ALKEM

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14th November, 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: Q2 FY2023 - Earnings Conference Call Transcript

We enclose herewith the transcript of the "Q2 FY2023 Earnings Conference Call" which was hosted by the Company on Friday, 11th November, 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
Digitally signed by MANISH NARANG
Date: 2022.11.14 11:43:47 +05'30'

Manish Narang
President – Legal, Company Secretary & Compliance Officer

Encl: a/a

"Alkem Laboratories Limited Q2 FY23 Earnings Conference Call"

November 11, 2022

MANAGEMENT	**MR. SANDEEP SINGH -- MANAGING DIRECTOR, ALKEM LABORATORIES LIMITED** **MR. RAJESH DUBEY -- CHIEF FINANCIAL OFFICER, ALKEM LABORATORIES LIMITED** **MR. AMIT GHARE – PRESIDENT (INTERNATIONAL BUSINESS), ALKEM LABORATORIES LIMITED** **MR. YOGESH KAUSHAL –PRESIDENT (CHRONIC DIVISION), ALKEM LABORATORIES LIMITED** **MR. AMIT KHANDELIA -- AVP (FINANCE), ALKEM LABORATORIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Alkem Laboratories Q2 FY '23 Earnings Conference Call, hosted by Motilal Oswal Financial Services. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" and then "0" on your touch tone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Tushar Manudhane. Thank you, and over to you, sir.

Tushar Manudhane: Thank you, Mike. Welcome to 2Q FY '23 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 Amit Khandelia – AVP (Finance).

Over to you, Amit, for the opening remarks.

Amit Khandelia: Thank you, Tushar. Good evening, afternoon, and thank you for joining us today for Alkem Laboratories Q2 FY '23 earnings call. Earlier during the day, we have released our financial results and investor presentation, and the same are also posted on our website. I hope you had a chance to look at it. To discuss the business performance and outlook going forward, we have on this call the senior management team of Alkem. Before I proceed with this call, I would like to remind everyone that this call is being recorded and the call transcript will be made available on our website as well.

I would also like to add that today's discussion may include forward-looking statements and the same may be viewed in conjunction with the risks that our business faces. At the end of this call, if any of your queries remain unanswered, please feel free to get in touch with me. With this, I would like to hand over the call to Mr. Sandeep Singh to present the key highlights of the quarter gone back and strategy going forward. Over to you, Sandeep.

Sandeep Singh: Thanks, Amit. Good evening, everyone. Since we have shared all the results, I'll keep my talk very short and spend more time on Q&A. But during the quarter, quarter 2, our India business delivered a strong growth of 13% year-on-year, while our U.S. business was impacted by significant price erosion and reported a year-on-year decline of 0.9% in rupee terms. However, our year-on-year growth in U.S. market has impacted significant contribution in base business from ibuprofen and famotidine. But a point to note is, on a sequential basis, U.S. business reported a growth of 8.5%.

Our domestic franchise outperformed the Indian pharmaceutical market by 500 basis points, thereby increasing market share across all acute therapies. Our growth in the Antidiabetic segment is 4x the market growth rate on back of new launches. And I must share with you that we have had a remarkable execution on Sitagliptin launch on which Yogesh Kaushal can happily take questions later. We want to carry out this outperformance of domestic franchisee in the next half on the financial year. Prior to this outperformance, a lot of cost optimization projects are under way in the organization, which will play out in the next 6 months to 2 years. Also during the quarter, we have generated cash of Rs. 400 crore, taking a cash position to about Rs. 1,350 crore as on end of September 2022. Thank you. With this, we'd like to open the floor for Q&A.

Moderator: Thank you. We will now begin the question and answer session. We have the first question from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Sir, I would like you to talk about the cost pressures. I mean, you mentioned last quarter how things have moved. It looks like the cost pressures are still very high. It is a seasonally strong quarter and the EBITDA margin that was recorded is probably the lowest we have seen in the past many years for the second quarter. So, I just want to understand, is there a cyclical component here or structurally those costs are higher? How should we think about margin? And in that context, the guidance that you've given for the EBITDA margin for the full year, where do we stand?

Sandeep Singh: I'll just answer some part of it, and I'll give it to Mr. Dubey, our CFO, for some more details on it. So, I think first things first Saion, I think you're right. The guidance which we gave of, I think, close to 16% for this financial year might be challenging looking at the scenarios. So, I think there are multiple reasons for compressed gross margin and to one of them means that API price is high. One of the reasons is also the price erosions we have in U.S. So, I think the cost is not going up further. It has stabilized, but I will let Mr. Dubey throw some more light on that.

Rajesh Dubey: Thank you, Sandeep ji. Saion, I think you want me to stick to quarter 2 or you want me to have YTD figures. So, in fact, I will start with quarter. And as Managing Director, he rightly said, yes, of course, impact of material cost is there, but that is well compensated by our favorable mix. Actual hit in our gross margin, which is 4.7% in the quarter. More or less, it has come totally from price erosion what we have in the U.S. market. So, price erosion impact on gross margin is to the tune of 4.8%. And as the Managing Director, he already told you, our guidance of 16% to 16.5%, we feel if this situation is going to continue, then it will be difficult for us to be there and there could be minus side to extent of 100 basis points or something like that.

Saion Mukherjee: Sir, just if I can ask for some elaboration. So, you were mentioning price erosion in the U.S. But if you look at your domestic business, how has the profitability or margin for the domestic business moved? Is there a pressure in the domestic business as well?

Rajesh Dubey: Sandeep ji, I'm taking this.

Sandeep Singh: Yes.

Rajesh Dubey: Actually, in domestic business, on overall basis, if you see, there is no pressure on the margin. So, there, we have a higher material cost, which is having an impact somewhere close to 1.7%, 1.8%. But that is well compensated by a better product mix. So, that gets compensated. And in fact, there is no negative impact on our domestic margins. So, as I said, this complete 4.7% downside we see in gross margin is on account of price erosion in the USA.

Saion Mukherjee: So, what you're saying, sir, is that it seems to be structural here. So, we are sort of guiding towards somewhat lower margins in the years to come. Is that right?

Sandeep Singh: No. I'll comment here. Sandeep here, hi. So, Saion, no, this is only for this financial year. We have identified some good cost-cutting parameters, which I think I briefly just kind of touched upon in the opening speech, which we will implement over the next 1 year, a large part of it, if not all of it. We see that our EBITDA margins will go up next year. There are some very concrete steps, Saion. So, some of the things that it's too early to say, but in the next 2, 3 months itself, you'll hear them, some networking optimization, something to do with the plant restructuring and things like that. So, very concrete steps, very, very close to kind of triggering it. The only reason we are not kind of elaborating is because it's not happened yet. But we understand and we acknowledge that our margins have to improve and we are very close to kind of implementing it.

Saion Mukherjee: And you want to quantify that number, Sandeep, in terms of the requirement?

Sandeep Singh: We have identified around Rs. 200 crore to Rs. 250 crore of cost savings, which are doable in the next 12 months.

Moderator: We have the next question from the line of Kunal Randeria from Nuvama.

Kunal Randeria: So, Sandeep, U.S. has been a big drag now for a business that is 25% of revenue. I mean playing a havoc on your gross margins, and it seems that new launches aren't compensating for price erosion. So, I mean what's going wrong over here? Aren't you getting approvals on time? Or is the fact the approval that you are getting highly competitive? And have you enough ammunition in your pipeline for the next 6 to 12 months to sort of at least stop this kind of erosion?

Sandeep Singh: So, I think Amit Ghare will come on the details, but I'll just quickly say that. See, I think next 6 to 12 months, we don't go by the 30% price erosion this quarter, which we had for some reasons, this is not going to happen every quarter and Mr. Amit can speak really on that. So, that's point number one. Second, honestly, next 6 to 12 months, we don't see anything dramatically changing that something can kind of turn the tables. As long it's got to do with approvals, it's just the market condition. And it's just what is playing for most of the guys. So, Amit, do you want to comment, please?

Amit Ghare: So, what I was saying is that **(Inaudible) (0:12:10)** last price erosion, we've been able to compensate the revenue price impact for new launches or market share increases. Obviously, that is **(Inaudible) (0:12:27)** doing all the cost cutting measures that we are trying to do. We obviously hope that the business or the price erosion will recede and this will grow and the margin will grow in the U.S. side.

Kunal Randeria: Fair enough. So, I can understand this. theoretically I mean other companies haven't faced this kind of price erosion on a consistent basis, right? So, it's just that for a lot of companies with new products that come in and tend to just help and cover up whatever has been happening in the base portfolio. So, I mean, my question is, maybe there were some approvals you would have penciled in. They're not coming or it's the competition as expected. And maybe just some more color on the kind of, let's say, pipeline that you have in the next 12 months or so.

Amit Ghare: Really pipeline, I don't want to comment on. But obviously, each company always looks upon few things to come through, and we are no different. And we hope that some of those things will come through for us, which will then obviously help us going forward. So, you're absolutely right. In a way, we have to see how our pipeline does. So, we get our approvals on time, so we get our launches on time and if we do that, probably yes **(Inaudible) (0:13:50)** overall without a doubt.

Kunal Randeria: My second question is on domestic business. So, maybe you can just highlight how different divisions have performed in the quarter. I mean has maybe pointers and stage you have done exceptionally well; all 3 divisions have grown in double digits. Some color will be helpful.

Sandeep Singh: Mr. Yogesh, if you can take this it will be great.

Yogesh Kaushal: Okay. Yes. So, particularly, some of the divisions in Acute front, which are gastro dependent because in Acute the COVID last year extended till almost previously COVID, then Omicron, then dengue. So, last year, if you see, there was very heavy sales of anti-infectives, pain and multi vitamins. And those are muted. So, those divisions which have these portfolio in Acute, they did reasonably okay. They had just sustained the base or have grown by a single digit. But the divisions in Acute, which are based on orthopedics or gastrointestinal, have delivered a very healthy double-digit growth. So, this is on Acute front. On Chronic front, barring Cardiology, almost all divisions -- this I am telling you internal number, not IQVIA number. So, barring our Cardiology, diabetology, dermatology, CNS and uro, all have delivered a very healthy double-digit growth in the first and the second quarter both. So, overall, as the Chronic that is a reason we are showing around 19% to 20%. So, this is how the division wise summary or therapy wise summary is.

Kunal Randeria: And just one more, if I can. On the trade generics market, several of your peers have now started to enter this space. So, what is it about this market at this stage that people are also interested in expanding their presence here?

Yogesh Kaushal: Sandeep?

Sandeep Singh: Yogesh, you can take that, sir.

Yogesh Kaushal: So, see, we have been consistently saying this for a couple of quarters and endorsed by Mr. Sandeep Singh as well our Managing Director. See, there are certain core competencies in generic business as well. So, whether it is distribution, relationship, team penetration and various other competencies, which are required. So, while some of the new entrants will come, but those core competencies we have, we are very confident that traditionally, the way generic has delivered, they will continue to do so. This year, you are seeing quite muted growth. This is because of very heavy base of last year.

Sandeep Singh: Yogesh, the question was why are other people coming in? What's in that market that's driving it?

Yogesh Kaushal: Yes. Okay. So, sorry, I misunderstood the question. So, see, now with so many stores coming up and being promoted by government, so there may be those purchase patterns, which are changing, and there are options being given to patients that they can change their brands and ask chemists to give a cheaper version. So, that is one way. Second -- that is 1 reason. Second, of course, is generic, generally, you'll see operates in those markets where the branded either are not reachable or there's no overlap of branded, particularly in our organization. So, generic also reach in those class Tier 3 or Tier 4 towns, where the branded business may not go. And there's a reason that many players now or not many, quite a few are now strengthening their generic business. These are the 2 major reasons.

Moderator: We have the next question from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Just trying to understand, again, this is better. So, our India share went up. Last time, we had said that the price hike benefit will flow through from Q2 onwards. It's not flown fully in Q1. And we had some one-off expenses, which was launch expenses relating to Sitagliptin, plus there one-off ForEx, which was unlikely to recur. So, all these 4, 5 things, have they still played out? And obviously, we've seen margin improvement, but not to that extent, which was expected. So, are these launch expenses continuing and ForEx expenses continuing?

Sandeep Singh: Mr. Dubey, you can take that?

Rajesh Dubey: Yes, Prakash, actually, yes, we discussed in our quarter 1 call. And we did not see complete impact of our price increase in quarter 1. You are very right. But if you see quarter 2, our growth, NRV component is 5.3% out of our total growth, what 10% growth we have shown. So, that is the biggest component. So, it is a clear indication, the impact of price increases definitely coming in. And I think all these 3 levers NRV, new launches and volume, it's a reasonably good number in quarter 2. So, we have a very clear indication. Impact of price increases is coming in. Yes, as far as material cost impact is there, obviously, we discussed in our quarter 1 call also. Some of the materials we already consumed in quarter 1 and something is going to follow in quarter 2. And that's exactly happened. That is the reason impacting our gross margin.

I'm not very clear about your second question, Prakash here.

Prakash Agarwal: So, launch expenses, which was related to Sitagliptin, as you see Q1, there was a spike in cost. I think it was mentioned that it is due to new launches, in India market. So, that kind of cost would have continued is what I'm asking, and there was a ForEx element also. So, is there a ForEx element sitting in other expenses for this quarter also?

Rajesh Dubey: ForEx losses actually that was mainly from Chile, but it's unlike quarter 1. Quarter 1, it was a bigger component, it is small in quarter 2. As far as launch expenses you referred, I think that is going as per our business plan only, nothing abnormal. So, that's already factored in our estimate and nothing abnormal we have noticed.

Prakash Agarwal: And with respect to input prices that you mentioned, so since about 40% of the business is anti-infective antibiotics, et cetera, penicillin prices remain pretty elevated levels is one of the few things which have not come down. So, is that a direct correlation with our raw material prices? Or is there more to it?

Rajesh Dubey: Yes, you are very right. Actually, most of the anti-infective, we have not seen pre-COVID level of pricing coming to that level. So, you are very right more or less all anti infective prices, it's unlike November, December of last year, but it has not come back. And whatever material we procured in November, December and January, sale has happened against that consumption. So, that is another reason. But I think going forward, this 2% impact on gross margin, it is going to come down, definitely, it is going to come down. And then NRV positive, we are going to continue going forward. So, we are going to have an advantage there.

Prakash Agarwal: And lastly, for Sandeep. On Sitagliptin, I mean, you are among the top 5 players, so congratulations there. But what is the growth plan ahead in terms of diabetes franchise? Are we going for more molecules in a similar way? So, we did top 3 in 1 of the CNS products, now Sitagliptin, so what is the growth plan here?

Sandeep Singh: So, growth plan, things have to go off patent for us to launch because we are not the top licenser for a lot of reasons. And we can get into it. So, our growth plan will be linked with expiry of innovative brands. And without taking names, you know there's one big one coming up in Jan-Feb. It's not diabetes, but it's cardiovascular. So, I think we'd have to play the game. Ultimately, we are a generic company, so we are bound by whenever drugs go generic. And maybe Yogesh wants to comment there. I think we are the #1 or 2 in generics if we forget Sun Pharma and the innovator. What do you think, Yogesh? Are we top 5 or are we better.

Yogesh Kaushal: No, sir, you're perfectly right, Sandeep. In the generic market, we are #1. We have outperformed all the top diabetes players in the industry. And for the last 3 months, we are sustaining #1 position in both the SKUs of Sitagliptin.

Sandeep Singh: In volume, I guess, Yogesh.

Yogesh Kaushal: Yes.

Sandeep Singh: Just to be clear to them.

Yogesh Kaushal: Volume and value both Sandeep.

Sandeep Singh: Okay. Wonderful.

Yogesh Kaushal: Sita, in both we are leading the market among generics.

Sandeep Singh: So, Prakash, we are driven by the market fundamentals, I mean, we don't have anything out of the blue, we have to execute better, and then we'll have to fight it out.

Prakash Agarwal: And lastly, on the M&A side, given the cash generation is still very strong, I keep on asking this, but are you seeing actively some of the acquisition, which strategically fit into your portfolio?

Sandeep Singh: No, wait, I think you have been subsequently asking and my answer also remains exactly the same. Not much Prakash, we will do things organically. Even if we do something, it'll be very kind of small compared to what others are doing at least for the next foreseeable future.

Moderator: We have the next question from the line of Sumit Gupta from Motilal Oswal. Please go ahead.

Sumit Gupta: I have just 1 question on other expenses, which are going at a much higher rate than the revenue. So, if you can comment on this.

Sandeep Singh: Yes, Mr. Dubey, please take it.

Rajesh Dubey: Yes. So, I think, Sumit, you are looking for our comment on other expenses. So, other expenses, as you know, other expense, it includes everything. And if you take marketing expenses, plant expenses, corporate overhead and most of the R&D expenses, everything goes in other expenses. So, I think you would like to know why our other expenses are on the higher side. Last year's quarter 2, it was 22.3% and now it is 24.3%. So, actually, some of the marketing expenses were on a higher side. And then last year, it was very close to COVID era and traveling they were not normalized, 80% to 85% only traveling it has happened. But this time, this environment is clear and all marketing activities are happening. So, both these marketing expenses as well as traveling expenses, these are on the higher side? So, that's why it is 24.3%. Generally, our other expenses is in the range of 23.5% to 24%, Sumit. So, we are not very far off. Yes, if you compare with last year's quarter 2, definitely, it will look a little bit on the higher side, but it is within range.

Prakash Agarwal: So, going forward also, it will be maintained in this range, 23% to 24%?

Rajesh Dubey: Yes. Generally, it is 23% to 24% kind of.

Moderator: We have the next question from the line of Pujan Shah from Congruence Advisers. Please go ahead.

Pujan Shah: Can we just get a sales bifurcation for specific therapies like for Chronic and Acute, could we just get this if possible?

Rajesh Dubey: Sorry, what is it? To acute you are asking?

Pujan Shah: The bifurcation for Chronic and Acute?

Rajesh Dubey: See, we are 84/16, so our Acute is 84% and Chronic is 16%.

Pujan Shah: And sir, could you just get us the gross margin for different geographies?

Rajesh Dubey: You mean to say in domestic business or overall business.

Pujan Shah: I'm talking about all geographies, like India, Australia, U.S. and yes, Australia and US.

Rajesh Dubey: I understood, Pujan. Actually, in fact, we are not talking gross margin on geography wise. But definitely, each business is different. So, gross margin has to be different to respective geographies.

Moderator: We have the next question from the line of Nikhil Mathur from HDFC Mutual Fund. Please go ahead.

Nikhil Mathur: My first question is on procurement. What is the dependence on Chinese companies for raw material procurement? What is the percentage looking like today?

Sandeep Singh: Mr. Dubey, you can take that, sir?

Rajesh Dubey: Nikhil, our direct import from China or Chinese supplier, it is not much. It is in the tune of 10% to 12%. But yes, whatever API we purchase, our API suppliers, they have intermediate dependency on Chinese suppliers. So, indirectly, if you see somewhere around 65% to 70% of our API is getting influenced because of China.

Nikhil Mathur: So, sir, I mean, we are not fully sure how things are panning out in China when the lockdowns will open. So, are you in touch with the vendors on a derisking kind of a strategy? Are they also equally focused on trying to have multiple sources? Are you seeing on the ground that there are many other chemical companies based in India who are setting up investments into intermediate with better element for your portfolio?

Sandeep Singh: Yes, I think that is happening. But it takes time to set up CapEx, which already started happening last year. But it is going to take a lot of time, and there will always be Chinese dependency, we'll never be out of it very honestly. But we will get better.

Nikhil Mathur: So, nothing disruptive. Things will certainly improve, but it's just not going to change, not in next 2 years.

Sandeep Singh: Yes, I think so. But these are varying and we can't ponder much about it. We don't know honestly the answer.

Nikhil Mathur: Second question, can you help me what is the total MR strength today? And how many MRs have been added in the most recent quarters relative to the last 2 quarters.

Sandeep Singh: Yogesh, you can take that, sir?

Nikhil Mathur: And net additions please if you can give?

Yogesh Kaushal: So, we have around 11,000 representatives across the company, and we have added around 1,000 this year as well; last month's 1000, not this financial year but last 12 months.

Nikhil Mathur: 1,000, Okay. And sir, can you also help me with what is the fully loaded cost of a medical rep today looking like? I mean including both fixed and variable payouts. Is it more like Rs. 12 lakh, Rs. 14 lakh, Rs. 15 lakh how much crore in that? Can you give some indication there.

Sandeep Singh: Yogesh.

Yogesh Kaushal: Generally, our loaded cost means include only the CTC of a representative plus his operational cost. I exclude the marketing and cost with the rep s. So, CTC plus his operational cost tools and all would be average, I would say, will be roughly around 6.5 lakh to 7 lakh.

Nikhil Mathur: Okay. So, my question is that whatever these MRs have been added last 6 months or so, last 1 year or so, they wouldn't have broken even by now, right? I mean, it takes a bit of time, 1, 1.5, 2 years. So, to that extent, that is the level of costs that is still sitting in the P&L in the last couple of quarters.

Yogesh Kaushal: Yes. Because to reach is, normally, what we do in the business is, whenever we hire such large teams, we don't give them completely new brands. So, there is product rationalization also which happens. But of course, this breakeven takes time. So, any reps which we had 1,000-odd reps will take at least 2.5, 3 years to reach a breakeven.

Nikhil Mathur: And sir, are there any competitive forces that play which is pushing up the medical rep costs as well because when we hear from many of your peers, I think most of the companies are in a field force expansion mode after almost 1.5, 2 years. So, is that also dragging the profitability a bit?

Yogesh Kaushal: Very few on a case-to-case basis, we do address. But generally, we stick to the broad guidelines in the company of hiring. So, very rare cases where we succumb to those requirements. We stick to guidelines of the organization.

Nikhil Mathur: And sir, 1 final question, if I may. What is the mix between metros and non-metro cities for Alkem's domestic business today? What was it, let's say, 4 years, 5 years back? And are we in a situation where new age molecules, especially in diabetes, which are going off patent, a company like Alkem, which might be having lesser share of metro, more share in non-metros, be possibly in a better position to commercialize such products at a pan India level irrespective of whether there is legacy product presence or not?

Yogesh Kaushal: So, see, Acute will always have a high salience towards non-metro towns because of antibiotics being written by largely GPs and non-MBBS. So, they will always have a bigger field presence in non-metros. But our metro coverage by Acute also is at par with competition. There's no less. But yes, because of our demography, we'll always have more reps in Acute working in nonmetro-towns.

Coming to Chronic, by strategy, we have chosen to strengthen metro and Class 1 towns. So, we have a very niche marketing approach to the specialist. So, metro and class 1 in Chronic, I don't have accurate data, but roughly around 60%, 65% team would be in a metro and Class 1 towns. And your third question, yes, please. Yes, tell me.

Nikhil Mathur: Sir, basically, what I'm trying to understand is that, is the market being formed for products likes Sitagliptin and all in the nonmetros as well or for the market formation for these products in these markets, it will take some time.

Yogesh Kaushal: See, to penetrate the Sita and all current molecules largely are sold up to Class 1 town only or maybe Class 2, but we don't know. See, diabetes has novel study which says that it will restrict only to metro and non-metros. So, it will go below everywhere. But yes, for doctors, specialists are largely in metros and class 1 towns. If you go below, there are more generalists, so they will still continue to write older anti-diabetic drugs, but metro and class 1 will shift to the current guidelines, AGA guidelines, which talk about Dapagliflozin and Sitagliptin, this will become core in at least these towns, up to Class 1 towns.

Moderator: We have the next question of the line of Prashant Nair from AMBIT Capital. Please go ahead.

Prashant Nair: So, can you give us a sense of what is the quarterly spend on your biosimilars initiatives? And is this likely to increase some share? Or would this be the steady state for some type?

Sandeep Singh: Mr. Dubey, you can take that?

Rajesh Dubey: Yes, sir. Yes. So, biosimilar, I think you are more interested in biosimilar R&D or composite.

Prashant Nair: No composite, if you would just give us --

Rajesh Dubey: Yes. So, annually, we have a total budget for biosimilar somewhere in the range of Rs. 140 crore total OpEx and revenues close to Rs. 160 crore, kind of. So, out of that R&D is somewhere close to Rs. 100 crore.

Prashant Nair: And is this likely to be the range going forward as well? Or do we see some pickup.

Rajesh Dubey: It is as per our business plan only.

Sandeep Singh: No, going forward, they're asking. So, going forward, no, it will be steady, not picking up.

Prashant Nair: And a question on the cost reduction initiatives you mentioned earlier. So, these costs that you're reducing would relate to any specific business like the U.S.? Or would it be at an overall corporate level? How do we think about this?

Sandeep Singh: Yes, I'll talk about it. And Mr. Dubey, you can please add on if I forget something. So, these are for international business as well as overall corporates. So, some I think levers are in the procurement, some of the levers are in supply chain, let's say inventory days reduction and a large part of it is also in savings in plant overheads and R&D expenditure. So, pretty much touching base everywhere.

Moderator: We have the next question from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.

Sonal Gupta: So, I mean, just trying to understand, right, like on the U.S. business, I mean, what is your longer-term outlook? I understand that you're still optimistic. But I mean, clearly, some of these cost-cutting measures that you've outlined seem to pertain to that as well. And I mean, just trying to understand what is the longer-term strategy. Is it going to be a calibrated investment based on the sort of revenue throughput? Or how are you looking at it?

Sandeep Singh: Sure. So, I'll take this. And Amit, you can add on to this, if I miss some point. So, you're right. I mean, most of the cost initiatives are, let's say, for international and when I said R&D and things like that, we are calibrating our investments to U.S. So, we are kind of controlling the capital allocation we do there. Hoping that this can become slightly better in a couple of years. And longer term outlook, see again, to be honest, no one knows, this is going through a real tough times for the entire industry. If things don't improve in some time, then, of course, we could again discuss what needs to be done. But as of now, we are going aggressive on cost-cutting and allocating lesser capital.

Sonal Gupta: And so does this mean that even at current level of revenue, you expect that your U.S. profitability will improve by next year?

Sandeep Singh: It will improve. It has suddenly improved. But is it like improving enough to kind of justify how much capital we put in, is a bigger question, but certainly, it will improve. And it would sound funny in hindsight, but we do think we have hit rock bottom. I hope I'm correct, so it will certainly improve from now, but could it get worse, we don't know.

Sonal Gupta: And just related to that, so what is the R&D spend you're looking at now for this year and next year?

Sandeep Singh: I think same as we said last time, in terms of kind of percentage because we have biosimilars and all that our self. So, even if we are controlling it as the same percentage means we are cutting back on traditional U.S. investments, right, in generic.

Sonal Gupta: So, it will remain, I think, in the 5% to 6% range?

Sandeep Singh: That's correct. Yes, that's the safe estimate, absolutely.

Moderator: We have the next question from the line of Bino P. from InCred Capital.

Bino P.: Just 2 questions. You've launched generics products with exclusivity in the US. Did it benefit in any material way in the U.S. business this quarter?

Sandeep Singh: Amit, can you take that, please?

Amit Ghare: Sure. We haven't had any exclusive, exclusive launch in the U.S. this quarter. We've had a shared exclusivity launch. Any launch, which is either in the exclusivity period, of course, if you're exclusive, it'll only generic in market, it will definitely help. And even those where you are within the 180 days and you've launched which is a shared exclusivity with other generics, generally the margins tend to be better. And that's a very generic statement, but that's true. Any new launches generally come at a better gross margin than the existing business. But then the downside is, they also go through a rapid price erosion.

Bino P.: Sir, in this current quarter's number, is it a significant number?

Amit Ghare: No, it's not a significant number from a revenue or from a margin perspective for that particular product.

Bino P.: And 1 just follow-up. There is generic Suprep which you have filed in the U.S. and the exclusivity is getting over in another 3, 4 months. Are you in line to launch right after the exclusivity period?

Amit Ghare: We are hoping, but I don't want to comment anything more than that at this time.

Moderator: We have the next question from the line of Madhav Marda from Fidelity. Please go ahead.

Madhav Marda: Just wanted to understand that given we seem to be holding back on the capital allocation towards the U.S. business, would it be fair to say that earlier we were sort of expecting 10%, 12% growth, given that price erosion is and are holding back on capital allocation there, like growth might not be that much, it could be a bit slower. Is that a fair assumption to make at this point?

Sandeep Singh: Amit, you could take that, sir?

Amit Ghare: Fair assumption, obviously, if we hold back the R&D investment, it definitely will have some impact. So, now our task obviously is to see how we can do smarter investment so that we can still expect revenue growth that we expected and margin growth as well.

Moderator: We have the next question from the line of Harith Ahamed from Spark Capital.

Harith Ahamed: On the generic Pradaxa launch again, given that it's a 2 generic player market currently, our market share that I can see is in single digits, seems to be on the lower side and the innovative seems to be holding on to close to 80% market share there. So, anything that is unique about this product or anything that is challenging about this particular launch that our market share hasn't really ramped up in the way we expect in a generic player market.

Sandeep Singh: Amit?

Amit Ghare: I'm sorry, I didn't get the question. Was that for a particular product there did you mean?

Harith Ahamed: Yes. It was about the generic version of Pradaxa, where we've been in the market for almost 3 months.

Amit Ghare: Sure. We've done sort of a limited launch on products like Dabigatran. And to some extent, if not to some extent, the full extent it is because of our supply chain. We are not able to get our raw materials, and I don't want to elaborate anything further here. So, whatever we are able to manufacture and supply, we are able to sell that in the market, obviously. There are only 2 generics in the market, as you know. So, we'll be doing the best we can, and we are working on our supply chain.

Harith Ahamed: And on our biosimilar denosumab, I see that we have a Phase I trial move on for this product. So, will we be looking for a partner for this product before we get into Phase III? And if you can share some time lines around this product, particularly from a U.S. standpoint.

Sandeep Singh: Yes, I'll just take that. And if need be, Amit will come in. So, right now, we're not looking for any partner. We believe by 2026, whatever requirements you have of field force and all that will go off in a way. And we are not waiting to do phase till we find a partner. We kind of have to run Phase III Phase I, both parallelly, and we are kind of doing that already.

Moderator: We have the next question from the line of Naushad Chaudhari from Aditya Birla. Please go ahead.

Naushad Chaudhari: First, a clarification on the margin side, sir, you indicated from the earlier guidance of 16.5% you indicated a few bps, 100 to 200 bps down for a full year, you maintained that guidance, which comes to around 14.5% to 15%. So, that implies around 17, 18 kind of percentage kind of margin in second half and despite second half being seasonally weak for us. Can you clarify that? Do we still maintain that 14.5% or 15%? Or was that for the second half?

Sandeep Singh: No. I think we mentioned for overall, Mr. Dubey, I think what do you think?

Rajesh Dubey: On overall basis, we are going to be at somewhere close to 15%, 15.5%. And obviously, in second half, our EBITDA margin is going to be on higher side. So, if you see the first half, our EBITDA margin is 11.6%. And for the second half, we expect our EBITDA margin to be much more higher, which is ultimately going to land somewhere close to 15%, 15.5%.

Naushad Chaudhari: And that much more higher is only because of that cost initiatives we have taken? Or is there something else which would lead to?

Rajesh Dubey: It's on overall basis. Actually, complete impact of price increase we see in quarter 3. Then material costs also, we see some betterment there and our estimate is there. Besides this, in the second half, we expect our sales incentive to be a little bit on lower side compared to first half. And then our accounting cutoff also, that also is another major factor, which is going to come ultimately in quarter 3 and a major portion in quarter 4. So, all these are the factors, which is going to give us additional EBITDA margin in second half.

Naushad Chaudhari: And one quick one on the cost saving initiatives. Would there be any impact on the existing revenue base?

Rajesh Dubey: I'm not very clear on your question. You said cost saving initiative impact on revenue, you want?

Naushad Chaudhari: Existing revenue base, is there anything which we want to discontinue and that would bring more cost savings, anything like that?

Rajesh Dubey: No, not any significant. We are thinking purely on cost saving front. So, having impact on revenue, and we also don't have anything in our mind.

Moderator: We have the next question from the line of Yash Tanna from ithought PMS. Please go ahead.

Yash Tanna: Can we get the MR productivity breakup for Acute versus Chronic? And how do we see the growth in Chronic productivity as Chronic is scaling up well for us?

Sandeep Singh: Yogesh?

Yogesh Kaushal: Yes. Sure, Sandeep. So, Acute productivity is around Rs. 6.5 lakh and Chronic is around Rs. 3.8 lakh to Rs. 3.9 lakh. And so whatever growth we have taken for the year, accordingly, the productivity will increase. So, this is all.

Sandeep Singh: So, over like 2 to 3 years, how do we see growth for this productivity and overall productivity?

Yogesh Kaushal: Yes. So, as per our guidance, if I go by around 10% to 12% growth for next 3 years, accordingly, the productivity will grow. Yes. In Chronic, of course, we will try to drive faster growth, which is around 1.5% to 2% of market. We'll be slightly more than Chronic in terms of Absolute.

Sandeep Singh: My second question is so we have reduced guidance on margins for the current year. But I think last quarter, we had mentioned that next year, maybe you get back to about 18% margin. So, do we still hold that guidance?

Yogesh Kaushal: Sandeep ji, you want me to take this?

Sandeep Singh: Sorry, sorry, what is the question? Can you repeat, please?

Sandeep Singh: So, for this year, we have reduced our guidance by 100 basis points odd. But I think last quarter, you mentioned that FY '24 onwards, we'll get back to 18% or 18% plus. So, we hold that guidance?

Sandeep Singh: Yes. Hold it.

Sandeep Singh: And one last question, if I may. So, usually, we have seen outperformance in all therapies of Alkem but maybe there's a slight slip in this quarter in cardiac and pure therapy. And I think even on a half-year basis, we've lost one rank in cardiac. So, how should we look into this or is it something that we have to look into or is it just normal?

Sandeep Singh: Yogesh, you can take that.

Yogesh Kaushal: So, in Cardiology, if you look at our product portfolio, our major challenge has been through anticoagulant. So, we sold very well Dabigatran during COVID time. So, our first 6 months was going very well for Cardiology, and the focus was also more on Dabigatran. But with the change in COVID and the change in approach of anti-coagulants where new anti-coagulants are coming, that has impacted largely the business. So, we have changed that strategic approach. We will be certainly focusing on the molecules which has a large prescriber base, particularly anti-hypertensives and lipid management. So, these 2 will be our core focus in the Cardiology segment to drive the growth. And of course, we have launched a new anticoagulant, which is challenging Dabigatran is apixaban. So, there in the first IQVIA, we are in unit #1. So, this will give us some cover. But our large focus will be on anti-hypertensives, we have Olmisartan and in Telmisartan, and we will also focus on our lipid management, which is our Rosuvastatin. So, this would be the growth driver for Cardiology. And of course, just to add what Sandeep said in the beginning, we are launching Sacubitril/Valsartan for heart failure, and that can be another blockbuster in Cardiology.

Moderator: We have the next question from the line of Shrikant Akolkar. Please go ahead.

Shrikant Akolkar: This is Shrikant from Asian Market Securities. Can you please highlight what was the price erosion during the quarter? And where do we think this will move in the next 6 months to 1 year?

Sandeep Singh: You're talking about U.S., I assume.

Shrikant Akolkar: Yes, U.S. price erosion.

Sandeep Singh: Mr. Ghare you can take that.

Amit Ghare: I'm sorry, can you repeat the question, please?

Shrikant Akolkar: Yes, sure. So, just wanted to know what was the U.S. price erosion during this quarter? And where do you see this moving in the next 6 months or 1 year time?

Amit Ghare: Yes. So, current quarter price erosion numbers are a little bit all over the place, I'm sorry about that because of the way we've done some adjustment. But we certainly were higher in double digits. I mean we are somewhere between 10% to 15% and probably more than 15%. We are expecting last quarter, if you remember, we had reported a very high number in the range of 20%. Q2 last year, we had launched a couple of products which were first to market exclusive, obviously, they've gone through a rapid price erosion. So, long-story short, yes, this particular quarter, quarter 2, we had a large price erosion. We can only hope that this doesn't stay. The initial signs are that the price erosion is still there but not of the same nature. Specifically answering, I will be happy with a single digit price erosion.

Moderator: That was the last question due to time constraints. I would now like to hand over to Mr. Amit Khandelia for closing comments.

Amit Khandelia: Thank you, everyone, for joining the call. If any of your queries are unanswered, please feel free to get in touch with me. Thank you. Have a great weekend.

Sandeep Singh: Thank you, guys. Have a great weekend. Bye-bye.

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.