

Updated: 13-06-2020 14:23

Tags: @vishnu570

86-110 minutes

MUMBAI Jun 8, 2020 (Thomson StreetEvents) -- Edited Transcript of Alkem Laboratories Ltd earnings conference call or presentation Friday, June 5, 2020 at 11:00:00am GMT

DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare

Nomura Securities Co. Ltd., Research Division - Head of India Equity Research

Ladies and gentlemen, good day, and welcome to the Alkem Laboratories Q4 FY '20 Earnings Conference Call hosted by Motilal Oswal Financial Services Limited. (Operator Instructions) 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, Motilal Oswal Securities Limited, Research Division - Research Analyst [2]

Thanks, Steve. Welcome to the 4Q FY '20 earnings call of Alkem Laboratories. From the management side, 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 from Investor Relations. Over to you, Gagan.

Thank you, Tushar. Good afternoon, everybody, and thank you for taking out time and joining us for our Alkem Laboratories Q4 FY '20 and full year FY '20 earnings call. Earlier during the day, we have released our financial results and the same are also posted on our website. To discuss our business performance and outlook going forward, we have on this call the senior management team of Alkem.

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 this call to Mr. Sandeep Singh to present the key highlights of the quarter and the year gone by and the strategy going forward. Over to you, sir.

Sandeep Derjit Singh, Alkem Laboratories Limited - MD & Executive Director [4]

Thank you, Gagan. Good evening, everyone. Thank you for taking out time and joining us for our quarter 4 and full year FY '20 results. I will briefly touch upon some of the key performance highlights of the quarter and the year gone by and would leave the floor open for Q&A.

As most of you would be knowing that a lockdown was imposed in the entire country from 22nd March, which led to significant delays in transportation, resulting in lower booking of sales for the month of March and quarter ended March '20. Adjusting for this impact, the India business delivered a healthy double-digit growth during quarter 4. During the quarter, our international business also registered a robust 23.4% growth led by U.S. business which grew by 25.8%. The growth in the U.S. business during the quarter in dollar term was also strong at 22.7%. This growth driven by a mix of both new product launches and market share gains in our existing products.

For the full year, our India business grew by 11.9% and crossed INR 5,000 crores of revenue mark. Again, adjusting for the impact of delay in transportation due to lockdown in the month of March, the growth in

India business was even higher. This is reflected in our robust secondary sales data by IQVIA which shows that for the full year, our growth was 16.9% year-on-year compared to the industry growth of 10.8%.

In anti-infectives and vitamins and minerals, we grew at 1.5 to 2x the therapy growth rate. Also in the chronic therapy areas of neuro, diabetes, cardiac and derma, our growth was much ahead of the market, thereby gaining market share.

Talking about the full year performance of our U.S. business, it grew by 16% year-on-year and across the important revenue milestone of \$300 million during the year. Coming to profitability, I'm happy to share that in the quarter, our EBITDA margin expanded by 220 basis points year-on-year. Similarly, for the full year, our EBITDA margin improved by 250 basis points to reach 17.7%.

Our ongoing effort towards cost containment and improvement in efficiency and productivity of our people and also assets have started to show results. Going forward, operating leverage in our U.S. business and India chronic business, better productivity of recently added field force and higher utilization of our newly added capacities remain the key driver of our EBITDA margin.

R&D is an important pillar of our growth. During the year, we invested INR 473 crores in R&D which was 5.7% of operating revenue. We filed 18 ANDAs during the year and received 22 approvals, out of which 6 were tentative approvals. With this, we now have a fairly strong product pipeline of 144 ANDAs already filed with the U.S. FDA, with over half of them yet to be commercialized. Timely new product approval and the commercialization would be our key focus to drive growth in the U.S. market.

Talking about updates on regulatory inspections, I'm happy to share that all our 6 manufacturing facilities in India and U.S. -- supplying to the U.S. market has received an EIR as on date. All the U.S. FDA inspections so far at these 6 facilities have been successfully closed by the company. We continue to invest in our people and technology to ensure our facilities comply with the regulatory current standards.

Before I close, I would like to share our assessment of the current situation and how we are dealing with it. While we have seen muted start to the financial year, owing to slowdown in new prescription generation, shutdown of OPDs and deferment of surgeries, we expect activity to pick up in hospitals and clinics as and when the lockdown rules are relaxed in various parts of the country. We are enabling a marketing team with digital tools to engage with the medical fraternity and health care providers. We are taking all the necessary steps to ensure safety and hygiene of employees working with the manufacturing facilities, R&D center, supply chain and other support functions. Our senior management team is continuously monitoring the on-ground situation and taking the necessary steps to optimize our production levels, control our receivables and inventories, maintain adequate stock of raw materials and ensure availability of our products in our key market.

Because of the current situation, while there could be some slowdown in near term but we back ourselves to navigate through these tough times on back of the strength that we have built over the years. Those are strong brands, large field force, extensive product portfolio, pan-India distribution to reach and an experienced management.

Thank you for listening. With this, I would like to open the floor for Q&A. Thank you.

=====

Questions and Answers

Operator [1]

(Operator Instructions) The first question is from the line of Rashmi Sancheti from CGS-CIMB.

Rashmi Sancheti, CIMB Research - Analyst [2]

Just want to know that during quarter 4, our gross margins have dipped which I believe is maybe due to the higher API prices during Chinese lockdown. So can you just say that the entire impact seen in quarter 4

or it is likely to come in quarter 1 also?

Rajesh Dubey, Alkem Laboratories Limited - President of Finance, President & CFO [3]

Actually, this is Rajesh Dubey here. In quarter 4, impact on our gross margin is -- to a certain extent, it is due to API but major portion, it goes to our business mix. So during the quarter, our international sales, it was a composition of our international sales, it was higher as well as trade generic sales, it was better. That is the reason which contributes next month. A little bit component is there of API, but we don't see very significant kind of impact going forward.

Rashmi Sancheti, CIMB Research - Analyst [4]

Okay. So sir as per that, our 9 months was around -- gross margins were around 61%. So is it safe to assume that in the subsequent quarter, we will get back to the same kind of gross margin?

Rajesh Dubey, Alkem Laboratories Limited - President of Finance, President & CFO [5]

Our expectation, it remains somewhere close to 60%, and I don't see any reason why we should change our views. We don't have any long-term kind of thing, which is bothering us here. So we remain with our estimate of 60%.

Rashmi Sancheti, CIMB Research - Analyst [6]

Okay. And sir, how many product launches have you done in U.S. business? And if you can tell us total products commercialized as of date in U.S.? And have you seen any price rises in your base portfolio?

Amit Ghare, Alkem Laboratories Limited - President of International Business [7]

So during the quarter, we had 2 launches. During the entire fiscal, we had 14 launches which has been our best year so far in terms of new launches in the U.S. market, the entire fiscal that is. And the other question was how many products have we commercialized here? We've commercialized probably more than 60 ANDAs or close to 60 ANDAs now, cumulative.

Rashmi Sancheti, CIMB Research - Analyst [8]

60 products.

Amit Ghare, Alkem Laboratories Limited - President of International Business [9]

6-0.

Rashmi Sancheti, CIMB Research - Analyst [10]

Okay. And sir, about price rises in your base portfolio?

Amit Ghare, Alkem Laboratories Limited - President of International Business [11]

Nothing really significant to report there.

Rashmi Sancheti, CIMB Research - Analyst [12]

Okay. But we have not seen any kind of major erosion in FY '20 U.S. base portfolio?

Amit Ghare, Alkem Laboratories Limited - President of International Business [13]

Well, the business is deflationary, as you know. So overall, there will always be deflation year-on-year.

Rashmi Sancheti, CIMB Research - Analyst [14]

Okay. And sir, lastly, on CapEx guidance, how much CapEx have you spent during the year and what is the guidance availed for FY '21?

Rajesh Dubey, Alkem Laboratories Limited - President of Finance, President & CFO [15]

So for '21, we have already given our guidelines. It is going to be INR 350 crores. And more or less, equivalent amount in this year also. INR 10, INR 15 crores more. I think it was INR 380 crores kind of. Next year is going to be somewhere close to INR 350 crores.

Rashmi Sancheti, CIMB Research - Analyst [16]

So that means FY '20, we have spent around INR 350 crores, right?

Rajesh Dubey, Alkem Laboratories Limited - President of Finance, President & CFO [17]

FY '20, it was INR 380 crores, INR 385 crores. But '21, our estimate is INR 350 crores.

Rashmi Sancheti, CIMB Research - Analyst [18]

Okay, and how much is the maintenance out of that?

Rajesh Dubey, Alkem Laboratories Limited - President of Finance, President & CFO [19]

Major is for replacement or automation, but some component is there of maintenance kind of CapEx. As you know, we have already completed our greenfield projects, so nothing much investing that. Actually, automation and capacity enhancement-related CapEx is expected this year.

Operator [20]

The next question is from the line of Prakash Agarwal from Axis Capital.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [21]

So first question on this India business only. So would that be correct to understand that there's a spillover which will flow into Q1 to the extent of INR 100 crores, INR 150 crores?

Sandeep Derjit Singh, Alkem Laboratories Limited - MD & Executive Director [22]

Yes, fair statement.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [23]

Okay. So -- and with some unlocking that we're already seeing on the ground, have you seen business pick up that is happening already in the initial week or it's too early to comment?

Yogesh Kaushal, Alkem Laboratories Limited - SVP of Chronic Division [24]

It's a mix, actually. It's too early to comment because although the clinics are opening, but the patient flow is still very slow. So we hope that by, let's say, last 2 weeks of this month, the picture will be more clearer. But as of now, the patient flow is slow.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [25]

Okay, understand. And since Q2, Q3 are our main quarters in terms of seasonality and monsoons being normal, is there any outlook that we can share very ballpark that we have always said we'll do better than industry? Given this is a little unique situation, any ballpark color you can give for the year?

Yogesh Kaushal, Alkem Laboratories Limited - SVP of Chronic Division [26]

See, I'll tell you that, again very difficult to predict. But what we can say is right now that, see, there are a lot of -- since we have a very high dependency on antibacterials and hygiene factors, so that part may be a little challenged, but all those surgical aspects because we have a huge business even on a surgical aspect also. So the parental antibacterials which we use right, so 3 months, there was a blockade of dental, surgical and all that, ENT. So these are -- you can't stop those treatment. So all those patients who are sitting right now will now start surging. So we expect that maybe July onwards as you rightly said, that second quarter and third quarter are very important for our business. So we expect a good surge because of this, the patients who are like. So parental will surely show upward trend.

Sandeep Derjit Singh, Alkem Laboratories Limited - MD & Executive Director [27]

That will outperform the industry for sure to answer you more specifically, but we don't know what the industry would grow. So obviously, I mean, our estimates have undergone some change. We will not be growing at high teens and things like that, which we always say that we would. But we also say that we'll outperform by 210 basis points. I think that will continue.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [28]

Okay. Fair enough. And last question, just trying to understand the dynamics of acute business better. So understand the competition is much higher. And in this kind of environment, the weaker guys will shove off and the bigger guys who have stronger brands will continue to gain market share. This be actually positive for us in the medium to long term?

Sandeep Derjit Singh, Alkem Laboratories Limited - MD & Executive Director [29]

Yes, for sure. Yogesh, please. Yogesh?

Yogesh Kaushal, Alkem Laboratories Limited - SVP of Chronic Division [30]

So see you -- recently, IQVIA has released a very interesting data, wherein they have given a slab-wise analysis of brands and companies on a -- those who are high threshold and those who are low. So anything which is above INR 50 crores. And those who are the brand, particularly I'm referring to right now, and brand, which are INR 100 crores or INR 200 crores in size, they actually have gained even during this lockdown time. Okay. And even companies, those -- amongst top 20 companies, there is a gain of almost 1 to 1.5 basis points. So the -- what you are saying is absolutely right, that the big brands and the big companies will gain out of this.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [31]

Okay. And just one more for Rajesh, sir. So on the employee cost side, would it be correct to understand it's lower because it would be incentive linked, that's why the employee cost seems lower?

Rajesh Dubey, Alkem Laboratories Limited - President of Finance, President & CFO [32]

Employee cost is lower because last year, there were a few one-offs, but they were not very substantial, but there were some one-offs in last year's quarter 4. And this year quarter 4, our sales incentive compared to quarter 4 of last year, it was more rationalized and evenly distributed in all 4 quarters. That was the reason. So we paid -- we debited P&L by lesser amount on incentive front as well as few -- last year's quarter 4 one-off which were not there in quarter 4 of current year. That's the reason why quarterly employee costs you see, it is on lower side.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [33]

Okay. Understand. There's a spike on depreciation, sir. Any particular reason?

Rajesh Dubey, Alkem Laboratories Limited - President of Finance, President & CFO [34]

Yes, depreciation spike is there because one is AS 116. Because of that, our lease understanding now it is termed as intangible assets. So that one depreciation is there on that front. As well as we have provided accelerated depreciation for a few of our assets, we think it needs to be, let's say, because of nature of dealers. So both these amounts, I think the first one is not one-off, but second one is definitely one-off. So around INR 18 crores accelerated depreciation which has gone in our P&L. You can consider that as a one-off for this quarter.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [35]

Okay. So I should remove that INR 18 crores and look at a INR 60 crore, INR 65 crore run rate for the upcoming quarters with some inflation.

Rajesh Dubey, Alkem Laboratories Limited - President of Finance, President & CFO [36]

And obviously, that is going to be there because we capitalize also in this quarter, a few of our facilities. That is another reason. But yes, you said very well, Prakash, you take out INR 18 crores and then it becomes small.

Operator [37]

The next question is from the line of Neha Manpuria from JPMorgan.

Neha Manpuria, JP Morgan Chase & Co, Research Division - Analyst [38]

Amit, my first question on the U.S. business. If I were to look at the momentum, is it fair to assume that a large part of the launch -- the strong launch momentum that we've seen is captured in the fourth quarter

numbers? Because we've pretty much seen quarter-on-quarter improvement in the U.S. business despite the competition in mycophenolate.

Amit Ghare, Alkem Laboratories Limited - President of International Business [39]

No. So I mean, you asked specifically for mycophenolate, but I'll answer more for the first part of your question. So overall, number of launches, as I said, were higher current year and in fact the largest of any period that we've had so far. And when we are not the first generic or, let's say, first wave of entrants launching, day 1 or day 181. In that case, when we are launching our product as a follow-on generic, typically, it takes anywhere between 2 to 4 quarters to reach our aspirational market shares. So in effect, what happens is that even if I launch, let's say, 5 products in a quarter, you may or -- which is, let's say, on the higher side, you may or may not see the effect of that immediately in that quarter. But say, 2 quarters later, that certainly will -- you'll be able to see a good reflection on growth. And that is exactly what has happened as far as this quarter is concerned. But if you take on an overall annualized basis, that's very much -- part of the launches have certainly contributed, and part of the launches will continue contributing.

Neha Manpuria, JP Morgan Chase & Co, Research Division - Analyst [40]

Is it fair to assume that the number in this quarter is more a reflection of our launch momentum and not so much upstocking that we might have seen in the year?

Amit Ghare, Alkem Laboratories Limited - President of International Business [41]

No, I wouldn't say too much on that. I understood your question, not so much of March momentum. The performance overall was more launches during the year for us which were in Q2 and Q3.

Neha Manpuria, JP Morgan Chase & Co, Research Division - Analyst [42]

Understood. My second question related is, how should we look at the launch momentum going ahead? Because our filing still remains strong, can we maintain the same number of launches or word of bunching up of launches that we saw this year?

Amit Ghare, Alkem Laboratories Limited - President of International Business [43]

So we are hoping to. And first time, if you recall, we had given a guidance that our number of launches will be in double digits, low double digits, that is, and we managed to do that with 14 launches during the year. I think for this year, our overall broad guidance would be around 10 launches in the year.

Neha Manpuria, JP Morgan Chase & Co, Research Division - Analyst [44]

Okay, okay. Understood. My second question is on the working capital. I understand that probably decreases are high this quarter because of the lockdown impact in collection. What is the trend we've seen in April and May? Has this normalized, or are we still seeing elevated working capital in the India business?

Rajesh Dubey, Alkem Laboratories Limited - President of Finance, President & CFO [45]

Yes. April and May, as you know, sales it was impacted. So obviously, working on a working capital front also a similar kind of issue, it continued. And yes, we do have inventory. As well as we have extended some credit period to our stockist also if I talk domestic market. Yes, so we don't see any major improvement in these 2 months. But going forward definitely we are working on that. And we think we'll be doing better on working capital.

Neha Manpuria, JP Morgan Chase & Co, Research Division - Analyst [46]

Sir, how -- what is the extension? I mean by how many days have you extended this and would this be for trade generic and branded?

Rajesh Dubey, Alkem Laboratories Limited - President of Finance, President & CFO [47]

No, trade generic, we have not given any extension of trading days, but ethical yes, of course, we have given 15 days of -- stockists, those who are on credit, we have extended by 50 days.

Operator [48]

The next question is from the line of Nithya Balasubramanian from Bernstein Research.

Nithya Balasubramanian, [49]

So my question was actually on the India business. So as you're observing patients come back to the clinic, is it true that patients are actually biased towards private clinics and are still staying away from hospitals? And does this mean that your parental infective -- anti-infectives business will see a much slower recovery than the rest of your business?

Yogesh Kaushal, Alkem Laboratories Limited - SVP of Chronic Division [50]

Not very sure. But yes, since most of the hospitals are only taking selected cases. So there will be -- initially, there will be little slow beginning in hospitals compared to the private clinics. But with surgeries, you can't really delay for beyond a particular time. There's a reason we are a little optimistic on parental antibiotics. So they would have delayed the surgeries maybe for 2-, 3-, 4-months' time. But from July, August onwards, you can see a surge in even surgical cases as well even in hospitals. But currently, the private clinics are more active compared to the hospitals.

Nithya Balasubramanian, [51]

Got it. What portion of your business would be parental anti-infectives?

Yogesh Kaushal, Alkem Laboratories Limited - SVP of Chronic Division [52]

See, on the anti-bacterial side, our dependency would be roughly around 30%.

Nithya Balasubramanian, [53]

Got it. And if you were to look at all products that are related to surgeries or procedures?

Yogesh Kaushal, Alkem Laboratories Limited - SVP of Chronic Division [54]

Sorry, can you repeat your question?

Nithya Balasubramanian, [55]

You said 30% is parental anti-infectives, but if you were to look at all your products that are related to surgery related, pre and post-surgery related.

Yogesh Kaushal, Alkem Laboratories Limited - SVP of Chronic Division [56]

So one is I stand corrected. This is close to around 40% parental. Yes, anti-infective, yes.

Unidentified Company Representative, [57]

Anti-infective, not parental.

Yogesh Kaushal, Alkem Laboratories Limited - SVP of Chronic Division [58]

So overall anti-infectives, that's what you asked the question that overall anti-infectives, which is used in hospitals, okay, including parenteral and oral will be approximate around 40%.

Nithya Balasubramanian, [59]

Sure. Understood. My next question was actually on the U.S. So one question I had was your India business is obviously far more profitable than U.S. and if we were to do some back-calculation, of course. And if you look at Indian peers, ROCE also seems to be lower in the U.S. business. So given how well you're doing in India, does it make sense for you to continue investing in the U.S.? Are you not better off -- are you not better off allocating resources and capital in India?

Sandeep Derjit Singh, Alkem Laboratories Limited - MD & Executive Director [60]

Yes. So great question. See, yes, different businesses will have different return on capital. So I think that is something we have to live with. Even in a domestic business, we have a far different ROCs in generic. Trade generic is different, in acute is different, in coding is different. So similarly, the international business, if we start doing from the India lens then I think all the Indian companies should shut it down, which I think would be wrong because it's important for growth that companies are into that. On long-term basis, does it yield you a higher return on capital than compared to, let's say, a nonrisk-free asset or I think that's the right way to look at it. Because theoretically, even if you shut down U.S. business, it doesn't mean I'm going to get that same business in India. So I think it's a good comparison, but maybe it doesn't hold true in practical world.

Nithya Balasubramanian, [61]

Fair enough. I think the reason -- the reason I brought this up was because you're -- right now, you have a slightly lower base in the U.S. and compared to your peers.

Sandeep Derjit Singh, Alkem Laboratories Limited - MD & Executive Director [62]

True.

Nithya Balasubramanian, [63]

So for a lot of them, they also have legacy issues, incumbency issues, which -- those hang-ups you don't have.

Sandeep Derjit Singh, Alkem Laboratories Limited - MD & Executive Director [64]

True.

Nithya Balasubramanian, [65]

So which is why I was wondering if we have actually made the conscious stories of trying to push through and scaling up in the U.S. versus investing in equally attractive opportunities there?

Sandeep Derjit Singh, Alkem Laboratories Limited - MD & Executive Director [66]

Yes, equally attractive as in -- sure. So please understand that we have not acquired anything large in U.S. or for that matter anywhere. So we understand what you say. We will not kind of chase aggressive growth in U.S. just in terms of size. I think if you run international business well, in U.S., in particular, we can still

have a return on capital or return on equity of about 15%. Currently, we're not there, but I think over the next 4 to 5 years, we can get there. And that is something which we aim at.

Gagan Borana, Alkem Laboratories Limited - General Manager of IR [67]

Hello? Steve, are you there?

(technical difficulty)

Operator [68]

The next question is from the line of Anubhav Aggarwal from Crédit Suisse.

Anubhav Aggarwal, Crédit Suisse AG, Research Division - Associate [69]

I just have one question. I just wanted to understand this mycophenolate impact. Is it fully shown in this quarter? And is this -- not entirely, but is this one of the key factors for lower gross margin this quarter?

Amit Ghare, Alkem Laboratories Limited - President of International Business [70]

No. I think the growth margin was already answered by CFO, which was more because of the composition of 3 businesses that we have, ethical, trade generics and international, their contribution in the quarter. So mycophenolate per se certainly will contribute, but that's not the sole reason for gross margin profile that you see.

Anubhav Aggarwal, Crédit Suisse AG, Research Division - Associate [71]

But have we seen most of the impact flowing through this quarter or some impact will flow in the future quarters also?

Amit Ghare, Alkem Laboratories Limited - President of International Business [72]

No, most of it is we have seen through, as far as mycophenolate is concerned.

Anubhav Aggarwal, Crédit Suisse AG, Research Division - Associate [73]

Okay. And just on the mix thing within India, when -- what you would have deferred to next quarter, INR 100 crores, INR 150 crores. Just asking the chronic component should have been higher for us in the Rx segment this quarter, right?

Yogesh Kaushal, Alkem Laboratories Limited - SVP of Chronic Division [74]

Yes. Relatively, on chronic, we are better off.

Anubhav Aggarwal, Crédit Suisse AG, Research Division - Associate [75]

So won't that have -- so I'm just trying to understand the bigger contributor was that business mix. But within business, India would not have been like so worse off?

Amit Ghare, Alkem Laboratories Limited - President of International Business [76]

So Anubhav, if we adjust the deferred sale, which moved from April or March to April, okay, if we had booked it in March itself, then the gross margin would have not been so -- I mean on the lower side. It would have been very much in comparison to what it was last year.

Operator [77]

The next question is from the line of Saket Bansal from Opulent.

Saket Bansal, Opulent Investment Adviser Private Limited - Portfolio Manager [78]

I have a few questions regarding the employee cost. Sir, what percentage of employee cost is variable in nature?

Rajesh Dubey, Alkem Laboratories Limited - President of Finance, President & CFO [79]

Variable in nature.

Saket Bansal, Opulent Investment Adviser Private Limited - Portfolio Manager [80]

Yes, like the centers and...

Rajesh Dubey, Alkem Laboratories Limited - President of Finance, President & CFO [81]

I think it won't be significant. Most of the employees, they are on our roll, except some contract employees at manufacturing...

Saket Bansal, Opulent Investment Adviser Private Limited - Portfolio Manager [82]

And including incentives.

Amit Ghare, Alkem Laboratories Limited - President of International Business [83]

It's more on how much part of the MR cost is fixed and how much is variable, that's proportional...

Sandeep Derjit Singh, Alkem Laboratories Limited - MD & Executive Director [84]

That's assuming that.

Amit Ghare, Alkem Laboratories Limited - President of International Business [85]

Going at the company.

Sandeep Derjit Singh, Alkem Laboratories Limited - MD & Executive Director [86]

Yes, exactly.

Rajesh Dubey, Alkem Laboratories Limited - President of Finance, President & CFO [87]

So the variable...

Unidentified Company Representative, [88]

Amit, really want that answer.

Amit Ghare, Alkem Laboratories Limited - President of International Business [89]

Saket, is my understanding right? You want what part is fixed and what part is variable from a incentive perspective, is that right?

Saket Bansal, Opulent Investment Adviser Private Limited - Portfolio Manager [90]

Yes, yes, correct.

Rajesh Dubey, Alkem Laboratories Limited - President of Finance, President & CFO [91]

So around 15%, it would be variable. Rest of the cost is fixed.

Saket Bansal, Opulent Investment Adviser Private Limited - Portfolio Manager [92]

Okay. Okay. Sir, my other question is on the -- this -- we are seeing this -- there are 40 new drugs, which are combination drugs which have come into the new pricing regime or something. So the news was yesterday. So any of our products are into that?

Rajesh Dubey, Alkem Laboratories Limited - President of Finance, President & CFO [93]

No, we don't have any of our products because it's not in Para IV. We have not impacted by that.

Saket Bansal, Opulent Investment Adviser Private Limited - Portfolio Manager [94]

We are not impacted. Okay. And sir, we -- can we take a price hike in our base portfolio, which we have currently for the next year also?

Rajesh Dubey, Alkem Laboratories Limited - President of Finance, President & CFO [95]

For which market?

Saket Bansal, Opulent Investment Adviser Private Limited - Portfolio Manager [96]

For the India market.

Yogesh Kaushal, Alkem Laboratories Limited - SVP of Chronic Division [97]

We take decision as we go on because now the price is dependent -- price increase is dependent on inflation and plus the regulatory. So as per whatever regulatory permits, we take price increase accordingly.

Saket Bansal, Opulent Investment Adviser Private Limited - Portfolio Manager [98]

So what percentage of your portfolio is into [ANILAM] based?

Amit Ghare, Alkem Laboratories Limited - President of International Business [99]

36% of India portfolio.

Saket Bansal, Opulent Investment Adviser Private Limited - Portfolio Manager [100]

India portfolio. Okay. How much percentage? I could not hear. Can you tell?

Amit Ghare, Alkem Laboratories Limited - President of International Business [101]

36%.

Saket Bansal, Opulent Investment Adviser Private Limited - Portfolio Manager [102]

36%, okay. So that's all from my side.

Operator [103]

The next question is from the line of Nikhil Mathur from AMBIT Capital.

Nikhil Mathur, AMBIT Capital Private Limited, Research Division - Associate of Small Caps [104]

So my question is regarding the MR sales force strength that Alkem envisages to have in FY '21. Now my understanding was that through 9 months FY '20, the company was entering a phase that the requirement of new MR additions were going slow. And usually, there's a churn that keeps happening, certain MRs leave organization and you replace them with new MRs. So there's a natural churn of MRs in FY '21. Would you be looking to replace that or, no, there wouldn't be any additions, possibly in FY '21 and extending into FY '22 as well?

Yogesh Kaushal, Alkem Laboratories Limited - SVP of Chronic Division [105]

So if your question is related to expansion, then I don't think. But replacement, yes, whichever current strength we have, and which is approved and if there are vacancies, we'll keep on replacing them. But no new expansions.

Nikhil Mathur, AMBIT Capital Private Limited, Research Division - Associate of Small Caps [106]

Okay, okay. And on the chronic side, what's your strategy here? I mean does the current situation gives you a setback on your need to push your chronic sales? Or does the current situation change the things any which way on the chronic side?

Yogesh Kaushal, Alkem Laboratories Limited - SVP of Chronic Division [107]

See the impact is across industry. It is not specific to Alkem. Okay. Just the only difference is those molecules which were launched in the last quarter 4 of the year, last year, okay, usually, their activities are accelerated in the first and second year. So that acceleration will get impacted for sure.

Nikhil Mathur, AMBIT Capital Private Limited, Research Division - Associate of Small Caps [108]

Okay. Okay. And the final question is on, can you give us a sales split of the domestic business into urban areas and semi-urban rural areas. Is it possible to give some color on that?

Yogesh Kaushal, Alkem Laboratories Limited - SVP of Chronic Division [109]

Right now, you can get this through IQVIA here, but internally, it's difficult. I mean we don't track this here.

Operator [110]

The next question is from the line of Saion Mukherjee from Nomura.

Saion Mukherjee, Nomura Securities Co. Ltd., Research Division - Head of India Equity Research [111]

Sandeep, in your statement on growing ahead of the market, 200, 300 basis points is quite encouraging. The general belief is companies which have a large anti-infective and acute therapies will suffer because of hygiene factors going up and stuff like that? And whatever secondary market data we've seen on AIOCD, for instance, indicate that in April, the growth has been lower than the broader market. So the question is what gives you this confidence of beating market in fiscal '21.

Sandeep Derjit Singh, Alkem Laboratories Limited - MD & Executive Director [112]

No, I think, see, inherent strength what we already have. And please remember that April, May, perhaps you saw the peak of I assume lockdown and everything. So I think to extrapolate from April, May would be incorrect. So once we open up, I think we will be much -- in a much better position. And please -- I mean, I said that we will outperform the market. So if the market is down, we'll also be down. But we know that we have historically beaten by 200, 300 basis point, and we will do it. So we are reaching out on different platforms. We're doing something innovative like reaching them through digital channels and things like that. So it gives me quite confidence that, yes, we'll beat the market. Obviously, we'll not grow at mid-teens or things like that. But we still aspire that we will kind of try to go to double digits, close to that.

Saion Mukherjee, Nomura Securities Co. Ltd., Research Division - Head of India Equity Research [113]

And the sales data that you're seeing, would you say the month of May, there is a revival over what you saw in April?

Sandeep Derjit Singh, Alkem Laboratories Limited - MD & Executive Director [114]

No, I will not say that. Second thing, Saion, just to complete my answer, whatever numbers you are seeing, you don't see trade generics which Alkem is a second largest player now in India. So keep that in mind. So...

Saion Mukherjee, Nomura Securities Co. Ltd., Research Division - Head of India Equity Research [115]

No, sir. Yes, that's exactly what I was thinking. So you mentioned like in Q4 also, there was greater contribution. So any color you can give? I understand like there is a huge demand there. So any color you think it will be like very, very strong double-digit kind of a contribution of growth that you see?

Sandeep Derjit Singh, Alkem Laboratories Limited - MD & Executive Director [116]

Yes. So Saion, at this moment, I would just like to say that trade generics component of domestic business will grow this year because the prescription business is under tremendous pressure and trade generics is growing. So its contribution to domestic business will be higher than what it was last year. That is a very fair statement, and it's growing healthy double-digits even in this down market.

Saion Mukherjee, Nomura Securities Co. Ltd., Research Division - Head of India Equity Research [117]

Okay, okay, understood. Second question on the U.S. market. I mean very strong number of launches and kind of expect it to continue 10-plus launches you were mentioning. I think the pricing environment also you made a comment is largely okay and stable. So how do you see in terms of growth, fiscal '21, '22 maybe? Do you see an acceleration in growth, given that the number of launches or the kind of launches you are getting? Any qualitative? I know it's difficult, but do you feel the growth would accelerate or remain at the same pace?

Amit Ghare, Alkem Laboratories Limited - President of International Business [118]

No, our base is increasing, Saion, as you know. So now we crossed the 300 million, which we proudly stated. So in that larger base, I think we'll aspire to grow somewhere close to mid-teens. And I think that will be a fair assumption in terms of new launches, the portfolio that we hold. I think that's what we'll aspire for. This year, we may end up low to mid-teens, but I think our overall aim will continue to be mid-teen growth over a 2-year period.

Saion Mukherjee, Nomura Securities Co. Ltd., Research Division - Head of India Equity Research [119]

Okay. That's helpful. And just finally, in all the pluses and minuses put together, I -- earlier interaction suggested there was some pressure in raw material prices. It seems that, that has also come down. So you have an aspiration of expanding margins by 100 basis, 150 basis every year. Of course, this year is an

aberration. So how should we think about margin this year or maybe over a 2-year period? Anything that you would like to guide there?

Sandeep Derjit Singh, Alkem Laboratories Limited - MD & Executive Director [120]

Yes. So Saion, even for this year, I would say that we still are hopeful that we are able to expand our EBITDA margin. We will do it for this year as well. And what we said last time, yes. That still continues, that we will expand EBITDA margin 20% plus in the next 2 to 3 years. But this year, you will also see growth in EBITDA margin.

Operator [121]

The next question is from the line of Ashish Thavkar from Motilal Oswal Securities Limited.

Ashish Thavkar, Motilal Oswal Asset Management Company Limited - Associate VP [122]

Sir, on the debt part, we have seen some increase in the debt. So if you could help us understand what was it toward?

Rajesh Dubey, Alkem Laboratories Limited - President of Finance, President & CFO [123]

Yes, so Ashish, what exactly you want to do? Yes, increase in debt is there. Actually, some times back, we discussed -- we have funded our working capital to a certain extent. And we have paid good dividend to take advantage of dividend distribution tax. So if you see this year, a major portion of our dividend amount, it has one interim dividend as well as final dividend of last year. So these are the 2 things which have increased our debt compared to last year.

Ashish Thavkar, Motilal Oswal Asset Management Company Limited - Associate VP [124]

Okay. Fair enough. Just one last question. On the tax, so we ended this year with 10% tax on the reported basis. If you could help us guide what should be modeling for the next 2, 3 years will be helpful.

Rajesh Dubey, Alkem Laboratories Limited - President of Finance, President & CFO [125]

Next year, we are going to remain between INR 12 crores to INR 14 crores. I think we have already given our views to the investor community.

Operator [126]

The next question is from the line of Aditya Khemka from DSP Mutual Fund.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [127]

Sandeep bhai, on the -- so on the trade generic business, fantastic commentary on growing double digits even in this environment, I think that's very commendable. But the trade generic there was larger than you in India on the -- in his conversations with investors has been talking about a strategy where they are trying to switch the trade generic brands to more OTC, OTX platform and thereby, maybe even improving margins of the trade generic products where already brands are strong? So that -- and maybe leverage the distribution of the OTX, OTC platform more than leveraging just the trade generic platform. Any thoughts on that? What do you think about that strategy? And is it at all applicable to what Alkem is also doing?

Sandeep Derjit Singh, Alkem Laboratories Limited - MD & Executive Director [128]

No, great question, and it is applicable. It is -- and complement them. It's very much possible to do. Just one thing I want to say, Aditya, that though we call it trade generic, sometimes we underestimate the power of those brands. And so for example, there are some brands, in a trade generics that they are brands much larger or which are better recall value there in prescription generics. So they already have a brand component, which sometimes we don't appreciate. It is very much possible, Aditya, to take it to OTX kind of route. Don't forget -- my only point is they are already kind of an OTX, some of them, it's a good brand. And certainly, that's possible, Aditya. But just to be completely clear, it's not -- we are not -- we do advertise some of our brands a little bit, but we are not -- we don't have an aggressive plan as of now. But it's a very interesting thought, and we do delve on it sometimes. And yes, that could be work in progress. It's a lot of things we could do.

For example, I mean, I'm extending the question, maybe the answer. For example, whenever there's a risk of margin -- putting cap margins on trade generics. On that front, also, you can restructure your business. These are great brands. You could always stick around the ethical prescription route as well. So some restructuring and smart move over there can grow the business much more than historically it has grown.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [129]

That's a very interesting part. You can probably take a trade generic because it's already an established brand, to take it to the Rx front also. And maybe the doctors would be amenable to those brands. But Sandeep bhai, can you talk about the pros and cons? You seem to be sounding a little comprehensible to this policy or to this strategy, whereas the -- your largest competitor is sounding very bullish and very aggressive on this strategy. So I don't want you to comment on his strategy, but on your thoughts on the strategy, what are the pros and cons?

Sandeep Derjit Singh, Alkem Laboratories Limited - MD & Executive Director [130]

In what, sir? In what, Aditya?

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [131]

In taking the trade generics to a more OTC or a more Rx platform. So why would you not go aggressive on doing that? And why would you go slowly and think about that?

Sandeep Derjit Singh, Alkem Laboratories Limited - MD & Executive Director [132]

See first thing is why mend something which is not broken. We're already doing well, it's growing well. So that's first part. Second, OTC is a different scale game. Very honestly, we are a hardcore prescription business, a pharma business. We have not done that in the past. Of course, we could go ahead and learn it, get talent but that would have a learning curve. I don't foresee any reason to do it as of now, but we still evaluate it. So that's one con. You'll end up spending a lot and you could realize it much later that it's working or not working. Unlike what we're doing right now.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [133]

Right, right. And this is to draw from your OTC business experience in some of the consumer products that you have tried at home.

Sandeep Derjit Singh, Alkem Laboratories Limited - MD & Executive Director [134]

Yes.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [135]

I get that. I completely get that. Okay. Just one more question...

Sandeep Derjit Singh, Alkem Laboratories Limited - MD & Executive Director [136]

I think that's a great point, and we are open to it. And it's not that we are close-minded. We are just cautious about doing it, but it's a good idea, honestly.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [137]

Fantastic. Okay. Just one more question on the overall margin profile of the business and more to Mr. Dubey's point -- Dubey sir's point on financing, working capital. So Dubey sir, do you guys also do factoring and with recourse, without recourse for your receivables to manage or to leverage your working capital?

Rajesh Dubey, Alkem Laboratories Limited - President of Finance, President & CFO [138]

No. So far, we have not done. We don't think actually we -- within our normal working capital requirement, we are very comfortable. This is not permanent kind of amount involved in working capitals, Aditya. And we think we'll come back to our normalcy very quickly.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [139]

Okay. Dubey sir, one more follow-up on that. So you mentioned a INR 350 crore CapEx plan. Where are we increasing capacity? In which -- which plants which -- and where do those plants cater to as a market?

Rajesh Dubey, Alkem Laboratories Limited - President of Finance, President & CFO [140]

No, we are having CapEx requirement all across, to all our manufacturing. And -- but Indore is our new facilities. So we have reasonably higher CapEx there. But more of it we have everywhere.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [141]

Understood. One question for the U.S. business as well. So sir, you said that in the U.S. business, you're anticipating 10-odd launches. How many filings do you foresee filing for the U.S. market, number one? Number two, which are the areas that you are targeting? So now we are signed in an area where oral solids are a foregone conclusion. Some of the oral solid products do make sense yes, but majority of them do not make much money and then the complex products have a very high R&D barrier. Could you talk a little bit about what -- how are you strategizing on your U.S. business?

Amit Ghare, Alkem Laboratories Limited - President of International Business [142]

Sure, so the number of filings remain the same ambition that we have always carried forward consistently over the last 5 years. That number is 12 to 15 that we have stated. So that continues to remain the same. I know last 3 years, we have overshoot but then that also is some legacy carry-forward from GDUFA regimen, pre-GDUFA, initial GDUFA regimen. So 12 to 15 remains our answer. To the second part of your question, even today, the U.S. business and overall business, 80% continues to be oral product, oral solids also to that extent. Going forward, obviously, our investments consciously, like we've said, are going across not just dosage forms, and therapy areas. But into complex generics also, follow-on generics also. Some of the old products also because of lower competition depict far better return on investment. And we consciously do a mix of everything. You can't have 12 filings in a year where you'll get, let's say, approved in 15 months' time, but then you're waiting for another 2 to 3 years for launch because these are all ahead of time. So everything needs to be looked at from a mix perspective. And we're working on all the possible areas that we can -- where we have capabilities and which we can afford at the same time.

Aditya Khemka, DSP Investment Managers Pvt. Ltd. - Assistant VP Healthcare [143]

Just one last, sorry, follow-up on this. So in his comments, Sandeep bhai mentioned that 15% ROEs of number that one can do in the U.S. business. Is that the same standard you hold yourself to when you budget the R&D expenditure on these projects?

Amit Ghare, Alkem Laboratories Limited - President of International Business [144]

So see, R&D expenditure, we were actually talking. The R&D expenditure for this year, does it result in revenues for this year or margin for this year? Obviously, the answer is no. The gestations are actually 3 to 4 years. So we really see dollar invested today. Can it return me 15% when it is actually invested through working capital, CapEx and all of that? I think the answer is, yes, that is the minimum that we should aspire for.

Operator [145]

The next question is from the line of Nimish Mehta from Research Delta Advisors.

Nimish Nagindas Mehta, Research Delta Advisors, Research Division - Research Analyst [146]

I just have one question. For the year FY '20, when we have reported 12% growth in our domestic business, can you just break it up into the growth from pricing -- price increase and the growth from volume increase. And also, if you can compare the same with the industry and what do you think it is the trajectory likely to be going forward?

Amit Ghare, Alkem Laboratories Limited - President of International Business [147]

So I think if you break up the India growth, so it would be about 3%. It would be new product introduction. About 4% would be price increase, and the remaining would be volume growth.

Nimish Nagindas Mehta, Research Delta Advisors, Research Division - Research Analyst [148]

I see. And I mean, if I'm not wrong, I think the industry comparisons are much higher in terms of price increase. Is that right?

Amit Ghare, Alkem Laboratories Limited - President of International Business [149]

I think yes. Yes. So we are around the same. So industry would be around 4%. So we are also around 3.5%, 4%, okay? So yes, that's where we are.

Nimish Nagindas Mehta, Research Delta Advisors, Research Division - Research Analyst [150]

Okay. And do you think this -- and particularly on the price increase, do you think this is likely to continue for next few years as well. I mean for both the industry as well as for our company?

Amit Ghare, Alkem Laboratories Limited - President of International Business [151]

Yes, 3% to 4% price increase is doable every year. That's the average. If you can see over the last 4 years, 3% to 4% has been the average over the last 3, 4 years.

Nimish Nagindas Mehta, Research Delta Advisors, Research Division - Research Analyst [152]

Yes, that I understand. I'm just talking with this perspective that there will be -- what is -- I mean there is a demand dip in the next, let's say, this quarter, maybe in the next -- second quarter as well. And whereby people would try to push their products. I mean many of the competitors might want to push their products by lower pricing. And hence, there might be a price dip which is likely -- which is the worry that I'm coming from. And once this, I mean, whether we'll be able to increase the price at an industry business landmarking. So that's the real question.

Yogesh Kaushal, Alkem Laboratories Limited - SVP of Chronic Division [153]

Yes. From a business perspective, Nimish, I'll answer that. It really doesn't work because when you have a power of prescription, then prices are not significant. So 3% to 4% price increase irrespective of environment will not be a challenge. Yes, it will do work in generics. But in ethical business, as and when regulatory permits, we can take a price increase. It will not deter the business flow.

Operator [154]

Next question is from the line of Sangeeta Purushottam from Cogito Advisors.

Sangeeta Purushottam, [155]

I had 2 questions. One is that given the nature of your business and the dependence on acute, would it be right to assume that this -- a lot of the sales in the domestic business, which have not happened as a result of the lockdown are in a sense, loss to us or that is they will not come back in the months after the lockdown opened? That's one question. My second question relates to guidance on the tax rate. How do we see the tax rate for the next couple of years? And if I may add, I had one more follow-up question on something an earlier participant had asked. You mentioned that your R&D expenditure is about 5.3% of sales and is INR 473 crores. How much of that is for the domestic business and how much of it is for the U.S. filings?

Yogesh Kaushal, Alkem Laboratories Limited - SVP of Chronic Division [156]

There are 3 questions. The business, which we have lost in first 2 months, I would say it's difficult because those are prescriptions of 7 to 10 days. And once the time is over, you can't really recover them. So that's a business, which we have lost and is difficult to recover in balance 8- to 10-months' time. I will just ask my CFO to answer.

Rajesh Dubey, Alkem Laboratories Limited - President of Finance, President & CFO [157]

Yes. I think I've already given figures for our tax rate. I think I've given for next year, and beyond 2 years, I think, difficult to predict up to a certain level. But we are going to remain within 15% for next 2 years. Next year, we think we'll be somewhere between 12% to 14%.

Sangeeta Purushottam, [158]

12% to 14%. Okay. All right. And on the R&D, if you could just answer that.

Rajesh Dubey, Alkem Laboratories Limited - President of Finance, President & CFO [159]

See R&D spending, generally, and in our case, it is for our international operation. But some component of domestic is there. So I think somewhere around 6%, 7% up to 10% kind of expenditure. It is for domestic and the rest is for international.

Sangeeta Purushottam, [160]

Right. So on the -- if you allocate the R&D costs to the international operations, then are we making money at the EBITDA level on the international operations?

Rajesh Dubey, Alkem Laboratories Limited - President of Finance, President & CFO [161]

Yes, we are making money after taking out R&D costs.

Sandeep Derjit Singh, Alkem Laboratories Limited - MD & Executive Director [162]

Post R&D, low single-digit EBITDA margin.

Sangeeta Purushottam, [163]

Low single digits. Okay.

Unidentified Analyst, [164]

Yes. I'm Sangeeta's partner. Just one question I had. In a normal year, not in a post-COVID year, what is the Q1, Q2, Q3, Q4 of revenue and what is the underlying reason for the seasonality in your sales?

Yogesh Kaushal, Alkem Laboratories Limited - SVP of Chronic Division [165]

So see, usually, our first half, we are at around 54% of business. And second half, we do 46%. But since we have acute to chronic split, so this is acute and chronic it is other way around. We do around 50% to 52% and then 48% in the next half. So there are different SKUs. Yes. So the SKUs are aligned with the season. So our antibacterial season is largely in the second half and the third half. So that gives us traction. So the phasing is done on the basis of season. So the season is more critical.

Sandeep Derjit Singh, Alkem Laboratories Limited - MD & Executive Director [166]

Monsoon and waterborne disease and things like that, that impact. Yes.

Unidentified Analyst, [167]

So I was just trying to understand your last year results. Your Q4 results, if you do a year-on-year comparisons, they are very good. But if you compare with the previous quarter, they don't look so good. So is that -- what's the underlying reason for that?

Amit Ghare, Alkem Laboratories Limited - President of International Business [168]

So that's what has been explained, correct.

Sandeep Derjit Singh, Alkem Laboratories Limited - MD & Executive Director [169]

It's always the case.

Amit Ghare, Alkem Laboratories Limited - President of International Business [170]

40% of our India business is anti-infective, which is seasonal in nature. So monsoon, every monsoon are the peak time for the anti-infective business. So once monsoon goes by October, then you see a decline on a - sequential decline in those sales. So that's the reason you will see Q4 being the weakest and Q2, Q3 and Q1 being the better ones.

Operator [171]

The next question is from the line of Anupam Agarwal from Lucky Investment.

Anupam Agarwal, Lucky Investment Managers Private Limited - Junior Equity Analyst [172]

My question was just adding to the previous participant on U.S. So at what level of sales would be breakeven in the U.S.?

Amit Ghare, Alkem Laboratories Limited - President of International Business [173]

We are already crossed the breakeven point. I think that's the question which was asked. Do we generate positive EBITDA? And the answer was given.

Anupam Agarwal, Lucky Investment Managers Private Limited - Junior Equity Analyst [174]

Right, right. But is it possible for you to give me a figure at what level did we breakeven?

Amit Ghare, Alkem Laboratories Limited - President of International Business [175]

What level did we breakeven, okay? Probably \$100 million, maybe at \$200 million level.

Anupam Agarwal, Lucky Investment Managers Private Limited - Junior Equity Analyst [176]

Okay. Okay. And sir, so incrementally, let's suppose, every dollar would be what percentage of margin?

Amit Ghare, Alkem Laboratories Limited - President of International Business [177]

I don't think I can answer that question.

Anupam Agarwal, Lucky Investment Managers Private Limited - Junior Equity Analyst [178]

Okay. Okay, sir. Sir, and one more. We have always been talking about cost optimization and efficiency. So how much of percentage have we already achieved? And how much is left to be achieved?

Rajesh Dubey, Alkem Laboratories Limited - President of Finance, President & CFO [179]

So it's a continuous exercise going on. Cost optimization, it has to go on. And that's what we are doing. And we do have ongoing program also. So it has to happen all across.

Anupam Agarwal, Lucky Investment Managers Private Limited - Junior Equity Analyst [180]

Okay. And sir, is it possible to give me your concentration in the U.S. in terms of top 5 or top 10 products?

Sandeep Derjit Singh, Alkem Laboratories Limited - MD & Executive Director [181]

I think that's public information, sir, you can get it. I mean we don't share, but we'll get from IQVIA and all that.

Operator [182]

Next question is from the line of [Anil Karmarkar] from Dalal & Broacha.

Unidentified Analyst, [183]

Most of my questions have been answered. Just one question, some clarification. In U.S., you said that your aspirational returns are 15%. I just wanted to confirm whether it's an ROE or ROCE?

Amit Ghare, Alkem Laboratories Limited - President of International Business [184]

That was ROCE.

Unidentified Analyst, [185]

ROCE. Okay. And how large can your U.S. business become, say, 5, 6 years down the line?

Amit Ghare, Alkem Laboratories Limited - President of International Business [186]

Well, mid-teen, if we aspire, you can calculate based on CAGR of mid-teen.

Unidentified Analyst, [187]

Around 15% CAGR.

Amit Ghare, Alkem Laboratories Limited - President of International Business [188]

15% growth is what we aspire year-on-year. If you take that, you know in 15%...

Operator [189]

We take the next question from the line of Kunal Mehta from Vallum Capital.

Kunal Mehta, Vallum Capital Advisors - Research Analyst [190]

I have a single question. So you mentioned with -- in response to a previous participant question that you expect the margin to improve in this year is also at the company level. So just want to understand the reason behind this statement. So -- because in an environment like this, where you're able to leverage your costs and on leverage -- operating leverage out of lot of the fixed costs, especially your MR cost would be constrained. So can you give any sense of how do you wish to go about this?

Sandeep Derjit Singh, Alkem Laboratories Limited - MD & Executive Director [191]

Yes, how I wish to go about it is because there is variable cost also in business. And it's -- so medical rep cost, which is mentioned is just one expense. You have promote expense, you have incentives, travel is completely down, and we're not responsible for it. So there's a lot of costs. We are confident we can grow the EBITDA margin even in this circumstances. The expense just basically takes a big hit. It's not because we are geniuses. I think most people will do that honestly.

Kunal Mehta, Vallum Capital Advisors - Research Analyst [192]

Sure, I get your point that -- because your productivity of the MRs, especially when you -- visit the clinic or then the doctor does not want MRs to visit clinics, especially doctor would be hesitant to contact with corona. So that reduced productivity, the profit per person, there's a trade generic for you. So would you still say that the cost reductions which you would -- take place this year, would be able to offset that reduction, that decline in productivity, exactly so?

Sandeep Derjit Singh, Alkem Laboratories Limited - MD & Executive Director [193]

Yes, what I said, if you recall, I said EBITDA margin would increase, right? So that's possible. Sir, I restate what I said. It's possible, sir, 100%.

Operator [194]

Thank you. Ladies and gentlemen, due to time constraint, that was the last question. I now hand the conference over to Mr. Tushar Manudhane for closing comments.

Tushar Manudhane, Motilal Oswal Securities Limited, Research Division - Research Analyst [195]

Thanks. Thanks a lot for this call. I thank the management as well for spending the time on -- and providing the outlook for different business segments. Thank you, sir.

Operator [196]

Thank you. Ladies and gentlemen, on behalf of Motilal Oswal Financial Services, that concludes this conference. Thank you all for joining us, and you may now disconnect your lines.