"Alkem Laboratories Limited Q2 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Alkem Laboratories Q2 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 of Motilal Oswal Financial Services. Thank you and over to you Sir!

Tushar Manudhane: Thanks Steve. Welcome to Q2 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 for taking out time and joining us for our Alkem Laboratories Q2 and H1 FY2021 earnings call. Earlier during the day we have released our financial results and the same are also posted on our website. To discuss our 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 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 this call to Mr. Sandeep Singh to present the key highlights of the quarter and the strategy going forward. Over to you Sir!

Sandeep Singh: Good evening everyone. Welcome to our Q2 of FY2021. I would briefly touch upon the key performance highlights of the quarter gone by and would then leave the floor open for questions and answers as usual.

While we continue to fight against COVID-19 pandemic the government announced multiple rounds of unlocking. The Indian pharmaceutical industry has witnessed gradual recovery in new prescription generation as doctors and health care professionals resume their services. This has led to a sequential recovery in our Indian business, more specifically in acute care portfolio. Compared to the last quarter our India business grew by about 35% quarter on quarter and most of our large brands are outperforming in their representative market. In key therapies like anti-infective, gastro, vitamins and minerals, cardiac and anti-diabetics, we grew ahead of the market in the quarter as well as for six months ended 2021. However given that the significant portion of our India sales comes from anti-infective segment, which witnessed a year on year decline during the quarter and first half of the year, secondary sales growth as reported in IQVIA has been on the lower side compared to the broader market. Our trade generic business continues to grow well and has helped us mitigate some pressure on a branded prescription business.

Coming to our international business, I am happy to share that during the quarter international business registered a healthy growth of 16.4% mainly led by our U.S. business which grew by 18.6%. The growth in the U.S. business during the quarter in dollar terms was also strong at 12%. Further over the last three years ending September 2020, our U.S. business revenues have more than doubled. This growth has largely been driven by new product launches coupled with market share gains in some of our existing products. Investment in R&D and ensuring high standards of regulatory compliance has also been an important contributor towards this performance. During the quarter we invested Rs.139 Crores in R&D which is 5.9% of our operating revenue. We filed one ANDA with the US FDA and received four approvals, which includes one tentative approval. With this, we now have a fairly strong product pipeline of 149 ANDAs already filed with US FDA with nearly half of them waiting approval and commercialization. Timely new product approvals and the launches will be a key focus to drive growth in the U.S. market. In terms of regulatory status of our manufacturing facility all our six manufacturing facilities in India and supplying to U.S. have received EIR as on date. We continue to invest in our people and technology to ensure our facilities comply with global regulatory standards.

Talking about some of the financial highlights during the quarter gone by, savings in marketing expenses during the quarter coupled with our ongoing efforts towards productivity improvement and process optimization helped in EBITDA margin showing significant improvement to 25.4% compared to just 20% last year. Also during the quarter, we showed improvement in our working capital cycle, which was impacted by COVID-19 in the last couple of quarters. We have also delivered significant improvement in our operating cash flow during the first half of the fiscal year compared to first half of last year. We continue to maintain a healthy balance sheet with net cash position. Going forward with the uncertainty around COVID-19 remains, it is difficult to predict how the situation will evolve. We are taking all necessary steps to ensure that the safety of our employees and business partners are the number one priority. Thank you and over to you all for Q&A.

Moderator: Thank you very much. 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, good evening and congrats on good numbers. Sir first question on the India business, so if you could help me split the Rx share and the Gx?

Gagan Borana: Yes, trade generic is about 27% of our overall India sales for this current quarter and first half. Obviously in this year trade generic has grown faster than the prescription business so it is not at normal levels, on a normalized level it was close to 20% last year.

Prakash Agarwal: It was 20% last year, okay, and what would be the rough growth that we would have seen in trade generics chronic and acute very roughly?

Sandeep Singh: I think bifurcation we normally do not give Prakash so we like to refrain not start a new practice, but I can broadly tell you that acute obviously because of anti-infective reliance was muted and it was in like very, very low single digits to almost flat in the acute side. The trade generics had a very healthy growth rate of 20% plus, and chronic was like average.

Prakash Agarwal: Understood and what I am trying to understand here is that once the COVID situation normalizes would we continue to focus on trade generics as you know 20% average or would it go up down going forward, how do you think about, that is one and secondly on in the acute I think there is a clear bifurcation that is happening so the vitamin is showing a very good growth, gastro is showing growth whereas anti-infective is not showing growth so once anti-infective comes back do you see the trade generic share going back or how do you think about it?

Sandeep Singh: So Prakash there are two things in your question see trade generic as a percentage has gone up not only because they have done phenomenally well it is also because the prescription business has gone down right? so there is no question of trade generics grew because we focus them more, we always focus therefore we are like number two company in India, so that has been business as usual, but what COVID-19 has done, it led to supply disruption for prescription business where trade generics could capitalize on point number one. So as a percentage of revenue next year it would certainly come down because I see prescription business bouncing back. Coming on your acute side, I think you are right multivitamins and things have shot up because of immunity you know and all that going on so that will continue, but as I see antibiotics bouncing back as we open up, so as a percentage of sales, antibiotics will certainly go up next year, but I do not see multivitamins slowing down too much because people will take lot of time to get rid of those habits they have formed over the last few months and the fear will also not kind of completely go away so we will not see a drastic drop in multivitamins.

Prakash Agarwal: Perfect, great and second question on the balance sheet side so clearly the cash flow has improved what do you plan to do with the cash and if you could help us understand because the balance sheet does not carries the near term cash balance so what is the gross debt and net cash.

Sandeep Singh: I think Mr. Dubey you can answer the second part and then strategically I will answer him on the plans of cash and all that, so over to Mr. Dubey.

Rajesh Dubey: Prakash, as on 30th September 2020, we have cash equivalent to Rs.418 Crores, positive cash. If you recollect as on 31st March 2020 it was on negative side, it was over drawn balances and now we have positive cash of Rs.418 Crores.

Prakash Agarwal: Okay so Sandeep Sir how do you plan to use the cash, what is going forward capital allocation policy?

Sandeep Singh: Capital allocation policy remains unchanged, 20 to 25% will go as dividend and Prakash when we really accumulate significant cash that is the time we can have this conversation Prakash.

Prakash Agarwal: Sure, thanks. I will join back in the queue.

Sandeep Singh: Sure, thank you.

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

Nitya Balasubramanian: Hi my first question was on the gross margin line I think the gross margins have come in a little lower than quarter one, if you can help us understand the reasons for that?

Rajesh Dubey: You are very right Nitya. Actually gross margin it has come down because of two reasons in quarter one, there was one off, there was a technology income which was there in quarter one and in quarter two as like quarter one there was a positive side of one off, there is a negative side of one off in quarter two also so that is on account of IGST refund which was on lesser side so I think, but our view is we will be able to maintain our gross margin to the level of 60% to 61% which is normal kind of gross margin.

Nitya Balasubramanian: All right just to follow up on that so your given trade generics contribution is higher has that also served as the gross margins down because you see lesser gross margin in your trade generic portfolio?

Rajesh Dubey: Yes our trade generic contribution if it is increases yes of course to certain extent it makes impact, but we in our ethical we have better mix actually vitamins just now what our managing director referred or Prakash referred and these products they have very good margin so our mix is giving positive so it is offsetting contribution of generic to certain extent.

Nitya Balasubramanian: Got it thank you. My second question was maybe Sandeep you can help me here on the sales and marketing expenses so I think the commentary that we heard last quarter was now that the market is opening up a lot of these costs are likely to come back, but I am actually pleasantly surprised to see the extent of cost control on that line item so question around do you see this being sustained going forward or do you see a lot of costs coming back now in the market has been opening up even further?

Sandeep Singh: Yes, so you know as they usually say the truth is somewhere in between so all of it will not come back because I think we along with all pharma companies have kind of learned a few things in COVID-19. So you know obviously the expense will go up from here, but I do not see it going back to pre-COVID days completely so I think we can still save up some money even next year. So that is my answer, is anything specific I am happy to answer you?

Nitya Balasubramanian: So can you help us understand what kind of savings, what are the ways and means through which you are likely to sustain savings post COVID as well?

Sandeep Singh: I think there are plenty of things and Mr. Yogesh can come on that President of Chronic Business but as you know that you know lesser calls are happening so your travel is going down and a lot of CMEs and all that are moving to online so Yogesh maybe you want to pitch in that.

Yogesh Kaushal: See major marketing inputs usually during routine times are this doctor's tabletop reminders and books distributions, conference participation they contribute close to around 25% to 30% of our marketing or maybe a little more than that so I think that few of the things have permanently changed even post COVID also we do not expect doctors to go for similar kind of a tabletop reminders, the conference participation we do not see even happening till first quarter of 2021 also so those will be major savings which might get sustained till second or third quarter of next year. So that is how we are seeing change and what our MD also said and we are also experiencing some of the permanent changes which might happen, what we learned in COVID is majority of the conference now CMEs and all have become online and they are becoming more effective and this is also saving doctors time to travel and all. So I think this will become a permanent feature in pharma industry in future as well. So that will continue the savings.

Nitya Balasubramanian: I understood, any other structural changes you see in terms of span of control or reduction and would you be able to do more with the existing set of people or a fundamental reduction in the number of reps that you need to sustain the same revenue levels?

Yogesh Kaushal: Not really you know we know that this is temporary phase and within a year years or two years we should normalize and getting talent today in the industry is not so easy, so as of now we are not thinking of rationalizing field force neither we are working I mean minor change may happen in SOC span of control but from overall field fore size, no major changes.

Nitya Balasubramanian: Thank you so much.

Moderator: Thank you. The next question is from the line of Damyanti Kiran from HSBC. Please go ahead?

Damyanti Kiran: Thank you for the opportunity. First clarification on balance sheet items so we have seen a sharp reduction in payables which declined around Rs.245 Crores compared to March level so if you can explain that similarly if you can explain the rise in inventories?

Rajesh Dubey: Yes, our payables it has come down because we just wanted to optimize our procurement so some early payments we have made, some procurement it has happened against advances also and main reason is on account of that.

Damyanti Kiran: Okay so this might be temporary phenomena right and it should see a reversal in second half?

Rajesh Dubey: To certain extent actually our procurement from MSME parties their payment it has to be made within 45 days so actually whatever addition has happened on that that is going to be a permanent and rest of the thing it will get normalized.

Damyanti Kiran: Okay and on inventories?

Rajesh Dubey: Inventories in fact inventories if you see it has come down from June, actually our inventory is on lower side but purposely during COVID period we wanted to have more inventory here in India as well as in overseas market also. So immediately we do not think in next quarter on inventory front any major correction we need to do, we require inventory for our business requirement.

Damyanti Kiran: Okay so it is broadly in line with increase in business right that is why, okay. My second question is regarding the India growth outlook, so second quarter obviously used to be our heavy quarter and with COVID disrupting anti-infective sales and other key acute therapy sales, how should we look at second half growth and if you can provide some visibility on how should we look at operating margins in near term or near to medium term?

Sandeep Singh: Yes I will comment on the growth outlook and kind of refrain from the operating margin comment, See October we see revival and I think that must be brought in line with many companies but we suddenly see a growth revival, so we are optimistic that unlike the past where in Q2 we kind of had the best of growth I think our growth would be coming in the next few months and we see double digit kind of growth coming back.

Damyanti Kiran: Okay so compared to earlier period when we had majority of sales coming in second quarter it should be more distributed as you said October saw good revival?

Sandeep Singh: Yes but please take my comment with a pinch of salt you never know how things are October is still just one month and how things and how we operate at our India level because of COVID and all so just be cautious on that, but October was good just to share with you.

Damyanti Kiran: Okay so if you are not commenting on operating margins maybe you can just update us like the marketing and promotional activities though like there is digital component now there but all of your reps are back in field or what is the situation there?

Yogesh Koushal: Okay so our field force is almost 100% on field now and in terms of doctor coverage almost 80% to 85% doctors coverage we have reached. We used to have a doctor's call average of around 10 or 11, we are almost 8 to 9 so by and large eighty percent of doctor’s activities have begun and we are also seeing decent number of patients now footfalls in doctor clinic as well so almost I would say 70% to 80% footfall is back.

Damyanti Kiran: Okay that is helpful. Thank you for your answers. Wish you all the best.

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. One question on the India market and we heard that you know I am assuming this would have benefited Alkem that large brands in a few segments particularly benefited during COVID and I think that is reflected in our above market growth rate for a few segments. Once things normalize, will we be able to keep this market share gain that we have seen or do you see this as a temporary phenomenon and you probably lose out on all the incremental share that we are picking up?

Sandeep Singh: No I think, we will not only maintain we might continue the momentum because as you know Neha what has happened during COVID times a lot of small regional companies found it very difficult and they would perhaps not come back. Also what happens that doctors will now be more selective at whom they meet and all, so the smaller companies get squeezed out so you will see that not only Alkem, but companies with large brands, with good brand liquidity they all have gained market shares and I do not see that reversing anytime soon.

Neha Manpuria: Understood. My second question is on the U.S. business there seems to be some moderation quarter on quarter could you give us some color was this because of higher pricing in some product or what was the reason?

Amit Ghare: Yes thank you, Sandeep. So the answer for that obviously is that the summer months or Q2 have always been little low for us so that is one of the reasons and the second reason of course is we had you know more launches in Q1 and perhaps in the Q4 of previous year which kind of carry forward in Q1 and unlike that in quarter two we had less number of new launches and there is price deflation is always there to contend with in the generic business so a combination of all these resulted in a small degrowth on a sequential basis.

Neha Manpuria: And Amit if I may ask what is our expectations for launches in the second half, how many did we do in the first and what is our expectation in second half?

Amit Ghare: Right so first half we have done six or seven launches I do not know the exact numbers I am sorry about that and during the last call if you recall we had given our advice that this year we will end up doing double digit launches so I am expecting between 10 to 12 total launches during the fiscal year.

Neha Manpuria: Understood. Okay so similar number of launches in the second half?

Amit Ghare: Similar number of launchers as first in the second half.

Neha Manpuria: Yes, okay. Thank you so much.

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

Kunal Randeria: Hi, Sandeep even before COVID hit, your other expenses excluding R&D had been growing only in single digits in the past two or three years so now with this COVID related savings would it be fair to assume that in the next one year or two these expenses will grow in single digits in absolute terms?

Sandeep Singh: I did not understand your question, which expense are you talking about Sir?

Kunal Randeria: Sir other operating expenses excluding R&D?

Sandeep Singh: Yes, what about it Sir?

Kunal Randeria: So in the last two or three years we have seen that your other expenses have increased only in single digits, now with COVID related savings would it be fair to assume it will increase only in single digits in the coming years ahead?

Sandeep Singh: Yes I would think so there is no reason for it to grow more than the historic and no relation with COVID I think though so I think that is a fair assumption I would say.

Kunal Randeria: Right, but then Sandeep then would it be fair for us to assume that the expedition of guidance that you are given of reaching 20%, you will overshoot this by a fair margin in the next year or two?

Sandeep Singh: What do you mean by a fair margin?

Kunal Randeria: I mean if your revenues are growing in double digits and expenses are growing in single digits then you could probably maintain a 24%, 25% kind of a sustainable margin run rate?

Sandeep Singh: For the year?

Kunal Randeria: Yes in the coming year maybe next year after that?

Sandeep Singh: No I do not think so that would be very easy to reach a 25% margin annually that is little too much I think, but yes 22% to 23% is something more realistic I think.

Kunal Randeria: Right and my second question is on the U.S. business so we have around $320 million so I am just wondering what are your thoughts on the profitability of this business going forward?

Sandeep Singh: So what do you mean Sir like, what are you wondering?

Kunal Randeria: No so I am just thinking profitability would be maybe single digits today how do you see yourself two or three years down the line as far as businesses is concerned?

Sandeep Singh: We have already said, we do not give out profits of U.S. business, but broadly I will reiterate our aspirations return on capital, we kind of have our target to reach 15% of course we are not there anywhere close to that, but I think in the next two to three years we have a very decent shot at reaching that so I continue to believe that U.S. is a large market and the return on capital will not be as good as India, but it will still be decent.

Kunal Randeria: Okay, fair enough. Thank you.

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

Abdul Puranwala: Hi thank you for the opportunity. I have two questions basically on your India business. My first question is related to the API supplies which you would normally get from a third party are we seeing some price increases there or you know the material cost going significantly up because of the outbreak of COVID, any thoughts on that and second would be what would be your sales derived from the India business which should be dedicated towards hospitals and when we say that the second half would be quite well, are we factoring that the footfalls for patients should improve in second half and that makes us confident about the revival in India business?

Sandeep Singh: Yes, on the RM price we do not see a major issue if your question is on Q2 the RM prices have not kind of moved up overall. We had some issues at Q1 because of tension because of India, China and KSMC issue but Q2 was pretty stable, your second question of what percentage of business come from hospital we do not have it where we can put it out, but just to answer you the reason I said that H2 will see a revival was not just because of hospital, large part of the business comes from OPD and GPs there we are seeing footfalls increase and unlocking happening therefore that was the reason why I am being optimistic not so much hospitals but yes hospitals would also open up, operations will start happening and we have a decent antibiotic injectable portfolios all that will also start increasing, but it has not driven mainly just by hospitals, we have a very general practice as well.

Abdul Puranwala: Sir just a follow up on my first question related to the raw material prices can you share some outlook of how the second half or you know maybe FY2022 would be so basically relates this with the higher inventory level you guys have on the books currently, I understand in the previous questions you have answered this partly, but just wanted to understand from raw materials perspective?

Sandeep Singh: FY2022 I think if I try to answer it also it would be wrong because we are in a very dynamic world social politically so I cannot comment for something that is going to happen say 12 months down the line, but for the next few months I do not see any major issue. Now of course if we continue to have certain issues with you know our neighbors and all that then we could again see some issues happening, but internally we have kind of procured more of planning to have a decent raw material inventory because in case things go bad then we will have certain things so I honestly cannot give a very good visibility I mean my knowledge is as good as anyone but things are not as volatile as it was let us say a year back.

Abdul Puranwala: All right Sir. Thank you for answering my questions.

Moderator: Thank you. The next question is from the line of Shrikant Akolkar from Ashika Stock Broking. Please go ahead.

Shrikant Akolkar: Hi good evening and thanks for the opportunity. So I would like to know about one of the products in your pipeline Dimethyl Fumarate, where we have a tentative approval and we have seen some of the launches by the competitors?

Amit Ghare: So we received the final approval and we have launched the product also in the market.

Shrikant Akolkar: All right and what would be the market share at the moment?

Amit Ghare: Unfortunately we have not garnered too much of market share on this product.

Shrikant Akolkar: Okay all right. The other question is on the export incentive impact so I know that this quarter probably was less impact but how should we look at the next quarter for the export incentive?

Rajesh Dubey: So you are very right, actually next quarter there is a capping on export incentive so obviously it is a material amount in our financials so that impact will be there, but after that actually we are also not very clear how government is going to compensate, so as you know roughly 3.5% or 4% kind of export incentive is always there on exports and so that impact is there, next quarter I think roughly around 75 basis point or 80 basis point impact is expected.

Shrikant Akolkar: Okay, and the last question is on the Biosimilars in Indian market so where are where have you reached so far in the launches of key Biosimilars?

Sandeep Singh: Yes I think key Biosimilars we will be start launching in Q4 of this financial year if all goes well we will have three approvals in the biotech space, two of them would be peptides which for me are also biotech at least and one of them would be a mab we will launch these from say January to March in between.

Shrikant Akolkar: All right. Thank you for the answers.

Moderator: Thank you. The next question is from the line of Shanti Patel from SP investment. Please go ahead.

Shanti Patel: Sir I just wanted to know What is the return on capital employed and equities today and are you going to the maintain the same or increase in the subsequent two, three years and what is your plan?

Rajesh Dubey: Yes so return of capital employed yes of course now it somewhere close to 20% and I think we are we will keep on doing improvement only going forward. There is no question of why we should not maintain that, definitely we will maintain that and in fact we will improve.

Shanti Patel: And what about return on equity?

Rajesh Dubey: Return on equity also same thing applies there also.

Shanti Patel: We do not have any long-term loans because return on equity and return on capital employed will differ if there is a long-term loan?

Rajesh Dubey: No we do not have any long-term borrowing so that is the reason why I said.

Shanti Patel: Approximately 20 and it will go on increasing, okay and second question is where we spend as far as the market share of our products is concerned in the industry?

Rajesh Dubey: You are referring our market share?

Shanti Patel: Yes market share in the industry and correct where we stand in the market.

Sandeep Singh: 3.6% overall is our market share in the Indian pharma industry this is excluding trade generics.

Shanti Patel: That is all. Thank you Sir.

Moderator: Thank you. The next question is from the line of Rishabh Sheth from Karma Capital. Please go ahead.

Rishabh Sheth: I just want to understand from you is I think more in terms of the biosimilars or biotech whatever you call it strategy, we have invested significant amount of money at least in the capex side so what is your thought process and of course I heard you hope to launch three products early next year, but broadly wanted to understand how you are looking at this?

Sandeep Singh: Yes, great question Sir so you are right we have invested a lot of money in this in capex and opex both actually. As we all know see this is a long term game we ultimately will realize fruits of our labor only when we enter regulated markets if it was only for India or ROW we very well much would have just licensed it like a lot of our friends have, so ultimately we want to enter the U.S. and Europe but this I do not see happening in the next three years ultimately only from 2025 will we start seeing some significant traction in terms of getting large business and your ROC and all so biosimilars will be a long gestation period, but we do have ambitious plans, but we are not able to throw more light because we are in early days and we will have to see how we go about it.

Rishabh Sheth: So is it that you want to be like other players you want to file your own product or are you going to tie up with someone and do contract manufacturing or what is the strategy I understand it will take some time, but I just wanted to know how you are thinking about it?

Sandeep Singh: Sure, yes I will tell you very briefly what I am thinking. So I will not able to lay down all the strategy in front of you and my thoughts but for ROW and India, India we will able to do it ourselves, ROW we will have to out license and some of the countries will be able to do it ourselves but the first few products in regulated markets in U.S. we will out license, you rightly asked about what about CDMO and all I think those opportunities as well and we will tap into those, we will take time to evolve and really freeze on to our strategy, but CDMO also is very interesting and we think we will get decent traction there as well.

Rishabh Sheth: All right. Thanks so much.

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

Prakash Agarwal: Yes thanks for the opportunity again, just some accompanying questions, CWIP what is sitting there and when do we plan to consume it?

Rajesh Dubey: Yes for CWIP whatever projects it is in progress that is the amount sitting over there yes we do have some ongoing projects at Indore as well as some routine kind of modification and automation happening at Daman as well as at other locations also, so these are lying in CWIP and in due course it will get capitalized most of it, it will get capitalized in third quarter or fourth quarter.

Prakash Agarwal: Of this year?

Rajesh Dubey: Yes. See in Indore actually it is a expansion, Indore is already capitalized last year itself so expansion whatever is happening is most probably in third or fourth quarter it will get capitalized.

Prakash Agarwal: Okay and what would be the annual capex for this year and next year and also the tax rate Sir?

Rajesh Dubey: See the capex so far actually because of lockdown and because of COVID, our capex so far it is not significant amount, but yearend capex we expect to be somewhere in the range of Rs.325 to

350 Crores and I think always we give similar kind of guidelines even next year also similar kind of capex we expect going forward also. As far as tax rate is concerned you must have seen it is 13% percent, actually we decide our annual effective tax rate which is applied quarterly, so we will be somewhere 13% to 14% kind of tax and that is in line with our guidance given.

Prakash Agarwal: And next year Sir?

Rajesh Dubey: Next year somewhere around 1% to 2% more what we are having right now, 1% more you can see because whatever export is increasing actually our effective tax in that line it will increase little bit.

Prakash Agarwal: Okay perfect and last one on one clarification so double digit growth guidance for second half or for next financial year?

Yogesh Kaushal: This is for H2 domestic, yes.

Prakash Agarwal: Okay this is Rx group guidance right?

Yogesh Kaushal: Yes, Rx group.

Prakash Agarwal: Perfect, great thanks and all the best.

Moderator: Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Sir just on this operational cost saving on the domestic formulation side, let us say hypothetically we are out of the COVID by end of the financial year or maybe first quarter of FY2022, the cost saving will the improvement in the profitability will be a structural or do you think that the being that pharma industry being fragmented and having a steep competition so you will have to spend more to maintain the market share?

Sandeep Singh: Yes I think what I said few minutes back I think we will not go back to the pre-COVID times expense will go up no question about that next year, so it is a structural change but do take this quarter as benchmark as a recurring theme please, so for example if you are having 20% EBITDA do not assume that that will be next year.

Tushar Manudhane: Got it, secondly would you like to call out for the operational expenses for these biosimilar facilities where revenue is minimal at this point of time?

Sandeep Singh: We have not just shared in the past right again so you want to know the annual what exactly do you want?

Tushar Manudhane: Annual operational expenses associated with this biosimilar?

Sandeep Singh: So I think per year we are spending close to Rs.80 Crores there.

Tushar Manudhane: Okay and any change in the outlook for the international business?

Sandeep Singh: No we continue to be...

Tushar Manudhane: Ex-U.S.?

Sandeep Singh: Ex U.S. If you talk then there is nothing much remaining, but I will let Amit answer.

Amit Ghare: Tushar, we continue to focus on three geographies and I think that has been our strategy for the last three or four years and we are going to continue with that strategy, we are seeing a good amount of growth in a key markets that we are focusing and at the same time obviously there are non-focused markets that we slowly do away the business and therefore you see muted growth. I think going forward also the growth is expected on similar lines overall.

Tushar Manudhane: Okay Sir that answers my question, thank you.

Moderator: Thank you. The next question is from the line of Aditya Khemka from Incred Asset Management. Please go ahead.

Aditya Khemka: Hi good evening gentlemen and thanks for the opportunity. Sandeep bhai and Dubey ji congratulations, very good to see cash flow coming through and promise to shareholders that is very encouraging to see. Two questions, firstly on the asset utilization side, so we talked U.S. as a growth engine I understand that, we have a manufacturing capacity so where do we stand on an average on our asset utilization for U.S.?

Sandeep Singh: Yes I think asset utilization is close to 70% of running our plants so Indore is not commercial yet, so I am excluding that from what I have told you and also some part of Daman facility we have expanded which we have not yet commercialized so those two parts if you remove we are I would say 70-75% we are at capacity utilization.

Aditya Khemka: Right, so Sandeep bhai if you include Indore and Daman extended capacity how many years can we go with growth in our U.S. business without extending more capacity?

Sandeep Singh: Good three to four years I think at the moment.

Aditya Khemka: Okay makes sense and a second question on the chronic side of the domestic business so you made a comment that you know the smaller marginal players are obviously...

Sandeep Singh: No so that there is no confusion just like to take you back to your first question I stand by that next three four years there will not be any required but if you pick a new therapy area or a new kind of thing then there is a different ballgame, there is nothing, but I am just letting you know.

Aditya Khemka: Yes but when you give such disclaimer Sandeep bhai you invite the question so what are you planning?

Sandeep Singh: Okay you can please ask me.

Aditya Khemka: Any new therapy area that you are considering entering in terms of the domestic business?

Sandeep Singh: But still considering then again it is slightly premature, we have no desire but the reason I brought it up because if you assume that we will not do anything for sure next three four years that may not be correct, that is why.

Aditya Khemka: So that is fair and so my second question was on the domestic chronic side of the business? so you know you made a comment on the acute side of the business where you said that the smaller regional players are obviously finding it hard to survive and he bigger brands are gaining share my question to you is I understand you are not a small company but in the context of chronic you are a new player compared to some of the incumbents so what has been the experience of your chronic brands versus the incumbent brands there I mean are the incumbent brands gaining market share on you in the chronic space?

Yogesh Kaushal: Yes if you see chronic within the company we may be small, but just want to share that overall chronic we are ranking 15th in the industry so not the bottom 20 or 25 or 30 types and then incidentally within chronic around say three to four years we have brand which are the size of you know Rs.20, Rs.25, Rs.30, Rs.40, even Rs.50 and Rs.100 Crores also so those brands they have a large base so if you look at our cardio and diabetic portfolio we are growing at a very healthy double digit which is higher than the market growth so you know so these are driving our momentum and will not impact due to COVID or maybe small size. We may be overall low but our brand sizes are bigger.

Sandeep Singh: But Q2 Yogesh we had certain impact right?

Yogesh Kaushal: Yes.

Aditya Khemka: Understood and last question Sandeep bhai on the strategy side so we hear a lot of pharma companies now talking about digital marketing and you are also saying that some of the savings in the domestic side would continue and I am assuming when you say continue you mean that those same things will be done digitally or virtually versus being done physically so can you speak a bit about as to how Alkem is utilizing the digital technology and how are you guys making a platform so to speak to leverage on that side of the business?

Sandeep Singh: Thanks it is a good question see digital marketing is something which you know is kind of was not very developed in the pharma industry at least in India and COVID has kind of given it a push so what we have done, we have kind of made our own platform from scratch for telemedicine and we have kind of taken in a lot of doctors, we are getting good traction so ultimately telemedicine is the beginning but we can put layers on it and it can become a full digital marketing outreach where we can have webinars and medical conferences and medical journals so theoretically at least if it all goes well, it can start substituting for feet on street, not now but maybe five years down the line. Second thing there are a lot of calls like I was also surprised when my team told me that they have done a lot of calls with doctors on Zoom which we were all thinking it is not possible or not going to happen, but it has happened now all of it will not stick but some of doctors and patients and medical reps are going to operate in this new world. So coming back I think telemedicine was something which we took a major initiatives it called Connect2Clinic and I think we are getting a lot of traction we have maybe 20000 doctors are involved already.

Aditya Khemka: And what is the total target there Sandeep 20000 doctors today but how many doctors can you get on that platform?

Yogesh Kaushal: We are aiming maybe around 10 to 15% of doctor universe in our NCL that is what we are targeting in a year's time.

Aditya Khemka: And how much does that translate to Yogesh sorry on an absolute basis I am not aware of the universe?

Yogesh Kaushal: Around closer on 1,00000 plus doctors.

Aditya Khemka: 1,00000 plus doctors, understood so thanks a lot gentlemen for answering the questions and all the best guys.

Moderator: Thank you. The next question is from the line of Agrat Shah from Tata AIA Life Insurance. Please go ahead.

Agrat Shah: Thanks for taking the question on the chronic side while we have been growing on the cardiac and anti-diabetes side the first of this year we have lost significant market share in neuro and derma, so while derma I can understand we were under performing for the last few years but what is happening on the neuro side specifically?

Yogesh Kaushal: See neuro as the therapies among all is very small in terms of doctor populations so if you look at derma there are 9000 or 10000 dermatologists in the country, right, in cardiologists and diabetology dermatologists we have close around 25,000 to 30,000 doctors who does cardio and diabetic practice, but neuro and CNS we have around 2000 and 3000 doctors so we got impacted the most because our suburban market where their prescriptions now are growing more than the urban markets so we got impacted more in urban because this is the place where most of the neuro and psychiatrist practices, so suburban prescription got badly impacted or you should say a tertiary uptake got impacted, okay so if you see on a prescription front we are not bad but on a volume front, we got a little impacted, but I see a clear recovery. In October we have grown reasonably good so I have seen next six months should be a recovery path even for the CNS business also.

Agrat Shah: Then in terms of the presence of molecules Sir on the Alzheimer's side is the that the Alzheimer's has suffered during the COVID times?

Yogesh Kaushal: Yes**,** molecule Donepezil which is the largest entails of molecule that itself is degrowing by -17% so which was you know in chronic usually it is not seen but the one brand of the CNS portfolio the market itself is degrowing negative and that also has some impact in the portfolio.

Agrat Shah: Okay and on the derma side whatever steps you are taking for the long term at least to get back to growth?

Yogesh Kaushal: See derma we are very clear that there is long portfolio in derma we are rationalizing this, we have picked up three or four key brands which are mass kind of a promotion so not just to dermatologists there are certain brand in derma like antifungals and all which can be promoted to mass number of doctors so while on a derma front they are doing good, but their scale of promotion is too small so that strategic change we will definitely do and you may see that results coming in another three to six months time into derma itself.

Agrat Shah: That is it from my side. All the best.

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

S Mukherjee: Sir thanks for taking my question, Sandeep how you are thinking about the domestic market given there is stress in the broader market, your brands have gained market share so obviously COVID has impacted and my question is does inorganic moves make sense in this market, your cash flow balance sheet is healthy, your margins have kind of expanded quicker than earlier expected so any thoughts on inorganic or you still want to be like building things through partnership and organically only?

Sandeep Singh: By and large our DNA remains same that we want to build things on our own organically however we are open to acquiring brands in chronic of reasonable size, but what we have sensed because we have kind of scanned the market a little bit more in the last few months, the value expectation on chronic continues to be sky high and I think that is one big hurdle, so I think that would be a stumbling block because anything in chronic especially cardio, diabetes they do not want to give in anything and they want to give it they want to give it at a very exorbitant price.

S Mukherjee: Okay and the second question on the domestic market only, from a channel perspective how are you seeing e-commerce and general consolidation happening and what kind of thought you have around pharma companies down the line, do you expect e-commerce to be a meaningful driver and what are your expectations, anything you have seen you want to share?

Sandeep Singh: Sure I think that is a very valid and a very long-term question and critical and important both. See to be honest as long as the industry practice and the law is that the prescription generated is honored or by and large honored, I think e-pharmacies will not have a big say in terms of squeezing pharma companies, but I think the drug and cosmetic act on that is very clear, I think we are okay but once that starts changing and e-pharmacists become bigger in the next decade and if they are aided by some regulations like that that could be a cause of concern for domestic industry, but I do not see that happening for a long time because unlike the west where you have large chains who control large market shares and it is a generalized market therefore they kind of start negotiating and they become very large I do not see that happening in India for the next five to ten years, beyond that I cannot take a guess, but I am saying that the rider are that as long as the drug and cosmetic act is in our favor once that changes then a lot of things will change fast.

S Mukherjee: Okay and just one question if I can ask you I think one of the questions you talked about biosimilars and you mentioned about regulated market and also a timeline for the next I think four or five years which would mean, you would have to start making some significant investments one or two years down the line is that the right assessment or if you can want to share like what kind of R&D you would like to do on know biologics for developed market?

Sandeep Singh: Sure so first I would like to reiterate that you know it is my job to kind of steer the company with the right financial discipline so 6% of revenue will spend an R&D now how we break up small molecules versus biosimilars which is a kind of a new challenge for us that is something which we will navigate, but overall I do not see us reaching that 6% of revenue on R&D irrespective of what we do, yes biosimilars will take some time and money therefore what we plan for this markets is basically just one or maximum two molecules in the next five years, we will try to monetize it before we hit regulated markets more from ROW and India and we can do some deals in a lot of countries where they want to license, so I am very conscious of that fact but I will not let that go beyond 6% of revenue.

S Mukherjee: Okay thank you very much Sir.

Moderator: Thank you. The next question is from the line of Neeta Desai, an individual investor. Please go ahead.

Neeta Desai: Yes, first of all congratulations about the investment increase in research in the America company and I am curious as to what research segments in particular are looking most promising and what problems and solution the scientists are working on for Alkem in both India and America in the R&D department?

Sandeep Singh: We being a generic company, we invest in R&D by and large on drugs which are off patent so we are not very driven by therapy areas or we just chase molecules and things like that we are not very therapy driven what we are doing in U.S. I think in U.S. we are developing some API process for controlled substances that is what we do there and also we are developing some formulations which are controlled by DEA which you cannot import or export from India, so I think that is what they are doing in U.S.

Neeta Desai: Okay so you are basically replicating existing brand name molecules, but making them generic?

Sandeep Singh: Absolutely that is the business model now.

Neeta Desai: Thank you Sir.

Moderator: Thank you. That was the last question. I would now like to hand the conference over to Mr Gagan Borana for closing comments.

Gagan Borana: Yes thank you everyone for attending this call. Again if any of your queries have remained unanswered please feel free to get in touch with me, thank you.

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