"Alkem Laboratories
Q1 FY2022 Earnings Conference Call"

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Moderator: Good day ladies and gentlemen and a very warm welcome to the Alkem Laboratories Q1 FY2022 earnings conference call, hosted by Motilal Oswal Financial Services Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and "1" on your touchstone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Tushar Manudhane from Motilal Oswal. Thank you and over to you Tushar!

Tushar Manudhane: Thanks Ali. Welcome to Q1 FY2022 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, President Chronic Division and Mr. Gagan Borana from the Investor Relations. Over to you Gagan for the opening remarks!

Gagan Borana: Thank you, Tushar. Good evening everyone and thank you for joining us today for our Q1 FY2022 earnings call. Earlier during the day, we have released our financial results and investor presentation and the same are also posted on our website. Hope you had a chance to look at it. 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 everyone that this call is being recorded and the call transcript will be made available on our website as well. I would also like to add that today's discussion may include forward-looking statements and the same must be viewed in conjunction with the risks that our business faces. After the end of this call if any of your queries remain unanswered, please feel free to get in touch with me. With this I would like to hand over the call to Mr. Sandeep Singh to present the key highlights of the quarter gone by and strategy going forward. Over to you Sir!

Sandeep Singh: Thank you Gagan. Good evening everyone. Without further delay I will get into it. We had had a strong start to the financial year with total operating revenues growing by 37.1% year-on-year, EBITDA margin coming in at 21.7% and net profits after tax growing by about 11% to 468 Crores.

During the quarter, we also generated healthy cash flows which have helped us further strengthen our balance sheet and now we have a net cash position of 980 Crores as on June 30, 2021.

Talking about our India business, it registered a growth of 65.3% year-on-year during the quarter, which was majorly driven by strong volume led growth in acute therapy. Even adjusting for the low base of last year the company delivered a robust growth over Q1 FY2020 base which was more of a normal quarter for the company.

Moving to International Business, our US business reported a sequential growth of 11.2%, and a year-on-year decline of 9.3% in the quarter. During the quarter, we filed two ANDAs with the USFDA and received five approvals. Apart from the US the international markets delivered a strong year-on-year growth of 56.4%.

Tracking our progress in the biosimilar segment, I am happy to share with you that the last month we have received market authorization for two more products for India market. We would soon be launching these two products taking the total number to three product launches in India from Enzene platform.

We have also signed a few important licensing and supply agreements in the biotech space worth 100 Crores. They are based on milestones going forward with global pharmaceutical companies to monetize the product pipeline globally.

In terms of regulatory status of manufacturing facilities Saint Louis facility was inspected in June 2021 and post the inspection, we received two observations. We have already replied to the USFDA with the corrective and preventive action plan to resolve these observations. Apart from Saint Louis, all other five manufacturing facilities supplying to the U.S. markets have an EIR as on date.

Our new manufacturing facility at Indore is awaiting preapproval inspection by USFDA. Also very recently we had a remote and virtual USFDA inspection of our bioequivalent centre at Taloja which we successfully closed without any observation. With this I would like to open the floor for Q&A. Thank you very much.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Thanks for the opportunity and congrats on good numbers. Just on sales growth outlook especially for India business given that it is a very high growth how do you see the rest of the year panning out for you?

Yogesh Kaushal: Two months certainly were supported by COVID and all that stuff so it was a very healthy growth, but now so with now industry settling to around 11% to 12% we expect that balance nine months and by end of the year we should be in high teens. That is what is our projection by March.

Prakash Agarwal: You mentioned COVID led so I mean apart from vitamins which is indirect COVID use do you have done you have any other COVID products?

Yogesh Kaushal: No. We do not have any antiviral or anything to do with the COVID except for multivitamins, A-Z.

Prakash Agarwal: So it is all core portfolio right?

Yogesh Kaushal: It is all core portfolios.

Prakash Agarwal: Two quick ones for the Mr. Rajesh Dubey on one is on the gross margins it seemed a little low despite a strong growth. Are there any one-offs if you can explain that and secondly on the free cash flow and net cash flow for the quarter? Thank you.

Rajesh Dubey: I will take your first question that is gross margin yes gross margin in this quarter it is having one off and that one off is we have extended our provision related to near expiry rate. If you recollect in Q4 of last year, we revised our policy for taking provision for near expiry from 6 months to 12 months and that was one quarter where we took sizable near expiry provision. When we are taking provision we conclude or we estimate we will not be able to sell this product at a normal price but possibilities are there, it may get realized also but right now we expect we are not going to do. Some of the inventories, if all due as per our policy within 12 months shelf-life period and that also is considered so I think definitely, we see this as a one-off because going forward then again it will come in our normal cycle of 12 months. So, this time actually NRV provision and the near expiry if we put both this together, so definitely it is impacting our margin by 1.5%. I think that is a major reason behind it.

Prakash Agarwal: And free cash flow and cash flow from operations.

Rajesh Dubey: So we have a free cash of 981 Crores as of June 30, in this quarter we generated more than 450 Crores free cash and the year end if you want some guidelines will be crossing 1000 Crores.

Prakash Agarwal: 450 Crores is after all the capex and working capital 450 Crores.

Rajesh Dubey: Yes.

Prakash Agarwal: Perfect. Thank you. I will join back the queue.

Moderator: Thank you. The next question is from the line of Nithyabala Subramaniam from Bernstein Research. Please go ahead.

Nithyabala S: Thank you. In India I presume other than the VMS portfolio your anti-infectives portfolio would also have seen a benefit because of wave two. Is it possible to strip out the growth from those kind of products and tell us what is the true underlying growth of your base portfolio x COVID?

Yogesh Kaushal: Other than COVID in fact did not really impact our core portfolio so other than multivitamins and all yes there was impact on anti-infectives, but the anti-infective also grew because this time the lockdown was not for patient and doctors. The patient flow was almost normal. So that is the reason because the base effect also we got a high growth and because of patient flow also there was a good growth, of course in the coming quarters we should be coming back to as I said in a normal growth trajectory, if we project it around the high teens in all.

Nithyabala S: In terms of your critical care portfolio how is the recovery looking like in that part of the portfolio?

Yogesh Kaushal: As far as if you are asking me portfolio which is for critical disease management then we are mainly into hospitals and which are injectables. So our critical care portfolio is largely major antibiotics like Meropenem and all. Other than that we do not have any cardiovascular portfolio, which is used in critical care management. So as hospitals are opening up COVID there were very high uses of high-end anti-bacterial so there was some traction we have seen in injectables, but in the coming time as elective surgeries opens we will see a similar trend.

Nithyabala S: Thank you and one on US I think a couple of calls earlier you had guided for about 15% to 16% growth for the next two three years driven largely by new launches, but we are seeing the growth kind of cooling off a little bit though QOQ still looks healthy. Do you still stick to that guidance? Any color on why the Y-O-Y growth was not as we would have expected?

Amit Ghare: Thank you. I agree with you the broad guidance still remains broadly what we had given and year-on-year quarter growth of course there has been degrowth. A couple of reasons obviously affected one was obviously we had a lot of a strong quarter last year mainly because some of forward buying done by our customers a bit of you knows stock piling and panic buying as well affected that. So that is one of the reasons. The other reason has been some loss of market share and obviously price deflation, which has sort of depressed at this particular quarter compared to 12 months ago but our broad guidance remains similar and we are looking to grow at those numbers.

Nithyabala S: Thank you so much.

Moderator: Thank you. The next question is from the line of Abdul Kadir Puranwala from Anand Rathi. Please go ahead.

Abdul K Puranwala: Thank you for the opportunity and congratulations on a good set of numbers. Would it be possible for you to provide some color on how the growth in India would be within acute and chronic and the trade generic segments.

Sandeep Singh: I think broadly we kind of not give therapy breakup but I can tell you that acute grew or outperformed growth overall in spite of a higher base and chronic and trade generic both grew like very substantial at about 50%, both of them.

Abdul K Puranwala: My second question is on the US business so recently we got approval for Duexis. So any color on that I understand the products size is not very huge but especially on exclusivity and we are maintaining the guidance would you work on a similar opportunity play important role in maintaining our guidance for the US business?

Amit Ghare: Thank you Sir. Yes we have launched the generic Duexis Famotidine and Ibuprofen and obviously we will look at acquiring as much market share as we can. Please remember this launch is at risk. You know we are still litigating in the upper circuit, but beyond that I would not like to comment anything further at this time.

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

Nimish Mehta: Thanks for the opportunity. My question is again related to the U.S. market can you tell us you know we have we are likely to launch this sort of product Pradaxa, which is Dabigatran at the end of this calendar. So if you can let us know as to you know whether we will be having monitory exclusivity on that and will it be a meaningful product for us?

Amit Ghare: We will launch this product. I am not sure whether we will launch is December or has been pushed back by six months because of paediatric exclusivity so I do not want to comment but certainly we will be the first to launch the product in the market. We will have a 180-day exclusivity the first launch and 180-day exclusivity will be shared amongst all the first filers and in terms of whether the product will be significant for us or not I would not like to give any specific guidance on any particular product in any case launch is few months away but we will obviously try our best to get the commensurate market share.

Nimish Mehta: Given that we have had two high value launches that it generics, Mesalamine and dabigatran that we just mentioned which I would assume that will be very high margin, even in competition. Would you not think that you know the lower gross margin guidance that we had given last quarter needs to be revised upwards, any thoughts on that? That will be helpful?

Sandeep Singh: Generally, the question is the both products are for US. So go ahead Sir.

Amit Ghare: Sorry for that, Sandeep. Thank you. Look the overall guidance given by CFO obviously, he will explain but generally the new products always come with a better margin profile and when we look at our overall product mix we obviously factor that so certainly the new products will come at a higher margin. I guess that is all that I can answer on this question.

Nimish Mehta: If CFO can tell me about the lower gross margin will that still be maintained or you can decrease information. That is it from me.

Rajesh Dubey: I think our guideline is not on lower side. Our guidelines it was 60% to 61%. Of course, we are not factoring our product to product. It is a basket gross margin guideline. There are so many factors which affect margin and particularly gross margin but we strongly believe what gross margin we have given we are going to work towards that. In this situation even this gross margin we might feel little bit pressure kind of situation because of API prices increasing but all put together, we feel will be there what guidelines we have given of 60% to 61%/ Is it okay?

Nimish Mehta: That is helpful and obviously if you can even comment on the EBITDA margins, that would be great?

Rajesh Dubey: EBITDA margin, our guideline it was from 19% to 20% for this year because our endeavor was to improve by a 100 basis points after a year. So we remain with our guidelines. Looking to better Q1 we believe 50 to 100 basis point will try to improve on that.

Nimish Mehta: How much sorry? How much will we try to improve?

Rajesh Dubey: 100 basis points. We try to improve 50 to 100.

Gagan Borana: Just to clarify, last call, we guided for 19.5% to 20% so this 50 basis points improvement is over that guidance.

Nimish Mehta: Thank you.

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

Neha Manpuria: Thank you for taking my question. First on the trade generic business how has this business momentum been over the last few quarters, we did see some pickup giving the pandemic as such, has the growth rate for the business grown, and related question we are seeing more players enter the trade generic segment. Does that make it difficult for us to continue to grow this business at double digits that we have been seeing over the last few years?

Sandeep Singh: I will take this question. To answer you trade generics continues to grow at very healthy pace and the growth is not slowing down and this question specifically of large-player entering trade generics I think it is it was expected because this is kind of growing very, very handsomely for the last few quarters but you know you said will this double digit growth continue? The answer is emphatically yes, because keep in mind we do not only grow in double digits, we grow in very high double digits. So achieving double digits and maintaining that over the next few years we do not see it as a challenge at all.

Neha Manpuria: What would drive this growth Sandeep, despite the competition in your view?

Sandeep Singh: Sorry.

Neha Manpuria: What would drive this strong double digit growth that we are guiding to despite the competition that you will see?

Sandeep Singh: So I think a lot of people underestimate trade generics business and that is also a franchisee and a brand business actually. It might seem like an oxymoron but it is not so the relationship which we enjoy with trade generic trade channels is something which cannot be replicated overnight. It takes many, many years. We have reached where we have reached in 20 years, it did not happen overnight so all the rest would have come in but they will also take the time Madam and we got to kind of appreciate that this is a tough business actually.

Neha Manpuria: Understood, in your opening remarks, Sandeep, you mentioned licensing deals worth 100 Crores you know with the global pharma, if you could get some color on that I did not really catch the context of that thing?

Sandeep Singh: Enzene Biotech subsidiary has out licensed this. One of them is a MAB it is with a European company and that out licensed value is $10 million based on milestone and up to launch and they have also out licensed one recombinant peptide to a company in South Korea. That is around worth $2.5 million so therefore both of them put together I said that it is close to 100 Crores and that is again based on milestones, but I think they are begin out licensing and I personally see a bright future for biosimilars as we go forward.

Neha Manpuria: Got it. Thank you so much.

Moderator: Thank you. The next question is from the line of Harith Ahamed from Spark Capital Advisors. Please go ahead.

Harith Ahamed: Thanks for the opportunity. On biosimilars will you be able to share what percentage of our R&D service today is based for biosimilars and on the license of the mab product that they have done an European partner what stage of development is that product and could you give some timelines around the development and launch for this product?

Sandeep Singh: I got your first question and second question maybe I will ask you to repeat but I will quickly answer you so we spent close to 12% to 14% of our R&D on biotech historically. What is the second question, Sir?

Harith Ahamed: This product that you license to Theramex what stage of development is that product? Is it in clinical trials already?

Sandeep Singh: In India we have got approval so in India it is going to be launched but yes this is for Europe and some other countries so that we are going to enter clinical stage very soon for Europe phase one will initiate in a couple of months, so early stage in the market.

Harith Ahamed: The market formation or the patent expiries for domestic business?

Sandeep Singh: If you are talking about the launch assignment it is still like four to five years away.

Harith Ahamed: My second question is o PCPM for domestic business. How much lower is the PCPM for the chronic segment in our domestic business and do we expect this to catch up with when the acute segment PCPM for us

Yogesh Kaushal: We have some evolved business and then we have evolving business so for the evolved business we have a productivity range of around 8 to 10 lakhs and from the evolving business our productivity range is around 3.5 to 4 and the new businesses our productivity ranges between 1.5 to 2 lakhs. Have I answered you?

Harith Ahamed: Yes. Got it and then the evolved business when you talk you are probably referring to our neuropsychiatry segment?

Yogesh Kaushal: No anti-infectives.

Harith Ahamed: Then within chronic segment the chronic therapies would be PCPM significantly lower versus the company level PCPM?

Yogesh Kaushal: Since we are almost 80% to 85% antibiotics and anti-infectives, so there are PCPM is in the range of around 8 lakhs to 10 lakhs, and chronic is evolving where we are in a range of around 3.5 lakhs to 4 lakhs.

Harith Ahamed: Thank you.

Moderator: Thank you. The next question is from the line of Kunal Randeria from Edelweiss. Please go ahead.

Kunal Randeria: Good evening and thanks for taking my questions. My first question is on the vitamin portfolio so it is this business is growing at a very fast cliff and it is actually growing double almost 2x the market now you are number two in India from the contrary investor sustainability of this business from here on?

Yogesh Kaushal: COVID certainly has an extraordinary surge on such multivitamins and particularly those which are zinc based preparations so this three-month traction certainly you cannot see in the regular time but they are our core products, they are our focused products so they will sustain, they will outweigh the industry growth that is for sure, but certainly not the so these are our core focussed products and we should outperform the market group right.

Kunal Randeria: Would it be fair to assume that maybe you know quarter or two down the line there could be some pressure on this portfolio as record base?

Sandeep Singh: You can expect in the first quarter next year you can expect some pressure on these portfolios.

Kunal Randeria: The second question is on you know a product that you launched in this quarter would it be fair to assume that you are working on other Mesalamine products also and are there any sort of launch timelines that you would love to share with us?

Amit Ghare: So honestly we do not like to talk about our pipeline so any assumptions I think would not be correct and also would like to add that these Mesalamine formulations we all know are pretty tough so even if we are working on it I do not think so we will be in any position to tell you when or whether if at all it happens so nothing right there we dont want to comment.

Kunal Randeria: Sure and just one more question if I can, can you share how the API prices are behaving now whether it is going up or stabilized now and how is it impacting our gross margin?

Rajesh Dubey: API prices it has started going up from March end and till mid of May actually we witnessed a major spurt in selected API prices, but after that it started softening and it has not come back to normalcy, but I think major it has come within range and slowly we expect it is going to be normalized. So now trend is not upwards either it is softening or stable.

Kunal Randeria: So is it left any impact on our numbers or has it already impacted in this quarter?

Rajesh Dubey: In this quarter some little bit impact it has come but since as I said prices started showing upward trend from April and May so we procure material then formulation has happened and now one sale is going to happen then it will hit to our financials. So June sales to certain extent very normal or very minimal kind of impact it has gone but in quarter two we will be having rest of the impact of API price increase but I think yes it has impacted but it is manageable and we are comfortable on gross margin what guidelines we have provided.

Kunal Randeria: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Sriram Rathi from ICICI Securities. Please go ahead.

Sriram Rathi: Thanks for the opportunity. Sandeep, just one question, I mean this staff cost looks very high this quarter so I mean was there any one off in this quarter and or any specific increase which has happened?

Rajesh Dubey: Staff cost we have a few one-offs in this quarter; one is in fact, it is on account of gratuity and leave encashment liability provisioning and this has happened because we revised basic of our employees traditionally it was 37% of the CTC but the new wage bill is expected so we decided to take it up to certain extent so from 37% we increased to 42%. So that one of it has come in this quarter and that is not going to remain going forward. Second the staff cost if it looks on high side because we had very good quarter on our revenue. So we paid the incentive but if you are comparing with last year's quarter one definitely incentive even percentage-wise and achievement wise also it was very much compromised. This quarter we since we had surplus so percentage it has increased as well as quantum also it has increased. So putting these two together it gives answer major answer to your question of increased employee cost.

Sriram Rathi: Going forward, how should we look at this figure like because earlier we were around 400 Crores kind of a figure, so will it like 450 Crores or 500 Crores, will it be possible?

Rajesh Dubey: Definitely it will be optimized by say another 40 Crores 45 Crores what we have now so if i take out suppose 50 Crores out of this then it will be somewhere in the range of 480 Crores 580 Crores.

Sriram Rathi: Other expenses would be normal right now this quarter also like this is the normal run rate?

Rajesh Dubey: Other expenses it looks normal, but let me just tell you still our marketing expenses, it is normalized to the tune of 80%-85% only so we should expect 10% to 15% in our marketing expense, I mean to say other includes the rebate. So out of that marketing experience as far as still 85% normalization has happened, we can expect another 5%-10% going forward.

Sriram Rathi: Thank you.

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

Sion Mukherjee: You mentioned about employee cost there is some adjustment on inventory, is it possible to quantify how much are these two no elements in the quarter?

Rajesh Dubey: Employee cost Sion, I was able to explain why it has we are having one time cost of that. We increased basic from 37% to 42% resulting into increase in gratuity liability and leave encashment liability. So it is not cash payout it is a provision and if I put both this together around 29 Crores additional provision we had to take.

Sion Mukherjee: On the inventory provision that you took this quarter?

Rajesh Dubey: Inventory provision and additional NRV provision because NRV it goes along with your sales. So if I put both this together around 35 Crores to 40 Crores in fact 38 Crores it was the additional, which we can term as one-of-kind.

Sion Mukherjee: Thanks and Sandeep on the biosimilars front there seems to be some progress made so what is the kind of investments we have made so far you mentioned almost 12% to 15% of R&D goes in there, so what kind of annual expenses we incur and if you can talk about the capabilities that you put in place, the people that you have got, the team that you put in place and just to give us a sense like what makes you feel good about the business in terms of you will be able to execute your strategy here?

Sandeep Singh: Thank you Sion. Totally, we have invested 650 Crores in Biotech. This includes R&D and capex and total expenditure so far. Roughly we spent close to 100 Crores on Biotech including now manufacturing and everything that is the full expenditure in Biotech. Your question on what is a capability to kind of for the front end? So you know mainly Biotech are for let us say you know some indications of onco and some of them also in bone health in osteo segment. So I think on the onco segment yes we have some catch up to do there but on the bone health side I think we are very strong we have good connect with orthopaedics and so we will do well there, but keep in mind that this is a business which is meant to be not just for Alkem so we have out license and drugs to Lupin, we have out license to Zydus and even globally we are out licensing, so we should not rely only on our strengths to do justice with Biotech. So just keep that in mind, and we will tie up with the best irrespective of whether it is Alkem or not, we will get the best partners and we will be executing this. In India Alkem is a strong partner so Alkem is the right choice, but globally we will go with people who can do justice with it.

Sion Mukherjee: Actually Sandeep, I was also looking at the product development capabilities R&D if you can give some color on that?

Sandeep Singh: Honestly Sion, I do not know how much color I can give on that because honestly and only with time it will tell how good or bad it is but what I can tell you why I am i think I am confident about it is you know people have done extensive due diligence and only after that you can out license things so we have gone through those rounds I hear good things about them from our partners and they are putting their money where their mouth is so we have our licensing deal already in a very early stage of a company. Second thing you know the employees who work on this in this business in Biotech a lot of the senior management has come from US, they have worked in companies like Amgen and BMS and all so I think we have got great people there but yes but few things time will tell Sion, as an entrepreneurs I am always positive, but that is my job but i think you all be cautious and just watch us and that will answer your commentary.

Sion Mukherjee: Okay and do you plan to kind of you know list this separately or do some funding here?

Sandeep Singh: Yes and I think we are discussing Sion. That is an interesting topic idea, we do mull over it, but we also kind of are in a situation where we think if we kind of raise or list, so early we might lose a lot on valuation because we are at very early stage but I do think that biosimilar or Biotech is a huge opportunity it might need a lot of capital as we get ambitious in the next few years. So those options are certainly on the table side and I must say that.

Sion Mukherjee: Just one clarification this 100 Crores you said over what period you have invested?

Sandeep Singh: Based on milestones and some of it would be on like back ended what I mean is on completion of phase one, phase three and on launch, a large part of it is back ended, but they would I think would so it is up to launch Sion, so you could assume in the next four years.

Sion Mukherjee: Sandeep, actually, I was mentioning about you mentioned 650 Crores of capex and then you mentioned something about 100 Crores additional?

Sandeep Singh: Capex and opex both Sion, 650 Crores that is the total investments we have made there. Not just capex.

Sion Mukherjee: Thank you.

Moderator: Thank you. The next question is from the line of Damyanti Kerai from HSBC Securities and Capital Market Limited. Please go ahead.

Damyanti Kerai: Thank you for the opportunity. My question is coming back to operating costs a few clarifications, so on the API prices increase you said after May it is now cooling down and you have not seen anything incremental in recent months right? Can you clarify like any observation on the API price in recent weeks?

Rajesh Dubey: Yes Damyanti, you are right. The API prices mainly in the month of October, and it has started softening after mid of May and then have come back to normalcy to a certain extent closer to earlier months, so we think it is predominant.

Damyanti Kerai: Then coming to a marketing course in India you said we are now at 80%, 85% and then as business picks up we will see further change there? That is on marketing cost right?

Rajesh Dubey: True. Actually in fact I just wanted to indicate, our marketing activities it has not come to normalcy when I see cost of my marketing cost so we strongly believe still on cost front, we can have additional cost to the tune of 5%-7% or 10% going forward, but it becomes normal and I think Mr. Yogesh Kaushal is also here and he will be in better position to give exact feel on marketing activities. How much it got normalized.

Yogesh Kaushal: If I go by whatever CFO said initial first quarter because of May lockdown there were certain attrition from marketing but in the second and third quarter we see the marketing cost opening up so we should come back to our usual marketing spend in the second quarter onwards.

Damyanti Kerai: That is helpful. Just a final comment on your observation on recent cost on the fleet and logistics side because some of your competitors have mentioned a certain increase in there so what are your observation on this fleet and logistic part?

Yogesh Kaushal: Yes actually we witnessed higher selling and distribution cost which is mainly logistic cost and if I have to bifurcate between domestic and international domestic obviously it has to be on higher side because of our enhancement so that is pretty high, even for our international logistic actually rates it has increased so that also resulted in higher selling and distribution cost in this quarter and thus increasing rate is significantly high. So it was a substantial amount which has gone in our P&L of this quarter.

Damyanti Kerai: That was for 1Q. What is recent observation like what is update on this logistic card has it cooled down a bit or it is at similar level compared to last?

Rajesh Dubey: It did, but not substantial, still normalization has to happen there if I am looking at the overseas logistic cost. For domestic, I think it is if it will go in proportion to your revenue so when I see on absolute amount term, it indicates higher the debit it has gone but it is in the ratio of our revenue so domestic I do not think any abnormality it has happened but for international rate, it has gone up it has come down little bit but not very significant. So we are still we are waiting for normalization.

Damyanti Kerai: That is helpful and my final question is on your general observation on the pricing erosion environment in the U.S., so can you please comment on that.

Amit Ghare: The pricing deflation is there and it has been strong in the past 15 months since the beginning of COVID. Obviously, the products which are launched, the newer products undergo a higher deflation. I think overall on our portfolio basis our deflation was still in single digits but on higher side higher single digit numbers.

Damyanti Kerai: We are still in single digit and are we seeing any I will say intensifying pressure in last few months or it is broadly in that single digit range for us?

Amit Ghare: Well, let me let me just say that the pressure has been there since the last few months and not that it was not there before but that increase that I talked about from the 3%, 4% levels to 8%-9% levels has been there for last 12 months so it has not increased but unfortunately it has not decreased as well.

Damyanti Kerai: Thank you for your answers. That is helpful.

Moderator: Thank you. The next question is from the line-up Yash T from iThought PMS. Please go ahead.

Yash T: Congratulations on a good set of numbers. I have two questions. The first one is Sir on a medium term basis let us say like five or six years down the line, can we double down on our current revenues like which is around 8000 Crores right now so can we go around 17500 to 18000 Crores organically. So I do not want any very specific numbers, but as a long term shareholder if you could just give some broad guidance so if that growth is achievable and if yes like what would be the drivers for these growth?

Sandeep Singh: If you are talking about doubling in six years I think my math is not very good but that is maybe 12% to 13% and that is the case we would, you know we normally do not like to give forward numbers.

Yash T: Like some broad guidance, I mean and what would be the drivers for that growth if you could just?

Sandeep Singh: The drivers for this growth, would be obviously domestic business, which is a large part of a business, chronic business please do not forget we have hardly scratched the surface. U.S., business we are still in you know not very large, we are still in small molecules, oral solids, there we could can come into complex generics and biosimilars four, five years down the line. So that would help. I mean six years doubling is not massive so that is okay.

Yash T: My second question is so what is that durable competitive edge that which has led to consistent market share growth for Alkem, you know across all therapies over yours and are we taking any new initiatives now to maintain or enhance this competitive edge that we have over the years.

Sandeep Singh: That is a comprehensive question. I think a competitive edge is luck but I am just joking, sorry we have got huge brands. We are very entrepreneurial company where everyone is a quick decision maker. We have a culture I think culture differentiates you so that is the very kind of answer I would like to give but the management is very focused, the promoters like, we are passionate entrepreneurs because good set of people I think that is why I said it is a matter of luck, we got great people and we do not hesitate to invest. There was a time if you remember EBITDA margins were close to 14% during the IPO that is because we were investing, so we take a long-term call on business and we invest and we wait and we do all the right things.

Yash T: Thank you.

Moderator: Thank you. Thank you. The next question is from the line of Bhaskar Bukrediwala from Arthya Wealth and Investments. Please go ahead.

Bhaskar Bukrediwala: Thank you for taking the question. A couple of questions one the margin profile from a medium term perspective. Now as you can see that your chronic portfolio is shaping up quite well so would structurally your margins range which has been let us say between 20% to 21% over the three-year period likely to inch up because of the scale bit?

Sandeep Singh: Yes I think it will end up but do not ask me how much but it will certainly inch up for sure.

Bhaskar Bukrediwala: Very broad directional guidance would you like to give, giving very specific number.

Sandeep Singh: Direction, always we have given 50 to 100 basis point every year we will try to end up, hopefully. We maintain that number.

Bhaskar Bukrediwala: Would your gross margin in the chronic portfolio be higher than your acute portfolio?

Sandeep Singh: Yes.

Bhaskar Bukrediwala: Thank you. That is the questions from my side. That is all.

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

Prakash Agarwal: Thanks for the opportunity again. Just on the MR so the last two three years, we had an addition of about 2000 people and so what is the current MR run rate and what is the current MR productivity and tying up with the margins so if you are largely done with MR additions with 10%, 12% growth is there a possibility of like what the earlier participant also asked 50 to 100 basis points so that is the culmination of that?

Sandeep Singh: That is also one of the culminating factors for sure because the addition of MRs have more or less been done but I think on specific numbers Yogesh you could answer them?

Yogesh Kaushal: Group we should be around 10000 plus around 11000 MRs and other than the respiratory division which we have launched, we are almost done with our addition of MRs but nevertheless as our MD also said that we are not close to any future opportunities. So as of now we are not on a close run we are not seeing any expansion but we are open to opportunities.

Prakash Agarwal: What is our run rate on MR productivity?

Yogesh Kaushal: I told you just some time back that our evolved business we are in a range of around 8 lakhs to 10 lakhs. In the evolving, we are somewhere between 3.5 lakhs to 4 lakhs and just couple of years long business we are in the range around 1.5 lakhs to 2 lakhs.

Prakash Agarwal: So ballpark will be around 5?

Yogesh Kaushal: Around 5 lakhs to 5.5 lakhs as an organization.

Prakash Agarwal: Secondly on use of cash now from an upcoming quarters and seen in the last few quarters also there is a very strong free cash flow generation that is happening and I think in the last call there was a mention that we are evaluating M&A after a long time we said that so are we looking at aggressively anything on the table and what is the current thought on this?

Sandeep Singh: Prakash, so I think yes accumulation of cash will happen and that is a good thing. I do not recollect whether we said we are open to M&A, acquisitions unless I have amnesia. I am not sure but so but i do not think so I think as we go forward Prakash I understand that cash accumulation will happen in the next few years, I think once we cross you know let us say some numbers and it becomes a problem, we could discuss that time but so we are not changing anything right now Prakash in terms of our dividend policy or anything or anything like that Prakash.

Prakash Agarwal: You are saying you are not too keen on M&A, is that what you are saying?

Sandeep Singh: We are not too keen on M&A Prakash.

Prakash Agarwal: So natural and organic build out is what you prefer working?

Sandeep Singh: Yes.

Prakash Agarwal: Lastly on tax rate so we have seen one domestic company raising tax rate guidance. How do we feel like given our plans which have are still in Sikkim and all these so how long we have these tax breaks and how long we could be under 14%, 15% kind of tax rates?

Rajesh Dubey: See Prakash for this year our guidelines is 13% to 15% of tax rate. I think that is going to remain. For next year, definitely it is going to add up by another 100 basis points, so next year you can you can take 14% to 16% kind of and if I understand your question correctly you asked me how long we are going to have so as you know Sikkim benefit ends in 2026-2027, but has in your mind we have a facility in SEZ also so that also is having tax advantage and there is back credit also, huge MAT credit. So this SEZ even though for five years it is 100% but next 10 years 50% advantage is there also, but yes as Managing Director, he said, we have used MAT credit even though our tax rate it is going above MAT rate, but our cash flow on account of taxation, it will be under control, but yes definitely debit will start coming to P&L, cash outflow it will not be there beyond 21%. Is that okay or do you want anything specific?

Prakash Agarwal: This is very elaborate. Thank you so much.

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

Nitin Agarwal: Thanks for taking the question. On the other expenses you know this has been obviously one very volatile and unpredictable element for the last four or five quarters. In the past has been in early 20s mid-20s as a percentage of sales for us I think in the conversation that we have had over the quarter, if I understand it right you have been suggesting that there is not much structural change which has happened in this cost item. So is it fair to expect that at some point in time we start going back to our 20s percentage of sales for the other expenses or there are some changes which have happened in the overall business which sort of make us will be optimized significantly on that?

Rajesh Dubey: There are so many factors, if you are referring other expenses. Other expenses is the combination of so many expenditure. It is marketing expense manufacturing expense and corporate overheads and whatever is not covered under employee cost and COGs mainly it is coming under other expenses. So it is it is very difficult to give exact prediction but generally our other expense is in the range of 20%, 18% to 20% but definitely operating leverages is one important component in that. So just now we discuss for example employee related cost, when their productivity improves definitely our revenue is going to go up whereas cost is not going to go up in that proportion so that advantage is there. Same thing applies in other expenses also if I have to take our manufacturing cost into consideration. Marketing also similar thing applies but I think our other expenses broadly it is in the range of 18% to 20% then it gets normalized.

Sandeep Singh: Between the quarters we have some seasonality, so if you go check across the quarters there would be this variation of 18% 22% because there is a seasonality part also in our portfolio.

Nitin Agarwal: Thanks.

Moderator: Thank you. The next question is from the line of Nithyabala Subramaniam from Bernstein. Please go ahead.

Nithyabala S: Just one question on your chronic therapy strategy so one read through if you look at commentary across companies if everybody wants to grow in chronic therapy and the market leaders in chronic therapy obviously we want to keep the market share, keep the leadership. So as the company which is now building presence how is your strategy differentiated? Is it in terms of subscribers or geography focus or portfolio focus, what is it that Alkem brings to the table in such a highly competitive and highly concentrated model?

Yogesh Kaushal: In a generic branded business very difficult to say that you can build a differentiation but yes our focus is very clear we are known for building large brands, this is this legacy we carry and that is how we are looking at our chronic portfolio also. We are looking at brand size of 100 Crores 200 Crores types in the coming time and we have already chosen some of the key therapies like cardiology and diabetology which constitute around 52% of chronic so there we will be investing heavy and we will look at building productivity and future expansions also.

At the same time, we are reasonably good at CNS so we will continue to consolidate and some of the business like urology and all we will have a reasonable expectation, not very high. So this is how we are working on our various portfolios and various therapies. In terms of customer yes, this is where we will be working a little aggressive because we do not have such a large prescriber base so our endeavor would be to see that we expand our prescriber base across therapies.

Nithyabala S: More steady progress from that because of your leadership and anti-infective category would not it be easier for you to bring the therapy down to the primary care level and leverage your leadership rather than trying to establish yourself as a specialist?

Yogesh Kaushal: We will always remain. We have to make a choice between two whether you want to go through a primary physician or you want to go through specialist. I think we have chosen to go through a specialist route and we will continue to sustain that.

Sandeep Singh: It is a tougher journey but a more sustainable one once you arrive there.

Nithyabala S: Thank you so much.

Moderator: Thank you. Thank you. As there are no further questions in queue, I now hand the conference over to the management for their closing comments.

Sandeep Singh: Thank you everyone for attending this call. If any of your queries remain unanswered, please feel free to get in touch with me. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Motilal Oswal Financial Services Limited that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.