"Alembic Pharmaceuticals Limited Q4 FY19/Annual Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Alembic Pharmaceuticals Limited Conference Call to discuss company's Q4 FY19/annual financial results. From the Management, we have with us today; Mr. Pranav Amin – Managing Director; Mr. R. K. Baheti – Director-Finance & CFO; Mr. Mitanshu Shah – Head - 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 '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. R. K. Baheti – Director –Finance & CFO. Thank you and over to you sir.

R. K. Baheti: Thank you very much. Good afternoon everyone. Thank you once again for joining the IV quarter/annual results conference call. I am sure most of you would have received our results by now; however, let me briefly take you through the numbers for the quarter and year ended 31st March 2019.

During the quarter, total revenue grew by 9% to 927 crores. EBITDA at 174 crore is 19% of sales. Pre-R&D EBITDA is about 31% of sales. The net profit after tax went up by 32% to 124 crores.

EPS for the quarter is 6.58 per share versus 4.98 in the corresponding quarter last year.

During the full year 18-19, total revenue grew by 26% to 3935 crores. EBITDA at 875 crores is 22% of sales. Pre-R&D EBITDA is much higher at 34% of the sales. The net profit after tax is up by 42% to 584 crores.

EPS for the full year is Rs. 31 per share versus Rs. 21.89 in the previous year.

CAPEX for the year including capital advances are 626 crores.

Cumulative CAPEX on ongoing projects under CWIP, including preoperative is about 1123 crores.

In addition to this, we have also provided financial assistance to our JV subsidiary, Aleor. For the year, the number is 207 crores and cumulatively till date is about 473 crores.

Part of above capex and investment in Aleor is funded through internal accruals and part through borrowings.

Our gross borrowings in the consolidated balance sheet is Rs. 1129 crores as on 31st March 2019 and out of which, company has about 200 crores of cash on hand, so net borrowing is approximately 927 crores.

The debt equity ratio at gross level is 0.42 and at net level is little lower at 0.34.

The Board has today recommended a dividend of Rs. 5.50 paisa per share and you are aware that par value is Rs. 2, so the dividend percentage works out to be 275% for 2018-19 versus Rs. 4 per share that is 200% for the previous year. Dividend payout works out to be little lower 20% in the current year similar as in the last year.

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

Pranav Amin: Thank you Mr. Baheti. It was a good quarter for the international generics business.

GMP Compliance continues to remain a focus area for us and EIR in place for all our US FDA facilities.

We filed 14 ANDAs during the quarter which takes us to 29 filings for the full year.

Our R&D expense in the quarter was 120 crores which was approximately 13% of sales.

For the full year, we spent just about 498 crores which is 13% of sales.

Our projects are moving along well.

The Aleor Dermaceuticals facility was successfully audited.

Our first oncology oral solid dosage product was filed

The oncology injectable as well as the general injectable facilities- the exhibit batches are planned in the first half of this financial year.

The new oral solid dosage facility in Jarod, we will also see exhibit batches on the first half of this financial year.

We received 16 ANDA approvals during the year and cumulatively have 89 ANDA approvals.

We launched 3 products during the quarter and 9 new products during the year. We plan to launch around 10 products in Q1 itself of FY20.

In terms of financials, the international formulation business grew 12% to 395 crores for the quarter and 48% to 1782 crores for the year.

The US generics grew by 15% to USD 41 million for the quarter and by 36% to USD 180 million for the year.

The Rest Of the World generics grew by 32% to 82 crores for the quarter and 73% to 495 crores for the year.

The India formulation business sales is almost flat at 302 crores in the quarter and for the year, it grew by 9% to 1382 crores.

Specialty segments grew by 2% in the current quarter and grew by 11% during the year.

I now open the floor for question and answer.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Bharat Celly from Equirus Securities. Please go ahead.

Bharat Celly: Sir, I just wanted to understand how our gross margins have improved over quarter-on-quarter, despite domestic revenues being weak? Or what has led to the gross margin improvement during the quarter particularly?

R. K. Baheti: It is largely because of product mix and in the domestic business, the sales looks flat, but we have maintained a better profitability.

Bharat Celly: And what was the reason for the flattish growth and domestic business? Is there anything particularly happening in the domestic business?

R. K. Baheti: Not really in fact. We are also little surprised. Now, why I made this statement is that on all external parameters we are doing well. Look at ORG IMS number, look at AWACS number, look at prescription, we are doing pretty well, much better than the participated market, but the primary is not really picking up. One possible reason is that some kind of inventory control at the trade channel level where they do not wish to block their capital. We need to study this in little greater detail along with other companies' performance parameters once the results are out.

Bharat Celly: Where do we stand in terms of the number of inventory days currently, I mean channel days for the domestic market, how much does it spend?

R. K. Baheti: I think it should be currently about around 35-40 days, may be plus minus couple of days. It used to be 60 days at one time, but now they are really squeezing the inventory.

Bharat Celly: And sir, last one on the US business, we were expecting Valsartan contribution to decrease significantly over the last quarter, how are our US revenues have improved, so can we say in the base now, valsartan has come down, but there are other products which are helping us? Can you give some colour on that regards?

Pranav Amin: Valsartan, we had the big jump in Q2 of this year, some part in Q3, so that has come down with more competition in the market in Q4. However, there is lot of disruption in supplies, though it is not an opportunity like it was earlier. There is still some disruption in supplies, so while we do see opportunities in other sartans, some other products and that is kind of the reason, but what valsartan is on Q2, it has come down drastically.

Bharat Celly: So during this quarter, whatever sequentially the increase we have seen that is mainly because of new products?

Pranav Amin: Yes.

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

Tushar Manudhane Just on this recent JV which you have done with respect to China, I would like to understand given that Sinepharm also has its own well established manufacturing base, in terms of API formulation, so how does the equation gels in terms of the business for Alembic Pharma?

MItanshu Shah: While they have their set of products, they are looking for the space which is available for them, the products which they don't have and they are largely focused upon the traditional Chinese medicines, actually. They have a small allopathic division, but the product that JV have identified are the products where they are not present.

Tushar Manudhane: So for those products, how big would be the market size approximately?

Mitanshu Shah: That is not done at this point in time.

Tushar Manudhane: And how much do you put in form of CAPEX going forward?

Mitanshu Shah: Right now, there will not be any CAPEX except for formation of joint venture company. The structure of JV is that these products would be manufactured here from India and shifted to China.

Tushar Manudhane: And lastly on the ROW sales, so year-on-year there is a good amount of growth, but sequentially there is considerable dip, so if you can just explain that?

Pranav Amin: The ROW sales year-on-year there is very good growth. Sequentially, it is down because I mentioned in the last call as well that Europe has moved to serialization and implementing that has had some reduction in capacities. As a result of this, we were expecting it. That is why Q3, we had pushed out more product to stock it up at our partners. That is one of the reasons why the ROW is less. Now, we are in the phase of getting down to a normalcy in terms of supplies hopefully, this would gradually start going up again this year.

Tushar Manudhane: So, we can expect normalcy in Q1 itself or maybe like by Q2 of FY20?

Pranav Amin: I think about Q2 in my opinion. I am saying that they are still getting all the throughput right.

Moderator: Thank you. The next question is from the line of Anant Jain, an Individual Investor. Please go ahead.

Anant Jain: My first question is, can you just define that for example, recently we have had CAPEX where from a JV perspective, we have optha and derma coming in and now we have onco and injectables, so which of this has been capitalized, which of this is still like capitalized and which of these are going to come and can you give a timeline of this purely from when they move into a balance sheet and when we start depreciating this assets?

R. K. Baheti: None of these have been capitalized till March 2019 and probably none of them except Aleor JV will get capitalized in this year. As we said, we are taking the exhibit batches, we will do the filings, there will be an inspection and then once we get ANDA approval, then we will get into the commercial production and that is the time when we will capitalize, we will start charging off the expenses, we will start charging the depreciation, etc.

Anant Jain: So most of these will happen in FY21, is that a fair assessment?

R. K. Baheti: Yes.

Anant Jain: What is the revenue contribution currently because I see some filings happening both on the derma side and the optha side, so I just wanted to understand is there anything?

R. K. Baheti: As of now nothing.

Anant Jain: The second question is, the sharp increase in other expenses which are like both quarterly and annually had moved up 980 crores to around 1320 crores, what explains that?

R. K. Baheti: Part of the increase in R&D expense is because now R&D expense also get clubbed into various categories, imprint costs and other expenses and all of that would have part of R&D. If you look at R&D expense itself which is part of note, it has gone up from 410 crores to about 500 crores.

Anant Jain: Net is 100 crores, more like if I have to compare on a like to like basis?

R. K. Baheti: Correct.

Anand Jain: So what explains the other 220 crores or 240 crores?

Mitanshu Shah: There has been like 26% increase in the revenue, it has to be supported by this expenses, so if you see generally what has gone up is freight costs, consumables etc. which supports the core manufacturing and the sales have been expensed out.

Moderator: Thank you. The next question is from the line of Charulata Gaidhani from Dalal&Broacha. Please go ahead.

Charulata Gaidhani: My question pertains to the US business, how many products do you plan to launch in FY20 and second regarding the commercialization of the JV?

Pranav Amin As for the US, we will launch about 15 to 20 products in the US. That is what I anticipate this year, so you were talking about the commercialization which you talking about the Chinese JV or the Aleor?

Charulata Gaidhani: Both.

Pranav Amin: Aleor will start seeing some commercialization from this June onwards. The Chinese JV is still some ways off, I think we will start doing the registration of the products. Let us see how the Chinese government allows for registration and what kind of timeframe, it will take couple of years at least in my opinion.

Charulata Gaidhani: And regarding the Chinese JV, you said it is largely focused on traditional Chinese medicine, so what is Alembic's role?

Pranav Amin No, someone asked Mitanshu about the SPH group and how we fill into the picture. So first of all, the SPH group is the second largest pharmaceutical group of China. Where we fit in is we have some technologies and we have products which they don't have. Also, we have approved ANDAs for these products, so these are the products that we will go on the first phase in the JV and it is not traditional. We don't have any traditional medicine. This is all regular allopathic medicine.

Charulata Gaidhani: So how big is the market there for the products that you are?

Mitanshu Shah: Total market is $161 billion. We haven't done the like-to-like comparison for what our product is. Products are also under discussion, it will take some time before we evolve what sort of opportunities and things like that.

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

Prakash Aggarwal: My question is on the US business. We had seen about 20 plus approvals, how many of them have been launched during the year?

Pranav Amin: We have launched during the year 9 products, some of them will be launched as the carry forward will be in the first quarter, some we are waiting to launch and such a combination, but we launched 9.

Prakash Aggarwal: And within those, do you think any of these are the chunky products or it is a combination which is leading us to the growth?

Pranav Amin: I think it is a combination and I think what is leading to the growth is one of course as we get into the new products and secondly, is the supply disruptions that you keep seeing in the market. When we have a bigger basket, automatically were little better divided across portfolio, so it is mixed bag in my opinion.

Prakash Aggarwal: And any colour on the pricing both Y-o-Y and Q-o-Q in terms of US generic? Has it stabilized or still kind of few baskets still seeing some erosion?

Pranav Amin: It is very tough to answer this question because as the basket, the products had moved up and products had moved down. We try capitalization wherever we can, it is very tough to give a general answer.

Prakash Aggarwal: But in the past you have said high single digit Y-o-Y, is that still holding or that has softened a bit?

Pranav Amin: That is what we have been hearing in the industry, but again it is product to product. Someone comes and tries to being overly aggressive. You see an erosion of 20, 30, 40%. At the same time, if someone exits and people can hold prices, you can take price increases as well.

Prakash Aggarwal: And second question to Mr. Baheti on, you mentioned about the gross block of the new assets of about 1123 crores, is that right sir?

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

Prakash Aggarwal: So to make this operational and revenue generating, how much more CAPEX is pending sir on this particular 3 plants?

R. K. Baheti: As far as these projects are concerned, they are now almost completed. Aleor in any case completed. Filings have started, one approval has also come and I think it should get into commercial in June or so. As far as the other 3 are concerned, I think we are in process of either filing or taking out exhibit batches. We don't expect lot of additional CAPEX on these to make them operational. We are evaluating opportunities for further expansion, but that would be dependent on our product development pipeline.

Prakash Aggarwal: And is there a sense on the CAPEX for this year and next year?

R. K. Baheti: It is a very right question. So as I said these projects are completed, so we don't expect lot of additional investment on these projects. It will be about 250 to 300 crores of additional maintenance CAPEX across all these plants, but we are also doing some business evaluation of some additional CAPEX proposals but not yet frozen.

Prakash Aggarwal: And this is annual right, 250 to 300 as of now?

R. K. Baheti: Yes.

Prakash Aggarwal: And lastly on the preop expenses for the 3 facilities which we are also capitalizing, what is the annual number?

Mitanshu Shah: 165 crores for current year.

Prakash Aggarwal: And that would be like every quarter it would have gone up, so what would be exit rate?

R. K. Baheti: You can take about 45 to 50 crores as quarterly number.

Prakash Aggarwal: Lastly if I may on India business, you mentioned that in inventory, there has been some inventory correction across and we have been hearing from other companies also, but do you think it has got to do with the mix also, the acute structurally seeing last 2 years have been much lower, whereas you have been emphasized on the chronic, so any thoughts that acute would remain low single digit, high single digit and difficult to get into that double digit?

R. K. Baheti: We go by the IMS data, the growth rate for the industry is about 9% and acute is not much below it, acute is about 7 to 8%. The difference of growth between specialty and acute has really come down; however, for us specialty still continues to grow much better than the acute.

Prakash Aggarwal: That is what I was asking that do you see recovery in the acute and the specialty or using as the industry phenomenon?

R. K. Baheti: Acute is also dependent on seasons. Last year 17-18, if you remember we had an extended winter, so we had much better acute sales. This year, it was a normal winter. So we have impact on acute. Now going forward, I think monsoon will determine how the acute picks up for the industry and for us, acute is always seasonal.

Prakash Aggarwal: And specialty is more from the inventory correction that you are witnessing?

R. K. Baheti: Yes

Moderator: Thank you. The next question is from the line of Ayush Mittal from Mittal Analytics Private Limited. Please go ahead.

Ayush Mittal: Sir, I have some questions around the strategy of the company, like when I look at the R&D expenditure that we have been doing, it is a very high number when we compare it to many of the peers. At the same time, when I see some of the approvals that we get, the market size is pretty small. Can you take us through your thoughts or the strategy around the R&D expense.

Jesal Shah: You are right. Of course Alembic, we have been in business for many years and if you look at the international business versus the peer set, we started our international business relatively late and within that the US business also we started compared to peers relatively late, so for us what we wanted to do was really catch up with our competitors and in generic business, our philosophy has been that the right business model for us would be to look at broader portfolio products, so when we revisited our development portfolio about 4 to 5 years ago, we took a strategic decision at that time to really expand the basket aggressively and I think we also communicated to investors the strategy at that point. We started with oral solids and then we expand it rapidly into injectables and ophthalmic and dermatology and other dosage forms, so the model has been driven by that strategic imperative for us which is to really expand the portfolio rapidly because in generic business, we need to really offer broad basket of products and obviously competition already was pretty intense and as we all know now that there are so many players in the market, but for us that entry at that point was very critical and we still believe that is the right model and we believe that though we were a little late, I think we have caught up and we believe that we are in a good position now to really capitalize on whatever opportunities we have created.

Within that in terms of choice of products, we have stated this in the past that we look at the portfolio at the individual product in the rhythm of the overall philosophy that we have, so even though we want to expand portfolio that doesn't mean we pursue every opportunity out there, so we look at individual product and we drop the net present value calculation at the individual product level and we have a benchmark return for that we expect from every investment that we make, so we try and chose those products which meet actually that threshold return requirement, so the product choice is driven by individual product scenarios that we create. Now, this business model is volatile, so whereas we put in lot of effort seeing what the market competition is and what the possible scenarios are and we try and pursue products where we expect at least 20% type of return. What ends on happening is due to multiple factors, there are some products which are in turn generating more and some products you may not end up generating as much, but broadly the portfolio will move in that directions what we would like to step.

Ayush Mittal: 10 approvals which you have got, barring couple of them which are really big projects, many of the filings that we see are of $30 million, $50 million, if the market size is such small, do we end up making in such kind of products?

Jesal Shah: Yes, we do actually, so as we launch products we will see that in terms of returns, we do end up making the type of returns that we were focused in.

Ayush Mittal: So out of the last 20 approvals, if you have to give us a number, have you been able to commercialize 80% of them or like as the time has passed you had felt that many of these are not commercially viable or something like that because the market size is very small for many of them?

Pranav Amin: Two things, one we do IRR per products, we put in some scenarios when we do it. Yes, lot of them are more products because lot of the big ones had lot of people. When there are more than 10 people, it doesn't make sense. Now, most of the products that the smaller ones also we have launched. We try to have about between 4 to 6 players in the market that in case they go down because we can't predict, so we do well. There are lot of disruptions in the market and you can get decent pricing on products which are there. Now, in terms of commercialization in the last 20 products that we have got, I don't have the exact figure but my opinion is about 85 to 90% will be commercialized and not tentative. Tentative is separate, of course.

Ayush Mittal: Pranav, as we are seeing very high R&D expense along with high CAPEX plan, can you take us through some timeline and the vision for your company for next 3 years or 5 years, timeline in the sense by what timelines do you see material CAPEX giving us fruits and what kind of plans do you have for the company for the next 3 or 5 years may be?

Pranav Amin: So the CAPEX that were doing, those all will get into commercialization in FY22. FY22 onwards is when you see the big jump coming from all these new facilities and these R&Ds. So we have not given a number, we of course have internal projections, but the whole point is the reason why we are doing this R&D expenses. Whether the US business of about 150 million at present will be going to say 500 in another 3 or 4 years, yes they are absolutely, we are hopeful.

Ayush Mittal: Intangible asset on the development of 210 crore as on March 2019?

R. K. Baheti: So you are aware that we are charging of all the R&D expense which we do in Alembic Pharmaceutical this is a P&L item, however, as you know JV with the partner, as you rightly understand hereafter the policy of putting their R&D expense into intangible and they will start unit as soon as they commercialize the product, so when you do line by line consolidation of subsidiary company that comes in the consolidated number.

Ayush Mittal: 200 crore of R&D expense has been under Aleor?

R. K. Baheti: Yes.

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

Nitin Agarwal: Of the 10 launches you talked about for the first quarter, these are all launches for which approvals have come through or there are any pending approvals in there also?

Pranav Amin: Some pending ones as well.

Nitin Agarwal: And secondly, you made a reference to the shortage driven opportunities coming through every now and then in the market versus what you have seen in the past. From a pricing perspective, are these as profitable as, in instance are the price hikes in some of these opportunities as big as that used to be in the past or?

Pranav Amin: It is tough to answer because it is very product specific as we saw a huge disruption in valsartan which was in Q2. It will be different from molecule to molecule and depends up on the molecule size. Buyers will be little vary and they do want to have other sources and you can supply at higher prices.

Nitin Agarwal: And in your experience over the last few quarters, does it lead to a sustainable of increase in pricing for these products for the categories or these are only the short-term opportunities?

Pranav Amin: Sometime it is short term, like valsartan was a short term, but then longer and also you too have the opportunity still in valsartan. We still have good market share, the price of the medicine, is still higher than in what it was a year and year and a half back, so it is a combination of both.

Nitin Agarwal: And secondly, just this one question keeps coming up through across companies now, so from a concentration perspective, is it fair to say that for us, then finish FY19, top 5 products would be about 50% of our revenue or is it like, it is too big or too small, too big a number?

Pranav Amin: I think I have said this in the past and I still hold it, I think about the top five or 20% of the portfolio would be about 80% of our revenue.

Nitin Agarwal: That is about 10 products, we have about 50 market products are there.

Management: Yes.

Nitin Agarwal: And lastly, Mr. Baheti, you have had a pretty sharp increase, good growth in the US business over the last year or so and what we be hearing about is increase essentially in the working capital intensity of the business especially in the receivable side. On our case, receivable seem to be actually lower on a Y-o-Y basis, how should we sort of read that?

R. K. Baheti: You should be happy about it.

Nitin Agarwal: Which is an achievement sir, but I was curious to understand your perspectives on it because you people have been saying that there has been pressure from the distributors increasing the trade periods and all?

R. K. Baheti: Last year, even up to September, the receivables were little higher, but there were very concerted efforts. Outside that Q2, Q3, high sales of valsartan and the receivables went up which got collected during this quarter and they are back to normal, so we chase overall objective, we don't chase only the top line.

Nitin Agarwal: And sir, you don't see much impact on that with increasing component in the US business for us?

R. K. Baheti: So far yes.

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

Damayanti Kerai: My question is to Pranav sir. Sir, can you share your broader thoughts on the China opportunity and the key challenges which we or the Indian companies might be facing in view of your JV norms yesterday and you said that impact will take some years, so when we can expect that some benefit will start flowing in from JV? Any broader timeline here?

Pranav Amin: Basically, why the JV and what is exciting is, it is a massive market where the government is doing lot of interesting stuff in terms of access to healthcare and they open it up. Earlier there used to be timelines which are much longer. Now we have an FDA approval, ANDA approval, they are trying the same. They will give a fast approval to you. That is the benefit as the massive market and I think they are really building the infrastructure for that market, so that is once you can get to participate in the growth story, so the concerns are again is to China, it is very regulation based. Regulations may change, we don't know, so there is a concern. So right now, it is JV we haven't invested anything, I think just a JV for now and then what we will see how it goes. In my opinion, it will take at least 2 years to commercialize.

Damayanti Kerai: And sir, the pilot program will be conducted in some 11 cities for bulk drug procurement. It seems the results were not very attractive in terms of pricing like the generic which got tenders, they got it after sharp cut, so any thought on the pricing side also. Yes, we understand that volume opportunity are enormous again, but any thought on the pricing?

Mitanshu Shah: Actually, what has happened somewhere in January, the structure has moved to GPO structure which is a group purchasing organization there, so there are 7 provinces, 4 states actually, which define how the purchasing would happen and 85% of the purchases are through institutional manner which is hospitals actually, so there has been a price cuts time. There have been price cuts like some 15% close to 35%, so it is evolving scenario. We will see how it happens. Right now, we are at a stage where product identification is happening, we would quickly be kind of registering these products and then wait for the approval from CFDA, so we will see when couple of years from now when we actually get into the market what the scenario is, but even with this reduced pricing, it still looks to be a very attractive market.

Damayanti Kerai: My question is to Baheti sir. Sir, I really didn't understand the India part very well, so you mentioned inventory adjustment could be one of the reason why we saw flat sales during the quarter, but how we should look at the India part going ahead because I think we have been waiting for growth to come up on that part and still we are yet to see any meaningful impact coming in?

R. K. Baheti: Your observations are quite valid. We are also equally concerned, all the hardwork which our team has put up I think I expect at least if not more 3% to 4% point higher growth than the industry growth rate. At this moment, our estimate is that the market should grow by 9-10% which we see in that we should grow by 13, 14% but difficult to predict market.

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

Anmol Ganjoo: I have one question for Pranav. Pranav, if we compare timeframes, we have demonstrated very strong gross margin performance. You can look at it year-on-year sequentially full year. As we approach FY20 and some of the expenses from the current CAPEX start hitting as how confident do you feel of being able to defend this very high gross margin number because you have been showing improvement on already elevated basis relative to peer group?

Pranav Amin: When you look at gross margins, they would not be really impacted by this new expenses which you start getting charged off to the plants.

Anmol Ganjoo: No, I meant that at a point of time that it says, there is a likelihood that we see drop in gross margins also?

R. K.Baheti: We see the bottom line not so much of the gross margin and if I look at the interior cost, etc., I think we will continue to have gross margins at current level plus minus ten basis points, because the kind of product pipeline which we have in future also the material cost is not meant to be significant, important for our success or lack of it would be how good we are in filings, approvals, getting to the market and then what kind of market share we get. So I think our focus and attention is on that rather than really looking at the gross margin like a per se number. That is the consequential number. First, the product mix and the market share. They are very important.

Anmol Ganjoo: And second question, Mr. Baheti, outside of the inventory rationalization which I understand should be transitional, are there any other driving factors that you are studying for a potential domestic market slowdown, not Alembic because if I understand your comments correctly, you would attribute the performance in domestic through a broader market slowdown because on share and growth, you seem to be tracking peers and there is no loss of market share per say, so in anything else besides the inventory rationalization which you are studying as a potential factor for this broader market slowdown?

R. K. Baheti: Honestly, I do not know because earlier my impression was that generic generic it is not making a big impact, may be some impact would be because of that. Most of us don't participate in that market. Even the companies which participate in that market report that number separately. So maybe generic is causing some dent in offtake of volumes. But since last few months, there has been a general slowdown that is across sectors, not only pharma, but if you look at auto, FMCG, if you look capital goods, everybody is talking of slowdown probably though the pharma is bit insulated but ultimately that trickles down, so I think it will need little more study. If we are back on track on Q1, I think nothing much to worry. If not, then we will have to do little more research on what is causing this.

Moderator: Thank you. The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Pranav, we have been hearing you of pricing pressure on the complex product price hike, especially on injectable and oncology sides, kindly views on how the market will be hitting for the complex products in US?

Pranav Amin: There is a competition across the board as more and more people enter it, but unlike oral solids, it is still much there. There are still some interesting pockets of opportunities because that is how the nature of the business is because that is a complex product, so there is lesser competition, so that has what excites us. I think once we get into the injectables, we can move a lot more up to the value chain as we go from plane injectables to peptides to various technologies. That is what excites us about the market.

Ankit Gupta: But overall from the pricing perspective on this opportunity, I think last few months, there seem to be some increasing pressure on injectables and oncology as well, so any particular views on the segment how the market is behaving in the US?

Pranav Amin: No, there is nothing particular. if you see like on oral solids any of the new filings or let us see like Tadalafil you saw like 10, 15 people launch in the market. When that happens, whoever is on market share is to really drop prices and do it. As compared to that injectables, yes there may be price decrease with the still fewer people in the market, so that is what very product specific.

Moderator: Thank you. The next question is from the line of Hari Belawat from Tax and Consultants. Please go ahead.

Hari Belawat: This is regarding the interest cost. During the FY18, it was 3.4 crores, FY19, it has gone to 18 crores. Borrowings have not increased in that proportion. What could be the reason for increasing the interest cost?

Mitanshu Shah: Borrowings have increased actually if you see this year versus last year, there has been almost 400 crores of increase in the borrowings which is largely attributable for the increased cost.

Hari Belawat: And the other point is this being current liability, other financial liabilities have also increased from 20 crores to 234 crores, in specific, which are these liability company is bearing?

Mitanshu Shah: You are talking about current liability?

Hari Belawat: Yes, in the current liability, there is other financial liability which has increased from 20 crores to 234 crores?

R. K. Baheti: Let me reload the notes, we will come back to you. We can take next question, but I will respond to this question.

Hari Belawat: If you can clarify later, it is okay with me.

Moderator: Thank you. The next question is from the line of Ananda Padmanabhan from Pramerica Mutual Fund. Please go ahead.

Ananda Padmanabhan: Sir, on an absolute basis, how confident would you be approving your US revenues in FY20 over FY19?

Pranav Amin: Of course, we would like to increase it but it is market dynamics which are not in my control. There is more competition on few of our key products that will bring it down. If there is disruption, then it would go up, so it is very tough to say, but yes, we of course would like to improve our revenue moving forward.

Ananda Padmanabhan: And how would that be for the ROW market?

R. K. Baheti: Just to complete Pranav's response, we had these one-off opportunities this year, we don't know whether such opportunities would be there or not. We can't anticipate that. So obviously there will be a loss of that account that. To some extent, we will compensate by introducing new launches. So Pranav has already indicated that we should launch about 10 new products in Q1 and about 15 to 20 for the whole of the year. So the tug of war would be between the additional incremental revenue from the products versus the loss on valsartan and other one off opportunities.

Ananda Padmanabhan: With your Jarod facility coming online next year, so would that also be a facility that you would be targeting for ROW sales in case you are facing any capacity issues?

Pranav Amin: No, the first step is only for US.

Ananda Padmanabhan: That won't be getting to ROW in the first part?

Pranav Amin: No, not initially.

R.K.Baheti : There was a question on financial liability. Yes, Mitanshu.

Mitanshu Shah: This is the 230 crores. What we need to do is reclassify the current portion which is payable within next one year of our borrowing and needs to be shown into the current liability, so that is the part of the loan which is repayable in next one year, which is 200 crores of particular institution which is classified as current liability.

R. K. Baheti: It is a part of borrowing actually

Mitanshu Shah: If you total it, it is like 500 crores of financial liability and their borrowings that is 350 which is another borrowing and this is 200, so which makes it 1100 crores.

Moderator: Thank you. The next question is a follow-up from the line of Ayush Mittal from Mittal Analytics. Please go ahead.

Ayush Mittal: Sir, can you share your estimates for the R&D expenditure for coming 2 to 3 years?

Mitanshu Shah: This year, we have done close to 500 crores, our next 2 years would be very interesting because we would have lot of exhibit batches and scale of batches for our injectable plant for our new product. This should see that we should have close to 100, 150 crores of additional expenditure happening on R&D, so could be in region of around 600 crores and it will stabilize at this level.

Ayush Mittal: And for the exhibit batches, do we get paid from our customers also, we have seen in some of the cases?

Pranav Amin: No.

Ayush Mittal: So how do you like, R&D expense as a percentage of revenue or as a percentage of profit has been going up continuously over the last few years, you expect this to continue going up for the next 2 to 3 years still revenues from something here?

Pranav Amin: What will happen is this has gone up in the last couple of years. It remained flat at about 13 to 14%. Now moving forward, ultimately once the new plants and all come up to stream in FY22 when you start seeing reduction in this percentage.

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

Tushar Manudhane: Tushar here again. Just on the API side, we have seen good traction for full year, even for the fourth quarter of FY19. You can just help that in terms of volume and price or currency?

Pranav Amin: Basically, the API business has grown because of volumes as well as pricing. It is on much on currency that we have grown.I there were some opportunities, there have been disruptions in API supply as well, there has been disruptions from China in terms of the pollution and the effluent controls, so that has led to people seeking better API vendors and that is how the API business has grown.

Tushar Manudhane: So you see this good amount of stickiness on account of China disruption or you see this again to be tough to take a call for next couple of years?

Pranav Amin: I think the market opportunities will continue for API, I don't think it is going to grow as fast as I have said historically that API is not in terms of R&D, it is not as much of a priority area in new products, but it is a good business and we will continue doing well in that.

Tushar Manudhane: And any top 10 or top 5 molecules contributing majority or it is spread across?

Pranav Amin: It is spread across.

Moderator: Thank you. The next question is from the line of Anant Jain, an Individual Investor. Please go head.

Anant Jain: Two questions sir, one is what as a percentage what percentage of our API do we get from outside and what percentage it does produce in-house? And the second question is we are working on some new entity molecules drug discovery, can you share any updates on that what is happening there?

Pranav Amin: In terms of internal API, historically most of our products, they are all with internal API. If you see about 54 products on the market, I guess products is roughly about 40 products would be with our own API. As we have expanded to the newer areas of ophthalmic, some new molecules, you see this dependence on internal API gradually reducing. In terms of NCE, Rhizen is the company where Alembic has invested and they have got NCE pipeline. This first product TGR-1202, it is in phase 3 right now. I think all the details are available on the TGTX website and in my opinion, they will file for NDA within the next 12 months or so.

Anand Jain: So how big is the pipeline that we have one in phase 3, so do we have more molecules in different phases other than this?

Management: For 1202, just take a look at the TG therapeutics website that I gave you. in terms of our pipeline, we have couple of other products which all have pre-clinically in Rhizen**,** so we are just going to see and even to take the market development.

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

Nimesh Mehta: I just had one question, start of the year, we had kind of talked about input cost rising because of China related disruption, so has that faded away or what is the outcome there in terms of the input costs?

R. K. Baheti: Prices have gone up in many molecules, but in this year, the gross margins were maintained because our realization also went up and particularly for those one-off opportunity because sales is a gross number for all products that yes, prices have gone up, but the more now we hear is prices have stabilized or softening.

Nimesh Mehta: But this quarter, despite that one-off opportunity not really being meaningful, we are seeing gross margin very strong, so does that mean that the input cost pressure has eased off, even if it is stabilized?

R. K. Baheti: I think so.

Nimesh Mehta: So this is normal number run rate that we should work with as far as the gross margin?

R. K. Baheti: Yes.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I now hand the conference over to Mr. Baheti for his closing comments. Over to you, sir.

R. K. Baheti: Thank you very much. Let me thank all of you for participation in big number, very interesting discussion as always and look forward to see all of you again in our Q1 call. In the meantime, anyone of you would have some question can always take it offline with Ajay or Mitanshu. Thank you once again and good night.

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