"Alkem Laboratories Q1 FY-21 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Alkem Lab Q1 FY21 Earnings Conference Call hosted by Motilal Oswal Financial Services. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Tushar Manudhane from Motilal Oswal Financial Services. Thank you and over to you sir.

Tushar Manudane: Thanks Janis. Welcome to the 1Q FY21 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.

Gagan Borana: Thank you, Tushar. Good evening, everybody, and thank you for taking out time and joining us for Alkem Laboratories' Q1 FY21 Earnings call. Earlier during the day, we have released our financial results and the same are also posted on our website.

To discuss the 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 would be made available on our website as well. I would also like to add that today's discussion may include forward-looking statements and the same must be viewed in conjunction with the risks that our business faces. After the end of this call, if any of your queries remain unanswered, please feel free to get in touch with me.

With this, I would like to hand over the call to Mr. Sandeep Singh to present the key highlights of the quarter and the strategy going forward. Over to you, sir.

Sandeep Singh: Thank you, Gagan. Good evening, everyone. Thank you for joining us for the Quarter 1 FY21 results. I would briefly touch upon the key performance highlights of the quarter gone by and would then leave the floor open for Q&A.

The past three months ending June 2020 have been significantly impacted by lockdowns imposed across the globe in order to control the threat of novel Corona Virus. It has had a deep socioeconomic impact, which has had its bearing across the industries.

Talking about the health care and pharmaceutical industry; deferment of surgeries, significantly lowered footfalls at the hospital OPDs and the shutdown of private clinics by doctors has had a major impact on the new prescription generation which is an important lever of our growth. The same is reflected in the secondary sales data reported by IQVIA in which the India Pharma market reported a year-on-year decline of about 5% during the quarter gone by. The decline was steeper in acute therapies like anti-infective, gastrointestinal and pain management where the dependence on new prescription is even more. Accordingly, these therapies posted a decline of 8% to 25% year-on-year during the quarter.

In this challenging environment, I am pleased to share that the company's acute care portfolio outperformed the market and retained its leading position and market share. Further in the chronic therapies of cardiac and anti-diabetes, the company grew faster than the market. Given that the company has a significantly higher share of its India sales coming from acute therapies, the company's domestic sales reported a year-on-year decline of 5.5%.

Coming to our international business; I'm happy to share that during the quarter, our international business registered a strong growth of 32.8%, mainly led by our US business, which grew by 38.3%. The growth in US business during the quarter in dollar terms was also strong at about 28%. The growth was largely driven by new product launches, coupled with market share gains in some of our existing products.

Talking about profit margins; during the quarter, the company's gross margin expanded by 190 basis points. During the quarter, the company also posted research milestone income of $3.5 million in other operating income. This, along with savings in market and other expenses during the quarter helped EBITDA margin show significant improvement to 26.6% compared to 14.3% last year. Our effort towards productivity improvement and process optimization continues on an ongoing basis. R&D is an important pillar of our growth. During the quarter, we invested Rs. 119 crores in R&D, which is around 5.9% of our operating revenue. We filed four ANDAs with the US FDA and received two approvals, which includes one tentative approval. With this, we now have a fairly strong pipeline of 148 ANDAs already filed with US FDA, with nearly half of them yet to be commercialized. And the new product approvals and the commercialization would be a key focus to drive growth in US market.

In terms of regulatory status of our manufacturing facilities, all our six manufacturing facilities in India and US supplying to the US market have received EIR on date. We continue to invest in our people and technology to ensure facilities comply with global regulatory CGMP standards.

Going forward, while it is difficult to predict how the situation will unfold, we are taking all the necessary steps to ensure that the safety of our employees is not compromised and at the same time, production, supply chain and distribution of our products are not impacted adversely. We are also embracing various digital platforms to reach out to medical fraternity and health care providers. I hope we recover soon from this pandemic and emerge stronger. Thank you for listening.

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

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question-answer session. We take the first question from the line of Saion Mukherjee from Nomura.

Saion Mukherjee: Just one question I had on the domestic market. Can you take us through adjusted for the spillover sales from the previous quarter? How the momentum has been in, April, May, June, and what you're seeing in July? And a similar assessment on the cost side, how the costs are ramping up and where they are currently? And secondly, related to that, going forward how should we think when normalization comes, do you expect the cost base to recover fully or you think it would settle at a lower level and if you can quantify that?

Sandeep Singh: Saion, on the cutoff and those questions, I will let Mr. Dubey, our CFO, answer. What I'll do is answer you on the second part of the question, like July and how do we see things going forward. So as you know that in the first couple of months, they were the most severely impacted by the lockdown. So compared to that, yes, July seems better. And slowly and surely, I think the OPDs and everything also opened up because surgeries and all that cannot be held indefinitely postponed. So I think markets are opening up. But again, Saion, it's difficult to say if it comes in waves, if there is a lockdown again, then we can't help it. I think a positive going forward; I think the worst is perhaps behind us. And in Quarter 1, because of the lockdown, the expenditure on marketing front was also significantly lower, not just by design, but by default, we could not do it because of the lockdown. Mr. Dubey, on the questions on how much sales was normalized, if you can answer?

Rajesh Dubey: Sure. So Saion, you'll be recollecting in our last meeting, actually, we said for the first time in financial year and quarter, there was spillover of somewhere close to Rs. 143 crores sales in Quarter 1 of 2021. So we got Rs. 144 crores in this quarter whereas there is a significant portion spillover from June to July also. But since this has happened for only first time, because of COVID, we were not able to complete the dispatches and delivery has not happened, so revenue recognition, it did not happen. So that advantage, it has come in Quarter 1 and that is a part of one-off items also and the rest of the carry-forward and everything is normal, and that happens every time. So besides this advantage in Quarter 1, rest of the thing is normal. As far as cost impact on gross margin is concerned, yes, there is a negative impact of increase of cost of API in Quarter 1. That is not very significant. It's in some basis point only, but of course that is getting offset against our NRV realization also. So Saion, do you expect something more besides this?

Saion Mukherjee: Also I wanted your comment on the cost front. So how are the costs ramping up? And when you look at June or July, how are the costs versus what they used to be pre-COVID level?

Rajesh Dubey: So I think going forward, we don't see any significant increase in cost. So it is going to be normalized kind of cost except. But on marketing spend and all these, since in Quarter 1, more or less, there were no marketing spend or no expenditure happening on sales and marketing. That has started. Of course, Quarter 1 that also we should consider as one-off only whatever marketing spend saving has happened. From Quarter 2 onwards unwinding is going to happen because our activities, it has already started, and quickly I think Quarter 2 itself only will see more or less closer to normalcy and Quarter 3, Quarter 4 onwards, we don't see any difference.

Moderator: We take the next question from the line of Aditya Khemka from DSP Mutual Fund.

Aditya Khemka: Sandeep bhai, can you talk a bit about your trade generic business in first quarter FY21? What was the growth like and did it benefit from the lockdown?

Sandeep Singh: Yes. So Aditya, trade generics did well for us. It's one of the things which helped us drive through this lockdown. So it grew a very healthy double-digit percentage growth, I would say, Aditya. And yes, it benefited from lockdown. I think trade generics has picked up for most of the players, I would say. We have always been in the forefront of trade generics. We kind of started this as one of the pioneers and this is benefiting us. So we have tremendous reach and franchisee with wholesalers and stockiest. And also we should not forget trade generics is a classification in that way, but they have pretty strong brand recall with the customer or end consumer itself. So those things greatly benefited us during the lockdown.

Aditya Khemka: Dubey sir, just one question for you also. If I look at our annual report, the FY20 total traveling expenses and sales and marketing expenses put together is about Rs. 800 crores. That translates to about Rs. 200 crores a quarter. Now when I look at your quarterly numbers for this quarter, the other expenses numbers versus the average of Rs 500 crores that we did for, let's say, FY20 per quarter, we have done Rs. 340 crores. So it is lower by Rs. 150 a quarter than the normal run rate. Is it fair to say that so this Rs. 150 crores saving is almost all of it has come from traveling and sales and marketing expenses?

Rajesh Dubey: So, majority, yes. You're right. Majority of saving, it is on account of sales and marketing and traveling. Of course, traveling, it did not happen only because our cycle meetings and all these things, whatever is planned in Q1, it never happened. So you are very correct. And more or less number what you are indicating; I think more or less that number also is very close.

Aditya Khemka: On same lines, Dubey sir, freight forwarding and transportation was about Rs. 225 crores last year. My understanding is this year, your freight forwarding costs would have also gone up, given the increase in transportation cost? Do you have any understanding of what the impact would have been?

Rajesh Dubey: Yes, initially, freight, it was a little bit on higher side because of COVID lockdowns and the scarcity of transporters and carting agents and all this. But gradually, it has come to normal. It is going along with volume. So most of the time, it depends what kind of volume you are having. I think there is no major difference in that. And whatever percentage it was happening as a percentage to sales, we don't see any abnormality currently.

Aditya Khemka: One last question. What is our annual budget for R&D for this year, Dubey sir?

Rajesh Dubey: Annual budget for R&D is somewhere, 6% of our revenue.

Aditya Khemka: Which is what we did this quarter as well, right?

Rajesh Dubey: Yes, absolutely.

Aditya Khemka: And what was our free cash flow this quarter, first quarter, FY21?

Rajesh Dubey: Now we are away from debt, this much I would like to say. We do have positive cash with us.

Moderator: We take next question from the line of Nikhil Mathur from Ambit Capital.

Nikhil Mathur: So Sandeep, I just had this question. So now it is almost third or fourth quarter where the performance has been quite good and on multiple line items be it on the sales side, the gross margin, operating expenses, the company has been doing well on multiple of these line items in the last 2-3 quarters. Does anything worry you, especially if I look at the way gross margin has shaped up but is now around 63% and in the past, when there have been issues in terms of sourcing from China or the Brent have been up, the gross margins have also been in the range of 60%-61% or at times even lower at 50%-55% as well. So is there a cause for concern that the gross margins are kind of at elevated levels and hence these might not be sustainable over the next coming quarters and years?

Sandeep Singh: See, it's a good question. I think gross margins are good but I will not classify them as unsustainable. What's happening, we are building the chronic business and US business, we always maintained that with better products coming in, our gross margin will start looking better. We have always said that right from the IPO. I think what's happening there, those two things are playing up and we have a better product mix. So you know that things like semi-chronic brands in India like multivitamins, and nutrition have gone up in the COVID times. So it's because of that, gross margin is looking better. I will not say that they are elevated or it's just one-off or temporary. I will not say that.

Nikhil Mathur: So just I want to clarify on 1Q gross margin. So the spillover sales that have been recorded in 1Q, the raw material costs would have been booked in 4Q itself. And then the average of the two quarters is what the more normalized gross margin is looking like?

Rajesh Dubey: So, as far as gross margin on spillover is concerned, I don't see any abnormality in that. Whatever gross margin we have that gross margin it was on our spillover also.

Nikhil Mathur: And another question that I have is that. So what we have seen over the last 3 to 5 years is that R&D as percentage of sales has continued to trend up. It is now around 6% versus what it was 3% to 4%, 5-6 years back. But we are in some sort of CAPEX down trend. CAPEX was elevated in about FY19. But in FY19, given what the guidance was in FY20, it seems the CAPEX would be fairly low in FY20. So when is it really, the next stage of capital investment the company would again embark on, which would be say much more than what the current run rate of CAPEX is? Can you give some guidance there?

Sandeep Singh: But keep in mind, it's just a guidance because we really don't know when the next trigger comes in. I think over the next 3 years, there's no need for us to embark on any above-average CAPEX. I think we will be maintaining what we are maintaining. We have sufficient capacity in terms of utilization is not very high. We don't need to put anything aggressive for the next 3 years at least and we will need to get into CAPEX, only when we decide to pick up our next growth area like sterile or some complex generics or things like that which is not the plan as of now. We are still working on the R&D , so nothing for the next 3 years.-

Nikhil Mathur: Can you help us understand the status of the Indore plant? It's a US focused plant and when would it start contributing or has it already started to contribute and what levels we are at?

Sandeep Singh: So to be honest, it's a very small plant right now. It's going to start by next year, yes, next year, typically, not before that. And it will take time to ramp up, and that's the idea as well. It's not going to have a meaningful production of part of the US sales in the next 3 years.

Moderator: We take the next question from the line of Prakash Agarwal from Axis Capital.

Prakash Agarwal: Just trying to understand your guidance, which you gave in Q4. So you talked about 100 to 200 basis point margin improvement. So clearly, Q1 is a super performance, now how do we see the sustainable margins going forward?

Sandeep Singh: I would like to say that this time, our margins are slightly elevated in terms of there were some one-offs like the sales cutoff. The marketing expenditure we could not do too much. So I would say the same that we would like to maintain that guidance, Prakash. Maybe next quarter, you can ask more specifically but because we really cannot see how things will pan out.

Prakash Agarwal: So let me ask you, like other expenses. So you were doing about 17%-18% of sales, which has dropped to 11% of sales. As Dubey sir said, it has picked up in June-July. So what is the level that we expect starting from Q2?

Sandeep Singh: Exact numbers we'd like to avoid, Prakash, but...

Prakash Agarwal: No, just in general, sir.

Sandeep Singh: There will be a significant pickup in expenditure on the sales and marketing front from Quarter 2.

Prakash Agarwal: Which has already started, you were saying, from June onwards only so...

Sandeep Singh: From more like July, yes, I would say, not June, more from July.

Prakash Agarwal: And gross margins, trying to understand little better. So unlike in the past eight quarters, we see when India improves, the gross margin is better. Here, the US has been higher and your generics has been—I understand is that typically a lower gross margin business—so GX also is higher.

So has the US done phenomenally better in terms of product basket? If you could just give some color, apart from that income of $3.5 million, which is above the gross margin line in other operating expenses.

Sandeep Singh: Yes, you are precisely correct, sir. US have been a significant contributor of changing the gross margin.

Prakash Agarwal: And do you think it is sustainable?

Sandeep Singh: It is sustainable, maybe not at the same gross margins but it will be better than what it has been historically because we are launching products which are a little bit different than, plain generic which we kept doing in the past. So our product filing and approvals are slightly of much better quality, actually I would say which is now playing out from this time. And hopefully, we will keep getting something which will be of better quality. So I think they are quite sustainable, maybe not at the same proportion, but it's not going to go back to its mean.

Moderator: We take the next question from the line of Damayanti Kerai from HSBC.

Damayanti Kerai: So my question is on the US business. So we have seen continuous improvement in this part of business and obviously, first quarter is very strong. So my question is regarding US business contribution to the overall consolidated margins. So compared to last one year, how much better contribution is coming from this part of the business, if you can clarify? And does first quarter reported number contains any one-off sales?

Sandeep Singh: Mr. Ghare, would you like to answer that please, Amit?

Amit Ghare: So Damayanti, as you know, we don't break out our gross margin by market. So I would not be able to answer your question directly. But I'll certainly try and answer the second part. The second part is related with sustainability and we are obviously working in every way. Like Sandeep answered on the previous question. Through our new product launches and through our overall margin improvement, that is what the aim really is to continue to grow and expand our margin.

Damayanti Kerai: So as Sandeep sir mentioned, we are seeing now better quality of product launches. That plus scale up in sales should result in the operating leverage benefit for the overall margin contribution, we should think in that manner?

Amit Ghare: No, absolutely. So operating leverage is the biggest contributor as far as EBITDA is concerned from the US business side, absolutely.

Damayanti Kerai: And on the launches, we'll be launching around 8 to 10 products consistently per year. Is that the target from your side?

Amit Ghare: Yes. So last year, we launched more than 10, and this year also, we are aiming to launch more than 10. Double digit, lower double digits, obviously, between 10 to 12 for the full year.

Damayanti Kerai: And one question on the India part. If you can specify the sales mix between the branded generic and trade generic at present that will be helpful.

Yogesh Koushal: So trade generic is somewhere close to 27%-28% of our domestic sales.

Damayanti Kerai: And we are seeing double-digit growth on the trade generic as mentioned earlier, double digit?

Rajesh Dubey: Yes that Managing Director, he already told, even in Quarter 1 we had very good growth of trade generic and that's a good growth in double digit, of course.

Damayanti Kerai: And you hope to maintain that kind of momentum?

Rajesh Dubey: Even our ethical business, it has started picking up. So the trade generic irrespective it is going to do better, of course composition, it will come down. So the trade generics composition is higher now. Definitely, it will come down. Traditionally, 18% to 20% kind of mix of trade generic is there. I think that is going to be a normal situation all across. We expect our ethical business to come back to track.

Moderator: We take the next question from the line of Anubhav Aggarwal from Crédit Suisse.

Anubahv Aggarwal: I have only one question on the experience on the larger brands in the ethical market. So for example, Pan, Pan-D etc., you may have seen in April and May when the prescriptions were very low...

Sandeep Singh: Sorry, can you speak Anubhav again, because your last line we missed out.

Anubahv Aggarwal: Yes, I will start once again. So my question was on the larger brands that we have in the ethical portfolio like Pan, Pan-D etc. Now I was talking about the lockdown period in April- May and part of June where because of lesser promotion by the competitors, it's possible that we may have seen higher prescription for our larger brands. I don't know, I'm just asking about the trend. And the bigger question is that how you are thinking about learnings from this experience for the last three months for the larger brands? When you're starting to market again, are you thinking about increasing resources on these brands more or are you thinking about reducing resources on those brands? How are you thinking or just maintaining the previous strategy?

Yogesh Koushal: So your two questions; one is about the impact of this on a large brand? So certainly, the impact is very positive on large brands. And so though Pan new prescriptions we may not have generated much. On a prescription front it is almost static or it is negative, in fact, not static, it's a negative prescription. But because of OTX factor Pan immensely benefited because the availability of the brand. So Pan has not actually degrown in the first quarter. We almost maintained the sales of last year. That is one. Now coming to your next question about how the market dynamics will change in the coming time. I clearly see it will change permanently. It is not going to be only for COVID time but the digital is now setting in and it will become a permanent feature of marketing in the future. That is I'm clearly foreseeing now.

Anubahv Aggarwal: So that was part of the question. What I was also trying to get something from your side was that resources that you're deploying right now for the marketing of the larger brands, do you think that in future that will reduce for you or that will increase for you?

Yogesh Koushal: Not really. In fact, the learning across industry is that sustain your large brands. So because the smaller brands if you see across industries are impacted the most. So the learning would be that if you're operating in a larger market, particularly, and if you're a large brand, in fact, grow them, so that they build their momentum, which we call as snowball momentum. And that is impacting all the large brand of the industry. So of course, our resources will be more on or if not more, then we will sustain the resources on the large brand. We are not going to reduce the momentum on large brand.

Coming back to digital marketing, we are have the kind of now learning which has begun. The large set of specialists, whether it is in anti-infective field or cardiac field or diabetology field, the doctors are quite happy, not actually avoiding travel and all. And they are doing equally intense discussions on these platforms. So one of the key initiatives which Alkem begun is about 'Connect To Clinic', one of the digital initiative which we have. It is kind of a telemedicine platform, but we are not going to confine it only to telemedicine. But it will be kind of a complete digital solution to a doctor in terms of reaching out to patients for patient awareness programs, sourcing various data internationally and all that stuff. So all the digital initiatives will support large brands in the future, so our resource allocation with the large brands will be quite significant in the coming time.

Anubahv Aggarwal: If I can ask just one clarity on that. That's very useful, what you mentioned because you operate an app, what is the average time spent by per doctor which you would have just seen on this digital app so far?

Yogesh Koushal: Digital app, right now this is a telemedicine app. It depends on the profile of a patient. So if patient profile is a little serious, a doctor may go up to half an hour to 45 minutes. And if it is just a follow-up for patients, then it can last for maybe just 10-15 minutes.

Anubahv Aggarwal: I was not asking about the telemedicine, I was more asking about your promotion to doctor.

Yogesh Koushal: Yes, I'm coming to this one also. So when it comes to the knowledge sharing kind of a platform, there doctor remains for an hour or so. So the kind of interaction which happens goes for an hour.

Moderator: We take the next question from the line of Neha Manpuria from JP Morgan.

Neha Manpuria: Sandeep, the second quarter usually tends to be a very important quarter for us due to seasonality. As we are stepping into July, if you could give us some sense on how the acute business is trending. And do you think by the end of this quarter, we could get back some of the momentum that we saw last year given the monsoons have been pretty strong?

Sandeep Singh: I think I said earlier also, this month is looking better than last month, no doubt about that. So this quarter will be better than last quarter as far as acute is concerned. If things don't get, kind of interrupted by some other cases and lockdowns and things like that, it would certainly be far better than Quarter 1. Did I answer your question or is there something specific, I will take it up?

Neha Manpuria: And on the US business, I was just wondering, I know our launch momentum has been pretty good. But we've seen a fair bit of expansion in market share in our existing products. And that's been happening for quite a few quarters. Do you think there is more scope for us to see continued market share gains? Or have we sort of peaked out in that and therefore, this launch momentum becomes important.

Sandeep Singh: I would like Mr. Amit Ghare to answer that. Amit, please come in?

Amit Ghare: So Neha, that's always the aim to expand market share wherever possible. But to a large extent, we have reached peak in many of our products. And certainly, for our growth, growth both in revenue, market share as well as in margin terms, we do depend on new launches.

Moderator: Next question is from the line of Runjhun Jain from Nirmal Bang.

Runjhun Jain: Most of the questions have been answered. I just wanted to know the milestone income which I missed in your opening remarks. Can you quantify that how much it is? And is it likely to come again in the year, how is it?

Sandeep Singh: Mr. Dubey?

Rajesh Dubey: We do have milestone income in our Quarter 1 financial, and that is somewhere close to Rs. 25 crores kind of milestone payment we have received on our R&D related activities. Yes, obviously, we are a Pharma company, and we have R&D facilities. So we can expect this kind of milestone. But right now, we don't have anything concrete in our mind to tell you specifically when and what quantum we are going to receive. Our business is like that.

Sandeep Singh: I would allude that we should not be factoring that regularly for sure because this side, we have worked on it many, many years back. It is something which you can't predict and something which you can't plan for.

Runjhun Jain: I just want to know your view on the recent US President's regulatory order, saying that they are looking to shift or take the drug from the US manufacturing based US manufacturing, so your views on that. So how is it likely to impact Indian Pharma in general and you as in particular?

Sandeep Singh: Yes, understood. Our friend, Mr. Amit Ghare is based in US right now. I think I'll let him answer. He knows what's happening there. Mr. Amit Ghare, please.

Amit Ghare: So these kind of moves have always been there, and this is nothing really new. Some of the moves are obviously aimed at big Pharma, not so much in generics but obviously, manufacturing is for everything, including big Pharma, generics, everything. It remains to be seen how this unfolds. From our perspective, I can't answer for other Indian companies or other companies, but from Alkem's perspective, we have manufacturing in the US and we are well positioned is what I would say to take on any changes in policies or any challenges which get thrown at us because of change in regulation.

Sandeep Singh: We have API and formulation both, so that's advantage.

Runjhun Jain: Is it safe to say that it probably will work out more and benefit companies like you, who have manufacturing base and or API and formulation there?

Sandeep Singh: No, to be honest I will not go that far and say it will work out good for us because overall, first of all it will not go that way. I think we know that US is far more opened economy. And this is election time don't forget that. So we have a huge manufacturing base here. So obviously, everybody would be adversely impacted. But I don't see that happening. Yes, we have facilities there. That gives us certain benefits and flexibility but it's not that it would greatly help anyone if that happens, which I don't see happening honestly.

Moderator: Due to time constraint, we take the last three questions. The next question is from the line of Ashish Thakkar from Motilal Oswal Securities Limited.

Ashish Thakkar: So there were like aspersions of channel checks, it seems the API prices were typically very high the current quarter that is Quarter 1. And in the last week, it also seems that some of the Chinese guys have started now taking a very drastic cut in the KSM. So your views and any comment on this?

Rajesh Dubey: So as far as API prices are concerned, yes, some increase of API prices were there, but it was not beyond certain limits. I think actually, I covered in my earlier answers also. And yes, there was some negative impact of increase of API prices but these are manageable. I think more or less, now it's normalized kind of and we don't think normal kind of API prices, it is going to go up or down. Of course, probability of coming down is much more unless something happens on political front or relationship with China or something like that. So we are comfortable as on the procurement of API is concerned. Sizing also, we don't see any significant kind of movement.

Ashish Thakkar: And what is the API inventory, how much months of API inventory do we maintain?

Rajesh Dubey: Generally for API, in this situation, our intention is to maintain 45 to 50 days requirement.

Ashish Thakkar: And in the recent PLI scheme announced by the government since we do not have any API integration on our side. Would you be willing to participate, so just wanted to have your understanding on that?

Rajesh Dubey: Government is encouraging and they are offering...

Sandeep Singh: It's not a priority for us. We don't see ourselves as major API players.

Ashish Thakkar: And we are not even in the near foreseeable future, we are planning to have any API facilities here on our side, right?

Sandeep Singh: No, we have three API facilities existing, two in India and one in US but we don't have like massive plans to put a lot of CAPEX and start doing things which we have not done. We don't see ourselves as key players in API. We see ourselves more as a front-end sales marketing company and maybe work on tough-to-do generics and things like that for US rather than get into API. That's how we view ourselves.

Ashish Thakkar: Post this Q1, how would you see the Quarter 2 for the India business, more so from the view point of our anti-infective portfolio?

Sandeep Singh: Yes, Yogesh.

Yogesh Kaushal: Quarter 2 should be much better than Quarter 1 and I see a recovery happening in Quarter 2. So if you look at the IQVIA data also, the market has shown a growth of almost 2.5% in the month of June, July would be better. So Quarter 2 against negative of (- 5.9%) in Quarter 1, we expect the industry to grow by around 5% to 6%. So in line with that our acute business should show a good growth. In fact, in the month of July, our acute business has already shown a growth of almost 2%.

Moderator: We take the next question from the line of Sapna Jhawar from Dolat Capital.

Sapna Jhawar: In your previous comments, you did mention that now we are filing some better quality products in the US. Could you just explain as to what are we trying to do? Are we trying to do treat the older products into newer or are we trying to file up more going into topicals or injectables, what sort of products are we filing, any idea on that?

Sandeep Singh: So more than dosage form because I think when we say better products, we don't just mean a different dosage form. In the same dosage for tablet and capsules, there are drugs which are more difficult to do in bulk, equivalence and things like that. So those kind of stuff. I don't really mean we're getting into sterile or ointments or things like that. We just want more tough-to-do generics basically and more than that, I don't things I can share.

Sapna Jhawar: But it will still remain in the oral solids?

Sandeep Singh: More or less, we will remain in oral solids.

Moderator: We take the last question from the line of Saket Bansal from Opulent Investment.

Saket Bansal: I want to understand about the US business. What kind of a base portfolio we have and what is the share of it and what will be the share from the new product portfolio?

Amit Ghare: Look, we don't break out, again product-wise or portfolio wise. But certainly, new products continue to be an important factor for us and in the quarter, certainly added a good chunk of our overall US revenues.

Saket Bansal: Can you give me the data on number of launches in last quarter?

Amit Ghare: We launched five generics in the quarter and we had also acquired the Marinol NDA, so we did a soft launch for the Marinol brand also. So those were the number of launches that we did in the quarter.

Saket Bansal: And total number of launches till date would be?

Amit Ghare: We are selling about 65 to 70 products in the market, total ANDAs.

Saket Bansal: I want to understand on the employee cost side also, like we have seen an increase in the employee cost as a percentage of sales. So will it continue or there is a chance of improvement over there?

Rajesh Dubey: But when you see employee cost, I don't think there is any increase. Employee cost is around 19.7% that’s 20% whereas last year, it was 21%. On absolute terms also if we see, there is no much increase. Of course, increment is factored in this.

Saket Bansal: Are we hiring new people?

Rajesh Dubey: We are not. Whatever manpower—especially for our sales and marketing needed—they are already in place, so no major hiring as much.

Saket Bansal: Do we see any rationalization of cost in coming quarters when things would improve, like things will be unlocking now. So do we see any rationalization of cost because once you say that Rs. 150 crores, whichever the direct expenses was, which was a benefit in this quarter will come back very soon. So do we see any cut-down in costs in future because again, if we see, like all the costs will be coming back, the EBITDA margin will go back to 20%, right?

Sandeep Singh: Yes, so you want 26% next quarter also? All right. Thank you.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments.

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

Moderator: Thank you. Ladies and gentlemen, on behalf of Motilal Oswal Financial Services we conclude today's conference. Thank you for joining. You may now disconnect your lines.