ALKEM

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10th November, 2023

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 FY2024 - Earnings Conference Call Transcript

We enclose herewith the transcript of the "Q2 FY2024 Earnings Conference Call" which was hosted by the Company on Tuesday, 07th November, 2023.

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: 2023.11.10 14:26:37 +05'30'

Manish Narang
President - Legal, Company Secretary & Compliance Officer

Encl.: a/a

"Alkem Laboratories Q2 FY24 Earnings Conference Call"

November 07, 2023

MANAGEMENT:	**MR. SANDEEP SINGH – MANAGING DIRECTOR, ALKEM LABORATORIES** **DR. VIKAS GUPTA – CEO, ALKEM LABORATORIES** **MR. RAJESH DUBEY – CHIEF FINANCIAL OFFICER, ALKEM LABORATORIES** **MR. AMIT GHARE – PRESIDENT, INTERNATIONAL BUSINESS, ALKEM LABORATORIES** **MR. AMIT KHANDELIA – VP (FINANCE), ALKEM LABORATORIES**
MODERATOR:	**MR. TUSHAR MANUDHANE – MOTILAL OSWAL FINANCIAL SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Alkem Laboratories Q2 FY24 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 the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

And now I will hand the conference over to Mr. Tushar from Motilal Oswal Financial Services. Thank you and over to you, sir.

Tushar Manudhane: Thank you, Seema. Welcome to 2Q FY24 Earnings Call of Alkem Laboratories.

From management side, we have Mr. Sandeep Singh – Managing Director; Dr. Vikas Gupta – CEO; Mr. Rajesh Dubey – Chief Financial Officer; Mr. Amit Ghare – President, International Business; and Mr. Amit Khandelia – VP (Finance). Over to you, Amit.

Amit Khandelia: Thank you, Tushar. Good evening, everyone and thank you for joining us today for Alkem Laboratories' Q2 FY24 earnings call. Earlier during the day, we have released our financial results and investor presentation and the same are also posted on our website. Hope you have had a chance to look at it. To discuss the business performance and outlook going forward, we have on this call the Senior Management Team of Alkem.

Before I proceed with this call, I would like to remind everyone that this call is being recorded and the call transcript will be made available on our website as well. I would also like to add that today's discussion may include forward-looking statements and the same must be viewed in conjunction with the risks that our business faces. After the end of this call, if any of your queries remain unanswered, please feel free to get in touch with me.

With this, I would like to hand over the call to Mr. Sandeep Singh to present the key highlights of the quarter gone by and strategy going forward. Over to you, Sandeep.

Sandeep Singh: Thank you, Amit. Good evening, everyone. As many of you are aware, we recently announced the appointment of Dr. Vikas Gupta as a Chief Executive Officer. Dr. Vikas Gupta has over two decades of experience in the pharmaceutical industry, and his leadership and vision will play a pivotal role in our future growth and strategy. We are excited to have him on board. I formally welcome Dr. Vikas Gupta on his first analyst Interaction.

We are pleased to report strong operational performance in the quarter, supported by significant gross margin improvements and operating leverage. We have observed a favorable trend in raw material cost softening, which has positively impacted our cost structure. Price erosion in the US market has slowed down from high teens in last year. I am confident that our ongoing cost optimization efforts will persist in driving improved performance. In this quarter, it proved to be a good quarter for the company featuring a year-on-year revenue growth of approximately 12%.

Our EBITDA margin stood at 21.7% while net profit after tax for the quarter is around Rs. 620 crores. During the quarter, we generated approximately Rs. 470 crores in cash, reinforcing our balance sheet to establish and sustain substantial net cash position of around Rs. 2,900 crores as of September 30, 2023.

Coming to our domestic business:

We experienced a lackluster quarter one and this trend continued in this quarter two due to sporadic and delayed monsoons. However, there was a noticeable improvement towards the end of quarter two with a particularly positive upturn in the month of September. We are eager to capitalize on this momentum and anticipate stronger performance in the upcoming periods. Our growth during the chronic therapeutic segment continued to surpass market performance. During the quarter, we advanced by two ranks in anti-diabetic and one rank in neuro, CNS and cardiac therapy segments. Our trade-generic franchise remains a key driver in our growth journey within India.

Moving to International Business:

For the second consecutive quarter, our International Business has demonstrated its strength by surpassing Rs. 1,000 crores for the quarter. The performance of US business was driven by volume growth in our core operations. Other international market growth was led by good performance in Chile, Europe and Kazakhstan and even Philippines to a certain extent. During the quarter, we have received 4 ANDA approvals including one tentative approval. All our manufacturing facilities supplying to the US are having an EIR as on date. We aim to sustain and carry forward this performance momentum into the remaining part of the year with the determination to surpass earlier EBITDA guidance of 16% for 2024.

With this, I would like to open the floor for Q&A. Thank you for being here.

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

Saion Mukherjee: Sir, just a question on the US. We have seen a good increase quarter-on-quarter. If you can elaborate, you mentioned about volume growth, but are there any seasonal factors and how should we think about the next 2 quarters? And also from a slightly medium-term perspective, how should we think about US in the backdrop of we have seen some reduction in R&D cost, just one ANDA filing in the first half because earlier there was a bit of conservativeness with respect to the US. So, beyond the next 2 quarters, how should we think about US moving up in FY25-26?

Amit Ghare: Saion, the first part of the question, there has been small seasonal effect in the quarter 2 numbers towards the end of September. And honestly, the season never actually ended this year. The growth for anti-infectives has been strong since the last season started. Other than that, there has been nothing one time or nothing substantial that contributed. So, it's kind of overall business that contributed. For the next 2 quarters, obviously, our base is now higher. So, repeating this kind of growth, obviously, is going to be a challenge year-on-year, that is. But we are obviously looking at overall full year FY24 over FY23, we are looking at high single digit growth in dollar terms. That's where we stand. On the R&D side, I'll hand it back to Sandeep and Dr. Vikas.

Sandeep Singh: So, on the R&D side, I think H1 is not an indication of predicting how many ANDAs we'll file for the year. So, they'll be back ended, but we'll be filing close to 8 to 9 ANDAs. And second, yes, in small molecules we have cut back some R&D. I mean, you all are aware that we are doing clinical trials for Denosumab for US market. So, it's not that we are kind of really cutting back or getting very negative on US. We have just decided to allocate slightly less money and also change the color of our spending from small molecules to let's say, hopefully more complex things.

Saion Mukherjee: And just one more question on the tax rate. You had guided for a higher tax rate earlier, around 18%. So, where do we stand? Is that guidance holds for this year and next year?

Rajesh Dubey: Saion, our earlier guidance was somewhere close to 18%. But we reviewed our revenue generating from eligible unit, that is Sikkim and some bottleneck we planned out and we revised our guidance from 18% to 12% to 15% for this year.

Saion Mukherjee: And sir, this will hold for next year as well?

Rajesh Dubey: Next year, we will come back to you during our third quarter's result, but I think we will be somewhere closer to it.

Saion Mukherjee: And when does this Sikkim benefit last and when do we see a step up in tax rate?

Rajesh Dubey: March 26 is last. So, from April 26 onwards, we don't have fixed the benefit for that.

Moderator: Thank you, sir. We take the next question from the line of Kunal Dhamesha from Macquarie. Please go ahead, sir.

Kunal Dhamesha: Just continuing on the tax rate, so we are now guiding for 12% to 15%, and H1 is around 9%, so does that mean that we are more or less would be at 18% for the next couple of quarters?

Rajesh Dubey: On an annualized basis, we work out our tax, but in this half year, there are some elements towards catch up. That's the reason it is on lower side. But on an annualized basis, our estimate is 12% to 15%, Kunal.

Kunal Dhamesha: Yes, so that means the second half would be 18% right? Like close to 18%?

Rajesh Dubey: Not 18%, somewhere around 16% kind of, 15%-16%.

Kunal Dhamesha: And secondly on the US business, you said that the price erosion has kind of reduced, but any number that you would or range that you would like to put out, so earlier you alluded, it was into like low double digits. I mean, where are we now and what has kind of changed and how long do you see that continue?

Amit Ghare: Currently, the pricing deflation is in the big single digit numbers around 5% to 6%. That's where it is. Future, we hope it remains in those levels but future is future.

Kunal Dhamesha: And have we supplied any shortage product in this quarter which would have helped us?

Amit Ghare: No one-time opportunities per se, significant one-time opportunities. That is what I am seeing.

Kunal Dhamesha: And the last question on the India business. So, we were in the process of expanding our field force by around 10%. So, are we kind of more or less done there? What is the update?

Dr Vikas Gupta: Yes, so on India business expansion, I think we are more or less done. So, we are not planning any big expansion in India business. The focus will be on increasing productivity now. And whatever people we have added in the recent years, we are just planning to now create the operating leverage and get the productivity up for our people in the business. That remains our top-most focus.

Kunal Dhamesha: Sure and what would be the MRs number as of now, and the line manager?

Dr Vikas Gupta: So, we have around 12,000 the first line and then proportionately you can take the number of managers.

Moderator: Thank you. We'll take the next question from the line of Rashmi Shetty from Dolat Capital. Please go ahead.

Rashmi Shetty: On the softening of the raw material cost, have you seen correction in penicillin and cephalosporin prices?

Rajesh Dubey: Yes, so softening of API prices we can feel, but a few anti-infectives, I think still it has not come back to pre-COVID level and particularly product where pen G component is there. So, pen G still it is going on at $30 level. So, I think pre-COVID it was somewhere close to $8 to $10 and now still it is $28-$30. So, you can understand still we see scope there. But the rest of the major APIs we feel more or less it got softened and we hope going forward for few months at least, we'll be able to have a similar kind of situation for India.

Rashmi Shetty: Okay, and sir the improvement in the India business and the base improving in the abating price erosion in the US business, do we upgrade our gross margin guidance from currently, I mean, whatever you had cited earlier, 59% to around 60%-61% now for this year?

Rajesh Dubey: Yes, gross margin improvement is of course there and that is a good thing. And if you recollect in our last earnings call, the issue guidance of 59%-59.5% on an annualized basis, I think we are going to remain. Of course, you rightly said, besides API, better product mix and particularly in US business, we got better gross margin there. So, I think things are going as per our estimate only. And API prices, better product mix and all these things are helping us and we are hopeful guidance we have given, we are going to remain there only and not below that.

Rashmi Shetty: Okay, and sir on your India business, if you can give what was the trade generic business contribution and what kind of growth have you seen in that business?

Dr Vikas Gupta: So, around 20% to 21% kind of contribution and the growth has been around 6% to 7%. So, that has been the trade generic.

Rashmi Shetty: Sir, first half full year, are we maintaining our high single digit growth guidance in the domestic business?

Dr Vikas Gupta: Yes, pretty much. That is where we are trending mid-single digit, but we are expecting it to be higher single digit on an annualized basis.

Rashmi Shetty: My last question is related to the Enzene Bioscience. What was the sales contribution which has come in from there and how do we see the profitability also in this quarter?

Sandeep Singh: Sales contribution you asked ma'am?

Rashmi Shetty: Yes, from the CDMO and biotechnology product from the Enzene Bioscience.

Sandeep Singh: The cost was around Rs. 80 crores in the quarter 2 and your question was on profitability.

Rashmi Shetty: Yes, on the margin front?

Sandeep Singh: It's slightly negative but close to breakeven, but I think next year we will be closer to breakeven. I think this is very early stage for biotech. So, honestly for the next 3-4 years, we really should not expect it to like to generate a lot of profit even though even if they breakeven but I think growth is a priority here.

Rashmi Shetty: Sir on the sales front for Enzene Bioscience, we have seen a sharp jump from quarter-on-quarter. So, we have done any new launches during the quarter?

Sandeep Singh: I think plenty of new launches. Enzene also does a B2B business too with other pharma companies in India. So, yes, they have driven a lot of partnerships. We have launched 6 products already, I guess. The seventh one is approved. It is the generic of Lucentis. It is ranibizumab, so it is getting to take off now.

Moderator: Thank you. We take the next question from the line of Bino from Elara Capital. Please go ahead.

Bino: Just to explore a bit further on the margins, so you have said that these are broadly sustainable, but still just to drive a little deeper, this quarter margin has come exceptionally higher with both gross margin and as well as other expenses being lower. In the light of this, you think this level is sustainable going forward at these levels or we should think about it like somewhere in between where it was and this quarter?

Sandeep Singh: I think forget the quarter; quarter is great but this is not sustainable on an annual basis. I think we will be close to 16.5 for this year, year ending.

Bino: So, this quarter in that sense is a bit of an abrasion. And second sir, any guidance on any update on launch of Dabigatran in the US and Suprep in the US?

Amit Ghare: We do not talk at product level, but Dabigatran, we obviously launched. We are the only one of the two generics which are approved, and we continue to face supply chain challenges.

Bino: And any indication of resolution of those supply chain challenges?

Amit Ghare: We are always working towards resolving them sooner, but then there are few things required at the end as well because we were adding a secondary source of API, I think we had discussed that earlier and we are sort of depending on that. And that obviously needs approval from FDA. The primary source obviously continues, but we don't really get supplies from there. So, that's been a supply chain challenge for us.

Bino: And you don't want to guide on Suprep?

Amit Ghare: Suprep, we haven't launched, we haven't been approved and haven't launched as yet.

Moderator: Thank you. We take the next question from the line of Bansi from JP Morgan. Please go ahead.

Bansi: Just probing on our margins once again. So, in this quarter, we are at 61%. And this is despite Pen G prices remaining elevated. If you were to just take a medium-term view and assuming that Pen G prices are do ease off with production capacity coming on stream next year from Aurobindo. What is the upside that one could expect on the gross margin front?

Rajesh Dubey: See Bansi, our estimate it says our gross margin is going to be remain somewhere close to 59.5% to 60%. Of course, we have considered Pen G price, what is going on today. So, nobody knows if the price comes back to say $9, then accordingly there would be upside. But we are realistic in our estimate. And we feel on annualized basis, we are going to remain somewhere close to our guidance.

Sandeep Singh: Even Aurobindo, when they come on stage, doesn't mean we'll get it cheaper. We don't know. We will face it as it comes.

Bansi: But even if they were to say sell at the market price, is there any savings from Forex perspective or from logistics cost saving perspective?

Sandeep Singh: Yes, savings are going on. That's why you see those numbers.

Dr Vikas Gupta: Bansi, I think it is hypothetical as on date. We will have more clarity on it once that really hits the market. So, before that, anything would be only speculative.

Bansi: And secondly, my question is on employee costs, that has reduced sequentially and year-over-year as well. So, any specific reason for that?

Dr Vikas Gupta: Yes, we've run internally various cost saving projects and the cost is lesser because we have optimized our manpower costs in plants and R&D especially. So, that is sustainable and that is something that has really resulted into it. Of course, we don't see it sequentially continuing to fall, but I guess, the initiatives that were taken that have sort of resulted in this kind of savings on the manpower.

Bansi: So, basically assuming normalized growth on this base from here on onwards?

Dr Vikas Gupta: Yes.

Bansi: And lastly, my question is on our strategy for the chronic business of ours. So, if I were to take a longer-term historical trend, Alkem's market share has remained somewhere around 1.8%-1.9% in the chronic segment. We've been in the business for some years now. On a small base, the growth rates have been good, but how do you make meaningful gains from here on and how do you increase the productivity of MRs in this particular segment from here on?

Dr Vikas Gupta: Yes, absolutely. So, chronic, we have a clear strategy that we have in place and that's one of the most important areas and levers of growth for domestic business in India. Even now, we continue to outperform in one or two segments in Chronic especially if you will look at the anti-diabetics, the recent launches have done pretty well and there we have much higher market share than as compared to the overall market share in chronic business. As you said, we are focusing on improving the productivity and getting our topline growth as well as a profitable topline growth, especially in the chronic segment. So, I guess our journey of growth in chronic would continue. We would continue to beat the market in chronic especially on the diabetic, anti-diabetic side and cardiology and CNS. These are the areas where we are making good inroads, especially with the key products that are going to be big brands for the future. So, in the coming quarters, you will see good growth coming, continuing to come out of the chronic very much.

Bansi: And the investments pertaining to MR here, are all done with?

Dr Vikas Gupta: Yes. So, as I mentioned, there are no expansion plans so to say, of course, there will be minor additions here, there, which we may continue to do as and when the business needs it. But the game plan over there is more on increasing the productivity and that's the prime focus and chronic whatever manpower allocation also had to be done that is done, that is in place. Now the whole game is about increasing the productivity and gaining market share.

Moderator: Thank you. We take the next question from the line of Hussain from Carnelian capital, please go-ahead sir.

Hussain: I just wanted to understand on the chronic side, how are we planning to ramp up and increase our share in the chronic side, in the overall share of our revenue? That is the question number one. Secondly, on the US side, as you see, most of the pharma companies are saying that the pricing pressure has eased and now most of the companies whose base business has started to improve. So, how do we see our base business improving and how do we see things going forward? And since we are now conscious on filing the ANDAs and capital allocation, so since the US business has started to improve, so how are we strategizing our growth in the US space and how do we see the US as a share of the total revenue increasing going forward?

Dr. Vikas Gupta: So, I'll take it. First on your question of chronic, I think I already answered when Bansi was asking this. Chronic is a very important area and important lever of growth for us at domestic. Our key focus areas over there which are cardiac, diabetic and CNS, so in all these businesses are growing strong double digits, so that is that is how I'll put across in terms of the growth numbers. The growth will be largely, it is not a manpower led, expansion led growth, it is now going to concentrate on few brands that we're going to build for the future and that's what is going to drive the growth, that's on the chronic side. And we are improving our profitability of that business with every passing quarter, that's the other piece in terms of the chronic business. With regards to the US, like Amit also already answered, the price erosion that was seen earlier in the US market has eased out this year. And same is the trend that we have also seen in our business. So, our business also has not seen that kind of price erosion that we were seeing earlier. So, we are pretty much in line with the market. Now in future, whether the prices again begin to deflate, only time will tell, but our expectation is that should not be the case because we are assuming in many segments, the prices have sort of bottomed out or they will continue to erode at a mid-single digit kind of degrowth that we would see on the pricing. With regards to ANDA, I think we have already answered that we are targeting around 8 to 9 filings even for this year. So, going forward, we are picking up those products and those markets where the payback of entry to the market is much more profitable than what it is and which are less likely to see that kind of price erosion. But in US market how it plays out, it's only after the entry of the product to the market that we will get to realize, that we will get to see it.

Hussain: Got it. And just one question on the anti-infectives. So, our growth was 3.7% in the first half of FY24, which was lesser than the IPM growth of 5.7%. Any specific reason where we lacked in terms of the anti-infectives?

Dr. Vikas Gupta: So, I guess we are pretty much in line, I would say more or less a little bit here and there as compared to the overall market growth, but that's largely on account of our higher dependence on certain geographies, which saw much sluggish growth even in terms of market. So, the weighted average for us has come into play. So, I think it's, but that's not too much of a concern.

I would say on an H1 basis, we are more or less a little bit here, there in line with the market growth.

Hussain: And just last one thing. So, just wanted to understand sir, any specific mandate that has been given to you in terms of the company's growth, that has been given in terms of how to streamline or how to ramp up the overall growth and taking the company to the next level, just wanted to understand from you.

Dr. Vikas Gupta: Yes, so no different from what the guidance has been given to the market in every quarterly call. So, I guess it's pretty much the same mandate that I have, and I will make sure and make my best efforts to meet up all the expectations that have been laid out.

Moderator: Thank you, sir. We take the next question from the line of Chirag Dagli from DSP BlackRock. Please go ahead, sir.

Chirag Dagli: Sir, has the full benefit of cost saving initiatives in the US played out in the second quarter or more of that is expected as we go along?

Sandeep Singh: More or less but I think it's ongoing, but yes more or less. We can't keep cutting it to the bone, so I think we have done that more or less.

Chirag Dagli: Understood sir. And the US prices still seem to be eroding albeit at a lesser extent, but that should not have helped our gross margin improvement, correct? Because prices still continue to erode unless raw material prices have actually fallen even more than that erosion.

Rajesh Dubey: In fact, I was talking on mix, our sales mix. So, product having better margin, they contributed more in these sales. So, that was my meeting.

Chirag Dagli: So, US gross margins, how would they have behaved?

Rajesh Dubey: So, if better margin product we sell more, then definitely we are going to have better gross margin also.

Chirag Dagli: The mix in the US is also better, is what you're indicating.

Dr Vikas Gupta: We are talking about mix in US.

Rajesh Dubey: Primarily, yes.

Chirag Dagli: Understood. And just a last question, if I can squeeze in. How has October been for the India business?

Dr. Vikas Gupta: Yes, it's been fairly in line with the market. So, it has been a good month.

Moderator: Thank you, sir. The next question is from the line of Nithya from Bernstein, please go ahead.

Nithya: So, on the gross margin expansion, what I'm trying to understand is even though you've achieved a substantial expansion in this quarter, you're still guiding to a fairly subdued number by the end of the year. if you can help us understand what were the contributors, at least if you can rank order the different contributors, raw material prices improvement, US pricing improvement, mix improvement, so that we understand what is possibly one-off and what is possibly likely to sustain in the future?

Rajesh Dubey: So, there is nothing one-off in this quarter, Nithya, and our guidance is for annualized. So, in fact, guidance we have given earlier, I think nothing significant change is going to happen. In this call only, earlier analyst, he asked what is going to happen when API prices is going to get further reduced. So, all those are future, and we do not want to comment. Our estimate and understanding business projection we have. We are confident we will be matching 59.5% guidance we have given. And this I am talking on annualized basis. Quarter two is not in all respect indicator for annual. So, I think we will be able to achieve.

Dr. Vikas Gupta: So, just to add to it, Nithya, the mix that we have in US, we are not sure whether the same mix will continue in the coming quarters as well. So, that you may still, if you want to qualify as a one-off, you may look at that. So, whatever has been the addition on account of mix in US, we may not see, but whatever has been on account of the raw material pricing easing out, we expect it to remain that way, if not become better.

Nithya: Thank you for the clarification, Vikas, and good to see you on the other side of the table. I have just one more question on Denosumab. What are your thoughts on how you plan to commercialize the product in the US? Will that be in-house? Will you find a partner?

Sandeep Singh: Denosumab, yes, so I think we can do it in-house, but we're also open to finding a partner. See, we are still in the early days of switch ability and all that in US. So, 2026 is what we think we could do, late 2026. So, I think we will reach that stage soon. But as of now, I think we could do it on our own.

Moderator: Thank you. We'll take the next question from the line of Gagan Thareja from ASK Investment Managers. Please go ahead, sir.

Gagan Thareja: So, the first question pertains to the cost-cutting program. In the start of the year you indicated that US specificity you had a Rs. 250 crore cost-cutting program that's the annualized number. Are we trending at the Rs. 250 crore annualized savings?

Rajesh Dubey: So, I don't think Rs. 250 crore it was alone for US. I think we never quantified any amount or outer line in any amount on account of cost cutting. Yes, we do have EBITDA margin improvement, right. And not to certain extent on larger extent that has started contributing to our profitability and that is the reason we started having better EBITDA margin also. So, it is combination of USA, it is combination of R&D, domestic plants also serving to USA, and even plants serving to domestic business also. So, it is all across.

Gagan Thareja: So, I understand that sir, with the number I am simply quoting from with reference to your past conference calls?

Sandeep Singh: So, that was not for the US. That was the overall corporate. That's all we are saying. We are not saying the number quoted was wrong. It was not for US. That's all we are saying. So, that includes India's spend, lot of stuff also, R&D.

Gagan Thareja: But have you been able to achieve that target or you feel..?

Sandeep Singh: Yes, we are close to it. I think from the numbers you can see that we are doing well, so we are obviously achieving it.

Gagan Thareja: And you indicated that India growth in the chronic therapies, now the focus is more on profitable growth. You know, you're looking at improving sales productivity. In principle, that is another margin lever. If you're able to execute what you intend to, which is to improve productivity. Theoretically speaking, your margin should see further room for growth even with gross margins being where they are. And in any case, gross margins improve as chronic grows at a higher pace than acute because it comes at higher gross margin. Is that line of thinking logical and correct?

Sandeep Singh: It is absolutely logical, but we gave you guidance of this year doesn't mean that beyond that we have not improved. So, obviously, logic is correct. I don't know what we're going to get at, but yes.

Dr. Vikas Gupta: And that's what we intend to do.

Gagan Thareja: And the final one, sir, any thoughts on capital allocation given that very strong cash position that you have currently?

Sandeep Singh: I think same as I said last time, we'll be slightly more open to M&A opportunities going forward. But one should not read too much into it. We'll take our time to understand. But we are more open than last few quarters, what I've been telling. So, we will scout for some M&A opportunities in the chronic segments and things like that. However, don't expect anything to play out in the next few months or something like that.

Gagan Thareja: And in ROW, you've had a good year this year so far. Could you elaborate and delve into why we have seen that strong leg up and can we think of a higher growth as being sustainable in the ROW markets for you from there on?

Sandeep Singh: Yes, I think it's sustainable. And Amit, maybe you can take that.

Amit Ghare: No, you are answering. I mean, yes, it's very much sustainable. We've gone to only a few geographies, we've targeted and we are obviously trying to grow business in those geographies. At the same time, obviously, every year we try and add one or two markets to enter. So, the growth that you witness is a combination of all of that and it is very much sustainable.

Moderator: Thank you, sir. The next question is from the line of Madhav Marda from Fedility Investment. Please go ahead.

Madhav Marda: I joined the call a little late. I just wanted to check that the US sale which you have said that mix tailwind might not last. I just wanted to understand what happened here like it was a one-off opportunity or what exactly played out and then why doesn't it continue? Could you just help us understand?

Amit Ghare: No one-offs, so there were no one-offs, but a combination of a few things. First and foremost, obviously, lower price deflation compared to previous years. Second is the first half for last year was a low base, so growth here obviously looks better and some new product launches. And overall product mix has kind of helped us. Some seasonality effect with season, the flu season and the overall season never really ended from last year. So, the summer months also had good growth on the anti-infectives. So, a combination of all that has led us to these numbers.

Madhav Marda: Okay, you said that tailwind, did I hear it right that it may not continue in the coming quarters or it will continue? Sorry, I didn't understand.

Dr Vikas Gupta: So, it wasn't about tailwind. What we said was the mix that we have got in this quarter may not exactly be the same in the coming quarters. So, the product mix might change, which might change the gross margin in the US business, just to clarify.

Moderator: Thank you. The next question is from the line of Kunal Dhamesha from Macquarie. Please go ahead, sir.

Kunal Dhamesha: One on the Denosumab, what is the expected R&D spend on this product?

Sandeep Singh: It will be like between $30 to $40 million. This is a clinical trial cost, so this is a CT cost, R&D cost you could add up a few million dollars.

Kunal Dhamesha: And this is right now in the R&D phase, not in the clinical phase?

Sandeep Singh: Clinical stage.

Kunal Dhamesha: It's in clinical stage?

Sandeep Singh: Absolutely yes. We have already disclosed we are doing phase 1, phase 3.

Kunal Dhamesha: And this $30-$40 million, is it somehow baked into current R&D numbers in some form or other?

Sandeep Singh: Yes, in every form, in the right form.

Kunal Dhamesha: So, how many quarters is it going to be there?

Sandeep Singh: I think it is going from the few quarters, last few quarters, maybe for more years going on. On the lumpiness, I'm not sure. It will go on for the next six months, I think, 6 to 9 months.

Kunal Dhamesha: The reason I'm asking is that R&D is like down almost 10% in first half on a year-on-year basis.

Sandeep Singh: Yes, as I said, it's not like a mathematical, H1 is equal to H2. So, even we have 5 lesser ANDAs. So, H2 you'll see a lot more ANDAs and things like that. So, yes, we have cut some R&D is for a small molecule I said earlier, but we continue to spread on R&D.

Kunal Dhamesha: And second on the trade generic business, we said it's grown at around 6%-7% year-on-year in this quarter. So, is it primarily because of the absence of the acute season or is there any competition?

Dr Vikas Gupta: No, it's absolutely. It's more to do with seasonality because on the generic side as well we have big anti-infective products. So, they have seen sluggish growth. Otherwise, there's no major reason for that.

Kunal Dhamesha: And last couple of questions on the US business. So, one on the Dabigatran, would we have supplied some channel filling quantity in this quarter?

Amit Ghare: No sales on Dabigatran in this quarter.

Kunal Dhamesha: But I think we earlier said we launched the product in this quarter.

Sandeep Singh: No, we did not say this quarter. Amit just said yes, launched it. He did not mention we launched in this quarter.

Amit Ghare: We launched in June 2022 of June-July period.

Kunal Dhamesha: And since then, we are facing the supply issues on and off.

Amit Ghare: We've done maybe small feeds after that or some sales after that as well, but certainly not this quarter.

Kunal Dhamesha: And last one on Suprep, so is there anything pending from our side or is it largely pending with the US FDA side?

Amit Ghare: So, it's pending with FDA and then obviously the launch is pending. So, we are not forecasting it in the immediate future.

Moderator: Thank you. The next question is from the line of Yash Tanna from iThought PMS. Please go ahead, sir.

Yash Tanna: We spoke about productivity improvement. Can you firstly give the breakup of productivity between Acute and Chronic and the company overall? What sort of productivity improvement are we targeting going forward probably in this year and in the next?

Dr. Vikas Gupta: So, currently, we are at around the overall basis of 4.6 productivity that we have.

Yash Tanna: This is for chronic right?

Dr. Vikas Gupta: No this is overall. Of course, acute is much higher and chronic is much lesser because we have lesser business over there. As I mentioned that we are targeting a strong double-digit growth as far as chronic business is concerned that will even bump up our overall productivity and of course the increase in productivity would be much higher in chronic than as compared to acute which is already at a higher productivity of close to around 7 lakhs.

Yash Tanna: Sure, right. And any numbers that we are trying to target for the year or the next year?

Dr. Vikas Gupta: As I mentioned, you can see a strong double-digit growth on that. So, I guess that is what we are targeting.

Yash Tanna: And sir, Sandeep sir mentioned about being slightly more open to M&A opportunities. So, which areas will we be looking at and what is the size that we will be looking at? I mean, would we be willing to take some debt for the same or it will be from the cash that we have?

Sandeep Singh: I think we have enough cash; we are not going to take debt and do a billion dollar acquisition any way close to that. So, I think chronic segment is what we are looking at, but we will come back more granularly as we kind of evaluate. But chronic could be a good segment, OTC, consumer could be a segment too but I think chronic would be the most highest priority.

Moderator: Thank you, sir. We will take the next question from the line of Gagan Thareja from ASK Investment Managers. Please go ahead.

Gagan Thareja: Based on your guidance, for this year, 16.5% possible OPM. Second half, if you back it out, comes to around 15% odd, if I have my calculation, correct ballpark. And last year second half was around 15%-15.5%. I'm wondering if you have the benefit of the cost-cutting programs and some tailwinds on raw materials, shouldn't it be reasonable to presume that second half should also be better Y-o-Y in margin terms whereas the guidance will tell you that it won't be so?

Sandeep Singh: I think it comes back to Vikas's answer also. See, the mix was good this quarter. If it remains, we could beat that. But in all reasonableness, we know that this year also be very sluggish here. So, quarter four always is weak. So, quarter four in a sluggish year could be weaker. So, I would not anticipate a huge positive thing. And your calculation is very right. I think we will be around close to that.

Gagan Thareja: But don't you think that the secular bit there is the cost that you control that is the case, ceteris paribus in-principle even with the same...

Sandeep Singh: I think that's accounted sir. Last year quarter three, I think EBITDA was 19.7 if I am correct. You mentioned some other number. Quarter 4 was 12.2.

Gagan Thareja: Yes, I'm saying last year's second half it was 15.5.

Sandeep Singh: Yes, so we'll be close to that.

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

Amit Khandelia: Thank you everyone for attending the call. If any of your queries are unanswered, please feel free to get in touch with me. Wishing you all a very Happy Diwali. See you next year.

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.