ALKEM LABORATORIES LTD.
Regd. Office : ALKEM HOUSE, Senapati Bapat Marg,
Lower Parel (West), Mumbai - 400 013, Maharashtra, India.
• Phone: +91-22-3982 9999 • Fax: 022-2495 2955
• Email: contact@alkem.com • Website: www.alkemlabs.com
• CIN: L00305MH1973PLC174201

16th May, 2022

To,

The Corporate Relationship Department **BSE Limited** Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai 400 001. ***Scrip Code: 539523***	**National Stock Exchange of India Limited** Exchange Plaza, Bandra Kurla Complex, Bandra East , Mumbai 400 051. ***Scrip Symbol: ALKEM***

Dear Sirs,

Sub: Q4 FY2022 - Earnings Conference Call Transcript

We enclose herewith the transcript of the "Q4 FY2022 Earnings Conference Call" which was hosted by the Company on Friday, 13th May, 2022

The said transcript shall also be made available on the website of the Company.

Kindly take the same on record.

Sincerely,
For **Alkem Laboratories Limited**

Manish Narang
President – Legal, Company Secretary & Compliance Officer

Encl: a/a

"Alkem Laboratories Q4 FY22 Earnings Conference Call"

May 13, 2022

MANAGEMENT:	**MR. SANDEEP SINGH – MANAGING DIRECTOR, ALKEM LABORATORIES** **MR. RAJESH DUBEY - CHIEF FINANCIAL OFFICER, ALKEM LABORATORIES** **MR. AMIT GHARE - PRESIDENT, INTERNATIONAL BUSINESS, ALKEM LABORATORIES** **MR. YOGESH KAUSHAL - PRESIDENT, CHRONIC DIVISION, ALKEM LABORATORIES** **MR. GAGAN BORANA - INVESTOR RELATIONS, ALKEM LABORATORIES**
MODERATOR:	**MR. TUSHAR MANUDHANE – MOTILAL OSWAL FINANCIAL SERVICES**

Moderator: Ladies and gentlemen, good day and welcome to Q4 FY22 Earnings Conference Call of Alkem Laboratories hosted by Motilal Oswal Financial Services. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Tushar Manudhane from Motilal Oswal Financial Services. Thank you and over to you, sir.

Tushar Manudhane: Welcome to 4Q FY22 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 Gagan Borana from Investor Relations. Over to you, Gagan for opening remarks.

Gagan Borana: Thank you, Tushar. Good evening everyone and thank you for joining us today for our Q4 FY22 and Full Year FY22 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 have 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 and the year gone by and strategy going forward. Over to you, sir.

Sandeep Singh: Thank you Gagan. Good afternoon everyone. Starting with the financial performance for the quarter, revenues from operation grew by 13.3% year-on-year driven by healthy performance in India business which registered a year-on-year growth of 16.7%. US business was almost flat year-on-year as we tried to offset the significant pricing pressure through our new product launches. Other international business did well during the quarter with year-on-year growth of 35.3% with the key markets leading the growth. EBITDA margin for the quarter was 13.6% impacted by higher raw material prices, increase in freight cost and essential manpower as we expand in new therapies. During the quarter, we had an exceptional item of Rs. 15 crore debit on account of fair value of investment and income tax of earlier years Rs. 91 crores due to disallowance of marketing expenses in light of the recent legal pronouncement which suppressed our net profit for the quarter.

Talking about our India business, it registered a secondary sales growth of about 15% year-on-year during the quarter and about 28% for the full year. This was about 1.5x the IPM growth. This performance was majorly driven by strong volume growth, partially held by COVID-19 tailwinds in our acute therapy areas of anti-infective, vitamin, minerals, nutrients, pain management and gastrointestinal.

Most of our mega brands continue to outperform in the respective markets thereby maintaining the lead positions. Our chronic portfolio also delivered a market beating performance for the financial year growing at almost 2 times the market growth rate. Our trade generic business despite the high base of last year posted a strong performance. Our recently launched Pulmocare division catering to respiratory segment saw an encouraging start with growth rate higher than the therapy growth rate.

Moving on to international business, our US business ended the financial year with sales of $318 million which was down 4% year-on-year. While we had good number of new product launches during the year, some of which had limited competition, but significant pricing pressure completely offset the impact of new product launches. During the year, we filed 14 ANDAs with US FDA and received 21 approvals. We now have over 160 ANDAs filed with US FDA with nearly half of them yet to be commercialized. Apart from the US, other international markets delivered a robust year-on-year growth of 35% during the year with healthy performance in the markets of Australia and Chile.

Talking about Enzene, our biotech subsidiary, it has been a good year for them with 3 product launches in India and onboarding of multiple companies for their CDMO services. Also during the year, Enzene signed several out-licensing agreement with some of the leading international companies to develop and commercialize products in key markets across the globe. The company has also started global clinical trials on selected products to launch them in regulated markets starting 2025. In terms of regulatory inspections, all our manufacturing facilities supplying to the US are having an EIR as on date. Our manufacturing facility at Indore is awaiting preapproval inspection by US FDA. With this, I would like to open the floor for Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Saion Mukherjee with Nomura. Please go ahead.

Saion Mukherjee: Sir, one question on the cost pressure that you have mentioned, so raw material as the percentage of sales increased materially, you had talked about it earlier also, it is on a higher side, so how should we think about freight and raw material costs going into the next couple of quarters and what is driving them and any trend that you would like to highlight at this point or things coming down or still are going up from the current levels?

Rajesh Dubey: Saion, Rajesh Dubey here. In fact, in our last earnings call also we discussed on this. Definitely, enhanced cost procurement whatever we have done as I said in my last call also, partially it was consumed earlier in quarter 3, but mainly consumption and sale of those consumed item, it has happened not completely for this quarter also, but definitely for next quarter it is going to be.

So, one good thing now, this material prices, it has started showing softening trend and that good thing happening, but whatever material we have procured, ultimately we are going to consume it and freight also as you rightly said, both domestically as well as for our international freight, we can witness sharp increase is there and particularly in rates for our international freight. So, both these is going to have impact going forward and as we indicated last time also, we have taken so many measures to address this issue because you rightly said it is a substantial increase, but we feel somewhere around 150 basis points to 170 basis point, it will be having impact on our gross margins.

Saion Mukherjee: Sir, just to be clear, you already have an impact in Q4, on top of it you think there can be 150-170 basis points more you think which you will see in the subsegment quarters in Q1 and Q2?

Rajesh Dubey: Exactly Saion, I wanted to communicate that only, in fact, whatever procurement it has happened, partially we consumed in quarter 4, but major portion we are going to consume in quarter 1 of this year. It may be initial period of quarter 2 also. So, in fact, if you recollect October onwards, material prices started showing upward indication and November fag-end and December, it was on its peak and then scarcity or availability was also concerned, so we accumulated some higher inventory and most of the pharma company they did. So, whatever consume, this high cost material consume, wherever sale is happening, it will be having impact on gross margin. See, material prices, it has not come to its normal, it has started showing indication coming down.

Sandeep Singh: Dubeyji sorry, so I can say and please, this 150 basis point is the impact compared to last year quarter 1, going forward in the year.

Rajesh Dubey: Yes.

Saion Mukherjee: So, this is year-on-year is what you are indicating compared to Q1 of last year?

Rajesh Dubey: Yes, Saion, absolutely.

Saion Mukherjee: And other question on the international business, especially non-US, we have seen some good traction, if you can throw some light, you mentioned Australia, Chile doing well, so what is it rightly happening, why we are seeing this step jump this year and how should we think about this business going forward?

Amit Ghare: Saion, Amit here. Yes, we talked about it in the last couple of calls and in fact, you were one who said that we have seen business increase and also regularity, so it is not really a change in strategy, it is very much the same market that we have been doing for few years now. So, we have not really added anything material. I guess the higher performance is directly proportional to some new launches that we did in these markets and the price erosion in these markets has not been as high as has been in the US. There is deflation of course in every market, but not at the same levels. So, those two combined things, now that we have also generated some scale, has resulted into this kind of a growth. We will continue looking at these markets, we will continue focusing on them for future and we are obviously hoping that we will continue doing this performance.

Saion Mukherjee: So, you expect double digit kind of growth to sustain in these markets?

Amit Ghare: That is correct.

Moderator: Thank you. The next question is from Chirag Dagli. Please go ahead.

Chirag Dagli: Sir, how many products are you selling currently in the US market and how many of these are yet to reach big potential?

Amit Ghare: We correctly sell about 85 ANDAs, the only ones which haven't reached its full potential will probably be about 15 and the reason for that is some of those we may not be competitive, so we have not reached the levels that we are expected to reach and some of them may be recent launches. So, it takes time couple of quarters at least if not more before we reach the desired market share levels.

Chirag Dagli: And sir, given that we had very poor profitability in the US at the PBT level before FY22 as well, in FY22 would it be fair to say that at the PBT level, US is not contributing probably at losses at the PBT level?

Amit Ghare: So, we don't split our profits by market, so I am not sure Chirag where you picked up your question, but all I can tell you is several quarters back we had clearly guided that we are well beyond the breakeven point for US and certainly we have not slipped back into it.

Chirag Dagli: At the PBT level, sir?

Amit Ghare: At the PBT level, that is correct.

Chirag Dagli: So, we are still profitable in the US at the PBT level?

Amit Ghare: Very much, US contributes to more than 25% of our revenues, we cannot afford a market with losses at that level.

Chirag Dagli: And just one more question if I can, can you split the India business into acute, branded, chronic and trade generics, sir for the full year?

Gagan Borana: So, if you split the India market, first is 22% is trade generic, remaining 85% is acute and 15% is chronic.

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

Prakash Agarwal: My question is on the India business, so I don't know if you have already shared, but given that we are heading on a strong base of last year, are we giving any guidance on the India growth, so that we have clarity?

Sandeep Singh: Yes, Prakash, I think we maintained what we always said. I think we will have double digit growth this year in spite of coming on a strong base and if you want me to like specific thing, Prakash?

Prakash Agarwal: Yes, so the growth, you had a very high growth especially in the first half due to the second wave, so acute was very heavy and we have acute heavy portfolio, how do we plan to have double digit growth if you could split, volume, pricing, I understand there will be some pricing gain also, but any other thing you want to highlight?

Sandeep Singh: Got it, so before the split of how the growth would come, I would just like to add that we have added 500 people in quarter 4 of last year to rebalance the portfolio and go for growth. Apart from that the price increase would be higher this year compared to previous year, 6% to 7% would be price rise, near introduction would be around 3% and volume growth is between 3% and 5%. That is how the split would be, so we feel confident that we will cross double digit growth this year as well.

Prakash Agarwal: So, one is I understand addition of people and secondly, so which will also lead to some volume growth and the second lever is the price?

Sandeep Singh: Price is a big lever this year, around 7%.

Prakash Agarwal: And with 12%-13% India growth and you are guiding for a margin cut due to the cost increase, but won't it be operating leverage should play out because India being more profitable, etc., it should flow down to EBITDA also, isn't it?

Sandeep Singh: I think you have to understand that RM price have really gone up, Prakash and we are kind of investing in biosimilars and things like that, so operating leverage will come in, but will not offset all the price increases which we have added this year.

Prakash Agarwal: And R&D run rate for the quarter is exceptionally high, is this the new quarter base given that you are going into this biosimilar, etc., or how should we think about a full year run rate?

Sandeep Singh: Whatever guidance we have given, we stick to that. From this quarter, I don't think so it is exceptionally high, we have hit around 6.4. We will stick to around 5.5 to between 6 next year.

Prakash Agarwal: And last one is on the cash, so we are continuing to see good cash generation, in the past we have been very conservative and conscious of any acquisitions, what is the thought process now on that?

Sandeep Singh: We continue to be the same, DNA has not changed, we are conservative, we will do what know to do best and so no large acquisition plans Prakash bhai.

Moderator: Thank you. The next question comes from the line of Rashmi Sancheti with Dolat Capital. Please go ahead.

Rashmi Sancheti: Sir, again on the gross margin front, can you break it up like how much impact was just from the high input cost and also from the US price erosion?

Rajesh Dubey: I think Rashmi, you are talking for 21-22, so in 21-22 right now, in quarter 4 particularly and early it was impacted by 1.6-1.7% and equivalent was impact of cost also, enhanced material cost.

Rashmi Sancheti: So, you are saying 1.6 to 1.7% from the high raw mat cost and equivalent to that at least around 1.7% from the price erosion?

Rajesh Dubey: Yes.

Rashmi Sancheti: And what is the outlook on the US price erosion at the company level, are we seeing any normalization, for full year how much was it and how much are we expecting in FY23?

Amit Ghare: Full year, last year, price erosion in US for our portfolio was lower double digit about 11 to 12%, this year we are not expecting it to be at that levels, we are expecting it to be in single digits, but higher single digits.

Rashmi Sancheti: And sir, on R&D like you mentioned that we would be spending 5.5% to 6%, can you let us know like how much would we catering to the US and how much it would be catering to the international markets or Indian market?

Sandeep Singh: I think 90% is for the US.

Rashmi Sancheti: 90% is for the US only and that would be more into biosimilars and all?

Sandeep Singh: No, not more into biosimilars, biosimilars we have started like this year and going forward, but large part is not into biosimilar. Biosimilar is certainly a part of it.

Rashmi Sancheti: And sir, my last question again on India, sir in trade generic segment, which therapies are we focusing, is it similar to branded generic space, the products are similar or it is a complete different product set that we are setting it in the trade generic segment?

Sandeep Singh: So, trade generics, we are not focusing any therapy, just by real strength and Alkem brand name, we get a large portion acute and semi-chronic and things like that, so we are not focusing any therapy areas ma'am because this is a different ball game.

Rashmi Sancheti: You mean to say that we are more again acute focused and some part comes from the subchronic, that is what I wanted to know?

Sandeep Singh: Yes.

Moderator: Thank you. The next question comes from the line of Damayanti Kerai with HSBC Securities and Capital Market India Private Limited. Please go ahead.

Damayanti Kerai: My first question is again on margin, so you mentioned we obviously are seeing impact of high input cost on gross margins and all, so going ahead, how should we look at margins at the EBITDA level for FY23?

Rajesh Dubey: Whatever hit we are going to have in gross margin level, I think it is still going to pass on to EBITDA also. We estimate somewhere between 150 to 175 basis point for yearly basis, that is our estimate and it to give impact in our EBITDA margin.

Damayanti Kerai: So, around 150-170 basis point hit on EBITDA level also, but on a steady state, what margin we should be looking at, around 21-22%?

Rajesh Dubey: EBITDA margin you are referring?

Damayanti Kerai: Yes, I am saying next year obviously, we will have some impact of this higher input cost, but in a steady level, what should be the EBITDA margin we should consider?

Rajesh Dubey: This time, we have 19.3%, hit of 150 basis point here, so I think we will be somewhere close to 18% kind of.

Gagan Borana: We stabilize in FY23, thereafter we look to improve from FY24 onwards, hopefully the inflationary environment eases off little bit.

Damayanti Kerai: My next question is on India business, so you said you have added around 500 people for the new division, so can you update as on the current MR head count and what is the productivity across acute and chronic segments?

Yogesh Koushal: Our total MR count is 10,000 and the split is of 17% in chronic and rest in acute.

Damayanti Kerai: And how about the productivity level sir, in terms of PCPM?

Yogesh Koushal: Broadly, I would say acute is around 6 lakhs, chronic is 3 to 3.25.

Damayanti Kerai: And my last question will be, your thoughts on biosimilar business, how do you see it scaling over next 3 to 5 years and what kind of further investment you are looking here?

Sandeep Singh: This is the first year as you know so I think next year we could hit a revenue of say around Rs. 250 crores , but the big growth will come when we launched in international regulated markets like US and Europe and that is still like 3 to 4 years away. We have invested already about 750 crores and we might invest on say another 100 Cr R&D and things like that.

Damayanti Kerai: So, around 100 crores kind of investment every year you are envisaging at this point of time?

Sandeep Singh: Yes.

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

Nithya Balakrishnan: So, on trade generics, I think in the last year alone, we are seeing several companies join this race, some of them are your peers and other large pharma companies, so given that there is now increased competition, how do you see this impacting your market share in rank and related question around, if this likely to open up new markets or it is more likely to cannibalize existing branded generic sales?

Yogesh Koushal: Competitors will enter, but as I remember couple of meeting before our MD answered this, Sandeep Singh very clearly, it is not that simple, generic also has very strong connect and relationship building with supply chain network right from your production unit, till your depos and distribution network, stockist, all that takes time, so I think that over a period of last decade or so, Alkem has built a very strong equity on that front, so while competitor will come and they will find some way to get some share, but Alkem has a very strong business there.

Nithya Balakrishnan: Second one was, as you see more players enter, do you see the market itself expanding or cannibalizing existing branded generic markets?

Yogesh Koushal: The answers are less likely because India still has the reach of medicine is still is not beyond 40-45% population, so any and everyone has a space to create their own market, so it won't disturb the current flow of Alkem or anyone. Everyone can make a space here.

Nithya Balakrishnan: My next one is actually on the US, so if you see if this high single digit kind of price erosion sustains and based on your outlook for how much new launches could add, what sort of a growth are you envisaging may be in the next 2-3 years?

Amit Ghare: For the immediate year, we had talked about lower double digit growth, setting only in the second month of the fiscal year, we are very much sticking to that. It is the challenge, but we certainly are, that is the kind of growth that we are estimating. Going forward, obviously we will continue to look to remain on that growth trajectory. Our base will increase obviously, so that will bring its own set of challenges, but that is what we are looking at. So, around 10 to 12% is what we are looking at.

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

Kunal Randeria: Sandeep, can you share with us what are some of the volume growth levers in the India market because on the outside it seems that out of your four biggest therapies and big ones, gastro and vitamins, there could be some volume pressure this year because obviously you had a phenomenal FY22, so I am just wondering which other therapies or brands in your view will pick up the slack?

Sandeep Singh: I would add anti-infective to that as well because that also had a high base last year, but we will have the volume growth is around 3 to 4% or 5 at best, so it is not unreachable because we have added people in the last few years and we will be getting market share which we have always got. So, even if we will get a market share of last year, there has been 0.3% increase in the market share if you look at us vis-a-vis IPM, so I think it is just good aggressive manpower addition we have done. We have entered the respiratory therapy which is the new area. There itself, we see some growth and the new area for us are firing up and chronic segment is not as big as the acute, but that is not small now. So, there we will continue to grow by good double digit volume, so therefore we feel confident that this volume levers will work.

Kunal Randeria: My second question is on the US business, so while I understand you had double digit price erosion in the US this year and you also had couple of interesting launches, **(Inaudible) 29.34** and so on, so just want to understand how the US margins have moved in FY22 and how do you see the margins moving in FY23, may be qualitatively if you can give some comments?

Amit Ghare: Kunal, we don't disclose our business segment margins unfortunately, so I won't be able to answer that question, but we did answer several quarters back, several years back actually and I answered earlier today that we are well beyond the breakeven point many years ago and we have no intention of going into red.

Kunal Randeria: But qualitatively may be whether you expected the margins to be steady or go up or may be go down before they can go up?

Amit Ghare: Right, so year-on-year our margins have remained fairly steady is what I would say. Our base business obviously has seen large price erosion last year, but some new launches exactly the ones that you mentioned and even otherwise has certainly helped us. Our new business contribution last year was one of the highest in all the fiscals because of which we could actually sustain a small degrowth instead of a larger degrowth in the business. The base business certainly degrew by a lot because of price erosion and in some cases, even loss of market share. So, that certainly helped and going forward we are hopeful with more contribution coming from new launches. New launches traditionally come at a better margin profile. So, that certainly will help us to improve our margins.

Kunal Randeria: And if I can just squeeze in one more, so I understand that below the COGS line you may not have a lot of room this year because of increasing freight cost and all, but in general may be over a 2 or 3-year period, what kind of cost optimization can we expect?

Rajesh Dubey: So, I think our margin, it is in the range of somewhere between 60 to 62% kind of, below gross margin I think more or less whatever trend we are going to have, operating leverage is going to flow, but there are few things having inflation impact also and that is bound to happen, for example, distribution cost, freight, but we do have some levers and cost optimization, all across wherever we see opportunity, we are working on that including manufacturing and including optimization at our R&D facilities, distribution all across. So, we have some levers and we have identified those. We will be working towards it. Otherwise, it is very difficult to have objective of adding to EBITDA margin, even though 50 to 100 basis, but that is a tough task we have taken and we will be working towards it.

Moderator: Thank you. The next question is from the line of Yash Khanna with iThought PMS. Please go ahead.

Yash Khanna: My first question is, I wanted to understand more on Alkem's long to medium term strategy on the chronic side of the business, so you have outperformed in the acute side, you have also outperformed in the chronic side, but I wanted to understand more on how do we see a chronic franchise 3 to 5 years down the line since competitive intensity might be a little higher on this side, so how we are planning to execute consistently on the chronic side?

Yogesh Koushal: I think 2-3 areas which are clearly defined by chronic, one is, our productivity is still average, so compared to within companies we had 3 lakhs, which we should be looking at how do we compete within the organization and reach the productivity because the prescriber base is still at average level, so even if I double the prescriber base in next 2 to 3 years, I should be able to increase my productivity. So, first is productivity, second, of course, the main therapies which dominate chronic is cardiac and diabeto, so on a diabeto front, we have a very rich pipeline of new products and these can be a blockbuster like, we have launched combinations of Dapa and Vilda, we are doing very good on Dapagliflozin, Sita, Dapa. so all these are molecules which have worked around Rs. 300 to Rs. 500 crores in 2 to 3 years' time. So, right now, we should be around close to Rs. 1,000 crores next year and we look at that around 4th year times can we double the base and reach around Rs. 2,000 crores.

Yash Khanna: Sorry, you said Rs. 1,000 to Rs. 2,000 in 3 to 4 years' time, right?

Yogesh Koushal: Yes, 4 years' time.

Yash Khanna: And second was actually again on the margin, so before this year, the understanding was that we would improve the margin by 50 to 100 basis points year over year, but now, FY23, we have guided for 18%, so post that should we expect 100 basis points consistent improving the margin?

Sandeep Singh: We said that yes, so we chose the higher end, but we even take 50 to 100, yes.

Yash Khanna: Sir, 50 to 100 decline coming year and then we would be going up?

Sandeep Singh: Hopefully, yes.

Yash Khanna: And one last question if I may, so I just wanted to understand from a medium to long-term timeframe, capital allocation priories like which geographies or where are we planning to invest a lot of money?

Sandeep Singh: In the short or medium term, nothing is changing, so the geographies are going to be India and US and some key other ROW markets and where you want to allocate, I think biosimilars is a new frontier, nothing other than that right now.

Yash Khanna: So, no major CAPEX lined up?

Sandeep Singh: No.

Moderator: Thank you. The next question is from the line of Bino Pathiparampil with Incred Capital. Please go ahead, sir.

Bino Pathiparampil: Most of my questions have been answered, just a clarification on tax rate if you could give some guidance for FY23 and if not exact at least some directional guidance over next 3 to 5 years how the tax rate is likely to move?

Rajesh Dubey: For next 2 years, as per our estimate, tax is going to be somewhere between 11% to 14% kind of. Going forward, I think since our plants they will come out of 80-IE and then this I am talking for '26-27 onwards and that time, we will give fresh guidance. From next two years, we will be in between 11 to 13 or 14% kind of.

Bino Pathiparampil: Sir, if I heard correctly, the facilities are coming out of the exemption, soon that can be fiscal 27 years?

Rajesh Dubey: Yes, you are right.

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

Saion Mukherjee: Sir, one question on biosimilars, you mentioned Rs. 100 crores investment every year, so this is all operating expenses I would assume, so Enzene currently is contributing negatively to your EBITDA by around Rs. 100 crores?

Sandeep Singh: Yes, round about that much last year.

Saion Mukherjee: And what are the key milestone, Sandeep we need to watch out for in terms of clinical studies etc., and this number would remain at Rs. 100 crores over the next few years you think or it can go up also?

Sandeep Singh: I think it can go up, this is just for the next, let us say couple of years and so yes, its ambition if it goes up and we will obviously update you all, talk to you all that in this number would be going up. So, sorry, what was the question, your first question was?

Saion Mukherjee: What are the key milestone?

Sandeep Singh: I think one of the key milestones is that launching in India, so we have launched 3 products and we will be launching few more. We have already out-licensed some products to European players who have given as good upfront payment, so I think that is the milestone. These milestone have already happened. Going forward, I think what we need to track is how does the clinical trials progresses in US which is already initiated for the US market, so there we need to be on time and file it on time.

Saion Mukherjee: So, this is for the US filing, so have you disclosed the product, if you can give some size and when you expect the trials to be completed and filing to happen?

Sandeep Singh: I think filing would happen around 2024 end, filings would happen around that time and the molecule I think we can let you is Denosumab.

Saion Mukherjee: And the other question I had on field force so I think you mentioned about 500 people added last quarter, if I remember historically you have added like 1200 every year, so this is very high, so are we sort of stepping up MR addition going forward and if that is the case, is there any strategic rationale for doing that?

Sandeep Singh: No, we are not stepping up, I think we have already added, hopefully there is always strategic rationale when do it, so I think it is the portfolio alignment and how do you make brands focus and grow and also give space to medium size brands to grow. So, that is the reason we have done this hire.

Saion Mukherjee: So, your addition would remain on an average 1200?

Sandeep Singh: No, we cannot do it like perpetually, we will reach 100,000, so of course we can't do that, but we are also conscious sign of the fact that we do have a lot of people, but at the same time we had to do it because it is important, so it is a very strategic. You know the chronic portfolio is still around, let us say, one third of acute, so we don't see adding like that much, even close to that number for the next few years every year. I think we are almost saturated, but yes, there are strategic calls we might add 200-300 people in the next few years.

Saion Mukherjee: And just one question on acquisitions in India, you have restrained from doing deals in India, but given the kind of base you have don't you think Alkem can add value by acquiring brands even if it is somewhat expensive?

Sandeep Singh: Saion you are right. The issue is, first of all they are expensive and we are not of the minds in they will overpay. Second, lot of times, companies are available for acquisition, not just brands and that leads to some of the complications of fieldforce and different culture and things like that. So, very rarely is an opportunity where you can acquire only brands and what happens then most of the time we see that it is expensive, so I do see a point Saion, but I am not sure whether it will work out in our favor in terms of where we, we already have 9000 people, 10,000 medical reps. If you go and acquire businesses on the whole, it comes at own sets of medical reps and different cultures and all, it will become a challenge Saion, so we will be cautious and I am not sure whether we look large deals over there.

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

Nimish Mehta: My question is regarding the gross margin, I am very confused when I look at the full year gross margin that we discussed so far, more or less they are in line with what we had last year and in last year we mentioned about the input cost sizes are going up and stuff like that, so how exactly is the impact coming on the gross margin, I am still not able to understand, although the gross margin remains the same?

Rajesh Dubey: Nimish, you are very right, in fact, in this year we have a positive of 20 basis point in growth margin, so it is a plus, so let me just give you component and this price deflation mainly in US, it has impacted and on overall basis, on annual basis we don't have any significant contribution on account of increase in material cost and I am talking raw material cost or tech material. Yes, in quarter 4 if you go, you can see because whatever procurement we give in the month of November and December we consumed partially in quarter 4 and we are going to consume going forward in quarter 1 or quarter 2 going forward. So, it is going to have impact in 22 to 23, but as far as 22 is concerned, you are very right, input cost increase is not having any significant impact and then by way of better product mix and better gross margin and our gross margin, in fact there is addition of 20 basis point in that.

Nimish Mehta: Sir, even if we compare the fourth quarter and I am comparing Y-o-Y, I think that should be the right way, you can correct me if that is not, I don't think there is an increase in the gross margin, so what I am trying to see is that every Q4 you have lower gross margin, so what is changing even in this quarter or we need to compare in Q-o-Q?

Gagan Borana: Nimish, if you remember, Q4 of last year there was an inventory write-off which has pulled down the gross margins, if you adjust for that there is Y-o-Y dip in the gross margin Y-o-Y, even if you adjust that or compared on full year basis also there is small dip. What has helped us this year is the product mix has improved, so last year FY21, India's percentage of sale was 65%, it has gone up to 70%, so helped by mix and last year there was inventory write-off, so we adjust both, then there is a marginal dip in gross margin because of the raw material cost and when you are saying 100 to 150 basis points impact that is on Y-o-Y level, FY23 compared to FY22, so we ended the year at 60.7 we are seeing about 100 to 150 basis point impact on that number on full year basis. So, there is seasonality across the quarter and the seasonality is going to remain and after normalizing the seasonality on Y-o-Y basis is going to be 150 basis points.

Nimish Mehta: And this 150 basis point that we are talking about does not take into consideration the fact that you might have better product mix and better, you also likely to see good amount of price increase in the domestic market and all of those things, right?

Gagan Borana: We are factoring of those things. So, what Dubey sir was saying was our normal gross margins are around 61-62%, so that has come down to close to 60, so 59-60 is where we will end in FY23 because of the high raw material cost and say FY24 onwards this should go back to 60-61 levels again.

Nimish Mehta: And lastly, once again on the same thing, this will also include some, last year, I think you mentioned that we might be launching few low competition products in US, so are you likely to do that and this margin guidance is net of that as well?

Sandeep Singh: We always hope to launch large product with less competition. Ultimately, competition dictates whatever come through.

Nimish Mehta: And this margin is net off all those factors?

Sandeep Singh: These are business as usual.

Moderator: Thank you. The next question is from the line of Nikhil Mathur with HDFC MF. Please go ahead.

Nikhil Mathur: I just wanted one clarification; did I hear it right that your US growth guidance for FY23 is 10 to 12%?

Sandeep Singh: Yes, that is right, revenue.

Nikhil Mathur: So, **(Inaudible) 48.35** $320 million in FY22 if I take into account high single digit provision which also you have guided to, the net addition works out to be somewhere around 64 to 65 **(Inaudible) 48.45** million to arrive at 10% growth, so I am just trying to understand, there is a bit of cynicism in the which kind of says that this seems a bit stretched this particular guidance, so can you share some key thesis why is this guidance which you can achieve?

Sandeep Singh: Sorry, what is the last part, I missed that?

Nikhil Mathur: I am saying is that just guidance seems to be a bit aggressive, 10% growth on the erosion of 8%-9% so are there any specific features of why are so upbeat on the US outlook for FY23?

Amit Ghare: The entire FY22 was depressed compared to FY21, so as you can see we have degrown by 5% in the current year, so if I am basically guiding them to 12% increase over FY22, in fact we are only guiding for 7% increase over FY21, so we are confident because number one, as I said the price deflation is reduced compared to what we have seen in FY22 as we sit right now and then number two, of course we will always hope to do better with our new launches and as I mentioned earlier, in FY22, we actually did very well with our new launches compared to our own performance in the previous fiscal before FY22. We were not able to demonstrate it because of the higher price erosion during the last year.

Nikhil Mathur: And to achieve this full year number, roughly $88-$90 million is the quarterly ask, would that be visible from first quarter itself or do you think that second half is going to be much better than what we will deliver in first half of FY23?

Sandeep Singh: We obviously expect our performance to grow quarter-on-quarter, so first quarter, if we are comparing year-on-year compared to quarter 1, yes, I would expect 10% to 12% increase and we need to obviously see that coming through before we update our guidance or we update our numbers.

Nikhil Mathur: And one slightly larger picture question on India, it is more than 2 years now since the pandemic, so any thoughts you can share on your expectations on the acute and chronic growth vis-a-vis what it was prior to COVID and developments in trade generics and sales force efficiencies, if you can share some of your updated thoughts on these four segments, key variables for the domestic market versus pre-COVID what your expectations would be now?

Yogesh Koushal: We think this year the things would almost be normal to pre-COVID level, so our growth in acute will sustain, that is what we just said earlier that this year the growth of acute will be in a range of around 10 to 11% and chronic those market will grow at around 10 to 11 and we should aim for double the growth of market in chronic, so roughly we can say that 10 to 11% growth in acute and around 20% growth in chronic, so everything of around 13% for the domestic business and trade generic, traditionally we have seen good growth, so we hope they will continue similar trend in the coming year as well.

Nikhil Mathur: Sir, I think this helps, but if I may just rephase my question, has there been any structural change and how you perceive growth for different segments and also how you approach doctors, things might be a bit more clear now since the last wave we had seen most of an effect, so I am looking for a bit more structural thought process on how this variable might play out over 3 to 5 year period?

Yogesh Koushal: You have just heard we saying that we have already added lot of people, around 1000 people in every year, last 2 years, so we don't expect major structural change in our business approach. So, one is structural change in the organizations, our focus area will remain same, we are not going to value for them and as far as meeting doctor is concerned, we expect about almost now the meeting customers is to the pre-COVID level, so there is no major change on that. I assume that you are asking about utilization of those digitals and all, so yes, there will be slight change to reach masses through digital media and that can be little factor, but normally this will go to pre-COVID level with some addition of digital approach in our business.

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

Saion Mukherjee: Just one clarification, Amit in response to Nikhil's question which you mentioned, growth of 10% in quarter 1, that would put our US revenues at around $90 million, which is almost 70 million higher than what we are in fourth quarter?

Amit Ghare: No, that was compared to FY22, it was not compared to FY21. FY21 was completely different quarter 1, so that is not in relation with that year.

Saion Mukherjee: No, in the first quarter, this quarter FY23, I thought you mentioned you will deliver 10% growth on first quarter FY22 which was higher, right, it was around $80 odd million, so you should be closer to 90 million in this quarter if you have to grow 10% on Q1 of FY22, that would mean a Q-on-Q growth of almost 17 million which is a big number, at the mid of this quarter, are you having that visibility of sort of getting close to 90 million in Q1 FY23?

Amit Ghare: Saion, rather than getting into absolute numbers, I think Nikhil's question was essentially trying to ask me is there something during the year that we are depending upon for delivering this growth, that is how I perceived and understood it and what I wanted to answer there was and what I answered there was that we are not dependent on one event or one product or something which will deliver this growth for us. So, we need to deliver our growth whatever that we have talked about, fairly evenly during the year and therefore what I answered was that even in quarter 1, we are expected to deliver some growth over last year's numbers, FY22 numbers. So, that is what, please read it in relation with that, specifics for each quarter if there are ups and downs, some of it will get corrected, for example, first quarter in FY21 if you remember was a very high quarter, so obviously that is not a correct number or a correct base to look at.

Moderator: Thank you. As there are no further questions, I would like to hand the conference over to Mr. Gagan for closing comments.

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

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