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14th August, 2023

To,

The Corporate Relationship Department **BSE Limited** Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai 400 001. ***Scrip Code: 539523***	**National Stock Exchange of India Limited** Exchange Plaza, Bandra Kurla Complex, Bandra East , Mumbai 400 051. ***Scrip Symbol: ALKEM***

Dear Sirs,

Sub: Q1 FY2024 - Earnings Conference Call Transcript

We enclose herewith the transcript of the "Q1 FY2024 Earnings Conference Call" which was hosted by the Company on Thursday, 10th August, 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: 2023.08.14 15:19:29 +05'30'

Manish Narang
President – Legal, Company Secretary & Compliance Officer

Encl: a/a

"Alkem Laboratories Limited Q1 FY2024 Earnings Conference Call"

August 10, 2023

ANALYST: MR. TUSHAR MANUDHANE – MOTILAL OSWAL FINANCIAL SERVICES LIMITED

MANAGEMENT: MR. SANDEEP SINGH – MANAGING DIRECTOR – ALKEM LABORATORIES

MR. RAJESH DUBEY – CHIEF FINANCIAL OFFICER – ALKEM LABORATORIES

MR. AMIT GHARE – PRESIDENT – INTERNATIONAL BUSINESS – ALKEM LABORATORIES

MR. YOGESH KAUSHAL – PRESIDENT – CHRONIC DIVISION – ALKEM LABORATORIES

MR. AMIT KHANDELIA- FINANCE TEAM – ALKEM LABORATORIES

Moderator: Ladies and gentlemen, good day, and welcome to Alkem Laboratories Limited Q1 FY2024 Earnings Conference Call hosted by Motilal Oswal Financial Services Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Tushar Manudhane from Motilal Oswal Financial Services Limited. Thank you and over to you Mr. Manudhane!

Tushar Manudhane: Thank you Michelle. Welcome to 1Q FY2024 Earnings Call of Alkem Laboratories. From the management side we have Mr. Sandeep Singh, Managing Director, Mr. Rajesh Dubey, CFO, Mr. Amit Ghare, President, International Business, Mr. Yogesh Kaushal, President, Chronic Division and Mr. Amit Khandelia from the finance team. Over to you Amit for the opening remarks!

Amit Khandelia: Thank you Tushar. Good afternoon everyone and thank you for joining us today for Alkem Laboratories Q1 FY2024 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 statement 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 Sandeep to present the key highlights of the quarter gone by and the strategy going forward. Over to you Sandeep.

Sandeep Singh: Thank you Amit. Good afternoon everyone. In Q1 FY2024 we witnessed good revenue growth in operations with an impressive increase of 15.2% year-on-year. This growth was primarily fueled by strong performance of our business in international markets wherein we have crossed Rs.1000 Crores for the quarter for the first time. Several key factors including the softening of select raw material prices, a favorable currency impact, easing of freight costs and the successful implementation of cost optimization efforts has led to better operational performance resulting in EBITDA margin of 13.1% for the quarter. We remain focused on optimizing our operations and driving profitability for sustained long term success. The quarter also witnessed good cash generation resulting in robust cash position of Rs.2430 Crores.

Coming to India business, we remain highly optimistic about our continued progress and firmly believe that we are well positioned to deliver market leading growth as we have always done in the past. Our growth in chronic therapy segment continues to outperform the market delivering sales of 15.8% year-on-year whereas the industry only grew by 9.9% year-on-year for the quarter. During the quarter we also gained one rank both in anti-diabetic and also in Neuro CNS therapy. Thank you. With this I think we are open for Q&A.

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

Saion Mukherjee: Good evening. My first question would be in the light of the Q1 results with respect to your guidance that you had given of double digit growth in India and around 16% EBITDA margin on a consolidated basis so how should we think about that and are you sort of revising any of these numbers?

Sandeep Singh: So on the guidance of revenue growth side, I think double digit growth currently seems challenging, but it will be very high single digits for sure. It also depends because acute focus on seasonality of Q2 and all so we will have to watch out for that to be honest Saion and if your question is also because on the EBITDA margin there we feel confident that the guidance of 16% EBITDA, we feel confident of achieving that Saion.

Saion Mukherjee: Okay and on the raw material pressure easing is there more room for gross margins to improve in the coming quarters?

Sandeep Singh: It is quite possible but we will have to watch out for that, but it seems to be that there is some relief there.

Saion Mukherjee: Thanks and my second question would be the pickup in international market both in US and other markets if you can give some color as to what is driving? Are there any one time opportunities because there is a very steep rise so or any country specific country which has contributed? Any more color if you can provide on the ramp up that we have seen in the international business and how sustainable it is going forward thanks.

Sandeep Singh: Mr Amit can you take that please

Amit Ghare: Thank you Sandeep. Saion there is particular market per se which has contributed to this growth. Of course, the overall growth in the US has been much more than the previous quarter. It is actually more than the last four quarters that we have seen sequentially or even year-on-year so that has kind of overall contributed, but you will also see other international business crossing Rs.300 Crores so not one particular market has helped the growth. I think a lot of markets are working together and growing very well has contributed to the final numbers.

Saion Mukherjee: Okay so you think this number is sustainable, the international business revenue both in US in the next few years we should have this sustainable going forward?

Amit Ghare: For sure it is sustainable. Obviously, the pricing pressures or how the price deflation works particularly in US and in a few other markets will kind of define going forward, but as you asked in the first question of the first time there is no opportunistic business included here or no significant opportunistic over here, no one time businesses here.

Saion Mukherjee: Thank you. I will join back.

Moderator: Thank you. The next question is from the line of Foram Parekh from B&K Securities. Please go ahead.

Foram Parekh: Sir my question is we have good net cash of Rs.24 billion so can you just share on your capital allocation plan like how do you intend to utilize this cash? Do we see any sort of MNA activities or do we only want to expand on MR front if you can just give some sense on your capital allocation plan?

Sandeep Singh: Madam capital allocation plan is the same as we have already discussed in the last few quarters. Nothing has changed so that is number one. Obviously you cannot deploy capital of this kind on employing or deploying medical reps so that is out of the question. We also think we are more than adequately already deployed medical reps so there is no expansion happening there as well. Mr Dubey you want to add something on that.

Rajesh Dubey: No I think you have already covered that and in fact in most of the quarterly earnings call similar kind of clarification is provided and yes of course if we get some better opportunities definitely we have resources.

Foram Parekh: Okay and my second question is on the US front can you just give us some color are we seeing any easing of price erosion or stability in price erosion? What kind of price erosion are we seeing right now

Sandeep Singh: Mr. Ghare please can you take that.

Amit Ghare: Yes Sir thank you. Yes we were seeing some easing of pricing pressure in the whole of the last fiscal it may have been different quarter-on-quarter but overall in the entire fiscal last year we had double digit price deflation. For this particular quarter our pricing deflation was in single digits though it was in high single digits. Now currently in the middle of Q2 the pricing deflation still is in the high single digits, but it is not in double digits so it is better than what it was last year.

Foram Parekh: Sir our margins, EBITDA margin is kind of the lowest in the industry and in this kind of good times when we are easing of freight cost and API cost is easing so do we not see a standing our EBITDA margin guidance from 16% plus or minus 1%?

Sandeep Singh: Actually not madam. Freight was all time high last year so obviously there was some indication that it will come down. All this is factored in when we give a guidance of 16%. We have one of the lowest EBITDA margins so the work is on that, but we are not upgrading our guidance what we gave last time.

Foram Parekh: Okay, but in your future like two to three years time, do we see it going back to something in 20 what we saw earlier actually?

Sandeep Singh: We were never in 20s as far as I remember, but you can correct me. We must be like some freakish year it could be where we could be close to that but every year let us we have gained 50 to 100 basis point. We will try to increase and that is what we stick with.

Foram Parekh: Okay. That is helpful. Thank you.

Moderator: Thank you. We will take the next question from the line of Abdulkader Puranwala from ICICI Securities. Please go ahead.

Abdulkader Puranwala: Thank you for the opportunity. Sir my first question basically on the Saint Louis facility so have we completely shut down that in Q1 and has the cost savings now reflective into this 13% margin what we have reported?

Sandeep Singh: A large part of it but not all of it. The plant is on the winding up stage so it is not completely shut but we have like one fourth of the employees which we had last year so maybe we will tapper it down in the next couple of months. We could potentially have a buyer or shut it down.

Abdulkader Puranwala: Sir your single digit guidance growth guidance for India is it possible to break it down between the branded, generics and trade generics as to what could be the scenario for 2024?

Sandeep Singh: So I think the percentage that we have given first it would remain. The percentage of ratio will not change between trade generics and branded.

Abdulkader Puranwala: Okay and Sir in terms of your revenue contribution how much would be that in trade generic for the current quarter?

Sandeep Singh: It is close to 17% to 18.

Abdulkader Puranwala: Alright got it. I will join back the queue. Thank you.

Moderator: Thank you. We will take the next question from the line of Saurabh Kapadia from Sundaram Mutual Fund. Please go ahead.

Saurabh Kapadia: Thanks for the opportunity. Sir if you can talk about the NLEM impact on the Q1 numbers?

Rajesh Dubey: If I heard you correctly Saurabh you are asking NLEM impact. Yes NLEM impact actually we have opportunity. Actually we already exercise that opportunity to increase our DPCO covered products price increase by12.24% but in this Q1 it has come later part of the quarter from the month of June. So still this price increase impact in totality is expected to be there in Q2 and going forward.

Saurabh Kapadia: Okay. My second question, now, what was the capex for Q1 and what has been, is there any additional investment which has gone to this?

Rajesh Dubey: So capex for the quarter is somewhere close to Rs.78 Crores to Rs.80 Crores and we have already given guidance of Rs.300 Crores to Rs.350 Crores for entire year.

Saurabh Kapadia: Okay and any additionally investment on biosimilar?

Rajesh Dubey: This Rs.350 Crores includes even biosimilar capex also. Major chunk is for biosimilar only for your understanding.

Saurabh Kapadia: Okay thank you.

Moderator: Thank you. We will take the next question from the line of Kunal Dhamesh from Macquarie. Please go ahead.

Kunal Dhamesh: Thank you for the opportunity so the first question on the trade generic number that you suggested around 17% to 18% is that percentage of total revenue or is it percentage of India revenue?

Sandeep Singh: Total domestic.

Kunal Dhamesh: So I mean as far as I was aware we were somewhere around 21% to 22% on an annual so is there seasonality in the business?

Sandeep Singh: There is of course seasonality. There are a lot of other things yes so in 18% to 20% hover around that quarter to quarter.

Kunal Dhamesh: Growth or branded, generic and the trade generic is moving in tandem or would you say trade is still faster?

Sandeep Singh: This quarter has been lower for both. So I think this quarter will not be a good to answer that.

Kunal Dhamesh: But I am not saying this quarter like maybe for last 12 months.

Sandeep Singh: Yes, trade generic is always higher.

Kunal Dhamesh: Okay and let us say our cost efficiency measures I am not sure I might have missed it, I joined little late, but has that kind of contributed in this quarter or is it going to contribute.

Sandeep Singh: It has contributed.

Kunal Dhamesh: It has contributed so then we are basically, let us say to achieve that 16% EBITDA margin guidance generally Q2 and Q3 needs to do much better than what we are doing right? It is generally the case because of acute being higher?

Sandeep Singh: Correct.

Kunal Dhamesh: Okay perfect. Yes, I have no more questions. I will join the queue. Thank you.

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

Bino Pathiparampil: There is a Y-o-Y decrease in depreciation and amotorization is that because of the write off that we took last quarter?

Rajesh Dubey: Yes, there was some one off related to our US entity. Actually we took additional depreciation in Q1 of last year.

Bino Pathiparampil: Okay so this is a new base okay? Second, in the US there was this Dabigatran product which you could not launch because of supply issues, etc., etc., so any update on that?

Sandeep Singh: Amit you want to take that.

Amit Ghare: Sure. I guess you are talking about Dabigatran and Dabigatran we are still not in the market. We are still working on sorting our supply chain.

Bino Pathiparampil: Okay an update on Suprex if you are planning to launch anytime soon?

Amit Ghare: So we are not in the market in the recent future for generic.

Bino Pathiparampil: Thank you.

Moderator: Thank you. We will take the next question from the line of Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai: Thank you for the opportunity. My first question is if you can update us on your cost saving initiative so you mentioned earlier annual target around Rs.200 Crores to Rs.250 Crores savings so how you are doing there like for say 2024 are you confident about achieving the entire savings or it will be gradual move to that stated goal?

Sandeep Singh: Our CFO will take that question.

Rajesh Dubey: So definitely our cost saving exercise is going as per our plan and in this quarter also we have sizable amount in our bottom line. Your second question was whether we will be able to achieve Rs.200 Crores in this year. I think for sure Rs.110 Crores we have already taken in our budget. We will see. Our endeavor will be to have maximum but I do not think it will be Rs.200 Crores but definitely we will try to add maximum.

Damayanti Kerai: Okay but say it is not in this fiscal that is at the medium term goal and as you progress more there we should be seeing gradual up take from this 16% margin targets which you have indicated for FY2024? Should we work with that assumption?

Sandeep Singh: We already said that every year we will try to increase by 50 to 100 basis points and that is factored in what we are doing.

Damayanti Kerai: Okay and my second question is you talked about softening raw material prices so does that include softening prices for PenG also or that remains elevated?

Sandeep Singh: I think that is non PenG, PenG is still tough. Cephalosporin is still tough.

Damayanti Kerai: Okay it is still tough and my last question if you can state the current MR account and your productivity for India business?

Sandeep Singh: Mr. Yogesh.

Yogesh Kaushal: Totally we have 12,000 representatives okay and our productivity average at PCPM is around 5.4.

Damayanti Kerai: 5.4 lakh that is the average and if you can split that amount acute and chronic that will be also helpful?

Yogesh Kaushal: Acute around 5.9 and chronic 3.5.

Damayanti Kerai: Okay thanks. That is all. All the best.

Moderator: Thank you. We will take the next question from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Yes thanks for the follow-up. Sir on the capital allocation question, given the continual generation in cash and historically Alkem is very conservative, is there a possibility to significantly increase the dividend payout going forward?

Sandeep Singh: Going forward, I mean never say never, but as of now we have not revised our dividend policy so nothing in the near term horizon Saion but yes if this cash becomes like swelled up in a couple of years time we are still conservative in acquisition target, yes, then we would revise this, but we are still away from that.

Saion Mukherjee: Okay and one more if I can on bio similar initiatives you have been talking about certain technologies which differentiate you if you can give some more color as to how should we think about anything going forward from let us say Rs.140 Crores to Rs.150 Crores that you have over the next two to three years?

Sandeep Singh: So Saion thanks for that. So I think enzene will continue to grow rapidly and we are looking at enzene not just for bio similar right now, but we also in the CDMO part of that business also look pretty healthy. Obviously early days. We cannot be dead sure that this would be right, but I think CDMO and biotechnology are also a huge opportunity. So I think this business from this year will be close to 150 to 175 I think and this I think we can double this in a couple of years time may be, but let us watch for it Saion and take it with a pinch of salt. I think CDMO is a lumpy business. We really do not know how much will come and what is going to happen. So I think in the next six to eight months we will be very clear on because this is also a new segment. We are trying to learn and build it.

Saion Mukherjee: Okay and based on the traction in CDMO, is it with the innovators, biotech companies or with the biosimilar companies where you are seeing?

Sandeep Singh: No biosimilar we avoid because any biosimilar is a low price business for them to make it at someone else's plant is difficult. Most of them are innovators, but obviously small bio pharma to some subsidiaries of a large innovative company also we are working at. So yes, we are in talks with some mixed like large and small both and some of them seem to be finalizing also.

Saion Mukherjee: Okay great. Thank you.

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

Rashmi Shetty: Thanks for the opportunity. So you mentioned that we are running Enzene bio similar plus Enzene CDM segment sales at around Rs.150 Crores to Rs.175 Crores how much have they done in this Q1?

Sandeep Singh: So actually thanks for bringing it up. I think I stand corrected. I think we are close to 240 CR at enzene end of the financial year.

Rashmi Shetty: This financial year you will end up doing Rs.240 Crores?

Sandeep Singh: Rs.250 Crores and this Q1 we did a sales of around Rs.57 Crores Q1.

Rashmi Shetty: Okay and at EBITDA level are we doing still losses or are we expected to do losses at the end of the year?

Sandeep Singh: Yes, mild loss at the year in enzene yes. We will not be breaking even this year.

Rashmi Shetty: Okay so we should expect that that should happen in the following year?

Sandeep Singh: Yes, that is right.

Rashmi Shetty: Okay and how much of the R&D expenses is allocated to this businesses out of our total R&D in percentage terms if you can explain?

Sandeep Singh: One third of our R&D budget is for biotech right now.

Rashmi Shetty: Okay got it and just on India business I am just feeling that you are giving a very conservative number of high single digit because normally for Alkem Q2 and Q3 quarter was very good in terms of the domestic business that is what I understand do you not think that with the anti infectives and everything picking up in next two quarters we should actually be able to do at least low double digit sort of growth in domestic business?

Sandeep Singh: I hope what you are saying is totally right and we pray for it but look at Q1, we have slowed down compared to the IPM. So I think it would be prudent to temper expectation. We have no incentive to give a lower guidance or manage it, but yes, we really think that is going to go to double digits and we might. An acute based company, the season really supports, but that is like hoping that everything will go right.

Rashmi Shetty: Sir we are in the middle of the Q2, so are you seeing any sales picked up or you feel that it is muted?

Sandeep Singh: We do not see a very significant uptake compared to Q1.

Rashmi Shetty: Alright got it. Thank you. That is it from me.

Moderator: Thank you. We will take the next question from the line of Kunal Randeria from Nuvama. Please go ahead.

Kunal Randeria: Good afternoon. Mr. Ghare on the US business, you said that there was one off opportunity, right. So where did this such a sharp growth come from or the new launches or some market share gaining in some products or if you can just highlight?

Amit Ghare: No, it came across more from the existing business than really from the new product, but new products obviously did contribute to the growth. I just want to make sure that it is understood correctly. Q1 of last fiscal was down quite a lot. So if you really compare two fiscals back the growth is pretty modest or more or less flat little bit of growth. So really that is where we are. Whatever kind of we lost last year we have sort of gained back.

Kunal Randeria: Got it Sir and but any just to push a bit more while I understand Q1 base was unfavorable, but it is nothing out of the ordinary. By that I mean there is some competitor withdrawing from some molecule or anything of that sort, this is just normal business?

Amit Ghare: That is correct. There is nothing abnormal here or unsustainable here to be honest but like I said earlier, the easing in pricing pressure also helped us overall.

Kunal Randeria: Right, got it. Sir my second question is on the trade generic business now in the last 12 months, several new big Pharma companies, domestic Pharma companies have entered this business, do you think in the longer run it could cannibalize the branded business for the industry?

Sandeep Singh: So your question was on trade.

Kunal Randeria: Yes So I am saying a lot of people, a lot of big Pharma companies from India have entered this business so could it cannibalize the branded market that would disturb the branded market in the longer run?

Sandeep Singh: I think in the long run there would be some impact but in the long term, there could be some structural impact. I think one is trade generics, and private labels from pharmacy chains or that we keep hearing so yes long term there could be some impact.

Kunal Randeria: Sure and since may be the largest or second largest player in this is there any moat to this business?

Sandeep Singh: That is a great question. So actually, these are these are brands in itself because they have the brand names also. The retailer and stockiest push it. So your moat is your relationship with the stockiest and retailer, which is built over many years and even the consumers, I mean, who consume the medicine they know about these companies. So it is not only a pricing game. It is a misconception. In fact as I kind of said sometime back, I think trade generics are also not a great word for this business because these are brands actually. These are trade brands you could call them. A lot of products of Alkem are picked up by the consumer by picking the brand name. We do not call on the doctor but we call on the stockiest and retailer.

Kunal Randeria: Great got it. Thank you and all the best.

Moderator: Thank you. We will take the next question from the line of Chirag from DSP Mutual Fund. Please go ahead.

Chirag: Thank you for the opportunity. Sir have we taken any price hikes in the trade generic business also?

Rajesh Dubey: Yes definitely price hike is there. That is one component of growth we are forecasting the trade generic. But there are a lot of analysis needs to be done to what extent we can take price.

Sandeep Singh: But we have taken in the Q1 just to answer and that is a great question is going to prove that we are a brand. It is not just pricing.

Chirag: So when we think of this business longer term in general when we think of the branded business, we think about it as a 3%, 4% and 5% kind of price hike generally is that true for trade generic or so, although it may not be as linear, but generally when you think of it in blocks of three or four years? Does that kind of price hike come through?

Sandeep Singh: I would say not like the branded like prescriptions. It depends on the segment. So if it has an OTX component, you can have a price rise 3% to 5% every year. But on the others, it depends on some dynamics of competition and things like that also.

Chirag: Sir my question is based on historical data over the last four to five years have you seen low single digit kind of price hike in your portfolio?

Sandeep Singh: We have but it comes in lumps.

Chirag: Correct, understood but you have seen mid single digit or low single digit kind of price hike in that business?

Sandeep Singh: Yes kind of IRR yes we kind of take a hike.

Chirag: Understood okay fair point and Sir you also talked about India business is growing in high single digit this year for you? In your assessment, how much will IPM grow this year?

Sandeep Singh: In my assessment, IPM would grow by maybe 8%.

Chirag: And in that context, you were thinking about Alkem business growing in a similar?

Sandeep Singh: Similar to may be 100 to 200 and maximum 200 will make us reach double digits, but yes close to that.

Chirag: Understood okay fair point and typically your procurement for your large molecules in the coming season, when does it start and how does this play out for Penicillin G based products for the coming season?

Rajesh Dubey: So our raw material procurement and other material, it keeps on continuous basis. Normally we build inventory of RMPM for our production schedules. But wherever we foresee and we get indication prices are going to increase definitely we tried to make inventory little bit on higher level but beyond certain extent you cannot have inventory. So just to answer to your question, it is continuous exercise. If the prices are on the higher side and it is expensive you cannot avoid. Instead of one and a half months or two months raw material you can go and add for another 15 days not beyond that or a month or so, so the answer to your question if prices are on higher side, definitely it will be part of our CUGS.

Chirag: Understood okay and just the last question that if I can squeeze the chronic business today is it contributing to EBITDA?

Yogesh Kaushal: Yes, sure it does so chronic almost contribute close to 20% to the business. I mean to overall chronic business if you ask chronic contributes to itself around 18% to 20% EBITDA so this EBITDA margin to the chronic business I'm saying.

Chirag: So chronic business margins are also similar to what you make on an India business?

Sandeep Singh: No, I mean, yes, overall, yes but that with an acute we make far higher. I mean I am sure you know.

Chirag: Perfect. Thank you so much Sir.

Moderator: Thank you. We will take the next question from the line of Mehul Sheth from Axis Capital. Please go ahead.

Mehul Sheth: Thank you for the opportunity. Sir the first question is on domestic side so when we see around 7% Q1 so this can you break it down between the volume price and new launches how the growth was and similarly you are expecting high single digit growth so will it be like a volume on your expectation on this growth drivers?

Yogesh Kaushal: So quarter if you ask me then the volume growth is close to 1%, new launches is 3.7% and NRV is 2.3%.

Mehul Sheth: Sir for the full year like when we share a high single digit growth say 8% to 9% or at power which market then what will be your expectation? Is the volume recovery visible?

Yogesh Kaushal: So you can expect the reasonable good recovery from NRV because our DPCO impact the price impact will be see more in Q2 onwards so large impacts will come through NRV and a reasonably good amount will come through volume size so these two will contribute to the growth factor in next two to three quarters.

Mehul Sheth: Sir last on some tax rate hikes so this quarter was around 18% so what will be the annual ETR for the coming?

Rajesh Dubey: Yes actually we are revising our guidance on the effective tax rate. It is going to be between 17% to 19% and if we compare with last year definitely it is on higher side because of some compliance related things related to marketing services so some of the marketing expenses we considered as allowances and second thing our profit from non-exempted plant it increased that is mainly our export business so if that mix is going to change then definitely we are going to have higher effective tax rate and to conclude for this year we are going to be in between 17% to 19% on effective tax.

Mehul Sheth: The question was like any forex impact in other expenses because of this?

Rajesh Dubey: No it is not there in other expenses at least for this quarter because we have positive impact of forex and it has not gone under other expenses.

Mehul Sheth: Okay Sir. Thank you. That is all from my side thank you.

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

Gagan Thareja: Sir the first question is around the other expenses for the quarter? It is up 21% year-on-year against the sales growth of 15% and if I adjust for R&D which is actually slightly lower year-on-year, then the other expenses excluding R&D are actually up 28% year-on-year? Can you explain and elaborate there? I mean I would have thought that you were undertaking cost cutting exercises, so this should reflect in the other expenses line item?

Rajesh Dubey: Generally it depends on what kind of phasing you have for your marketing expense so for this year in Q1 phasing related to marketing expenses little bit on a higher side and definitely to certain extent it got neutralized because of softening of freight especially export freight that is very true. Yes even R&D spending it is on little bit on lower side but it is a phasing of marketing expense. So we spend a little bit higher in Q1. So definitely Q3 and Q4 is going to have impact of that to certain extent.

Gagan Thareja: So I mean, are you suggesting that in the coming quarters of the year, the other expenses line item can actually be lower because you have up fronted certain amount of your marketing expense in the Q1 itself?

Rajesh Dubey: Yes, obviously because our annual EBITDA target guideline is 16%, so definitely that is going to reduce going forward.

Gagan Thareja: I mean this quarter your sales mix India to exports is two thirds to one third whereas normally for the full year I think it is higher for India so the sales mix would also have had some impact on margins? Would it then be fair to assume that as the sales mix normalizes it should show up in margins going ahead in the quarter?

Rajesh Dubey: Yes you are very right. Actually sales mix if it improves for domestic then definitely we are going to have better gross margin as well as EBITDA margin.

Gagan Thareja: You indicated that you were able to take the DPCO link price increase only in the month of June for the Q1? It was not effective for the first two months and if that is the case then again sequentially in the Q2 even that should help your gross margins and EBITDA margins would that be a fair assumption?

Rajesh Dubey: Yes actually in our guidance of 16%. We have factored all these things so increase in DPCO price whatever it has not come in Q1 that also is factored so I think you have given answer to most of the thing. If our product sales mix is changing then definitely we are going to have better margin but right now our projection and our guidance of 16% most of the things we have already factored.

Gagan Thareja: Last one. If you could just clarify? I did not hear the enzene top line number I was not able to hear it clearly? You indicated a certain sales number for the year and for the aspiration for the year and actual number for the quarter if you could just kindly repeat that?

Rajesh Dubey: Yes so for the year total top line for enzene on consolidated basis it is going to be Rs.260 Crores around.

Gagan Thareja: Last year?

Rajesh Dubey: Last year it was it was around Rs.160 Crores.

Gagan Thareja: You have recently launched I think additional products Cituxmab and some more is there anything more in the pipeline that you intend to end this year?

Sandeep Singh: Yes every year we intend to launch two to three products. There is certainly something coming up in the next quarter.

Gagan Thareja: Okay and you foresee a break even in Enzene in the coming year's right?

Sandeep Singh: Next year yes.

Gagan Thareja: And how has been the reception of your ophthal portfolio? I know it is early days but if you could give some idea on ophthal and also on the diabetes and cardio side? I think last year cardio was weak if I recall it correctly?

Sandeep Singh: So ophthal is very early. I would refrain from answering. I would love to answer you but just give us a quarter more. Cardio and diabetes Yogesh you can.

Yogesh Kaushal: I think you are right so diabetes you know that we are outperforming the market reasonably well. Cardiac, I think we have significantly improved now compared to last year where our evaluation index was below 90. Now in this quarter we have reached 98 and for the month it is 101. So if this trend continues in the next quarter also we have EI more than 100 and that is outperforming the market. So cardiac is reasonably settled.

Gagan Thareja: Sir for the chronic portfolio in India would it be reasonable to assume that you can sustain mid teens sort of a growth for the year? You have already got that sort of a number in the back for the Q1 or do you believe there is potential for it to be better?

Yogesh Kaushal: So we should be in and around that. We will aspire for better but mid teens is what we should be should be surely driving.

Gagan Thareja: Thank you. I will get back in the queue. Thank you.

Moderator: Thank you. We will take the next question from the line of Punit Pujara from Helios Capital. Please go ahead.

Punit Pujara: Thanks for taking my question. So you added to $12 million to $13 million in the US business both on quarter-on-quarter and on year-on-year basis so I just wanted to know because of that and cost cutting measures would have aided your EBITDA profile so I wanted to know are we in profits in the US right now? I am not looking for a number but just directionally is it profitable at the current juncture?

Rajesh Dubey: Yes so answer to your question at business level are we profitable yes definitely we are profitable without taking few of the overheads. Here I am referring corporate overhead or similar kind of overheads so definitely we are in profit and I am sorry what was your first question.

Punit Pujara: The question was on profitability only? There is no slicing and dicing anything after R&D and overheads everything put together that was my question Sir?

Rajesh Dubey: At business level we are in positive.

Punit Pujara: Understood Sir and last quarter you had indicated that you are incurring capex for enzene in the US what other project commissioning timelines are you anticipating?

Sandeep Singh: Yes one and a half years away at least from that one and a half years away.

Punit Pujara: Sure and Sir quick last question from my side what is the R&D guidance for the full year considering the revenue guidance revision?

Sandeep Singh: 5% is a good estimate.

Punit Pujara: Understood Sir. That answers my question. I will jump back in queue. Thank you.

Moderator: Thank you. We will take the next question from the line of Akash Dobhada from Motilal Oswal Financial Services Limited. Please go ahead.

Akash Dobhada: Thank you for the opportunity. I just want to know the gross margin guidance for the year?

Rajesh Dubey: Gross margin guidance we have already given 59% to 59.5% and that will maintain.

Akash Dobhada: Okay thank you.

Moderator: Thank you. We will take the next question from the line of Amar Maurya from Alfaccurate Advisors. Please go ahead.

Amar Maurya: Sir my first question is on the MR strength what would be the broad breakup between the acute and chronic?

Yogesh Kaushal: So we have 20% of our overall reps is chronic, so out of 12,000, 2400 for chronic.

Amar Maurya: Okay so basically, Sir, I think earlier, so the productivity level if I see has significantly improved in the chronic versus the acute which we were expecting to improve further? I think that has not inched up to the level which we were expecting? Any specific reason or that Sir?

Yogesh Kaushal: Largely because of expansion so while that level blended level you might see productivity is stagnated but this is because of increase in manpower. So last year we expanded close to around 800 odd reps, so that dilutes our productivity. That is the reason you might be seeing a stagnated productivity.

Amar Maurya: So now given the pickup and all, it should improve from here on?

Yogesh Kaushal: Yes.

Amar Maurya: Okay fine Sir. Thank you.

Moderator: Thank you. We will take the next question from the line of Kunal Dhamesh from Macquarie. Please go ahead.

Kunal Dhamesh: Thank you for the opportunity again. I just wanted to understand on the Enzene business right now it is all revenue coming from India and secondly on the same Enzene business if you could help us understand the economics of the business as to the gross margin right now and the fixed operating cost so once you grow how much improvement can come from there that is the first question?

Sandeep Singh: Sure so I think we will answer not all of it honestly. It is too early on gross margin and fixed cost and all. We would love to answer you when it is larger business. We will give you a split between international and India so we will start with international and then India. International is 20% and domestic is 80% including CDMO and products both.

Kunal Dhamesh: Okay and the plant if you can help us with the let us say bioreactor capacity and has it been inspected by which agency still now?

Sandeep Singh: Yes it is inspected by the DG Australia and we have acquired EU so they would also come in sometimes but it is DG approved in recruited markets it is DG approved.

Kunal Dhamesh: Sure and the capacity front bio reactor capacity?

Sandeep Singh: We will come back on that. We do not have it off hand. We will answer separately.

Kunal Dhamesh: Sure and secondly on the EBITDA margin improvement let us say beyond FY2024 which we are suggesting 50 to 100 basis points every year? Now the way I see it there are three to four drivers right at least for FY2025 we would see incremental cost efficiency and then Enzenes profitability improvements and then the general operating leverage in India? I mean so my question here is does this 1500 basis points incremental improvements would that also assume raw material prices of some of our keys molecules going down?

Sandeep Singh: Yes some part of it that would have to play out and operating leverage would play a large part of it beyond FY2025.

Kunal Dhamesh: Okay sure and the last one if I may on trade generic business you have said that we can take price, etc., but generally I mean when I look at our trade generic prices as compared to the branded prices for the same molecules they are generally around 10% to 15% cheaper right so to that extent we do not have that much kind of leeway is a fair assessment or I am wrong here in terms of numbers?

Sandeep Singh: I think we do not have that much of leeway compared to branded generics for sure that is a fair assumption but we stand by what we said. We do take a price increase in trade generics as well not as structured as branded generics but they do come and they come in lumps.

Kunal Dhamesh: At any point have we thought about some of our peers has changed their strategy by putting some of the big brands into these consumer healthcare buckets? Would we also plan to do this at some point?

Sandeep Singh: Certainly we will do it and we will think about it and that is very interesting but we also have to think that it is a huge franchise. We have the doctors so it will have to be careful on that but we certainly think about that to answer you and as a possibility in the next couple of years we might think about that.

Kunal Dhamesh: And what benefit could it bring for us I mean on a broader level I am not asking for exact benefits in terms of margin, etc., but like strategically?

Sandeep Singh: I think just the larger consumer base and whenever this is done normally you do see a dip in the first year to year and a half but then there are a lot of examples what happened in Ranbaxy when they went from RX to OTCs they did become large brands Revital and the pain killers and all that stuff.

Kunal Dhamesh: Sure thank you and all the best.

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

Rashmi Shetty: Thanks for the follow us. Sir do we have any claims of overpricing some DPCO scheme?

Sandeep Singh: Not any significant that has come to our notice. They keep on communicating and then we clarify them so nothing significant as such.

Rashmi Shetty: OK and for the US capex how many launches have we planned for the year any specific number you would like to call out?

Sandeep Singh: Mr Ghare you can take that please.

Amit Ghare: This year we have planned about eight launches in the US.

Rashmi Shetty: Okay and these are mainly OSD right?

Amit Ghare: That is correct, but like we have said in the past we also do liquid, we do powder, we do needle space so yes there are spread across these dosage forms.

Rashmi Shetty: Got it and Sir on international business can we take this as a new base of Q1 of roughly Rs.319 Crores as you already mentioned that all the markets are contributing to the overall growth?

Amit Ghare: Yes there is nothing which is one time here so to that extent this base can be taken. Of course quarter-on-quarter some variance will always come.

Rashmi Shetty: Alright thank you Sir. That is it from mine.

Moderator: Thank you. We will take the next question from the line of Mehul Sheth from Axis Capital. Please go ahead.

Mehul Sheth: Thank you for the follow-up. Sir just one clarification when you said your tax guidance of 17% to 19% it is for FY2024 or even for FY2026?

Rajesh Dubey: This was for FY2024. FY2025 we will come back to you after seeing FY2024 so this 17% to 19% is for FY2024.

Mehul Sheth: Sir just one more like when we talk about capital allocation do you have any plan like to foray into ventures like consumer healthcare or anything like some of the peers are doing that?

Sandeep Singh: Sorry your question was what consumer.

Mehul Sheth: Consumer healthcare kind of venture like?

Sandeep Singh: Yes I mean we think about it every day. It is interesting but the EBITDA margin was impacted so we will have to think about that because this first two three years would be marketing spend would be high so will time it adequately but right now we do not have any plans to foray into it.

Mehul Sheth: Okay Sir thank you. Thank you for the clarification that is all.

Moderator: Thank you. Ladies and gentlemen, this will be the last question for today which is from the line of Saion Mukherjee from Nomura?

Saion Mukherjee: Thanks for the follow-up, just one clarification on the international business I mean typically we have seen a lot of volatility with many companies but for Alkem it has been a very steady growth if you can give some idea as to this is entirely branded generic kind of business or you also have some tenders which can go up and down so the nature of the business at an overall level and some of the markets like CD and all which is a large market we have seen consistently 30% to 40% CAGR kind of growth in the last four to five years so how are you sort of driving this if you can give some idea on that.

Sandeep Singh: Mr. Ghare you can take that.

Amit Ghare: Sure there are businesses which have the institutional component, so no two things about it, but the overall business is obviously achieved based on each market looking at their numbers and looking at all the areas that we can expand or grow in and the first point really trying to answer your question was we have a bigger slice of this interchangeable genetic business versus the branded business so that clearly is the aspect or that is clearly the way we operate. There is no one particular market which kind of jumps out and like I said earlier there is no one time business that came into these numbers so we strongly believe that these are sustainable and there will always be some variance quarter-on-quarter.

Saion Mukherjee: Sir so what is the spread between institutions, generic and branded generic approximately?

Rajesh Dubey: There is nothing like institutional so I do not want to get it that way but the interchangeable generic versus branded generic that is 90% is interchangeable generic and 10% is branded generic. This is overall international business.

Saion Mukherjee: Thank you. That is all.

Moderator: Thank you. That was the last question for today I would now like to hand the conference over to Mr. Amit Khandelia for closing comments. Over to you Sir.

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. Thank you.

Moderator: Thank you very much sir and the members of management. Ladies and gentlemen, on behalf of Motilal Oswal Financial Services that concludes this conference. We thank you for joining us and you may now disconnect your lines. Thank you.