"Alembic Pharmaceuticals Limited Q4 FY-16 Earnings Conference Call"

April 27, 2016

MANAGEMENT: **MR. PRANAV AMIN – MANAGING DIRECTOR, ALEMBIC PHARMACEUTICALS LIMITED**
MR. SHAUNAK AMIN – MANAGING DIRECTOR, ALEMBIC PHARMACEUTICALS LIMITED
MR. R. K. BAHETI – DIRECTOR-FINANCE & CHIEF FINANCIAL OFFICER, ALEMBIC PHARMACEUTICALS LIMITED
MR. MITANSHU SHAH – VICE PRESIDENT-FINANCE, ALEMBIC PHARMACEUTICALS LIMITED
MR. AJAY DESAI – VICE PRESIDENT-FINANCE, ALEMBIC PHARMACEUTICALS LIMITED

MODERATORS: **MR. DEEPAK MALIK - EDELWEISS SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Alembic Pharmaceuticals Limited Earnings Conference Call hosted by Edelweiss Securities Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. If 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. Deepak Malik from Edelweiss Securities. Thank you and over to you, Mr. Malik.

Deepak Malik: On behalf of Edelweiss I welcome you all to the briefing of Fourth Quarter Results of Alembic Pharmaceuticals. Today from the Management side we have Mr. Pranav Amin –Managing Director; Mr. Shaunak Amin –Managing Director; Mr. R. K. Baheti – Director-Finance & CFO; Mr. Mitanshu Shah – Vice President-Finance; Mr. Ajay Desai – Vice President-Finance. Now I handover the conference to Mr. Baheti for the opening remarks. Over to you, sir.

R K Baheti: Thank you Deepak. Good evening everyone. Welcome all to the Fourth Quarter and Annual Audited Results Conference Call. Since these are annual audited results I will focus more on the annual numbers than the quarterly numbers. So I will take you through the numbers accordingly though most of you would have got the numbers by now. During the year our total revenue grew by 54% to Rs. 3181 crores. EBITDA at Rs. 1,006 crores was 32% of sales. Net profit after tax went up by 154% to Rs. 719 crores. EPS for the year was Rs. 38.16 per share versus Rs. 15.01 for the previous year.

The Board has declared a dividend of Rs. 4 per share of Rs. 2 each that is 200%. It was Rs. 3.5 per share 175% in the previous year. During the quarter the revenue grew by 25% to Rs. 634 crores. EBITDA at Rs. 143 crores is 23% of sales versus 19% in the previous corresponding quarter with a growth of 46%. The net profit after tax grew by 30% to Rs. 91 crores. CAPEX for the year ended 31 March 2016 was Rs. 300 crores in line with our expectation.

I am happy to share with you that appreciating the passion and hard work and the performance of the two business heads Mr. Shaunak Amin and Mr. Pranav Amin both have been elevated by the board as Managing Directors. I will hand over the discussion to Pranav for his insights on International Business.

Pranav Amin: Thank you Mr. Baheti. It was indeed been an outstanding year for the company. But before we get in to the performance I wanted to brief you on some of the operational and strategic matters. There has been lot of speculation by the media especially from the news channels on the FDA inspection at Alembic. We were indeed audited by the USFDA from March 21 to March 25 for formulation facility located at Panelav. They had four 483 observation. This facility was also inspected last year where we received Zero 483 observations. It is not abnormal to receive the 483 observations and we believe that these observations can be addressed within the context of our existing quality systems. We have already submitted our response to the FDA.

We are happy to state that there were no instances of data integrity fraud or lack of management oversight. We are in the process of further strengthening our compliance system and would prefer not to discuss this in today's call.

I would also like to share another strategic shift in the operations.

So far we have focused quite a bit and done a good job of consolidating our positions, sweating assets and execution efficiencies. In addition to that, moving forward, we plan to accelerate our investment on the R&D front. I have been talking about this in the last few quarters and we believe this is the only way for sustainable growth in the international market. As you can see in the ramp up in Q4 itself. We have increased R&D expenditure which has gone up by 152% from Rs. 122 crores in FY15 to Rs. 307 crores in FY16. We are willing to commit upwards of Rs. 450 crores in FY17. The R&D endeavor will be driven both by medium term as well as long term projects.

We are conscious that this may result to a drop in margin and profit in the short term. However, this is an important opportunity for us for the future to give us a sustainable and a huge growth as well. The recent announcement of the JV with Orbicular is a step in that direction.

Coming to the performance. I am happy to share that our US front end operationalized with 11 products launch from the Alembic label. In a short span of time we have setup a systems and established the business. I am confident of an even bigger ramp up in FY17. The quarterly number is already given in the press release and the investor's presentation hence I am not repeating the same. The international business grew by 146% to Rs. 1,462 crores. Growth was not only due to aripiprazole but on the base business as well.

The API business also did exceptionally well this year and grew by 42% to Rs. 525 crores. I will now hand over to Shaunak for his briefing on the branded formulations process.

Shaunak Amin: During the full year the India branded business grew by 13% to Rs. 1104 crores. The speciality division business grew in line with the past trend of 20% and the acute business saw muted performance with only 4% growth. On the back of substantial price reduction by NPPA as well as with fourth quarter being a muted performance with the new ban on some fixed dose combinations that have come in to the market. All in all the year was a fairly muted year for the branded business. I think going forward we will be in a good position to consolidate aggressively and look at ramping up productivity of PCPM for this business with all the expansions that have taken place in the last three years.

So I think going forward aggressive consolidation on our base and ramping up productivities will be key driver for the India business and that is what we are going to be focusing on.

Our Sikkim plant is fully operational including the liquid production lines and the plant will be running to full capacity in 2016-17. Now I can open the floor to Q&A.

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

The first question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Sir, in March quarter other expenses is Rs. 151 crores in compared to December Rs. 146 crores and R&D expense we did Rs. 111 crores in compared to Rs. 70 crores. So while the turnover has been down but the expenses are higher side. Any specific reason, sir?

R K Baheti: So turnover is down primarily because after doing relatively better business in Ari, there was a drop which was on expected lines,so that is the reason turnover was down. R&D, as Pranav had already said in the opening statement that we are making investments **b**oth on the CAPEX and revenue part of R&D. So you can broadly take the current quarter as a base run rate now for FY16-17. And operational expenses there is a minor changes I mean I would have no specific reason on the increase of Rs. 4 crores

Ravi Naredi: So this March quarter will be base for 16-17 and we must expect 30% to 35% growth in next year too?

R K Baheti: No, I said in context R&D expense.

Ravi Naredi: And sir, in last con call I had asked the question and you have mentioned 25% to 30% of clear profit will be our dividend policy. So would you like to comment on this?

R K Baheti: No, I said this has been the trend of the company in the past years we have gradually stepped up the dividend. The dividend payout ratio was 17%- 18% which was stepped up to 27%, 28%. Company also recognizes that this is an exceptional year for profit I mean this is not the base profit and when we get into the call we will also discuss our R&D plans and the CAPEXs. So the Board decided to conserve resources. Look for more stable year for the payout ratio comparison.

Ravi Naredi: But the dividend basically come down to 11% to 12% of net profit. So you do not think it will be very less to shareholders?

Pranav Amin: So actually it really depends what the management feels. This is was an exceptional year due to the aripiprazole launch. This is the one off opportunity. That is why we have done it. Having said that moving forward we have said in the past and I said today that R&D is going to be going up. We feel we are also doing some capital expenditure though that has some reasons why we kept the payout ratio little ratio this year compared to last year. And in absolute terms even though it has gone up. But that is the ratio it is lower this year.

Ravi Naredi: And sir, last the employee cost has been come down to Rs. 97 crores in compared to Rs. 117 crores in December. So any specific reasons Rs. 20 crores less in this quarter?

Mitanshu Shah: There were some specific payouts in December quarter basically and these were payouts based on the performances. So this is more representative of the quarterly cost.

Ravi Naredi: Sir, thank you very much for increasing this R&D expenses.

Moderator: Thank you. Our next question is from the line of Ankit Gupta as an individual investor. Please go ahead.

Ankit Gupta: Sir, just wanted to ask you like over the past two quarters we have started filling for DMF for oncology drugs**.** So what are the long term plans of the company for this segment and how do we see it going over the next two years?

Pranav Amin: Yes, I think oncology is a focus area for the company. As you are aware we mentioned in the last few calls that we are investing in developing onco products. We are setting up a plant for injectables, onco products as well as orals solids. The first of the filings should happen this year and the injectables ones once the facility gets there.

Ankit Gupta: But currently like will be the starting the new plant or that will be existing formulation plant only?

Pranav Amin: New facilities both of them are new facilities.

Ankit Gupta: And like how do we see this scaling up going forward because I think lot of drugs over the next 6, 7 years expiring in onco space?

Shaunak Amin: Yes, they are on a development phase right now. So they are progressing at a fairly decent pace of progress right now.

Ankit Gupta: And like on our ANDA filing can you also share with us the color how about the complexity of the ANDA filings during this year?

Pranav Amin: See actually we do not share our product wise complexity. But see now as we mentioned strategically we are doing Oral solids, with Orbicular we are going to do Derm. We have also expressed an interest in injectables and oncology. So these are the four areas right now that we are focusing on. For this year we have filed 8 ANDAs.

Ankit Gupta: Yes, one more thing on the we have talked about the contract manufacturing in our presentation. So like just wanted to check with you how like what is the management view on that? I think that is primarily to de-risk the existing facility because currently we just have one USFDA approved formulation facility which is the facility is the management is thinking?

Pranav Amin: No, actually we never mentioned about contract manufacturing in the past and we are not doing anything right now.

Ankit Gupta: Okay so all of our like future also do not see anything of over the contract manufacturing?

Pranav Amin: No.

R K Baheti: it seems you have mixed up the thing. We do some outsourcing of products for the domestic business.

Ankit Gupta: Yes okay, sir but US is 100% now currently?

Pranav Amin: Yes, international generics with all our own captive plant.

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

Nimesh Mehta: So Baheti sir, if you can just tell us this gross margin has been substantially very high and specifically if I look at the material cost it has been significantly lower even on a year-on-year comparison and I think it is lower since many quarters. I mean this time it is much lower than many other quarters. Any specific reason for that and can we consider it as a susintable run rate?

R K Baheti: Yes sure. I am sure you are happy about it. The reason is pretty obvious. When you have products like Ari gross margins would go up. Even with price erosions the margins are decent. Even otherwise and I think we have discussed this in the past that once we go front end of course this time the value is too low but once we go front end the margins at GC level will go up and the operating cost will go up also.

Nimesh Mehta: But sir, specifically if you look at it is about Rs. 120 crores of material cost we are seeing at and this kind of cost this low cost we have never incurred in the last 8, 9 or probably 15, 16 quarter? That is very surprising how do we explain that? And if I put it in percentage of sales I think our gross margin when there was no Abilify it used to be about 65%, 66%?

R K Baheti : So now it would be about if you look at on an overall year basis it would be about 75%, 76%?

Nimesh Mehta But this quarter if I look at it in an 80%

Mitanshu Shah: Nimesh, see basically this is also to do with the product mix. And product mix as well as the business mix actually. So when we say business mix you have this deferred profit shares coming to the organization basically. So sometimes you will have a scenario where you will have a profit share coming and no corresponding cost associated with that. So when that scenario happens once in a quarter you will have these kind of scenario.

Nimesh Mehta: So basically profit of Abilify is what we have got this quarter which is the lower sales?

Mitanshu Shah: We can discuss this offline as well if you want more details. But this is the broader term why this looks like this.

Nimesh Mehta: The number are too big so that is only. Anyway I will take it offline. The other question I wanted to know is about this inspection and nothing on the 483. I just wanted to know this was the pre-approval inspection am I correct and may be triggered because Warfarin?

PranavAmin: So this was the inspection we are not saying what triggered, we are just saying the FDA came, they came last year and we have received four 483s.

Nimesh Mehta: So putting the question directly. Are we expecting Warfarin approval any sooner?

Pranav Amin: Our partner is in discussion with FDA so I think it should happen soon I am assuming.

Nimesh Mehta: It should happen in FY17 is that a fair understanding?

Pranav Amin: Listen it is a partner's file it is normally for NDAs. So let us see how that goes.

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

Kumar Saurabh: Again a dwelling on the margins. So how should we look at our margins going forward given the fact that our R&D as percentage of sales should be one of the highest in the industry whereas Abilify sales should normalize in FY17? So how are our base business margins looking at and how will it look like with the higher R&D as a percentage of sales?

R K Baheti: So as Pranav just now explained the R&D cost in absolute terms as well as in percentage of sales is going to go up. We are not amongst the highest in the industry. The bigger players spend anything between 15% and 20% of their sales on R&D. Ours on an annual basis is still low though in last quarter there was bunching of R&D expenses and it looks high. Even if I look at 2016-17 numbers what Pranav was talking about we would still be in the range of 14% to 15% of R&D costs in the percentage of sales. And it would definitely have an impact on margin. You are right and Pranav has said in his opening statement, with the Ari normalizing, R&D cost going up so there will be pressure on margin for some time.

Kumar Saurabh: And sir, during last quarter also I think we mentioned that our base business margin continues to improve. Does that trend continue?

R.K.Baheti : On a pre-R&D basis that trend continues. There were options which now not many companies are using but I remember sometime back companies were capitalizing or deferring part of R&D expense. We have been maintaining a view that it is not so great for a long term investor. It is not so great idea to really defer R&D expense. So we have taken an option of charging it off.

Kumar Saurabh: Completely in sync with you on that. So sir, in terms of you mentioned earlier during the call that you will focusing more on derma, injectables these kind of products. So sir, in terms of number of filings how should we look at FY17 and FY18?

Pranav Amin: So you are saying a huge ramp up in the R&D cost, ANDA filing that we have got are far lower than what we had internally set a target for and there are various reasons for it. I mean last year we went to a six months' stability that is what took the changes here we had some more failures as we went up the complex route. But Yes, definitely I think you should see a ramp up in the filings as well in FY17 and FY18.

Kumar Saurabh: So are we giving any kind of numbers?

Pranav Amin: No, we have not given any guidance for any numbers.

Moderator: Thank you. Our next question is from the line of Meeta Shetty from Kotak Securities. Please go ahead.

Meeta Shetty: So just some clarity on the domestic side. I believe that we will have to take a price decrease this year starting April. So have you already taken that prices impact?

Shaunak Amin: I think that whatever marginal price decrease we had to take has been factored in to April.

Meeta Shetty: So is that been taken across NLEM portfolio or is it only where the prices?

Shaunak Amin: 2.5% if I remember correct across the entire NLEM portfolio.

Meeta Shetty: And post this new the FDC drugs coming in where does our portfolio stand as an NLEM percentage?

R K Baheti: No, both are different. NLEM and FDC both are different issues. I mean I do not think they are related to each other.

Meeta Shetty: No, so what is our NLEM percentage as of now?

Shaunak Amin: Less than 20% as Althrocin has now moved out of NELM.

R K Baheti: Althrocin has moved out but we are still not being allowed the price increase which products out of NLEM should have been allowed.

Meeta Shetty: So what is the impact of the FDC on our portfolio I mean how many drugs have been impacted and what will be that?

R K Baheti: There is an impact but I can broadly say it is not significant in our overall context of things.

Meeta Shetty: But how many of our drugs have come into the net?

Shaunak Amin: About 4 products.

R K Baheti: Actually number wise Shaunak, little more. Four are slightly major.

Meeta Shetty: And secondly on the R&D expense I understand that we were always talking about it increasing. But until last year we were not talking about this high number and as far as our pipeline was concerned we were always focused in talking about injectables and certain company's products. So what has changed for us to take it up with nearly 50% higher from this year's base?

Pranav Amin: Last year we did not talk about any number. So this year at least what we are doing is that proactively giving a number out. Now if we see in terms of projects what we are doing like multiple fold in to the number of projects. And that is what is leading to an increase of this. The part to it would be because of the injectables, part to it because of Derm, part of it oral solids, part of it onco and oral solids.

R K Baheti: Also in fact we explained last time we have created a new center at Hyderabad that would be expanded. We are doing more outsourced R&D projects. So some of this qualitative issues we addressed.

Shaunak Amin: Now I think I will add to that. I think from an R&D point of view we were always clear that there were specific opportunities available in terms of product expiries. I think the slight change in our position has been more driven by our ability to see the product expiry landscape and look it little more aggressively than we were in the past in terms of what products we can participate in. That has been a key driver.

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

Mahesh Sarda: Sir, on R&D again. Last year we said that we will increase the R&D while it is encouraging to see sharp increase but just the quantum has further increased in this quarter from Rs. 70 crores of run rate we have gone to Rs. 110 crores. So is it because of all these JV or what is leading to such kind of sharp increase?

Pranav Amin: Actually the increase has been gradually happening from the start of the year and from last year. What happens is now we will hit this level you saw the Rs. 100 crores or Rs. 110 crores or Rs. 117 crores in this quarter. We expect going forward this is where we will grow from. Hence I gave a guidance of about Rs. 450 crores plus for next year. It is not and as I said it is on all fore fronts we have some out licensed projects which are injectable we have Derm which is starting up. We have two centers on the regular oral products.

Mahesh Sarda: And just wanted to understand this Rs. 450 crores when we say this run rate over the long term may be three years we see this increasing on an yearly basis or stabilizing at these levels?

R.K.Baheti: I think it is very difficult to say, Mahesh. It depends on what kind of success we will get and how the R&D program progresses. And it is not an absolute number. What Pranav is giving is indication is that we are prepared to commit ourselves to higher R&D cost.

Mahesh Sarda: And in terms of filing we are not seeing that kind of ramp up which R&D would lead to you. You said that there were a couple of large and you are getting in to complex area . So when do we see this in terms of filing increasing?

Pranav Amin: Yes, you should see a ramp up in the filing. Because as I mentioned last year was a little lower than our internal expectation. So may be at the start of the year I said 10 to 12 at least. This year I think definitely you will see ramp up in our filing as well.

Mahesh Sarda: And sir, on the front end I just saw the press release saying that I think about 11 products are already in the front ended team. So this is quite a sharp ramp up from the expectation and in a very short duration. So where do we see this portfolio moving?

Pranav Amin: I think what you have to see is Mahesh is in terms of the products that we have launched it is not 11 new products. There are some new products and the rest all products which we had earlier in the market through our partners. Some we have taken back and some we are putting them onwards.

Mahesh Sarda: Sir, if I can take liberty on this margins?

Pranav Amin: It likes to ramp up so as I said whatever is not tied up and what approves we get which is about 95% to 90% of our products will be through our own front end.

Moderator: Thank you. Our next question is from the line of Abhinav Ganesan from Canara Bank Securities. Please go ahead.

Abhinav Ganesan: My first question is sir, what would be your run rate on Aripiprazole going forward, sir? Because there are some competition coming up with a couple of players launching in that?

Pranav Amin: So we have not specifically given a number for Aripiprazole. However, having said that this quarter was lower because see we showed a quarter later because of our partners spinning out our profit share. So it is definitely lower than last sequential quarter. That is because the partner's market share which was about 8% or so had gone down to 4% for most of the last quarter. Secondly there was also new competition coming in as you mentioned in the last quarter.

Abhinav Ganesan: Sir, my second question would be when would Sikkim be completely operational?

R K Baheti: Sikkim is already operational fully.

Moderator: Thank you. Our next question is from the line of Shriram Rathi from ICICI Securities. Please go ahead.

Shriram Rathi: Just one thing can you provide me the breakup of revenue into US and Europe for this quarter and for the full year?

R. K.Baheti: We generally we do not give break up but you can take about 85% of the revenues are from US and rest is from rest of world.

Shriram Rathi: And second thing. Since now we have cash balance of around Rs. 450 crores in the balance sheet since R&D expenses will be going up. So on the CAPEX side we will be incurring similar kind of happening this year also or it will come down significantly?

R. K.Baheti: Actually there are large CAPEX plans. We are building our new facility for onco injectables, onco oral tablets that I have already mentioned that. We are expanding our API capacities also. So Yes, I think the CAPEX plan for the coming year also is quite aggressive. Having said that lot of this would depend on how R&D programs progresses, what kind of filing calendar we have for ourselves, what kind of completion of facility we will need. So we are working on that. Some of the projects have already started, some of the projects are still on drawing board.

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

Nishit Sanghvi: Just on this Orbicular JV that we have done for dermatology, could you share some more details on how many products do we expect to file and what are our plans you have mentioned multiple marketed theme. In EU and US what will be the portfolio that we are looking at some sort of additional information would be helpful

Pranav Amin: What we have done for the JV ALEOR is we have scanned entire derms and we picked 40 projects right now that we want to do. The 40 is what we shortlisted and so we will gradually start working on them. Out of that 10-15 already in advanced stage and we will be filing. The total market value of these products all put together it is about 5 billion.

Nishit Sanghvi: So 10, 15 they will be in the filing phase right?

Pranav Amin: No, actually they are in the advanced stage of development.

Nishit Sanghvi: So can you at least highlight on the USFDA filings would be 10 to 15 over the next two years?

Pranav Amin: I am talking about only US right now because predominately our focus area is US as it all other R&D so I am looking at more on the US. Then gradually we will look at expanding to other territories. But so far all our attention is on the US only right now.

Nishit Sanghvi: So what proportion are already genericized and what proportion are yet to be genericized?

Pranav Amin: I will not share that but the total market size of these innovators and all about Rs. 5 billion.

Nishit Sanghvi: And we can probably see these being launched by FY19-FY18 second half is it a right assumption?

Pranav Amin: See I think probably a little later because you have to build the facility, once you build the facility then you go about doing the batches. So it will be a little longer in my opinion.

Nishit Sanghvi: And sir, just last one on this regulatory part. So the facility was inspected it was second time. So API and formulations facility are both housed in Panelav. So your how does it work? So USFDA inspects both together?

Pranav Amin: No, they are both separate plants. So what was audited was the formulation facility not the API.

Nishit Sanghvi: So whenever 483 is given it is primarily for formulation plant, they come separately for both of them, right?

Pranav Amin: Yes.

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

Rahul Sharma: Just wanted clarity on are you looking at gross margins reverting back to the stage which was there prior to Abilify over a period of time there will be incremental step ups which you are looking at?

R K Baheti: I believe there will be some improvement from the pre-Abilify levels. But then it is surely go down from the current levels.

Rahul Sharma: And sir, another thing was on the CAPEX front should we look at in excess of Rs. 300 crores for FY17 and FY18?

R K Baheti: FY18 I do not know I mean that is you guys do five-year projections all that, but for FY17 Yes, the CAPEX should be far higher than the current year.

Rahul Sharma: I did not get it, sir can you?

R K Baheti: It would be much higher than Rs. 300 crores.

Rahul Sharma: And sir, on this JV will require how much CAPEX which will be there sir, span over about two years?

R K Baheti: JV would need as far as CAPEX is concerned I think it would not be very high, it would be between Rs. 80 crores to Rs. 100 crores.

Moderator: Thank you. Our next question is from the line of Mayur Parkeria from Wealth Managers. Please go ahead.

Mayur Parkeria: Sir, any update on Namenda and Celecoxib at least in terms of how many players are there and what kind of market share?

Pranav Amin: I think that is in the public domain you can just get this data from the public domain. We have already launched both the products.

Mayur Parkeria: And how it has been going?

Pranav Amin: Memantine there are lot of people so we have a very small market share and Celecoxib business we launched later than the others. So not a huge market share.

Mayur Parkeria: Sir, again on the USFDA observations just one understanding which I have the September 2015 we had the same facility inspected what was the reason again in six months it got inspected because normally otherwise in such a short period it is not there?

Pranav Amin: Yes, I mean with FDA you never know. Sometimes they do not come for four years or sometimes they come after one year.

Mayur Parkeria: But would you like to highlight any?

R K Baheti: It was not inspected in September '15, it was inspected in 2014-2015.

Mayur Parkeria: I just wanted to know like would you like to highlight any point which from understanding perspective is why it could be so short and how should we look at it?

Pranav Amin: Actually that is left to USFDA where one plant which is not been audited for four years and one which was audited after one year. So I really cannot share anything on that.

Mayur Parkeria: And what about USFDA inspection due for this API plant?

Pranav Amin: As I said it has not been inspected for over three years now.

Mayur Parkeria: So we expect this in this year?

Pranav Amin: I hope so.

Mayur Parkeria: And sir, last question from my side. Sir, in FY14 I mean two years back you had roughly guided for a 30%, 35% growth in the international generics and it has actually played out better than that probably. I am not asking for a next year but with such a high base how do we see next two-three years panning out in terms of the growth from the international generics on a broad basis?

R K Baheti: Over a longer curve I think 30% CAGR is still feasible on our international generics.

Mayur Parkeria: And that longer period you would say 5 years?

R K Baheti: Yes, I mean I think by the time our R&D investments will start showing results. So you are right.

Mayur Parkeria: Okay but that growth will be little backhanded?

R K Baheti: Growth should be may be back ended from this base.

Mayur Parkeria: Yes, from this base it will be back ended a little.

R K Baheti: But again if you take two-year-old base you take a base of '14 or '13 then I think on a CAGR number we were still be around this number.

Moderator: Thank you. We have the next question from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

Nikhil Upadhyay: On the US business in the base is we have the move Abilify what is the kind of growth which we have received here if you can share the number?

Pranav Amin: We have not shared this number. All I said that that business has also grown. As we have new launches coming in we have not actually disclosed what kind of growth.

Nikhil Upadhyay: Was there significant pricing pressure there because according to my calculation if I remove some part of Abilify the business was flattish or a single digit type of a growth number. So that is why I was just trying to understand.

Pranav Amin: As I said we have not disclosed anything on the growth but the base business did grow quite well.

Nikhil Upadhyay: And secondly on the JV which we have done sir, if you can just highlight some bit more on whether the company was the JV partners are already working on these 10, 15 products which we are discussing. So what is the type of capabilities they have developed over this period and what made you look at them and not directly going for your own development? Because we already have cash and we are also investing?

Pranav Amin: Yes, you are right. See the first underlying principle is we want to enter some segments and we want to increase the number of projects that we have the US market. So that was the underlying principle. These guys you asked if they are developed so they have a good experience they have developed products in the past. As I mentioned about 14-15 products are already in advance stage of development. So they have developed those already. We are doing this if we try to doing it internally we do not have the skill sets currently. Going about building the skillsets, building the R&D, building the competencies it will take us at least 3 to 4 years. Instead we thought this is a good way of quickly ramping up and getting into the market with these products.

Nikhil Upadhyay: So just a continuation over this, sir. When we are saying that we would be investing Rs. 400 crores over R&D and as you said that it takes time over 1 ½ -2 years to develop the capability. So increasing the amount of investment in R&D how does that help us? So if you can just share that thought process of yours?

Pranav Amin: Okay do not look at it as increasing the investment. Yes, we are doing a lot more projects in R&D. So earlier we were working on 30 projects, now we are working a lot more.

Nikhil Upadhyay: So the quantum of projects we are significantly increasing?

Pranav Amin: Yes.

R K Baheti: Including projects which we are developing in-house.

Nikhil Upadhyay: And would we be looking at similar JVs if we get opportunities or in onco and injectables space or?

Pranav Amin: So this is a model that has worked for us in some other areas as well as you know we have Rhizen earlier on a drug discovery so it is a model that works for us. This ALEOR is a second one and we are open to more JVs like this and we will probably do more. We find partners who have the capability and the complementary skillsets.

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

Nimesh Mehta: Just on the US business if you can just let us know are we still expecting 8 to 10 approvals in FY17 and after that it must have niche which we still carry on?

Pranav Amin: We have got 9 approvals in FY16 and going forward as I said anywhere between 6 to 8, 6 to 9 every year. So I think we will still be in the same range for the next year as well for FY17 as well.

Nimesh Mehta: And on the niche one?

Pranav Amin: It is tough to say if you see our pipeline I had disclosed that from the pipeline over half of what is pending is a Para-IV or FTF if I am not mistaken.

Nimesh Mehta: And the other question, like what is the reason for such a sharp increase in the API sales of this product?

Pranav Amin: Yes, I think API is sometimes it goes quarter wise also if someone has a shortage or if there are some opportunities in the market. Sometimes customers like to buy at certain quarters so that is it. I think we have won couple of customers who had a big demand may be they got market shares and that is why have ramped up the API sales.

Nimesh Mehta: Will this sustain or this is more lumpy?

Pranav Amin: So as I mentioned there is no guidance on API. We have just some old products. If you see the number of projects we are doing, we are not adding as many on the API front as compared to the formulations. So I do not expect the API business to grow by huge amount. As we said about like 10% or less if I am not mistaken

Nimesh Mehta: And if I may also add one on the domestic side. I mean Shaunak you mentioned that we are trying to increase the productivity. So what exactly because we have been trying this since I think many years now and also we have increased the salesforce also so how do we look at it? How are we going to deal with it differently or just wanted to understand on that?

Shaunak Amin: I did not understand your question.

Nimesh Mehta: So we have been trying to increase the productivity I think in the last year as well and we also increased our salesforce. So are we going to take some different step this year to increase the productivity?

Shaunak Amin: I think whatever referring to is that the last three years we have gone to a substantial expansion on the field force. Every time you add additional field force your productivity comes down in the short term. Whatever getting add is that in terms of field force expansion I think we do not foresee anything substantial happening over the next couple of years which in turn means we get an opportunity now to aggressively build productivity with the field force.

Nimesh Mehta: Yes, but in the last whatever years we have still been looking at a growth of only 12% to 13% at an aggregate basis. So from that perspective I am assuming that the productivity increase has not happened yet?

Shaunak Amin: We have added 1000-1200 people in the field which means that 30% dilution over what we were. Every time you add people in the field your productivity goes down because in the near term you are adding people and it take some time for the productivity to start building up. All I was trying to refer to is that last three years we have done substantial field force expansion. Going forward we do not see any more field force expansions or new divisions or new verticals to be launched which in turn means we want to consolidate and build productivity with the existing set of field force people. That is all I was getting at.

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

Kumar Saurabh: Sir, in your presentation where you have mentioned that focus will be on Day-1 launches going forward. So sir, in terms of your ramp up in R&D expense how should we look at it? Can you throw some light on that will it be more on derma, basically we will be focusing more on FTF going forward?

Pranav Amin: Derma is going to be launched sooon. So whatever we file which is about 28-odd pending ANDAs that is what you will see launched in the next year, two years or so.

Kumar Saurabh: And sir, in terms of R&D cost going forward beyond FY17 so how should we like rationalize that if we are looking at it? Is it like we have it in terms of some absolute number that we look at or do we look at like as a percentage of sales we have a threshold limit that we will not go beyond this or it is like the ideas would come through and we can extend this R&D cost even beyond these levels?

Pravan Amin: So as Mr. Baheti said it is little tougher to say. I would look at it as an absolute number to see where we are and how you go about doing it. Because this is what I said upwards of Rs. 450 crores is what we are prepared to spend. Now as was everything you might not get to that you might exceed it also. So we just wanted to track it and see how it goes. Because next year let us see how the next four quarters so we will get a better idea.

R. K. Baheti: The percentage of sales is just a derived formula and the R&D program is not driven by a targeted percentage of sales. It is in absolute number.

Kumar Saurabh: And sir, employee cost during this quarter has again gone back to the FY15 levels I will suggest. So is this the normalized level which we should look at going forward or?

R K Baheti: I think if you look at the whole year this should be the yearly number that is our normalized number. But I must also say as we build plants, as we reach towards the completion of the plant again the employee cost will go up as we man those plants to create the proper staffing**.**

Kumar Saurabh: And sir, in terms of your quarterly sales for international business if we look at around Rs. 150 crores kind of run rate was your pre-Abilify era roughly around that and we have done around Rs. 190 crores for our international business during this quarter. Although we have not given any kind of number in terms of percentage growth if you can talk about how our base business has grown?

R K Baheti: I think pre-Abilify quarterly run rate I do not think Rs. 150 crores was the right number. I think it was Rs. 110 crores to Rs. 120 crores we had a base business of about Rs. 450 crores to Rs. 500 crores before Abilify.

Kumar Saurabh: No, I am not talking about US sales I am not talking about international business as a whole? I am looking at 2Q or 3Q of FY15 numbers, Rs. 142 crores and Rs. 147 crores what we did in 2Q of FY15 and 3Q of FY15?

R K Baheti: So that was in last quarter number that was not a quarterly based number. So they have been growing.

Kumar Saurabh: Okay let me put it this way. Is base business growing in double-digits high-teens or something like that or single digits?

R K Baheti: We cannot share these numbers so I cannot give you those specific breakups.

Moderator: Thank you. Our next question is from the line of Mayur Parkeria from Wealth Managers. Please go ahead.

Mayur Parkeria: Actually partly it was mentioned right now but sir, when we are looking at new projects and when we are looking at the oncology or the other injectables and that segment speciality will we continue to focus on our F-to-F filing and Para-IV filing or how will it be at a strategic level how we will take that?

Pranav Amin: Yes, as we are increasing projects we will do all four areas as I mentioned. Injectables, derm, oral solids as well as onco.

Mayur Parkeria: Yes, in terms of opportunity we will continue to focus on being a first to file?

Pranav Amin: Yes, if we see that there are some opportunities in FTF we will continue, it is not that we are doing one at the cost of the other.

R. K. Baheti: To simply put it, we will be filing both. We will be filing for FTF opportunity and we will also be filing regular Para-III products.

Mayur Parkeria: Sir, I hope we will get more clarity as we go ahead and as you move on the projects on these?

R. K. Baheti: Sure.

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

Preeti Arora: Most of my questions have been answered. I just had one question. So is it safe to assume that the current filings being done are not in the onco-derm injectable space because you do not have a facility right now? And we would only see step up in filings once the facility is up and running because you clearly outlined that these are your three focus areas?

Pranav Amin: Yes, that is correct.

Preeti Arora: And my second question is actually partly answered but if I just look sequentially I am not very clear why gross margin is up so sharply probably I missed it I joined the call a bit late?

R K Baheti: We explained that because of product mix and it is because of our gross profit share numbers which comes and there is no corresponding processes.

Preeti Arora: And so your market share actually Abilify dipped to 6%-odd and now it is up again to 8%, 9%. So that extra delta should actually reflect next quarter as well, right?

R K Baheti: Yes.

Preeti Arora: Okay so to that extent gross margin will be healthy next quarter as well, am I looking at the right one?

Pranav Amin: Yes and no because one yes, see actually to be honest what we are showing is the Q3 sales of Aripiprazole where the market share was not just….in fact even lower for most of it, it is about 4% or so. I mean the subsequent pricing pressure in the market even after that. While the market share has gone up but there have been some pricing pressure as well.

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

Nishit Sanghvi: I am sorry I would have missed this question earlier but this QoQ decline in the international generics business is it all attributable to Abilify?

R K Baheti: Largely.

Nishit Sanghvi: But the base business is continues to fixed flat QoQ or may be growing QoQ, is it right?

Pranav Amin: Actually we have not really focused on QoQ much. If you see on an annual basis the base business has grown as well.

Nishit Sanghvi: And on these 11 products now these 11 products that we have taken through our own frontend they continue to be marketed by the partner as well or we are exclusively marketing them now?

Pranav Amin: To answer your question. Some are with the partner as well and some we have taken back and we are doing exclusively.

Nishit Sanghvi: Basically the ultimate reason would be because the partners will not be doing just enough justice and hence we have taken this and we could see incremental revenues from these products in the coming quarters? Is it the right way to look at it?

Pranav Amin: Actually both. It really depends partner-to-partner and some partners where we took it away because we were not happy. Some are doing an okay job so we have left the product there. And the third aspect is sometimes we have got good relationship with some customers they like to do business with us. So we have done it where we do not try not to step on each other's doors in trying to get additional business.

Nishit Sanghvi: And just one question on this market share. Earlier you probably you alluded to the fact that we have do not got the market share in Namenda and Celebrex. So what do you think would be the reason we have launched it through our own frontend. So what would be the reason we have not been able to garner share there?

Pranav Amin: So actually I have also said in the past actually it is a very simple situation of demand and supply. If you see the number of ANDA filings and number of people in the market. If I really want to go get market share I have to drop prices to a level which I do not think they are worth If you see opportunities will pick up market share but at this point we are not chasing market share for the sake of market share.

Moderator: Thank you. Our next question is from the line of Ashish Thavkar from Antique Stock Broking. Please go ahead.

Ashish Thavkar: Sir, on the EBITDA margins if I have a look at FY14 and FY15 numbers you were roughly in the range of 19% to 20% that was the period when Abilify was not there. So assuming the kind of R&D investments we will be doing going forward it would be very helpful if you could give some color as to where we would be we would be below that 20% EBITDA margin mark or we will be maintaining that number?

R K Baheti: Yes, your question is very valid but it is early days for us to respond. The only reason we have made today is that the R&D cost as a percentage of sales is probably go up from 5%, 6% what we used to have in FY14-15 period to may be about 12%, 15% dependent on how R&D program goes. Now, pre-R&D ex-Abilify if the margins are say 25% at that time probably they will improve. But post-R&D there will be a pressure on margins.

Ashish Thavkar: So to that extent any guidance on the tax front since we will be having a huge R&D coming in?

R K Baheti: I think we will continue to be on MAT so probably about 20%.

Moderator: Sir, just handing over for closing as there are no further questions. Ladies and gentlemen, as there are no further questions I would now like to hand the conference over to the management for their closing comments. Thank you and over to you, sir.

R K Baheti: Thank you very much. Thank you all the participants for being with us and for being participating and raising valid questions and listening to us and hope to interact with you again next quarter. Thank you very much.

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