



“Alkem Laboratories Q3 FY2017 Earnings Conference Call”

February 10, 2017



ANALYST: **MR. KUMAR SAURABH – MOTILAL OSWAL SECURITIES**

MANAGEMENT: **MR. PRABHAT AGRAWAL – CHIEF EXECUTIVE OFFICER - ALKEM LABORATORIES**
MR. RAJESH DUBEY – CHIEF FINANCIAL OFFICER - ALKEM LABORATORIES
MR. AMIT GHARE – PRESIDENT INTERNATIONAL BUSINESS - ALKEM LABORATORIES
MR. SATYEN MANIKANI – VICE PRESIDENT BUSINESS DEVELOPMENT AND STRATEGY - ALKEM LABORATORIES
MR. NITIN AGRAWAL – AVP FINANCE - ALKEM LABORATORIES
MR. GAGAN BORANA – DGM, INVESTOR RELATIONS - ALKEM LABORATORIES



*Alkem Laboratories Limited
February 10, 2017*

Moderator: Ladies and gentlemen good day and welcome to the Alkem Laboratories Limited Q3 FY2017 Earnings 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 questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kumar Saurabh from Motilal Oswal Securities. Thank you and over to you Sir!

Kumar Saurabh: Thanks Reo. Good evening everyone. I welcome you all on behalf of Motilal Oswal Securities Limited. We have with us Alkem Senior Management. From the team we have Mr. Prabhat Agrawal – CEO, Mr. Rajesh Dubey - CFO, Mr. Amit Ghare – President International Business, Mr. Satyen Manikani – Vice President Business Development and Strategy, Mr. Nitin Agrawal – AVP Finance, and Mr. Gagan Borana – DGM, Investor Relations. Gagan Over to you for opening remarks.

Gagan Borana: Thank you Saurabh. Good afternoon everybody and thank you for taking out time and joining us for the Alkem Laboratories Q3 FY2017 earnings call. I am Gagan Borana from Alkem IR Team. Earlier during the day we have released the financial results and the same are also posted on our website. Today in this call we have the senior management team of Alkem to discuss the business performance and outlook going forward. Before I proceed with this call I would like to remind everybody that this call is being recorded and the call transcript would be made 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 risks that our business faces. After the end of this call if any of your queries remain unanswered please feel free to get in touch with me. With this I would like to hand over the call to Mr. Prabhat Agrawal. Over to you Sir!

Prabhat Agrawal: Thank you Gagan and welcome you all to the quarter three earnings call for Alkem laboratories. I believe all of you have the presentation in front of you, so I will take you through the slides of these presentations.

I am going to the second slide straight after the safe-harbour statement. Revenues for the quarter grew by 15.1% from 1287 Crores to 1481 Crores. I would like to remind you and then we will discuss in more details as we go forward in the slide that this quarter was particularly a tough quarter for the company, for the industry as a whole because there were many issues most important was demonetisation that happened on 8 November 2016, so that had an impact on various industries in a different way and different companies were able to manage to different levels. Also it was a weak season for anti-infective, which drives like 40% of our revenues for the domestic business. So in backdrop of that tough environment Alkem delivered a growth of



*Alkem Laboratories Limited
February 10, 2017*

15.1%. Our growth for the India market was 13.5% for the quarter and growth for international market was 18.7% for this quarter.

I go to the next slide. If you look at our gross margin for this quarter was a little bit better than the last year, it went up from 60.4% to 63.5% and it was driven more by the product mix especially in the international market. We had in this quarter impact from DPCO price cut as compared to the last year, but it was more than offset by the product mix and other cost optimization strategies by the company.

Our EBITDA grew by 13.7% and for the quarter it ended up at 18.1% compared to 18.3% for the last year. Despite almost 3% increase in gross margin we could not translate into EBITDA margins mainly because of certain higher incentive payouts provided for this quarter we will talk about it in later. Our profit before tax increased by 20% for the quarter to Rs.255 Crores, our profit after tax grew by 24.9% to Rs.233 Crores for this quarter.

If you look at our financials on a nine-month basis our revenues grew 18% for the nine-month period, there was an improvement on gross margin by almost 100 basis points on the nine-month basis, our EBITDA margins were 60 basis points higher than the last year, our profit before tax margins were more or less constant at 18%, we had certain one-off items in other income items last year as we sold certain brands for which we realized in book profit in the last year, which did not happen this year. Our profit after tax at 755 Crores was 15% higher in last year.

I will take you a little bit more in detail for the domestic business. India sales contributed 70.4% for the third quarter. During the quarter the company's secondary sales grew 6.2%, which was higher than the corresponding IPM growth of 5.7% and this is what is reflected in the IMS database of course as we said our internal domestic business grew by 13.5% during the quarter. As we discussed before this quarter was a challenging business environment for us specifically for acute business, which was severely impacted by demonetisation coupled with weak anti-infective season and you can see that and we will talk about it in the next slide when we go through the growth profile between various therapeutic areas.

For nine-month basis, the growth reflected in IMS was 13.5%, which was 360 basis points highest in the IPM growth of 9.9%. You would know that Alkem is known for delivering a growth higher than the industry growth rate based on our leading positions of our brands, strong executional capabilities and strong sales and distribution infrastructure in India. We also entered into an alliance with Haw Par India Private Limited to exclusively market, sell and distribute Tiger Balm range of products in India; we made a press release some time back. This brand gives us a thrust to building company's domestic OTC business and OTC business is something that we are pretty aggressive about building in next few years.



*Alkem Laboratories Limited
February 10, 2017*

If you look at in the next slide how the company perform in different therapeutic areas and one of the most outstanding or notable thing you would notice is negative growth rate in anti-infective. If you just compare this anti-infective growth rate with the preceding quarter, which is quarter two, the anti-infective growth rate was almost 22.8% and which dropped subsequently, it went into the negative territory in fact in this quarter. 40% of Alkem's revenues are derived from anti-infective segment, but in spite of that company has been able to deliver a growth of 13.5% in the domestic market, which is testimony to the strong and consistent performance of Alkem's brands and people in a tough market environment.

Apart from anti-infective as usual we have outperformed in gastrointestinal where we grew 15% while the market grew only 5.8%. You can see that gastro segment is always a double digit growth if you compare for last seven, eight quarters, but this quarter growth impact due to demonetisation and other growth tapering down to only 5.8%, but we have been able to maintain our growth rate. Pain analgesic have given 5.3% market growth while we have delivered 15.1%, vitamins 8.5% against the market growth of 7.4% and everywhere we have maintained our ranks in the therapeutic segment.

We will go to the next slide. We present our performance in the emerging therapeutic area that we have talked about in the previous earnings call and these are the areas where company is very strongly positioning itself for an aggressive growth. Antidiabetic for example the market grew 17.2% while we grew 23.6% and we gained two ranks, even with the gain of rank we are still an insignificant player in antidiabetic market, but this is the area that we are continuously pushing for an aggressive growth going forward.

Same for neuro CNS we grew 18.4% while the market grew 8.6%, the notable point is that we entered the top 10 league of companies in neuro CNS so we are now among the top 10 companies despite very strong incumbents like Sun, Intas, and Torrent.

Cardiac again the same story we have been able to deliver almost twice the rate of the market growth rate and we would gain couple of ranks. Again the same point as antidiabetics we are still an insignificant player in this therapeutic area, but we are very hopeful and optimistic about the growth going forward.

Derma is one area where we maintain the rank, we grew a little bit above the industry, but we should be doing better in this therapeutic area going forward as well.

I will hand over to Amit to take you through the next couple of slides on US and International Business.

Amit Ghare:

Thank you Prabhat. Good evening everyone. Our US business first talking quickly about that. During this quarter our sales in US were Rs.3.38 billion, which was 30% year-on-year growth



*Alkem Laboratories Limited
February 10, 2017*

and the US business contributed to a little over 23% of our total sales for this quarter. This was obviously on the back of a strong and good winter season portfolio that we had, which helped us do a sequential quarter-on-quarter growth.

We also launched one new product during the quarter taking our total to five for the nine months of this fiscal. We also filed one ANDA during this quarter and also received one TA, so taking our total approvals to 35.

On the inspections if you recall during the previous call and during the previous quarter we had an inspection in Daman, which had resulted in several observations and as management we were fairly confident of clearing that. So during this quarter our facility in Daman the formulation facility did receive an EIR in December 2016, so we are now back to current status, we always were, but we are back to current status.

We also had our API facility under inspection during December 2016 and we had three observations, which we have responded to within the timeline.

Moving quickly onto other international markets the basic theme here as we have said earlier as well is that we continue to focus on our key geographies and our key geographies within Australia, Chile, Kazakhstan to an extent, we continue to record healthy growths in our local currencies. In some countries obviously there has been some currency fluctuation, but the major markets have witnessed steady currencies and for some of our other portfolio we are rationalizing as our business grows, we continue to rationalize our markets, we continue to select them, and we continue to focus on key geographies and obviously we believe in going deeper in our chosen markets rather than going wider across too many markets. So that theme basically will continue as we go forward as well on the other international non-US markets. That is it from my side, Prabhat back to you.

Prabhat Agrawal:

Thank you Amit. On the strategy slide we hear that the consistent strategy that we have been following for many quarters and we have been talking about it for many quarters, the idea is to execute them well and some of the execution you can see in our results where the results of our effective execution of strategy is delivered through higher growth than the market growth rate and preparing ourselves for an aggressive future growth and position.

Going to the next slide is on the shareholding pattern. It has not changed much from before. With this I would like to thank you and open the floor for Q&A.

Moderator:

Thank you very much. We will now begin the question and answer session. We have the first question from the line of Ayaan Deb from Nomura. Please go ahead.



*Alkem Laboratories Limited
February 10, 2017*

Saion Mukherjee: This is Saion here from Nomura. Prabhat just one question, you mentioned about certain high incentive payouts during the quarter can you throw some light on that and if you can quantify that number?

Prabhat Agrawal: Yes, you know what happened during the year when we set up the target for the field force at the beginning of the year somewhere in February and March and then subsequently what happened is there were lot of price cuts coming through DPCO, there were FDC ban on 344 formulations in India, so what happened is we kind of revised the target a little bit downwards increasing the volume, but taking into account the price cut the value targets were a bit reduced and then if you look at the second quarter of the year what happened was there was a significant uplift coming from a very good season, lot of the key therapeutic areas that we operate in grew significantly higher than the normal because of outbreak of Chikungunya and Dengue and others, so most of the people ended up achieving the targets that we set for themselves and that led to a little bit of a high incentive payout. Then subsequently when we realized that the incentive payout is likely to be higher we revised the incentive circulars for quarter three and four so now it is going to normalize as we go forward.

Saion Mukherjee: Will it be possible to quantify this number?

Prabhat Agrawal: The thing is I do not want to give a guidance on how much that would lead into increase of EBITDA margins if those normalize because quarter three would also be impacted by many other factors, but it was not very, very significant, but of course it affected the margins for the quarter.

Saion Mukherjee: Great and just on margins itself how should we think, we have seen a significant improvement in gross margin, which you mentioned is because of the product mix and there are also some cost control initiatives, which were on, so where we are in that process and how should we think about margins through the initiatives over the next couple of years?

Prabhat Agrawal: Most of the margin improvement initiatives is already showing up results in quarter-on-quarter performance and then they are many factors, which we are working on, they are price cuts, they are product mix improvement, they are reduction in cost material prices, they are some price increase in non-DPCO, so all these factors are kind of combining, so it is difficult to quantify and give you what is the impact coming from each of these factors, but in spite of all these we have been on the trajectory of improving gross margin quarter-on-quarter. If you look at on a nine-month basis we are at 61% and this is something that we had planned for and we hope to increase further, but we have reached significantly a level where we had all expected to be.

Saion Mukherjee: So basically if we were to keep aside price changes from your procurement, efficiency, improvement whatever you wanted to achieve you have already achieved is what you are saying?



*Alkem Laboratories Limited
February 10, 2017*

Prabhat Agrawal: Yes, if you remember one year back we had run a big programme with one of the top consultants where we had made some packaging changes, some formulation changes, some vendor rationalization and all that, so that initiative and the results from that programme is now more or less captured.

Saion Mukherjee: Just one last question before I join back, is it possible for you to share volume growth for the quarter, year-over-year, and for nine months in the domestic business?

Prabhat Agrawal: Volume growth is, it is difficult to add up the volumes of tablets, with syrup, with capsule, with injections right, but overall we can tell you that because of the price reduction that happened in DPCO molecules or the molecule that got impacted negatively because of price cuts, on those molecules we have gained significant volume share and that is why you see on a value basis we have been able to deliver 18% growth in the domestic market.

Saion Mukherjee: I will join back in the queue, thanks a lot.

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

Prakash Agarwal: Yes thanks for the opportunity and congratulations on good set of numbers. Sir just trying to understand the gross margins again, you spoke about nine months, you spoke about six months this quarter, which is much higher 63% plus. now going forward we believe that this 63% is the new normalized run rate and this revenue mix improvement would continue to be there?

Prabhat Agrawal: I think 63% we would strive for, but it is something that this would happen only if we get a good product mix as we got in quarter three of the year, but for a nine-month basis is the reflection of more sustainable margins.

Prakash Agarwal: The question comes because if I see the absolute delta Q2 to Q3 my India revenue is actually down because of obviously you cannot compare it Q-on-Q, but just seeing the gross margin quality my India contribution is actually lower and my US contribution has gone up and may be my anti-infective contribution would have dropped because there has been no growth there, so the revenue mix is clearly leading to lot of gross margins.

Prabhat Agrawal: Yes we said that right, it is a bit of product mix and mainly better product mix in international market.

Prakash Agarwal: And sustainability you are saying 61.5 you have already achieved in nine months and beyond?

Prabhat Agrawal: It is something that is possible right to maintain.



*Alkem Laboratories Limited
February 10, 2017*

Prakash Agarwal: Thank you for this and second question for Amit sir is on the US side so very strong growth 30%. so what is the kind of price erosion you might have seen in the base portfolio or seeing this growth and has the base portfolio actually grown with increased market share if you could give more colour there and what is the status on the filing we spoke about 12 to 14 filings last quarter we just filed one? Thank you.

Amit Ghare: Prakash we obviously have strong growth as you said so this is on the back of our winter buys, which was of course there last year quarter also, so overall growth has come because of product mix, certainly in generic business there is always deflation, we have not seen anything, which is abnormal so on the price deflation that is the answer. We continue to gain market share on products, which we focus on or where we think our market share is not commensurate with respect to competition, so there certainly has been increase in our market share across few products, so that has essentially led to the growth for this quarter year-on-year. In terms of our filings we continue to target what we had said initially that for the year for every fiscal our target remains between 12 to 15 filings every year.

Prakash Agarwal: So Q4 will be lumpy?

Amit Ghare: That is right.

Prakash Agarwal: So this winter months you said this is seasonal and the growth is going to normalize going forward or which are the key products if you can highlight?

Amit Ghare: Without getting a product specific levels yes we have a winter portfolio. Many companies have we certainly have and traditionally quarter three in US is our highest quarter, so that we must factor into account.

Prakash Agarwal: Which normally normalizes in Q4?

Amit Ghare: That is correct.

Prakash Agarwal: Thanks and I have more questions I will join back in the queue.

Moderator: Thank you. The next question is from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: Thanks for taking my question. Sir would it be possible for you to quantify the impact from demonetisation essentially what would be your growth in India if we have seen normalized anti-infective sales?

Prabhat Agrawal: Neha it is very difficult to quantify that exact impact of demonetisation, but we presented to you the therapeutic growth rate for industry as such for quarter three and you see that it is lower than



*Alkem Laboratories Limited
February 10, 2017*

the previous quarter the preceding quarter, the total industry grew only 5.7% during the quarter while Indian Pharma has always been going in double digit right and now this drop in growth rate you attribute to demonetisation or any other factor it is difficult to quantify, in respect to our growth rate it has been more or less consistent. It has been we have talked about mid teams growth rate for the first six months we were higher than the mid team, in this third quarter we are lower than the mid team, but has not been that drastic change in growth rates depending on demonetisation.

Neha Manpuria: Fair enough Sir and also Sir have we seen trend normalize in January versus what we saw in November, December for the acute portfolio?

Prabhat Agrawal: You are talking about the industry as such?

Neha Manpuria: For us particularly for Alkem.

Prabhat Agrawal: Alkem is I would not say very significantly different than what has happened in the last quarter.

Neha Manpuria: Fair enough and on the US business is it fair to assume that the winter portfolio has more of our own brands versus the in-licensed brands and therefore we have seen that improvement in gross margin?

Amit Ghare: You can say in-licensed products we always sell under our trademarks under...

Neha Manpuria: Yes, but I am assuming the gross margin profile would be different.

Amit Ghare: you are right, yes winter portfolio is predominantly our own portfolio.

Neha Manpuria: My last question is on the R&D number. We have seen good R&D spend, you have talked about these filing bunching in the fourth quarter, how should we look at R&D going forward and if you would like to highlight the key areas that we are looking at?

Prabhat Agrawal: We maintain our guidance of about 5% to 6% is what we consider to be a sustainable R&D spend.

Neha Manpuria: And any specific areas you would like to highlight?

Prabhat Agrawal: No, we are working on various therapeutic areas, various different molecules in our portfolio of 12 to 15 filings per year some are going to be more complex, some are plain vanilla, some could be Para-IV challenges and that is going to be a good mix.

Neha Manpuria: Thanks so much Sir!



Alkem Laboratories Limited
February 10, 2017

- Moderator:** Thank you. The next question is from the line of Damayanti Kerai from HSBC. Please go ahead.
- Damayanti Kerai:** Thanks for the opportunity. I have few questions on your US part. As you said you have maintained market share in your key products that had helped you in maintaining healthy US growth, so IMS health data also indicates the same say like Mycophenolate is doing well, regarding this silver sulfadiazine where like only you and Allergan are present in market, do you see any additional competition coming in, in near term?
- Amit Ghare:** Very difficult for me to answer because obviously you are aware that we do not see anyone filing, we only see when people get approval and after that of course there could be a lag of a couple of months, so far as we are concerned it is actually only Dr. Reddy's and us, Allergan is not in the market.
- Damayanti Kerai:** Now like Daman is cleared in record time, but we are yet to see generic for Crestor to come, so what is holding back its approval anything specific or it will come in due course?
- Amit Ghare:** No, if you recall last time we had also mentioned that in Crestor besides Daman we also had our own something in the product for which we had already filed with FDA so in spite having a tentative approval at that time we were unclear whether it was because of the site or was it because of the product related correction. so obviously this goes to show that it was specific to the product and not specific to the site.
- Damayanti Kerai:** On India like IMS data like your presentation shows that you have done better than market in most of the therapies and only I think we are bit lagging in the respiratory side so what is happening there?
- Gagan Borana:** I will request Satyen to respond to this.
- Prabhat Agrawal:** Respiratory has not been a focus area for us, it is only cough syrups that we have, we are not a company that specializes in respiratory products, our focus is more on the anti-infectives, pain and the GI segment where we have done well.
- Damayanti Kerai:** Last question your sales has been healthy despite no significant product addition in this quarter, so how should we look into FY2018 or 2019 growth for the US part if like this kind of product approval and launch status remain or it continues?
- Amit Ghare:** You are aware we generally do not give any future guidance. I think we had broadly said that we will launch higher single digit product during the year and we are on track for that and for next year also from a number of launches perspective I can tell you that we will do higher single digit launches in products.
- Damayanti Kerai:** Thank you.



Alkem Laboratories Limited
February 10, 2017

- Moderator:** Thank you. The next question is from the line of Abhisheik Sharma from IIFL. Please go ahead.
- Abhisheik Sharma:** Thanks for taking my question Sir! Amit you referred to rationalization in emerging markets, so once you rationalized how many markets do you intent to remain and what would these be, what is the criteria or benchmark that you using for rationalization and any impact on sales or some write-off that we can see in the next few quarters?
- Amit Ghare:** Okay Abhisheik lot of questions, but I can broadly answer. I think the number of markets that we will remain in will be maybe around 8 to 10, so it would not go beyond that. Today of course our products are sold in 53 countries, 54 countries and we are rationalizing that, of course we do not sell in all these 53 or 54 countries by ourself, but it is certainly more than 8 or 10 right now where we sell by ourself and we are rationalizing that, we also rationalizing our B2B portfolio when we are supplying in these 43 other countries or whatever 40 other countries beyond where we sell ourself that is the answer to that. The countries that we have chosen on the non-US side like the Australia, Chile, Philippines, Kazakhstan obviously those will remain, we continue to focus on them and there are few which are of that scale in nature we will use those. The criteria are obviously all where we have done work before and of course the market criteria is also the competitive landscape scenario. I am sorry if I am giving you a very general answer, but that honestly is the real answer where we have demonstrated some work in the years passed and have build some strength and strategies obviously we will continue to pursue those.
- Abhisheik Sharma:** Do we see any impact on account of any inventory write-off that you could take in the next few quarters?
- Amit Ghare:** No I do not think so we are going to see anything significant. Obviously when we are taking decisions of moving away from some of these markets we are taking our own conscious calls and therefore we will make everything possible in order for us to have our clear exit strategy and having said that let me again bring you back to the attention here really that all these non-US non-domestic market businesses totally account for 6% to 7% of our revenues and within that also the Australia, Chile, Kazakhstan, Philippines markets are larger, so really what we are discussing here from a materiality perspective it is not going to make any impact.
- Abhisheik Sharma:** Perfect and just on the tax rate you are trending significantly lower as compared to last year so how should we see that what are the factors, which are sort of keeping it down there and how would it go going forward?
- Rajesh Dubey:** Yes, Abhisheik in this quarter our effective tax rate was 7.5% and in our earlier investors call we have given guidelines of 10% to 12% I think it is going to remain with this range only as far as this year is concerned, if I am just trying to recapture your second question did you ask for..



Alkem Laboratories Limited
February 10, 2017

Abhisheik Sharma: For FY2018 Sir apparently the excise benefits were moving out there is some comment about that so how would you see FY2018 tax rates would they move up from 12% or?

Rajesh Dubey: Yes 2018 it will be a little bit on higher side. I think will be coming somewhere closer to MAT rate that is 20% because one of our plants manufacturing for domestic market it is getting over 10 years of fiscal benefit and our new manufacturing facility it will not immediately take up that kind of production. So we expect 2018 will or even 2019 also somewhere close to our MAT rate only.

Abhisheik Sharma: Right and just back to Amit. Amit are we at a break even level in US post R&D or?

Amit Ghare: I would let Prabhat or Rajesh Dubey answer that question.

Prabhat Agarwal: Yes, Abhisheik we are more than break even post R&D.

Abhisheik Sharma: Alright. Thanks.

Moderator: Thank you. The next question is from the line of Kushal Shah from Research Delta Advisors. Please go ahead.

Kushal Shah: Sir regarding on product, Azilect have you launched that product right now?

Prabhat Agarwal: Rasagiline no.

Kushal Shah: So when are you planning for it and how much of competition like and any expectations on that?

Amit Ghare: We do not have a final approval we only have a tentative approval and we think that there is someone else also who has the tentative approval along with us, so we think that the first filers have got 180 exclusivity though it is not clear there have been news reports on that effect. There are three players besides the innovator right now in the market and there are only two tentative approvals other than those in the market so that is all that I can speak at this moment.

Kushal Shah: Sir the other thing that I wanted to ask was like regarding this demonetisation so you must have your internal targets in that kind of, so I am not asking for any specific numbers, but like how do you see acute versus chronic performing in the quarter as compared to your expectations like you see an effect like this has performed well that kind of if you can tell anything for the specific committee?

Prabhat Agarwal: You are talking about the quarter gone by or your expectation about the next quarter?

Kushal Shah: No Sir this quarter.



Alkem Laboratories Limited
February 10, 2017

- Prabhat Agarwal** This means what quarter four?
- Kushal Shah:** No, Q3.
- Prabhat Agarwal** Q3 you see that the growth rate across the therapy be it chronic or kind of subdued right.
- Kushal Shah:** Yes Sir got it that is it. Thank you.
- Moderator:** Thank you. The next question is from the line of Ravi Naredi from Naredi Investment. Please go ahead.
- Ravi Naredi:** Sir 13 observations received from US FDA in last quarter what is the progress there?
- Amit Ghare:** We received the EIR during the quarter in quarter three in December.
- Ravi Naredi:** What is the Capex plan for financial year 2018?
- Rajesh Dubey:** Talking about next financial year?
- Ravi Naredi:** Yes.
- Rajesh Dubey:** We are not giving any specific numbers, but we will be investing in certain capacity building specifically for international and also for domestic market probably 500 to 600 Crores is a number.
- Ravi Naredi:** 500 to 600 Crores, thank you very much.
- Moderator:** Thank you. Our next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.
- Prakash Agarwal:** Yes thanks for the opportunity again. Sir capex for this year so far has been how much and what is the year expectation?
- Rajesh Dubey:** Prakash up to nine months we have spent around 450 Crores in capex and we expect to be in the range of 550 to 600 Crores by year-end.
- Prakash Agarwal:** The initiatives in the capex are for the expansion of US plant, which we spoke about, which is getting over now or which is in the interim and would require more capex Sir?
- Rajesh Dubey:** Major portion it has already gone, but that expansion is still going on, so that is not yet completed.



Alkem Laboratories Limited
February 10, 2017

- Prakash Agarwal:** Sir other areas where we would be investing or still investing?
- Rajesh Dubey:** This year we completed domestic requirement next year it will be for our international requirements.
- Prakash Agarwal:** Other than US?
- Rajesh Dubey:** Yes it could here in India also, US is going on in any case.
- Prakash Agarwal:** Understood and the cash so you must have done free cash flow so what is the operating cash flow we generated Sir?
- Rajesh Dubey:** This year we consumed something from our opening kitty, but by year-end I think more or less our profit it will take care of cash flow.
- Prakash Agarwal:** But what was the cash balance Sir?
- Rajesh Dubey:** When as of 31 December 2016?
- Prakash Agarwal:** That is right Sir.
- Rajesh Dubey:** It was somewhere around 550 to 575 Crores.
- Prakash Agarwal:** Net cash Sir?
- Rajesh Dubey:** Net cash.
- Prakash Agarwal:** 570 Crores.
- Rajesh Dubey:** Yes.
- Prakash Agarwal:** Perfect and Sir question for Prabhat Sir is on the R&D side so we have guided earlier we have started to see that scale up so very broad level what are the key areas if you could just remind us in terms of next year initiatives because I am sure this will expand further so what is the number we are looking at next year and what are the key areas we would be investing?
- Prabhat Agarwal:** Prakash I answered this question before also the number that we are looking at is 12 to 15 filings in a year time.
- Prakash Agarwal:** R&D expense Sir?
- Prabhat Agarwal:** You are talking about..



*Alkem Laboratories Limited
February 10, 2017*

- Prakash Agarwal:** Percentage to sales Sir.
- Prabhat Agarwal:** 6% that is what we said before.
- Prakash Agarwal:** 6% only?
- Prabhat Agarwal:** 5% to 6% yes.
- Prakash Agarwal:** And which areas particularly we have shortlisted or already taking initiatives to file?
- Prabhat Agarwal:** That is what we talked before it is going to be a mix of various kind of products, some will be more generic, some more complex, some para-IV, it is always going to be a mix of products that would constitute that 6% spend.
- Prakash Agarwal:** And these are oral solids largely?
- Prabhat Agarwal:** There could be others also, a large portion would be in the range of oral solid.
- Prakash Agarwal:** Very broad level question on India so we being market leaders in three to four categories and we have clearly beat the industry growth rate by almost one time so apart from that incentive initiative that you talked about, so what has really led to beating not only anti-infective, gastro but all across therapies we have, so apart from incentive initiative if you could just give us what are the other few things, which have worked for us?
- Prabhat Agarwal:** Just to clarify Prakash incentive there were no special initiative on incentive this year to drive sales right, incentive is a normal and usual practice of motivating our sales force and incentivizing them to drive sales right, so there were nothing abnormal, unusual except that the payout happened higher because we had some target rationalization during the year because of DPCO price cuts. For our rest of the strategy why we have been delivering a growth rate higher than the market growth rate I will invite Satyen to comment on this.
- Satyen Manikani:** Prakash I think basically we have been delivering higher numbers basically because of certain things. Our top 25 brands have shown a very healthy growth so one of the reasons why we have done well is the focus on the top 25 brands. Apart from this what have contributed is the heavy subscriber base and the prescription base in certain therapy areas like gastro, now even in anti-infective our volume growth has been substantial. So these are some of the factors, which have contributed. Apart from this we have also increased our prescription from the specialist apart from increasing our prescription from the generalist population we have also increased the prescription from the specialist, which is what have contributed to the growth that we are looking at.



*Alkem Laboratories Limited
February 10, 2017*

- Prakash Agarwal:** This is very helpful I think so the chronic growth is also showing lot of scale up great thanks and all the best.
- Moderator:** Thank you. We have the next question from the line of Neha Manpuria from JP Morgan. Please go ahead.
- Neha Manpuria:** Thanks for taking my question again. Prabhat could you throw some colour on working capital in the quarter especially given we heard that there were some extended to distributors, etc., has that change significantly versus September?
- Prabhat Agarwal:** No, there is a little bit higher capital working capital in terms of number of days compared to the previous quarter not significantly higher, and it is a mix of both little bit higher working capital in the domestic market especially in one part of the business there has been a little bit of extended credit to some of our large customers and then of course US contribution to total sales is higher than the first half of the year so that is why where typically the working capital cycle is higher than the domestic market so that has also led to a higher working capital days at a consolidated basis.
- Neha Manpuria:** How much would this be higher roughly?
- Prabhat Agarwal:** I mean it is going to be maybe 10% higher.
- Neha Manpuria:** Satyen just wanted to get your views on what do you think would be the potential impact from GST implementation next year, do you think it could be a quarter impact or it could be slightly longer than that?
- Rajesh Dubey:** Neha instead of Satyen I am Rajesh Dubey I would like to reply to your questions. See anything on GST front most of the people they are unclear I think that reform, which is going on. Ultimately it may add to your profitability, but as far as sale is concerned I think the sale will keep on going at its own pace, so GST I think once it is cleared from regulators and all of us we are informed we are able to tell what way it is going to impact on our profitability instead of sales.
- Neha Manpuria:** That is helpful. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Sunil Kothari from Unique Investment. Please go ahead.
- Sunil Kothari:** Thanks for opportunity. Just one thing I wanted to know what would be our tax rate next year onwards will it come back will be normal or we have enough facility or credit?



*Alkem Laboratories Limited
February 10, 2017*

- Rajesh Dubey:** Again in this finance bill we got opportunity to utilize our MAT credit available to us, earlier it was 10 years, now it is 15 years, so we feel we will be in much better position to you utilize our MAT accumulation. I think it is good for the company and not only for us but for all other companies also. In our earlier questions on tax rate here in normal course we expect to be somewhere in the range of 10%. Going forward somewhere close to MAT, but again we analyze completely in Q4 on this new finance sales and more opportunity to utilize MAT credit available, but this is our initial feel, for this year it is going to be somewhere in the range of 10% going forward closer to MAT rate.
- Sunil Kothari:** Thank you Sir!
- Moderator:** Thank you. The next question is from the line of Ayaan Deb from Nomura. Please go ahead.
- Saion Mukherjee:** One question on the US filings. Given all the competition and so many players entering the market when you choose your products for filing is there any change in your thought process there when you look at the market going forward in terms of the kind of products you are picking up for development and filing?
- Amit Ghare:** No, Saion to be honest not really. Obviously as organization we keep evolving into our capabilities so when we started out, obviously we started lower in number and lower in complexity levels as well and we probably did only one dosage form. As we have progressed obviously as we have added to our R&D strengths and capabilities over the years. We have obviously gone into first files and complex dosage forms, new dosage forms as well, so over the years that is what has been done and that continues.
- Saion Mukherjee:** You have some initiative on the biosimilars front initial work that you were doing what is the status there and what are your thoughts for those products are you looking largely for India and emerging markets there or there is any plan for global development?
- Prabhat Agarwal:** I think we have talked about it before in earlier calls also we are working on a portfolio of 8 to 10 products in biosimilar primarily targeted towards Indian market, but the way we are doing and accumulating data there are products that could be taken for global markets as well. The development is taking care of in a way that some selected products can also be taken for global markets.
- Saion Mukherjee:** In terms of product launches I think you mentioned in the US high single digit launches next year and any big launch there that is possible and also what is the outlook for fiscal 2019?
- Amit Ghare:** Saion we do not give guidance for future, so I am afraid I will not be able to speak anything more than what I have said, higher single digit number of launches is what we expect for FY2018.
- Shayan Dev:** No outlook for 2019 right?



Alkem Laboratories Limited
February 10, 2017

- Amit Ghare:** No, not at this time.
- Saion Mukherjee:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.
- Prakash Agarwal:** Just a clarification on the tax rate again. Rajesh Sir talked about tax rates being around MAT rate in the last call I think I was just reading through it was about 16%-17%, so are you saying that there has been delay in the new facility that you talked about I got a little confused, so what is leading to the change in the tax rate guidance.
- Rajesh Dubey:** No, you are talking for 2018?
- Prakash Agarwal:** Yes Sir!
- Rajesh Dubey:** Yes, it was close to MAT rate only Prakash. See next year one of our domestic plant it is coming out of fiscal benefit and that is going to happen in between of the year so that is the reason we expect our effective tax rate to be on higher side.
- Prabhat Agarwal:** Prakash next year is a little bit transition period right because you are getting out of one facility and entering into another facility. It is very difficult to accurately predict what is that effective tax rate for next year because the transition period, but in terms of the facilities that we have for tax optimization we remain for domestic market we have a facility ready, which can extend the tax benefits for us up to 2027.
- Prakash Agarwal:** And when is this getting operational Sir?
- Rajesh Dubey:** Which one?
- Prakash Agarwal:** The facility, which will be having tax benefit till 2027?
- Rajesh Dubey:** New facility it will be operational in 2017-2018 itself, but during transition of period you cannot expect it to run on full capacity so that is the reason why we expect a little bit higher tax rate in 2018.
- Prakash Agarwal:** And 2019 to drop by or to have similar tax rate.
- Rajesh Dubey:** 2019 again we do not see very big change, but I think again that is the reason why we are saying we will be closer to MAT rate.



*Alkem Laboratories Limited
February 10, 2017*

- Prakash Agarwal:** Understood fair enough and some colour on Crestor now given that there were some studies required post the 483s. Where are we and is it a lost opportunity for us?
- Prabhat Agarwal:** There were no studies required post 483s. There was something in our product, which required whatever work, which we had already done and submitted prior to launch and what we mentioned is we were unsure whether the approval was withheld because of facility or which was product specific. As mentioned that after getting Daman EIR, but not getting the approval sort of proves that it was product specific rather than facility specific. Coming to colour on Crestor whenever now we get approval obviously at that time we will study what the market situation is and based on that we will decide how to launch, when to launch, which segment to launch.
- Prakash Agarwal:** Understood and sir for Fingolimod we were expecting that to be a good product. Now many players are coming into, so any thoughts there?
- Prabhat Agarwal:** No, we are a first filer as you are aware so we will enjoy our shared exclusivity whenever it realizes. So these days there is nothing like exclusivity. It is always a shared exclusivity so we always expected certain number of competition and that would probably remain.
- Prakash Agarwal:** Perfect very helpful and lastly on Nexium Sir what is the status there?
- Prabhat Agarwal:** It is not approved so obviously I do not want to talk about anything, which was not approved.
- Prakash Agarwal:** Perfect, thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Aditya Khemka from DSP Black Rock. Please go ahead.
- Aditya Khemka:** Thanks for the opportunity. Rajesh I have just one question. so this recent budget speech we have mentioned that the MAT benefit was to be extended from 10 years to 15 years. Would that have no impact on our potential tax rate in FY2018 would that not be beneficial?
- Rajesh Dubey:** See of course MAT extension is going to benefit company that is the reason why I said when utilize maximum whatever MAT we are having and we have a sizable MAT sitting on our books, so that is definitely going to help us.
- Aditya Khemka:** In a sense what you are saying is your P&L tax rate might be higher, but your cash tax rate will be lesser because you would be utilizing the MAT credit, is that understanding correct?
- Rajesh Dubey:** No, but for 2018 I said it will be close to MAT rate.
- Prabhat Agarwal:** What we are saying is your cash tax rate and P&L tax rate probably would be close.



*Alkem Laboratories Limited
February 10, 2017*

Aditya Khemka: Would be close and both would be close to MAT and question for Amit. Amit on the US side so currently how many products are pending approvals with the FDA?

Amit Ghare: I think whatever filed, which is I think a number, which is beyond 78 if I remember 78, 79 less 35, which have been approved so the number is about 40+ 42.

Aditya Khemka: 42 and out of these products how many do you have target action dates in the next 12 months?

Amit Ghare: Good number I would say, can you repeat the question did you say next few months?

Aditya Khemka: Next 12 months.

Amit Ghare: Next 12 months I do not have that data in front of me right now Aditya, but I would imagine it will be about 30% of our portfolio remaining portfolio.

Aditya Khemka: So if I just were to look given the GDUFA sort of GDUFA II kicking in and given that most of these filings are actually recent they are not very old filing therefore there should be falling within GDUFA framework would it be fair to say that whatever is yet to be approved as of today will get approved over the next 24 months would that be a fair statement?

Amit Ghare: Sorry you need to repeat that Aditya.

Aditya Khemka: Let say 40 plus filings, which are pending approval as of today would all those 40 plus filings probably get approved over the next 24 months given that these are all under the GDUFA framework and the GDUFA timeline says around 10 months for each of these filings?

Amit Ghare: Right I would imagine so, obviously we have some which are prior to GDUFA filing period also and we are not the only one I am sure every company still have them, but the fair assumption would be a good chunk of this portfolio could get approved in the next 24 to 30 months, but that obviously does not mean that they will be commercialized because there are still lot of first files and there could be lot of tentative as well approvals.

Aditya Khemka: Sure, so what I wanted to understand is out of this 40 plus how many are pre GDUFA?

Amit Ghare: Again I do not have that number Aditya.

Aditya Khemka: Would you either guess 10, 15, 20?

Amit Ghare: Yes I would imagine so.

Aditya Khemka: Thanks Amit.



Alkem Laboratories Limited
February 10, 2017

Moderator: Thank you. That was the last question. As there are no further questions I would like to hand the conference back to the management for any closing comments.

Prabhat Agarwal: Thank you everyone for patiently listening in and I hope that me and my team have been able to answer your concerns well. Of course our investor relation team is available to take your questions offline as well. Thank you once again for listening in.

Moderator: Thank you very much. On behalf of Motilal Oswal Securities that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.