderator:** Thank you. Next question is from the line of Pranav Chauhan, individual investor. Please go ahead.

**Pranav Chauhan**: Yes, I just want to ask you, related to the ANDA filing. You mentioned about it that this quarter, you announced 5 ANDAs and you got tentative approval for 2 ANDAs. So, what are the timelines for those tentative approved ANDAs are getting to be commercialized in upcoming quarters?

**Amit Ghare**: So, we said we filed 5 ANDAs and we also said we got approval for 7 ANDAs, including 2 tentative approvals. So, the 5 that got approval, we will launch them as soon as possible. The ones that are tentatively approved may take long enough. They will wait for their patent expiry. That are filed, typically take 18 months to get approved.

**Pranav Chauhan**: So, you mentioned about that your half of the ANDAs are yet to be commercialized. So how many of these ANDAs are pending for more than 2 years?

**Amit Ghare**: Those are pending for more than 2 years; their number would be about 20.

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

**Saion Mukherjee**: Sir, you mentioned about this one-time impact because of high R&D material cost during the quarter and you mentioned a number of 1%. So, 1% of sales entirely is that one-off or a portion of that is to be considered as one-off?

**Rajesh Dubey:** Saion, I referred only one-time portion only, that is 1% which has gone as a one-time in this quarter. So whatever normal material we consume, I'm not referring that. I'm referring additional 1% of ….

**Saion Mukherjee**: And secondly, on the staff cost increase. Now I understand there is an element of higher sales force that we have. And as you mentioned that it would be a phase of consolidation going forward. So, if we were to grow our domestic business, let's say, in this mid-teen kind of a range, I mean, given the incentive structure that you have, what would be the growth in employee cost then?

**Rajesh Dubey**: See, employee cost, it is around 18% of our revenue. I think more or less, it has to be in the range of 17% to 18% only on totality basis. And see now, whatever employees we added a year back, I think, given their productivity. So, if we are not adding substantially, of course, it is going to better off as a percentage to revenue. So, if you ask me on absolute terms, it depends what kind of target achievement is there. We are very optimistic we are going to meet their targets. We keep on giving good incentive as per our incentive scheme. So, on absolute term, we don't see any major changes in that. But definitely, as a percentage, improvement is going to happen.

**Saion Mukherjee**: And sir, finally, on research and development. So, 100 - 125 crores a quarter is the kind of expenditure we are doing, you think this is the kind of levels we should sustain and there is no plan to have a meaningful increase in this?

**Rajesh Dubey**: Saion, this time, it was 5.5% of our revenue. And in the guidelines also, we have given 5.5% to 6%. I think we are going to remain with it and it's going as per our plan only and whatever is required for R&D. You'll appreciate this kind of spending is needed. So, we are not debating anything what guidelines we have given earlier. So, it is going to remain 5.5% to 6% for the year also.

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

**Prakash Agarwal**: Just trying to understand this R&D. I mean what's the thought process here given the disruption in the U.S. generic market. Obviously, everybody will be giving a rethink on the capital allocation. So, the oral solid typical 8 to 10 filings or the 12 now or there's a rethink on those assets and as we are also progressing on the biologics? So, if you could just help us understand what is the thought here in terms of investing?

**Sandeep Singh**: So, Prakash, as you rightly said, a lot of people are taking a relook at it. So, we don't have any substantial plans to change. I think oral solid will continue. After a couple of years, we can relook at it, how much we need to allocate to biological and small molecules. But I think now is not the time to discuss that. We have a set portfolio and it's doing pretty well. It's working for us. We are not increasing our R&D as a percent of revenue. I think that is good enough for this moment.

**Prakash Agarwal**: Yes, so the question actually, I mean where are we in terms of our biological?

**Sandeep Singh**: Biological, next year we should be launching 2 products in India. And eventually, we'll take it to RoW and regulated markets in Phase III. So biological is something which it takes a long time. You know that better than a lot of us. I have seen your reports on Biocon and all. So, our ultimate aim is to go to regulated markets, but that's a 5-year plan, Prakash. It would be premature to talk about it right now. But yes, we have put in substantial money. We are serious about that space. And we'll start with India and RoW, and the regulated markets, it will take us actually 3 to 5 years to get there.

**Prakash Agarwal**: Understood. And secondly, is there a thought in terms of in-licensing molecules, given the new introductions are getting seldom. So is there a thought in terms given the strong field force we have or the TA gap or therapeutic or product gap we have. So, is there a thought there?

**Yogesh Kaushal**: We are exploring those opportunities. In last 2 years, if you see, we have a couple of products where we have done in-licensing, mostly with Koreans and Japanese molecule, which are doing well, like Evo gliptin. These are the few which we've launched. But amongst the established one, we'll keep an eye on those molecules, which are more futuristic and can fit in our therapy choices. So, we are open to those.

**Prakash Agarwal**: And lastly, on the strategy for next year, since you had a very good season this year and growth is on a high base now. So, what are the 2, 3 things that we are planning to do so that the momentum continues?

**Yogesh Kaushal**: One, for the last 3-odd years, we are consolidating on our chronic portfolio. So chronic will continue to outperform acute in the coming time. Our growth was quite decent this year, and if we sustain it, we should be at least contributing at our organizational front around 1%, 1.5% of growth, that would be additional, plus the sub chronic segment, right? So, the season was only for acute, that too anti-infectives. But we have a decent portfolio on sub chronic as well, which is ortho, like Gemcal and calcium products. We have vitamin D3. These are not dependent on rains. That also now contributes substantial chunk to the business. We have gastritis products, pantoprazole kind, which also are not seasonal. So, we have around 20%, 25% portfolio, which is seasonal, but rest around 70%-75% is nonseasonal. So, we intend to consolidate those to overcome this challenge. We foresee this and we should be strategically working to mitigate these challenges.

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

**Aditya Khemka**: Sandeep, you spoke about this cost optimization exercise, right, where you have seen some benefit already coming and some you are seeing ahead of you. Is there like an amount of savings that you're targeting more or less as an organization in terms of savings of overheads?

**Sandeep Singh**: Yes, we are. But honestly, I would not like to disclose that, Aditya. That's more internal targeting we have taken.

**Aditya Khemka**: Sir, let's say the amount is 100 crores, so how much would you have realized till now, 20%, 30%, 80%? All I want to understand is, how much have you done and how much is...

**Sandeep Singh**: 20% to 30% realized so far. Yes.

**Aditya Khemka:** Yes, so what was the percentage you mentioned, sorry?

**Sandeep Singh:** 20% to 30%, let's say.

**Moderator:** Thank you. Next question is from the line of Chirag Dagli from HDFC Asset Management. Please go ahead.

**Chirag Dagli:** I don't know if you've covered this in the initial comment, but October 2019 data by AIOCD showing negative volume growth for the industry. Your thoughts around what you're seeing at Alkem and probably around the industry?

**Yogesh Kaushal**: See we answered this. So, if you see the IQVIA data, there is a revival in unit growth. We are seeing around close to 2%-unit growth, which used to be around in a range of around 4.5% to 5%. While we don't neglect the AIOCD data because last time also we had a similar question, where we said that, look, there will be some change in the pattern of disease in India. So, your water-borne and your vector-borne diseases will be slightly on a lesser side. But your other diseases pattern will evolve. So, I think there is little correction, which may be happening in pharma sector. But if you see lifestyle disease management or gastric/GI tract and all, they are showing a positive trend. So, this appears to be more on a correction mode rather than any challenge on long-term basis in terms of unit growth. So, there's a reason there's a revival in last 2 months.

**Chirag Dagli**: Okay, sir. And sir, typically, our second half is seasonally weaker than the first half. Now this trend hasn't panned out last year because of some changes that we did. How should this year appear, second half versus the first?

**Yogesh Kaushal**: See if you ask me, immediate answer is, yes, the anti-infectives, there will be little slowdown compared to monsoon. But luckily this year, the monsoon is stretched. Even in this month also we are seeing monsoon. So, our phasing is also in line with this trend also. So, if you see our first 6 months phasing is a little aggressive compared to the latter 6 months. So as far as our annual commitment is concerned, we should be, by and large, there. So, it won't be a challenge for us. We do not see major challenge here.

**Chirag Dagli**: And our India market, target growth is 15%, did you mention sir in the order book?

**Yogesh Kaushal**: Around, yes. On the domestic front, we are targeting around 15%.

**Moderator:** Thank you. Well, ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to the management for closing comments.

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

**Moderator:** Thank you very much. On behalf of Motilal Oswal Financial Services Limited, we conclude today's conference. Thank you all for joining. You may disconnect your lines now. Thank you.