"Alembic Pharmaceuticals Limited Q1 FY '20 Earnings Conference Call"

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Moderator: Good day, ladies and gentlemen, and welcome to the Q1 FY '20 Earnings Conference Call of Alembic Pharmaceuticals Limited. We have with us today from the management Mr. Pranav Amin – Managing Director; Mr. R.K. Baheti – Director (Finance) and CFO; Mr. Mitanshu Shah – Head of Finance; Mr. Jesal Shah – Head (Strategy); and Mr. Ajay Kumar Desai – Senior VP (Finance).

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 phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. R.K. Baheti. Thank you and over to you, sir

R.K. Baheti: Thank you, and thank you all participants for joining the Q1 conference call. I will straightaway go to the numbers.

During the quarter, our total revenue grew by 10% to 949 crores. EBITDA at 233 crores is 25% of sales.

Pre R&D EBITDA is 38% of sales.

Profit before exceptional items and tax went up by 58% to 192 crores while post exceptional item and tax, it went up by 37% to 124 crores. The exceptional item being one time provisioning for impairment of investment in Algerian JV.

EPS for the quarter is 6.56 per share v/s 4.80 in the corresponding previous year's quarter.

CapEx for the quarter including the capital advances are 174 crores.

In addition, financial assistance to Aleor JV is about 48 crores.

The gross borrowing at consolidated level is 1157 crores

The Company has 156 crores of cash in hand so the net borrowing is just over 1,000 crores.

I will now hand over the discussion to Pranav for a presentation of the business.

Pranav Amin: Thank you, Mr. Baheti.

We had a good quarter for the International Business, driven primarily by sales growth in the U.S.

Our Oncology oral dosage facility was successfully audited with Zero 483 observations.

Our R&D expense was 140 crores in the quarter, approximately 15% of sales.

We filed 4 ANDAs as well during the quarter and cumulative ANDAs stand at 165.

We received 9 approvals in the quarter. We cumulatively have 98 ANDA approvals, including 12 tentative approvals.

We launched 3 products and we plan to launch around 7 to 10 in the second quarter.

Coming to our projects, exhibit batches were taken during the quarter at the general injectable facility.

Exhibit batches are planned at our oral injectable facility during the second quarter.

The new oral solid dosage facility at Jarod will be ready for validation batches in the second quarter as well.

The international formulation business grew by 29% to 453 crores for the quarter.

The U.S. generics grew 53% to 344.5 crores for the quarter and ex-USA generics de-grew by 14% to 108 crores for the quarter.

The India formulation business was flat during the quarter at 324 crores.

Now I would open the floor for any question and answers.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Nimesh Mehta from Research Delta. Please go ahead.

Nimish Mehta: Two questions. One, what is the U.S. sales in local currency in U.S. dollar? And how much has that grown Y-o-Y, Q-o-Q?

Pranav Amin: U.S. generics in absolute currency in dollars grew 45% to 47.32 million.

Nimish Mehta: Okay. So there has been significant growth, I think Q-o-Q it has grown by about $6 million. So is it largely because of the new product introduction? Or is it because of any price increase or any such thing?

Pranav Amin: It is a combination of new products and picking up shares in some other products as well.

Nimesh Mehta: Understood. Okay. The other thing I wanted to know is the gross margin which looks pretty high, sequentially as well as on a Y-o-Y basis, it was about it has been about 78% which I think 78.5, which is significantly higher, 200 basis point higher Q-o-Q and almost 800 basis point higher Y-o-Y. So what is the reason? Has there been any one off there or what is the sustainable rates there?

R.K. Baheti: I don't know whether I call it one off but yes, this quarter as Pranav said, US was exceptionally good and so the products are sold at pretty good margins.

Nimesh Mehta: I'm sorry, the products were sold at very high margin, which is why? So is this sustainable, that's what I'm trying to understand.

R.K. Baheti: No, all of it may not be sustainable at margin level.

Nimesh Mehta: We should consider 78 as a base rate margin going forward?

R.K. Baheti: No, it won't be sustainable at these levels.

Nimesh Mehta: Oh, it won't, okay.

R.K. Baheti: 70% plus minus is a decent number to track.

Nimesh Mehta: So if you can give more color to what was that exceptional, or I won't call it one-off or exceptional but what was this huge profit because of some…?

R.K. Baheti: You know Nimesh that we don't discuss product wise, it is difficult for us to give.

Nimesh Mehta: Last thing I just wanted to know, have we started booking the preoperative expenses from the facilities which has been commercial, which we were waiting for the commercialization, I mean if you think about 40-45 crores last quarter?

R.K. Baheti: So far none of the facilities has started commercial production. It still continues to be in pre-op. Nothing has been capitalized and nothing has been charged to P&L from new projects.

Nimesh Mehta: What could that number be this quarter that if you can disclose that?

R.K. Baheti: That's about 60 crores-65 crores per quarter.

Nimesh Mehta: Okay. Are we likely to commercialize anything, I mean start charging in the P&L in this year or what is the expectation?

R.K. Baheti: Pranav has already given you the schedule, I mean for now the exhibits are being taken and now it would be dependent on filing the approvals we get. once we get the approval and launch the product in the market, we'll start charging to P&L.

Moderator: Thank you. The next question is from the line of Bharat Celly from Equirus Securities. Please go ahead.

Bharat Celly: Actually, we wanted to understand why other expenses have drastically reduced quarter-on-quarter?

R.K. Baheti: June quarter is relatively low. Are you referring to March or just June?

Bharat Celly: I'm referring to March.

R.K. Baheti: There will be always some expenses including R&D expenses which are not actually so very evenly spread. Same is the case with the sales and promotion expenses particularly in the domestic market. So these two were higher in March and little lower in this quarter. In R&D, some expenses get charged to employee cost and expenses were charged to other expenses. But you cannot do every quarter comparing.

Bharat Celly: Right. But even if I look from year-on-year perspective, then also other expenses are down by 3%.

R.K. Baheti: No, not really.

Bharat Celly: I'm referring ex of R&D.

Mitanshu Shah: Two things, which are impacting here. First one is that you will recall in the last quarter, we had many filings. So filing was a major cost, which is not there. We have been filing less products in this quarter. So that was one of the biggest differentiators and as Mr. Baheti said, some of these publicity expenses, which are marketing costs…

R.K. Baheti: Mitannshu, he is talking about June of '18 versus June '19.

Mitanshu Shah: then we are flat actually

Mitanshu Shah: It was 290 Crores odd and this is 300 crores.

Bharat Celly: Okay. So what should be the rate we should consider going forward?

R.K. Baheti: The current rate looks to be good base.

Bharat Celly: So one should take around these 300 crores as a recurring number, right?

R.K. Baheti: Yes.

Bharat Celly: Okay. And sir, second question we wanted to understand is, how many products we have filed from onco oral facility, so far? And how many we are planning for the future? Actually, we couldn't understand what was the number you gave for filings from the onco facility so far?

Pranav Amin: Bharat, what I was saying is we haven't disclosed our filings facility wise.

Bharat Celly: Okay. No worries sir. And sir last one you mentioned about the gross margins, so what was the sustainable number you were referring to? We missed out on that.

R.K. Baheti: 70% plus minus.

Moderator: Thanks. The next question is from the line of Ranbir Singh from IDBI Capital. Please go ahead.

Ranbir Singh: Question again on gross margin. I understand if segment wise it's not possible to give but I still wanted to understand because you are guiding a lower gross margin going forward versus very high margin this quarter. So I assume one-off there, but just wanted to understand, this one-off has an India side or outside India?

R. K. Baheti: Yes, we don't give guidance you know and somebody asked me whether it's a sustainable number I said it may not be the whole of it may not be sustainable and it is not lower than what we did last year. It is driven by the product mix and the territory mix. US had an exceptional quarter and we had better margin.

Ranbir Singh: Okay. Secondly, on India business, I see both in a specialty or acute, growth has not been picking up. The overall market also you see there has been some tapering volume. So can you give some color going forward how things are looking right now for your business?

R.K. Baheti: Going forward, we expect to grow little better than the Industry, or in line with the Industry.

Ranbir Singh: No, just I wanted to understand the reason if you could just give some reason behind this slowdown because we have been focused on a specialty. Most of the products, I think 90%, more than 90% products are in specialty. So either new product introduction has gone slow or despite this new product introduction, sales have not picked for any other reason. If you could give some more light on it.

R.K. Baheti: a) there is a general slowdown, being witnessed, (b) the monsoon had been deficient and delayed, at least in the Q1 though it doesn't affect speciality, it affects our acute business which is also 35% of the business. We had also done some hygienic cleaning up as far as the trade practices were concerned, so that has impacted the first quarter. Going forward, I think we should be back to Industry growth rate.

Ranbir Singh: Okay, fine. And just on depreciation side, we expected a higher depreciation. Just I wanted to, when the new facility is going to capitalize?

Pranav Amin: As for the new facilities, the two injectable ones, we will start doing the filings of both these facilities by the end of this year, by the end of FY '20, that means you might see commercial sales from it by end of FY '21 or probably FY '22.

Ranbir Singh: Okay. And this exceptional item, I see that the joint venture has been making losses. So this is towards after this impairment, are we going to put more money into this joint venture or what exactly the state of affair is?

Pranav Amin: As we had said last year, there was a fire in the facility in Algeria where we have a JV with somebody else as we can't own more than 49% in Algeria. So when the facility was burnt down, we were evaluating the business and at present day, we've decided not to rebuild the facility and we will start work more gradually depending on how comfortable we get with the area and we thought it was prudent to take a financial impact.

Moderator: Thank you. The next question is from the line of Shashank Krishna Kumar from JM Financial. Please go ahead

Anmol Ganjoo: This is Anmol Ganjoo. Couple of questions. So of the 9 approvals we had in the U.S. this quarter, how many did we actually launch?

Pranav Amin: Anmol, we launched 3 products during the quarter.

Anmol Ganjoo: Okay. And just referring to one comment during the previous call, where we said that you know 20% of our product portfolio contributes to 80% of our revenue, if we look at this quarter, I know you won't distinguish between products but has that concentration increased or gone down, in your view?

Mitanshu Shah: No, concentration has not increased actually. What has happened is certain categories of product, we see some traction there but the new product introduction also does bring in a decent amount of business. So it has not been a concentration.

Anmol Ganjoo: Just trying to understand what is at play as far as the U.S. is concerned, because if I also kind of try to reconcile a strong gross margin performance given the strong U.S. queue, what is the play in terms of base portfolio pricing and some of these opportunities whether it's new filings or some of the exceptional that you refer to, are they coming at significantly better pricing? Any kind of commentary, it would help.

Pranav Amin: As you know and we have been saying consistently how we do business is, we try looking for opportunities. In terms of the concentration of the portfolio, what has happened over a period of the last 3 - 4 years, as everyone knows theophylline was a big product for us. Today, it is getting smaller and smaller as we have more products coming in. And on a quarter-on-quarter, there may be variances, but on an annual basis, we have more products for making up the 80% of our revenue and profit in the U.S. on an annual basis. And your question about the margin and I know lot of people ask, see basically in the U.S. I wouldn't call them one-offs but we do get supply opportunities from time to time. They're not as big but a combination of those sometimes in a quarter can be a little remunerative.

Anmol Ganjoo: So just to kind of sum up your thoughts, in the U.S., the way we look at the business is that the worst from our portfolio standpoint is behind and given the stability of the portfolio base 1, we see an opportunity coming every odd quarter where we could be beneficiaries and the end market landscape lends itself to that. Would that be a fair summation of your comments, Pranav?

Pranav Amin: Possibly, yes. I'm not a soothsayer but we have seen that historically there is always opportunities that arise in the U.S. and now we keep launching new products and we are going to launch 15-20 products in the year, we will have more opportunities as well.

R.K. Baheti: I wish that dynamic would have been so simple.

Anmol Ganjoo: Yes, but I know there is this volatility but we also are constrained by having to model stuff, so...

Pranav Amin: Yes, I agree.

Anmol Ganjoo: My second question is on the domestic performance. you said that next quarter we should start tracking industry growth rate, this quarter we having underperformed a bit but is your assessment also that the industry growth rate would have roughed out sometime this year given what you have been hearing from the channel et cetera or you think that it's a couple of quarters more before this stabilizes?

R.K. Baheti: What we hear from market is that growth across is little slow and this is not only in pharma, this is across many other sectors also. Pharma used to be little inelastic but now Pharma is also getting impacted. When would be the growth rate in the industry in general revive, I have no answer.

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

Prakash Agarwal: So on the India business, so understand there is a weak acute season that happened during the Q1, but even in specialty, we have seen a muted performance and what I see from ARCD is there is a big drop in volumes, not only for you but across the industry. So Specialty is largely due to the volume drop, is that the correct inference?

R.K. Baheti: Yes.

Prakash Agarwal: Okay. And when you say coming back to industry average growth, so have you started or have you seen July month the acute season coming back?

R.K. Baheti: We start getting the market data, which will come towards 1st week of August. But our primaries are okay, I think it should be back in growth numbers.

Prakash Agarwal: And would it be fair to link the other operating cost of promotions, I mean in the past, we have said that once the growth is back, and the cost is more or less linked, so is that the right way, to link up the operating cost on the domestic side also?

R.K. Baheti: Nothing, which we can ascribe to Q1.

Prakash Agarwal: Because Q1 is where you do a lot of promotions, right? I mean acute season and...

R.K. Baheti: Q1 is not when we do a lot of promotions, generally maximum promotion happens in Q2 and Q3.

Prakash Agarwal: Okay. And that remains on track?

R.K. Baheti: That remains on track, yes.

Prakash Agarwal: Okay. Thanks for this. And sir on the sartan side, if you could help us understand. So we had some opportunity. Does the opportunity continue? Or as you last mentioned that the market itself has shrunk and shifted to other sartans, would that still hold good?

Pranav Amin: The opportunity that we saw last year in Q2 was in valsartan. If you see the valsartan market shares over the last few months, they've been pretty steady. So when the market share is steady, that means there is no disruptions and prices would have settled down.

Prakash Agarwal: Okay. So because I see some market share gains for you in Benicar and on the new launches like vigamox and all**,** would that be the prime reason of uptick or there could be some companies like Aurobindo talk about NBOs, new business opportunities, which range from 1 quarter to 2-3 quarters. With that be the prime reason?

Pranav Amin: It's a good question. it's a combination, you're right. On Vigamox. There was a bump up in sales because there was some shortage in the market. So as I said, we have portfolio products where it keeps happening. Some of the older ones, we do pick on more businesses once we are more confident and that's what's happened as in Benicar is one where we might have picked up some share.

Prakash Agarwal: Okay. And lastly, we have seen FDA issues increasing across companies. Would that also be since we have been compliant and getting some extra business would that also be a reason from your channel partners?

Pranav Amin: FDA becomes an issue only if other companies are not able to supply and that has only happened if they have an import alert**,** if they have warning letter, their commercial supplies still continue and buyers, I don't know if they look at that. What is more important for them is the supply chain reliability and what good a partner you are and that's what we've been trying to do.

Prakash Agarwal: Okay. And lastly, international business, there seems to be dip, is it like a one-time dip? Or we could continue to see the 15%-20% growth that we have been seeing in the past.

Pranav Amin: This quarter as well as in Q4, there was a dip in Europe sales. That's the predominant reason for the dip. As I mentioned in the last call, Europe moved to serialization and we have been struggling a bit with that with the vendor. Hopefully, Q2 is where we should start seeing a gradual uptick.

Prakash Agarwal: Okay. And other than Europe, it's all good?

Pranav Amin: Yes, we saw a little bit of a dip in the other ROW markets as well because of serialization but hopefully Q2 onwards that should start picking up.

Prakash Agarwal: Okay. And is there a guidance to, I mean not guidance but color in terms of, we can still do double-digit, mid-teens?

Pranav Amin: Let's wait for Quarter 2, let me just see how confident we are of getting over this issue and then we will get a much better flavor by the end of Q2.

Prakash Agarwal: Okay. And are we calling about number of filings and launches for the year?

Pranav Amin: In terms of launches, that's at about 10-15 launches. It depends on approvals. We already got 9 approvals. It's at least 15 to 20 launches that is something that we look at in this year. And in terms of filings, last year we did about 29, it will be similar to that, 25-30.

Moderator: Thank you. The next question is from the line of Kunal Randeria from Antique Stock Broking. Please go ahead.

Kunal Randeria: I have a follow-up on sartans. So it seems that some of the players in losartan have been facing some issues. Do you see a shift happening from losartan to some other sartans?

Pranav Amin: The whole sartans market has been quite topsy-turvy because the issue started with valsartan, and then when it started with valsartan, people moved to other sartans and then the same impurity issue we have seen in the other sartans as well. So I really don't know as a market which way the usage is going, but there has been disruption in every sartan and as you know, we are not a huge massive API or sartan player, so we can't pick up massive market shares in any of them. So we try capturing whatever opportunities we can.

Kunal Randeria: See but if I am not mistaken, you have taken some price hike from the last few months in some of the other sartans. So does it mean that the next couple of quarters, we could really see again a bump up in U.S. sales from your one-off opportunities?

Pranav Amin: I don't think so. You know what, one thing about the sartans is there are many suppliers with large supply chains and capacities. So these blips are normally quite short term and people will be in the market quite soon.

Kunal Randeria: Okay. Right. And lastly, how many of our products are backward-integrated?

Pranav Amin: I don't have this number. I would assume about 80% will be backward-integrated. As we move forward, it will become lesser because a lot of our newer filings of injectables and ophthalmic and derm will not be backward-integrated.

Moderator: Thank you. The next question is from the line of Kaustav Bubna from Rare Enterprises. Please go ahead.

Kaustav Bubna: I was wondering, could you just give us a sense of the pricing environment for generics in the U.S. and how the price erosion situation is upholding, just in general?

Pranav Amin: It is very tough to give a one number but there is an opportunity for price increase as well as there is erosion. Erosion generally has come down a little bit but it really depends which baseline you take. But the simple thing is, earlier the more entrants coming in you will see price erosion. Some of the new launches, the day one launches like Tadalafil was a quite a bit of an erosion, Febuxostat may be a little bit more attractive, there are only 2-3 of us in the market so it really depends. But it's very tough to give one number per se.

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

Chirag Dagli: So what part of our U.S. sales is own label versus partnered products?

Pranav Amin: I don't have the data

Mitanshu Shah: 95% is own label.

Chirag Dagli: And through the call, the sense I am getting is that this $47 million that we have done in the first quarter, we shouldn't sort of extrapolate this into an annual number. Is that a fair assessment of what the business looks like over the next 4 quarters?

Pranav Amin: It's tough to say, Chirag. The U.S. market is a very dynamic market. Our portfolio with these two things which will happen, on one side you have erosion, other side, you have opportunities and third dimension is that we have new product launches. So if we want to continue growing, other side over a 2-3 year period we keep growing. Quarter-on-quarter, it's tough to say but with the new launches and opportunities, we will try growing business wherever we can.

Chirag Dagli: Fair point sir. And sir, on some of the older products that you would have been selling for 5-6-7 years now, how is pricing behaving in some of those older products?

Pranav Amin: It generally is stable. I say generally because again, I can't generalize on every product.

Chirag Dagli: Your portfolio.

Pranav Amin: Once in a while, someone comes and starts dropping prices then there will be erosion in some old ones as well, but by and large it has been little stable. Some places there will be price increase, some places down. So it's tough to say.

Chirag Dagli: Can't generalize yet, I guess.

Pranav Amin: Exactly, yes.

Chirag Dagli: And in the Indian business, your internal evaluation of descriptions generation et cetera, is it showing any slowdown, any cause of worry at all, or do you think this is just a passing issue?

R.K. Baheti: if this continues for few quarters, then I think definitely it will be a cause of worry. If it is a temporary phenomenon, it should be over in next 1 or 2 quarters.

Chirag Dagli: No sir, my question is that for the last 2 quarters that we have seen an actual dip in sales, has prescription generation data also shown a dip, if at all you track it?

R.K. Baheti: Both number of prescribers we are adding to our kitty and the number of prescriptions we are generating, are showing a steady to increase in trend.

Chirag Dagli: Okay. Fair point. And the 65 crores per quarter that you said is being capitalized. Does this include depreciation as well?

Mitanshu Shah: No, there's no a depreciation portion in this. Depreciation would come in only when we commercialize the facilities and we put to use.

Chirag Dagli: Okay. So these 65 crores are just the OpEx above the EBITDA running cost essentially?

Mitanshu Shah: That's true.

Chirag Dagli: And then the last question sir, on working capital. How different is India versus the U.S. as far as working capital days or net working capital is concerned? Just a ballpark range should help sir.

R.K. Baheti: The working capital in India is in terms of number of days, it's far lower both in terms of receivable and in terms of inventory. Whereas international is far higher, both in terms of receivables and in terms of inventory. Having said that, in the overall basis, we have an excellent receivable record both in international and in India and we have a decent amount of inventory. So we are not off of the mark.

Chirag Dagli: But as the U.S. business sort of keeps growing, do you think there is a view that the net working capital as a percentage of sales will go up dramatically?

R.K. Baheti: Not in percentage of sales, no.

Chirag Dagli: Not dramatically.

R.K. Baheti: It will grow.

Chirag Dagli: And just the last bit, is India less than 45 days net working capital for us?

R.K. Baheti: India net working capital both added together, yes.

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

Dheeresh Pathak: Sir, from the new facilities, filings have been done only from the Aleor facility, right?

Pranav Amin: Yes, And the oral oncology facility.

Dheeresh Pathak: And inspection from an FDA point of view has only been done for the Aleor facility, right?

Pranav Amin: Aleor and oral oncology.

Dheeresh Pathak: What is the status of the oral onco inspection?

Pranav Amin: Zero observations.

Dheeresh Pathak: Okay. And the F4 facility which we had seen at that time, that was complete, right? So why are there no filings and...?

Pranav Amin: The whole filing process takes a while because we have to do exhibit batches and then stability. The batches are in progress, the filing should happen by the end of this year after stability.

Dheeresh Pathak: Okay, and just I wanted to understand the accounting for Aleor JV, that is a full consolidation we do right? We have 60%?

R.K. Baheti: Yeah. It is a line by line consolidation and at bottom then we take out the minority interest of the net profit or loss.

Dheeresh Pathak: Okay. And R&D spent on this is being capitalized instead of being expensed?

R.K. Baheti: Yes.

Dheeresh Pathak: How much is that per year?

R.K. Baheti: On an annualized basis, that would be about $20 million-$25 million.

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

Aditya Khemka: On the India business, how much of our sales is under NLEM for this year?

R.K. Baheti: Somewhat 16% as of now.

Aditya Khemka: 16%, so the average price increase in the NLEM portfolio would have been about 4% and…

R.K. Baheti: Much lesser because it is linked to WPI, so it is less than 3%.

Aditya Khemka: Yes, so WPI was about 4% this year, wasn't it?

R.K. Baheti: No. I think it was about 3%, 2.8% or some, it was less than 3%.

Aditya Khemka: Okay. So that blended price hike that would have taken over the entire portfolio would also have been around 3%, or less than that?

R.K. Baheti: That would have been around 5%-6%.

Aditya Khemka: Blended would have been 5%-6%. So sir the question is that despite 5%-6% price hike, if there is a 2% of year-over-year dip, it implies a 7% to 8% volume degrowth in the portfolio and this could possibly have happened other than your large brands also stagnating or declining in low single digits. And there is clearly something which is not right here, because despite a slower anti-infective season other pharma companies that have reported so far, have actually reported growth in India business with a higher single digit or lower double digits?

R.K. Baheti: There are not many companies which have reported numbers so far. I mean I think except us Reddy's came today; Torrent came some time back. Biocon is not a big player in the domestic market. So I think we will have a better trend going forward.

Aditya Khemka: No sir, that I understand. The question I was going to ask was exactly the point that you made. So companies like Torrent or Reddy's, they are significantly higher in terms of sales in India as compared to you and yet they are able to grow in a higher single-digit and low double digit versus us not being able to do so. So if the market is the weighted average of the players, if the market clearly seems to be growing versus this specific issue at our end which seems to be stopping the growth for the past few quarters now. So if you could just maybe get back to us with what the leading brands are doing in terms of market share in growth, that would be really helpful because it just doesn't tally with what the other companies are doing in terms of numbers.

R.K. Baheti: In my leading brands, We have not lost market share. We have been maintaining market share in all our leading brands, but in Specialty, Gynec and probably Gastro portfolio are not doing well. We are trying to bring it back to rails.

Aditya Khemka: Understood sir. And are we are also dropping a few tail end brands to focus on profitability or productivity of MRs or are we not rationalizing any brands?

R.K. Baheti: That is a continuous process in any pharma company. We keep adding new products. We keep defocusing. Now whatever we don't promote they have a natural dip, so I don't have to really take any product out of my portfolio. If I stop promoting it, it will continue for a while and then it will taper out. It is a regular process. Nothing unusual we have done in the last 2 quarters.

Aditya Khemka: Understood sir. How many MRs do we have today on the field?

R.K. Baheti: We have about 3,900 odd people as medical representatives. We have another 1000 odd people in the supervisory managerial capacities.

Aditya Khemka: And how has that number changed in the last 12 months? What was it the last year, same quarter?

R.K. Baheti: There has not been any change in the last couple of years because we have been saying that we have not been investing in further enlargement of my field force unless we consolidate and achieve a certain critical levels.

Aditya Khemka: Okay. Got it sir. One last question what is the attrition in our field force right now?

R.K. Baheti: The attrition has just come in at in our company is a little high than our usual number. I don't know whether I have that exact number, but I think it is little high than our previous or even the industry number.

Aditya Khemka: Exactly. So that was my question, sir, that many MRs would not be meeting their incentive targets, so therefore the attrition would have been higher, okay.

R.K. Baheti: Right.

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

Nitin Agarwal : Thanks sir. This is Nitin here**.** Quickly on this U.S. market opportunity that you talked about, sir the shortage opportunities which typically we have encashed in this quarter, I guess presumably they have been there for the last several quarters now given the market dynamics, I mean the profitability on these opportunities are almost similar in most instances or what are the nature of these, these are like one-time supplies that you do with very high margins? Just broadly trying to understand the nature of these opportunities which come through.

Pranav Amin: This is very tough to say. I can't really comment on it because part of it is picking up orders for a little longer term we get more market share. Some is going to be much shorter term, just a combination. So last year, second quarter it was very clear it is valsartan as we could speak about, there is nothing. This quarter, it is across the board, the few price increases, the few market share gains. It is just a combination so I can't really give you a break up.

Nitin Agarwal: And in your own sense, your own assessment, have these been kind of opportunities to encash, have they been increasing in frequency over the last few quarters?

Pranav Amin: The U.S. industry per se is such that these shortages keep occurring in the market and it's not just the last few quarters, it's been going on for the last 3-4 years, it just depends how nimble the supply chain is so that you can pick up some of these market shares.

Nitin Agarwal: Okay. And secondly on the 10 odd product launches we talked about in the current quarter, do we have approvals for all of these products that we are talking about, or there is expected approvals on them?

Pranav Amin: Yes. We launched 3 products in the quarter, in Q1. While there were 9 approvals, we added a couple of day 1 launches which were early part of July so they were not in that quarter. But most of them, we do have approvals. I think out of the 10 that we launched in this quarter, bulk of them we do have, about 7-8 we already have approvals.

Nitin: And lastly, on this Febuxostat, how do you see this market playing out? Is there some complicity associated with the product which will probably keep off some of the other guys, it becoming a very competitive market or this is…How should we see?

Pranav Amin : Febuxostat, was a day one launch. Quite a few have tentative approvals, Mylan is there Sun is there in the market. Some others who got tentative, they may enter anytime. We are not sure; it is interesting right now.

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

Damayanti Kerai: Coming back to U.S. You mentioned there is always some variability in terms of quarterly sales or the kind of one-off supply opportunities which we may get. But if we look at the base business growth, is it prudent to assume that now we are comfortably at 40 million plus kind of quarterly run rate which should place us in a comfortable position for achieving $200 million kind of annualized sales in the U.S. irrespective of some variability in opportunities or prices or others?

Pranav Amin: Last year in the U.S., we did about 158 million. If you look at that, then 40 million should be a baseline. We are not giving any guidance because as you know the U.S. is very dynamic market. Our bigger products, if there is drastic price erosion then they could have a fall. But yes, if you see, this is what we did last year, we are keeping up the average.

Damayanti Kerai: Okay. But on the base side, we are confident about this 20-25 filings per year and around 15 to 20 launches in the fiscal year.

Pranav Amin: Yes, absolutely.

Damayanti Kerai: And sir, what kind of R&D we are allocating for the current fiscal, R&D spend?

Pranav Amin: R&D for this quarter was 140 crores which is what, 14 odd percent.

Damayanti Kerai: Good, so we should assume similar run rate to continue for the reminder period?

Pranav Amin: Yes, on absolute terms, yes.

Damayanti Kerai: Okay. And final question, on India side, we obviously are not yet clear when we will get back on industry level of better growth. But in your observation, if you look at the stocking in the channels and all, how many days of stocking we are keeping right now? Any color on that?

R.K. Baheti: I don't think that there is a single number for this, for product specific, division specific or therapy specific they would be different. But if we have to do an averaging, probably it would be about 45 days.

Damayanti Kerai: Still around 45 days, right? And any like comparative period. One year back or so?

R.K. Baheti: So at the peak pre-GST period, it used to be 60 plus. And then from there onwards it has been coming down, barring the GST period when it dipped completely.

Damayanti Kerai: So you are saying we are right now seeing around 45 days of stock in the channel from your perspective?

R.K. Baheti: Yes, broadly. There is no exact number available with us. But broadly, yes

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

R.K. Baheti: Thank you everyone once again for joining the call. And if you have any further questions, Mitanshu and Ajay would be happy to respond to you. And look forward to talking to you again next quarter. Thank you very much.

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