Alembic
Touching Lives over 100 years

Date: 10th August, 2022

To,
The Manager,
Department of Corporate Services,
BSE Limited
P. J. Towers, Dalal Street,
Fort, Mumbai - 400 001

Dear Sir/Madam,

Sub: Transcript of Post Results Conference Call held on 4th August, 2022

Ref: Our Intimations dated 27th July, 2022 & 2nd August, 2022

With reference to the captioned matter, please find enclosed herewith the transcript of the Conference Call held on 4th August, 2022.

We request you to kindly take the same on record.

Thanking you,

Yours faithfully,
For Alembic Pharmaceuticals Limited

Charandeep Singh Saluja
Company Secretary

Encl.: A/a.

"Alembic Pharmaceuticals Limited Q1 FY23 Financial Results Conference Call"

August 04, 2022

MANAGEMENT: MR. PRANAV AMIN – MANAGING DIRECTOR
MR. SHAUNAK AMIN - MANAGING DIRECTOR
MR. R. K. BAHETI – DIRECTOR - FINANCE & CFO
MR. MITANSHU SHAH - HEAD - FINANCE
MR. JESAL SHAH – HEAD - STRATEGY
MR. AJAY KUMAR DESAI - SENIOR VP-FINANCE

Moderator: Ladies and gentlemen, good day and welcome to Q1 FY23 Financial results Conference call of Alembic Pharmaceuticals Limited. We have with us from the management, Mr. Pranav Amin - Managing Director; Mr. Shaunak Amin - Managing Director; Mr. R. K. Baheti - Director Finance and CFO; Mr. Mitanshu Shah - Head of Finance; Mr. Jesal Shah - Head, Strategy and Mr. Ajay Kumar Desai, Senior VP, Finance. 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. R. K. Baheti. Thank you and over to you, sir.

R. K. Baheti: Good evening everyone. Thank you for joining our first quarter for 2022-2023 quarterly results conference call. I am sure you would have received the results by now. I know the financial numbers are a bit below your expectations, but during this call we will try to explain you the reasons and also the rationale why we think the underlying business is robust.

First of all, financials, during the quarter our total revenues were at Rs. 1,262 crores, EBITDA was Rs. 9 crores and net loss was Rs. 66 crores. Continuing review of our Aleor R&D cost, which was capitalized earlier and looking at the conditions in the US generic business, Aleor still is a separate company, though merger process is underway. Aleor has further written-off Rs. 115 crores out of which CWIP, out of capitalized R&D to P&L. We did it in March 2022 also and Rs. 115 crores we have written-off in June 2022. The residual intangible assets in Aleor now is just about Rs. 40 crores. Had Aleor followed the previous practice, APL's consolidated profit before tax would have been higher by Rs. 115 odd crores. EBITDA on a likewise basis would have been Rs. 107 crores.

Borrowings:

The gross borrowings at consolidated level is Rs. 515 crores versus Rs. 630 crores in March 2022. The company has Rs. 112 crores of cash on hand. As on March 2022, it was Rs. 61 crores. Net borrowing as on 30th June 2022 is Rs. 403 crores versus Rs. 569 crores as on March 2022. Net debt equity is very comfortable at 0.08.

I will now hand over the discussion to Pranav for his presentation on International business.

Pranav Amin: Thank you Mr. Baheti.

It was a challenging quarter for the US business, especially when seen in light of a very good preceding quarter. I had mentioned in the last investor call that we had made a switch to third party logistics vendor. Due to this, we had anticipated some supply disruptions and hence the buyers had pulled in extra inventory to ensure that the quarter was smooth. This led to a slow start and dispatches during quarter and the revenue for the quarter was $ 47 million in the US. We continue to remain focused on the long term of the US business backed by 15 plus launches every year and hopefully consolidated market share in our existing products. The near term will remain challenging, but long term we still remain optimistic about the US business.

The Ex-US formulation business as well as the API business have both come off a very high base of last year, hence the growth was muted. We are confident on both these verticals moving forward from the next quarter onwards.

Our R&D expense is Rs. 261 crores. Ex of Aleor's non-recurring charged-off R&D, the expense is Rs. 146 crores, which is 12% of sales.

We filed 7 ANDAs during the quarter and cumulative ANDA filings remain at 237.

We also received 8 approvals in the quarter including 3 tentative.

We launched 5 products in the quarter and plan to launch another 5 to 7 products in the next few months as well.

The FDA remediation is ongoing at our F3 injectable facility at Karakhadi. We have appointed some consultants and remediation measures are underway. Along with, we are in touch with FDA as well to ensure full compliance. This will take a couple of months hopefully and we should have better news for you.

The US generics was flat at Rs. 367 crores for the quarter.

The Ex-US generics de-grew by 8%, Rs. 182 crores for the quarter, whereas

the API business de-grew by 16%, Rs. 233 crores for the quarter.

I will now request Shaunak to take you through the India Branded Business.

Shaunak Amin: Good afternoon everyone. The India business, we had an extremely good quarter, though the topline numbers have a base reflection of last year's COVID that time played which caused disruption, but when I look at the numbers like ex-COVID adjusted this year we have a very strong growth. Even on the veterinary, we see extremely strong growth of about 35% over last year. Ex of COVID adjusted, we-grew at 20% and if I look at external numbers, the industry showed a negative growth of 2. Alembic has as is reflected parallel negative growth of 3%, but Ex of Azithromycin which was a big contributor to last year's sale numbers. The industry de-grew by negative 1, whereas Alembic recorded a growth of plus 12 as per IMS in the same period.

Based on this, Q4 onwards, looking at the traction, looking at the portfolio growth, we did start to increase investments in the business and we did see a significant ramp up in Q1.

In terms of investments, we expect these to start playing out in terms of topline numbers going into as early as Q2 and Q3. Other than that, core portfolio of the business continues to do well and with a strong onset of monsoon in June-July, in July mainly and continuing into August, we expect the acute portfolio which is a very strong part of our business to continue with more competing growth numbers.

I would like to open up the floor for Q&A now.

Moderator: Thank you. We will now begin the question-and-answer session. We have the first question from the line Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai: Baheti sir, you explained about Aleor charges, so in the previous quarter, you took around Rs. 123 crores and this quarter Rs. 115 crores and then you mentioned around Rs. 40 crores is residual, so say like, we have to again charge of this Rs.40 crores after that there will be no R&D expenses related to Aleor or how should we look at that part of the cost**?**

R. K. Baheti: Second part of your statement is right, Rs. 40 crores is what is now residual. The only correction I will make in your first part of the statement in previous quarters that is in March 2022, we charged off Rs. 189 crores.

Damayanti Kerai: So, Rs. 189 crores in the fourth quarter, Rs. 115 crores this quarter and then we had just left with the Rs. 40 crores?

R. K. Baheti: Total is about Rs. 350 crores spent over last 3-4 years on R&D.

D. Kerai: So, sir, anything else like where assessment is ongoing and then we might see similar charge off, which you right now not part of our operating cost or we should be just looking at the Aleor portfolio?

R. K. Baheti: As far as Alembic Pharma is concerned, in any case we have been charging off all R&D expenses to P&L since beginning, so we have no accumulation in balance sheet there.

D. Kerai: And just a question on R&D, so even if we adjust for this Aleor charge, it still remains notable at around 12% of sales, so how should we look at this cost going ahead and as we see like US challenges are far from getting over, are we thinking about pre-allocating R&D to some other businesses?

R. K. Baheti: You are right, but I look at percentage of turnover as just a consequential number, but in absolute terms, we don't plan to increase R&D. The R&D cost including Aleor on the current basis is about Rs. 700 crores a year and we will contain it within that and we are also looking at rationalizing it to the extent it is possible without really affecting the growth of the results in future. So, you can say that it will stay between Rs. 650 crores to Rs. 700 crores in coming years.

D. Kerai: So, Rs. 650 crores to Rs. 700 crores kind of R&D expense will continue on absolute basis and majority will continue for the US markets, right?

R. K. Baheti: Yes, majority is for US market, but now we are extensively using the same set of dossier extension filings for EU and for rest of the world markets, but we are only in regulated markets.

D. Kerai: Sir, and my last question, India business, how much is acute sales of the total India business?

Ajay Kumar Desai: It is Rs. 118 crores.

Moderator: Our next question is from the lines of Chirag Dagli from DSP Mutual Funds. Please go ahead.

Chirag Dagli: Sir, I understand there were some upfronting of revenue in the fourth quarter last year and now that number is low, but if I look at the last 3-4 quarters average, then it seems like the base business is whatever $55 to $60 odd million, so is that the base or you see Q1 $47 million odd that we have reported than the new base?

R. K. Baheti: We said in the previous calls that $50-$55 million for US is the base and we maintain that.

Chirag Dagli: Sir, can you help us just broadly understand as we look into the next two years, how would the scaleup of expenses both above EBITDA and below EBITDA just broadly happen?

R. K. Baheti: See, there are few expenses Chirag which are beyond our control and there are few expenses where we can have a significant amount of control. From expenses which are under our control, we are doing everything under the sun to contain them, rationalize them, make them more productive, make them more effective, but some of the expenses and I will give you an example particularly with International business context like freight cost, so freight cost, I am sure you must be talking to multiple pharma companies has gone up almost across the board. Not only India to US freight cost, but even internal freight cost in US has also gone up multi time. That is impacting us and that is where we don't have much of control. Some expenses we can't predict. Some input cost has gone up because of this crude price being very high in Q1, solvents and some of the material cost also went up. These are beyond our control, but operating cost overheads particularly, we are trying to contain as much as possible.

Chirag Dagli: Sir, my question was more about what we are capitalizing and what we have already spent, so depreciation as well as the OPEX that we are capitalizing as some of the facilities come on stream, what sort of cost will hit the P&L is what I was trying to understand and how that phasing out in that?

R. K. Baheti: As and when this facility will get into commercial production.

Chirag Dagli: Correct, so what is the quantum sir, both depreciation and OPEX?

Mitanshu Shah: Around Rs. 180 crores to Rs. 200 crores of cash expenses and then we will have another Rs. 150 crores of depreciation.

Chirag Dagli: This is still left to be taken into the P&L?

Mitanshu Shah: Yes, that is for all these three facilities.

Chirag Dagli: Correct, so sir is there a way to sort of think about the facing out of this? Over what period will this hit the P&L?

R. K. Baheti: Actually, that will get capitalized as part of the respective assets, so we will have to carry an extra depreciation burden, but I am not so worried about it at this moment about, what I am more worried is how soon we can make the plants operational and start churning revenue out of them. Like Pranav said, we are working proactively with FDA for resolving the issues with them. F3, F2 part of the facility is already approved by FDA and part of it, we have already started filing and the inspection is already triggered, let us see when the FDA visits us.

Chirag Dagli: Sir, my limited point was that, we have Rs. 350 crores hitting the PBT to generate that kind of gross profit, we probably have to do Rs. 500 crores worth of sales in the US, so is this understanding right that while the sales may take time to scaleup, but the expenses will immediately hit on a fully loaded basis and will be upfronted?

R. K. Baheti: Which is true, largely what you say is true.

Moderator: We have the next question from the lines of Vaibhav B from Honesty and Integrity. Please go ahead.

Vaibhav B: Sir, I have two questions on the International business and then I will come back in the queue for the domestic business, so on the US oral solid part of the business, can you give me an idea like what would be the gross margins in that business? I don't want EBITDA margins or what ROCE we are making, but this broad range of gross margin in US oral solid business?

R. K. Baheti: We don't give vertical wise margin breakup, but what is for sure is that the margins have gone down because of the price erosions in US.

Vaibav B: And in terms of the price erosions that has happened in the US, in US specifically is it like different kind of erosion that we are seeing between chronic and acute products or it is across all the products because in terms of the cases we hear that the price erosion in chronic is less than acute products, is it true?

Pranav Amin: No, actually the US is a generic market, we have seen erosion across the board. There is too much supply and too many people supplying in the market, especially from India. So, price erosion is across the board.

Moderator: Thank you. We have the next question from the line of Rashmi A. fom Dolat Capital. Please go ahead.

Rashmi Sancheti: Sir, one clarification on this Rs. 115 crores, how much is that sitting in the other expenses and how much is there in the depreciation part?

Mitanshu Shah: So, around Rs. 100 crores is in other expense and Rs. 15 crores is in depreciation.

Rashmi : And on your US business, this quarter we have reported $48 million and you are saying that the base business is around $54-$55 million, so what led to fall of that extra million dollar? Is it because of anything which is one off or this is something which will continue in the subsequent quarters and in fact this will become the new base?

Pranav Amin: In the last quarter Q1, I had said that I anticipate that around 50 million, nearly 55 million depending on the situation would be our base business**.** Having said that the last quarter, we did about 70 million in the US, that was due to some one-time buy as well as we moved our third-party logistics provider this quarter. That is why the buyer had shopped a lot more. That is why last quarter, the sales were higher which led to slower offtake in the start of the quarter for this quarter.

Rashmi : So, you mean to say that from the second quarter, we should come back to our run rate of around $54-$55 million?

Pranav Amin: It depends, see now the erosion also goes and in my opinion will be closer to 50 million, but I am saying a lot more erosion on the market than I saw at the end of the Q4.

Rashmi : Sir, how much is the price erosion? Is it selling double digits for Alembic, if you can just quantify that?

Pranav Amin: Yes, I would say it is in double digits. I haven't looked at it because it is a moving figure so, I don't keep looking at it, but I anticipate it will be in low double digits.

Rashmi : And any new launches which you are guiding for FY23?

Pranav Amin: We launched 5 products in Q1. We anticipate to launch 5 to 6 in Q2 as well and for the year, we will be anywhere between 15 to 18 kind of launches.

Rashmi : And what kind of growth we will be seeing in the specialty and acute segment in India business? Any guidance if you want to give and also for this quarter if you can split between prices growth, volume growth and new launches growth?

R. K. Baheti: We don't give guidance that way, but Shaunak has already said that we are pretty confident about our market beating growth both on specialty and on some acute ex of covid related products.

Rashmi : Sir, last question on gross margins, we were doing around 73-74% gross margin and I think more or less. it was expected that it could remain in that range, but I understand that due to the US price erosion and due to the high input cost, the gross margins have slipped to 70%, but anything which you can like let us know that you know month-on-month basis, the input cost is coming off and from the second quarter, we are going to see any improvement from year on or you feel that this would be at least for the entire year?

R. K. Baheti: Very difficult to say at this moment. It will be dependent on multiple things, input cost as well as realization which I do. So, I am not putting a number as of now.

Rashmi : So, is it safe to assume that it will more or less remain in this range only 70-71% for the entire year?

R. K. Baheti: No, I think you can make your own assumption, we cannot give you more guidance on this.

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

Nikhil Mathur: I just have one question. The last time, I remember there were some 150 approval that were in place and the company had launched 104-105 products in the US, so the remainder of the products that are yet to be launched, should we assume that there is anything still left or given how the situation there is in the US, there is barely any left in those products?

Pranav Amin: Generally with the market situation as I said we have launched about 15 odd products this year. I think some are awaiting patent expiries, so those we launched as and when the patent expires, those are tentative approvals and the rest we will take some in the process of launching and some we may choose not to launch because we have the technical issues or because of the market situation.

Nikhil Mathur: And again, on the gross margin front, is it very counterintuitive if I look at sales percentage of India in the overall mix, it has a kind of gone up, should generally come in many other peer companies, the margins in India are usually better than the export markets, so this dynamics is different in Alembic and hence actually India growth for India higher share need some bit of margin dilutions?

R. K. Baheti: So, I don't know whether I have understood you right, but previous few years, we did extremely well in US, we had some very good products realization and our margins in US were much better. At the gross level margins figures were very good. India margin are more or less like consistent and they remain except for some bit of changes due to those COVID related disruptions one and half year back but otherwise India margins remains more or less consistent.

Nikhil Mathur: So, sir your US margins are one of the highest in the industry and I think there is a specific strategy because of which you generate such high US margins at the gross level, isn't it a big risk for Alembic at 68-69% whatever 70% gross margins, no other Indian company does this, I think it is a big risk going forward actually when the pricing also be so big for the US market?

R. K. Baheti: At the peak level, when some of the products were doing very well in US and our margins have also peaked to 75% plus and at that time I said that these margins are unsustainable in long term and they will come down and they are coming down, but if you say, our margins are better than industry, I will take it as compliment.

Nikhil Mathur: Right, but the past, all credit to the company for what you guys have been able to deliver in the past but if I look at Q3 out, is my expectation right that there can be more risk than tailwinds to your margin profiles?

R. K. Baheti: It is very difficult to say because it is very difficult to predict the market particularly the US market and India market as I say is more consistent and more predictable, but US is very difficult to predict, so won't give any comment, but we hope that sooner than later US also will stabilize at some point of time.

Pranav Amin: Also what I think is, US is the largest market in the world. It's a great market to be a part of and I would say that you have to look it a little bit more in the long term. This year, last 10 years track record, profit and revenue growth has been quite exceptional, over almost 30% profit, 25 in terms of topline, so yes, the US move is little cyclical, but I think it is an interesting business, you cannot not be in it.

Nikhil Mathur: And sir what is the currency transaction impact? Where would that be sitting in 1Q because I don't think any major gains at least another income, so how is the currency accounting played out?

R. K. Baheti: Generally rupee depreciation has been favorable or good for pharma companies, we are also hedging foreign exchange. So, generally it has a positive impact.

Nikhil Mathur: Can you quantify that sir, how much of positive impact is there from currency?

R. K. Baheti: We don't, because a part of it was hedge share 30-40% part of it we hedge on the regular basis, the balance remains open, but we have got some benefit out of it.

Moderator: Thank you. We have the next question from the line of Harith Ahamed from Spark Capital. Please go ahead.

Harith Ahamed: First one is on the F3 facility, you mentioned that the remediation activity is there or underway, so in your assessment, will this facility require a re-inspection before it is cleared by the FDA? And regarding the F2 and F4 facilities, we are having expectations around inspection timelines for these two new facilities?

Pranav Amin: F3 I believe, it would require an inspection, but let us see how it goes in terms of the FDAs, how they accept all the results and we have been updating them on a monthly basis, I believe it will require re-inspection. As regards to F2, the oral solid part is already approved by the FDA, so there is no issue. The injectable bit**,** we have filed some products, so which should trigger a filing as and when the FDA increases their audits which they already have. We should have them visiting us for an audit as well. F4 also, we have filed, however in the priority list of FDA, this will be a little later. So, I don't think that will happen in this year.

Harith Ahamed: My second question is on margins and I am looking at margins adjusted for the one-off R&D at Aleor that is around Rs. 100 crores which is above EBITDA. Still, the margins are at around 10%, slightly below 10% while we were at a closer to 20% number through most of last year, so how should we think of the recovery in margin from this level and may be some color on how the recovery would play out over the next few quarters?

R. K. Baheti: Margins would stay under some pressure till the realization from US improve while we are doing everything possible under our control or to do some cost rationalization. They would have only a smaller influence of margin. We would bank on US doing better to further improve the margins.

Harith Ahamed: But sir, while we are expecting a recovery in the US in the coming quarters, over the next 3 to 4 quarters, we will also see the additional costs which are getting capitalized now, so that would also mean further pressure on margins from the current level side, so?

R. K. Baheti: I said once the new facilities become operational and an earlier participant also mentioned, initially the revenue would be lower, the expense would be higher, there will be a pressure of margin, for any growth you need to sustain a higher cost in the transitional period and that is how you grow the business.

Harith Ahamed: Last one if I missed, your comment on the intangibles write-off at Aleor, you mentioned that the write-off was done to reflect the current market conditions, so just thinking about the adverse market conditions pertaining to the US generic market, does this also imply that we will have a re-think on our future CAPEX as well as R&D spends for the US markets because the way when I look at the numbers, our normal R&D spend continues to be at around that Rs. 150 crores level on a quarterly basis, so now that you have seen the market conditions turn adverse, will we have a re-think on probably lowering the spend to reflect the more challenging environment there?

Pranav Amin: Yes, you are absolutely right, the way we are approaching the US is on two things. One on the CAPEX side. All these new plants we did, essentially new capability that we did, so I don't expect anticipate any new CAPEX, large CAPEX for the US moving forward. At the most, we may have some incremental CAPEX or maintenance CAPEX, we may increase some API capacity, but on the formulation side, we will not do any CAPEX on a new facility. As regard, the R&D, yes, we are constantly evaluating that as well. How do we rationalize the R&D spend as well moving forward because the returns from the US are more. We will rationalize it by either looking in other territories or in terms of other verticals. Now, this R&D that you see is not just OSD, but it is a part of it includes injectables and the other vertical as well and this would help the new plant as well**.**

Moderator: Thank you. We have the next question from the line of Bharat Celly from Equirus Securities. Please go ahead.

Bharat Celly: Sir, I just wanted to understand on product called Formoterol, so I believe we have already launched that, so just wanted to know how you are seeing the traction in that product, whether we have seen any adverse pricing anything you can comment on the overall outlook of this drug we have launched?

Pranav Amin: Yes, it is a good product. We have launched it. We have picked up some share as well in that product. It has got a little lesser competition. So, let us wait and see how it goes. It is from a CMO, so we are slowly gradually picking up more shares we get as we have more confidence on the supply chain.

Bharat Celly: And what sort of market share we will be reaching in this product at this point of time?

Pranav Amin: It depends, but we must be at over 15% or so.

Bharat Celly: Sir, we are referring that we will be having around $50 million base in the US market, so that guidance is including this drug?

Pranav Amin: Yes, so what is happening is the base business, it started including these new products because some old one has gone back down and this is there, so in that I am including this as well.

Bharat Celly: Sir, actually I am failing to understand one thing because this drug is almost like $300 million drug or upward of that as per the IMS and only it is a two generic player market and yet our base numbers in that case ex of this drug might be much lower, so I don't know what exactly is happening in that front, whether Formoterol is relatively still a sizable chunk for us or not, it is very difficult to get clarity on that?

Pranav Amin: Two things, one is we don't give products wise breakup, but if you realize that what the reported figure is, it could be gross sales versus what even looks like as net sales. So, we have to see that differentiation which is not necessary captured all the time in IMS and that is why you are feeling that much larger products than it is.

Bharat Celly: And according to you what will be the net sales of that drug if you could provide?

Pranav Amin: So, I will just say we shouldn't give product wise guidance on the sales of our product.

Bharat Celly: Sir, I was referring to the overall market, how big?

Pranav Amin: As industry, I would say net sales would be about 20 to 40% or so, 20 to 30%, depending.

Bharat Celly: 20 to 30% of $300 million?

Pranav Amin: Whatever the gross sales, I am giving a range for the industry wise product.

Moderator: Thank you. We have the next question from the line of Akshata Rein from Green Portfolio**.** Please go ahead.

Akshata Rein: My first question was that CWIP is of Rs. 2,200 crore as on 31st March 2022, can you please share what it pertains to and when are the projects scheduled?

R. K. Baheti: We were discussing Akshata, we have these 3 facilities which we have did F3 was for injectable, oral soluble, as well as onco injectable, F4 for new formulation facility. So, all of these are WIP as none of them has gone to commercial production yet.

Akshata Rein: Also, can you please share Aleor's EBITDA percent and Alembic's EBITDA percent without Aleor?

R. K. Baheti: The share in the result itself that we have some it has 10% EBITDA without earlier impact.

Akshata Rein: So, this might be naïve of mine, but could you please share why like in the table of Q4 FY22, it doesn't show any change in revenue, I understand that Aleor was a subsidiary with 60% stake, so sales should have been added line-by-line, right?

R. K. Baheti: correct, in that company, March itself we have acquired the balance 40% and now it is an 100% subsidiary. Currently, we are in process of merging Aleor with Alembic Pharma and the matter is with the honorable NCLT Ahmedabad.

Moderator: We have no further questions. I would like to hand it over to the management for closing comments.

R. K. Baheti: Thank you everyone for joining this call. It is a pleasure and learning to be interacting with all of you and we look forward to interacting with you again in post Q2 results. Thank you for joining.

Moderator: On behalf of Alembic Pharmaceuticals Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.