"Alkem Laboratories Limited
Q3 FY2020 Earnings Conference Call"

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| **ANALYST:** | **MR. TUSHAR MANUDHANE – MOTILAL OSWAL SECURITIES LIMITED** |
| **MANAGEMENT:** | **MR. SANDEEP SINGH - MANAGING DIRECTOR - ALKEM LABORATORIES LIMITED**<br>**MR. RAJESH DUBEY - CHIEF FINANCIAL OFFICER - ALKEM LABORATORIES LIMITED**<br>**MR. AMIT GHARE – PRESIDENT (INTERNATIONAL BUSINESS) - ALKEM LABORATORIES LIMITED**<br>**MR. YOGESH KAUSHAL - SENIOR VICE PRESIDENT, CHRONIC DIVISION - ALKEM LABORATORIES LIMITED**<br>**MR. GAGAN BORANA - INVESTOR RELATIONS – ALKEM LABORATORIES LIMITED** |

**Moderator**: Ladies and gentlemen, good day and welcome to the Alkem Laboratories Limited Q3 FY2020 Earnings Conference Call hosted by Motilal Oswal Financial Services Limited. 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. Tushar Manudhane from Motilal Oswal Financial Services. Thank you, and over to you Sir!

**Tushar Manudhane**: Thanks, Faizan. Welcome to the 3Q FY2020 Earnings Call of Alkem Lab. From the management participants, we have, Mr. Sandeep Singh, Managing Director, Mr. Rajesh Dubey, Chief Financial Officer, Mr. Amit Ghare, President International Business, Mr. Yogesh Kaushal, Senior Vice President, Chronic Division, and Mr. Gagan Borana, Investor Relations. Over to you, Gagan.

**Gagan Borana**: Thank you, Tushar. Good evening, everybody, and thank you for taking your time and joining us for Alkem Laboratories Q3 FY2020 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 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 the call is being recorded and the call transcript will 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. Sandeep Singh to present the key highlights of the quarter and strategy going forward. Over to you, Sir!

**Sandeep Singh**: Thank you, Gagan. Good evening, everyone. Thank you for taking out time and joining us for our quarter 3 and 9 months FY20 results conference call. I would briefly touch upon some of the key performance highlights, and would then leave the floor open for questions and answers. Quarter 3 FY2020 has been a strong quarter for the company with revenue growth of 13.3%, EBITDA margin of 20.8%, which is a significant 450 basis points improvement over the last year, and net profit growth of close to 89%. Similarly, for the 9 months of this financial year, we delivered a revenue growth of 14.4%, EBITDA margin of 18.6%, which is 260 basis points higher than last year; and a net profit growth of 58.2%.

Touching upon the key performance highlights of the quarter, our India business, which contributed about two-third to overall sales, grew by 14.1%. The growth was broad based with all our 3 segments, acute, chronic and trade generic, registering a healthy year-on-year growth. As for IQVIA data, our secondary sales grew at more than 1.5x the IPM growth rate. This was largely driven by significant growth in our anti-infective portfolio, which registered a secondary growth of close to 21% compared to the therapy growth rate of 12%. In gastrointestinal and vitamins segment also, we delivered a secondary sales growth, which was higher than the market growth rate, thereby maintaining our leading position in these therapies. In our chronic segments like neuro, CNS, cardiac, anti-diabetes and derma, we grew significantly ahead of the therapy growth rate, thereby improving our ranks and market share.

We have a comprehensive product portfolio with several market leading brands, which are well complemented by a large field force and pan India distribution network. This along with effective sales and marketing strategies, have been the key reason for our strong performance in India market. Coming to international business, which contributed about one-thirds to overall sales and grew by 11% during the quarter. This was mainly driven by our US business, which grew at 12.6%. During the quarter, we invested about Rs.121 Crores in R&D, which is about 5.5% of operating revenue. We filed 4 ANDAs during the quarter, and received 4 approvals, which includes one tentative approval. Thus, for the 9 months of this financial year, we have filed a total of 11 ANDAs and received 15 approvals, including 4 tentative approvals.

On cumulative basis, we now have a product pipeline of 136 ANDAs, already filed with US FDA, with 70 final approvals. With more than half our filings yet to be commercialized, timely product approvals and their launches would be our key focus to drive growth in the US market. Talking about CGMP inspections, I am very happy to share that during the quarter, the US FDA inspected our Bioequivalence center located at Taloja. We cleared the inspection without any Form 483. Also in November 2019, both our formulation facilities in India at Daman and Baddi received an EIR. To update, we just concluded an inspection at St. Louis last night, which we have updated the stock exchange. We got three 483s, and we would like to highlight that we had got eight 483s than last time, and none of them have repeated this time. We are confident that we will close this in the next few months.

Summing up the performance for the quarter and 9 months gone, I would like to say that we have already made a lot of investments in our people and infrastructure, which we are looking to leverage going forward. Improving the productivity and utilization would be one of the important focus areas for the company. Also, cost optimization and process improvements are the other major areas, which we are continuously working on, in order to compete more effectively in the cost conscious generic market. Thank you for listening. With this, I would like to open the floor for questions and answers. Thank you very much.

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

**Kunal Randeria**: Good evening. Thanks for taking my questions. Sir, first question is related to gross margin. So we have seen the 9-month 2020 has seen a very good improvement over FY2019, and the margin were fairly steady in the last few quarters, so if we were to break down some of the improvements that have led to maybe the product mix or API prices or procurement efficiencies, I mean, some rough estimates of what has led to the improvement?

**Rajesh Dubey**: Yes, Kunal, you rightly said, in this quarter, we witnessed 3% improvement in gross margin. It was 58.6% in last year's quarter 3, now it is 61.8%, and you rightly pointed out, there are more than 2, 3 factors, and API is one of them, so you can give equal weightage to API prices as well as good mix also. It is a combination of particularly these two things, softening of API prices and the product having better margin, that mix has got improved.

**Kunal Randeria**: Right. So then related to API price again, see, one of the domestic API suppliers today said that they are seeing higher prices for the finished goods, so I just would to like to get your thoughts on it?

**Rajesh Dubey**: See, if I see my quarter so definitely, we had advantage of API prices. I think API price, it is going in line with our understanding and cost, what we have in our mind. So unless recent problem, and that we are not discussing that is coronavirus related supply issue, I think we are very comfortable. We do not see any significant upside in API price unless something happens going forward.

**Kunal Randeria**: Perfect, I have few more questions, I will join back.

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

**Prakash Agarwal**: Thanks and congratulations on good set of numbers. The first question on the strategy, like a couple of years back, we took a strategy of expanding the field force and de-cluttering the bigger brands, I think that is clearly playing out well, since we have grown very well, how do we ensure this double-digit growth irrespective of the season continues for the next couple of years?

**Yogesh Kaushal**: Prakash, see, you rightly said that one is that we got a good favorable year, so if you see last 3 year's trend, the acute portfolio in the industry has grown by 5% to 6% and last 2 years, we are witnessing a growth of around 10.5% to 11%, so that has certainly supported us. Now look at the structure of company, there is an acute and last time also I said, and there is a semi chronic set of a segment, which is now becoming stronger in the company, okay and then we have a chronic. So if you split all these 3 then our acute and acute, which is anti-infectives and all is just one-third of the business. The one-third is semi chronic, which does not have an impact of the season and then our evolving chronic business, which has started contributing close to 11% to 12% business, so we have to strengthen semi chronic and chronic in future and we hope that next year 2 would be a good year, the way we have been witnessing for the last 2 years, so that should sustain a robust growth for company.

**Prakash Agarwal**: But if you could share some strategies or action plan that you are taking, like in terms of new launches or covering the gaps in new therapy areas or existing therapy areas that would be great.

**Prakash Agarwal**:

See, from existing products, except for those 14 brands which are amongst top 300, we have identified certain brands which are in a range of 10 Crores to 20 Crores and 20 Crores to 25 Crores types, so we intend to at least add 2 to 3 products in this club of top 300 and all those bigger divisions, which has a brand range of 20 Crores to 50 Crores that we would want to make them big and in chronic and semi chronic, where we are in the range of 10 Crores to 20 Crores, we are identifying 1 or 2 brand per division, which can be in the range of 50 Crores to 100 Crores in the next 3 to 4 years' time, so these are clearly identified for each of those therapies, and each of the businesses and the focus will be to make these brands bigger in the coming time.

**Prakash Agarwal**:

And is there a revised guidance for the margins, as last time, it was 100 to 150 basis points on a base of fiscal 2019, we are clearly much above that, so if you could help us with the guidance for the closing year and next year?

**Rajesh Dubey**:

Prakash, as you know, and offline or on this call, you always ask about our guidelines as far as margin is concerned, so we remain with our guidelines and last time also, we said, definitely, we are going to put 100 basis point improvement to our margin, and we stick to it. I think you should not take this quarter 3 margin absolutely for annual, but definitely, in annual terms also, we are going to do better and definitely, there will be 100, 150 basis points more.

**Prakash Agarwal**:

So my question was more towards next financial year. If there is any color that we can give on the margin side, given the cost initiative also we last mentioned in the last call, that we are taking, so what are the margin levers for next year?

**Sandeep Singh**:

So Prakash, first, if you remember last call or the one before that, we have maintained that every year, we will increase it by 100 basis points EBITDA margin, obviously, not infinity, it is not possible, but our long term objective was that short term objective to medium term was 20% EBITDA margins, I think we are in sync with that in a couple of years' time, so that is the color we can give right now, nothing more than that.

**Prakash Agarwal**: Thank you and all the best. I will join back in the queue.

**Moderator**: Thank you. The next question is from the line of Saket Bansal from Opulent Investment Advisor. Please go ahead.

**Saket Bansal**: Sir, I have a few questions, you said, there was a good mix because of which we see a gross margin increase, so do you mean chronic growth rate was higher compared to the actual growth rate and if you can say, 9 months, what was the chronic growth rate and what was the actual growth rate?

**Rajesh Dubey**: Yes, when I say improvement in product mix, it is not any therapeutic area specific, so it is for our overall business, we are having better margin. It goes well with acute as well as chronic and even for our international business also, so it is not nothing specific to any particular segment.

**Saket Bansal**: Sir, still if you can say, what kind of a growth rate we saw in this quarter in chronic?

**Yogesh Kaushal**: See, overall organization growth is 14% and our acute has grown by 13% and chronic has grown by 21%.

**Saket Bansal**: 21% for this quarter, right?

**Yogesh Kaushal**: Yes, for this quarter. This is I am talking about annual. This is I am talking about for 9 months.

**Saket Bansal**: 9 months?

**Yogesh Kaushal**: Yes.

**Saket Bansal**: Air, your tax, if you can just tell me what kind of tax rate we will be closing this year?

**Rajesh Dubey**: We will be somewhere close to 10%, in some case.

**Saket Bansal**: And FY2021 and 2022, if you can guide me over there.

**Rajesh Dubey**: It is going to be in this range really, 50, 60 basis points here and there.

**Saket Bansal**: Great. And sir, one more thing about this inventory, you say that there can be a problem because of the coronavirus, so do you have any kind of inventory of API, just you procure it from China.

**Rajesh Dubey**: Generally, any pharma company of our size, they ensure or they take care of a month API requirement of 1.5 months and our dependency directly on Chinese imported material is not very great, it is below 5%, but indirectly, of course, it is that, but we are comfortable at least for 1.5 or 2 months.

**Saket Bansal**: You do not think so there can be any impact going forward in this quarter?

**Rajesh Dubey**: That I cannot say because it depends how quickly this gets off, so we have our back-up plan for 1.5 months and let us see how things go well ahead.

**Saket Bansal**: Sir, if you can throw some colors on US, like how is it going and what is your view there, going forward?

**Amit Ghare**: Well, the growth in this quarter probably was on the lower side, as you guys have seen, but certainly, we are growing and the business is healthy. We have had some introductions in the quarter and the product mix also benefited from overall sales growth as well as from margin perspective, so last quarter, I had very clearly said that we are expecting good growth, double-digit growth, lower double digit, but double-digit growth, and we are very much on track there.

**Saket Bansal**: Sir, in terms of margin, if we see, US chronic, let us say, chronic, have you moved to double-digit EBITDA margin?

**Amit Ghare**: We do not break our margins segment wise, but I will let CFO answer that question.

**Rajesh Dubey**: You rightly said, Amit, we do not talk margins on our therapeutic or any specific business segment as well.

**Saket Bansal**: That is all from my side. Thank you, Sir.

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

**Charulata Gaidhani**: Sir, congrats on the good set of numbers. I wanted to check if you could give a split between volumes and prices in domestic as well as exports?

**Sandeep Singh**: Yes, our volume growth, it was somewhere close to 8%, 8.5%, whereas, our NRV, that is price growth, it was in the range of 4.5% to 5%.

**Charulata Gaidhani**: And any new launches?

**Sandeep Singh**: Yes, of course. Rest of the growth is on account of new launches, that is somewhere close to 3% kind of.

**Charulata Gaidhani**: And exports?

See, as I said, we talk on growth in margins, basically on overall basis, but export, again, both these combination, volume growth as well as NRV growth, it is there and more or less, it is in the same range really, our NRV is new launches, I mean to say, not NRV. NRV, in fact, for existing products is downward, but it is basically volume growth and new launches.

**Charulata Gaidhani**: And why is your tax rate at 10%?

**Rajesh Dubey**: We have some fiscal benefit for our domestic business particularly and then we have R&D expenditure on which we get the benefit that is the reason why tax rate is on lower side.

**Charulata Gaidhani**: All the best. Thanks.

**Moderator**: Thank you. The next question is from the line of Ranveer Singh from Sunidhi Securities. Please go ahead.

**Ranveer Singh**: Thanks for taking my question. The first one, can you help me match this segment wise breakup, so you are seeing international sales is 752 Crores, out of which 584 Crores is from US and 146 Crores is from other international sales, that total is lesser than 725 Crores, so the total is only 730 Crores, so where this 22 Crores is coming from actually, from international business?

**Sandeep Singh**: I think you are talking for our quarterly sales?

**Ranveer Singh**: Q3 number, yes.

**Rajesh Dubey**: Yes, so some components we have from our subsidiaries also, so that is around 20 Crores, we have from our subsidiaries, that is basically 2 ROW market.

**Ranveer Singh**: And even adding up for this India business and International business, it is also not matching up with your total revenue, so is there any element of some other operating income, which is not given in a different split?

**Rajesh Dubey**: Yes, of course, other operating income is there and that is always there, in case of mainly when any company is exporting because you have your export benefits and then since we are having fiscal beneficial plans, so we have, as you speak, different also and besides that, there are a few other items in other operating, so differential portion is other operating income.

**Gagan Borana**: The split which we have given in the presentation is the sales split, okay, not the total income split, so difference is basically the other operating income, so the other operating income in Q3 FY2020 was 326 million, Q2 FY2020 was 446 million, so if you put that, I think the sales will match with the breakup.

**Ranveer Singh**: Understood, and in US business, of the total approvals we have, how many products currently we are selling in US?

**Amit Ghare**: About 80% are commercialized.

**Ranveer Singh**: So some 60, 65?

**Amit Ghare**: No, less than that. Our total approvals, 81 include tentative approvals, so that will bring us down to 70 and within that 70 also, there are we have got final approval, but we are still waiting for launching those and my 80% was with respect to 70, so it is about 50 products that are commercialized, and the balance are either some of them are not very attractive to launch and many of them are in the process of being launched, some of the recent approvals are still under the pace of launch.

**Ranveer Singh**: Fine and any target for product launches in the US next year, how many ANDA we are expecting or planning to launch?

**Amit Ghare**: Yes, so our filing plan is 12 to 15 every year and earlier guidance for launches was higher single digits, which we increased last quarter and last year and since last quarter to lower double digits for new launches in a year.

**Ranveer Singh**: Fine, that is it from my side. Thanks a lot.

**Moderator**: Thank you. The next question is from the line of Sayan Mukherjee from Nomura. Please go ahead.

**Sayan Mukherjee**: Thanks for taking my question. Just one question on the cost front, this material cost or gross margin improvement, has it completely played out assuming, there are no disruption because China, do you think the benefit is already there now in the third quarter or there is something which is still left over?

**Sandeep Singh**: I think it is already there, Saion, yes. I think we are doing a good job.

**Sayan Mukherjee**: Great and on the overheads and employee cost, how should we think, I mean, I understand there is not much addition happening there, so the overhead growth would be below the topline growth, right, is that a fair assumption to make?

Yes, fair assumption to make.

**Sayan Mukherjee**: And Sandeep, one question on this your margin guidance, where you talked about 100 basis points, I am getting to 2020 over a period, let us say, couple of years, given your business mix today, the way you see the business, do you think 2020 is the kind of peakish number or you think, there is room to go beyond 2020, do you have anything that you can share?

**Sandeep Singh**: There is certainly room, but honestly like, wait for certainty that will hit, let us say, 20-plus in the short time frame that is something which I do not want to kind of commit to, so obviously, 2020 is not the peak. The business would also evolve, as you know, it is hard to predict, product mix would change, we have certain plans, so it depends on many factors, but in the possible future, I think, 2020 is something, we are comfortably aiming at, but that is not to answer you, obviously, but above that, it does not happen automatically, we also have to undergo some changes and get into more complex products, for example, like that, that is slightly longer term.

**Sayan Mukherjee**: On India Business anything on M&A acquisition, that you are seeing, that you are interested, or it makes sense for you at this stage?

**Sandeep Singh**: So Sayan, as we always maintained, we are not really looking at to acquire large companies or large brands. We have grown our business organically, it has worked well for us, that does not mean that it is a taboo, we will look at small brands, niche things, which help us fill our portfolio, but nothing large, or even medium sized for that matter.

**Sayan Mukherjee**: Thanks a lot.

**Moderator**: Thank you. The next question is from the line of Anubhav Agarwal from Lucky Investment. Please go ahead.

**Anubhav Agarwal**: Congratulations on great set of numbers, Sir. I have certain questions, if you can just give a number to how many products that are not attractive for launch anymore in the US?

**Amit Ghare**: I would say that number would be in single digits for us.

**Anubhav Agarwal**: That is fine, can you just share a field force count and the productivity, as on Q3 or 9 months?

**Yogesh Kaushal**: See, overall, we have close to around, including Alkem and Cachet, we are on 11000 field force, so the split is between generic, acute and chronic, so we have out of that, around 7000 works for acute and 2000 for chronic and 500 odd for generic. Now for productivity, we have huge range, so those acute divisions, which are settled for quite sometime, our productivity ranges from division of around average overall for Alkem would be 4.8 lakhs, average, it includes the bigger divisions and the smaller divisions or the evolving divisions.

**Anubhav Agarwal**: Right and how much room do we see for this acute segment of IPM to grow from where we are today?

**Yogesh Koushal**: Since they have a large productivity, we would actually intend to grow at least 1.25%, 1.5% more than the market growth.

**Anubhav Agarwal**: Sir, last question, given the fact that we had an extended monsoon this season, would have gained up to about 40, 45 days in this quarter also, so if one were to adjust this, and see the growth rate, can you just throw some light there?

**Yogesh Koushal**: See, your colleague just 2, 3 people before you, they ask the similar questions, so growth, we will have to adjust strategy and I said that, what dependency now is just not on acute, which means anti-infectives. We have chronic, semi chronic and acute, all 3 mix, so we will adjust those brands accordingly, and see that we drive the growth, but yes, we will certainly want the good luck to continue, the way we had last 2 years, and difficult to now project that what kind of monsoon we will have for future, but yes, the year will be little work out to sustain the growth.

**Anubhav Agarwal**: And last Sir, if I may, can you just guide us on our R&D rate for FY2021 and 2022?

**Sandeep Singh**: So I think we have always maintained around 5.5% between 6%, not beyond that.

**Anubhav Agarwal**: Thank you, Sir. That is all from my side. All the best.

**Moderator**: Thank you. The next question is from the line of Shrikant Akolkar from Ashika Stock Broking. Please go ahead.

**Shrikant Akolkar**: Thanks for the opportunity. I would like to know the top 5 products in the US and their contribution in the revenue?

**Amit Ghare**: We do not give product wise revenues, but if you look at IMS, while the revenues may not match dollar to dollar, their contribution to our overall US number will probably match, so that is public information.

**Shrikant Akolkar**: All right, so now that you are closing almost $300 million per year kind of US based, so incrementally, are you seeing any improvement in your profitability, I mean EBITDA margin or gross margin, something like that?

**Amit Ghare**: On the gross margin front, I do not want to make any predictions because the business is always subject to deflation and therefore, product mix and new launches will always contribute, and their contribution will result into overall margin improvement or going down, but when it comes to EBITDA, certainly, the operating leverage will play and any revenue growth will certainly result into higher EBITDA for us.

**Shrikant Akolkar**: But compared to last year, are we saying any significant improvement in your profitability in US business?

**Amit Ghare**: Yes, so to answer your question, since we grew 12.5% this quarter, certainly, our EBITDA for US business would go up.

**Shrikant Akolkar**: And Sir, you also have guided of biosimilars in India, in FY2021, so can you please share your plan, or which are the potential biosimilars that would come in India?

**Sandeep Singh**: So for FY2021, so in terms of giving plans, in terms of revenue, this is the first year, so there is nothing significant, but we would have couple of products in the year 2021, and as you come closer to it, we'll tell you more, but there is still some time left.

**Shrikant Akolkar**: And one last question, if I may, what will be the capex next year?

**Rajesh Dubey**: Next year, capex is going to be in the range of 350 to 400.

**Shrikant Akolkar**: Alright, Sir. Thank you so much.

**Moderator** The next question is from the line of Ameya Chalke from Haitong Securities. Please go ahead.

**Ameya Chalke**: Thanks for taking my question. I just had one question on the chronic part of the business, at this point of time, even the chronic is only contributing 10%, it is still a sizable portfolio of, like if you take the number, we are generating around 600 Crores or more than 600 Crores kind of revenue, so at what point you would see this business will become like 30-plus EBITDA margin business, which typically the chronic set of companies are delivering?

**Yogesh Koushal**: Ameya, see, it is difficult to predict. Because today, the kind of molecules we are launching, initial years, you have very low GCs, so currently, I think we have to really work on building volumes and around 5% to 7%-odd is what we are looking at currently 5 years, So what let me give you a clarity here, that 30% will take some time at least, we reach around 11% to 12% now, we should be reaching next year, but to reach 30% will take at least 4 to 5 years' time.

**Ameya Chalke**: Would we say, like, at least when we reach around 1000 Crores kind of a portfolio in the chronic,that will be the time when we would see the EBITDA margin to cross 30%.

**Yogesh Koushal**: See, I won't make any comment on this because we have to make a lot of investments in chronic, but yes, we should be certainly aspirational to achieve that.

**Ameya Chalke**: 1500, 1200,we do not know.

**Yogesh Koushal**: Yes, We are very in 1000 Crores on topline, but on EBITDA, it is unpredictable because we do not know the kind of challenges we may face from regulatory environment and plus the new products, which come, so difficult to predict that.

**Ameya Chalke**: And secondly, it is a repeat question, if you can again give the split for our MR for different segments?

**Yogesh Koushal**: So see, we have total around 11400, this includes our subsidiaries and in acute, we have close to around 7000, these are all approximate numbers, 2%, 3% here and there can be. Chronic is around 2100 and generic is 550.

**Ameya Chalke**: Thank you.

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

**Aditya Khemka**: Thanks for the opportunity. Just on the question of the previous participants, so the government had spoken about some antibiotic classes dropping out of price control any thoughts on that?

**Sandeep Singh**: So Aditya, no thoughts on that because government can talk about a lot of things, but there is no timing commitment, something might come out, they might put something else, so honestly, I am not speculating on that and it is very hard to make business decisions based on what would happen, so Aditya, no comments on that, because as you know, even if they take out something out, they might put something back in there.

**Aditya Khemka**: Yes, that is fair enough and what has been our free cash flow for the first 9 months of FY2020?

**Sandeep Singh**: Dubey, maybe you can comment.

**Rajesh Dubey**: Free cash flow, you mean to say, are you asking our cash position?

**Aditya Khemka**: No, free cash flow.

**Rajesh Dubey**: So from business, YTD, we have cash to the extent of 100 Crores, after paying off our capex requirement, so it is a 100 Crores surplus cash generated from business.

**Aditya Khemka**: So first 9 months, free cash flow after capex is around 100 Crores?

**Rajesh Dubey**: Correct.

**Aditya Khemka**: And what was the capex number for the first 9 months?

**Rajesh Dubey**: Somewhere close to 300 Crores.

**Aditya Khemka**: And so the full year for capex, again, would be about 400 Crores odd, right, for this year?

**Sandeep Singh**: Absolutely, somewhere between 400 Crores to 450 Crores.

**Aditya Khemka**: Understood and just I did like to sort of ask again the question, Saion asked on the margin profile, so 20% is a good target, yes, but companies with the size of India Business that Alkem has, generally, do far better than 20% on their domestic business, I understand you are investing more, I understand the chronic business, but I sort of do not agree or understand the comment that was made that chronic business has low GC right now, I mean GC is a variable?

**Sandeep Singh**: No, Aditya, nobody said that. We said, we are in investment mode, gross margins, obviously, are higher than acute, so I do not think so even Yogesh did not say that, to be honest. He just said, we are in an investment phase of it, so chronic business reached 30% would take time. That is all he said, Aditya. So I am coming to your first part of it, so again, I am repeating, 20% I said for the next 2 years, does it mean that, that is a peak or that is a nirvana state, the answer is no, we would go higher than that.

**Aditya Khemka**: So Sandeep, by what is a nirvana state then?

**Sandeep Singh**: Nirvana state is always continuation. We never reached the nirvana, Right?

**Aditya Khemka**: That is fair enough. No, see, I think what all of us are trying to gauge is, not for the next 2 years, so what I was trying to gauge is, let us say, 5 years out and I know it is guess work, I know there are variables, you keep saying that, but I agree, there are, but what is the target, what are you looking at?

**Sandeep Singh**: So I do not think through that target. We would like to keep getting better than what we are. We are internally focused, that could be good and bad, depends how you look at it, but every year, if I keep improving our business, keep improving my ratios, I think I am happy, so if you are trying to push me to give you a number, 5 years down the line, I still refrain from that. I think once we cross the hurdle, where we reached 20% EBITDA margins, my US business is doing what we aspire to do, people push your gauge to give an answer for chronic business, that goes to, let us say, if not 30%, but close to 20%, then we could revise it and say, yes, fine, and now we want to aspire to hit 25%, but that is some time left for that, Aditya.

**Aditya Khemka**: That's fair enough, Sandeep and just one last question, so we have spoken in the past about some cost initiatives, and it is reflecting in your numbers, so if you had originally envisage Rs.100 of savings, how much of the savings is already there in your P&L in this quarter?

**Sandeep Singh**: I think 90.

**Aditya Khemka**: Okay, 90 is already there, so the incremental savings you are looking at is only Rs.10 now, from that initiative?

**Sandeep Singh**: Yes, savings, well our operating leverage will kick in. I am sure you know that. I just want to reiterate that, yes.

**Aditya Khemka**: That is fair enough. Thanks and all the best.

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

**Prakash Agarwal**: Thanks for the follow up. Just trying to understand MR addition that we planned to do for next year and the addition this year done?

**Sandeep Singh**: So for next year, we plan not much, maybe 300 people next year.

**Prakash Agarwal**: And has there been any MR addition this year?

**Sandeep Singh**: Sorry, what do you ask? Sorry.

**Prakash Agarwal**: Fiscal 2020, have we added any MRs?

**Sandeep Singh**: Yes, we have added. We have added close to 650 people this year.

**Prakash Agarwal**: So the operating leverage that you just spoke about, with the level of sales you have in domestic, even if it grows by 10% plus and the statement you made, that the cost will be lower than the sales growth, so there are margin levers A, because of this only, right?

**Sandeep Singh**: Yes, mainly because of that, correct.

**Prakash Agarwal**: I understood and did you mention about the generic's growth that we have seen for the quarter?

**Sandeep Singh**: I do not think so we mentioned, but sorry, what is your question, Aditya.

**Prakash Agarwal**: This is Prakash, so I just wanted to know the generics growth and there was also talk about the trade generic margin caps, is there any update, I mean, if you heard anything, what is happening?

**Sandeep Singh**: You know, generic growth is in line with the overall India business growth, round about that, slightly more than that, but not significant and on trade margins, we have not heard anything fresh, but we think whenever they implemented, if at all, it will be implemented therapy wise. It is not going to be done overnight on all therapy areas.

**Prakash Agarwal**: Fair enough and on the balance sheet side, so what is the cash position, A and B, there were some investments lying non-current investments lying, is there an update on that?

**Rajesh Dubey**: So even though we have not shared balance sheet for December quarter, Prakhash, but I was expecting this question from you, so as I said, we have added 100 Crores after capex in this 9 months, that I wanted to inform you. As far as net cash position as of December 31, 2019, more or less, it is neutral kind of, so there is no significant borrowing as such, a small quantum of insignificant amount, 25 Crores, 30 Crores or something in that range, that is one thing and your second question was what?

**Prakash Agarwal**: Net current investments, that the real estate investment that we have?

**Rajesh Dubey**: On non-current investments, so that is basically in real estate investment, so even we have in our accounts, real estate investment at fair value, but on cost basis, it is somewhere close to 125 Crores and we are receiving money against that, so we are hopeful we'll be coming out as per our plan.

**Prakash Agarwal**: Thank you.

**Moderator**: Thank you. The next question is from the line of Nithya Balasubramanian from Bernstein Research. Please go ahead.

**N. Balasubramanian**: Thank you. So, I had 2 questions, one on your US business and the other one on India, so in the US given that you have now reached a run rate of around $300 million per year, you are probably reaching the scale, where it gets tougher and tougher to keep growing on a deflationary business, so what are your thoughts around those, do you think the pipeline is strong enough to keep replenishing the depleting base?

**Amit Ghare**: To answer your question straight away, yes, absolutely. We still have pipeline coming through. Sandeep, in his opening statements, talked about how much portfolio is commercialized, which is approximately 50%, 50% of the our portfolio is yet to be commercialized, so we certainly have growth prospects going forward, simply on that account and Sandeep also mentioned that as we go forward, we will look at value added products or niche products or complex products, and that would be another lever for growth.

**N. Balasubramanian**: Is there a time frame on when you are likely to start looking at complex and differentiated generics?

**Amit Ghare**: In our own way, we are already doing it, some of them are maybe already filed, but in real sense for them to contribute anything noticeable and significant, I think, we are at least 3 years away, maybe longer, maybe 5 years away.

**N. Balasubramanian**: Thank you. My other question was on your India Business, you have actually added a significant number of people in the last couple of years, how long does it normally take for your medical reps to reach average productivity, are they already there yet or do you see that taking a bit more time?

**Yogesh Koushal**: I think this takes time, so if you ask me, on an average, a new medical rep will add a business of close to around 60000 to 70000 in the first year, if he starts from 0 base, so we have very high productivity. We currently operate at a productivity of 4.8 lakhs, so from that count, you can assume that around 4 to 5 years to reach the productivity at a national level for a new rep.

**N. Balasubramanian**: But I think in one of the earlier calls, you had mentioned that not all of these people are being deployed in new territories, it is more like you are splitting a division because your divisions become large enough for this, there are too many brands to handle?

**Yogesh Kaushal**: Yes, but the end of the day, he acquires new 100 customers, so even if he gets into a settled territory, he has to acquire new 100 customers, so does he add 4.5 lakhs even if he enters a stable headquarter, the answer is no, because he has to produce absolutely new business, so if you see a productivity increase in most of the cases, the productivity increase ranges around 8% to 10% of your deals, so that is what Rs.60000 to Rs.70000, on a very high side, on a very optimistic side.

**Sandeep Singh**: More importantly, when we split that, when you do that, his productivity is half, more or less. Obviously, it takes a lot of time for him to get it back.

**N. Balasubramanian**: Thank you.

**Moderator**: Thank you. The next question is from the line of Dipan Mehta from Elixir Equities. Please go ahead.

**Dipan Mehta**: First, congratulations on very good set of numbers. My question is regarding price controls, could you please disclose, what percentage of our Indian domestic revenues from products and the price control?

**Sandeep Singh**: 26%.

**Dipan Mehta**: And how is that moved over the last 12 months or so if you can give us some idea?

**Sandeep Singh**: Last 12 months, I think it is the same, Sir, marginal, but it is the same last 12 months.

**Dipan Mehta**: And second question is regarding your overall strategy for the US market, I mean every pharma company say that, they are being selective in terms of product launches, but if you could explain that into the competitive market, where you are in a way a late entrant, what will differentiating strategy which you are fallen to make the US business effective?

**Amit Ghare**: Too much to describe on a call like this, in terms of a differentiated strategy and what I am going to tell you is a very generic answer, but customer is always the focus for us. Customer service is always an important element for us, having stock is an important element and I think we recognize all of that and our track record proves that in spite of being late in the market, we have always been able to get our expected market share. Our excellent infrastructure helps us, especially, our regulatory track record. We have not had any surprises and that has given confidence to us, and of course, to our customers to continue to have faith in us.

**Dipan Mehta**: Thank you and all the best.

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

**Hari Belawat**: Good afternoon, Sir. Congratulations for the good results and the share market also has shown response to that, it is nearing almost 52 weeks high one, secondly, this is regarding this recently, you had acquired Marinol from AbbVie cost of around $10 million, what is the market for that in US?

**Amit Ghare**: It is about a $35 million product total and we were already selling the authorized generic for Marinol.

**Hari Belawat**: And sir, this product will be only for US or you will be supplying from US back to India or back to some other countries?

**Amit Ghare**: At the moment, it is only for US future, we may think, but at the moment, it is only for US.

**Hari Belawat**: One second thing is, this is equivalent to Marijuana, see, we have seen the problem with opioid cases, though, it was approved through FDA and other things, but later on, different problems have come and either either sales is stopped or it is legally put under problem, do you think any problem could come because it is marijuana equivalent product?

**Amit Ghare**: No, this product is not as potent as some of the other opioids, number one. Number two, the approved indication for product is appetite simulation, nausea, vomiting, for chemotherapy-induced patients, terminally ill patients, so that is what this product is used for.

**Hari Belawat**: So when do you plan to launch it, Sir?

**Amit Ghare**: It is already in the market. The authorized generic has always been in the market by us for last 2 years. The brand will now come to us, and we will continue to sell authorized generic and we will in addition, sell the brand as well.

**Hari Belawat**: Thank you, Sir. Just one more query, this field staff is almost 11000 out of your total manpower of 15000, do you think for entering to any contract with e-pharmacies because now it is a digital age, digital world, whatever is there, manpower is very high numbers for field staff?

**Sandeep Singh**: The prescriptions are generated by doctors and chemist, have to honor it, I think, business model has to be the same what we are doing so, not like the US, if I just keep doing what they are doing, we will, our business model is intact, Sir.

**Hari Belawat**: That I understand, but manpower require is very high, 11000 out of your 15000 or so?

**Sandeep Singh**: They are productive, Sir. It is not a liability, it is an asset. You keep asking us why we keep growing, so obviously, we are doing well.

**Hari Belawat**: Thank you. All the best.

**Moderator**: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for closing comments.

**Gagan Borana**: Thank you, everyone, for attending this call. If any of your queries have remained unanswered, please feel free to get in touch with me. Thank you.

**Moderator**: Thank you. On behalf of Motilal Oswal Financial Services Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.