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

18th November, 2024

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***

Sub: Q2 FY2025 - Earnings Conference Call Transcript

Dear Sir(s) / Madam,

We enclose herewith the transcript of "Q2 FY2025 Earnings Conference Call" which was hosted by the Company on Wednesday, 13th November, 2024.

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: 2024.11.18 16:30:54 +05'30'

Manish Narang
President - Legal, Company Secretary & Compliance Officer

Encl.: a/a

"Alkem Laboratories Limited

Q2 FY 25 Earnings Conference Call"

November 13, 2024

MANAGEMENT: **DR. VIKAS GUPTA – CHIEF EXECUTIVE OFFICER – ALKEM LABORATORIES LIMITED**
MR. NITIN AGARWAL – CHIEF FINANCIAL OFFICER – ALKEM LABORATORIES LIMITED
MS. PURVI SHAH -- HEAD OF INVESTOR RELATIONS – ALKEM LABORATORIES LIMITED

MODERATOR: **MR. TUSHAR MANUDHANE – MOTILAL OSWAL FINANCIAL SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Alkem Labs Results Earnings Conference Call. 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 star then zero on your touchtone phone. 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: Thanks, Joshua. Good evening, and a warm welcome to 2Q FY '25 Earnings Call of Alkem Laboratories. From the management side, we have Dr. Vikas Gupta, CEO; Mr. Nitin Agarwal, CFO; and Ms. Purvi Shah, Head of Investor Relations. Over to you, Purvi.

Purvi Shah: Thank you, Tushar. Good evening, everyone. Thank you for joining us on our call for Q2 and H1 of FY '25. Earlier in the day, we've released our financial results, press release and investor presentation, which are also posted on our website. We hope you all have had the opportunity to review it.

Before we proceed with this call, we would like to remind everyone that it is being recorded and the call transcript will later be available on our website. We would also like to add that today's discussion may include certain forward-looking statements, which 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 contact us.

I now hand over the call to our CEO, Dr. Vikas, for his comments. Over to you, sir. Thank you.

Vikas Gupta: Thank you, Purvi. Good evening, everyone. We really appreciate your presence for today's second quarter as well as H1 FY '25 earnings call. We are pleased to share that the outcomes of our strategic initiatives designed to enhance the profitability have proven effective. We are prioritizing a high-margin product mix aligning more effectively with the market demands and implementing various cost control measures to mitigate inefficiencies, which are supporting EBITDA margin growth.

In the domestic market, our focus remains on augmenting the growth of our large brands and making strategic portfolio additions. We also see significant opportunities for growth in our emerging markets business. I'll now present an overview of the operational and financial achievements for H1 as well as the second quarter of FY '25.

Key highlights for H1. The total revenue from operations saw a modest growth of 0.6%, but earnings before interest, tax, depreciation and amortization were INR13,615 million, resulting in an EBITDA margin of 21.1% versus 17.7% in H1 FY '24.

EBITDA increased by 19.9% Y-o-Y. Net profit was INR12,338 million with Y-o-Y growth of 36%. As per IQVIA data for H1, the company has registered a growth of 7.1% Y-o-Y. During

H1, we have outperformed in 6 therapy areas, which are namely GI, VMN antidiabetic, neuro, gynac and derma.

Coming to the key highlights of Q2 FY '25 financial performance. The net profit was INR6,886 million with a Y-o-Y growth of 11%. As per IQVIA data, the company registered a growth of 6.3%, and we have outperformed in 7 therapies as far as Q2 is concerned.

According to IQVIA data, our company registered a positive volume growth of 1.1% in a challenging market that witnessed a 0% volume growth in Q2. PAN is growing at 12.8% compared to the market growth of 7.3% on a MAT basis. And I'm also happy to share that for the first time, we have reached the second ramp in the IPM, the PAN as a brand is a second-time brand as far as the whole pharmaceutical industry is concerned.

Thank you for your patient listening, and I would now open the floor for any questions.

Moderator: Thank you so much. The first question is from the line of Kunal Dhamesha from Macquarie. Please go ahead.

Kunal Dhamesha: The first one on the U.S. business. I believe that we are supposed to launch more than 1 product in this quarter, and there were a few relaunches were also planned in this quarter, but I see we've launched only 1 product. So are we expecting more products to be launched in the coming quarter? And how should we think about the U.S. overall run rate for FY '25, since H1 looks quite weak?

Vikas Gupta: Yes. So thanks, Kunal. So I'll give you an overall view on the U.S. business and not only about the new launches. Yes, we launched 1 product in Q2, which was also a very small product, differentiated product. But if you look at Q3, we are expecting to launch another product, which we have received a cGMP with 180 days exclusivity. And we are also planning -- we have also received approval for sacubitril-valsartan in the U.S. market, so which we will see how we are going ahead with the launches.

But if you look at the overall U.S. business, as I mentioned in the last quarter as well, we had certain supply chain challenges in the U.S. business in the past because of which we -- in the last 2 quarters, we have seen a significant volume degrowth and perhaps a price erosion as well. So because of that, in the first half, our U.S. business has been quite weak.

But going forward, we expect that to improve -- so in the second half, we are expecting much better performance as far as the U.S. business is concerned. So that's -- and on the new launches, I think I've already answered.

Kunal Dhamesha: So sir, on a year-on-year basis, how should we think about? Will it be a slight decline on a year-on-year basis?

Vikas Gupta: Yes. So looking at the H1 performance, we are expecting a mid-single-digit kind of erosion in the overall U.S. business. But if you look at the Q2, we have had a volume degrowth of around

18.7%, we have had price erosion of around 6%. So that puts us, overall, on the H1 basis, at a 15% degrowth as far as the U.S. market is concerned. But as we look at the annual numbers, we expect H2 performance to be better. So annually, we may land at a flattish to a mid-single-digit kind of erosion in the U.S. business.

Kunal Dhamesha: Sure. And sir, on the profitability with the measures that we have taken and probably volume degrowth is a function of some of those efficiency measures, which I assume...

Vikas Gupta: Can you please be a bit louder, Kunal, I'm not able to hear you.

Kunal Dhamesha: Yes. So I'm saying that on the profitability of the U.S. business, probably because of the efficiency measures we have taken, are we doing better in the first half versus, let's say, full year last year? And how should we think about the trend going forward for the U.S. business profitability?

Vikas Gupta: Yes, the profitability has definitely improved in U.S. business because, one, we have improved the efficiency. And second, there have been certain calls that we have taken where certain products, the pricing has become unviable. So rather than just chasing our top line, I think our focus largely on U.S. business has been on improving the profitability. So that is something that has really improved.

Even in the product mix, if you see, our product mix is very different from what we had it in the last year. And perhaps there is -- those have been some of the reasons that have contributed to the overall erosion in the U.S. business. But I think so far, also H1 to H1, our profitability is better as compared to last year from the U.S. business, and we expect this trend to even get better in the H2.

Kunal Dhamesha: So on a pre-R&D basis, would we be like mid-single-digit, low double-digit EBITDA...

Vikas Gupta: Kunal, you'll have to be a bit louder.

Kunal Dhamesha: Yes, I'm saying on a pre-R&D basis, our U.S. business would be at what kind of profitability? Any particular range that you can direct us to?

Vikas Gupta: See, we have never shared the segmental country-level profitability. But yes, overall, EBITDA-wise, we all know that U.S. is a lesser EBITDA business as compared to our overall EBITDA. But we are improving over there and our intent would be to get it closer to our at least overall EBITDA margin, so the -- and not be dilutive, which will happen over a period of time.

Moderator: The next question is from the line of Damayanti Kerai from HSBC.

Damayanti Kerai: My first question is on India business. So can you explain the key reason for like why Alkem has lagged market growth in key therapies like anti-infectives, gastro, pain and cardiac for second quarter? And in H1, Alkem is below IPM. So in that context, will you be revising your guidance of on par growth with the market for FY '25?

Vikas Gupta: Thanks, Damayanti, for your question. Actually, if you see it's only anti-infectives where we have had -- see cardio is, we do not have a big cardio portfolio. So I would say -- and in GI, if you look at the overall H1, we have outperformed the market. So in GI, we do not see -- foresee too much of a challenge.

In anti-infectives -- first, I will take the question on the overall growth being maybe 1% lesser than the overall market growth. So the delta is not huge, but what has happened is since acute market has grown much lesser. And as a company, we have a higher weightage of acute business.

While the market is just 62% acute and 38% chronic, in our case, we are more than 80% acute business. So what happens is when acute business slows down, it becomes -- it's more of a weighted average issue, that becomes a little issue.

Second, on the anti-infectives, if you look at the portfolio mix of anti-infectives, we have had a struggle on the injectable piece of anti-infectives -- which is a very low-margin business. So with our improved focus on profitability, we have always given more weightage to doing more profitable sales.

So I think that is one area where we need to do much better in the coming months. Coming to the overall guidance of our domestic growth, we are very bullish about our domestic growth. Even if you compare H1 to H1, we have grown faster than what we were growing in H1 of last year. On an annualized basis, I foresee -- still I will maintain our overall expectation of close to 8% to 9% kind of growth.

So that is something that we are very bullish about. And H2 will be a lot better than H1. There were certain other measures also that we had taken internally, improving the efficiency. So we have had certain challenges because of that. So on domestic, I would maintain our guidance of 8% to 9% growth even for the annualized basis. And in that, Q4 is going to be pretty strong for us this time. So that's our outlook.

Damayanti Kerai: Yes. So just want to understand this acute -- sorry, anti-infectives piece better. So I think when we do year-on-year comparison, last year obviously was, I guess, washout in terms of low rain or erratic rain, et cetera. But this year, I guess, monsoon has been much better, right?

And then in that context, I thought we'll be seeing a better pickup in anti-infectives. But do you think there is some delay in terms of seasonal uptick for this category? And maybe we will see some recovery in third quarter?

Vikas Gupta: See, like I said, nobody can predict when the diseases would set in. I can just give you a broad outlook as that this year, it was expected to be far more better than last year. It is a shade better, but clearly nowhere -- you can see the volume growth of the industry.

The -- it's -- in Q2, where the industry has had a 0% kind of volume growth. Whereas, we have had a good -- at least 1% volume growth. So that's the silver lining. What is also happening is we have a higher weightage of the NLEM portfolio, and that's largely on the anti-infectives side, again. This year, the price increase possible on the NLEM portfolio is 0. It's 0.05% kind of, which is negligible.

Whereas, last year, there was a 12% increase that was possible only as pricing as a lever. So I think all factors put together, the industry is where it is. But -- as far as our internal growths are concerned, even in the current scenario, the way the market is moving, even in that scenario, we are pretty bullish about that 8% to 9% of growth coming from the domestic.

Damayanti Kerai: Sure. My second and last question is, can you update us on status of Enzene plant in terms of completion, start of supplies, et cetera?

Vikas Gupta: So Enzene plant, you mean the U.S. plant?

Damayanti Kerai: Yes.

Vikas Gupta: Yes. So the work is in progress. We maintain with our expected time lines of Q4 to -- at the most Q1 of next financial year. And we expect -- so our order book has already started. It's already started getting orders basis the progress of the plant. We expect that the production to begin latest by -- I mean, Q4 to Q1, that is how I'll put it. So there is no significant delay that I would like to report as of now.

Damayanti Kerai: Sure. And you are already getting orders, as you said, order book is...

Vikas Gupta: We've started getting a lot of queries. We've started getting some orders. Of course, further details, we'll give you at an appropriate time. But that's how I'll put forward.

Moderator: The next question is from the line of Saion Mukherjee from Nomura.

Saion Mukherjee: My first question is regarding the full year guidance. I think you talked about 10% growth on top line and I think 18% EBITDA margin. What's your new guidance overall for the company now?

Vikas Gupta: So overall, looking at the struggle that we have had in H1 from the U.S. business, I would say, on the top line, we would be mid-single-digit kind of growth as far as the overall top line is concerned. But when it comes to the overall margin, we are bullish about at least 100 basis point kind of improvement somewhere between 18.5% to 19%, I mean, a kind of EBITDA, that's the outlook that I would maintain.

Saion Mukherjee: Understood. On the U.S. business, we have seen fairly large volume decline and also you mentioned about price erosion. If you can take us through, is there something you have seen in the recent past, things have deteriorated for the portfolio? And how are you thinking from a slightly longer-term perspective for your U.S. business?

Vikas Gupta: So like I mentioned, we had some internal challenges -- so as I mentioned, we had certain supply chain-related issues. So U.S. is one perennially price erosion market for vanilla generics kind of portfolio. Like I had said and we are seeing that trend as well, we have seen 6% to 7% kind of price erosion from the U.S. market in terms of pricing.

The volume degrowth has largely been on account of our supply issues, which were there in the past. If you will look at our inventories had gone lesser. If you see last year, we had reported a service level penalty to the tune of INR140 crores because of our inability to supply a lot of products. In fact, when we started this year, we were at 38% back orders. Our back orders are now down to 2% in U.S.

So what we have done is we have improved the inventory over there, but there were certain contracts where we had lost because we were not able to supply. Now gradually, since our inventory position is better over there, we expect U.S. to be better. But we would not go aggressive on pricing and erode margins to win back the top line. So that's the outlook on the U.S. So like I said, U.S. in H2, we are looking at a better performance.

And on an annualized basis, we may be somewhere between a mid-single-digit kind of erosion overall on the top line. But in terms of profitability, we have improved as compared to last year, and we will continue our that journey even in times to come. So that's the way I'll put forward.

Saion Mukherjee: Okay. Sir, and just 1 last question on Enzene, if I can. So firstly, sir, on this facility that we are putting up in the U.S., you mentioned commissioning by Q4 to Q1, but you would require FDA inspection and approval for the facility before you make commercial production. So are you talking about starting operations there or you are talking about booking revenues starting from 4Q and 1Q?

And second, what's the kind of cost structure that we should bake into our estimates when you -- when this plant come on stream?

Vikas Gupta: So this is a CDMO biologic plant, okay? And where we would be doing more of preclinical to clinical kind of small production. So whatever the regulatory requirements would be, we would be complying with the same. And the time line that I'm giving is when we expect the production to really begin. So I hope that answers your question.

Saion Mukherjee: Yes. And sir, what would be the cost structure?

Vikas Gupta: So there is a capex layout that we had specified even in the previous call, close to the tune of INR450 crores, and which I think that is what we are maintaining even from -- for now.

Saion Mukherjee: And sir, operations, I'm looking at the P&L cost that will come when you start operating and maybe today, you're capitalizing those costs. So what is the cost structure there for this facility?

Vikas Gupta: So I think once we start running the operations, it will be better that we give you more color on the operating cost over there. But if you look at our -- I think that will be covered by the order book that we will have because this is more CDMO work -- pricing, yes. And we are not capitalizing any of the expenses.

Nitin Agarwal: The plant is still not ready for the operations. So by quarter 4, it will be ready. And we are very hopeful that in the first year itself this will break even. But as of now, we have not capitalized any of the expenses.

Saion Mukherjee: So you're not incurring any expense or you're not capitalizing the expenses?

Nitin Agarwal: See, those are not very material. Few of the expenses we are incurring, those are not very material expenses.

Moderator: The next question is from the line of Neha Manpuria from Bank of America.

Neha Manpuria: Sir, my first question is a little bit on the margins. Based on your guidance, is it fair to assume that the INR100 crores to INR110 crores additional cost that you were talking about for the new businesses hasn't really started flowing through our P&L and a large part of that will come in the second half? Is that the right way to read that other than the -- because you are talking about better India growth in the second half, so I'm just wondering if bulk of that cost is yet to come.

Nitin Agarwal: Neha, this is Nitin. So you're right that in quarter 1, we said that around at max around INR100 crores we will incur as pre-operating expenses for our MedTech and Enzene business. So as of now, we don't think we will cross at max INR60 crores to INR70 crores for both the MedTech and the Enzene U.S. plant. And that is why as Vikas said that there will be, say, improvement of around 1% in the EBITDA margin against last year by the year-end. So the expenses, the estimate for both for MedTech and Enzene which we have shared for the pre-operating expenses has come down.

Neha Manpuria: And this will flow in from the second quarter, right? I mean, from the third quarter or has been...

Nitin Agarwal: They'll will be from the third quarter onwards, yes.

Vikas Gupta: Actually, Q3 and Q4.

Neha Manpuria: Got It. And sorry, on the gross margins, I'm assuming part of the benefit that we are seeing in gross margins because the U.S. mix is lower. So how should we read the gross margins for the second half? Should this normalize to what we were doing previous year?

Vikas Gupta: Yes. So see, there are 3 elements to why the gross margin has improved. First is definitely the API prices, as you must have seen all the other pharma companies also. So we also got a benefit of lower API prices that helped us to improve our gross margin.

The second rightly said by you that though -- so because of the lower sales in U.S., which is a lower gross margin business as compared to our domestic business. So that has actually resulted into a better gross margin. And the third reason is within international also, and within domestic also, our product mix has improved, like the margins which we get in ROW market is much better, so the contribution of ROW market has increased in the overall business. So that has also resulted in better gross margins.

Neha Manpuria: Okay. And last one, if I may. Any update on the MedTech part of the business that we're investing in? What is the progress there? How should we think about this business over the next 2 years?

Vikas Gupta: So MedTech, as we have already said in a press release on the -- our deal with Exactech, which is a hip and knee replacement company brand in U.S. So we have signed a licensing technical know-how transfer agreement. And our plan is to launch the product sometime in quarter 1 or quarter 2 of next year.

Moderator: The next question is from the line of Yash from ithought.

Yash: So sir, my question was regarding the anti-infectives therapy alone. So if I look at our MAT numbers, I think our brands like Clavam, Xone and Taxim, they have degrown on a MAT basis, MAT October '24. And even if I look at our annual report, which gives us the market share, molecule market share. So Clavam has lost market share around 15.6% to 15% and even Xone has lost market share from around 18% to 16.5%. So along with acute growing slowly, we have also lost market share in these certain molecules, which was supposed to be our big brands. So if you can share anything on this, that will be very helpful.

Vikas Gupta: So I think I did address this point until some time back. See, a slight fluctuation in market shares keep happening if you will look at -- you have to look at this data more from a long-term window. So if you remember a few years ago, all the top brands during COVID period when the market uptick had gone up and seen significant gain in the market shares and a lot of smaller players who are competing in these markets had gone out of market during that time. So the market share is consolidated with the top brands.

Now what has happened when the normalcy is actually coming back to the market, we see a lot of smaller players also coming back to the market. That is one reason. Second, you also have to see the geographic dependence on where these brands are. We have very strong presence in some of the eastern part of the market.

So if your market growth would slow down on the Eastern side of the country, we will have a bigger impact on market share. But those are nitty-gritties. I would say -- I wouldn't go into those kind of nitty-gritties into specific brands why we have lost market share and this thing.

I think these are all short-term trends. I would maintain our overall growth of the portfolio that I'm talking about. And we are seeing in the recent months, the internal growths are pretty encouraging on actually most of the brands that you mentioned. So market reflections sometimes keep fluctuating. Sometimes you get reflected more, sometimes you get reflected less.

I think what we would be worried about is looking at the data in the more long-term basis. And as long as we are on the right track, which I think we are. And that's why I'm maintaining from our domestic market, the overall growth guidance of around 8% to 9%, and we expect given the overall IPM also to be within that range. I think if you will look at the overall financial year as we end the year, we should be very close to those numbers. That is what I would maintain.

Yes, some brands do -- which are doing pretty well. Like if you will look at Pan, Pan D for that matter, we are seeing some of the highest growth that we have seen in the recent times as far as that portfolio is concerned. If you look at our other large brands, there is Pipzo, there is A To Z, which are, again, significantly large brands for us.

Those brands are really outperforming. Look at Uprise-D3. Uprise-D3 has seen a very significant growth. So it's also sometimes a matter of how you align -- realign your internal focus. So I guess there are more positives than concerns in our domestic business that we have. And that's why we are very bullish of our overall growth of 8% to 8.5% as far as the overall year is concerned.

Yash: That is very helpful. And my second question actually was regarding...

Purvi Shah: We can take the next one please.

Moderator: The next question is from the line of Rahul Jeewani from IIFL Securities Limited.

Rahul Jeewani: Sir, on the MedTech business, if I'm correct, a partner Exactech is going through bankruptcy proceedings in the U.S. So would that lead to any change in terms of our partnership with them? And would we be looking for other partners then for this business?

Nitin Agarwal: Yes. So you're right that they are going through a bankruptcy proceeding. But I think that is -- I don't want to comment on that because there is maybe some internal arrangements within the company and just to let you know the litigation, which they are facing, they may be transferring the ownership and all.

But in terms of our, say, contracts with Exactech, that still remains, and we are going to get those brands assigned, the technical know-how transfer. So we are in constant touch with them. And operationally, we don't see any challenge or we don't see any change at Exactech, which will actually make us deviate from the original plan. So we're still on track, and we are very confident that we'll launch the product in quarter 1 of next year.

Rahul Jeewani: Sure, sir. My question was more from the perspective that given that the company would be would be engaged in those bankruptcy proceedings. So operationally, can they focus on transitioning, let's say, or committing to the partnership which they have with us? And whether we can actually launch the MedTech business in India in 1Q or 2Q of next year as you have guided?

Nitin Agarwal: See, as I said that they have already started assigning. Many of the banks, they have already assigned to us. And even in terms of technical know-how, we have been in touch with them on a daily basis. And we don't see any challenge. So I think this is more for their internal rearrangement which they are doing, the change in ownership and all. So -- and I'm not the best guy to comment on it.

But as per the information provided by them, I don't see any challenge in terms of they running their operations. So -- and also the proceedings and all, the legal claims and all because of which they are doing all the restructuring, those are not related to the brands which we have -- which we are getting assigned from them. So these are related to old brands. which are -- I don't think we are going to sell those banks in India. So for us, nothing changed. We are going ahead as per our original plan.

Rahul Jeewani: Sure, sir. And sir, my second question is on the anti-infectives business. Now you pointed out to the fact that our underperformance in the anti-infectives segment has been partly due to the fact that the weightage of the NLEM portfolio is higher on the anti-infectives side, but that would have impacted the growth for the overall anti-infectives market as well this year. But despite that, we have underperformed market growth in the anti-infectives segment.

So I'm not quite sure I picked it up correctly in terms of what is driving our underperformance in the injectable segment in anti-infectives. So are we rationalizing some of these injectable anti-infectives products, which are low-margin products and hence, we have been underperforming market growth?

Vikas Gupta: So I think there are 2 parts to it. First, my comment on the NLEM was on the overall portfolio, not related to only the anti-infectives portfolio. So what I -- the second part was on the margin. So what I mentioned was that the injectable piece, anyways, if you see the injectable anti-infectives market is a low margin as compared to whether your overall portfolio or whether you compare it to -- even amongst the anti-infectives that's the lowest margin portfolio. So you need a very different cost structure, and there are certain growth opportunities that you have to walk away with, right?

So -- but that's -- I wouldn't overplay on to that. I think there is some delta of performance that needs to come up on the anti-infectives side as well. What I meant was, overall, our domestic guidance irrespective of whether the anti-infectives therapy or whether any other therapy, overall, our domestic growth guidance would continue to be around 8% to 9%, and that is what we are bullish about.

Yes, there will be certain segments where we will have certain struggles maybe because of operational reasons, maybe because of certain geographies which have underperformed, and we have a higher weightage from those geographies. So I think my point was more on the weighted average side of some of the geographic dependence of certain brands.

But in the coming months, we see even that aspect to get covered. Everything all put together has to contribute to an overall growth of the organization and a profitable growth for the organization. So I think that is our intent, which is on which we are moving.

So even on this aspect, we have taken a note of it, and we have taken certain corrective measures also. So coming quarters, we would see a better performance even on that particular category. Today, there are -- in last quarter, there are 7 therapies, where actually we have outperformed the market. So this is one area which still needs some more time for us to come back, and I'm sure over a period of time, we will start outperforming in this category as well.

Rahul Jeewani: Sure, sir. Sir, just 1 last question...

Vikas Gupta: And let me tell you, internal growth numbers are not so alarming for us for some of the therapies. Sometimes, market doesn't pick up the see-through picture. But I mean, I take it the way it is reported. I guess, we have our -- taken our actions on -- in the right direction, and we will report good numbers even going forward.

Rahul Jeewani: Sure, sir. Just 1 last question from my end. The growth for the overall acute market in India has been pretty weak for past, let's say, an 18-month period. And when we were initially coming out of COVID, expectation was that the high base of COVID was impacting growth for some of these acute therapies, but that doesn't seem to be the case as such. So what can you highlight in terms of what is leading to weakness in the acute market? And when do you see things picking up on the acute side?

Vikas Gupta: See, I think there are various elements to it. One, the COVID base that we have spoken about, when the -- when you see this kind of growth that happens in 1 or 1.5 years, and that happened in the acute side, it takes a while for it to really come back because there is a lot of channel buying that happens during that phase.

And that channel buying takes a period of time for it to get normalized. So I guess some of the numbers that we are looking at are more on -- to coming off that very high base. Now second impact has been on the NLEM side as well. The wholesale price index related, the price increase possible on NLEM, this year portfolio has been just -- has been 0.

The price as a lever of growth is also contributing to slow down the overall growth on the acute side. Now I think on the volumes, we would start seeing -- it's a matter of time, but I guess from Q4, we should see better growth even in the overall market. If you -- that's my estimate.

But of course, that will be crystal ball gazing and we would see when we get there. Fundamentally, I can tell you, nothing much has changed. These are some of the therapies where a lot of external factors play a role sometimes. I think we are just going through that patch of a time where it is showing sluggish growth.

But I think from a long-term basis, if you will look at the -- on a 3-year to 5-year window, this gets normalized. That has been the trend in the past, and that is what we are seeing -- my sense is we'll see that even in times to come. Because even on the acute side, if you have to break it down further, there are therapies which are growing much faster.

So it's only anti-infectives, which is seeing that kind of stress. The other therapies have started showing good numbers as far as their growth are concerned. So I think it's a matter of time that these growths will also pick up.

Moderator: The next question is from the line of Abdulkader Puranwala from ICICI Securities.

Abdulkader Puranwala: Sir, a couple of questions. First, on the U.S. front. So any color you would like to provide with regards to sacubitril-valsartan launch? And any update on -- are we into a litigation into this product? Or by when launch this product into the U.S. market?

Vikas Gupta: So we got the approval for sacubitril-valsartan. But as you know that there is a litigation going on with one of the players with Novartis. So we will -- we are just waiting and we will watch how that proceeds. And then accordingly, we will take a call on going ahead with the launch for that particular product.

Abdulkader Puranwala: Okay. Sure. Understood. And second is on the Enzene business. So in terms of the biosimilars, can you provide us any update on the development time line of the existing products what you were doing?

Vikas Gupta: Sorry, on the biosimilars?

Abdulkader Puranwala: Yes. If you could provide us with any update on how many launches we have done so far and how do we see the portfolio ramping up? And in the past, I think we have talked about incurring close to INR100 crores of R&D, so is that number intact or is this close in that as well?

Vikas Gupta: So far, we have got 7 products to the market, 7 biosimilars, okay? And we are actually -- if you look at for the global markets, we are working on 5 products. But our sense is that at least 2 products to 3 products is something that we will be very clear to -- yes, and that's a long-term play. That's for more than -- if you to ask me a 5-year plan, so that's our plan.

The most recent being the clinical trial for denosumab, we have completed the clinical trial. And now the further work for that will begin. So that is for the U.S. market, and I'm talking for the global markets now. In India, we have commercialized 7 of the biosimilars as on date.

Moderator: The next question is from the line of Foram Parekh from BOB Caps.

Foram Parekh: My first question is on the domestic side. So the chronic side is around 20%, 21% currently. So any strategy or any thought process to increase the chronic side of the business? And to what extent can we see the contribution increasing in the near term, is my first question?

Vikas Gupta: Okay. So I've always maintained, chronic is our highest focus within the domestic segment. You would have seen the IQVIA data as well. We are outperforming in the focus markets within the chronic. Chronic, our focus has been in diabetes -- in actually 4 such segments. We are actually outperforming in IQVIA.

Now I haven't done the calculation of the percentage to chronic, but I can clearly tell you that chronic is growing -- will grow much faster than our growth in acute owing to 2 reasons: one, the chronic market is growing faster; second, our base is lesser, so we will outperform the market also even on the chronic growth side, right?

So you can do your calculation and math a bit better. But I would say, as we move along, for the next 3 years, our growth in chronic is going to be much, much higher than what the market growth is. And that should result in an improvement in the overall percentage of chronic business as compared to our overall pie.

Foram Parekh: Okay. So in that case, can we expect our EBITDA margin to inch up to closer to 25% from current run rate because as the chronic pie increases?

Vikas Gupta: Yes, but that will happen over a period of time. So I think you're very bullish on some of these things. I have always maintained that we will work on improving our EBITDA every year by at least 100 basis points and which is what I'm giving the guidance even for the current financial year.

And so far, touchwood, the results have -- they give us this confidence that we are on the right track, and we should be able to do that. Now as we move along or if we are able to lay our hands on some assets which helps us get there faster, that might happen. But otherwise, I'll continue with our similar expectation that over a period of time, we would look at improving our EBITDA margins by 100 basis points with every passing year.

Foram Parekh: Okay. And my second question is on the ROW side. So could you just give me -- give us like what's happening in the ROW side? I mean what is driving the growth there? And how sustainable would it be?

Vikas Gupta: So if you look at the ROW, our focus has been very good. Other than the U.S. and Chile, if I look at the other ROW markets, we have grown by almost 30% as far as second quarter is concerned. So our -- all other markets where we have improved focus, we are going to do more filings now.

We are looking at strategic partnerships. We are looking at out-licensing partners. There are key markets that we are going to focus on going forward. So I see that kind of growth to continue. And that will reduce our overall dependence on the U.S. and the Chile business that we have as of now.

So I think it's only U.S. market where we have this concern among the international business. But our ROW business, we are pretty bullish and we -- see, all these markets have a gestation period. Whatever dossiers we would start filing from now, would start showing us results 2 years from now. So we are doing a lot of work to grow the ROW business.

So I think 2 years, 3 years down the line, that would also show a very different picture, and that's definitely a much higher margin business as compared to the U.S. market. So I think overall, that should also help us in improving our overall EBITDA.

Moderator: The next question is from the line of Kunal Dhamesha from Macquarie.

Kunal Dhamesha: Sir, for our India business, what would be the split for trade and branded generic business?

Vikas Gupta: So it's around 80-20. It's around 20% of our business is trade generic, yes. But even on the trade generic business, we are seeing good improvement in the overall margins. So I think that's a point that I would like to highlight.

Kunal Dhamesha: And then what is driving this improvement, sir, for us?

Vikas Gupta: Better mix, better pricing.

Kunal Dhamesha: Okay. And when you -- when we are seeing this lower growth on the India side. Is there any part, either it's Rx business or the trade generic business, which is growing more slower...

Vikas Gupta: See, I'm not getting into the therapy level of growth and the division level growth. But I would say overall, again, I will repeat, we are very bullish about our domestic market growth. By the year-end, we should see between 8% to 9% kind of growth if everything goes well. And Q4, especially, we are pretty bullish about our overall domestic growth to come back.

So I think we will see similar kind of growth on both sides of the portfolio. So it's not that 1 portfolio is not growing and the other portfolio is growing. I think we are seeing similar kind of growth, 1% here and there on both sides of the portfolio. So we are very bullish about the entire space.

Kunal Dhamesha: So sir, on the Q4 comment, typically, Q4 is roughly, on a sequential basis, around 8% to 10% lower...

Vikas Gupta: Sorry?

Kunal Dhamesha: Q4 typically is 8% to 10% lower than Q3 on an average for...

Vikas Gupta: I'm talking growth. I'm not saying absolute value. What I'm saying is our Q4 growth may be much higher than -- so I was talking more about growth.

Kunal Dhamesha: Than the rest of the quarter?

Vikas Gupta: Yes, yes.

Kunal Dhamesha: Probably because the base is favorable because last year same quarter, we had like 2% degrowth, is that one of the reason?

Vikas Gupta: Yes, some of it is base, but some of it is also the work that we are doing on the demand side. We expect our demand to reach at that level that it will translate into good growth as far as Q4 is concerned.

Chronic businesses take a while for the overall sales to grow -- for the demand to grow. And the way it is growing, I'm bullish that in Q4 that will help us report overall a much better growth than what we have reported in Q1 and Q2.

Kunal Dhamesha: Sure, sir. One for CFO sir. On the FX, forex gain or loss, is there anything baked into other expenses for this quarter? Any gain or loss?

Nitin Agarwal: So this quarter, we actually had a forex gain. So there is nothing which is built into the other expenses. So at YTD level also, the rates have been favorable for us. So we have gained on account of forex, which is reported not as part of EBITDA because it is reported under other income. But yes, last year, there was a component of forex loss in quarter 2 and H1.

Kunal Dhamesha: Okay. And 1 last one on the U.S. business. I think we have 145 products approved, how many products would we have in the market currently?

Vikas Gupta: Around 100.

Kunal Dhamesha: Around 100. And others, we have basically rationalized, but we are still keeping the ANDAs active for that, is that the...

Vikas Gupta: We have the ANDAs. Some of these products, we are bound by the agreements that we have to launch when the market opens. We have settled with the innovator. Some of these products do not make sense for us to launch because the pricing is so unfavorable for some of those molecules that it would not make any sense for us to get these products to the market.

Kunal Dhamesha: Sure, sir. And then last one on this product called generic Myrbetriq, I think we have tentative approval there as well. Do you think that could be a near-term opportunity for us?

Vikas Gupta: Sorry, come again. Can you repeat your question, please?

Kunal Dhamesha: The generic Myrbetriq, I think have a tentative approval...

Vikas Gupta: You mean Mirabegron?

Kunal Dhamesha: Yes, Mirabegron.

Vikas Gupta: So I think I answered in the last call as well. We are bound by the settlement that we have with the innovator. So others who have launched it has been -- it has been an at-risk launch for them. So we will be launching it only post '26. So that is how -- because we are already bound by the agreement that we have signed with the innovator.

Kunal Dhamesha: Is it calendar '26 or FY '26?

Vikas Gupta: I think it is -- I do not have the exact month at hand, but I think it is post FY '26 is what we will see. Whenever that market opens up.

Moderator: The next question is from the line of Saion Mukherjee from Nomura.

Saion Mukherjee: Just a couple of items on the balance sheet. So Nitin, can you explain there is an increase in inventory level. I mean, though we haven't grown much in the first half and raw material prices in general have come down. So I see from March period, the inventory levels have gone up even from a year ago period, it is quite high. And?

The second on the balance sheet is on the noncurrent investments. Can you explain the rise there?

Nitin Agarwal: So on the inventory part, Saion, we have -- firstly, we have increased our inventory levels in the U.S. because in FY '24, our inventory levels went down quite substantially in the U.S. market, and that was also planned because we wanted to focus on high-margin customers and also high-margin products.

And we see a lot of failure-to-supply penalties in FY '24, which was around INR140 crores. And also, we lost a few of the customers in the U.S. on account of not having adequate inventory. And that is one of the reasons that you see a lower growth in H1 for U.S. because the way we plan things in FY '24, I think there was a loss of sales and also increase in failure-to-supply penalties.

So purposely, we have increased our inventory in the U.S. and which will actually give us positive results in quarter 4 onwards, where we will be able to ensure supplies to our customer and also win back few of the customers for a few of the products which we have lost in FY '24.

Saion Mukherjee: And on the noncurrent investments ?

Nitin Agarwal: Noncurrent investment, previously, we used to park most of our money in fixed deposits with bank deposits. Now since we are looking for a few of the M&A opportunities, so we want to have investments which are marketable or tradable, and which we can encash without paying any penalties. So we have started parking a few of our investment in NCDs and mutual fund and not in bank deposits, and that is why you see increase in noncurrent investments.

Saion Mukherjee: So you classify this as noncurrent, is it?

Nitin Agarwal: Yes. This is as per the Ind AS requirement. So if you want -- I understand that maybe worry about whether our cash levels have gone down. So just to share that we have increased our cash by INR400 crores in this quarter. And the overall cash is around -- net cash is around INR4,250 crores as on 30th September.

And in fact, just to add, if you look at last 1, 1.5 years, we've almost doubled our cash position. So that's -- so our business that has been -- in 18 months, yes, that's 1.5 years.

Saion Mukherjee: So basically, I was just looking whether these are not high-risk investments, right? This is noncurrent...

Nitin Agarwal: No, no, no. All are in AAA+ category investment. And maybe INR30 crores, I think we have invested in a company which is strategic in nature. Otherwise, all these are more of cash and bank in nature. There is no strategic investment.

Saion Mukherjee: And just 1 last one on the other expenses. So it was quite low last year -- last quarter, this has come back now. So has it normalized, the other expenses? And how should we think about that going forward?

Nitin Agarwal: See, in quarter 1, we also shared that our R&D expenses are lower. And you can say that this will be more or less -- other than the R&D expense part, more or less this is a normal quarter in terms of other expenses.

Moderator: Last question is from the line of Yash from ithought.

Yash: Yes. Sir, as you mentioned that the cash pile and you are also looking for an M&A. I just wanted to understand, internally, what is the IRR or the payback period that we target when we look for an asset? And secondly, what sort of an asset would we be looking at or be interested at the most?

Vikas Gupta: So I think more than the IRR, of course, IRR calculations are the standard calculation that anybody would apply to deploy capital. The M&As have to be more strategic in nature and the M&As have to be such where we can add value to whatever assets we acquire. So I guess we put various filters. This is what -- is that asset better in our hands? Can there be a synergy that we can build and create more value whenever we look at any M&A.

So I think I would answer it more on those fronts rather than just being a financial calculation. Of course, financial calculation is very important, but I guess there are other filters, which are equally important before we actually go about doing an M&A.

Nitin Agarwal: Okay. And our cost of capital is around 12%, so -- and so definitely, we'll not go anything which is lower than the 14% to 15% of IRR. As Vikas said, that all depends upon how strategic it is in terms of our portfolio and also the growth drivers...

Moderator: As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Purvi Shah: Yes. Thank you, everyone, for participating in today's call and making it a meaningful discussion. And thank you Tushar for hosting us. I'd just like to reiterate that if there are any queries that remain unanswered, please feel free to get in touch with us. Thank you, and have a great evening.

Vikas Gupta: Thank you, everyone.

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