“Alembic Pharmaceuticals Limited Q1 FY17 Results Conference Call”

July 29, 2016

MANAGEMENT: **MR. PRANAV AMIN - MANAGING DIRECTOR, ALEMBIC PHARMACEUTICALS LIMITED**
MR. SHAUNAK AMIN - MANAGING DIRECTOR, ALEMBIC PHARMACEUTICALS LIMITED
MR. R. K. BAHETI – DIRECTOR (FINANCE) AND CFO, ALEMBIC PHARMACEUTICALS LIMITED
MR. MITANSHU SHAH – SR. VICE PRESIDENT (FINANCE), ALEMBIC PHARMACEUTICALS LIMITED
MR. AJAY DESAI - VICE PRESIDENT (FINANCE), ALEMBIC PHARMACEUTICALS LIMITED
MR. JESAL SHAH – HEAD (STRATEGIES), ALEMBIC PHARMACEUTICALS LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Alembic Pharmaceuticals Limited Q1 FY17 Results Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note, that this conference is being recorded. I would now like to hand the conference over to Mr. R. K. Baheti – Director (Finance) and CFO

R. K. Baheti: Good evening everyone. Thank you for joining the first quarter conference call. With me I have Pranav and Shaunak – Managing Directors and also Mitanshu, Ajay who take care of Investor Relations and lookafter the various finance functions and Jesal – Head of Strategy. Most of you would have got the results by now. Let me briefly take you through the numbers for the quarter ended 30th of June. During the quarter our revenue grew by 25% to 736 crores. EBITDA at 157 crores is about 21% of sales. The net profit after tax went up by 45% to 102 crores and EPS for the quarter was Rs. 5.41, this is for the quarter versus 3.72 in the previous year corresponding quarter. I will now hand over the discussion to Pranav for a detailed insight in the international business.

Pranav Amin: Thank you Mr. Baheti. During the quarter our API 1 and API 2 facilities located at Panelav was successfully inspected by the USFDA. The company did not receive any form 483 observations. We also received the EIR for API-3 at Karkhadi which was inspected last year. With this all our facilities are successfully inspected by the USFDA and in compliance as well. The US team has scaled up the operation in a relatively short period. They have already launched 23 products on the Alembic lable.

During the quarter, the international formulations business grew by 72% to 309 crores. As you may be aware Q1 of last year FY16 did not reflect any Aripiprazole hence this growth is not on a comparable quarter. Continuous pricing pressure on the Aripiprazole generic with new entrants getting approval.

API business grew by 7% to 128 crores this quarter.

As I have been mentioning R&D continues to be our thrust area. We are progressing in internal as well as partnered projects. The R&D revenue expenses were 79 crores during the quarter versus 48 crores last year. I have mentioned in earlier calls that we will be incurring R&D expenses of upwards of 400 crores this year and we still hold on to that number. I will now hand over to Shaunak for his brief on the branded formulations business**.**

Shaunak Amin: Good afternoon everyone. I think the broad numbers are being circulated. So I would not dwell too much. Roughly, the branded business grew by 6% this quarter to 278 crores. The specialty portfolio grew at 16% while the Acute segment degrew by10% on the back of price reduction by NPPA and FDC ban which the Industry is fighting. The overall Acute business degrew

marginally as four of our major brands were impacted by combination of both NPPA and FDC ban. We feel, going forward things should be back on line with acute business Q2 onwards growth should come back close to in line with market growth. The specialty business will continue to grow along the lines of Q1. I will open up the floor now for Q&A please.

Moderator: Thank you very much sir. Ladies and gentleman we will now begin the question and answer session. The first question is from the line of Prakash Aggrawal from Axis Capital. Please go ahead.

Prakash Aggrawal: Sir, first question on international business. I understand you talked about YoY comparison, we have seen a spike in QoQ on the international business. If you could help us understand what led to this QoQ, is it because of the ramp up of your launches in the U.S on your own frontend and should we just multiply these into two or how should we look about that?

Pranav Amin: You are right. Even if you look on QoQ basis there is an increase.

1) We have a one quarter back in the Aripiprazole sales. So what we are showing right now would be the Q4 Aripiprazole sales. However, in Q3 if you have seen, our partner had dropped market share quite a bit in Aripiprazole and it came down to almost half of what it is now, I think about 9% it had come down to about 4%. So that is one reason.

2) Second reason as you pointed out is partly because our own frontend has come and they have done good job on some other launches.

Prakash Aggrawal Okay and could you also help us understand the increase in the staff costs as well as other expenses because your set up is already done for the frontend, so I am unable to match the two?

R. K. Baheti: I think couple of reasons, but good observation Prakash! In terms of accounting frontend, entire sales and expenses are booked in the books. Unlike in the partnership where part of the sales i.e. the profit shares and part of the expenses which also should been taken care of by partners, that was not getting accounted in Alembic Pharma books. So the increase is on the both side without so much of impact on the profit. I am not saying it is not impacting the profit, I am saying the corresponding numbers.

Second, we also did a settlement with our partner which is a kind of non-recurring cost and we took back some of the products and which we wanted to relaunch with our own frontend, so that cost has gone into the other expenditure.

Third of course, is the US frontend cost. We have also now started manning our plants under construction. So for the projects which are currently under construction, we have started doing recruitment and that would explain the increase in staff cost**.** First quarter, as you know could

always be a quarter where the performance pay and increments are paid off so there will be some impact, if we look at on quarter-on-quarter basis.

Prakash Aggrawal: Perfect. And if you could quantify how much you paid to take some of the products back?

R. K.Baheti: That is a confidential agreement, I can't share the number.

Prakash Aggrawal Okay and one more question before I go back to queue. You talked about you launched one product, would that be Pristiq?

Pranav Amin: No. In terms of last quarter, we launch one product, that was LAMOTRIGINE chewable tablets.

Prakash Aggrawal Ok and have we launched Pristiq?

Pranav Amin: The Pristiq is not approved right now**.**

Prakash Aggrawal Okay but we settled for a Feb 16**,** if we get approval we will launch it soon right?

Pranav Amin: I cannot talk on the settlement terms right now.

Mr. R. K. Baheti: Just a clarification to the other participants, the total products under one own label, today are about 20. So these are new product launches as well as we have relaunches of products which were with our erstwhile partner**.**

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

Kumar Saurav: India business we believe from next quarter onwards growth should come back on track. I believe this NPPA as well as FDC ban impact should be there for the full year. So it should impact our future growth also, my understanding is wrong?

Shaunak Amin: I just clarify, two parts to that.

One is the large impact has come on Q1. Lot of it is to do with recall of in market inventory and relabeling and resupplying new stocks, what practically happened is for 2 months of the 1st quarter, supplies to the markets have not happened in the right way or the right quantity rather. So that is one part of it and now that is behind us and that settle down. Yes, there will be some impact of price erosion of Azithromycin but last year's Q2 base looking at the seasonality was not a very robust quarter for us from active business point of view. So that impact yes will continue. I do not know it will be a very substantial impact. The second impact is more through the FDC ban where 3 of our large brands have come under impact where there is stay order but there is lot of confusion in the market pertaining to whether the products can be sold, cannot be sold and multiple issues across geographies which are related to the products. What

has happened is we have been able to refocus a lot of our energy on SKUs of the same brands which were not part of the FDC ban and some of that realignment has taken time. So going forward that should take care of the FDC ban issue which we had and all the confusion we had in Q1 regards to FDC ban.

Kumar Saurav: So have we stopped supplying those brands because the case is still pending? or still supplying in the market.

Shaunak Amin: We have been supplying the products since the FDC ban because we were the first few companies. First 3 or 4 companies to get a stay on the ban on these products. We are supplying them into the market but each geography there is different complication. I think some of the states in the south especially have taken it very strongly. There is lot of lack of clarity so despite we are supplying it I think lot of stockiest are not picking them up because of issues regarding the FDC ban and lack of clarity on that front.

Kumar Saurav: So let us say that on regulatory front the status quo remains or it gets worsen, we actually see a ban, then do you think that we still have some downside left or you think that because of focus on these realignments and all these efforts it should actually improve from here onwards?

Shaunak Amin: So where was hit on FDC ban was mainly in regard to large cold brand as well as two of our major cough brands. As you know with cold and cough market the multiple SKUs that we promote at any given time. So what has happened is that large amount of energy has gone as we focused into aggressive promotion of the SKUs that were not part of this FDC ban and I think that effect now we should start seeing from Q2. Hence even if there is a full FDC ban, we will not have a major impact

Kumar Saurav: If I just may squeeze one more question, on the US front on a frontend side, we have already reached to a number of 23 products, how many products we plan to launch on our own by FY17 end?

Pranav Amin: We have not given a guidance for that. I think the only thing I spoken in the call, is in total we launch about 6 to 8 products every year. Last year, this year and next year in the US market. Now bulk of these will be on the US frontend itself.

Kumar Saurav: Yes, I actually meant by old products only. How many of them we plan to share?

Pranav Amin: I think with 23 right now I think to be honest at the end of the year I would say anywhere 6-8 launches, little less than 30.

Kumar Saurav: Okay. So whatever from the existing lot we wanted to shift, we have already done so.

Pranav Amin: Yes**.**

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

Shree Ram Rathi: Just two questions one on the R&D side. I mean at the beginning you guided that for the full year it should be above 450 crores kind of R&D for this year and this quarter we have seen around 80 crores of R&D spend. So does that mean that in the rest of the 3 quarters it will be in the range of 370 to 400 crores?

Pranav Amin: As I said we stick to the number somewhere around 400-450. It should be higher in the next 2 quarters.

Shree Ram Rathi: And is it possible to just give some idea about how much of the international business came from the US?

Pranav Amin: We have not disclosed. But US is a most important territory and bulk of it is from there.

Shree Ram Rathi: And the CAPEX figure continues to be about 300-350 crores for this year?

R. K. Baheti: No, I think it would be more because in next 2 – 2.5 year we are planning to invest almost 1500 crores. So this year probably it depends on our execution but it stands about 500 crores plus on the CAPEX while we are setting up multiple projects concurrently.

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

Anmol Ganjoo: This is Anmol Ganjoo. I have a couple of follow on question to what earlier participant asked. First is to Mr. Baheti, if you look at the employee cost number there were some factors which you alluded to. But are there any factors where you think that they are transitional in nature and how should we be thinking about this particular cost for the full year?

R. K. Baheti: I do not think any of the numbers are transitional. I have explained the increase on a QoQ basis. So increase is in account of more number of people getting recruited at the upcoming projects. The bonuses and the increments which we paid to our people throughout the organization and of course the US cost which now comes as a direct employee cost.

Anmol Ganjoo: Full year is around 110-115 in crores quarterly run rate is what we should be working with?

R. K. Baheti: Yes. Actually when we go towards the end of the year probably you see this number increasing because by that time few of the projects will have more recruitments, so these numbers towards 4th quarter should go up.

Anmol Ganjoo: That is helpful and my second question is around the R&D expenditure. So basically you did talk about 400-440 crores being the annual run rate but what is the actual contribution to the

sequential decline in the expense line item, as far as I understand last quarter you spoke about some very active programs into which we are going to be investing into. So any particular reason why we are seeing quarterly volatility around this?

R. K. Baheti: Fortunately, the programs are running on track. I think Pranav had given a flavor of what all new areas of development we are getting in and the development work is going on nicely. You know on a quarter-on-quarter basis it is very difficult to do those comparison because in one quarter we may have more clinical trials and we may have more expenses, in another quarter your core development work is happening, but clinicals may be a little or exhibit batches may be little lower, so that is very difficult. As Pranav said a ±100 crores per quarter is an okay number for R&D.

Anmol Ganjoo: And my second question is to Pranav. Pranav, the last time when you spoke with all of us you said that if you look at your internal targets for filing, you are running marginally short of what your targets are. So are you happy in terms of filing rate or how is that dynamic proceeding?

Pranav Amin: Yes, you are right. To be honest, filings have been lower than what we expect. Again there is a lead time in the time we get the projects up and going. So I think the last two years we filed over 7-8 products, our filings should be at least double of that. This year would be an indicator for all of you to see how our filings gets ramp up H2 onwards.

Anmol Ganjoo: And my last question before I get back into the queue Shaunak you said about you see FDC going through a low probability event, any particular reason for that confidence, what drives that assessment?

Shaunak Amin: I think it goes in the product portfolio that is under the FDC we do not have any of those products as per our views that are highly controversial in nature. The products which we have exposure to our very old cold brand which is there in the market for more than 30 years which is Wikoryl as well as Zeet the cough brand. So I think with this we have multiple SKUs in this product range. With this, we are fairly confident that we have other SKUs which can take up the positions which are not covered under the FDC ban and based on that we are very confident that our exposure to FDC would be minimum. I think going forward with some of the irrational antibiotic combinations going out, some of our lead antibiotics products which do not have these combinations, there is a good chance for us to gain market share in those markets which we were losing in the past.

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

Mahesh Sarda: Sir on the frontend just wanted to understand our experience after we have launched all these products in 23, in terms of market share have this gone back to the same level of market share or have we increased the market share in some of those products?

Pranav Amin: It is a good question. As I have said in the past few calls, when we do our own frontend, market share is not the only criteria, I think it really depends on how much money you can earn. Second thing is how confident are you on supplies, some products we wanted to do double digits market share. Some no, which we will build up gradually. I think we want to ensure that we do it properly whenever we do it and in certain cases it is not worth taking a big market share. So it is a combination. If you see a basket where you have access to IMS or Bloomberg data, you get an idea where product is lying.

Mahesh Sarda: But looking at increase in sequential export market revenues, it looks like that we must have been pretty successful in our frontend experience

Pranav Amin: Absolutely.

Mahesh Sarda: On the R&D we have seen this sequential decline, there was a previous question also asked and Mr. Bahetiji also said that there would be ±100. So do we see the number being lower than 450 crores because this ±100 in every quarter would indicate about 400 crores run rate. So are we going slow on the R&D program or what?

Pranav Amin: Actually not at all. We are not going slow at all. First is I think what Mr. Baheti was saying that, it is variability. It does not happen that all its R&D is something that happens sequentially. You know there are some projects which have timeline, you might see more filings in one quarter. You may see more studies in one quarter. There is some variability product wise also. So as I said in the beginning of the call 400 crores is what the number we are still holding on to.

Mahesh Sarda: And just after this experience of our frontend on the margins do we have any guidance to make for this year or too early to look at that?

R.K. Baheti: No I think I would continue to maintain my March quarter statement where I said that pre R&D EBITDA will continue to improve based on March ‘15 numbers. March ‘16 of course everybody knows was an exceptional year. On March 15 base pre R&D EBITDA will continue to improve, post R&D depending on the R&D programs progress which I can see some pressure on margins.

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

Nitin Aggrawal: When we look at the quarter and I guess the way the Aripiprazole you mentioned that there will be increasing pricing pressure on the product coming through, in terms of where Aripiprazole is there for us for the quarter, do you think it is still a material component of our business and any erosion as it happens in the market can still have impact on the profitability as we go through the quarter?

Pranav Amin: Yes, Aripiprazole is still big product for us in spite of all the erosion and it still continues to be big. It is so far what we see is a big product this quarter, however I think I do expect that there will be a lot more erosion going forward as well. So let us see how that pans out. I think Q2 the gap will be bigger because as you know the Q1 of last year we did not have Aripiprazole sales. So even anything from Aripiprazole still shows as big.

Nitin Aggrawal: But on a sequential basis from whatever that we have seen in the market so far as you seeing dynamic very different than what they were, it is about in the March quarter that you have already booked in this quarter?

Pranav Amin: So there are 2 things. One I mentioned earlier that what we reflect the quarter later, so what we reflect in March was Q3 where our partner had lost some market share in Q4, he recovered some. However, there was also price erosion and right now we are hearing is a lot more price erosion. So it is lot of variables there.

Nitin Aggrawal: Fair enough and Pranav. When we look at these launches you mentioned during the year going forward, how should we look at some of these launches in terms of may be plain vanilla or may be some which can make a relatively more material contribution, I mean how are you looking at them?

Pranav Amin: So that is a tough one to answer because we do not really give out anything on the launches. As I said the 6-8 launches we are looking out for the year whatever in the litigation product that is in the public domain you can look that up, the rest, we cannot really disclose anything.

Nitin Aggrawal: But I am not giving the names or anything but in your own assessment when you guys looking at are you looking at some of them being relatively big enough sort of launches as we go through?

Pranav Amin: So if we see a total we have about 30 products pending approval if I am not mistaken, out of that about 40% of those are either a Para-IV or a FTF.

Nitin Aggrawal: And lastly we are talking about this major ramp up in R&D happening now and this seems to be pretty much like a trend which is sort of resonating across industry as far as Indian players are concerned and I guess everyone seems to be at least notionally change in the same areas that we have been also talking about in terms of injectables or dermatology apart from complex oral solids. In your assessment how do you given in all of this intensification of at least the potential competition. How do you see this market place really playing through over the next 4-5 years when you just around the time you sort of ramping up your own R&D effort?

Pranav Amin: I think it is a good question because pretty much everyone is talking a similar strategy, complex products injectables oncology, derm, everyone is talking about that. So it really comes down to execution. So if you see 5 years back everyone was also talking P4s, XR

products, so pretty much the industry moves in that trend. It comes down to execution, how well you can execute? How good are your facilities and compliance? How good is the supply chain, so it is the combination of all three. So it really comes down to execution.

Nitin Aggrawal: But honestly if I just push upon when you sort of think about execution apart from the compliance of the facility what are the other variables you think become more relevant for, we should probably take into account when we are assessing different players?

Pranav Amin: So first is of course R&D capability what you can develop, what you file the kind of product that you file in terms of different dosage forms and also the complex, some you cannot know unless it is on public domain. So that is first. Second is how good the filing is. So that is also part of it because now the FDA asked there are a lot of RTRs refused to receive stuff like that because there are some stringent norms put in by the FDA. Second is the facilities how well compliance which also leaves to your timely approvals and third as I mention is your supply chain reliability and relationship with the frontend.

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

Ashish Thavkar: Can you elaborate more on our JV with Orbicular where the last time we said that we have 15 ANDAs and those were in advanced stages of development. So as far as this pipeline is concerned where do we see monetizing this opportunity?

Pranav Amin: So the JV with Orbicular is company called ALEOR Dermaceuticals that is strictly for Dermaceutical products. That is we have signed the JV. We are in the process of building the Dermaceutical plant. So once that happens we will develop the whole basket of Derma products.

Ashish Thavkar: But nothing has been in the stages of getting filed?

Pranav Amin: No, as I mentioned the facility is not ready. The development work is already started. It is in advanced stage. So we will file this. Either we might go to CMO or we will wait for our facility to come up, one of the two.

Ashish Thavkar: But on the onco injectables we believe we have our own facilities?

Pranav Amin: That too, building an onco injectable facility as well as building a general injectable facility. Both facilities are under construction. The onco injectable should start coming up somewhere by the end of this year versus the general injectable will be by the end of next year.

Ashish Thavkar: Sir we have also talked about employee cost rising by the end of the year and obviously we have big R&D coming in with pricing pressure on Aripiprazole, do you feel that the current EBITDA margin at 22% can go below 20% in the upcoming quarters?

R. K. Baheti: Yes that is what I said post-R&D because if you look at my March 15 numbers the EBITDA margin was 19.5% and I said that the pre-R&D was 25% at that time. So what I mentioned a moment back is that pre-R&D the EBITDA margin will continue to improve. Post-R&D there will be a transitional pressure on margins.

Ashish Thavkar: Sir anything on the price erosion in the US based business since the fact that we have our own frontend coming in. How do we see the pricing pressure there?

Pranav Amin: So as I mentioned the big product that we have spoken about Aripiprazole a lot of pricing pressure there. I cannot comment specifically product wise because there are too many of them. But generally what is happening is and as the FDAs is giving much faster approvals as you see more approvals happening more facilities getting compliance, with new launches there will be pricing pressure automatically.

Ashish Thavkar: Sir on the faster approvals by the FDA have we begun to see a 15-18 months' kind of response time from the FDA?

Pranav Amin: We are seeing, I cannot comment whether it is 15 to 18 but there is a much faster response time from the FDA.

Moderator: Thank you. We have next question from the line of Girish Bakhru from HSBC Securities. Please go ahead.

Girish Bakhru: Just one clarification. You said 31 odd approvals under Alembic lable now. So the remaining 15-16 approvals that you have are they all commercialized through partners?

Pranav Amin: So I said 23 products are launched on the Alembic lable and a lot of these are relaunched. So they were launched really by our partner which we have taken back or we have also joined launching other products. In terms of new launches Alembic as a corporate we will see 6-8 launches every year, bulk of them will be on the Alembic lable.

Girish Bakhru: No, I am basically talking you have 47 approvals today are all the products in the market?

Pranav Amin: No, not all products in the market.

Girish Bakhru: So there could be potential some launches from that basket or those are not very economical products.

Pranav Amin: It is probably not very economical or there may be some issues that is why we have not launched them.

Girish Bakhru: Of course you said 6-8 launches probably going to happen, when you say the onco facility would be probably ready by the end of the year general injectable next year, in terms of

launches do you see any of these non-oral solid launches happening in next two years or was that something beyond that?

Pranav Amin: That will be beyond that.

Girish Bakhru: So the large initiatives with all the onco derma would be beyond 19-20 something like that, is it?

Pranav Amin: Yes.

Girish Bakhru: Any update on Warfarin product where that is?

Pranav Amin: Actually I said in the last call also Warfarin I am not really confident, I am not really betting too much on it. There are two reasons for it – one as you know we were development partner in this, we developed this, we have given it to the partner. I think there is lack of clarity from the FDA on how to proceed on approval, so that is the first grey area for me and second is lack of clarity on the marketing. So I have not focused too much on the Warfarin and I think we just continue to do a generic development for now.

Girish Bakhru: So that project has been shelved as it is, is it?

Pranav Amin: It is not shelved, it is still there but I am not confident of it going forward.

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

Anubhav Aggrawal: Just one clarity on the international sales. Just on your comment on Aripiprazole, did the sales increase sequentially like say March quarter to June quarter is both, the base business is up as well as the Aripiprazole sales are up in our book sales in this quarter?

Pranav Amin: Aripiprazole, yes from March onwards. So there was a sequential increase in Aripiprazole sales over Q4 to Q1 for us.

Anubhav Aggrawal: And what about the base business, is that as well?

Pranav Amin: That is also**.**

Anubhav Aggrawal: So just the other comment that you made, you started transitioning around Q3 I guess to your frontend, in the transition, the net sales, if I just look at the net sales not the net revenue, net sales you have been able to add to this product as they are transfer to your Alembic lable.

Pranav Amin: So absolutely our US frontend has added to sales in this quarter.

Moderator: Thank you. The next question is from the line of Cheenu Gupta from Tata AIA Life. Please go ahead.

Cheenu Gupta: We see this sequential jump in other expenditure around 40 crores. How much of this would be one-off?

R. K. Baheti: As I said I cannot comment on the number, I give the description of what can be the expense but I cannot give the numbers.

Cheenu Gupta: But because you mentioned that there are some products that you had to purchase and hence there were some one-off expenses?

R. K. Baheti: So it is confidentiality agreement signed in the past, so I cannot give.

Cheenu Gupta: So without commenting on it if you can tell us the run rate that we can look at in terms of other expenses?

R. K. Baheti: I think you will have to wait for the Q2 to have that clarity.

Cheenu Gupta: And sir secondly with this consolidation of channel partners in the US that we have seen, we being smaller players are we finding more pressure in terms of price erosion, etc.?

Pranav Amin: I think the pricing pressure is across the board. I think being a smaller player, bigger player does not make a difference. What I have seen in the past is it is really how robust your supply chain is and what confidence the buyers and customers have in you. So those are two main things. Seeing our market share we see across the board in terms of what we got. We picked up double digit market share in some products. Some were waiting. So I think so far it has been a pretty good show for us.

Cheenu Gupta: And lastly sir when you commented that because of our own frontend in US, our sales would have gone up but profitability increase would be negligible. Is it because you are still just in the ramp up phase and if more products are added the profitability should start improving?

R. K. Baheti: I didn't say that. I just mentioned the fact of accounting that when you work through partner you get your profit share, that gets added to your revenue. But when you are doing your own frontend, the whole of sales including the local expenses gets added to your sales and the expense gets added to the respective expenses, just a statement I was making. Obviously with our own sense we should have certain margins that is how people move to frontend.

Cheenu Gupta: So we should have better margins as well as more market share.

R. K. Baheti: Yes.

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

Rahul Sharma: Just wanted clarity when you said that 30 products are pending approval and how many are Para-IV of First-to-File and how many are more than 2 years old?

Pranav Amin: So about 40% of them are either Para-IV or FTF.

Rahul Sharma: How old are these pending filings sir?

Pranav Amin: If you say we have 31 pending approvals out of that 12 are over 3 years, 6 are 2-3 years, 4 are 1-2 years and 9 are 0-1 years.

Rahul Sharma: And just wanted to know how many niche products or complex products would you be launching on Para-IV FTF in FY17 or end '18?

Pranav Amin: Rahul, I cannot give the information. Only thing I can give as I said is roughly about 35%-40% of pending 31 ANDAs are Para-IV or FTF.

Rahul Sharma: Okay and just wanted clarity on what are your thoughts on Aripiprazole with new competitor also coming in, have they seen substantial price erosion from current levels?

Pranav Amin: Yes, there is a substantial price erosion from the current levels. So far our partners been able to hold on to market share but the other is substantial price erosion in Aripiprazole.

Rahul Sharma: Could you throw some light on how much is the price erosion now?

Pranav Amin: I cannot because actually have not seen the data for Q1 as yet because it comes to us in Q2.

Moderator: Thank you. The next question is from the line of Nikhil Upadhya from Securities Investment Management. Please go ahead.

Nikhil Upadhya: Sir this is in continuation with a question which was asked earlier regarding the pipeline when you are selecting the new R&D projects and especially when multiple other players are also working on the same field like injectables and derma, so what I want to understand is now when you are going for a product selection and with the uncertainty regarding how many people can be there or with approval rates also rising, so are you looking at product specific in terms of projects, are you looking at in terms of basket how we should approach the injectable basket as a whole or a derma basket and then decide up on how the filings should work out. So if you can just put some light on how you are moving ahead with your project selection part.

Pranav Amin: So we do an evaluation per product. So let us assume we are talking about derma. Now something is well you do have capability, that is your derma plant that you try setting it up. But

we do analysis per project to ensure there is a positive NPV per product and the same way we loop all other products which are injectables and we do NPV per product, we do mix of some which are lower, some which are higher NPV low complexities and high complexities. So it is a variable thing that we do depending on the confidence we are going forward.

Nikhil Upadhya: But sir especially when there are multiple players who are also working on the same field. So if you say that we have 400 crores which we are putting for R&D investment and we have projects behind injectables and derma and probably onco injectables and also is there any specific fields where you feel that we have to give more priority to these sections first and then probably to some other projects, is there some thought process on those priorities which you have set up?

Pranav Amin: So in each of the baskets, oral solids, onco, derm, general injectables, there would be some products which have a higher return, higher NPV as I mentioned, so ideally you do not want to get those done but you cannot depend only on those, so you have to work on other ones as well. Secondly you asked about competition I said yes, everyone is working on it and answer that earlier, it really comes down to execution, how well you can execute, how well you can supply, how well you can get that.

Nikhil Upadhya: And secondly sir in one of the questions you had mentioned that when we are putting our frontend team it is not only about gaining market share but overall for the basket how the money generation or the cash generation plays out, so if you can just highlight that part. So what did you mean by that? Is it that how the whole basket provides the incremental revenue, is that what you are trying to mean?

Pranav Amin: So the benefits of the frontend the first thing is in terms of net it works out better for you because you are not sharing a profit with anyone. Second thing what it gives you. It gives you control over your supply chain; it gives control over the opportunity because there is a basket. Now when you have a basket what you can do is some products you may not make money, it may make sense for you to get some volumes on that so the overhead absorption or where you have the strength in API. These are the kind of flexibility that a frontend gives you.

Nikhil Upadhya: And lastly this is for Shaunak. When you mentioned that in cough and cold we had some products which were under the FDC ban and we are looking at developing the SKUs or promoting more of the SKUs, can you share what was the topline or what was the sales of those two brands?

Shaunak Amin: I think both brands put together was approximately 40 crores.

Nikhil Upadhya: So the SKUs would not be more than 5-10 crores?

Shaunak Amin: Which one, the one that is come under FDC?

Nikhil Upadhya: Yes.

Shaunak Amin: No, I think one that come under FDC would be a major component of this turnover.

Moderator: Thank you. We have next question from the line of Bharath Celly from Research Data Advisors. Please go ahead.

Nimish Mehta: This is Nimish Mehta. I just wanted to know two things one have we taken Abilify on our own or it is still partner?

Pranav Amin: That is through a partner.

Nimish Mehta: And we do not plan to take that on our own right?

Pranav Amin: No, I cannot disclose that right now, but right now it is with the partner.

Nimish Mehta: Earlier we were talking about a little higher number of launches in FY17, like 8-10 or 7-9, now we are talking about 6-8, so is there any delay in projects?

Pranav Amin: 6-8, 8-10 same, range is 6-10, I am saying on a 2-3 year perspective, that is why I said that but no delay from any launches. Some are in litigation, some were waiting judgment but I think ±8 is what we would look at.

Nimish Mehta: And how many niche one we are looking this year?

Pranav Amin: As somebody else also asked, I cannot really distinguish or I cannot talk about what is niche and what is not, only thing I can say is out of 40 odd pending ANDAs about 35%-40% of Para-IV or FTF.

Nimish Mehta: And lastly on your R&D, if I were to look at your R&D capability, how should we understand like Alembic**'s** R&D facility, I mean what are the areas like you have strength and that is something that you will target in the sense it is not dermatology thing that you mentioned.

Pranav Amin: If you see in R&D broadly I outlined 4 areas that we are looking at. One is oral solids, second is general injectables, third is oncology injectables and fourth is derma. These are the four areas that we are focusing on for now.

Nimish Mehta: Oral solids are very large area. Anything specific, not everything in oral solids may be interesting right? A lot of this will be commoditized. Further understanding of that would be helpful?

Pranav Amin: The oral solids, when I mean oral solids we are talking about tablets and capsules and we look at complexities of products, that is something you can do in India, somethings you cannot do.

So whatever we can do we evaluate those and that is where we stand but there is lot of products in oral solids.

Nimish Mehta: I just wanted to what is that you can do in oral solids that is interesting enough you can explore that would be helpful.

Pranav Amin: We can touch this offline. I am not sure if I understand your question.

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

Prakash Aggrawal: Sir just a clarification on these 23 products which are in the market today. So this would have been in the market or launches would have happened during the quarter. So not all of the launches still reflected in the full quarter right, I mean in terms of quarter base?

Pranav Amin: That is right yes.

Prakash Aggrawal: So this will see the net impact from the upcoming quarter?

Pranav Amin: Yes.

Prakash Aggrawal: And also on the FDA inspection that you talked about in the API, formulation was done last year right?

Pranav Amin: No, we had a formulation inspection last year, we had a formulation inspection this year also we had our API 2 facilities were inspected this year. There was one API facility inspected last year whose EIR we received this year.

Prakash Aggrawal: And formulation typically happens on normally once in two years. So this you have seen every year they are coming, is it because of the complexity of filings or was it product related or was is the regular?

Pranav Amin: It was a product related inspections.

Prakash Aggrawal: And the outcome of it was?

Pranav Amin: It is okay I think we are about 3 or 4 observations on that. I think none of the serious nature. We still have not received the EIR which we will receive in the new few months.

Prakash Aggrawal: And do you know the nature of inspection in terms of NAI or VAI?

Pranav Amin: It is a VAI but the EIR should come soon.

Prakash Aggrawal: Understood and when you talked about the niche filings or the R&D focus area so what I am trying to understand is the development work has started. When do we start seeing the filings of this derma and injectable products sir?

Pranav Amin: So if you see the injectables, first injectable plan which is onco injectable will be up by the end of this year, the filings you will only see actually H2 of next year onwards.

Prakash Aggrawal: Because in one of your commentary in the presentation is you would be using CMOs, so I was thing you might start early?

Pranav Amin: In certain cases we might. We are trying to see as a good CMOs we are comfortable with something. That something that we are pondering up on to catch up on time if we have to.

Prakash Aggrawal: But the correct understanding is second half next year we should start seeing the onco and the general injectable filing?

Pranav Amin: The onco filing, the general injectables will be even later.

Prakash Aggrawal: And derm sir?

Pranav Amin: Derm again will be with general injectables.

Prakash Aggrawal: And lastly sir depreciation also if we see how should we look at it because on a QoQ basis it has come down?

R. K. Baheti: For depreciation I think for this year we capitalized more assets and start charging depreciation, you can take about 20 crores as the base per quarter, last year there was some readjustment and Companies Act on some new component accounting depreciation, etc., were introduced. So one-off effect that is all.

Prakash Aggrawal: So the depreciation actually increases from year after much ahead because of the 500 crores CAPEX you are talking about.

R. K. Baheti: Yes

Prakash Aggrawal: And you talked about 5000 crores CAPEX over the next 2-2.5 years?

R. K. Baheti: 1000 – 1500 crores

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

Ashish Thavkar: Sir any comments for Abilify, already how you are sharing that?

Pranav Amin: Abilify OD already we are doing an okay job. I think it is a much smaller product probably we are the only ones in the market. So it is doing a pretty good job. Our partners are doing a pretty good job.

Ashish Thavkar: Since launch you have seen an increase in market share?

Pranav Amin: Yes, I think we are gradually increasing market share, innovators quantities are going down. There is still some sales by innovator.

Ashish Thavkar: One question on the upcoming launch Benicar, have we settled for October 2016, if you could guide us?

Pranav Amin: I cannot comment on the settlement terms on the launches right now.

Ashish Thavkar: Sir last question would be on R&D, since FY17 we are doing around 400-450 crores R&D, what assumptions can we model in for FY18, you feel the R&D will continue?

Pranav Amin: I think it will be around similar rate as this year.

R. K. Baheti: Or some increase.

Moderator: Thank you. As there are no further questions from the participants. I now hand the conference over to Mr. R. K. Baheti for closing comments.

R. K. Baheti: Yes, thanks. Thank you everyone for participating in this call. It is always a pleasure talking to all of you and if anyone of you have more questions you can email to us, we will be happy to respond and look forward to be interacting with you again in the next quarter. Thank you.

Moderator: Thank you. On behalf of Alembic Pharmaceutical Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.