"Alembic Pharmaceuticals Limited Q3FY17 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY17 Earnings Conference Call of Alembic Pharmaceuticals Limited. We have with us today Mr. Pranav Amin - Managing Director, Mr. R. K. Baheti - Director (Finance) and CFO and Mr. Mitanshu Shah - Senior Vice President (Finance). As a reminder, all participant lines will be in a listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mitanshu Shah. Thank you and over to you, sir.

Mitanshu Shah: Thank you. Good evening, everyone. Thank you all for joining the third quarter result conference call. Most of you would have received our results by now. However, let me briefly take you through the numbers of the quarter, nine months ended 31st December 2016. You are aware that numbers of this quarter nine months are strictly not comparable with last year's corresponding quarter as there was a significant price erosion in one of our products, Aripiprazole, as was expected, after the entry of additional competition.

During the quarter, total revenue degrew by 17% to 776 crores. EBITDA was 145 crores; is 19% of sales. Pre-R&D EBITDA is 34% of sales. The net profit after tax went down by 68% to Rs. 86 crores. EPS for quarter is 4.59 per share versus 14.26 in previous year. During nine months, total revenue degrew by 6% to 2,391 crores. EBITDA is 480 crores; is 20% of sales. Pre-R&D EBITDA is 33% of sales. There is growth in pre-R&D EBITDA numbers when compared to '14-'15 both in absolute and percentage terms.

The net profit after tax went down by 51% to 307 crores. EPS for nine months is 16.45 per share versus 33.40 in previous year. CAPEX for half year, including CAPEX advances are 380 crores. Total CAPEX outlay for the year is expected to be around 600 crores. Gross borrowing in the consolidated balance sheet is Rs. 95 crores; however, we continue to be debt free on net basis.

Now, I would like to take you through the Branded Formulations business numbers. Q3 has been flat for us. The Branded Formulation sales for third quarter was 294 crores as compared to Rs. 288 crores in corresponding quarter last year. This sales was adversely impacted due to price reduction in Azithral and few other brands as well as disruption in the trade due to demonetization.

I will now hand over discussion to Pranav for his insights on international business.

Pranav Amin: Thanks, Mitanshu. Let me start with R&D. As you know, I have been saying that R&D is something that we will continue investing in aggressively for the future growth and to build up a pipeline. In the third quarter, we have spent approximately 15% of sales, which is 117 crores on R&D as compared to 70 crores on last year. For the full year as stated, we expect to spend over 400 crores. The internal as well as external R&D projects are progressing quite well. We have filed four ANDAs during the quarter and 10 ANDAs YTD. At the beginning of the year, as our target was to file between 15 to 20 ANDAs and we should be on track to achieve it.

As regards projects, as Mitanshu mentioned, we have a large CAPEX outlay to build up capacities. The oncology facility for oral and injectable formulations is expected to be ready for exhibit batches by the first half of FY18 whereas the general injectable and the derma facilities, Aleor, will be ready in the second half of FY18. We will also possibly commence work on a new oral solid dosage facility in FY18.

As regards compliance, we have received the EIR for the Formulations facility at Panelav. This was inspected by the USFDA in March 2016. We have also just received the EIR for our API 1 and API 2 facilities located at Panelav, which were inspected in June 2016. With this, all our facilities are in compliance.

As regards approvals, the company has received three final approvals during the quarter. With this the cumulative approvals are at 52, which includes 6 tentative approvals, the company did not launch any new products in Q3. We plan to launch around three to four new products in Q4 FY17. As regards the US operations, the team has launched 26 products, including re-launches so far in the market. There are nine people on Board and they have performed quite well in the first year of operations. We are quite happy with the way they are scaling up.

Coming to the financials for the International business. The International Formulations business decreased by 42% to 303 crores for the quarter as compared to 521 crores last year. The International Formulations revenue for nine months was at 963 crores versus 1,272 crores last year. The US business had sales of 226 crores for the quarter, which is roughly 75% of international generic sales. The API business had some good orders and grew by 64% in the quarter to 166 crores, and on a nine-month basis grew by 28% to 459 crores.

As we have mentioned, the sales through our partners is reported with a one quarter lag, so the current quarter essentially reflects sales of Aripiprazole and other partner products, which were booked in September '16. As Mitanshu mentioned, Aripiprazole continues to face increasing competition and the downwards price slide continues.

I will now open the floor for Q&A. Thank you.

Moderator: Sure. Thank you very much. We will now begin the question-and-answer session.

R. K. Baheti: I am also happy to share with you that to respond to your questions, we also have Mr. Jesal Shah - our Chief Strategy Officer and Ajay Desai - VP Finance and Company Secretary, who also helps Shaunak with business finance of Branded Formulations business in the call. We can start the Q&A

Moderator: Thank you. We have the first question from the line of Agraj Shah from JM Financial. Please go ahead.

Anmol: I had a question on the margins. Last quarter, we saw a pretty strong performance and during the course, Mr. Baheti attributed that to strong domestic business as well as more partnered products. We have seen increasing competition in Abilify and even the domestic sales has been slightly lower because of the factors that you just mentioned. What explains the stronger gross margin performance for the quarter?

R. K. Baheti: The gross margin as you are aware, is a factor of product mix. I think the product mix has been maintained. What has really slowed down is the Branded business sales in Q3, which was quite good in Q2, but that didn't change the product mix, so the margins remained almost in the same level what it was in September 2016.

Anmol: So basically does it mean that whatever we are suffering by the way of erosion in Aripiprazole is being more than offset by the quality of our launches in the US?

R. K. Baheti: It would not be possible to offset that completely, and you will see that getting reflected in our results. As Pranav mentioned, this quarter's results indicate the sales of Abilify of September quarter actually. And I would say that December is not as good. So what you will see it in the next quarter, probably get reflected there. Fortunately, our attempts would be to at least normalize the Branded business back into shape in Q4, so that would to some extent compensate.

Moderator: Thank you. We have the next question from the line of Amey Chalke from HDFC Securities. Please go ahead.

Amey Chalke: I had one question on India business, excluding the impact of demonetization and NLEM products, what would be the growth of our India Branded business for this quarter?

R. K. Baheti: Please understand there is no measurement of how much a business had lost because of demonetization. In fact, the situation, as most of you would be aware, there was a huge disruption in trade. Probably we were not as aggressive, maybe initially consciously and thereafter expecting the trade to catch up. Also we have a relatively larger rural base and it took much longer time particularly in semi-urban and rural areas for operations to become normalized. Honestly there is no quantification possible. Had it all not happened, we would have grown by 15%, it's a very simple statement to me, but there is no proof.

Amey Chalke: So like some of the companies have extended the credit days and all for the distributors, so we haven't done that you are saying.

R. K. Baheti: Yes, we didn't do that aggressively

Amey Chalke: And one more thing on our employee costs, so it has increased sequentially. So have we added MRs or something or any facility where we have added people or something like that?

R. K. Baheti: We have not added MRs, but we have added people on the projects which are at advanced stages of completion, so that they start getting more into the plant operations as soon as they are completed.

Amey Chalke: Okay. So that is particularly for the US business, you are saying?

R. K. Baheti: That's for the international business.

Amey Chalke: And one more thing I had like, our MR productivity, we have 5,000 MRs at this point of time. So it comes around 2.4-2.5m per MR. So even if we grow at around 15%-16% over next two years, even by FY19, it would be around 3.2, which is much lower compared to what is the industry standard is around 5 to 6 which are good companies are doing at this point of time. So what are we doing to improve that MR productivity or like how you want to scale up there?

R. K. Baheti: We don't have 5,000 MRs. 5,000 is a total marketing strength, which includes the supervisory and managerial people. So the number of MRs are about 4,000 to 4,050. I take your observation, which is a valid observation, the broad reason I can say that lot of these therapies were not earlier present and happened in last 3, 4 years, 5 years. It will take some time for us to catch up in the MR deliverables.

Amey Chalke: So one more observation is there that even if we assume at normalized R&D, our EBITDA margins are at around 26%-25%, which is much healthier. And for India business, obviously, it should be at par or much better than that.

R. K. Baheti: We don't discuss vertical wise EBITDA margins, difficult to do that and we don't discuss that.

Amey Chalke: Okay, so the question I had was so the margin wise, our India business is much better. So is there, we are spending less on MR or something like that or our attrition rate is higher ?

R. K. Baheti: I am not commenting on that because we don't discuss vertical wise margins.

Moderator: Thank you. The next question is from the line of Kumar Saurav from Motilal Oswal Securities. Please go ahead.

Kumar Saurav: Mr. Baheti, sir, as you said that it is very difficult to quantify the impact of demonetization, I completely understand that. But if we have to look at sir, going forward, the trade disruption, which you talked about, are we seeing improvement in that? And to that extent, do you think that fourth quarter will be a normalized quarter and growth expectation should be in and around the numbers which you were talking? And how was it so when you were looking at monthly sales of October, November and December, was December the worst month or November the worst month?

R. K. Baheti: Actually if I look at the growth, December versus December of previous year and in pharma industries, that's how it works. So we don't compare it sequentially, we compare YoY. Yes, December was the worst. Responding to your first question, yes, probably barring first week of January, I get feedback from my field that things have started normalizing across, and we should be back on target in Q4.

Kumar Saurav: Sure, perfect. And sir, coming to the US business, sir how should we look at the US business from here on and given the fact that Aripiprazole at least for next one quarter, the pain should be there and the investments, which we are putting in through R&D, it may take still some time for them to fructify. So FY18 as a year, how we should look at? Is it like we should consider the growth should be, do you think that we should be able to match up with the FY17 numbers or there will be a growth number attached to that?

Pranav Amin: This is Pranav. You're actually right, I think from Aripiprazole, there will be a huge lag, which we will not be able to fulfill next year. If you see this year, we have also launched just one new product, hopefully Q4 as I mentioned, we launch 3 or 4 . There were some launches, which got delayed because of court rulings and stuff like that. So we had fewer products as well. Our R&D efforts as I mentioned, we will continue spending on R&D because the only way for us to grow in the future is building up a good R&D pipeline and doing some complex work as well as injectables and the derm products. So R&D efforts will continue, yes, margins will be under pressure for FY18, but we are confident of building up a good pipeline. Now for the next year, we are expecting about six to eight new launches and let us see how that goes, that's where some growth should come from.

Kumar Saurav: Sure. And sir, there are discussions which are in and around border tax adjustments and all. Do you think this could be a reality? And if that could be a reality for most of the Indian players, can have a very detrimental impact.

Pranav Amin: To be honest, I am not worried about that right now. I think there are lot more factors at play. Also that is something that's not in our control and our hand, so let's wait and see how it goes. But in my opinion, I think that is referring more to the multinationals and the offshoring that they did for tax benefit. But let's see, it's unclear, but I don't think there should be any effect of this.

Kumar Saurav: Perfect. And sir, just one last question if I squeeze in, sir when you look at your R&D, you look at absolute number while budgeting or you look at as percentage of sales? How we should look at this number moving going forward? We should focus on the absolute number or percentage of sales?

R. K. Baheti: We look at the absolute number what is needed to carry forward our projects. Percentage of sales is just a consequential number.

Kumar Saurav: And do you think that this absolute number, the quarterly run rate should stay where it is?

R. K. Baheti: I think so. I'm not seeing a significant increase next year from these numbers, so it will stay around these numbers.

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

Nimish Mehta: Just to reclarify, you mentioned that the normalized gross margin would be kind of the reflection in the Q4, is that the right understanding?

R. K. Baheti: Going forward in Q4, the number Q4 will be actually the sales done of partner products in Q3 and that can be lower than Q2. So that would impact the gross margins. At the end of the day, these are only the percentage of numerator and denominator.

Nimish Mehta: So I am just trying to understand the gross margin, which is, let's say which normalized Abilify, and so that should be what, as of now should be taken as an average of Q2 and Q3?

R. K. Baheti: No, actually the gross margin would go down.

Nimish Mehta: Would go down from the Q3 number?

R. K. Baheti: From at least the Q2 number.

Nimish Mehta: From the Q2 number as well, because Q3 is better than Q2, by the way.

R. K. Baheti: So that's what I'm saying. So from Q2 number, it should go down unless branded business performs better than what we are currently expecting.

Nimish Mehta: Understood. That's a fair point. Okay, on the branded business, if you can just let us know how much is the price cut that we have seen in Azithral, one?

R. K. Baheti: For the quarter, that impact would have been 6 crores, that is in Azithral, but all brands together we will have 7-8 crores,.

Nimish Mehta: 6 crores in Azithral, and all put together to 7, 8 crores, okay. And also wanted to know just your thoughts..

R. K. Baheti: That is the impact for the quarter.

Nimish Mehta: Impact on the quarter. Yes, I understand that.

R. K. Baheti: Versus the Y-o-Y.

Nimish Mehta: Understood. Okay. The other thing I just wanted your thoughts on the new development that we have seen, the Prime Minister has inaugurated this Jan Aushadhi stores at many places and they seem to be quite aggressive in opening up these stores, we also see that around. So what do you think would be the impact on the branded, ethical branded players like us and generally some thoughts on that, some guidance on that would be very helpful.

R. K. Baheti: I understand, Nimish, we have done some internal discussion, but I don't have complete position until now on this subject. Let me deliberate more and I would like to give you a properly formulated answer than off the cuff remarks.

Nimish Mehta: Understood. But it is at least suffice to say that it will have some impact on ethical brands

R. K. Baheti: See, you need to adapt to the changes. So we need to adapt to the changes. How, when is something which we will work out.

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

Rashmi Sancheti: Sir, I just want to know that excluding US markets from your International Formulation for nine months, the sales for EU markets comes to around 245 crores. So what is driving growth in European market and what is the outlook forward?

Pranav Amin: The growth is not just Europe, but Europe and Australia and Canada, three markets over there. What's driving growth is we had some interesting launches in those markets and that is what has driven the growth. Going forward, most of our R&D efforts are geared to the US as I have been saying. But yes, we will continue to launch about 3-4 products in Europe every year as well.

Rashmi Sancheti: Okay, so what kind of growth do you see in FY18 or '19? Will it be 20% plus kind of growth or because in the past, I think in FY15 and '16, we have not done that well. I mean, it was very lower growth or degrowth we have seen in European markets. So I just want to know like whether we are going to see a high growth in FY18 or '19 or it will come back to the normal growth of 5% to 10%?

Pranav Amin: Actually we haven't given segment wise growth in any of these areas. The reason is they are too small and other than for US, we haven't given a growth, so I would rather not comment on it.

Rashmi Sancheti: Okay, fine. And sir, just want to know that you said that you have taken, there was a price cut in Azithral and some other products. So in quarter four also we are going to see the same impact right, year-on-year. So overall branded domestic formulation business, it will not come back to 19%-20% kind of growth like you said that from quarter four, we will be back to the normal growth of what the company used to do earlier.

R. K. Baheti: Back to 13%-14% growth, getting back to normalized.

Rashmi Sancheti: Okay. And can you give the CAPEX breakup of your 600 crores, which you mentioned?

R. K. Baheti: Very large part of it almost, I would say almost 90% of it will be on the new projects, which we are building. So we are building those three major projects Onco, OSD and injectable, derma plant and general injectables

Rashmi Sancheti: Oncology, injectable and..

Pranav Amin: Oncology oral formulations, oncology injectables.

R. K. Baheti: Other 10% would be on R&D and on other maintenance CAPEX.

Moderator: Thank you. Our next question is from the line of Amey Chalke from HDFC Securities. Please go ahead.

Amey Chalke: Question I had was on R&D. Let's say in FY15, when we used to spend around 120 crores and now in FY17, we are spending around 400 crores. So how much would be the scale up in terms of R&D projects we are working on in these two years?

Pranav Amin: Roughly, I think if you see the R&D cost is about four-fold, even the projects increases were over four-fold. So, if we were working on 40 odd projects, 40-50 projects earlier, we're working on over 200 projects right now.

Amey Chalke: Okay. So any target we have in mind like by FY19, let's say how much would be total filed ANDA or something like that?

Pranav Amin: There is no broad target. Of course, internally we have, but I think, I said this year, our goal was to do between 15 to 20, and we are on track to do it. Next year, we would also look at 20 plus, so gradually we will pick up going forward. but that's an aspirational target.

Amey Chalke: Okay. And of this 400 crores, how much would be from outsourced R&D, and how much would be from in-house R&D?

R.K.Baheti : Almost 15% to 20% are outside, the rest are in-house.

Amey Chalke: And that would be mostly for the non-oral solids, right?

R.K.Baheti : That would be mostly on injectables and some complex oral solids.

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

Ashish Thavkar: Sir, on the R&D part, does this R&D also include milestone payment?

R.K.Baheti Yes, wherever it is outsourced, it includes.

Ashish Thavkar: Sir, I understand, we have a deal with Rhizen pharma. So for how long this milestone payment thing going to continue?

Pranav Amin: There is no Rhizen expenditure in this R&D cost. Alembic has invested in Rhizen and that is self-sufficient now, so there is no more funding from Alembic.

Ashish Thavkar: But we do have our own internal R&D and..

Pranav Amin: Yes, of course, we have about 530 scientists on our internal R&D.

Ashish Thavkar: Sir, on the Onco facility like since we would be completing the project very shortly, so any timelines on when would the validation batches and the filings would happen?

Pranav Amin: In the first half of this year is when it should be completed. It's only after that then we will start to take exhibit batches, the filings and then subsequently the launch and commercialization only happen when the approvals happen about 2-3 years later.

Ashish Thavkar: But second half FY18 is a good time to assume as far as the filings are concerned, you feel so?

Pranav Amin: The batches will start, so then once you do the batches then we should see filings towards the end of the year.

Ashish Thavkar: Towards the end of the year?

Pranav Amin: Yes, maybe the last quarter or so.

R.K.Baheti: Or early next year.

Ashish Thavkar: Early next year, that's fair enough. Sir, on the US, obviously we had this Abilify in our numbers and done pretty well for us. So we have this another interesting opportunity PRISTIQ, so is this product that the near-term opportunity you feel so, you would be launching it in the next two or three months?

Pranav Amin: Yes, I think as we said that if the launch happens in March or whenever they are saying, we will be there along with the first wave of launches. However, I believe there is lot of people in the market, so again let's wait and see how the situation is.

Ashish Thavkar: You feel the first wave itself has a bunch of people?

Pranav Amin: Yes, I believe so.

R K Baheti: Yes, just one clarification on Rhizen. Rhizen is in a different entity focusing only on NCE. Now that's not a business APL is in, so we have just funded Rhizen and the funding is reflected as our investment. Rhizen's R&D costs are not captured as our R&D cost. Not in the past, not now.

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

Bhagwan Chaudhary: Sir, one clarification just this, the current filings for this year and next year as are planned, what we are manufacturing right now is likely to take some time to take the exhibit batches etc. So these filings are from the existing facility?

Pravin Amin: Yes, absolutely.

Bhagwan Chaudhary: Okay. And secondly, again on this R&D, we have ramped a bit to the very high level now to almost 120 crores quarterly. So will it stand at this level or chances to go up significantly?

Pravin Amin: As Mr. Baheti mentioned earlier, I think will be by and large around this level. Even in the past I have said that this year we will do a bit around 400 to 450. Next year there may be a slight increase, but it will be so slight, so it'll be around this level only.

Bhagwan Chaudhary: Okay. And secondly this what we are doing some investment on the external R&D. So can you give some flavor on that, what kind of research and how many ANDA we have filed from there? And for this external R&D, again the facility will be used for Alembic or will be the third-party?

Pravin Amin: There are multiple things. The concept of external R&D is that, how do we ramp up our R&D in a shorter span. So while we are organically also growing, there are lot of smart people who have interesting technologies, we partner with them. Now, some of them we will be doing it at our own facility, where some we will be doing at our own CMO or our contract manufacturing facility.

Bhagwan Chaudhary: So, have we filed so far any of the products for this or we are just in the process of development?

Mitanshu Shah: Yes, we have filed.

Bhagwan Chaudhary: Okay. And secondly, sir, one question on your API business. Earlier, you commented that probably last year, there was some one-off order, so because of that the sales of API was higher and this was likely to be normalized from second half of this year, but again I think in this quarter also it was just to maintain number.

Pravin Amin: Yes, you're right. I did say that. And I guess normally what we try doing is, there are opportunities and the customer had an opportunity where they wanted more material, so hence we bought it. But I don't expect this to be normal. I think it will for sure by next year, first half of next year, it will be normalized.

Moderator: Thank you. Next question is from the line of Cyndrella Carvalho from Dolat Capital. Please go ahead.

Cyndrella Carvalho: Sir, just wanted to understand over the capacity that we will be going to expand first half, we will see a large capacity coming in oncology or the specialty segment in the US segment. So, how do we see this in terms of strategy going ahead because if we have capacity then we are looking at a beefed-up R&D spend that you're doing. And then with that we are seeing like the approvals are not yet coming in that greatly. Our filings are also like we have launched only one product in this year so far. So how do we see it going ahead in terms of coinciding with the approvals? How many approvals going ahead FY19, '18. So how should we look at this entire scenario looking at the additional capacity that we'll have in hand?

Pravin Amin: I don't know if I understood the question, but let me try answering it in my way. So there are few things. One, right now the approvals that we're talking about are all oral solid dosage forms, right. The capacities we are building are in injectables, in oncology injectables, oncology formulation, oral solid formulations and dermatology, right. We don't have any filings on those right now. So coming to the oral solids, as you know, all these filings are from our existing facility where we should get approvals coming up in the next few months. I've said over the last two years, that we should launch between six to eight products every year on the oral solid side and that will continue for next year. This year it was little lower and Q4, we do have some launches coming up, so we'll be at around five or so. But next year, again will be at six to eight level, which will all happen on the oral solid dosage. Now what will happen with the other facilities. When they come up on stream, they will be used to exhibit batches, right. So how do you file ANDAs? You have to take the exhibit batches first and do the batches, then they will be used with that facility and commercial launches will only happen three years later, as happens with all the other companies in the pharma industry.

Cyndrella Carvalho: That answers my question to a great extent. Only I wanted to understand like because first half will have the capacity ready, so only doing the validation batches, it is a turnover of around three years ahead almost if I'm not wrong, it's around 600 crore investment that we have done. So how should we look at this investment?

R.K.Baheti: No, that's the fact of life and that's true for all pharma companies. Always a transition period between, what we call the technical completion of the project and the start of the commercial products.

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

Sriram Rathi: Yes, most of the questions have already been answered. Just two questions. One is that since your derma and onco and injectable facilities will be ready by FY18 sometime, so what kind of filings we can expect in terms of numbers for FY18 and FY'19, any target that you can provide?

Pravin Amin: Sriram, it's tough to comment. I think FY18, I would not take anything right now, because let's see how the plants go and exhibit batches. At the most we'll see beginning of FY19 that the filings will start. As far as derma is concerned, we have said that we are working on 40 projects with ALEOR and about 10 to 12 of them are in advanced stage. So hopefully, we should see that kind of number in the first full year of filings.

Sriram Rathi: Okay, got it. And then just one thing, I mean, are you also working on ophthalmology to third party or on your own?

Pravin Amin: That is an area that we are considering right now. We haven't done anything on it, but we are considering that and because when you build the injectable facility, we will probably build, as we call it, ophthalmic as well.

Moderator: Thank you. Next question is from the line of Mayank Hyanki from Axis Mutual Fund. Please go ahead.

Mayank Hyanki: Hi, can you please throw some color on the business in ex of Abilify in US, how is that business behaving now? So, what kind of price erosion are you see in that business and what do you expect in the coming year?

Pravin Amin: So the business, ex of Abilify, it's still interesting because what has happened, we've also been transitioning some products from our partners to our own front-end, and hence we have 26 products on the Alembic level in the US. I think in the next few months, we'll be in a much better position with this because we'll start creating a base for ourselves. Having said that, there has been erosion in some big products, some of our products, of course older ones, which were already eroded. So it's a mixed bag. In one or two, there has been some price increases as well.

Mayank Hyanki: So your price erosion, given that most of these products are already genericized and old products, so your price erosion will be more or less in line with what the industry is saying, like 5-percentiles or it will be more or less in that, any color on that on the base business ex of Abilify?

R. K. Baheti: Yes, it is in line with the industry benchmark level.

Mayank Hyanki: Okay. Secondly when you say that next year six to eight kind of approvals on oral solids, that number looks a bit conservative given that you have a decent number of pending ANDAs with the USFDA with more than 18-20 months' kind of vintage and with GDUFA coming in. So where does this number, high single digit number come from? Is it based on CRLs, is it based on vintage, because it looks a bit conservative to me? If you could just help me with that?

Pravin Amin: You're right. I think it really depends, I said, six to eight for this year, but we've only launched one product in the market this year so far, one new product, right. So, it's really tough to say. I'm getting same six to eight because I expect there may be some delay, FDA might delay some product. So it is little conservative, but it is more realistic to be honest.

Mayank Hyanki: But is it based on, let's say, something like CRLs, which is much more formative, much more tangible way to guess that how many approvals you are expecting next year because so is it based on CRLs, or is it just a number based on current year?

Pravin Amin: We have staked what our regulatory also estimates from a CRL, the way we expect this should be coming.

Mayank Hyanki: Okay. On the domestic side, did Q3 have any incremental impact from DPCO versus Q2 or it was more or less similar? And now does Q3 absorb the full impact of DPCO or not?

R. K. Baheti: Well, DPCO is similar to Q2.

Mayank Hyanki: Okay, similar to Q2, and it reflects fully for the full impact of the DPCO?

R. K. Baheti: Yes.

Mayank Hyanki: Right. In the domestic business slide where you lay down therapy wise growth, we can see that there is a difference between the primary and the secondary sales, especially in therapies such as cardio, anti-diabetic and to some extent in gyne as well, where the company's primary sales is lesser than the secondary data of IMS or GIMS. So, have you experienced some kind of destocking at the dealer level because of the growth of this quarter has been impacted and as the inventory levels normalize probably in coming quarters, we should see a decent growth in these therapies or the overall domestic business?

R. K. Baheti: Not really because I think, I've seen from many other companies, there is always a gap between what these IMS or AIOCD reports and what is their internal number for the company. We give it consciously, so that there is this complete clarity of, now I do not have internal numbers of other companies, so I use the IMS numbers or AIOCD numbers or the market growth versus my growth where I would like to get primary numbers for our own internal growth numbers.

Mayank Hyanki: And on the new projects, on the new R&D..

R. K. Baheti You would also appreciate, I think you and other co-participants would also appreciate that last two years have been, the domestic business has suffered multiple adhocism or decisions by government regulators, which has impacted us adversely. So price cuts and FDC bans and then something or other keeps coming at every year that's disturbing the industry. That's not for me alone, that's for all. But in terms of smaller companies out there, I would say relatively smaller companies or weaker companies gets impacted more than the stronger ones.

Mayank Hyanki: And going forward, at least the consensus expectation among industries is that the next revision of either the list or the prices should happen towards late 2019, I mean that's because of the five years gets completed?

R. K. Baheti: I wish I had an answer.

Mayank Hyanki: So there is no clarity on whether the 5 year time period of revision of the list or the recalculation of sealing prices is there, so there is no clarity on that basically, that's what you're saying.

R. K. Baheti: No, there is a statement in the policy, but it's not followed in spirit by the regulators.

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

Prakash Agarwal: Sir, on this India business again, what is giving us confidence that the growth should back to be maintained? Are we seeing some seasonal impact or are we seeing the demon impact going lesser or we have gone little more aggressive? And pardon me if you have already commented.

R. K. Baheti: We believe that now the demonetization impact would be normalized in Q4, assuming all other things remain normal. Because except for a brief period when the footfalls in the doctors clinics also went down, we have not seen any prescription de-growth. So when you look at the sales number, I think we are maintaining a steady growth. So that gives me hope, I would not say confident, that we will be back to normal.

Prakash Agarwal: Okay. And we've already started to witness in the last 25 days?

R. K. Baheti: Last 15 days, yes. The first week of January was not great.

Prakash Agarwal: Understood, okay. And if you could help us, on the last inspection for both our API and formulation facility, and where we've got clearance?

Pravin Amin: The formulation was March '16 and API was June '16.

Prakash Agarwal: And so would it be fair to say like given that your forecast apart from the non-oral solids and the oral solid that you do in this facility and with complexity curve increasing, with complex filing there can be a faster inspection possible versus a usual two-year listing?

Pravin Amin: No, I think inspection is really again something that it is not in our hands. I don't think it makes a difference if we get a complex or a regular filing.

Prakash Agarwal: So we just had it just last year or so?

Pravin Amin: Yes. So, we generally estimate the regular two-year cycle unless there is nothing really pending that's out there.

Prakash Agarwal: Understood. And on other expenses, we've seen that moderating quite a bit versus last quarter, could we get some more clarity on the same?

R. K. Baheti: Last quarter also, I have said that for most pharma companies, most of acute intensive companies, the sales promotion expenses, sales and marketing expenses is the highest in quarter two. We are in line on Y-o-Y, and Q-on-Q, I think that will be in every year in that phenomenon.

Prakash Agarwal: Understood. Yes, fair enough. And the tax rate sir, I mean, tax rate has also moved up quite a bit?

R. K. Baheti: Yes, that's good that you observed and I also wanted to speak about it. See today my standalone profits are slightly higher than the consolidated profit because there is already the unrealized inventory at our foreign subsidiaries, which gets eliminated in consol number. So when I dispatch the material to my subsidiaries, I dispatch it at a formula, which is either at cost plus or as expectation minus. But when we do the valuation for the consolidation number, we have to do it at cost. So this would be a transitional reason and this is because we are building inventories in U.S. subsidiaries for the first time. So I think next year onwards that anomaly will go away.

Prakash Agarwal: Understood. So it will normalize over a period of time basically. And lastly clarity on one comment, I think, Pranav made on the U.S. business, he himself said launched, there has been only one launch, and we had couple of approvals also. So, I mean so how many products we have approved, but not launches and how many of them we are planning to launch in the near term?

Pravin Amin: we have, 11 approved, if I'm not mistaken, about some of them of course older approvals. Amongst the new approvals, what we've just received, I think we'll be launching them all in this quarter, in Q4.

Prakash Agarwal: So of the 11, we would be launching?

Pravin Amin: About three to four in this quarter.

Prakash Agarwal: And this lag is generally because of, I mean, no real need to launch immediately because of the importance or critical, not very critical and we look for larger commercial batches or?

Pravin Amin: It's a variety of reasons. Actually, in this case what happens, one or two of them, the approval came earlier than we had expected it. So gearing up the plant and doing it. None of these are day one launches. So, we're okay launching a month or so later as long as we are confident of the robust supply chain.

Moderator: Thank you. Our next question is from the line of Rahul Sharma from Karvy Stock Broking. Please go ahead.

Rahul Sharma: Just wanted some clarity on these three to four launches, which you are planning to do in this quarter. Are they fully genericized products or are you seeing a niche product also which should be launched, which would give us some sort of revenue traction in the US markets on a Q-on-Q?

Pravin Amin Rahul, it's tough to say. Most of these are, I don't think there's any day one launches, one of them maybe. The rest are all, there are generics in the market already.

Rahul Sharma: Okay. But substantially competitive products or could you give some color on the products or any..

Pravin Amin: Rahul, it's very tough for me to comment on that. As you know, we don't really comment on the launches on this. I think as soon as we do, then we will give out a statement, but it's tough to say right now.

Rahul Sharma: And just on the financial side, tax rates were quite high in this quarter, what is the outlook for the current year and next year?

R. K. Baheti: Okay. On a normalized basis, we will continue to be under MAT, unless the budget changes the tax structure or rate structure, but I'd say in the high tax provision for the current quarters to the previous question. Like in the quarter three, our APL's standalone profits are higher that the consolidated profits.

Rahul Sharma: So, but for the year, it will even out at your MAT rate or do you see it at current rates only?

Mitanshu Shah: Yes, so if you see the audited standalone books, you will see that it is at a MAT rate of 21% actually.

Rahul Sharma: But, on a consolidated basis?

R. K. Baheti: Slightly ahead. Like year-end inventory also would have an impact.

Rahul Sharma: Okay. And what about FY18, will it be MAT only or..?

R. K. Baheti: It would be MAT only.

Moderator: As there are no further questions, I'd like to hand the conference over to Mr. R.K Baheti for any closing comments.

Mitanshu Shah: I think it was extremely, interesting, interacting with all the participants and look forward to talk to you again next quarter. Thank you very much for being on call. Good day.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Alembic Pharmaceuticals Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.