“Alembic Pharma Q1FY16 Earnings Conference Call”

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MODERATOR: **MR. RAHUL SOLANKI – EDELWEISS SECURITIES**

Moderator: Ladies and gentlemen good day and welcome to the Alembic Pharmaceuticals Limited Q1FY16 earnings 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 call please signal 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. Rahul Solanki from Edelweiss Securities. Thank you and over to you.

Rahul Solanki: Thank you. On behalf of Edelweiss, I welcome you all to the briefing of Q1FY16 results of Alembic Pharmaceuticals. Today, from the management side we have Mr. Pranav Amin - Joint Managing Director; Mr. Shaunak Amin – Joint Managing Director, Mr. R.K. Baheti – Director- Finance & CFO; Mr. Ajay. Desai – Vice President, Finance. I handover the conference to Mr. Baheti for opening remarks. Over to you sir.

R.K. Baheti: Thank you Rahul. Good evening. I thank you all sincerely for joining the conference call for first quarter Q1 16. Most of you would have received our financial results along with our investor presentation. Let me briefly take you through the operations for the quarter ended 30th of June 2015. During the quarter our total revenue grew by 19%, we posted sales of 590 crores. EBITDA at 102 crores is 17.3% of sales versus 19.4% of sales in the previous corresponding quarter. EBITDA in absolute number had a growth of 6% and net profit after tax grew by 8% to 70 crores. Both our key growth drivers, international generic business and India branded business have performed pretty well during the quarter. Pranav and Shaunak will share more insight with you. R&D revenue expenses were Rs. 48 crores during the quarter versus 30 crores in the previous quarter, increase of 60%. This R&D spend alone has impacted the EBITDA margin by almost 300 basis points and Pranav will discuss further on this. For the quarter our EPS works out to be 3.71 versus 3.43 at previous corresponding quarter. This is quarterly EPS not annualized. I will hand over the discussion to Pranav who will share his insight on the international business.

Pranav Amin: Thank you Mr. Baheti and good evening everyone. Before I begin let me first get in with Aripiprazole launch as I am sure everyone has questions on that. The Q1 numbers do not reflect any profit share of Aripiprazole. These will show up only in Q2, these are policy as we do with the partner products. This was a limited competition day #1 launch which off late you do not see very often. So we are happy that we could successfully supply product and launch the product on day #1 itself. Our partner has also got a decent market share in the market.

Mr. Baheti briefly touched up on the R&D cost for the quarter which is roughly 18 crores higher than the corresponding quarter last year. If you add the capital as well which is about 63 crores for the quarter which is 10.6% of our sales. R&D is going to be the most important driver for our future and hence we are getting more aggressive with the R&D projects. I mentioned previously that we are looking at increasing our oral solid dosage filings as well as

into new areas such as injectables and dermatologicals. I am happy to say that we received 8 final ANDA approvals during the quarter, 2 of them was of course tentative which got converted into final approvals. Out of these 8, 3 are new tentative approvals. This puts cumulative approvals at 43. We filed one DMF in the quarter whereas did not file any ANDAs in the quarter.

I had also mentioned that one of our priorities was that we would be setting up our own front end in the US. We are well on track for the same. We have on-boarded our Head of US business Mr. Craig Salmon as well as two other colleagues are based in the US. As for the numbers during the quarter, the generics business international generics grew by 47% to 168 crores. The API business grew by 10% to 117 crores.

As already shared with you in the last quarter, our formulations plant at Panelav and Bioequivalence facility at Baroda, were successfully audited by the FDA. I am happy to share with you we had successful inspection of our API plant at Karkhadi as well by the USFDA. We are yet to receive the EIR for the same.

Our JV in Algeria is also making steady progress. The plant was formally inaugurated on 9th June 2015 in the presence of ministers and bureaucrats of Algeria. They are on track to start filings in Q2 and should probably see commercial launches happening in the Q1 and Q2 of next year. I now request Shaunak to take you through the branded formulations business.

Shaunak Amin: Hello everybody, during the quarter the India branded business grew by 18% at 263 crores versus 223 crores for the corresponding quarter of the previous year. The specialty and acute growth numbers are 22% for specialty, 12% for acute. Most of the specialty dimension such as cardio, diabeto, women's health care and dermatology are growing much faster than the respective represented markets. The acute segment which has picked up the growth momentum in spite of steep price reduction because of new notification by NPPA which came into effect by 1st April, so acute has performed despite of the price cut in one of our major brands. Our cardio and diabeto divisions are one of the fastest growing. We have consistently grown in market share over the last 12 months including this quarter. Our brand of Telmisartan is the third rank, and it is the fastest growing brand at 50% growth. All this as per ORG MAT numbers. Our Sikkim project is on its way towards completion and hopefully by the end of quarter 2, we should see the plant getting completed unless there is no unforeseen incident takes place. Thanks a lot. We can open to Q&A now.

Moderator: Thank you very much members of management. Ladies and gentlemen we will begin the question and answer session. Our first question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Just wanted to understand on Abilify. Firstly, what kind of opportunity or how should we look at in terms of the opportunity that we have today, a) first you said you have not factored in

anything on the profit but I would understand the generic business has jumped quite a bit, so if you could help us understand whether you book something on the revenue side?

Pranav Amin: That is actually how our model works with our partnered products. When we ship out the product they ship out at COGS normally. So that would be there in the revenue side, probably pretty much only the cost, in product like this most of the upside would be on the profit share that you will get later and it is not just Abilify all our products that are partnered, we do get the profit share quarter later and in the past also someone had asked about Telmisartan or Telmisartan Hydrochlorothiazide, I said that it doesn't reflect until a quarter later after our partner sell the product.

Prakash Agarwal: Okay and this should start flowing down from the current quarter itself?

Pranav Amin: Yes, Q2 numbers is when we will see with respect to Abilify

Prakash Agarwal: If you could help us understand the opportunity in terms of price erosion that we are seeing given that there were four players in the first quarter and another player just jumped in?

Pranav Amin: I cannot really comment on price tag right now. I think we will see in Q2 but I think for the first quarter there are only four players because Apotex has got an approval last week.

Prakash Agarwal: But generally if we see four generic players we normally see a 40%-50% kind of price erosion. Is that a right understanding directionally?

Pranav Amin: It is tough for me to say right now until we get statement from the partner and I can comment on it accurately.

Prakash Agarwal: Secondly was on understanding on the kind of cash flow tailwind that we will get going forward may be for couple of quarters, I mean we intend to use this for some acquisitions, step up R&D what we are already seeing if you could give some broad level color on this?

Pranav Amin: So R&D is going to be something that we are investing in as we also mentioned that we are going to invest in facility as well, like in injectables, derma. We do look for acquisition to see if there is something interesting. So I think it is various areas that we look at with what we generate.

R.K. Baheti: But Prakash and it is for everybody else to hear. These are not necessarily correlated. So my R&D program or my CAPEX program is not necessarily dependent on how well my one product does or does not do. I mean these are independently evaluated and I have ability to fund and if a product does as per expectation, beyond expectation good for us even if it does not the program continues.

Prakash Agarwal: So there is no doubt about your R&D program. What I was trying to ask was the cash flow tailwind of about $100 million which can come to us, how do we plan to utilize that?

R.K. Baheti: That would be like any other corporate. I am not commenting on the numbers. Any corporate will invest in its own growth, it will repay the borrowings if it has borrowings. It can park the temporary surpluses efficiently. I think it does not need an answer from me.

Prakash Agarwal: Would we look at acquisition in short, that was what I was trying to understand in terms of buying out products or…?

R.K. Baheti: Again it is not related.

Pranav Amin: I think we would look at acquisition regardless of Abilify or anything else.

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

Nimesh Mehta: 2-3 questions. First of all, there has been some dip in the gross margin Y-o-Y, Q-o-Q as well. Any reason for that?

R.K. Baheti: No, these are product mix issues, our dip is like 0.5% here or there really does not matter, I mean it is difficult to comment on it. As Pranav said, when you are supplying only at cost, there will be some cost which will be differently reflected once the profit share comes in, the ratio will change. So I do not think we need to really look beyond that.

Nimesh Mehta: In the international generic on a sequential basis we have seen an uptake of $3-4 millions, roughly about Rs. 20 crores. Is that mostly related to your booking at cost of generic Aripiprazole, is that a fair understanding?

Pranav Amin: No. Actually to be honest, the international generic as you know is a highly variable market and unlike the branded business, the generic is not steady or does not go up steadily or there is spot opportunities that you do get in certain quarters you do have a higher profit share or higher supply and that is what it is, just a blip on higher supply in this quarter versus some other quarter. There is very little effect of Aripiprazole on the topline of this quarter in international generics.

Nimesh Mehta: Okay, thirdly if you can comment on the launch timelines of the ANDAs approval that we have received for Pristiq, that is and Celecoxib?

Pranav Amin: So Celecoxib is a tentative approval, we haven't received final approval. Pristiq is also in approval; it under patent clearance, so I think the launch would not happen in another year or two.

Nimesh Mehta: Okay, so what is that you guided sorry I missed that?

Pranav Amin: It is not a final approval because this has to do with a patent expiration and settlement with the innovator.

Nimesh Mehta: Okay, but any comment on the timeline. I understand that in Pristiq you are in final approval but as I understand it is under litigation for settlement. There must be some broad timeline, I do not want exact time,

Pranav Amin: I think it will be 2017 some time.

Nimesh Mehta: And Celebrex, it will be December, is that a fair understanding?

Pranav Amin: I would like to see as soon as possible but yes it is tentative now, by December we should get.

Nimesh Mehta: Finally before I get back into the queue if you can give some update on warfarin and likely timeline in that and also Bupropion launch in Europe?

Pranav Amin: I think we do not really comment on the launches in Europe, I think what in the past have spoken about the warfarin 505(b)(2) which is a product again, that is a partnered product. But I think as far as we are concerned we have given all the data to our partner who should be filing soon. I think they must be liaising with the FDA regarding the 505(b)(2)

Nimesh Mehta: Sorry, you are not filing?

Pranav Amin: No, our partner has not filed, I do not believe so.

Nimesh Mehta: Okay, when do you think it will get filed?

Pranav Amin: I think they will take a decision but I think it should be anytime in this quarter I believe.

Moderator: Thank you very much. The next question is from the line of Mahesh Sarda from Exide Life Insurance. Please go ahead.

Mahesh Sarda: Regarding this cash which will improve our balance sheet much better than what currently we are in a healthy state, just wanted in the last quarter you mentioned that you were looking at some acquisitions may be in terms of adding some facility because we currently have one facility catering to US or any other acquisition means, what is the current state we are and when can we expect, can we expect something in this year?

Pranav Amin: In terms of an acquisition or in terms of facility?

Mahesh Sarda: Acquisition in terms of facility because we have currently only one facility and I think we were looking at diversifying our risk…

Pranav Amin: Yes, so I think what we look at is we keep looking at projects and facilities; we look at it consistently in terms of increase in capacities as well as building our own. We do not necessarily have to look for an acquisition for a facility. I think we have enough competency to build one.

Mahesh Sarda: Okay, in terms of our R&D pipeline, I think what I heard is 63 crores is R&D spend in terms of capital expenditure also in this year. So, can you please elaborate more on in terms of our sharp uptake and guarantee in terms of where exactly are we doing this?

R.K. Baheti: 63 crores is not CAPEX Mahesh, 48 crores is OPEX, 15 crores is CAPEX; total 63 crores.

Mahesh Sarda: But in terms of R&D, can you please elaborate which are the particular areas where we are doing this and I understand we are doing it in niche areas**?**

Pranav Amin: So what we are doing in R&D, it is just a matter of more activities and more projects. As of projects so far we have been focused on oral solid dosage, so it will be in that. Of course we are increasing more projects there. We have opened up a center in Hyderabad also, second thing. Thirdly, we are doing injectables as well as derma as I mentioned in the last few calls.

Mahesh Sarda: Lastly on the front end, I am not sure what I got it right, you said that you had 2+1 name you also mentioned, so are we through with our front end team, setting up front end team or will it take some more time?

Pranav Amin: No this is it, front end leadership team. I think there will be of course more personal we would add**.** But looking at it we are on track for, we have said we will start commercial sales by next year, so we should be on track for that.

Mahesh Sarda: And in terms of the name of the person, can you please elaborate more details up on?

Pranav Amin: Yes, his name is Craig Salmon.

Mahesh Sarda: And his background?

Pranav Amin: He has had a rich experience in marketing and sales with various multinationals including Sandoz.

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

Anmol Ganjoo: My question is related to what some of the earlier participant also asked. So in terms of R&D, on a greater outlay on R&D I was just trying to understand that from where you were a couple of quarters back, is there any opportunistic identification of an opportunity where you have decided to suddenly up the ante, this is in line with what we have earlier anticipated.

Pranav Amin: So there are two things in this, one is of course as we grow as a business we have a more confidence in R&D. We want to increase the throughput. We want to identify more projects, so that is one aspect and second is as you are going to new verticals, automatically your R&D cost goes up because we got in verticals of injectables as well as little bit on derma, so those two areas we would look at. Also as I mentioned in the call and it is part of the release that we have set up the center in Hyderabad also.

Anmol Ganjoo: So is it kind of times to an extent because now our front end efforts in the US have made progress, so we are just trying to make sure that our pipeline is richer by the time we launched these projects; is it in line with those aspirations?

Pranav Amin: Well, it all goes together to be honest, if you want to grow the business, the first stepping stone is your R&D and we do want to grow the business, so definitely the R&D has to grow up unless you have more projects you cannot grow, so that is the first thing. Having a front end definitely helps. Yes, that give us more confidence and also in our own control.

Anmol Ganjoo: Second question is you said that irrespective of the cash from the Abilify, you are going to be looking at some acquisitions, if you could just give us some qualitative color on what would be our internal framework when we analyze assets; it could be a payback period; it could be a therapy area, but just what the broad thought process internally is and when it comes to judging the attractiveness of assets.

R.K. Baheti: I do not think we talked of a specific acquisition. I do not think we have anything on the radar where we are applying those parameters. What Pranav generally said is that, we keep looking at opportunities and if there are opportunities, we will grab it even irrespective of how a product does in specific time period. I think it is too early.

Anmol Ganjoo: My last question before I get back into the queue, I know you would not give any specific number. But notwithstanding the Apotex entry, are we restrained by any factors to drop prices on Abilify as would be in the case of similar competitive product given that there is an at-risk launch?

Pranav Amin: I do not know how to answer that question. I think the prices are there where they should be for a four player market. As I mentioned we are not on the front end, so we are not liaising, we are not communicating with the buyers, so it is tough for me to answer that question.

Moderator: Thank you. The next question is from Ashish Thakkar from Asian Markets Securities. Please go ahead.

Ashish Thakkar: Sir, we have recently hiked our R&D by 2 percentage point this quarter and we were maintaining long term EBITDA margin guidance of 23%-25%. So this recent hike in R&D, are we still maintaining our EBITDA margin guidance or we would like to lower our guidance?

Pranav Amin: As a I mentioned earlier to somebody for the generic business is, you cannot look around a quarter-to-quarter basis, I think look at it on a yearly basis that is one, secondly on the EBITDA margin Mr. Baheti had given a flavor that we would like to be around similar EBITDA margins going forward. So at the end of year you will get a better judgment on this in terms of what is going to happen in terms of R&D and EBITDA margin relationships.

R.K. Baheti: Also as usual we have to see it on a long term curve this is rather than a particular number basis.

Ashish Thakkar: Another question would again be on the R&D side since we have started working on derma and injectables, can you share any possible timelines as to you know before we could actually see filings happening for the US markets?

R.K. Baheti: Standard development timeline so it can take anything between 2-3 years, may be more, may be less.

Ashish Thakkar: And what would our CAPEX plans for these two streams, derma and injectables?

R.K. Baheti: The manufacturing side?

Ashish Thakkar: Yes.

R.K. Baheti: There have been some CAPEX thoughts already on board, but I think it would also depend on the kind of success we, the kind if initial success we see. So probably injectable we are not in a hurry to put up a plant. We will see how it goes, how many products what kind of filings?

Ashish Thakkar: So are our recent M&A plans has something to do with acquiring assets in this derma or injectable space. Are we looking in these two areas?

Pranav Amin: As I mentioned as an M&A we look acquisition opportunities. We look at various types of acquisition opportunities, it is not necessarily restricted to these two. As a corporate we do want to get into injectables, we do want to get into derma. So that is why we stand on that and we are part of it now we may extend it also depends.

Ashish Thakkar: Another question would be on the Brazilian filings. So, as far as the Brazil markets are concerned, when would the filings start and are we looking actively at the generic space or branded space is also in our mind?

Pranav Amin: So first of all in Brazil again we are going to follow partnership models. So products of partners in terms of filings we already have some, it is not that they are going to start now. We have already some filings. We have not seen commercial revenues from Brazil as yet, which will be starting in some time going forward.

Ashish Thakkar: But these filings are in the branded space or the generics

Pranav Amin: They are on the generic space.

Ashish Thakkar: What is the size of the basket, so on the generic side again the Brazil market, how many filings we would have done?

Pranav Amin: I think that data must be part of our investor presentation, I do not recall.

Ashish Thakkar: Lastly, on FY16, the entire full years basis excluding Abilify what is your sense, like on the base business or the core business, would we still be doing around 20% EBITDA margin excluding Abilify?

Pranav Amin: Actually really we do not really comment on EBITDA margin with or without Abilify and tough to say because there is too many factors in that, to have product to have the prices and what kind of R&D spend we have.

Ashish Thakkar: So R&Ds, the high R&D spend this quarter was recurring in nature or this would normalize again in the subsequent quarters?

R.K. Baheti: No these are recurring nature.

Moderator: Thank you very much. The next question is from the line of Nishit Sanghvi from Axis Capital. Please go ahead.

Nishit Sanghvi: Just on the US business, you mentioned that there is a Celebrex launch probably in December and we have Pristiq in 2017, that is a frontend that is coming in 2017. So I was just wondering is there a chance that you know FY17 sales can be higher than FY16 sales including aripiprazole in US?

Pranav Amin: I cannot really comment on that. We have not got Aripiprazole number you are asking what is going to happen next after Aripiprazole. Let us wait till next quarter and then we will figure it out.

Nishit Sanghvi: Actually on the USFDA website I was seeing that, we are the only player with the ODT version on Aripiprazole. Now is this significant, as in what can be the market size for this version?

Pranav Amin: It is not a very big market and we will be launching it. I think it should happen within this quarter.

Nishit Sanghvi: I think we will be the only player right?

Pranav Amin: It seems so yes, as of now.

Nishit Sanghvi: On the tax rate front, now you have mentioned that Sikkim facility will be going online. So how will it benefit our tax rates going ahead?

R.K. Baheti: We are under MAT. We will continue to be under MAT. So this gives us an advantage that we will continue to be under MAT for the next few years.

Moderator: Thank you. The next question is in the line of Preeti Arora from Enam Asset Management. Please go ahead.

Preeti Arora: My question is on R&D again, just wanted to understand if your guidance was that you are filing say around 8 ANDAs on an average basis in the US. So with this huge step up in R&D should be look at Alembic filing around 15-20 ANDAs per year from here on?

Pranav Amin: So the whole point is to increase the filing, so you are right, in one way we would like to increase our filings. I think in the last two years it has been about 8 moving it up. There is; however, a lead time for that to happen. So I think this year I said on the calls we would go from 8 to move to about 10-12 and hopefully next year, next-to-next year increase it furthermore as well.

Preeti Arora: Pranav, as you build your ANDA pipeline, so over the longer term say the next five years, what percentage of your ANDA pipeline would you like to gravitate towards derma and injectables? So how should we see the split moving from oral solid dosage to the other therapy I guess.

Pranav Amin: It is tough to say right now because it there are two areas – one is how many more of the oral and how many more of the other ones we have filed. Right now it is 100% oral solid. So of course 100% will become less as we have more injectables and derma 2-3 years down the line whenever we have.

Preeti Arora: But you do not have any target say, 50% filing…

Pranav Amin: We do not approach it from target perspective that x% of filing has to be dermo, x% has to be injectables, we look at it from a market opportunity based and it really is a function of what happens on the market as well.

Preeti Arora: And your presentation mentions you are targeting to launch 7-9 products in the US every year. So we should look at a very heavy second half in this year, in the USA if I imagine?

Pranav Amin: Yes, I think 7-9 is a benchmark that we look at, I think we have seen couple of launches this year. So moving forward we will have more on the next 3 quarters.

Preeti Arora: Last question is actually on your field force strength in India, so 5000 for a size of your India business. I am just wondering why have such a field force when your specialty segment is your focus area and that is where you want your growth to come from. So when do we see MR productivity increasing and what is the field for strength going to normalize at now?

R.K. Baheti: Preeti, our field force has, if you look at it from conventional MR point of view it is 4000. Our total marketing team including the supervisory managerial staff is 5000, so that is one clarification, and our current business we are not bad but I agree with you that there is a scope for improvement. So you get into lot of businesses and those new divisions would take time to scale up and it is like you have to take field force first, then you need to build business and then they will take time to scale up their productivity, so this is the process I think we are very much on track. But Shaunak would you like to add?

Shaunak Amin: First of all I do not think the field force if you look at comparable sized companies, I think most of the comparable sized companies have larger field forces than we do. So that I do not completely agree with your statement and the second bit is I think the size of the field force is more determined by market opportunities and where we feel this potential business opportunities along with managing our existing product portfolio, so that is what drives the number, I do not think there is a decision that we need to have 4000 or 3000 or 5000 medical reps in some of we just picked them in. So it is more market opportunity based for the field but going forward I think this field force size is more or less what we will stick with obviously some percentage of year and year correction in terms of adjusting for market growth, but this is more or less the field force that we will be with. It is the field force size staying the same in the PCPM also we should see a successful ramp up over the next few years.

Preeti Arora: One last question if I may. So there is some associate income this financial year in your annual report. So I am just wondering, I know the companies and the nature of their works, so what is the strategic intent behind investing in these companies?

R.K. Baheti: The new Companies' Act has a requirement of line-by-line consolidation of accounts of not only subsidiaries but associates.

Preeti Arora: No, I understand Mr. Baheti, but how come is, that is a profit, is not that a R&D company?

R.K. Baheti: Our investment is also in a company which does R&D on contract cost plus basis which is Incozen that some surplus it would have accumulated and that is coming to us as income.

Preeti Arora: What is the intent behind having invested in these companies?

R.K. Baheti: It is to give us directly controlled infrastructure set up for our research. It is a joint venture, you are aware it is a joint venture.

Moderator: Thank you very much. The next question is from the line of Ranveer Singh from Systematix Shares. Please go ahead.

Ranveer Singh: Just I wanted to understand the aspect of we supplying products to our partners, how would they do the accounting treatment actually? So when we say we are selling it at a cost and when the partner sell it, that profit flows to our accounts from second quarter that is what you are saying?

R.K. Baheti: Yes, that is right.

Ranveer Singh: So how is it like, for example if our manufacturing cost is Rs. 100, partner has sold it for 120, so our share in Rs. 20 will flow in which line item. How we treat it?

R.K. Baheti: That will ultimately get reflected in our revenue line item only. It is only a timing difference, otherwise the treatment is the same.

Ranveer Singh: So when we say cost manufacturing, it is purely a manufacturing cost, no other elements are there when we supply at cost.

R.K. Baheti: It is like how do you define cost, so it is a fully loaded cost including the overheads.

Ranveer Singh: Okay, that is what I wanted to understand and secondly on US market we are setting up that front end, where we have reached, we have already established our front end and we are selling something through it or this is just in process.

Pranav Amin: As I mentioned only the first I believe recruited the team here, there are three senior people who joined us. We have got an office now and we have started working on obtaining the licensing and the permissions and getting rest of the people and as I mentioned earlier by next year onwards is when we should see look at launching.

Ranveer Singh: Right, so right now how many people would be there?

Pranav Amin: Three people.

Moderator: Thank you very much. The next question is in the line of Chirag Dagli from HDFC Mutual Funds. Please go ahead.

Chirag Dagli: Just trying to reconcile, if I look at history, typically our R&D spend is moved in step function. So what was typically a quarterly run rate of 30 crores is now moved up to 48 crores and you are saying this is the new base. So I am trying to understand this incremental delta of 18 crores on a quarterly basis. Is this largely on oral still or is it on injectables and dermatology, if you can give us some sense of how this delta is?

R.K. Baheti: I said it is on both, on oral we have expanded capacities, we have created a new center at Hyderabad, and on injectables also we have started working. So it has both, it is not per product kind of calculation.

Chirag Dagli: So in injectables and dermatology what is the exact effort that is currently on, hiring has been done and there is work going on, is it that how we should think about it?

Pranav Amin: Most of this is on oral solids as injectables and derma; most of the cost doesn't come in yet.

Chirag Dagli: So actually R&D can increase from here on as well as you keep seeing, as you keep identifying opportunities between these piece?

Pranav Amin: Possibly yes.

Chirag Dagli: We have not filed any products in this quarter, despite that this incremental 18 crores on oral solids.

Pranav Amin: No, generally there is a time lag. It takes 3-5 years to develop.

Chirag Dagli: Correct. Sir second question was on this generic-generic business in India. So is the molecule portfolio very different than the branded business that we have or is it similar molecules and…

R.K. Baheti: No, it is very different. We do not cannibalize our own branded business.

Chirag Dagli: So this is manufactured by us only or is this like toll manufactured?

Shaunak Amin: It is a mix of both.

Moderator: Thank you. The next question is in the Sangam Iyer from Subhkam Ventures. Please go ahead.

Sangam Iyer: Just wanted to understand, one of the versions of Pristiq is going off patent in February 2016 and when you said 2017 you meant financial year FY17, wherein we would have the opportunity to launch Pristiq?

Pranav Amin: I will have to check on the IP but as far as I believe I think it is in 17.

Sangam Iyer: Because as per one version goes off in February 2016, so we are just wondering whether we would be eligible?

Pranav Amin: I do not have the exact date but we would be there on day #1, whenever that day #1 is.

Sangam Iyer: Great. Secondly, just wanted to reconcile on Abilify, when we are looking at the IMS data for our partner in terms of the revenue generated for Abilify over the quarter, it is around say may be $55-60 million. So, when we say that during the quarter we have booked at-cost, but our regulated markets revenue bump up on a sequential basis is just around 20 odd crores like what Nimesh had asked earlier in one of his questions. So just wanted to reconcile in terms of how this use differentiation in the way the IMS data is representing the revenue generated on Abilify by your partner and how much we are recognizing in the form of the total cost for the quarter, so could just help us on that?

R.K. Baheti: You are asking a question or are you answering that?

Sangam Iyer: I am just asking the question. Just wanted your help on the reconciling on this part.

R.K. Baheti: Fundamentally, it is not reconcilable because the number you are talking of I don't know whatever number you are assuming, that has not come in our books. That is what Pranav said, that the profit share number will come only in the current quarter, Q2.

Sangam Iyer: So whatever IMS data is reflecting is a sales number of the final sales value of the particular product?

R.K. Baheti: Which is done by the partner.

Sangam Iyer: Could you give us idea on the sharing basis in terms of percentage, which is that two share?

Pranav Amin: So on the profit sharing, see actually we have not shared our profit sharing details as I mentioned in the past deal were normally at 50:50.

Sangam Iyer: Finally on the R&D cost, should one take this quarter number as an absolute run rate going forward because your revenue bump ups happen as and when the sales on partner excess would come in, so assuming an 8% run rate would be a fair assumption as against 48-50 crores per quarter a fair assumption of run rate?

R.K. Baheti: I think you need to take an absolute number because percentage of sales keep varying.

Sangam Iyer: Exactly, so assuming a 200 crores of R&D for the year could be fair assumption to look at it, right?

R.K. Baheti: take it as a fair indication.

Moderator: Thank you very much. The next question is a follow up question from Nimesh Mehta from Research Delta Advisors. Please go ahead.

Nimesh Mehta: Pranav, you mentioned that the profit share usually remains 50:50 in the market for the same product, but in case of the product like this where you also have an at-risk launch, so the risk is also born at 50:50, how does that build in exactly?

Pranav Amin: So in a typical deal and normally as I said we do not say, or we do not comment on the each product that we do, on a typical deal 50:50 is also a profit share and sharing both.

Nimesh Mehta: And we are no far around that for most of the….

Pranav Amin: As I said I cannot say that.

R.K. Baheti: My submission to all the participants is I think we have discussed enough Abilify, we cannot discuss more, we have expressed our inability, so if we have questions on other things, we will be happy to respond, else in any case we are talking next quarter again.

Nimesh Mehta: So one last question and we have are we anyway impacted because of the GVK Bioscience ban in the facilities, I mean are we exposed to that…?

R.K. Baheti: Yes, some of our products in Europe has got affected.

Nimesh Mehta: Can you quantify that?

R.K. Baheti: No, it is a postponement of some business probably, we are redoing it, and hopefully we should be back.

Nimesh Mehta: And lastly if I may, what is our plan from filing on Pentosan Polysulphate, we can bring element on…?

Pranav Amin: as I told earlier, we do not comment on the filings that we do.

Moderator: Thank you. The next question is in the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Pranav, we mentioned about 7-9 launches next 3 years, of these launches, what proportion of these launches will happen through our own front end?

Pranav Amin: So basically what has happened is over the last two years, we have pretty much stopped tying up products. What we have tied up that will obviously go through the partner. Whatever is not tied up and the front-end is ready, everything will go to our own front-end.

Nitin Agarwal: Do you have any ballpark sense in terms of the proportion of products that still would remain partnered out that is going to be launching over the next 3 years or so?

Pranav Amin: So pretty much existing right now, whatever products we are selling, 20 odd, those are all partnered anyway. When the agreement expires on those we will take it into our own frontend.

Nitin Agarwal: Secondly, in terms of the pace at which expecting approvals and the current size of the filings more or less coincide. At what stage do you actually see, the pipeline actually to grow much beyond the 25-30 pending approval that we have right now?

Pranav Amin: So as I mentioned in the last year it was about 7 filing which is okay because then we moved from 4 which was little less, as I said earlier answered somebody else, by increasing our R&D and we hope to get to 10-12 filing per year and then moving up from there.

Moderator: Thank you very much. Our next question is from the line of Sion Mukherjee from Nomura Securities. Please go ahead.

Sion Mukherjee: Pranav, one question on R&D. I know a lot of discussion has already happened, but can you share about how do you go about selecting the products, because your pipeline today is relatively small, so are you targeting large products or all the development efforts are towards products which can potentially you think are going to be less competitive?

Pranav Amin: I think you pretty much answered that. we look at wherever we see an opportunity. There could be an NPV calculation, some may be large, some may be the complexity of the product and third is when it makes sense for us if we have gaps in the pipeline for a particular time period. That is what we look at. The reason why I mentioned injectables and derma, I have seen in last few calls, so we are only present in the oral solid, so we look at the verticals as well.

Sion Mukherjee: In terms of verticals, derma, injectables, is there any other vertical where you would like to commence investment, you are thinking about let us say next couple of years?

Pranav Amin: I think right now we have our hands full with these. Sorry, we haven't given a guidance for any of the new ones.

Sion Mukherjee: A lot of the companies which we talk to are focusing on these two segments, right, we are seeing increased filing from many Indian companies in these two segments. Is there a risk that we go through the investment and the market opportunity turns out to be less attractive, how are you thinking about that possible risk going forward?

Pranav Amin: See there is a risk in everything at the end of the day and lot of analyst and lot of people said when you started to file upwards they say you are too early or you are too late in the market, So there is risk at each stage, it really gets to a level of what kind of execution you do and how

you get in, number two what kind of products you have and what is expected. Certainly and the most important as you have seen in the last 4 years is the kind of compliance that we have at your facilities, what kind of approvals you can get and which really plays out in the market situation.

Sion Mukherjee: Right and in terms of your just on derma and injectables first is like do you have any visibility as to you know by which year you would start filing for this product and what kind of manufacturing infrastructure you would like to put in place?

Pranav Amin: It is too early, I cannot comment on that.

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

Tushar Manudhane: Just wanted to check with respect to Abilify, API is now outsourced?

Pranav Amin: We do not comment on where we are vertically integrated. But generally on a situation like this on a P-IV launch with limited competition API is not much a critical issue or a critical component.

Tushar Manudhane: From both the aspects from profitability per se and to fill up say since it was a good opportunity and to take up the maximum out of it probably was wherein capacity constrained and that was the reason why outsourcing the API was an option available and we have taken from that perspective.

Pranav Amin: I think most of the early ANDAs, what we filed were backward integrated on most of them.

Tushar Manudhane: And so this also, can be fairly assumed.

Pranav Amin: Yes.

Moderator: Thank you. The next question is a follow up question from the line of Preeti Arora from Enam Asset Management. Please go ahead.

Preeti Arora: Just one question on your international branded segment, sales have declined massively this quarter. So what is the constant currency growth here and how should we look at the coming quarters?

R.K. Baheti: You are right, there is some impact of currency, but that does not explain the entire degrowth. In the previous corresponding quarter, we had some bulk dispatches which say it is like, it gets sold over a period of time. So the time of dispatching gets booked in both. It is not always what we call comparable. I think this business is taking time to gain a critical mass and we

think will have to wait patiently for another may be couple of years for this business to gain critical mass.

Preeti Arora: So Mr. Baheti, if it was not for currency, how much that currency wipe off this quarter, that is all I wanted to understand?

R.K. Baheti: Currency would have played a 20% role.

Preeti Arora: So this would have been 20% higher, that is all I want to know.

R.K. Baheti: Yes.

Moderator: Thank you. The next question is a follow up question from Ashish Thakkar from Asian Markets Securities. Please go ahead.

Ashish Thakkar: Sir any update on warfarin, we were supposed to do a filing this quarter?

Pranav Amin: So someone asked that question earlier I said that we have given all data to a partner who is the process of doing it, so it has not happened as yet.

Moderator: Thank you very much. As there are no further questions, I know hand the conference over to the management over to you?

R.K. Baheti: Thank you very much. Thank you everyone for participating. Good interesting, interactive session. If you have any more questions you can always send us and we shall be really happy to respond to the extent we can and look forward to talking to all of you again in October for Q2 results. Thank you very much.

Moderator: Thank you very much members of management. Ladies and gentlemen on behalf of Edelweiss Securities that concludes the conference call. Thank you all for joining us and you may now disconnect the lines.