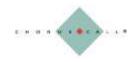


# "Alembic Pharmaceuticals Ltd Q1 FY15 Earnings Conference Call"

July 28, 2014







MANAGEMENT: Mr. Pranav amin – Director & President,

INTERNATIONAL BUSINESS - ALEMBIC PHARMACEUTICALS

LTD

MR. SHAUNAK AMIN – DIRECTOR & PRESIDENT, BRANDED FORMULATION BUSINESS - ALEMBIC PHARMACEUTICALS

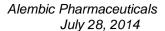
LTD

MR. R. K. BAHETI - DIRECTOR & PRESIDENT, FINANCE-

ALEMBIC PHARMACEUTICALS LTD

MODERATOR: Mr. ANSHUMAN GUPTA – LEAD ANALYST –

PHARMACEUTICALS – EDELWEISS SECURITIES LTD



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Moderator:

Ladies and gentlemen, good day and welcome to the Alembic Pharmaceuticals Q1FY15 earnings conference call hosted by Edelweiss Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing \* then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anshuman Gupta from Edelweiss Securities. Thank you and over to you sir.

**Anshuman Gupta**:

Thanks Melissa. Good evening to all of you. I am Anshuman Gupta and I lead the Pharma and Healthcare Research at Edelweiss. On behalf of Edelweiss, I welcome you all for the first quarter results for financial year 2015 of Alembic Pharma. Today, we have with us Mr. Pranav Amin — Director and President, International Business; Mr. Shaunak Amin — Director and President, Branded Formulation Business; Mr. R. K. Baheti — Director and President, Finance and Mr. Ajay Desai — Vice President, Finance from the management team. I would like to hand over the conference to Mr. Baheti for his opening remarks. Over to you sir.

R. K. Baheti:

Good evening everybody. This is Raj Kumar Baheti. Welcome and thanks for joining our post results teleconference for first quarter. Along with the name mentioned by Anshuman, we also have Jeshal, Mitanshu, and Dr. Ashwin Rao to respond to you in case there are questions from you.

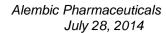
We made a good start in new financial year. Most of you would have received our financial results and the investor update. Quickly, let me take you through the operations for the quarter. During the quarter, the total revenues of the company grew by 16%, sales of 496 versus 420 odd crores in the previous quarter. EBITDA was at 96.7 crores. 19.5% of sales versus 17.5 crores at 16.7 in the previous years. The growth is 35% at EBITDA level. The profit before tax grew by 40% to 84.9 crores and the net profit after tax grew by 39% to 64.7 crores. For the current quarter, EPS works to out to be 3.43 per share of Rs. 2 par value versus 2.47 at the previous corresponding quarter.

The Branded Formulation Business both domestic and international which was focus of the company for the last few years continues to be  $4/5^{th}$  of the total business, 80%.

The international business, both generics and API which was less than 20% few years back now hovers around 44% of the total business.

The above strategy of focusing on international generic and the branded formulation business apart from delivering a healthy P&L has also delivered a healthy balance sheet. The gross borrowing as on 30<sup>th</sup> June 2014 is less than 100 crores with a healthy debt-to-equity of 0.13. The return on capital employed is touching 40% per annum.

I will hand over to Pranav now who will give a brief presentation on the international business.



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Pranav Amin:

Good evening, everyone. During the quarter, the international generics grew by 33% to 113.8 crores. This was at 85.5 crores last year. R&D cost for the quarter was at 29.5 crores which is about 6% of the company's sales. We filed three ANDA applications and which takes our cumulative ANDAs to 64. During the quarter, we also received 3 ANDA approvals taking our cumulative approvals to 35. This includes 5 tentative approvals. Cumulative DMF filings stand at 66 and we did not file any DMFs this quarter. I will hand over to Shaunak who will give you brief into the domestic branded business.

**Shaunak Amin:** 

Hello everyone. The India branded formulation sales for the quarter were up by 16% to 223 crores against 192 crores in the corresponding quarter last year. Our Specialty and Acute segments grew by 25% and 4% in line with our strategy. The company has created multiple task forces and new divisions to enable this specialty growth and our new Cardiology division, our second Gastro division and the Respiratory division have been launched and are on the verge of being stabilized. As a result, the share of specialty products has gone up to 59% of our branded portfolio in this quarter. Also, the international branded business which we have a long term focus on grew by 51% to 22.7 crores and that is the basic performance of the branded vertical for the quarter. I think now I will open up the floor for some Q&A.

Moderator:

Thank you sir. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Prakash Agarwal from CIMB. Please go ahead.

Prakash Agarwal:

Question on actually if you look at expenses and international generics, I have two questions. One is on the international generics, we have seen Q-on-Q decline despite having good product launches on Telmisartan HCT, if you could explain that?

**Pranav Amin:** 

Yes, there are 2-3 things in this, Prakash. For the international generics, there are two aspects of it. One is the new launches and second is the consolidation of our portfolio. What we have done is we have reduced some sales to focus on our high margin business. So there is some contract manufacturing business, some low value which we started weeding out.. So that is one aspect of the lower sales. Second is in Europe also, we have some lower sales. As regards to new launches, the Telmisartan was just launched recently so still not reflecting. The way we work is through partners. So by the time the market shares reflect, it will be Q3 or so at least.

Prakash Agarwal:

And reason for gross margin expansion? Would you attribute to rationalization of portfolio or higher growth on...

**Pranav Amin:** 

On both because it has double effect. One is of course there is a margin expansion because we are allocating capacities to higher volume products and being able to capture those opportunities when the market situation occurs. Second is of course in the India space also, our portfolios changed. Now the Specialty has grown by 25%, Acute at 4% and the share of Specialty is going up. So that is increasing and our margins as well.

R.K.Baheti:

API as a percentage of total business is also going down. APIs, we are not growing as we have explained in our previous calls.



Prakash Agarwal: But if I look at last full year, you were around 80%. This quarter you are still 78%. But you are

saying directionally your formulation share will continue to increase.

**Pranav Amin:** Yes.

Prakash Agarwal: Understood and secondly I mean this similar question basically just taking it from gross margin

improvement to flattish EBITDA margin, understand your marketing spend has gone up. So is it largely pertaining to India business or if you could just give broad breakup where the

investments are going into.

R.K.Baheti: You are right because R&D spend continues to be at around 6% for this quarter, though going

forward it would increase a bit. The marketing expense for the branded business has gone up and that would always happen when you launch new divisions and when you get speciality segments.

Your cost of material goes down, but your marketing spend goes up.

Prakash Agarwal: So this would directionally keep on increasing higher than the revenue growth or how should we

look at it?

R.K. Baheti: No. Once we reach to a critical mass in the new divisions, again it will reflect in the margin

expansion. But again the company would like I have explained in the past, continue to launch new divisions as we stabilize and breakeven the new divisions. So it is a continuous process.

**Prakash Agarwal**: And this we expect in couple of quarters or this should take longer?

**Shaunak Amin:** I think it should take at least two quarters.

Prakash Agarwal: And lastly before I get to the queue, the 2Q number for marketing expense, so we have the 3Q

and 4Q numbers and this current quarter number if you could just give that number?

**R.K. Baheti:** Which number?

**Prakash Agarwal:** The split between the marketing expense and other expense?

**R.K. Baheti:** This is part of other expense, no?

Prakash Agarwal: Yes sir. But this quarter onwards, you started giving the split of marketing expense and other

expense right?

**R.K. Baheti:** Would you mind if I give you offline?

Prakash Agarwal: Sure sir. No issues.

Moderator: Thank you. The next question is from the line of Rahul Sharma from Karvy Stock Broking.

Please go ahead.



Rahul Sharma: Sir just wanted to know the low growth in export formulation which you have said. Just wanted

to know is there the trend which will continue the consolidation in low margin areas which will be there and secondly on the staff cost which has grown more than expected, any thoughts on

that sir?

**Pranav Amin:** Are you talking about international generics or international branded?

Rahul Sharma: Generics.

**Pranav Amin:** International generics has grown by 33%. So I think it is a fairly decent growth if you ask me,.

As I mentioned, there are certain things in the US market, one is pricing. As there are more interests in certain products, the pricing comes down which is not in our control. What is in our

control is supply. So I think this quarter has been a fairly decent growth.

**R.K. Baheti:** As far as employee cost is concerned, it is largely driven by more field force which we added to

the three new divisions.

**Rahul Sharma**: And sir on the tax rate, you are looking at deferred around 24%-25% for the year?

R.K. Baheti: No, I think the cash tax is only about 21% which is MAT, deferred tax liability which is a

noncash item which is just an adjustment item and that is another 3 crores in this quarter. So that

takes into another 300-400 basis points.

Rahul Sharma: Okay, so what type of overall growth you are looking at in your export formulations with

basically international generics with this consolidation happening, you are yet sticking your

number with 35% growth for the year?

**R.K. Baheti:** No, we never said this we will grow 35% this year. In fact I have been consistently saying that

35% was the CAGR number given some time back and in last year itself we did much better. We have also said consistently that 2013-2014 was an exceptionally good year because of clearance of backlogs. So this year, the growth rate may come down, but we will grow. We have not said

that we will grow 35% this year.

Rahul Sharma: Sir any products which you could probably highlight on anything which there is a stock of

Metoprolol Succinate is there and several others.

**R.K. Baheti:** no product wise, sales. No company does in fact give that.

Rahul Sharma: Just qualitatively, any opportunities you are all looking at. How many niche opportunities in the

current year you all are looking at?

**Pranav Amin:** I think Rahul, see what we are trying to do is there are couple of things in terms of operations.

What is in our control and what is not. In terms of what is not in our control is the pricing what

happens in the market place and entry of multiple players. What is in our control is ensuring that



the supplies go on time, the facilities are inspected, and we do not have any issues in terms of compliance and third is ensuring that the products launches are on time. So we have improved our launches. We are trying to get to market as soon as possible. So we are focusing on that. I think we are just trying to do a good job and with disruption in the market place, you know with the generics there is a lot of disruption. Try picking up those opportunities whenever they occur.

**Rahul Sharma**: And just last question, when is the next US FDA inspection expected?

**Pranav Amin:** We do not have any information from them or communication from them regarding it, but I am

assuming we should have one this year.

Rahul Sharma: Last one was how many years back?

**Pranav Amin:** About a year and a half back.

**R.K. Baheti:** Last year, API was inspected but formulation was 1.5–2 years back. So we are expecting

formulation inspection, not in API.

**Moderator**: Thank you. The next question is from the line of Jigar Shah from Maybank. Please go ahead.

Jigar Shah: My question is can you highlight some of the products which played a key part in the good

performance for this quarter especially in the export market?

Pranav Amin: Jigar in terms of the international generics, there is a whole product portfolio. I would not name

only one. If you see our portfolio, you will see the launches that we have. What is interesting for this quarter one of the reasons for the growth is last year this was on a much smaller base. The new facility expansion had not happened. That happened in Q2. So we worked on a smaller base.

Hence the growth is much higher and it is across the basket.

Jigar Shah: And can you throw light on the three products which were filed and which have received

approvals in this quarter?

**Pranav Amin:** We do not disclose our filings. We filed 3 ANDAs. I cannot disclose those names, but we have

launched three products . As I said in my guidance earlier, we will launch in the US anywhere

between 6-7 products every year.

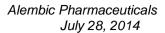
**Jigar Shah**: And can you throw light on CAPEX program for this year?

R.K. Baheti: Ideally seeing what we have discussed in last quarter for 2013-14 and I think as of now it does

not change. The total CAPEX is estimated to be around 250 odd crores across all facilities

including a new formulation facility for the domestic branded business.

**Jigar Shah**: It will be all in the current year?





**R.K. Baheti:** We will try to finish it as much as we can actually. So let us see.

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

ahead.

Nimish Mehta: Just wanted to know, has we seen any impact of Telmisartan HCT in this quarter. I know that

Telmisartan was launched later. But what was the impact of HCT?

**Pranav Amin:** In this quarter, it is not much at all. There is no much impact. We do not give product wise, but

we work through partners. Still I think you would not see the full impact of both the Telmisartan

up until Q3 or so.

Nimish Mehta: And in terms of the international generic business, I heard that you mentioned about

discontinuing some low margin products and some contract manufacturing business. Is that

correct or am I missing something?

**Pranav Amin:** Yes, I think that is something that we have been doing consistently over the last two years.

Nimish Mehta: Okay, but then why is a sequential decline this quarter then? How do we explain that?

**Pranav Amin:** Sequential decline is due to couple of reasons. As I mentioned, there could be price disruption in

the market place. That could be one which causes a decline. Second is we might supply less because of some market opportunity losses. International generics is not as steady as branded generic business. So there are opportunities. Something goes up, something goes down, but we

have to try what we can supply on time.

Nimish Mehta: Yes sir, out of that at least the pricing one can be ruled out because we have anyway seen gross

margin increase right. So the only one remains is the disruption discontinuation of some of the

products.

Pranav Amin: Not necessarily. On pricing one can come down, the others could go up. It is a combination of

those.

Nimish Mehta: I see. So this will be the base on which you will work or do you think it can change substantially

going forward?

**Pranav Amin:** I think this is the way that we are working on right now. As I mentioned, we will try as we have

new launches, as we have better products, then we shall grow. Last year has been exceptional as Mr. Baheti said which is on a smaller base because of plant facilities just got commissioned. So hence moving forward from Q2 onwards, the growth would not be as high as what we have seen

till now.



Nimish Mehta: The other question on Europe business, I mean I think in the last annual report you mentioned or

probably even in this annual report that you are expecting one niche product launch where you

might be the only one in the market. Would you like to throw some light on that?

Pranav Amin: I do not think for Europe, we have got any niche product launch. We have not announced

anything on Europe.

Nimish Mehta: I am referring from one of the annual reports, last year or this year?

**Pranav Amin:** No, I think we have not really commented much on launches. The pipeline that we have for US

we have similar one for Europe. Europe generally has the market, there is lot more pricing pressure happening in the market, but otherwise I think because more of the markets are moving

to tender.

Nimish Mehta: And finally on the domestic business, what is the increase in salesforce that we have taken, I

mean is this in the last quarter only whatever it is?

**Shaunak Amin:** The increase in the salesforce in terms of numbers was about 400 people and part of that got

captured in Q4 last year and this quarter represents a full 400 manpower expansion.

Nimish Mehta: I see. So then what is the expectation for the full year? We have grown by 16%, fairly decent. So

with this addition, we are expecting further growth here or what do you think it will?

Shaunak Amin: I think we expect the portfolio to – we are putting these people in high growth area. So I think

we expect growth numbers to look better.

Nimish Mehta: And it would be fair to assume that all of this 400 would be in the Specialty division right?

**Shaunak Amin:** Yes, they all are in Specialty.

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

Girish Bakhru: Sir first question on the domestic side. Looking at the overall mix specifically in regards to the

decline we have been seeing in anti-infective business, where do you say in 3 years will the ratio

be like how much would be the anti-infective overall business?

**ShaunakAmin:** I think there are two parts to it. One is that this quarter and for the last 4 quarters, the anti-

infective looks on a low growth because of the large NELM impact. So that next quarter should start reflecting because the base will get corrected. So that itself will have an implication on the overall growth of the acute numbers, but I think what we maintained is we are trying to make the

acute business grow in line with the market and that is what we are trying to maintain.

**Girish Bakhru**: So chronic acute mix currently, chronic would be around 50-50 right?



**R.K. Baheti:** No, chronic is now about 59% for the quarter. So Speciality is 59 and 41 is acute and generalized.

**Girish Bakhru**: And do you think this is significantly changed like say in 3 years timeframe?

**R.K. Baheti:** Because specialty is expected to grow higher, so it would. I do not have a number.

Also I think Q1 is generally a weak quarter for acute market. So Q2-Q3 which are more seasonal in nature give a better reflection. So I think we need to look at all three quarters to get a better picture. Having said that the specialty markets are growing faster than the acute market. So I think yes, overtime the bias in the weightage would be much higher on the specialty product mix.

Girish Bakhru: Right, but generally say overall in the Macrolide class which is definitely big for you. Is there

still significant volume growth you are seeing?

Shaunak Amin: Like I said, I think we will get a correct picture in terms of the acute from next quarter. Because

of the base effect of DPCO 13, it does not give a correct picture because of the large price cut. But I think from Q2 onwards, you will get a sense of both in terms of value and volume growth

of the Macrolide portfolio especially Azithral.

Girish Bakhru: Okay. Second one was in the US side, if you could share like top products which are currently

forming your US business. Would Telmisartan and Modafinil will be like top kind of products in

the US side?

**Pranav Amin:** We have not given product wise breakup. But you see we launched about 20-25 products in the

US and you can get what is there and what is not there.

Girish Bakhru: Right, but my idea was, is the portfolio evenly distributed or is there some few products forming

significant chunk?

**Pranav Amin:** I think from Alembic and I believe from others also, you will have about top 10%-15 of your

products contributing to more than 50% of your profit. Yes, our portfolio at about 20 odd products is still much smaller than some of the peers in the Industry. So that is something that we

have to build on in the future.

Girish Bakhru: Lastly on Warfarin filing, where are we at that stage?

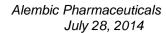
**Pranav Amin:** Yes, the Warfarin filing is expected to happen by February of 2015.

Girish Bakhru: In terms of approval, you would assume it will take equal amount of time like a generic approval

would be faster.

**Pranav Amin** No, see this is the 505 (b) (2) application. It will have two GDUFA dates one of 6 months and

one of 10 months. We anticipate that at this point of time, 10 months would be more likely.





Girish Bakhru: And have you identified which all products you would use this dose adjustment technology.

**Pranav Amin:** We are working on only one product right now. We want to finish this off and then we will take

a look at where we want to use this technology.

Girish Bakhru: And by and large, if I understand correctly the filing would just present with a different dose

while maintaining the efficacy and the side effect profile right?

**Pranav Amin:** Yes, it is something like that.

Moderator: Thank you. The next question is from the line of Manoj Garg from Bank of America Merrill

Lynch. Please go ahead.

Manoj Garg: Just like from arithmetic's perspective, would like to understand that currently we have one plant

which is being approved by US FDA. I am talking about formulation sir. Are we looking in terms of any incremental plant just to mitigate the risk in knowing the effect that off late we have

seen the increased supervision by the FDA. So any thought on that sir?

**Pranav Amin:** Yes, I think ideally in the long run we would like to have another plant as part of our de-risking.

So far as you know in last 5-6 quarters, we have been talking about we had capacity constraint. We have increased the capacity of this one because that is what is needed for the immediate

growth, but going forward yes, we will look at de-risking by setting up another plant.

Manoj Garg: But at this point of time, we are expanding the existing facility only from 5 billion tablets to 7

billion tablets.

**Pranav Amin:** Yes, that is correct.

Manoj Garg: And the second is like do we have only one partner in the US or we are working with multiple

partners in the US?

**Pranav Amin:** No, we work with multiple partners in the US.

**Moderator**: Thank you. The next question is from the line of Meeta Shetty from HDFC Securities. Please go

ahead.

Meeta Shetty: Just wanted to understand what percentage does this contract manufacturing contribute to your

export generics?

**Pranav Amin:** We have not disclosed this, but it is coming down. It is not much in terms of topline or bottom

line.



**R.K.Baheti**: Also Meeta, I think in the same breath, contract manufacturing and low margin even our own

product but low margin. We are clubbing together for evaluation of product strategy if you are

referring to what Pranav said earlier.

**Meeta Shetty:** So then when you say that it is coming down that means that for the next 2 or 3 quarters, we still

see some kind of lower revenues because of this compared to what we would have otherwise

seen.

R.K. Baheti: More or less I think we were done with. So you would not see that impact. You will surely see

the impact of high base of last year if you are comparing the growth.

Meeta Shetty: And secondly, we have launched recently couple of products in the US. So how has the market

share been? Is it satisfactory to the extent that whatever time they have been in the market or it is

still yet to see some decent levels that you would like to see?

**Pranav Amin**: It depends product to product and as always two sides to the US generic market. One is of course

the market share percentage the partner gets and second is the price at which they get it. So you do want to optimize that in terms of how much market share and what price and based on your capacities. Duloxetine if you have seen, there is a lot of competition in the market. So we are going slow on that right now. Telmisartan, Telmisartan Hydrochlorothiazide as I mentioned is still too early, I think it will still take another quarter when it really reflects, but strategically we

are trying to go for products and try getting good price with sustainable supplies. We do not rush

into anything. We slowly want to build up our market share.

**Meeta Shetty**: And just lastly what is MR strength currently after the recent additions?

**R.K. Baheti**: We have 3,400.

**Meeta Shetty**: This includes the managerial level or only the field force.

**R.K. Baheti**: No, including management staff, it is 4,400.

Moderator: Thank you. The next question is from the line of Nishith Sanghvi from CIMB. Please go ahead.

Nishith Sanghvi: Question on the US, I do not know if you have shared the number, but what proportion of our

international generics was the US business?

**R.K. Baheti**: This gone up slightly more than the previous quarter, so it is about 70%.

Nishith Sanghvi: So basically the Q-on-Q decline in the US business has been primarily due to the phasing out of

certain products if I am to understand correctly.

**R.K. Baheti**: Also some pricing changes in different products.



Nishith Sanghvi: And just wanted to understand the scale up in the products that is Telmisartan HCTZ. Pranav

probably if you can give us some outlook, how do you see the scale up happening for

Telmisartan HCTZ.

**Pranav Amin:** Nishith, it is very tough for me to say that because as I mentioned, we do not give forecast of

product wise and second is with the partners. It really depends on the partners' marketing

strategy. We may have something that we involve with them on a strategic bit.

Nishith Sanghvi: So we probably going forward will see the scale up happening in Telmisartan HCTZ and

Cymbalta.. So how will it impact our gross margins? Will we see a further improvement in the

gross margins from this level of 64%?

**Pranav Amin:** If you see in terms of the EBITDA of the company which we had about 19.5 or so, we have said

this year we are going to remain at these levels. . We will be happy to maintain, may be little increase on this year's EBITDA and then moving forward and as we build up our portfolio, we

had more launches than you see as second round of margin expansion.

Nishith Sanghvi: But on gross margin front, these products will be high value products. So I expect Telmisartan is

a low competition product, Telmisartan HCT which may be giving us higher gross margins I am

talking about.

**R.K. Baheti**: One product would have only limited impact. In terms of percentage, it would not count much

Nishith.

Pranav Amin: And also Nishith in Duloxetine I think there are about 10-11 players. So that market

opportunity in terms of pricing what is going to happen is very different than in respect of some companies a couple of quarters back. Same way we see other products where we see a couple of

new entrants. So that gets also impacted. So really depends how the market plays out.

Nishith Sanghvi: Pranav probably in the annual report, we have mentioned that we have been taking steps to

improve our supply chain in US and we have been focusing on getting our products first to the market as soon as we get approvals. So can you just throw some light on what steps have we

taken in that direction?

**Pranav Amin**: So again it comes down to capacities and being ready for it. So couple of things. We got new

supply chain heads, we got capacities which are available for US because it is not just launching on time, but also supplying on time. Supply chain is a very critical part of the US generics business. So we build up a capacity. We are planning better for launches. We are working better

with partners. So that is what is helping us to launch in time.

**R.K. Baheti**: Result is our products today are much faster in the market than it used to be previously.

**Nishith Sanghvi**: And anything on the front end in US front, basically how are we moving in that direction?



Pranav Amin: I think as I mentioned that is something that we want to do and we are working towards that.

And I think within the next FY15-FY16 as when we should look at this, but we are working

towards that.

**Nishith Sanghvi:** And sir last question from my side. We have filed 3 ANDAs for the quarter. Now what is the

number are we looking at for FY15?

**Pranav Amin**: For FY14, the number is quite low. Also with this year and in terms of guidance as I said, this

year will not be very high, but about 6-7 primarily because we are also moving to a six months'

stability. So I think 6-7 should be a fair number for this year.

Moderator: Thank you. The next question is from the line of Pathik from Dron Capital. Please go ahead.

Pathik: I had just one question. You guys are not giving out any product wise details, I understand that,

but just wanted to understand one thing. What is the largest selling product in terms of at least value. What was the largest selling product, I do not need to know the name, but what is the

maximum that you sell of a single product in the US?

R.K. Baheti: It is really tough to say and I cannot really disclose that because it changes also. The markets

situation can change, you can see drastic price reductions etc. So it is really tough for me to

comment on.

Pathik: My question was essentially that when will we see a really large selling product which means

something like getting \$40-\$50 million as a single product because as I see your launches are becoming more and more niche as you have been saying, you launch a few FTFs as well. Every company after having 2-3 years in the US and given the strategy that you guys are adopting, there should be at some point in time that you should hit a 40-50 million product as well. How

far do you think that is from today?

**Pranav Amin:** I love to do it soon, but what happens is if you see the big products, you say classic case by

historically, you guys have all tried Duloxetine Cymbalta in the market. It is a massive market

and when you have 5 people in the market versus when you have 11 to 15, it changes drastically.

Pathik: I understand that, but as you are there, there will be at least some product where you will hit at

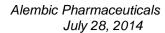
big right because where you will say that products like Cymbalta contributed to a significant portion, let me not quantify how much of Aurobindo Pharma's revenue. That raise elevated the level of EBITDA of that company to a different level totally and then now it has to find its way

from there. Now that is what if something that we are looking....

Pranav Amin: I agree and even I loved to have something like that and whenever it does happen, I think you

have seen on the results right away.

**Pathik:** Do you have any product which sells more than \$15 million annually?





**Pranav Amin:** I really cannot disclose that. Product wise, we do not give breakup.

Pathik: I do not need to know the name, just if there is any product more than \$15 million.

**R.K. Baheti:** Yes, there would be.

Pathik: Second thing is that what is the way that you look at your margins going forward, may be not

this year, may be 12-18 months' down the line or may be next year.

Pranav Amin: I think in terms of margins as Mr. Baheti said, this year should be relatively flattish. Moving

forward in a 2-3 year perspective, as we have more products, as we have some better launches, as we have a front end, there should be a margin expansion happening again. Also domestic is

growing. The specialty that should also slowly start inching up.

Pathik: I forgot the name of the product, but the product which was there with Ranbaxy which was a 505

(b) (2) has it is an alternate to Pristiq. Is that doing well?

Pranav Amin: It is not doing too well. It is about 1% market share. I think it is lot more complex than we

thought it would be. However, Ranbaxy is trying different strategies. We are keeping a tab on that so let's see how that goes but right now we have lowered the expectations on that to certain

extent.

Pathik: If Sun is there, will that improve the prospects of marketing there or no because Ranbaxy was

anyway...

Pranav Amin: I have not heard any word from Ranbaxy on it or I have not heard from Sun either, but it

depends. I do not know how it will play out.

Moderator: Thank you. The next question is from the line of Alok Dalal from Motilal Oswal. Please go

ahead.

Alok Dalal: Pranav Bhai, just wanted to check on Micardis HCT. Has the ramp up been slower than expected

from your side?

**Pranav Amin:** Yes, it has. I think we got to the market little late due to no fault of ours or our partners but it has

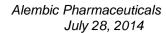
been just slower. I think the incumbents are holding on to market share quite tightly. Again it depends on how aggressively you want to go for the market share and at what price points. So ramp up has been slow than we expected, but I am pretty confident with our partner. We should

pick it up going forward.

Alok Dalal: Is it difficult to manufacture product which led to slight delay from your end?

**Pranav Amin:** No, I think the delay was nothing to do with our side. It was just logistical issue. It was nothing

that we could do about it.





**Alok Dalal:** So you expect market share improvement starting may be in the third quarter or so?

**Pranav Amin:** I hope so. Yes, I think you should see because we reflect one quarter later.

Moderator: Thank you. The next question is from the line of Saravanan Viswanathan from Unifi Capital.

Please go ahead.

Saravanan Viswanathan: Out of the 35 ANDA approvals we have received so far. I gathered that we have launched about

20 so far. So out of the remaining 15, when do we expect to launch?

**Pranav Amin:** Viswanathan, 5 of them are tentative approvals. So those will be launched as and when the patent

expires. There is about 4-5 of them which we are not launching strategically because either due to price or some market situation and the rest we have launched some this quarter and some we

will launch next quarter.

Saravanan Viswanathan: We filed 3 ANDAs during the quarter and for the year, you had given a target of 6 to 7. Out of

these, are there any 505 (b) (2) opportunities?

Pranav Amin: I do not know. I am talking only pure ANDAs. There is nothing on 505 (b) (2) pipeline right

now.

**R.K. Baheti:** We have already launched 23 products out of 29 approvals.

Moderator: Thank you. The next question is from the line of Karan Doshi from Shubkam Ventures. Please

go ahead.

**Karan Doshi:** Sir just wanted to ask you of the CAPEX of 250 crores, how much of it will be funded by debt?

**R.K.** Baheti: We do not expect significant amount of debt. I think it would be funded by accruals. Even if it is

debt, it will be at the most bridge financing. If you combine this year's accruals and next year's

accruals, then that would be good enough for us.

**Moderator**: Thank you. The next question is a follow up from the line of Nimish Mehta from Research Delta.

Please go ahead.

Nimish Mehta: Sir if you can just highlight, one what is the current market size of Duloxetine as of now? What I

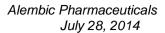
understand is that when it was under 180-day exclusivity, it used to be a billion dollar product.

**Pranav Amin**: I do not have that figure to be honest because with the pricing and with new entrants, the price

has come down quite a bit, quite a bit of erosion. I do not have that figure with me.

Nimish Mehta: I see, but the prices would have come down by like let us say from whatever it was by 50% or

60%. I am just trying to understand the ballpark.





**Pranav Amin:** I really do not have that figure with me.

Nimish Mehta: Second one, the Aripiprazole Para IV for which we have been litigated, Alembic has been

litigated directly. So is it fair to assume that this is the product that you will be launching obviously subject to litigation outcome on your own and not with any frontend marketing

partner?

**Pranav Amin:** It really depends how it plays out. We would like to launch on our own. If we are ready, we

would launch on our own. If not, we have some good partners and some interesting partnership models. We could launch through that as well. But really depends on two aspects. One, whether we are ready and we force ourselves to get ready by then seeing how lucrative enough the launch is for us, second aspect is what competition is there and how many other players are

launching.

Nimish Mehta: If there is more competition, you will launch it on your own or if there is more competition you

have your partners launch?

**Pranav Amin:** If it is more competition, we might work with the partnership model.

Nimish Mehta: If you can throw some light on the potential outlook on the competition of Telmisartan HCT and

Telmisartan normal?

**Pranav Amin:** I think the ones who have launched in the market that is all we see the approvals. I think there

are not too many. I think about 4 and 1 on the Telmi HCT and 6 in the other one. But as I mentioned earlier to somebody else's question, the incumbents are holding on to the market share quite strongly. So you have to go through little slowly and depending on what price point

and how aggressively you want to take the market share.

Nimish Mehta: So there is no much of additional competition that you expect right?

**Pranav Amin:** No, I do not see any other approvals at least.

Nimish Mehta: Any particular reason, just out of curiosity, has that been a very difficult to manufacture product

because I guess all the patents have expired. So what is holding up other competitors to enter the

market?

Pranav Amin: I think the Sartans basket is a big basket and with hydrochlorothiazide, we have lot of

combinations. So maybe there are more people in the Valsartan, more in the Irbesartan, may be I do not know strategically they decided this was not growing. I cannot comment why others did

not pick this. I am assuming this is one of the reasons.

Nimish Mehta: And finally as you had always expected one niche product launch every year which still holds for

the year right? We are yet to see one low competition launch, is that a fair assumption?



Pranay Amin: I do not know if Telmisartan Hydrochlorothiazide has only four players . So would it be

classified as niche or not, I do not know.

Nimish Mehta: My real question is actually beyond that can we expect or not?

**Pranav Amin:** As I mentioned, it really depends how many others are there in the market place and who have

launches?

Nimish Mehta: No, beyond Telmisartan, do you expect any niche launches to happen every year?

Pranav Amin: No, I do not think so. I cannot comment on what is niche, what is not at this stage. But what I

said is we launched about 6-8 products depending on the market place. Telmisartan as you know, we did not expect it to be such few players. So it really depends it is a big launch of course that is

in the public domain.

**Moderator**: Thank you. The next question is a follow up from the line of Rahul Sharma from Karvy Stock.

Please go ahead.

Rahul Sharma: Sir just wanted some flavor on the gross margins. It has actually improved quite substantially and

do you attribute it solely to the launches or domestic ramp up as well and do you think it is

sustainable?

R.K. Baheti: Before this one, I think looking at quarter-on-quarter gross margin may not be most appropriate

thing. Like for example I said R&D, it is not one fourth of what we spent for the year is what I

am saying. There will be some ramp up going forward.

Pranav Amin: Yes, Rahul there are two things. One as Mr. Baheti mentioned, see the base of last year was

much low for the international generics because the new facility was not commissioned, that is one. Second is also domestic as I mentioned earlier to somebody else that, there has been more

specialized segment sales rather than the acute.

**Rahul Sharma**: So basically you are looking at some sort of improvement, though not what has been clocked in

the first.

Pranav Amin: Yes, I think because on the international generics now with the facility and we will be back to

like higher base from the Q2 onwards.

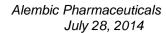
Moderator: Thank you. The next question is a follow up from the line of Prakash Agarwal from CIMB.

Please go ahead.

Prakash Agarwal: On the new NLEM impact covering the CVS and the diabetes if you could just give us a number

as of now as per your assessment how much is the coverage?

**R.K. Baheti:** Coverage is about 20 crores on sale and the impact is about 1.5 crores.





**Prakash Agarwal**: If you could elaborate what do you mean by impact?

**R.K.Baheti** The price cut. On a yearly basis, it is 1.5 crores impact with the new NELM that they have just

released regarding cardio-diabeto drugs.

**Prakash Agarwal**: And 20 crores is what number?

**R.K. Baheti:** That is the portfolio that comes under the impact.

**Prakash Agarwal**: Okay, this is miniscule part and I think it has been appealing by the group of pharma companies.

So what is our thought process?

Shaunak I think IPA and OPPI have filed in both Delhi and Mumbai High Courts. May be this week is the

hearing. So we will get a sense of it what is going to happen.

Prakash Agarwal: And secondly on in our last conversation, we had talked about that the incremental filings would

happen into relatively complex side. So would it be safe to assume that the journey has started

for us with the current three filings that we have done?

**Pranav Amin:** See as I mentioned, we got three filings and this year we hope to file anywhere 6-7. Moving

forward yes, we will have to increase our filings to catch up with the peers or grow in the market.

Prakash Agarwal: So going forward, we do expect that the complexity of the filings may be from even in the

overall side but the complexity would improve so that we get higher realization in the US

generic.

Pranav Amin: Yes, we are striving to do that quarter-on-quarter and pipeline trying to do more complex

products. Of course as you know R&D will take anywhere between 2-3 years the product comes out. So we have some of the old grades, some of the new ones they are all coming in and we are

increasingly looking at more complex filings as well.

Prakash Agarwal: And just a follow-up on this that we had also talked about working towards topical and delivery

platforms. So when should we see filings on these lines?

**Pranav Amin:** I think topical is something that we are working on, may be next year we might see some filings

and on other delivery platforms, we are still analyzing it from a development perspective and if it makes sense. The overall solids are what we are focusing on right now because we believe there

is a lot of low-hanging fruits there as well.

Moderator: Thank you. The next question is from the line of Ashish Thakkar from Asian Markets. Please go

ahead.

Ashish Thakkar: So you said in international generics, we will see the impact of high base. So by this, do we mean

we will see no growth or we are still expecting some single digit growth?



**R.K. Baheti:** Which one, you talked of international generics or overall company?

**Ashish Thakkar:** The international generics.

R.K. Baheti: No, I do not expect it to be single digit. I said it would not be as robust as you have seen it in the

first quarter.

**Ashish Thakkar:** You said compared to the previous 3-4 quarters?

**R.K. Baheti:** Yes, but previously the growth used to be 100%.

**Ashish Thakkar**: So we refer to the dollar growth or the rupee growth?

**R.K. Baheti:** This year dollar has been fortunately more or less stabilized. I mean both are same for us.

**Ashish Thakkar**: Sir and this new formulation capacity of 7 billion tablets and capsules. So is it expected to come

on stream?

**R.K. Baheti:** This should be towards the end of this year.

**Ashish Thakkar**: So from Q1-FY16 we will see the impact.

R.K. Baheti: Not really because I do not think as of now we have constraint for capacities, but this we are

building for future so that we are not caught unaware when there are opportunities. So as of now, I do not think we have a capacity constraint. This expansion is not to meet any constraint. This

capacity expansion is to more to meet future opportunities.

**Ashish Thakkar**: So otherwise our export formulation would be how much, 65% capacity?

**R.K. Baheti:** Less than that at this moment.

**Ashish Thakkar:** And sir final question on the hedges, could you quantify and at what rate?

**R.K. Baheti:** Which one?

**Ashish Thakkar**: The hedges.

**R.K. Baheti:** Including the natural hedge and some hedging we have done, I think we have covered about 35%

of our receivables for the year.

**Ashish Thakkar:** And at what rate if you could?

**R.K. Baheti:** These are different products available, but I think we will try to protect the base of 60.



Moderator: Thank you. The next question is from the line of Gagan Borana from ICICI Securities. Please go

ahead.

Gagan Borana: Sir, first question is about 30 odd ANDA filings where we still await approval, how many of

them are Para-IV opportunities?

**Pranav Amin:** About 10-15 are Para-IVs.

**Gagan Borana**: And what would be the approximate age of the filings, would be 2 years and more than 2 years?

**Pranav Amin:** Approval time?

**Gagan Borana**: No, age of the filing. How many of the ANDAs which are await approval are filed more than 2

years back?

**Pranav Amin:** It is about 2 years -2.5 years back.

Gagan Borana: The next question is on the international branded business. As you said in the opening remarks

that international branded business is also one of the focus areas. So what are the key markets

which are looking forward for the growth now coming forward?

Shaunak: The key market as of now, I think we are looking at CIS and the Eastern part of Africa and South

East Asia. These are the three markets that we are focusing on at the moment.

Moderator: Thank you. Mr. Gupta, would you like to make closing comments.

R.K.Baheti: Thank you very much everybody. It was a good interactive participation and look forward to

your best wishes and if you have any queries, you can send it to me, Mitanshu or Ajay and we

will respond to it appropriately. Thank you very much.

Anshuman Gupta: Thank you gentlemen of the management. Ladies and gentlemen on behalf of Edelweiss

Securities Limited that concludes this conference call. Thank you for joining us. You may now

disconnect your lines.