



“Alembic Pharmaceutical Q3 Financial Year and Year Ended 2015 Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Alembic Pharmaceuticals Limited Q3 FY 2015 Results Conference Call, hosted by Edelweiss Securities Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference please signal an operator by pressing “*” and 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. Anshuman Gupta of Edelweiss Securities. Thank you and over to you Mr. Gupta!

Anshuman Gupta: Thanks Karuna. Good evening to all of you. I am Anshuman Gupta and I lead the Pharma Healthcare Research at Edelweiss Securities. On behalf of Edelweiss, I welcome you all for the Q3 results for financial year 2015 of Alembic Pharma. Today we have with us Mr. Pranav Amin – Director and President International business. Mr. Shaunak Amin – Director & President Domestic Formulations Business, Mr. R.K. Baheti – Director and President Finance and Mr. Ajay Desai - Vice President Finance and company secretary from the management team. I would like to handover the conference to Mr. Baheti for his opening remarks, which would be followed by a Q&A session. Over to you Sir!

R.K. Baheti: Thank you Anshuman. Thank you everybody for joining the call. We have sent the Q3 results to all of you. Most of you would have got it. However I will take you through the numbers briefly. During the quarter, the total revenue grew by 6% posting sales of 515 Crores, EBITDA at 103 Crores is 19.9% of our sales versus 102 Crores at 21% in previous year’s corresponding quarter. Net profit after tax grew by 7% to 71 Crores. For the current quarter EPS worked out to be 3.75 per share versus 3.50 non annualized per share in the previous corresponding quarter. The return on capital employed still at healthy 31%. I will hand over the mike to Pranav for briefing you on the International operation.

Pranav Amin: Thank you Mr. Baheti. Good evening everyone. As mentioned in the last few calls, we have consolidated on a much larger base of last year on the International Generics. In spite of price erosion and more competition on some products as well as discontinuation of some low margin products,. much of our growth moving forward would come from new launches but some of them are yet to gain traction, we hope to see some improvement in the next few quarters.

During the quarter the international generics had revenues of 133 Crores whereas the API business grew by 7% to 81 Crores. During the Q1 ANDA application was filed taking a cumulative ANDA filing to 66. During the quarter, one approval was received and which makes the total approvals 36 and in the quarter, two DMF applications were filed taking a cumulative filing to 70.

Our R&D spend for the quarter was 30.5 Crores, which is roughly 6% of the sales. Our JV in Algeria is doing good progress towards commissioning of the plant and the filing and launch of the products also on schedule and are being monitored closely.

I request Shaunak to take you through the highlights of the domestic branded formulation business.

Shaunak Amin: The domestic branded business for the quarter was quite muted. We had a sales growth of 11% in the branded formulation business. The mix between specialty and acute was 19% growth in specialty and 3% growth in acute. Most of the specialty divisions are growing much faster than the represented markets. The acute business, largely led by antibiotics, underperformed. We had a very high base of azithromycin sales in Azithral last year because of stockist issues, which got resolved in Q3 last year. Our focus on building a specialty business along with our traditional acute business continues. We are focusing on further new division launches for next year and we have identified two potential areas for launch. One is to consolidate on our Woman's Healthcare portfolio; we are launching a third division along with Urology and Nephrology as a smaller task force to further consolidate a specialty focus in this market.

I open the floor to questions.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Anmol from JM Financial. Please go ahead.

Anmol: This is Anmol. Basically couple of questions, first is that talking about this portfolio rationalization exercise, I just wanted to understand that where are we with respect to cycle, how closer we to the end, is there still amount of products which need to be discontinued?

Pranav Amin: I think for the international generic business there is no question of portfolio rationalization, it is more of question of what is happening in the market place. Initially yes, we did stopped some of the contract manufacturing business, apart from that the other reason for the lower sales as I mentioned is that one new launches have not got as much market share by a partner and two there has been some price competition in certain products.

R.K. Baheti: Pranav, probably he is asking about our discontinuation, our statement that we have discontinued some of the low margins?

Pranav Amin: There is a contract manufacturing business that we have discontinued apart from that I don't think there is any further rationalization moving forward.

- R.K. Baheti:** Yes, that's it. But the product mix some how will keep changing based on our competitiveness and the viability of the product in the U.S. market.
- Anmol:** So I was trying to understand the brochures for example do we have any aspiration of margin at EBITDA level in mind which we are trying to hit?
- R.K. Baheti:** Let me answer it in a different way. We have no desire for just grabbing market share for the sake of market share, so I mean we would like to keep a healthy bottomline and we do not wish to desire a market share at the cost of profit. As long as the market share increase helps us in improving our profits we will go for it beyond a point we will not really aspire for it.
- Anmol:** My second question is on the pace of approvals, this is something which has hit pretty much the whole industry but you know what is your view on, how this process is going to unfold for next couple of quarters, because of the delay in the fact that last couple of quarters have been pretty lean on approvals do you see a bunching of approvals as we go forward or you think that this is the new normal and no approvals are going to be slower as we go ahead?
- Pranav Amin:** I think as far as we are concerned the approvals are coming in the stipulated time that the FDA has said. There is a backlog in FDA but we are not finding anything unusual, again there is something that is not in our control and we believe that the FDA is doing whatever they can to speed them up.
- Anmol:** So you do not see this is an agency level problem where approvals will be slow to come by or lengthening of the process, so to speak?
- Pranav Amin:** No.
- Anmol:** I will get back into queue. Thanks.
- Moderator:** Thank you. We have next question from the line of Arvind Bothra from Motilal Oswal. Please go ahead.
- Arvind Bothra:** Couple of questions on my side. Sequentially there has been a decline in other expenses, Sir it is include some kind of forex element or what specific cost rationalization measures we have taken?
- R.K. Baheti:** Sequentially in Q2 both sales and expenses are highest I mean particularly the marketing and promotional expenses. In Q3 sales and expense go down.

- Arvind Bothra:** Secondly, you mentioned that you been witnessing some kind of price erosion in U.S. product portfolio but despite that gross margins continue to remain very healthy even sequentially it has increased, any particular reason what would be the contributor for this?
- R.K. Baheti:** No the price erosion has led us to to lower growth in business. As Pranav response to the previous question, existing supply will continue be with healthy margin. As part of erosion some products we have decided not to supply or curtail the supply.
- Arvind Bothra:** Can you update us on the 505 (b) (2) filing on warfarin?
- Pranav Amin:** I think we have said earlier that this should be some time in this quarter, we are on track. Filing will be done by our partner towards the end of this quarter or early next quarter.
- Arvind Bothra:** Just a last question, can you quantify the impact of forex gain or losses in your income statement this quarter?
- R.K. Baheti:** It's marginal about Rs.2 – 2.5 Crores for the quarter.
- Arvind Bothra:** It is a gain right?
- R.K. Baheti:** It is a gain.
- Arvind Bothra:** Thank you so much.
- Moderator:** Thank you. Next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** Thank you for the opportunity. Year-to-date FY 2015 looks like not so good year when compared to FY 2014 in terms of topline growth and EBITDA growth. So if you could just provide some outlook for how should be FY 2016 of course lot of it is dependent on product approvals and otherwise, but if you could just provide how you are thinking about FY 2016?
- R.K. Baheti:** We do not give guidance. I would not tend to agree with you that FY 2015 was not a good year because I think 2013-2014 was an exceptional year. We have discussed many times why we call it an exceptional year and we are very happy that we have consolidated and we have maintained at those levels in 2014-2015 so that shows sustainability of the business. FY 2016 we should still be doing better in terms of growth number but I am unable to give guidance as per the policy.

- Dheeresh Pathak:** Okay the ANDA filing also is on the lower side is that expected to pick up?
- Pranav Amin:** The ANDA filings actually last year was on the lower side, this year we are back on where we are. This year we are also going to six months stability that is one of the reasons but next year yes we should see an increase in the ANDA filings.
- Dheeresh Pathak:** You know I think we have like 30 pending ANDAs can you give a sense of how many are pending in terms of the ageing profile of the ANDA?
- R.K. Baheti:** We have that but giving that, ageing profile in the call may be difficult may be we can do a one to one call.
- Dheeresh Pathak:** Okay, if you look at nine months sales are up by 11% employee cost are up a lot can you just help us understand why that is?
- R.K. Baheti:** Part of the reason is as Shaunak explained we have created new divisions where the business has not started. Between the time and you start the recruitment process, training, technical, functional, behavioral training and they are in the field with the products and start detailing with the doctors there is a time lag. So we are investing for newer divisions and you will see sales coming out of those divisions in next year.
- Dheeresh Pathak:** Okay so this is not because of content creation in U.S.?
- R.K. Baheti:** That cost is still not there in the system.
- Dheeresh Pathak:** Earlier Sir you used to give some guidance on margin expansion can you just refresh of these?
- R.K. Baheti:** I am repeating my earlier statement that we aspire for a 23%-24% kind of margin which will be industry standard over a period of next three four years so every year we strive to improve the margins by 100-125 basis points. I have been saying this, and fortunately we have been achieving it so far.
- Dheeresh Pathak:** Right and also you used to talk about some 7-8 ANDAs launches per year, have we had this year?
- Pranav Amin:** We are on course and this year we said average was 6 to 8 launches this year I think we have had about five launches so far.

- Dheeresh Pathak:** When you said that price competition and market share not being up to the mark now is that behind us or is it continuing?
- Pranav Amin:** See I think in terms of price what happens is if something that is unknown, if a new entrant comes in the market place it is tough for me to predict. We have seen some new entrants in some of the products that we have. I mentioned we have got six to eight launches this year. It has been about five launches so it is very critical to pick up market share on those. The launches that we have had this year I think because of the competition we have not picked up as much, we have good partners and we hope they do pick up some market share in the next few quarters.
- Dheeresh Pathak:** Lastly Sir on Abilify do you think we will be able to launch?
- R.K. Baheti:** Normally we don't talk about our upcoming launches but you know you guys know the patent expiry dates so what I can say is that we will make sure that we are there on day 1...
- Dheeresh Pathak:** There is a tentative approval on that right?
- R.K. Baheti:** Yes.
- Dheeresh Pathak:** So you expect the market launch to happen on April 2015?
- R.K. Baheti:** We work with that as a best case assumption at this stage.
- Dheeresh Pathak:** Thank you. I will be in the queue.
- Moderator:** Thank you. We have next question from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.
- Nimish Mehta:** Thank you for taking my question. Shaunak, can you just let us know what is the primary sales growth in acute segment this quarter, I understand that we suffered because of the high base last quarter due to inventory so what is the primary sales growth?
- Shaunak Amin:** For acute the overall portfolio put together was 3% growth for the quarter.
- Nimish Mehta:** Even on the AIOCD data?
- Shaunak Amin:** No we don't track the AIOCD data but IMS numbers are in line with our internal practice. What numbers I am quoting are internal sales numbers.

- Nimish Mehta:** Yes so market growth would be how much on a retail basis, how much would be that growth is what I am trying to understand?
- Shaunak Amin:** It should be in line with this.
- Nimish Mehta:** Second in U.S. we did launch generic Diovin right, Valsartan any update on that?
- Pranav Amin:** Yes, we did launch. It is still early days because it was only in January so I think by the end of next quarter we will have a better perspective what is happening.
- Nimish Mehta:** Price outlook anything on that?
- Pranav Amin:** It is tough to say right now because it is done by our partners we are not directly marketing it so I would not be able to give information right now.
- Nimish Mehta:** Are we on track to have the front end by the end of this fiscal that is by March 2015 in the U.S. that is what we expected?
- Pranav Amin:** Yes the process is on. The first issue is getting the licensing and getting the statutory compliances. We are on track for that. The second is hiring and then recruiting the team and getting them on board so I think we should be close to by the end of this calendar year we have a team on board.
- Nimish Mehta:** So do we expect like launches let us say starting April to be through your own front end or how do we look at?
- Pranav Amin:** It really depends on when we get set and which launches we want to do through our front end. See I do not want to rush into it. In order to do a front end first time do it correctly, you know lot of people have faulted so it is not something that I am that worried about, as I said we have a six seven launches every year so we will ultimately get to some of these launches.
- Nimish Mehta:** Lastly if I can squeeze in you have four tentative approvals. It will be great if you can name all of those four?
- Pranav Amin:** Just give me a second I will just come back to you on that offline.
- Nimish Mehta:** Okay.

- Moderator:** Thank you. We have next question from the line of Nishit Sanghvi from CIMB. Please go ahead.
- Nishit Sanghvi:** Thanks for taking my question., Actually I just missed on the India business part. So we are planning to launch two divisions to augment our specialty portfolio one is Women's Health and the other is probably Neurology and Nephrology. How many MRs are we probably planning to hire or something or it will be realignment?
- Shaunak Amin:** There is some amount of realignment but I think totally will be looking at about 250 plus kind of medical reps for both these two divisions put together.
- Nishit Sanghvi:** But right now we have around 3500-odd MRs so are we planning to increase the MRs over the next one – one and half years?
- Shaunak Amin:** Yes for the two new divisions we will look at an increase of total net increase of 250 so.
- Nishit Sanghvi:** You talked about the probably a high base in Q3 probably which led to Azithral was also not very high growth, so Q4 you expect to be back on the high growth that you have been doing for India for a pharmaceutical business?
- Shaunak Amin:** The high base was only for Azithral which is a fairly large brand for us. So there were stockists related issues that you guys are aware of last year, lot of billing started post DPCO only in Q3 and Q4. So the base for Azithromycin was quite high in these two quarters. Other than that we feel that there would be a pickup in growth for the entire portfolio in Q4 but I think by Q1 definitely will be at those levels that we feel should be the correct kind of growth numbers for our kind of portfolio.
- R.K. Baheti:** Already you would have seen Nishit that in first two quarters Azithral led acute portfolio, did a very strong growth and I was mentioning at that time also that that was at a comparatively lower base.
- Nishit Sanghvi:** Okay because I thought the volumes would have, at least on the volume front we saw some good volume pick up in August – September and then again the volume growth has actually again come down for Azithral as well?
- R.K. Baheti:** You are comparing with the previous corresponding number know, you should look at units.
- Nishit Sanghvi:** I am talking about units.

- R.K. Baheti:** let me put it this way we have been maintaining market share or improving market share we have not lost market share.
- Nishit Sanghvi:** Sir my second question pertains to the US formulation now, we have mentioned about some price erosion but on Q4 we have seen that probably Diovan we have launched probably then we can probably launch in Namenda, Mylan got an approval today, we have a TA there so can you just throw some light on the Namenda opportunity, can it be Q4 FY 2015 or when do you look at launching that?
- Pranav Amin:** No I think Namenda for us will not be in Q4 FY2015. Before that, to the previous gentleman's question, four tentative approvals were Aripiprazole OD, Valsartan, which we have launched and the fourth one is Namenda, which memantine. So, I do not think we will have by Q4 in Namenda. The products that we have launched this year the four five we hope that there is some market share in that in Q4 so that's what we hope to do. Valsartan as I mentioned still early days. We have only launched in January and we will wait to see, if at all anything we would see an effect of that most likely in Q1 of next year at the quarter end because it is a partnered product.
- Nishit Sanghvi:** So the back ending kind of revenue generations so will it be seen for the product that have we launched earlier or so, so can get the Q4 benefit from product that have been launched earlier because of the partnership model?
- Pranav Amin:** I think it is tough to say, it depends on the market share what we have gained with, so far I have seen that so I don't think Q4 will reflect that much. What might reflect in Q4 is only some of the supplies that we do so there are two parts of the income the supply income and the profit share, profit share works much later after this. So you will not see additional profit share but you might see some supply based income and profit happening in Q4.
- Nishit Sanghvi:** Just wanted your thoughts on again in the front end probably FY 2016 where we have earlier guided that probably we may start looking at launches, so what are your thoughts, will it be portfolio will it be product, will it be limited competition product have you thought about it?
- Pranav Amin:** Yes, to be honest we have not thought of it in this perspective pretty much. Every ANDA that we have not tied up. We will launch in front end. As long as we are ready for it, we have not partnered it that means it will be through our own front end. That is a simple way that we want to do it. Moving forward in the future a long term goal is that everything should be on our own label through our own marketing team.
- Nishit Sanghvi:** Probably the large TAs that we have, are we partnered there?

- Pranav Amin:** The last tentative approval on so far as of now whatever we will launch is through partners, till our front end is established which is at the end of this year.
- Nishit Sanghvi:** Just last question probably I know if you are probably not giving a guidance on product specific but I just wanted to know probably Celebrex can it be a June 2015 launch of us?
- R.K. Baheti:** We have not disclosed that filing and nothing specific we can say about it.
- Nishit Sanghvi:** Thanks.
- Moderator:** Thank you. We have next question from the line of Arun Jain from Infina Finance. Please go ahead.
- Arun Jain:** Sir most of the question has been answered. Just want to understand this ophthal product in domestic market we used to grow very well but this quarter despite of market has done very well we are not able to do and we have degrown minus 10% so what has happened to that specific category?
- Shaunak Amin:** For which Ophthalmology?
- Arun Jain:** In domestic Ophthalmology if you look at you have minus 10% in PPT?
- Shaunak Amin:** Yes in Ophthalmology we had some attrition related issues so because of that we have had some erosion in the growth though in that division specifically so we have put things back on track so we feel the growth will come back in that division in one or two quarters.
- Arun Jain:** Second question related to your balance sheet if I look at your debt level has moved up quite substantially despite there is no increase in your fixed assets so could you please highlight what is the specific reason for that?
- R.K. Baheti:** What makes to say that there is no increase in fixed asset?
- Arun Jain:** Whatever number I have from...?
- R.K. Baheti:** See lot of it may be appearing in CWIP because you are aware Sikkim plant is under construction, our API expansion, right from the Q1 we have been talking. API expansion is in progress, international generic formulation plant expansion is in progress.
- Arun Jain:** So what is the nine months capex we have done Sir?
- R.K. Baheti:** Including the capital and advances we have done about 140 Crores.

- Arun Jain:** The guidance was close to 250 Crores is it?
- R.K. Baheti:** No, we said over 200 Crores. See we have also made an investment in Algeria when we talked of this was part of our capex plan so though in balance sheet it comes as investment for us for the business purpose it is capex. We have already invested some 30-odd Crores another 15 Crores will go may be early next year.
- Arun Jain:** So sir when once we used to meet you last year you said that you would like to have a debt free company probably one to one and half year?
- R.K. Baheti:** No, I never said that. I said that the debt has got reduced significantly. Now virtually last year end we were a debt free company and we said that we have created leverage for future growth. I think no growing company would be a debt free company every year. There will be a period when you borrow, you put investment, reap benefits and repay borrowings keep yourself again ready for the next stage of expansion, but in spite of this borrowing I think my debt equity will continue to be around 0.3%
- Arun Jain:** So what will be the target debt equity for probably next two years, looking to whatever the growth?
- R.K. Baheti:** It depends on what kind of investment opportunities I get. I am comfortable even up to 1:1. I am not saying that we will borrow that much but we are comfortable. I mean we can service that. If you look at our cash flow accruals, we are comfortable. It depends on how my businesses can get growth opportunities and whether it makes business sense whether it meets my ROI targets.
- Arun Jain:** Thanks a lot and good luck.
- Moderator:** Thank you. We have next question from the line of Vishal Gajwani from Birla Sunlife. Please go ahead.
- Vishal Gajwani:** Thanks for the opportunity. You mentioned that FY 2015 will be a year of consolidation and then in FY 2016 possibly you will again see growth coming back, so in case of international generics let us say over a three year period over the next three years we are also doing capex so what is the thought process earlier we have grown at 30% CAGR so are we looking at that number or is that a pretty high number going forward?
- R.K. Baheti:** See if you look at my earlier projection of CAGR growth we have already exceeded it that was skewed in 2013-2014 because of the previous year capacity constraint etc., but even today if you look at my previously four years of CAGR we have exceeded that and we will

continue to grow robustly. Now again I do not wish to take a base of 2013-2014 and then create a number. I think on a long-term curve basis 25% CAGR in international generic business is very much possible. I mean you cannot look at it on quarter-on-quarter basis or in a year-on-year basis. In Pharma business you know anybody who is in the international market there will be years which will be exceptionally good year there will be a year which will be consolidation year.

Vishal Gajwani: Also Pranav mentioned in his remarks that in international generics one is there has been some price erosion, secondly lower market share in newer product so how is the situation right now? Will the situation on these two issues continue over the next couple of quarters as well or they are improving?

Pranav Amin: See now the flipside of this is also right if someone has an FDA issue or supply issues the price go up and supplies will become less. So it is very tough to say, . What we have to do from our end and what we have been aspiring to do is be ready and we have to capture those opportunities when it happens. We have done that over the last two years that is how we have had some incremental phenomenal growth and profits as well. Moving forward that might happen. It is tough for me to say if someone is going to exit the market three months from now six months or a new entrant is coming. So we just try doing the best we can in terms of execution.

Vishal Gajwani: You did comment, I missed that on Q4 so I have heard correctly, you are saying that Q4 will be better than Q3?

Pranav Amin: I have said that compared to the last year, even last year, it is all the base effect was pretty high in all the quarters and moving forward yes we will start slowly start getting more growth based on supply income that we have and the success of the new launches.

Vishal Gajwani: If I look at the base Q2 and Q3 was high base last year but Q4 was not high base?

Pranav Amin: Not as much down.

Vishal Gajwani: That is it from my side. Thanks a lot.

Moderator: Thank you. Next question is from the line of Mahesh Sarda from Exide Life Insurance. Please go ahead.

Mahesh Sarda: Just wanted to understand new products which we got approval at the start of the year, where the market share has not ramped up till now what is the outlook over there. I think more so telmisartan?

- Pranav Amin:** Two telmisartan, telmisartan and telmisartan hydrochlorothiazide and the other one was Duloxetine. I think on duloxetine as you all know there is lot of competition so it really depends how aggressively you want to go after market share versus bottomline. That is where we are currently, and in terms of two telmisartans as I mentioned in the earlier call the incumbents are making it hard to pick up more market share. Our partners are trying let see what happens.
- Maresh Sarda:** Thanks.
- Moderator:** Thank you. The next question is from the line of Ashish Thavkar from Asian Market. Please go ahead.
- Ashish Thavkar :** Again on the telmisartan HCTZ is it that we are finding it difficult to gain the market share or the entire telmisartan franchise itself on the declining side?
- Pranav Amin:** As the molecule usage may be declining in the US I do not have that exact data but I believe it may be declining in the usage and for the volume, I think the number of players the incumbents are holding on to market share quite tightly.
- Ashish Thavkar:** So how long we are willing to go ahead with these strategies. So is it possible that in future in order to gain some market shares, we might resort to some price erosion?
- Pranav Amin:** So again the strategy is not completely in our control because we do not have the front end marketing on this. As I mentioned it is a partnered product we have partners who do this and we have yes we liaise with them and we talk to them and depending on what they feel but it is a function of what they believe and what they feel is a right point to get into this well.
- Ashish Thavkar :** So the same could be applicable for when we launched Abilify, so is it a fair assumption?
- Pranav Amin:** Yes I mean this assumption is there in all our partnered products.
- AshishThavkar:** But are we you know for any future launches are we setting any targets for ourselves that we would be comfortable with 5% or 10% market share?
- Pranav Amin:** I think it is not a function of market share. It really depends on what makes sense for the company and actually what is in your control and prove what the partner can do. One is able to pick up market share at a decent price, two you are backward integrated on the API, your API cost, your formulation capacity. It is a function of many things. So it is very tough to

give a generic answer whether we will be at 5%-10% range, there are some products of where the partners take an excess of 20% market share as well.

AshishThavkar : So next question on the international generic side, could you help us understand because obviously there are two component US and Europe so could you help us understand which geography had the maximum negative impact because of which you know there was just a flattish growth in the international generic?

Pranav Amin: We have not disclosed territory wise what we do. I think as I mentioned in the last year was a high base for both territories, Europe ROW and US so its combination of all three.

Ashish Thavkar: But given the fact that Europe is going through lot of difficulties and disturbances so would it be fair to assume on our part that you know the Europe was one of the geographies which had a greater impact than the US?

Pranav Amin: No I would not believe that. I do not think so.

AshishThavkar: Thank you Sir. That is all my side.

Moderator: Thank you. A next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: Thank you for the follow up. Although international branded is a small part of the overall mix but it was also down and odd so anything with respect that?

Shaunak Amin: No, I think because we had the plant inspection coming up in Q3 in Q2 we preponed some sales and we shipped more goods to those geographies but I think some key approvals in the branded export market did not come through so we feel it Q1 next year we should get these approvals where the base should pick up again.

Dheeresh Pathak: On the two telmisartans and Cymbalta are we vertically integrated?

Pranav Amin: We do not disclose, which ones we are vertically integrated on and which one may not but we are on bulk of ANDAs we are vertically integrated.

Dheeresh Pathak: so these three products we are not able to get market share but there are products in the past we have got market share so is it just to understand is there any partners specific issue or it is just see higher competition and incumbents holding on?

- Pranav Amin:** I think it is not partner's specific issue because the partner as I mentioned earlier we do select partners and see the track record. This partner is capable of getting market share, it is just a matter of market situation.
- Dheeresh Pathak:** Okay and is the competition more severe from Indian players is that fair understanding?
- Pranav Amin:** I think it is tough for me to say I think you can look at up yourself you will get a better idea. Pretty much there are lots of companies in the generic space.
- R.K. Baheti:** To all of our participants I would like to make one statement on issue of market share. In my earlier statement I said that market share is also a factor of whether you are willing to drop prices just to grab my market share and at times we in consultation with our partner do that. At times we say no, nothing beyond this so if we are not getting market share we are okay with it. Second in the past we had built market share slowly and we have no reason to believe that partners will not build up the market share slowly rather than drop prices, grab market share and then suffer for rest of the period.
- Dheeresh Pathak:** Thank you for this.
- Moderator:** Thank you. We have next question from the line of Manoj Garg from Bank of America, Merrill Lynch. Please go ahead.
- Manoj Garg:** Good evening to all of you. Thanks for giving me the opportunity. This question for Pranav like on Abilify is it there any pending litigations you know or probably we launched the product in April 2015 subject to FDA approval?
- Pranav Amin:** There is pending litigation. Almost all the companies have been sued. So depending on how the case goes we will have to decide what we wish to do, so it is going to be dependent on how the case also progresses.
- Manoj Garg:** When is the likely outcome of the case would be?
- Pranav Amin:** I think the outcome of the case is going to take much longer because it is still in sort of early stages so we do not expect any outcome by the time the compound patent expires so basically the outcome will take some time.
- Manoj Garg:** Are we prepared there to launch the product at risk?
- Pranav Amin:** So again like we said that we really do not talk about the launch strategy in for individual products but again there are lots of variables here as we just discussed with respect to the

case but our effort is going to be to kind of be ready with day one launch for most of our products so we will try and make sure that if the market formation happens then we should also be able to participate at that time. But again there are lots of variables so there will be some variability so it is hard to really pen it down but you know from our internal point of view whatever we can do in order to make sure that we are able to participate on market formation we will do.

Manoj Garg:

Thank you Sir very helpful. Again this question, again Pranav pursue broadly from a macro perspective whatever we are seeing in terms of customer consolidations and lot of people are talking about the companies which will have probably smaller portfolio or the bouquet of products will be at last compare to the larger players so just want to pick your mind on these and how do we see our tractions in the US as we move forward?

Pranav Amin:

Yes I know lot of people do say that but I believe that there is still enough space for anyone who has a good product portfolio. It really comes down to what kind of products we have one. No.2 how good your supply chain is. So we see no reason why there could not be opportunities. Yes with consolidation there would be some pressure on pricing, but they would not necessarily stick to one buyer only because there is a huge risk as well. We have seen lot of other new entrants coming in building up market share and that consistently has been happening overtime in spite of consolidation at the trade level as well. But yes there is a concern but I believe that there are still the opportunities greater than that.

Manoj Garg:

If all as equal if one has to look at from the base portfolio perspective how do you see on a year-on-year basis, do you see that there could be some price inflation or price deflation in terms of on the base portfolio side?

Pranav Amin:

I think on the base portfolio yes there could be price inflation as well. One is cost pressure as that I mentioned, but there could be increase price as well, if you are smart enough if you want to not necessarily go after to market share. Second is as we have seen there have been lot of FDA issues, someone might exit the market, someone may have another issue, so once that happens there is always an opportunity for prices to go up, but it really depends on how the entire competition will behave not just 1% in the market.

Manoj Garg:

Last question from my side before I get into the queue like in the past you have indicated that you are looking more complex or different segment in derma was one of them which you have indicated in the past any other segment where you have taken the portfolio approach or it is more of broad based kind of filing?

Pranav Amin:

In the past I had mentioned that Derma and Inhalation were two areas that we have looked at. Derma is one area which we will look at, I think right now hands are quite filled with

oral solids and in terms of Derma we are putting few resources on it, not as much as we would like limited budgets that we have on R&D.

Manoj Garg: These are two segments which probably pursue Derma and Inhalation?

R.K. Baheti: Yes.

Manoj Garg: That is from my side. Wish you all the best Sir.

Moderator: Thank you. The next question is from the line of Tushar Manudhane from India Nivesh Securities Private Limited. Please go ahead.

Tushar Manudhane: Just with respect to employee cost with addition of MRs is this the kind of base form or still probability of increasing the employee cost for next couple of quarters?

R.K. Baheti: That will be some more increase expected because part of the recruitment was done before December, part of the recruitment will be done by during the next couple of months.

Tushar Manudhane: Capex guidance for FY 2016?

R.K. Baheti: For FY 2016 again is early days. We have not yet done the formal budgeting, but my gut feeling that it would be much lower or it will be in line with more of maintenance capex or some spillover from FY 2014-FY 2015.

Tushar Manudhane: With respect to ANDA's pending for approval from partner point of view as long as front end is not established as you commented that it will be launched through partners, but just I would like to have a clarification that is that a kind of agreement through which partners for those in India or there is no such agreement, launching post approval?

Pranav Amin: I did not understand your question, but whatever we filed in the last two years or so it is pretty much not partnered, most of the products filed two years before they have been partnered, there may be some incidences which they are not.

Tushar Manudhane: Thank you.

Moderator: Thank you. The next question is from the line of Hardik Bohra from Union KBC Mutual Fund. Please go ahead.

Hardik Bohra: Thank you for the opportunity. Just one question Shaunak just clarify you have what 3500 MRs right now?

- Shaunak Amin:** Yes. That is right.
- Hardik Bohra:** So our sales force productivity right now is around 2.5 lakhs per month per MR is that right?
- Shaunak Amin:** That is right.
- Hardik Bohra:** Do you have any target in mind that you looked at basically below the industry average of 4 I think, so do you have any?
- Shaunak Amin:** I do not think industry average is 4. The industry average is lower than that though that being said I do not look at ultimately from a target point of view. It is also what we look at the growth in productivity and that is what we want to maintain whether that growth happens on the base of 4 lakh CPM or it happens on the base of 2 lakh CPM. I think lot of it is to do with what segment, what product mix I think that I do not work with specific productivity target.
- R. K. Baheti:** For most of the company including us the MR, PCPM as you call it would be higher in case of acute and would be lower in case of specialty all companies. Now as our share of specialty business has gone up from less than 25% or so to about 55% plus the overall productivity would fall and see as I said we keep making investment in new divisions and where you take people on board but the productivity levels for them to reach optimal productivity level would take time. It is a phased strategy. It did not indicate the underperformance. It indicates certain investment.
- Hardik Bohra:** My question was most in the point of view that over the next three to four years, you expect majority of the growth to be driven by increasing field force productivity or given that shift going forward specialty or would there be more volume led growth?
- R. K. Baheti:** It would be all of them together.
- Shaunak Amin:** It would be mix of both. Like what I said in the past, I do not think we are looking at large field force expansion as main lever for our growth. Whatever field force expansion we do is more strategic rather than just push volumes from a market perspective in terms of our coverage of doctor universe I think you want to just look at that very plainly I think there is scope for us to double the field force size if I were to just say I want larger coverage's, so that is an option to us, but we are not perusing that, we are very clear that whatever manpower expansion is more driven by strategy and portfolio realignment and specialty alignment.

- Hardik Bohra:** Just one more question on the ANDAs in the US. Could you please indicate for the products where we have some arrangements what is the typical lifespan of the arrangement three years, four years would you say or it differs?
- Pranav Amin:** It differs some which are 5, some 7, some 10 years as well.
- Hardik Bohra:** That is all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.
- Nimish Mehta:** Some of the products that you have mentioned in your annual report a couple of years back, in all of this you are developed some process and also developed scale of process, any update on that or we targeting the US?
- Pranav Amin:** I think these all API that we have developed. Some of this that you did mention that not even for the US, it is API or DMF that we file we have not disclosed which ANDA is filed, but these are DMFs that we filed.
- Nimish Mehta:** I also saw a filing on bupropion, which is Wellbutrin so anything you would like to add on that?
- Pranav Amin:** Again there is nothing there is say API, DMF that we have.
- Nimish Mehta:** We have yet not launched any of the DMF right and the API seems also have not yet been done?
- Pranav Amin:** No.
- Nimish Mehta:** Finally on the generic Diovan launch, have we launched it through the same partner through him we launched telmisartan as well?
- Pranav Amin:** We have not discussed who our partners are.
- Nimish Mehta:** I do not want the name, but are they same partner, I am just trying to understand that?
- Pranav Amin:** I think I cannot disclose that either.
- Nimish Mehta:** Thank you.

- Moderator:** Thank you. The next question is from the line of Neha Manpuria from JP Morgan. Please go ahead.
- Neha Manpuria:** Thanks for taking my question. My first question is on domestic business. You mentioned that our mix is roughly about 55% for the specialty business. As we are launching this new division, do we have our target mix that we want to achieve and second part of that would it be fair to say that the growth in the domestic business would be higher than what we have seen in the last three to four years?
- Shaunak Amin:** Two things, one is alignment, we do not work purely on specialty and acute. We work on product therapies, which are more progressive and more evolving in nature. It just happens to be that most of the progressive therapies are in the specialty market. There are some in the acute market also, so we do not have a mix that I am saying okay I want 70: 30 or 40:60, I think the idea is that as we do grow in both market do have their own sets of growth opportunities, so if I keep that in mind yes the specialty is always going to outgrow the acute market, but we are not working with set number in the mind in my product mix between the acute and specialty needs to be at a certain point. The second one is I think the growth market just as a specialty weightage does go up, I think we will see better growth. I think that is being factored, but I think there are still issues with drug pricing and those challenges do exist, so somewhere those might mute the growth if they were to come around, but other than that I think yes the portfolio growth should be far better than what we have seen in the last three years.
- Neha Manpuria:** On the regulation bit, this uniform marketing code that was released by the government last month do you see it as a big change in the near term, let us say by smaller players are trying to disrupt the market and we being adhering to the order and therefore had a disadvantage, do you see at a disruptive factor in the near term?
- Shaunak Amin:** We are still evaluating and studying it and meeting with DOP together to get a sense of what exactly, may be when we get more clarity we can update you on that.
- Neha Manpuria:** Last question if I may we have the API and formulation facility am I right to assume that they are both due for inspection this year?
- Pranav Amin:** Yes they should be as per the FDA guidance of two years they should be coming up inspection here.
- Neha Manpuria:** Do we have any plan to probably invest in other facility as a derisking strategy given that we have one formulation facility at the moment?

- Pranav Amin:** So I have mentioned in last call, first priority was to get this existing facility up to increase the capacity there and do the debottlenecking and we will look at a new facility for growth as well as from a derisking perspective.
- Neha Manpuria:** But this is we have not announced anything as of yet?
- Pranav Amin:** No, not as of yet.
- Neha Manpuria:** Thank you so much. Thanks for taking my questions.
- Moderator:** Thank you. The next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.
- Chirag Dagli:** Thank you for the opportunity. I just wanted a quick update on your plans to build your own front end in the US are we on track and what is the kind of spend that we are looking?
- Pranav Amin:** As I have mentioned in the last few calls I think FY 2016 is when we will get it going and I think we are on track on that. As per spends, it really depends what we start with, but as a couple of million dollar at the most.
- Chirag Dagli:** So by the end of FY 2016, we will have our own front end?
- Pranav Amin:** Yes we can.
- Chirag Dagli:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Mahesh Sarda from Exide Life Insurance. Please go ahead.
- Mahesh Sarda:** This was the follow up question on the inspection. I think some member just asked about it. I just wanted to know since it has got delayed do we expect to happen this quarter itself or if the timelines are unsure for this?
- Pranav Amin:** To be honest I really cannot answer that question because neither have we heard anything from the FDA, so we do not have any timeline on that.
- Mahesh Sarda:** Like it was supposed two years are overdue almost three to four months now?
- R. K. Baheti:** Actually these days we are not even supposed to know. FDA can opt to visit on any given day without a prior notice, so our job is not worry about, our job is to keep ourselves

prepared for anytime all time inspection, so we have set our own system, processes, our own mock audits, checks, balances whatever you call it that is our job.

Mahesh Sarda: That is helpful. Thanks.

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

Anubhav Agarwal: Thanks for the opportunity. One question on Abilify, this is just a clarification that if you decide to launch on day #1, can you launch on day #1 or someone has an exclusivity and you have to come on day #1?

Pranav Amin: I think it is very tough to comment on this Anubhav because it is case under IP. What we said is we will be preparing and we will try doing a day #1 launch, but it is very tough to say right now.

Anubhav Agarwal: Just a clarity, since the compound patent expires in April 2015, so the issues at hand will be very company specific, it would not be a formal issue for all the companies because then it will be what is under litigation right now is the process patent right?

Pranav Amin: Basically we cannot talk anything specific about this.

Anubhav Agarwal: Thank you very much.

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

Kunal Randeria: All my questions have been answered.

Moderator: We have next question from the line of Deepak Khetan from Axis Capital. Please go ahead.

Deepak Khetan: Good evening gentlemen, thanks for taking my question. My question is on price erosion in international generic market are we referring largely to US market and if yes was that driven by increased number of players or was that a follow out of January consolidation?

Pranav Amin: When I spoke about price erosion, I am talking largely in the context of US market where they have been some new entrant in some products which have driven by some prices.

Deepak Khetan: This was not because of the channel consolidation?

Pranav Amin: That is it from my side.

- Moderator:** Thank you. Next question is from the line of Rahul Sharma from Karvy Stock Broking. Please go ahead.
- Rahul Sharma:** There are four tentative approvals which you had mentioned Abilify, Valsartan, Namenda and I have missed out the last one what was it?
- Pranav Amin:** There was two Aripiprazole, Aripiprazole OD and Aripiprazole regular one.
- Rahul Sharma:** With the focus on complex products filing going ahead do you foresee a major uptick in your R&D spent from probably 5 odd percent?
- Pranav Amin:** As I mentioned in the last few calls we gave a range of 5% to 7%, I think it should be in that in the next few quarters at least.
- Rahul Sharma:** Thank you.
- Moderator:** Thank you. The next question is from the line of Shraddha Patil from Wealth Managers. Please go ahead.
- Shraddha Patil:** Thank you for taking my question. This is a follow up question regarding the branded formulation business. You mentioned that you expect to see your 25% CAGR over a longer period of international business, so could you give any light on the branded formulation business in the similar way?
- R. K. Baheti:** You are talking of the international branded formulation business?
- Shraddha Patil:** No the domestic branded?
- R. K. Baheti:** The domestic formulation we should be growing better than the market.
- Shaunak Amin:** What we said that anywhere from 15% to 20% should be the growth rate depending around the market growth rate, so if market stays at low single digit, I think we will be looking at 14% to 15% if the market going to go up in to 8%, 9%, 10% kind of growth rate, we would be looking at 20% of growth rate.
- Shraddha Patil:** My second question is regarding me understood that you do not give a geography based revenue but would it be fair to assume that the US business is a major contributor over Europe?
- Pranav Amin:** Yes that is a fair assumption.

- Shraddha Patil:** Thank you.
- Moderator:** Thank you. We have last question from the line of Bhavin Shah from GeeCee Investments. Please go ahead.
- Bhavin Shah:** Thanks for taking my question. While for aspirationally we would target 15% to 20% just wanted an assessment strategically how the new launches that you all have done over the last few quarters shaped up in terms of growth contribution are they as we are expectation, when you talk about 20% growth rate, what really needs to change at the ground?
- R. K. Baheti:** Domestic branded business?
- Bhavin Shah:** Yes, Sir I am listening to that in terms of new launches then the domestic branded market how are they have been shaping up?
- Shaunak Amin:** I think basically if you look at it all new product launches where we look at it is not as absolute number of new launches I think what gives us confidence that we can grow at 15% to 20% is that all the new launches. We have been able to gain very good market share and get good share of specialty in each of those launches, so at an absolute number wise we can share that data few, but each launch we have been able to get very good traction on the launches. The number of launches is not as much as may be the top five companies, but each launch has good market share and we have gained good momentum in terms of all products.
- R. K. Baheti:** Our present presentation as that number. I think we have done about 25 odd launches in the current year but that includes different lines of business.
- Bhavin Shah:** But that somewhere does not really come out when we talk about field force productivity if new launches were we growing faster and smarter compared to the flagship product they should have probably contributing well?
- Shaunak Amin:** Basically couple of years that the domestic branded formulations growth is not front ended, it is back ended, so by the time the new formulation does grow it was substantial brand, it takes at least three to four years for that to happen. I think what we have done is the earlier indication and early signs are good for all our new brand launches.
- Bhavin Shah:** All the best. Thanks.
- Moderator:** Thank you. That was the last question from the participant. I would now like to hand over the floor back to Mr. Anshuman Gupta for his closing comments. Over to you, Mr. Gupta!



Alembic Pharmaceutical
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- Anshuman Gupta:** Thanks. On behalf of Edelweiss, we thank all participants and Alembic Pharma management for this interaction. I handed over to Mr. Baheti for any closing comments.
- R. K. Baheti:** Thank you. Thank you all the participants for a lively discussion and if any of you have any specific questions left unanswered you can always send a mail to us and we will respond. Thank you very much.
- Moderator:** Thank you very much Sir. Ladies and gentlemen, on behalf of Edelweiss Securities Limited that concludes this conference. Thank you for joining us, you may now disconnect your lines.