



“Alkem Laboratories Q2 FY2017 Post Results
Conference Call”

November 11, 2016



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Moderator: Ladies and gentlemen good day and welcome to the Alkem Labs Q2 FY2017 post results conference call hosted by Motilal Oswal Securities. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during the conference call please signal for an operator by pressing “*” then ‘0’ on your touchtone phone. Please note that the conference is being recorded. I now hand the conference over to Mr. Kumar Saurabh from Motilal Oswal Securities. Thank you and over to you Sir!

Kumar Saurabh: Thanks. Hello everyone. Thanks for joining in. I welcome you all on behalf of Motilal Oswal Securities Limited. From the Alkem Senior Management team we have with us today Mr. Prabhat Agrawal – Chief Executive Officer, Mr. Rajesh Dubey - Chief Financial Officer, Mr. Amit Ghare – President International Business, Mr. Satyen Manikani – Vice President Business Development and Strategy, Mr. Nitin Agrawal – AVP Finance, Mr. Gagan Borana – DGM, Investor Relations. Over to you Gagan!

Gagan Borana: Thank you Saurabh. Good afternoon everybody and thank you for taking out time and joining us for the Alkem Laboratories Q2 FY2017 earnings call. I am Gagan from the Alkem IR Team. Earlier during the day we have released our financial results and the same are also posted on our website. Today in this call we have our senior management team of Alkem to discuss the business performance and outlook going forward. Before we proceed with this call I would like to remind everybody that the call is being recorded and the call transcript would be available on our website as well.

I would also like to add that today’s discussion may include forward-looking statements and the same must be viewed in conjunction with the risk that our business faces. At the end of this call if any of the queries remain unanswered please feel free to get in touch with me. With this I would like to handover the call to Mr. Prabhat Agrawal. Over to you Sir!

Prabhat Agrawal: Thank you Gagan. Good afternoon to all of you. We will take you through the presentation on the business performance that we have put on the website sometime back. The first slide is on the standard disclaimers and safe harbour statements. We will take you to slide number 3, which has the key financial highlights for the Q2. If you look at our top-line grew by 18.6% during the quarter to 16.383 billion Indian Rupee. This growth was contributed by both domestic sales and international sales as well. So the India sales grew by 18.4% during the quarter, a very strong performance given the fact that this quarter was disrupted quite a bit by FDC challenges and also regulatory price cuts emanating from NLEM expansion. International sales also grew at a very healthy rate of 19.1% during the quarter driven primarily by the growth we have a faced in the United States business. This was the highest ever-quarterly sale for the company in one quarter, we are very proud of this performance.



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We will take you through the next slide. If you look at our gross margin contribution, our gross margins improve further from 60.2% in the previous quarter to 60.9% during this quarter. I would like to highlight that this expansion in margins has happened in spite of a lot of negative pressure on the margins from regulatory price cuts coming from NLEM and this has been possible mainly because of much better product mix, improvement on lot of cost optimization initiatives that we have taken in the last year which we had spoken about in the previous conference call. So all this has yielded into a margin expansion at gross margin level.

Our EBITDA increased by 21.5% to Rs.3.1 billion and there was a further expansion on EBITDA margins from 18.5% last year to 18.9% in the current quarter. Profit before tax increased by 9.7% to Rs.3.06 billion. This was also impacted by around 20 Crore of profit that we booked in the previous year on sale of our brands that was included in the base of last year, so the growth is looking at 9.7% much lower than the EBITDA growth. And the profit after tax grew by 6% to Rs.2.82 billion in the current quarter as compared to Rs.2.6 billion in the previous year. So it was an overall growth, which was also accompanied with the margin expansion and a profitability improvement.

If you go to the next slide, we will give you little bit highlights on the financial performance of the company. I will just touch upon the key highlights in this slide. So as we said before our income from operations grew by 19.4%. This is the full first half of the year comparison so for the half year our income from operations grew by 19.4% our gross margin increased to 60.9% our EBITDA margin was at 18.6% which is a 26% growth over last year and other profitability ratios were in line with the EBITDA growth and EBITDA margin improvements.

In the next slide we will do a little bit deep down on the India business, which comprises almost 76% of our total business. The India business grew at 18.4% to Rs.12.25 billion. If you look at our growth reflected in the IMS it has reflected a growth of 22.9% much higher than the industry growth rate of 14.5%. This growth as we said before this growth was delivered despite regulatory headwinds like expansion of NLEM list were some of our key brands came under NLEM price cuts, there were pressures on FDC related products, so in spite of all these strong head-wins we could deliver a growth of 18.4% for the quarter and 20.1% for the first half of the year.

In the next slide we are presenting quarter-by-quarter improvement and if you look at continuously for last four to five years we had beaten the industry growth rate and we have grown at a rate, a certain basis point improvement higher than the industry growth rate which means an improvement in our market share. So if you compare few years back our market share was 3.3% and now we have added almost half a percent market share to our base and now we are at 3.82% market share in Indian pharmaceutical market.

In the next slide we are presenting the performance of the company in different therapy areas. One point I would like to highlight for the last quarter it was a very strong season for anti-



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infective market most of you would have encountered lot of prevalence of Chikungunya and Dengue which resulted into significant upside on sales of anti-infectives. The market itself grew by 22.6% and of course and as always Alkem took advantage of this strong market and we grew at 30.8% significantly beating the market growth rate. Similar for gastrointestinal the market grew at a 11.3% while we grew at 17.5%, pain analgesic market the market grew at 12.8% while Alkem grew at 19.6% and a similar story on vitamins, minerals nutrients segment of the market. So all the traditional strong holds of Alkem, we have consistently delivered a market beating performance continuously growing at a rate higher than the market growth rate and further consolidating our market share.

On the emerging therapy areas where we have been talking a lot about in the previous calls as well these are the growth drivers for the company going forward and we are very aggressive on these markets and if you look at our performance the consistent story continues. Antidiabetic for example grew at 17.8% while we have been growing at 27.2%, we improved our ranks by 3 so we are now 25th rank company anti-diabetic. CNS we grew at 17.8% while the market grew at 11.9% we maintained our rank at 11. We are very strongly knocking on the doors of top ten companies in this therapy area. Cardiac again a growth higher than the market growth rate and improvement is ranked by one and dermatology is one segment where we could not beat the market growth rate but we have plans in place to improve our growth rate in this therapy segment going forward.

I will now handover to Amit who is heading our international business to take you through the next couple of slides on the international.

Amit Ghare:

Thank you Prabhat. Good afternoon. For our US business this quarter has been pretty steady. Our net sales reached Rs.3 billion during the quarter, which was about 24% growth over last year quarter. US sales as a percentage of overall Alkem business contributed about 19% in the quarter that we are discussing. We also launched one product, which was actually in-license during this quarter in the US. We also received one approval for our ANDA taking our cumulative total to 34 including the seven tentative that we have.

During the quarter one of our manufacturing facilities in Daman underwent a FDA inspection which was actually in September post, which we were issued 13 483s. The company now has submitted a detailed response to FDA within the timeline that was stipulated to us. Daman facility was again inspected by FDA in October 2016 last month. This inspection was specifically for couple of ANDA that we have filed related with its bio-analytical studies that were performed at the site. Incidentally this inspection went off without any 483 observations with zero 483 observations.

If we move to next slide, which is our other international business, now here we have talked of previously as well our strategy, which is essentially that we are focusing only on few geographies



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so really we are looking at going deeper in these geographies rather than spreading ourselves thin across many other markets. The key geographies here obviously for us are Australia, Chile, Kazakhstan and Philippines and our business during the quarter reached Rs.869 million. This was a modest 5% growth year-on-year over the quarter of the previous year. The other international business contributes to a little more than 5% of the total sales of Alkem during this particular quarter.

Coming back to our key markets, in Australia we continued to register a strong growth in our Osteomol franchise and that has certainly contributed well to our growth. Our Chilean subsidiary also witnessed strong growth with our particular focus on the institutional segment and also the additional focus on retail segment so both these markets did fairly well for us.

So that is broadly our international business. I will hand back to Prabhat for the next few slides.

Prabhat Agrawal:

Thank you Amit. The next slide presents the strategy for Alkem and if we look at all the five pillars of strategy that we are presented before we are executing very well in line with these strategies both in Indian market and international market. We have been able to execute lot of our plans as per the strategy that has been agreed in the company.

The next slide is on shareholding pattern with not much of a change vis-à-vis the last quarter. Thank you very much for listening to me and we now will open the floor for Q&A.

Moderator:

Thank you. Ladies and gentlemen we will now begin with the question and answer session. We have the first question from the line of Neha Manpuriya from JP Morgan. Please go ahead.

Neha Manpuriya:

Thank you for taking my question. Sir on the domestic business, I just wanted to understand the breakup of the business i.e., what is the impact from seasonality in the quarter and second how much did NLEM adversely impacted, last quarter you mentioned about 4% to 5% impact from all regulatory changes so was the full impact felt, just wanted to understand the base business growth from a mega brands and market share gains?

Prabhat Agrawal:

If you look at our domestic business, the impact from NLEM expansion on our sales was close to 3% on overall consolidated base. The price revisions that happened in some of our key brands that was more than offset by the strong volumes. So in some of the units we had a volume growth of more than 40% to 50%, which more than offset the price cuts that we had. Of course the season was very good as we spoke before if you look at anti-infective growth which where Alkem's 45% of domestic revenues come from anti-infective that segment itself grew at 22%. Normally that segment grows like high single digit or early double digit so of course the market was good for this quarter. Now as Alkem is known for, it is we capitalized on this strong market and we delivered almost 8% to 9% higher growth rate than what the anti-infective market grew during this period.



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Neha Manpuriya: Would it be fair to say that the seasonality probably contributed 3% to 4% of our sales growth in the quarter?

Prabhat Agrawal: It is difficult to compute the impact that way Neha, and even the growth that we have reported in this quarter it was also impacted by, if you remember in the first call that we had after the first quarter, certain of our sales in the last year got shifted to second quarter of last year so the base for last year was little bit higher this year because of the cut off procedures. So actually bill-to-bill invoice-to-invoice growth rate was higher than what we have reported here. So if you look at H1 consolidated Q1 plus Q2 you will see a higher growth rate on India domestic sales.

Neha Manpuriya: Sir my second question on the international business particularly on the US, first of course on the Daman facility do you see a risk of approvals getting delayed since we have not got approval for generic Crestor because of the outstanding 483s? Second our filing seems to be lagging what we had initially guided to 12 to 14 filings per annum, what is the reason for these slow pace of filings in the US?

Amit Ghare: I will answer the second question first Neha. We still are maintaining our guidance of 12 to 14 ANDA filings during the year. It is true that in the first half we have not filed any but we are fairly confident of meeting our targets for the year. Going back to your first question whether our approvals may be affected it seems that our approvals may be affected until these Daman 483 issues are resolved.

Neha Manpuriya: Given this are we still I am assuming the four to five approvals that we were expecting in the second half will probably be lower? Is that a fair assumption we have visibility on the four to five launches that we had initially planned?

Amit Ghare: If you recall for the year we had given a guidance of higher single-digit launches during the year and we are maintaining that. So four products we have launched in the first half and another three to four is what we are expecting to launch in the second half as well.

Neha Manpuriya: So we are maintaining that guidance?

Amit Ghare: Yes we are.

Neha Manpuriya: Okay and my last question, what is the reason for delay in filings. Is it the complexity of the products that we are looking at or issues related to Daman because if BA inspection was all clear what is driving the delay in our filing run rate?

Amit Ghare: It is not the delay. I think some of these were or many of these or all of these rather were planned. It is the way our cycle works at our R&D and at our manufacturing facilities so typically for the new products new developments that is new ANDAs to be filed during the year the exhibit batches typically start from April for the New Year and adding the six months stability



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data that is required for filing the ANDA the ANDAs typically gets filed in Q3 and Q4. Not to say that they should not be filed in Q1 and Q2 but this is how more or less our functioning as been over there last few years.

Neha Manpuriya: Thanks for taking my question.

Moderator: Thank you. We have the next question from the line of Damanyanti Kerai from HSBC. Please go ahead.

Damanyanti Kerai: Thank you for taking my question. First clarity on this other expenses, we have seen a huge jump quarter-on-quarter so what is the reason behind that?

Prabhat Agrawal: Other expenses basically comprises of every cost other than the material cost and the employee expenses, so its more appropriate to look it as a percentage of sales because as the business activity increases the other expenses would go in line with that, so if you look at our other expenses as a percentage of sale in Q2 has been closed to 25% which is a standard which is very close to what we had in Q1 as well, in Q1 we had 25.4% other expenses as a percentage of sales.

Damanyanti Kerai: If I remove R&D from there so last quarter we had R&D of around 788 million this quarter we are saying 650 so excluding that other expenses as percentage of revenues has gone up from like 18.5% to 21% so that is the reason I asked?

Prabhat Agrawal: No all R&D expenses are not included in other expenses in fact majority of R&D expenses goes in the staff cost which is the salaries of all the scientists that we pay so that would not be a very fair comparison, Damanyanti.

Damanyanti Kerai: Sir one more question, what kind of impact you have seen due to this ban of 500 and 1000 notes on your channels like trade channels what percentage of transactions are done in cash there, like from your side?

Prabhat Agrawal: From our side there is nothing done in cash, we are billing in and our customers are paying in cheque or by RTGS.

Damanyanti Kerai: But overall what kind of impact do you see in the channel like not from your perspective but overall how the channel will be impacted there?

Prabhat Agrawal: We are not expecting any major disruption because of that.

Damanyanti Kerai: Thank you.

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



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- Ashish Thakkar:** Thanks for the opportunity. Sir since we had a very strong 2Q based on a favourable acute season so what would be your outlook for the second half of FY2017 and would FY2017 second half be better than second half of FY2016?
- Prabhat Agrawal:** See we have given a guidance on domestic growth rate of mid teens so will abide by that.
- Ashish Thakkar:** We still believe in spite of the strong acute season in Q2 you would be able to continue the sales in the second half of 2017 as well?
- Prabhat Agrawal:** Yes, up to now the consolidated growth rate has been 20%, I mean India growth rate has been 20% Q1 plus Q2 put together which is little bit higher than our guidance of mid teens so we had, for the full year we still maintain our guidance of mid teens could be little bit higher than could be little closer to higher teens based on strong performance in H1.
- Ashish Thakkar:** Yes, but if you take seasonality in two concern the next Q3 and Q4 are usually lower compared to first half?
- Prabhat Agrawal:** Yes, typically it is lower.
- Ashish Thakkar:** Sir second question would be on the tax side we have paid our 9% taxing for Q1 and 6% now so just wanted to understand what is our outlook on the taxation side going ahead and my understanding was that we should have paid at least MAT?
- Rajesh Dubey:** Ashish we are definitely as far as cash outflow is concerned for Alkem standalone we are paying MAT, if you see first half of the year our effective tax rate is 7% because we had growth a very high growth in more towards our domestic operations where we have advantage of 80IE but I have to say for full year our effective tax rate we estimate in the range of 10% to 11%.
- Ashish Thakkar:** So what would be the outstanding MAT credit, which would be there in the balance sheet as on date?
- Rajesh Dubey:** Today it is 605 Crores.
- Ashish Thakkar:** That is helpful. My next question was on the US side, obviously it seems that Crestor is getting delayed but you know for some filings like Benicar where we had the opportunity of getting a first approval so what is your thought process there if you could help us understand what are the Para-IV opportunities broadly not naming them and what are your expectations going ahead, how many of the Para-IV opportunities could get monetized in the next three four quarters?
- Amit Ghare:** Benicar if you recall last time also we had said we were not sure whether the first filer will get exclusivity or not. Obviously first filer has got exclusivity and therefore everyone else is not there in the market. It is only the first filer, which is enjoying 180-day exclusivity, so we are very



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well positioned to enter into the market on day 181. We do have our tentative approval as well. And as far as second part of the question as to which Para-IV opportunities are there in the next three four quarters obviously we have but we are not really privy to disclose that in this call.

- Ashish Thakkar:** So those would be from non-Daman facilities you are saying?
- Prabhat Agrawal:** We have from Daman and from Baddi other facilities as well. Daman hopefully is not going to take that long for us to start getting approval.
- Ashish Thakkar:** Anything coming from the US based facilities?
- Prabhat Agrawal:** Not in the next two or three quarters as a Para-IV.
- Ashish Thakkar:** That is helpful. Thanks and all the best.
- Moderator:** Thank you. We have the next question from the line of Suyash Kapoor from Mapel Vyapar Private Limited. Please go ahead.
- Suyash Kapoor:** My first question is regarding this shareholding pattern. If you can clarify on analysis of your shareholding pattern as per the latest shareholding pattern available with the stock exchange, Sir the non-promoter holding if you see, 20% is being held by individuals like Mr. Tushar Kumar, Rajesh Kumar and Alok Kumar and all three are this related to promoters if you can please verify Sir?
- Prabhat Agrawal:** I mean they are distant relatives or friends close network of promoters.
- Suyash Kapoor:** So Sir on adding the promoter holding that is 66.88 and 20% their holding so it comes out to be 86.88, am I right?
- Prabhat Agrawal:** But they are not promoters.
- Suyash Kapoor:** Sir my question is that how much is the floating capital available in the market, I have the data I was analyzing the data if you can please help me to find out how much is the floating capital available in the market that is how much is the number of share traded in the market as of date, say on Monday how many total shares can be traded because you see these shares locked, if I am wrong please correct me, promoters are having 66.88% and 20% is people who I have named as per the Bombay Stocks Exchange filing, so am I correct or am I wrong in my analysis?
- Prabhat Agrawal:** Everyone share is locked for one year right, pre IPO shareholding has been locked for one year, so 90% of the shares are locked for one year, 20% of promoter holding is locked for three years.



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Suyash Kapoor: Now one question Sir. Just for your information CNBC-18 TV today I think your figures are wrongly stated they were very wrongly stated, so please kindly check it from your investor presentation department or the investor communication department because the CNBC-18 TV is being followed by various investors so this was one request. Now Sir, again one question is that do you have any plan entering contraceptive segments like manufacturing products which are manufactured, by Cupid Limited, TTK Care and Healthcare Limited, do you have any plans?

Prabhat Agrawal: Let me response to the first question and then please can you repeat the second one. We are posting on our results on our website and not on website of CNBC. We are posting our results on our website and stock exchange.

Suyash Kapoor: I appreciate that but just for your information just to inform it as various investor look into the CNBC-18 TV I think when the results are announced so they were very wrongly stated, your figures were shown almost stood at 10% of what we have given, so that was a piece of advise if you can take it. It is not an issue. Now if you can clarify on this point Sir, like do you have any plan that is next question of mine please if you can answer that do you have any plan of entering contraceptive segments like manufacturing products which are manufactured by Cupid Limited, TTK Healthcare Limited, do you have any plans like manufacturing products like condom?

Prabhat Agrawal: We already have some products that we are manufacturing.

Suyash Kapoor: You are in this segment.

Prabhat Agrawal: We are not manufacturing, we are marketing some of those products.

Suyash Kapoor: Sir how much is the sales if you can kindly say what is the sales you generate?

Prabhat Agrawal: No we are not giving product wise sales of those products.

Suyash Kapoor: Sir can you please tell what is the capital expenditure plans for three years from now if you can kindly give some idea, what is your plan?

Prabhat Agrawal: We have talked about it in several conference calls.

Suyash Kapoor: In a nutshell, if you can say share five or six lines kindly please, if you can share some thoughts on it?

Prabhat Agrawal: The kind of growth that we are experiencing in our business both in domestic and international will call for capital expenditure in terms of capacity expansion so we are expanding our domestic manufacturing capacity in Sikkim and we are expanding our brand there. We are also putting up additional capacities in both Daman and Sikkim. We had made an investment in acquisition in



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US in US facility there also we are expanding. So overall we are putting their right capex in place to meet high growth that we are experiencing.

Suyash Kapoor: Sir in one of the articles in news it has been mentioned as far as pharmaceutical segment is concerned that Indian pharmaceutical companies import a huge quantity of API (Active Pharmaceutical Ingredients) so if you can say this 'Make in India' initiative of our government this present government is taking forward does the company have any plan of manufacturing this API (Active Pharmaceutical Ingredients), our companies has have any plans?

Prabhat Agrawal: We are not manufacturing any API for our domestic business. For international business for certain key strategic projects we are producing our own APIs.

Suyash Kapoor: Sir how much is the turnover which we are generating through API manufacturing API Sir? How much is the turnover, the value in terms of the volume which you are generating you are manufacturing API what is the turnover?

Prabhat Agrawal: We said for domestic business which is the largest part of our business we are not manufacturing any API we are buying APIs.

Suyash Kapoor: Okay and for international business you are manufacturing?

Prabhat Agrawal: Yes, for a small portion of that.

Suyash Kapoor: Sir does Alkem have any research companies like just for an example in order to specify my point categorically like one of the listed company Biocon Limited, it is company Syngene which is specifically in research, so does like Sun pharma is having Sun Pharma Advance Research does Alkem has any research subsidiary which is investing in research and development segment?

Prabhat Agrawal: No we do not have a separate subsidiary focusing only on research and development. Our R&D is an integral part of our legal entity Alkem Laboratories.

Suyash Kapoor: Thank you for answering all my questions.

Moderator: Thank you. We have the next question from the line of Mr. Kumar Saurabh. Please go ahead?

Kumar Saurabh: I have this question for Amit, during the last earnings call, he stated that we expect two-third of our pending ANDAs to get approved over the next two to three years time period and this could actually lead to potentially double our US revenues from 150 million to around 300 million dollars. Given the current uncertainty regarding the Daman plant how confident are you to achieve that number?



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- Amit Ghare:** That guidance was over three-year period if you remember, and we are maintaining that.
- Kumar Saurabh:** Do you think that it will be a smooth ride for you or it will be like a J-curve because right now we are at around 180 million dollar kind of run rate 45 million dollar we did in this quarter so then how do you see that FY2018 if they get evenly distributed in FY2018 or FY2019 or it will be like FY2019 will be a very strong year and FY2018 will be a muted year how should we look at it?
- Amit Ghare:** All I can say is like we have discussed last time also we do our best to maintain our healthy growth rate as far as the US market is concerned and you all know very well that large part of the growth for US generic business obviously gets driven through new approvals, as and when the portfolios that we discussed which will, the new product as we keep getting those approvals and we start commercializing them obviously that will lead to stronger growth for us.
- Kumar Saurabh:** May be Satyen and Prabhat can answer this, on the domestic side you know this year it looks like that we will have phenomenal revenue growth how should we look at FY2018, is there because you know structurally assuming that nothing has changed in fact this regulatory pressure hopefully will not be there in FY2018 or FY2019 so then how should we look at it for FY2018 or FY2019 growth will it be as robust as the numbers which we are delivering now?
- Prabhat Agrawal:** If we look at our five-year CAGR on growth rate on domestic business we have grown in mid teens so we will continue and maintain the guidance for that.
- Kumar Saurabh:** This other income our yield is more than 10% at this point in time. So do you expect this to come down as we move forward?
- Rajesh Dubey:** Earlier it was more than 10% but currently it is not more than 10%, it has come down in line with reduce interest rates.
- Kumar Saurabh:** I will join back the queue.
- Moderator:** Thank you. We have the next question from the line of Kaushik Kona from Karvy. Please go ahead.
- Kaushik Kona:** Good evening Sir. I have one question do you have any pricing pressure in US Sir and how much you cater to the US Sir in revenue?
- Amit Ghare:** I could not understand your second part of your question but I will answer the first part. The pricing pressure is an inherent characteristic of generic market so obviously we always have some pricing pressure on our business in the US.
- Kaushik Kona:** How much you will cater to the US Sir in revenue wise?



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- Amit Ghare:** We are about 19% overall Alkem during the quarter came from US.
- Kaushik Kona:** If the pricing pressure is coming from US how much your revenue will go downwards Sir may I know the figure.
- Amit Ghare:** We are not hoping our revenue will go down we are hoping we will continue increasing our revenue.
- Kaushik Kona:** One more point Sir, is there any nearby approvals to your facilities Sir?
- Prabhat Agrawal:** No all our facilities are approved by FDA so I am not sure what is your question is.
- Kaushik Kona:** One more thing Sir, you have said that you have filed the new ANDAs for the product and if it is approved how much of the revenue will be generated from the ANDA Sir?
- Prabhat Agrawal:** We cannot give a per ANDA or per product guidance.
- Kaushik Kona:** Overall you are in a pipeline of example 10 products; you are expecting three to four products will be coming in approval in Q4 or Q1 of FY2018?
- Prabhat Agrawal:** Our actual revenue per ANDA is in the region of 6 to 7 million dollar.
- Kaushik Kona:** Thank you Sir. One more question Sir, what is your view on new US President in the view of business mode not in the personal in the view of business mode for the pharmaceutical because all are now discussing about the US President in the pharma sector and IT sector, so on the company view and business view?
- Prabhat Agrawal:** Can you please repeat the question?
- Kaushik Kona:** What is your view on the new US President in the view of business mode from the Alkem to the policies of the US President?
- Prabhat Agrawal:** You want everyone of our individual view or you want a collective view?
- Kaushik Kona:** Your view on the basis of business Sir, we are requesting you to give you on the business from the Alkem to the US policy?
- Amit Ghare:** No we do not understand politics No.1 and No.2 I do not think at least in the short to medium term our business will get affected.
- Kaushik Kona:** Thank you Sir.



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- Moderator:** Thank you. We have the next question from the line of Neha Manpuriya from JP Morgan. Please go ahead.
- Neha Manpuriya:** On the R&D front I understand that you said that this could pick up as we file more ANDAs but I would have assumed if you are doing more work on the ANDAs our R&D would have been higher at least in the last two quarters, I understand you will eventually file these products so what is the reason for the R&D lagging our expectation of 5.5% of sales?
- Prabhat Agrawal:** A lot of this has to do with the timing also Neha so we said that on an annual basis we should be around between 5% and 6% so we should get close to that hopefully by end of the year.
- Neha Manpuriya:** Okay and what about if I say two years out, do you see that level maintaining or could that 5% to 6% inch higher as a percentage of sales?
- Prabhat Agrawal:** As of now we are maintaining that but based on new product plans that we are continuously evaluating it might go up also.
- Neha Manpuriya:** My second question is on the employee cost, I am assuming that there is some amount of increment bonus etc., included in the number or is this are base that we should be assuming for the next few quarters?
- Prabhat Agrawal:** Increment and all I have already taken into account in reporting these numbers.
- Neha Manpuriya:** So this is the base or does this include any one off item?
- Prabhat Agrawal:** It does not include any one off items.
- Neha Manpuriya:** Thank you so much.
- Moderator:** Thank you. We have the next question from the line of Aishwariya Agarwal from Reliance Mutual Fund. Please go ahead.
- Aishwarya Agarwal:** Sir can you please help us with the US facility I mean in terms of 483 what kind of observations were there and how long you foresee will it take for you to start getting approval from the same facility?
- Amit Ghare:** I think as we mentioned we received total 13 483 observations and within the stipulated time, which was given to us, we have already responded. We have also implemented the corrective preventive actions and some of those will keep going until the end of this year calendar year until December so until that time on a regular basis we may send some updates to FDA. This is all what I am saying is a very normal process for any inspection and thereafter the correspondence which happens with FDA so we are basically saying it is a normal process.



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- Aishwarya Agarwal:** So are you getting any approval from the same facility right now?
- Amit Ghare:** Yes, I mentioned to you that we looking at the Rosuvastatin case it is possible that we may not get approval from the facility at this moment. Having said that I do not know if you had observed but immediately one week after our inspection had got over we had received one approval from the same facility.
- Aishwarya Agarwal:** Tentative approval or the final approval Sir?
- Amit Ghare:** It was a final approval.
- Aishwarya Agarwal:** Do you expect FDA to re-inspect the plant for this 483 or I mean it will get resolved just by the compliance that you are updating there?
- Amit Ghare:** See what FDA dose obviously FDA knows but we are not expecting any re-inspection.
- Aishwarya Agarwal:** Sir you also mentioned in call that there was some again inspection by FDA without any 483s product oriented? what was that and I could not understand?
- Prabhat Agrawal:** It was basically in connection with two ANDAs that we had filed and the studies with respect to the bio-analytical that we had performed at the Daman site so the FDA came for an inspection in connection with those two ANDAs and that observation was cleared without any 483.
- Aishwarya Agarwal:** This was after the 483-stuff right or before?
- Prabhat Agrawal:** No this was after. So the 483 inspection was in September this particular inspection was in end October.
- Aishwarya Agarwal:** Thank you Sir. Best of luck.
- Moderator:** Thank you. Ladies and gentlemen that was the last question and as there are no further participants we will now close the question queue. I would like to hand the floor back to the management for closing comments, please go ahead.
- Prabhat Agrawal:** Thank you once again for listening attentively to our conversation. Hopefully it was helpful to everyone. Feel free to go through our presentation on the website and if there are any more questions, please feel free to contact our investor relations department. Thank you so much for your presence.
- Moderator:** Thank you gentlemen. Ladies and gentlemen on behalf of Motilal Oswal Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.