"Alkem Laboratories Limited
Q3 FY2021 Earnings Conference Call"

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ANALYST: MR. TUSHAR MANUDHANE – MOTILAL OSWAL FINANCIAL SECURITIES LIMITED

MANAGEMENT: MR. SANDEEP SINGH –MANAGING DIRECTOR - ALKEM LABORATORIES LIMITED
MR. RAJESH DUBEY – CHIEF FINANCIAL OFFICER - ALKEM LABORATORIES LIMITED
MR. AMIT GHARE – PRESIDENT (INTERNATIONAL BUSINESS) - ALKEM LABORATORIES LIMITED
MR. YOGESH KAUSHAL - PRESIDENT CHRONIC DIVISION - ALKEM LABORATORIES LIMITED
MR. GAGAN BORANA – GENERAL MANAGER (INVESTOR RELATIONS) - ALKEM LABORATORIES LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Alkem Laboratories Limited Q3 FY2021 earnings conference call hosted by Motilal Oswal Financial Services Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Tushar Manudhane from Motilal Oswal Financial Securities Limited. Thank you and over to you Sir!

Tushar Manudhane: Thanks, Malika. Welcome to Q3 FY2021 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 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 Q3 and 9-month FY 2021 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 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 risk that our business faces. At the end of this call, if any of its query remains 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 year gone by and strategy going forward. Over to you, Sir!

Sandeep Singh: Thank you, Gagan. Good evening, everyone. Quarter 3 of FY2021 has been a healthy quarter for the company, with growth returning in our India business. Compared to the decline in the first half of the year, our India business registered a growth in quarter 3 with significant recovery in our acute portfolio.

In chronic areas of cardiac and anti-diabetes, we continue to grow ahead of therapy growth rate and improve our standing in the representative markets. Our trade generic business, which has been a strong driver of our growth in recent quarters, continues to grow at a robust pace. In the recent calls, I had mentioned about launching biosimilars in India market from our own R&D lab and manufacturing facilities at Enzene.

On this front, I am happy to share that we have received the marketing authorization from DCGI for our first product from Enzene. And we look forward to launch this product soon in India. Moving on to international business, this grew by 7% during the quarter and 18% for the 9 months of this financial year. Our U.S. business has grown well in the financial year so far, with close to 20% year-on-year growth.

During the quarter, we received10 ANDA approvals from the U.S. FDA, which takes the total tally to 16 ANDA approvals this year. This bodes well for our future growth in the U.S. market, which has largely been driven by new product launches. Apart from U.S., amongst other international markets, Australia and Chile registered healthy growth during the quarter. We continue to judicially invest in R&D, which is an important pillar for our growth. This quarter, we have invested close to Rs. 134 Crores in R&D, which is 11% higher than what we had invested in the same quarter last year.

We now have 149 products filed with the U.S. FDA, out of which we have received approval for 102 of them, out of which, 14 are tentative approvals. In terms of regulatory status of our manufacturing facilities, all our 6 manufacturing facilities applying to the U.S. market have received EIR as on date. Our new manufacturing facility in Indore is awaiting pre-approval inspection by U.S. FDA. We continue to invest in our people and technology to ensure our facilities comply with the global regulatory cGMP standards.

Talking about some of financial highlights during the quarter gone by, the savings in marketing and other expense during the quarter, coupled with our ongoing effort towards productivity improvement and process optimization has helped in EBITDA margins expanding by 200 basis points to 22.8% compared to 20.8% last year. Also during the quarter and 9 months of the financial year, we have shown significant improvement in operating cash flows. This has helped us further strengthen our balance sheet with net cash position of close to Rs. 800 crores compared to net debt at the start of the year.

Going forward, with the reduction in COVID cases and vaccination drive across the globe, I am hopeful that on-the-ground situation will further improve, and there would be a pickup in new prescription generation, which should help the pharma industry. A comprehensive product portfolio, strong execution team and continuous investments in R&D and compliance should help us deliver value to our patients and our stakeholders. Thank you for listening.

Moderator: Thank you very much Sir. We will now begin with the question and answer session. The first question is from the line of Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai: Sir, my question is, now India broadly back to pre-COVID level in terms of operations, how do you see operating cost trending ahead? And earlier, you were very conservative in terms of our margin outlook. So do you believe there will be upside to what you had earlier anticipated in next year or so?

Sandeep Singh: Yes. Thank you for your question. So I think on the India market, Yogesh can talk about. On the margin front, I just like to answer your question. So your question, I think, is on the margin expansion. I would mention that this year was a kind of abnormal year. But nevertheless, I think what we guided even 1 year back to all of you all that every year we do see improvements coming in, in the operations of domestic and in international. And in the domestic and particularly, you know that chronic is firing in all cylinders, and productivity is very less compared to acute, it is one-third. So that growth will happen, and we foresee that margins would expand in the next year as well overall basis. So this year, margins might be higher because of lower marketing cost. But that 200 BPS EBITDA margin expansions, we stand by that, what we had mentioned.

Damayanti Kerai: Okay, Sir. And in terms of pickup in India part, it is all back to a pre-COVID level, right? But cost might still see some lower level because of all the extensive measures which you had put in place?

Yogesh Kaushal: Rightly said by you that overall business on a domestic front, the industry is almost back to pre COVID growing at around 11%. Operating cost, which, if I understand you rightly, you are talking about marketing operating cost, and then there will be some permanent changes. So that will remain relatively low compared to the previous year. So yes, so there will be a marketing cost optimization, which will sustain beyond COVID also.

Damayanti Kerai: Okay. That is helpful. And my second question is on the U.S. part. We have done reasonably well in last few quarters, and we are almost at Rs. 300 million kind of base. So how do you see this business, say, like 3 to 4 years from now? And how do you see Indore plant scaling up once FDA inspects and approve the plant?

Amit Ghare: Sure. So the first part of your question, I think last quarter or the quarter before, we had broadly guided saying we expect our U.S. business to continue to grow strong, certainly in double digits, lower double digits, obviously, about 15%. And that is the commitment that we have sort of made to ourselves. And we are very clear about that. This is where we will grow. So that is the kind of CAGR that you can really expect. Now as far as Indore facility is concerned, it is just one of the other facilities for us. Of course, there are some fiscal benefits associated with it. And as and when it gets approved, we will obviously optimize our production.

Damayanti Kerai: Again, that is helpful. And we are good in terms of current plant catering to our growth need, right, without putting in any new capex?

Amit Ghare: Yes. If you are asking from capacity perspective, we are very well poised right now.

Damayanti Kerai: Thank you.

Moderator: Thank you. The next question is from the line of Ashish Thavkar from Motilal Oswal. Please go ahead.

Ashish Thavkar: Sir, if you could comment on our anti-infective space in India, how are the Penins, Taxims, IVs, how is this particular therapy segment behaving now?

Sandeep Singh: Yes. So antibiotics, especially in the acute, I mean acute overall antibiotics, they still have to recover and go back to pre-COVID days. So I think we do see some growth, but we have not reached pre-COVID days yet.

Ashish Thavkar: Yes, the primary reason why it is taking so long to pick up, would that be because of people not following ill? Or do you feel there is somehow there are still lower footfalls in terms of visits to the doctor?

Sandeep Singh: I think both, ultimately, both the schools and all that are shut, going out is still curtailed it is still coming up and hygiene has gone up. So I think combination of these factors is kind of inhibiting that growth, which I think is good. I mean, it is good for the nation.

Ashish Thavkar: Yes, obviously, yes. A related question would be once everything settles down the virus issues and all, even post that, do we expect trade generic business to grow as fast but not as fast as last year, but still better momentum? Or you feel that the branded business will take over?

Sandeep Singh: No. So I think there is no question of branded business taking over or other business taking over. I think this year; trade generics had a good run, not only for us, for maybe the large players as well because trade generics could reach out to markets where branded business was struggling this year. So I think this was a great year. We do not think that it can repeat again next year. So branded business will be back and the growth percentage of trade generics would come down.

Ashish Thavkar: Yes. So one of your competitors trying to shift the trade generic part of the business to its consumer division. Do you feel that, that creates an opportunity for you in the sense that an extra space is created?

Sandeep Singh: It does in a way, but they also know what they are doing. They are extremely good. They are #1. So we do not underestimate them. We do not think they are doing anything wrong. It might create some disruption in the short term, but nothing to get too excited about and think that it is going to be something great for us.

Ashish Thavkar: Okay. That is helpful. Just one more from my side on the U.S. side, whatever new launches are happening so in your assessment, would those new launches happen in the first wave now or it is too early to say?

Sandeep Singh: Yes. Mr. Ghare, maybe you can answer that.

Amit Ghare: Sorry, I missed the question. What did you say? What was the first?

Ashish Thavkar: No, I was alluding to the fact that whether new launches would happen in the first wave, or it is too early to comment about it?

Amit Ghare: You mean first wave as in day 1 or day 181? Well, obviously, the aim is to be in the first wave in the market always. But we do not always get it right. So to that extent, whatever opportunities come our way and whatever we are able to launch in the first wave that is always welcome.

Ashish Thavkar: Thank you.

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

Abdul Puranwala: My first question is with the trade generic segment. So how would this business as a whole would have performed in Q3?

Sandeep Singh: It has outperformed the branded business. But exact percentage, I do not think so we disclose those details, but it has outperformed our branded business significantly.

Abdul Puranwala: Sure, Sir. That is helpful. And second question is on Enzene Biosciences. So I believe there was 1 biosimilar approval, which they have got, I mean, an approval from DCGI.

Sandeep Singh: Correct.

Abdul Puranwala: So what would be the commercial plans and the size of the opportunity, which we could eye for this particular product?

Sandeep Singh: This product, we are going to launch any time through Alkem. And we already are selling the molecule. We were doing it from some other company because Enzene was not ready. So this is already a Rs. 15 Crores for us. The market size of this brand, I cannot recollect, but I can get back to you. Overall opportunity which we are chasing for domestic market in the pipeline of Enzene is close to Rs. 2,000 Crores. Obviously, this plays out over the next 3 to 5 years. But yes, so that is in general for India market size what we are achieving.

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

Neha Manpuria: Amit, on the U.S. business, given that we have got 10 approvals this quarter, is there any specific reason why the revenue was flat quarter-on-quarter? Did we see any price adjustment, inventory adjustment, etc?

Amit Ghare: Yes. So the number of launches for the entire 9 months still continues to be about 7. So obviously, that is the reason revenue is obviously a direct function of launches. We are in the process of gearing up for our launches. And if you recall, we had made a commitment again that this year, we will have between 10 to 12 launches, and we are very well poised for that number in the entire fiscal year.

Neha Manpuria: Understood. And my second question is now that we have about 40 ANDAs approval, our filing seems to have slowed down. I mean we did not file anything this quarter. Do we need to pick up the filing to be able to maintain our growth momentum, the 15% growth CAGR that you are talking about?

Sandeep Singh: Yes. So I am taking that question. Yes. So I think please keep in mind that 1 quarter should not form a basis of judging anything. For example, we got 10 approvals this quarter. But does not mean we will get that many every quarter in approval. Similarly for filing, we have always maintained, we will file close to 12 to 15 ANDAs, and that is the run rate, we are confident we will achieve. And that is what it is going to be. So keep in mind that growth, of course, depends on the number of ANDA filings, but it also depends on the quality of ANDA finding and keep in mind that now we have to balance our biotech R&D also. So keeping all this into consideration, I think 12 to 15 is something we are more than happy to file in the next few years, every year.

Neha Manpuria: Historically, this number used to be close to 20. We have even done 23, 24 filings in the past. You are saying that?

Sandeep Singh: That depends how you do it. And some years, it would be higher, as you said. But we have always maintained, that is what we want to do, and we will be doing that. 12 to 15 is something which we have maintained all throughout, but the averages will be 12 to 15.

Neha Manpuria: Understood. And my second question is on the India business. If I were to look at our acute portfolio, while I understand that it is probably not gone back to pre-COVID level. Would it be fair to assume that because of the disruption in the market, probably been able to gain more share versus the smaller players given the strong brand business? If you could give some colour on how probably the disruption has helped us?

Sandeep Singh: Yes. So we have got market share, gained market share in most of our large bands. Whether it is Clavam, Pan and pantoprazole, most of them, we have gained market share map. So that is a fair point. And going ahead also, we are looking to restructure our acute business in the next year where we will be further going for market share. It is a good point that where I should mention that we are looking at some small expansion also for the acute segment in the coming financial year.

Neha Manpuria: So, by restructure, you mean add more MRs?

Sandeep Singh: It is a combination of adding few people, not too much. It is a combination of shifting brands from one SBU to the other. So it is de clutter, we can focus. It is a kind of combination of all that. But to answer you, we have gained market share, and we further want to accelerate that market share because as you know, market is not under our control, the growth rate. But yes, gaining market share is something which we can control far better.

Neha Manpuria: Thank you.

Moderator: Thank you. The next question is from the line of Rashmi Sancheti from InCred Research. Please go ahead.

Rashmi Sancheti: Yes, thank so just a little more clarification on trade generic segment. I think in the first half, it contributed roughly around 25% to the India sales business. So are we at the same level in this quarter also? Or it has dropped to around 20% sort of?

Sandeep Singh: We are close to 20%, 25% in between that. Exact numbers, we do not give, but yes, that is a good estimate, Madam.

Rashmi Sancheti: Okay. And Sir, on overall industry in terms of anti-infective or antibiotic therapy, is it that the hospital demand has not yet picked up? I mean, there are a lot of delay in the surgeries and everything? I mean, it is not picking up. Or it is taking a lot of time? Because earlier, we thought that in the second half of the year post unlocking, things would pick up in surgeries and everything. So how is it overall?

Sandeep Singh: So, I think it has picked up, but it has not picked up the way we thought, and it is not gone to pre-COVID days. And yes, in hospitals and higher injectables, higher antibiotics, those things are pretty slow right now.

Rashmi Sancheti: Okay. But do you think that the pickup would be fast in FY2022?

Sandeep Singh: I do think, but time will tell, but I think there are good reasons that we will be going back to the normal in the next few months.

Rashmi Sancheti: Okay. And Sir, lastly, on operating margins, FY2021 being exceptional because we saved a lot of cost. So you said that there is a scope of expansion every year. So on these high margins, you are saying that FY2022, there would be still scope on a few basis point expansion?

Sandeep Singh: Yes, I understood your question, Madam. So I said that this year is not kind of a very normal year. So obviously, this year, we should not consider and think that will further go up from this year. But if you remember last year, EBITDA margins, I think, was around 17.5%, if I recollect. I maintain that we will go up, let us say, by 200-basis point every year. So I think if you keep that into guidance, next year, we could expect that we will be close to 19.5%, 20% margin just taking that guidance, which I told last year.

Rashmi Sancheti: Okay. But you also mentioned that there would be a lot of cost savings, which will be continued in FY2022 also because of the digitization initiative and all?

Sandeep Singh: Yes, yes, numbers which you hit this year. I wish I could do that, but I cannot.

Moderator: Thank you. The next question is from the line of Nikhil Mathur from Ambit Capital. Please go ahead.

Nikhil Mathur: So, my first question is on the input cost environment. Can you throw some colour on how the input cost environment has been in FY2021 versus FY2020? And do you believe that there could be any sharp movement with upside or downside, in the coming 3, 4 quarters?

Sandeep Singh: Nikhil, you are not very clear. Can you repeat the question?

Nikhil Mathur: Yes. Sir, my question was on the input cost environment from Alkem's perspective. Can you shed some light on how the input costs have shaped up through 9 months FY2021 versus FY2020? And what would be the outlook for the coming 3, 4 quarters?

Rajesh Dubey: So, Nikhil, I think you are asking for input cost. See, I think as far as availability is concerned, we are quite comfortable. And if your question is on cost, I think we do not see any abnormal, yes, 1 or 2 API, it always moves up and down. But there is no abnormal kind of pressure on cost front also. So we are quite comfortable on API procurement as well as on cost also.

Nikhil Mathur: Okay. And just to question tie to this from a 2 to 3 years standpoint, are there initiatives, whether it is product launches or focusing on procurement efficiencies or a bit of backward integration or any strategic actions being undertaken to improve business mix at a sustainable level?

Rajesh Dubey: Nikhil, we always work on optimization of our input cost. We have alternate vendors who are seeing better negotiation, optimization in yield, all this kind of exercise, it goes on. It goes on continuous basis. So yes, if you are hinting is somewhere towards backward integration, I think some small part, yes, important API. Definitely, everybody has to think, and that is what we are also doing. But leaving that apart, I think we have a complete plan and that exercises goes on. And we do not see any reason to have any issue on this front.

Nikhil Mathur: Just one final question on the biosimilars pursued in the domestic market, what can be the challenges for Alkem to scale up in this particular business? But the reason I asked this question is that we do not really see a lot many large-sized companies who are investing in biosimilars from a relative market standpoint, being very gung-ho on the domestic market. So what is different that Alkem is kind of doing here? And what kind of the challenges that might trouble you in terms of scale, operating losses for a comparable period of time, anything that you can share on?

Sandeep Singh: So good. That is a good question. So we have started this from India market, but ultimately, we will have to take our products to RoW. And the final destination is obviously Europe and U.S. that is a 5-year plan, but the vision with which Alkem or any other company also perhaps are doing biosimilars in India, is to take it global. So that is point number one. Just to make that thing very clear. Second, I think what challenges Alkem might face to commercialize it. I think point number one, some of the biosimilars are into oncology space, where we are not very strong currently. So we do not have the same strength, for example, which we have in antibiotics or with the GP franchisee. We do not have that same equation there. So I think that is something we should have to build. But just keep in mind that Enzene I mean, a biotech we are open to even work with third parties. It is not necessarily just ourselves for our product. So that is what I want to tell you. If there is something specific, I will take your questions.

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

Prakash Agarwal: Sir, I mean, I missed the opening remarks, but could you split the growth of India business in Rx and Gx?

Sandeep Singh: So normally, Prakash, you know we kind of do not give those numbers specifically, but I know I mentioned in all the questions, Prakash, that trade generics business growth rate was far higher than our branded business in India. Yes.

Prakash Agarwal: Okay. Understood. There is a sharp uptick in other income. So I totally understand the cash would have gone up. But is there anything else apart from interest income, anything from real estate investments, which were in the past has monetized?

Sandeep Singh: I think our CFO will take that question.

Rajesh Dubey: Yes, Prakash, other income is on a higher side. That is mainly on account of offtake of one of our brands. And there was a sale of asset also in that. So that amount is there, of course, real estate is not in that. Actually, as you know, real estate investment, it is valued on fair valuation. So yes, some liquidation amount, it has come, but it is not any big component in our other income.

Prakash Agarwal: And asset monetization is with respect to what, Sir?

Sandeep Singh: Selling of our brand, we sold a brand to Abbott.

Prakash Agarwal: Okay. Okay. And what would be the cash position now? I mean, we turned net cash last quarter, if I am not wrong?

Sandeep Singh: So currently, we are somewhere close to Rs. 780 Crores or Rs. 800 Crores. That is our cash position. And you know, Prakash, as on 31st of March, we were negative of Rs. 335 Crores. So in this 9-month period, cash generation, it was more than Rs. 1,000 Crores.

Prakash Agarwal: So what I understand is you had Rs. 300 Crores net debt. Now you have turned Rs. 700 Crores, Rs. 800 Crores net cash?

Sandeep Singh: Yes, your understanding is correct.

Prakash Agarwal: Okay. And what is the capex, Sir, in this 9 months?

Rajesh Dubey: See, capex, right now, capex is somewhere close to Rs. 130 Crores. But actually, during COVID period, capital expenditure, it was very restricted also. But we see we will be somewhere close to Rs. 300 Crores, Rs. 290 Crores to Rs. 300 Crores by end of the year.

Prakash Agarwal: Last one on working capital side so the first half, for most companies, there were 7, 10 days extra given to the channel. So is this reversing now already? Or currently, we are at the similar ones which we saw in the first half?

Rajesh Dubey: No, no Prakash. We were always careful giving extra credit days. And for some part of the period, it was given extra credit days to our stockist. But now there is nothing additional as such as of now.

Prakash Agarwal: But has it resulted to the fiscal 2020 numbers, like in terms of receivable days and inventory days?

Rajesh Dubey: No. If I see December 31, I do not think it has any major impact. It got normalized also.

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

Nithya B: So I just had one question on the savings that you said are likely to sustain. So I just want to probe that a little deeper. If I look at your other expenses and remove R&D, this has grown compared to Q2, 11% growth. And compared to last year, it is actually flat. So if you can tell us what sort of savings are you seeing if you can help quantify this a little bit?

Rajesh Dubey: So Nithya, actually, what I understand, you are asking saving in our other expenses. Am I correct?

Nithya B: Yes, which I assume is mostly India sales and marketing expenses?

Rajesh Dubey: Yes, yes. You are very right. If I have to refer my YTD number, yes, saving, you can see substantial saving is there. But on quarterly basis, you would not witness any major savings. Your understanding is very correct, major saving in our marketing expenditure during pandemic period.

Nithya B: No, I understand, on a 9-month basis, you will actually be lower than last year, right, which is you had Q1 and Q2, which had abnormal quarters. But Q3 is a little bit more comparable because your field operations have normalized to a large extent. And if I compare Q3 this year and Q3 last year, the expenses seem to be flat. But I also heard that you do expect some savings and the cost to broadly normalize at a lower level. But that is not what we are seeing in the P&L in Q3. So if you can help us understand where the disconnect is?

Sandeep Singh: You mean to say that the expense has not gone up. That is the disconnect, right, Madam?

Nithya B: No, you said there is actually savings, right? You will actually realize savings this year, and some of it will be sustained next year as well. So what I am seeing in Q3 is that your costs are already fully back compared to last year.

Sandeep Singh: Okay. Okay. So I mean there is no disconnect, I would say, see some things could get lumpy and you are comparing 1 quarter, but we are looking at the whole of next year and saying what all we can cut down on, and we have a really good idea that what we can. And COVID has taught everyone what we can cut down on. So I think that learning is there. Not necessary, whatever learning we have done should reflect in quarter 3. So just we have to keep that in mind.

Nithya B: Okay. So I think last earnings call, you had shared some instances of CMEs, et cetera, moving online, et cetera, right? So that was almost 3 months back. But now that you are back on the field, are these changes in behaviour sticky?

Sandeep Singh: I think there is still early days. I mean, I think it will still play out, Madam, if you ask me. The real worth of that judgment would be in June, July next year. But we are sticking to it. We know that we have to stick to it. We continue to promote telemedicines and things like that. So give us some time to really answer you. It would be premature to give you an answer.

Nithya B: Another practical one. Your cost looks much better than last year as well as last quarter. Are there any specific initiatives or any one-offs that we should be aware of?

Rajesh Dubey: So cost base, you are looking to our gross margin level. I think there is nothing abnormal as such. Actually, lesser simple, it has gone in this cost. And that is the, yes. So it looks on a little bit on a higher side

Sandeep Singh: We always mention our range, 60% to 62%. So we are in that range, okay. It will be some factor of mix also so that we need to keep in mind.

Nithya B: Thank you.

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

Kunal Randeria: So my first question is regarding the U.S. business outlook. So if you can just qualitatively say, you will always mentioned a number of products that you might be launching. But in terms of type of products, are there any sort of $15 million, $20 million kind of products that we can expect? How many could those be in the next couple of years? Any FTFs which you can just exchange?

Amit Ghare: Well, we always have a combination of products. And I know it is a very generic-sounding answer. But obviously, we continue to file FTFs. So we will have opportunities to launch day 1 products, even though that might be a share exclusivity. We also have products which are, let us say, plain vanilla generic or we can launch upon approval. So there is always a combination and qualitatively, if I can give you a word. Obviously, our aim will be like we have always guided that we should have between 12 to 15 ANDA filings every year. And we hope to launch between 8 and 10 every year, which for this year, we had raised to 10 to 12. But we remain in that 8 to 10 range in terms of new launches in the year.

Kunal Randeria: Sir, but any guidance in number of big-ticket kind of launches, $15 million, $20 million kind of products?

Amit Ghare: I would refrain from giving any such guidance.

Kunal Randeria: Fair enough. My second question is on gross margin. I am sorry to again dig a bit deep. So I know you have mentioned 60% to 62% in the past. But see, this year, this is probably a very weak year for the domestic business, plus now we have lost the MEIS export incentive also. And trade generic contribution was higher. So I am just wondering what is actually driving the gross margin here? Is it that there is a marked improvement in the U.S. business that is driving it?

Rajesh Dubey: Actually, this MEIS, it is not coming directly in our gross margin. It goes under our EBITDA. So you are very right. MEIS is, of course, it is a material amount for us. But this 61%, 62% we talked, we talked at COGS level. I think our guidance is always somewhere close to 61% that we are going to maintain. And we are confident, yes, depending on business mix sometimes, some basis point here or there, it happens. But generally, we will be there at 61%.

Kunal Randeria: Sir, I understand that. It is just maybe has the U.S. margins improved drastically?

Rajesh Dubey: Yes. And when I refer mix, I think U.S. business and particularly new launches, better margin business, actually, that has given us advantage there also. So looking to our next year also, I think a similar kind of situation on gross margin front at least we are going to have, and we will be comfortable somewhere close to 61%.

Kunal Randeria: Thank you.

Moderator: Thank you. The next question is from the line of Bharat Hegde from Motilal Oswal. Please go ahead.

Bharat Hegde: Sir, on the U.S. business, going forward, how much margin expansion are you expecting with the 8 to 10 products and the kind of shared exclusivity and all which you mentioned?

Amit Ghare: We again refrain from giving out margin profile for our U.S. business or even segmenting business even within India. But obviously, our aim going forward is rather than just focus on the top line growth to also improve our overall margins. And I always remember that U.S. always gives us a very good operating leverage because the costs do not really go up in the same proportion, certainly not in the same proportion. So as a very general guidance, what I can always say is that our focus will continue to be making sure that we continue to expand our overall margin as we look to expand our market share and our revenues.

Bharat Hegde: So Sir, would you say that these 8 to 10 products, which you are going to launch in the coming years per year? So these would have better margins from the products that you have currently?

Amit Ghare: Honestly, the answer always is, yes, not just for these 8 to 10 products in the current year or next year. Generally, the new products always have a better margin profile compared to the legacy business or the existing business. And for the simple reason that, ultimately, the new products go through deflation over a period of time. So they become existing or legacy business, their prices have already deflated. So to that extent, new products always are at a better margin profile.

Bharat Hegde: Secondly, on the India business, how are you seeing growth in the VMN segment with COVID cases going down, have you seen any decline in the December month?

Yogesh Kaushal: Not really. Yes, compared to second and third quarter, second quarter, there is certainly a slight dip, but not much. Second quarter grew at almost 35%, 40% types. And this quarter is around 23% to 25%. So there is a slight dip in the multivitamins group.

Bharat Hegde: Just last question. On the MR side, you mentioned about adding some to the acute business. So would that be at the expense of your chronic growth trends going forward? Or how do you see that?

Yogesh Kaushal: So can you connect your question from acute expense and chronic growth? Can you repeat your question?

Bharat Hegde: You mentioned about some MR in the active segment, in a different group. So would that be at the expense of your growth plans for chronic.

Yogesh Kaushal: No, no, not at all. Acute business and chronic is different. There is no connection in this.

Bharat Hegde: Okay. So this would be in addition?

Yogesh Kaushal: Yes, yes.

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

Harith Ahmed: On the domestic market, could you share some thoughts on the expansion then also the store network that we have seen, where we have seen a pickup in recent years? And do you look at it as a threat to the branded generic segment? And then I am asking, especially in the context of our plans to scale up our chronic therapies. And then we see in chronic therapies, there is some traction in terms of patients moving towards Jan Aushadhi?

Yogesh Kaushal: Being such a large market, Jan Aushadhi, by and large, will address a different segment of population and your branded generic will always remain in a different segment. So actually, if you ask me, there is no yes or no answer to this. But if you want to make assumptions, the assumption is that those people who are not taking medicine because of price reasons, the consumption may go up. So Jan Aushadhi will address those segments. Currently, I do not see any major challenge on formulation business because of Jan Aushadhi.

Harith Ahmed: And on the U.S. business, I have a question. Now you will built a solid base of over $300 million largely on the back of oral solids and as we think of scaling of the business towards $500 million, $600 million, do you think there is more room to grow on the back of oral solids or should we think of more capital allocation and R&D spend towards non-oral dosage forms like injectables or dermatology or perhaps inhalers and biosimilars so in the near-term as well as the medium term any thoughts around that?

Sandeep Singh: Yes. I think I will answer some part of it, and Mr. Ghare can also add something. So we have reached where we have reached, you are right, mainly, because of oral solids. And I think we are still small, even if you just think we can do oral solids because we can easily go to $600 million, $700 million just on oral solids. And you mentioned that whether we should allocate capital to other therapy areas or other dosage forms. Please keep in mind that oral solid itself is pretty large. For example, we are still to really commercialized controlled substances, for which we have plants and plans in U.S. So that is still to play out. And that is oral solids, but that is controlled substance that still has to play out. We do not want to be distracted and invest in too many places. I think I mentioned that long term, we do see biosimilars getting commercialized in Europe and U.S., but those are the 5-year plan. So other than that, we do not want to kind of put money or distract ourselves with other things. We rather do a few things and do them well. Amit, if there is anything, please feel free to add.

Amit Ghare: No, you told the comprehensive answer. So you will cover everything.

Moderator: Thank you. The next question is from the line of Chirag Dagli from DSP Mutual Funds. Please go ahead.

Chirag Dagli: So just a quick question, I am sorry to sort of keep harping on this point. But in terms of the marketing spend, let us say, if we were 100 pre-COVID, where are we in Q3 and where were we in first half and how much of those savings can we keep in FY2022?

Rajesh Dubey: Chirag, actually, we are trying to communicate marketing spend, just 1 thing pre COVID and now things are getting normalized, so where we are going, but out of that, some part of we can live without that. So that is permanent kind of saving. So I think still it has to come back to pre COVID. And it has started in quarter 3, but still it has not come. So that is one thing. Yes, some portion, so it may be 5%, 7% kind of thing. I think that optimization opportunity is always there. So we are talking that.

Chirag Dagli: You are basically saying, Sir, 5% of the spend you can save?

Rajesh Dubey: So I am not concluding on 5%. Our feel is something like that.

Sandeep Singh: If you want, we can say that.

Chirag Dagli: No, no, Sir. I am just trying to understand what you are saying when you say this 5% to 7%?

Sandeep Singh: I told you we could expect, I think that should be good enough. Now see few answers, we also do not know, Sir. We are entrepreneurs. We are living by the day, we will find out.

Chirag Dagli: When you say in your initial comment or in one of the comments you mentioned that a 70% to 80% of the acute business is back. Is that what you suggested, or did you say practice is up, doctor practices are up?

Sandeep Singh: I think it is always the same thing. And I think your statement is broadly okay. I think that is what we think it is.

Yogesh Kaushal: I will just add to what Sandeep said. If you go by IQVIA from minus 76% prescription or is minus 15% so you can understand the recovery and except hospitals, you can assume that almost all are now practicing. So you are right in the assessment about almost 80%, 85% is back.

Chirag Dagli: Understood, Sir. And Sir, can you share on the chronic piece, how has our prescriber base expanded over the last couple of years? And are we more GP focused or more specialty doctor focused?

Yogesh Kaushal: So in chronic total expansion, I would not be really able to give you a right number. But yes, there is a doctor expansion because market doctor expansion happens at a range of around 4% to 5%. And mostly, we are ahead of market growth in doctor expansion. What was the second question? Sorry, I missed out your comments.

Chirag Dagli: Sir, are we more specialty doctors focused or more GP focused, chronic business?

Yogesh Kaushal: Yes. In chronic, we do not have GP. We only focus on specialist. There is no GP space in chronic business.

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

Saion Mukherjee: The pricing environment in the U.S., are you seeing any deterioration since things are stabilizing in terms of supplies through the year? That is 1 because you would have gained some market share in Metformin, etc., where lot of competitors have moved out. So I am wondering, it does not get reflected in the U.S. numbers so any comment on the pricing environment in U.S.?

Amit Ghare: I missed the first part of the question, Saion, but I guess you are asking for overall translation happening and price deflation and perhaps not getting fully reflected in our numbers either way, either market share gains or price deflation. So look, price deflation this year is certainly there as it is there every year for the initial part of the year, obviously, because of COVID. I would say the deflation was a little bit on the lower side, but deflation is back, it is in single digit as has been there always. And yes, we have gained market share from few areas and Metformin as well as a few other products. And we have also lost market share in few other products because of the change in competitive landscape. Deflation is there, as always, fine, really not very different.

Saion Mukherjee: Okay. And Sir, second is a product-specific question. There is a favorable ruling on ibuprofen Famotidine combination. You have a tentative approval. So what are the steps forward and is that an opportunity that can be realized in the near term?

Amit Ghare: Sandeep, do you want me to take that?

Sandeep Singh: No, I want you to take that. Tough questions you can take. Thank you.

Amit Ghare: Sorry, I missed that. Do you want me to take that, Sandeep?

Sandeep Singh: Yes, Amit. I do. Yes. Thank you.

Amit Ghare: Yes. Okay. Okay. So yes, you are right, Saion, we have a favorable ruling in the district court. However, brand has taken us to the appeals court as was expected, and we are litigating there. So any decision in terms of launch will be at-risk launch. We are the sole litigators and sole likely launchers. So the at-risk is obviously a compounded number for us. Rather than going into steps, I think really the key decision-making for us is whether we want to go from in terms of at-risk launch or not. And honestly, we are in that decision-making process, let me put it that way. But certainly, we are litigating and we are litigating in the appeals court.

Saion Mukherjee: Sandeep, one question for you. I mean, now we have a cash positive balance sheet. I know you have been very conservative, looking at inorganic growth opportunities. I mean how are you planning for this cash? And I am assuming this is going to go up from the current levels. So any thoughts there on deployment of cash going forward?

Sandeep Singh: I think, Saion, fortunately, unfortunately, I want to maintain my stand on what I said. So we are going to maintain a dividend policy, nothing special. However, keep in mind that, yes, if we keep accumulating the way things are, and we do well, in next 2, 3 years, we will be having a golden jubilee, and that might be a good opportunity to do something 1 time, but let us hold the horses, I will request. So we have that in mind, but let us really accumulate the cash, and we will talk about it, closer to golden jubilee, perhaps.

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

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

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