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14th February, 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***

Dear Sirs,

Sub: Q3 FY2024 - Earnings Conference Call Transcript

We enclose herewith the transcript of the "Q3 FY2024 Earnings Conference Call" which was hosted by the Company on Friday, 09th February, 2024.

The said transcript shall also be made available on the website of the Company at https://www.alkemlabs.com/earnings-call.php.

Kindly take the same on record.

Sincerely,
For **Alkem Laboratories Limited**

MANISH NARANG
Digitally signed by MANISH NARANG
Date: 2024.02.14 10:12:41 +05'30'

Manish Narang
President - Legal, Company Secretary & Compliance Officer

Encl.: a/a

"Alkem Laboratories Limited

Q3 FY24 Earnings Conference Call"

February 09, 2024

MANAGEMENT:	**DR. VIKAS GUPTA – CHIEF EXECUTIVE OFFICER – ALKEM LABORATORIES LIMITED** **MR. NITIN AGRAWAL -- CHIEF FINANCIAL OFFICER – ALKEM LABORATORIES LIMITED** **MR. KUNAL KOTHARI -- INVESTOR RELATIONS – ALKEM LABORATORIES LIMITED**
MODERATOR:	**MR. TUSHAR MANUDHANE – MOTILAL OSWAL FINANCIAL SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Alkem Laboratories Q3 FY '24 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 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 from Motilal Oswal Financial Services. Thank you, and over to you, sir.

Tushar Manudhane: Thanks, Rio. Good evening, and a warm welcome for 3Q FY '24 Earnings Call for Alkem Laboratories. From the management side, we have Dr. Vikas Gupta, CEO; and Mr. Nitin Agrawal, CFO. Over to you, sir, for the opening remarks.

Kunal Kothari: Thank you, Tushar. Good afternoon, everyone, and thank you for joining us today for Alkem Laboratories Q3 FY '24 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 Dr. Vikas Gupta to present the key highlights of the quarter gone by and the strategy going forward. Over to you, sir.

Vikas Gupta: Thank you so much, Kunal. A very good evening to everyone, and I sincerely appreciate your presence at today's earnings call. I would like to begin by wishing each one of you a very happy New Year. This is the first time in this New Year that we are catching up. So I wish everyone on the call a very, very Happy New Year.

I will start by presenting an overview of the significant operational and financial achievements in the previous quarter, and I shall be taking up any questions that you may have for our entire team. As many of you are aware, we recently announced the appointment of our new CFO. So Nitin Agrawal joins us as our CFO.

Nitin has almost 2 decades of experience in pharmaceutical and FMCG industry and his leadership and vision will play a pivotal role in our future growth strategy. I'm really excited to have him with me as part of our team, and I formally welcome Nitin on his first analyst interaction as the CFO of the company.

So we are pleased to report a strong operational performance in Q3, supported by significant gross margin enhancements, of course, supported by the lower raw material costs as well as lower intensity of price erosion in the U.S. market during Q3 of this year. I'm confident that our ongoing cost optimization efforts will persist in driving the improved performance even in times to come. So Q3 proved to be a good quarter overall for the company.

We had a Y-o-Y revenue growth of approximately 9%. Our EBITDA margin saw significant improvement by 160 basis points. So from 19.7%, it moved to 21.3%. While the net profit after tax for the quarter is around INR595 crores. During the quarter, we generated approximately INR600 crores in cash, reinforcing our balance sheet to establish a substantial net cash position of around INR3,500 crores as on December 31, 2023.

The domestic business, which saw sluggish growth due to seasonality of the portfolio during Q1 and Q2, saw a good offtake. So in Q3, our domestic business has outperformed the IPM growth by nearly 20 basis points, and that's largely we saw a very good offtake in the gastro portfolio in the VMN portfolio and the antidiabetic portfolio. Our trade generic franchise remains a key driver in our growth journey within India, and we are growing strength by strength as far as that business is concerned.

Our international business has also delivered steady growth. Although our U.S. business de-grew on the back of high base of last year. Last year, we had seen a very significant flu outbreak in U.S., which led to an offtake in our portfolio. And this year, that has not shown that kind of growth. But our non-U.S. business, which is -- that has significantly contributed during the quarter, both in terms of revenue as well as profitability. So that's on our international business.

And during the quarter, we received almost 6 -- yes, we received 6 ANDA approvals, including 1 tentative approval. All our manufacturing facilities supplying to U.S. except the Mandva plant are having no EIR as on date. So we came to sustain and carry forward this performance momentum into the remaining part of the year, and we are determined to improve profitability as we move along in the subsequent quarters as well.

So with this, I would like to open the floor for any questions that you may have for us. Thank you. Thank you for your patient listening.

Moderator: The first question is from Rashmi Shetty from Dolat Capital.

Rashmi Shetty: Congratulations on good set of numbers. Sir, just want to know a bit more about India business. Though we have given a very strong growth this quarter, and we have seen some recovery also in all the therapies, but we are still lower in anti-infective and pain segment versus IPM anti-infective and pain segment growth. So if you could give reasons for that, where we are lacking behind. And what are your plans to overcome it?

Vikas Gupta: Yes. So I think as a company, as I said, we are concentrating and moving more towards building therapies beyond anti-infectives and that we spoke about even in the previous call, and I will maintain that even going forward. That doesn't mean that we are diluting any focus. I think the growth -- lesser growth in anti-infective is largely a function of seasonality in the areas of strength. So we are a very strong company in certain geographies in India. And we saw sluggish growth of our anti-infective portfolio in those markets. So that's why I would say it's a weighted average that has pulled us down and that's why our anti-infective growth is looking sluggish.

We have the largest play in AMOXICLAV as a market. So AMOXICLAV as a market has also been not that progressive in this year as compared to last year, and that's what is putting our entire anti-infective portfolio down. But I'm sure as time progresses, we have our right focus, we have our right strategy in place in the coming quarters and in subsequent year, the coming year, you will see a good turnaround in that portfolio as we move along.

Rashmi Shetty: And about pain management?

Vikas Gupta: So pain management, our play is also not very strong. If you look at our overall portfolio, the contribution of pain management as such is not -- the contribution is not very high. So again, it's a portfolio issue, the pain portfolio that we have, that has not been one of the most progressive portfolio, but we have taken a note of this.

And we are coming up with newer opportunities in this area to make sure that we continue to outperform in that market. I think the key markets that we have, which is GI, which is one of our significant contributors to our portfolio, you can notice that we have really outperformed over there. So that's important.

And the weak area like antidiabetic, which chronic used to be a pain point for us. I'm really happy to see that we are really outperforming. The market has grown at only 5%, whereas we have grown at close to 16% plus. So that's a good uptick that we have seen in those markets, and that's the heartening sign. And the other piece is the vitamins and VMN portfolio. We have huge brand on the VMN side. We are one of the largest players. So those are our core segments, and I would say they have really outperformed the market.

Rashmi Shetty: And your chronic contribution now as on 9 months currently stands at how much?

Vikas Gupta: So the contributions have -- it still stands at around 17%, within the range of -- yes, around 17%, I would say.

Rashmi Shetty: Okay. And my second question is related to the international business growth. That is ex U.S. What are the factors that are actually contributing to this growth? Is it volume expansion or new launches or adding new geographies, if you can give some picture? And also in FY '25 and '26, whether we will see this growth getting normalized? Or there is still scope to see this kind of growth ahead?

Vikas Gupta: So our international growth, non-U.S. growth, the significant offtake has come from a few markets in LatAm, in Europe. These are the markets where we are seeing mainly the growth coming. I would say that these are sustainable. You would see even in '25, '26 because as an organization, we are focusing now on these markets much more than before.

And the best part is that these markets are -- the EBITDA margins are much more than the U.S. margins. So it's -- they're more profitable as compared to the U.S. market. So that's why we are in our quest of improving the profitability overall, we will be focusing more on these markets. So in '25, '26 as well, you will see the growth momentum continuing in these markets.

Moderator: Next question is from the line of Charul Agrawal from Bank of America.

Charul Agrawal: My question was on the cost line. So this quarter, we have seen significant reduction in the other expenses. So I wanted to understand what drove this reduction and can we see this as a sustainable...

Vikas Gupta: Yes. So this is -- you mean the cost reduction in the overall portfolio, the overall balance sheet?

Charul Agrawal: Yes. Cost reduction in 3Q versus the previous quarter?

Nitin Agrawal: Okay. I think this is a function of the gross margin. If you look at our gross margin, there is a significant improvement of around 2%. And that has actually flowed to the EBITDA margin also. So -- and the improvement in gross margin was on account of lower API prices. So a good part of our portfolio saw a reduction in API.

Also, as Vikas said that our focus on ROW, which is a higher gross margin market as related to U.S. has also contributed to increase in gross margin. And that is why you see a major reduction in the operating expenses.

Charul Agrawal: Sir, even on a Q-o-Q basis, like on a Q-o-Q basis, the gross margin is similar, right?

Nitin Agrawal: Yes, yes. And...

Vikas Gupta: So it's a function of both the reduction in the raw material cost as well as the mix, so that's the geography mix and the portfolio mix, which is contributing to this, Charul.

Moderator: Next question is from the line of Chirag from DSP.

Chirag: Sir, you mentioned you are determined to improve profitability. Just a little more colour around that. On a full year basis, historically, you've maintained that you can improve margin a 100 basis points. This year, clearly, you've done much better albeit on a low base. But when you say you want to improve profitability, what exactly do you mean just a little more colour around that?

Nitin Agrawal: So as we have given previously guidance of around 16% to 17% and looking at our YTD performance, where we are at 18.9%, but as we all know that Q4 traditionally has not been a very strong quarter for Alkem because of the seasonality and our dependency on anti-infective. So we expect to close the year at around 17% of EBITDA margin.

Chirag: Okay. And just some colour around the future, not just next quarter, but how should we think about because the business is obviously seasonal. So question was more on a sustainable basis, where should we think margin?

Vikas Gupta: So Chirag, my view that at that level, it should be a sustainable margin because the initiatives that we have taken have given us good improvement in various areas. So at 17%, I believe that should be sustainable. And going forward, we should look at improving it further. But that itself at 16% -- sorry, at 17% itself, we have 50 to 100 basis points improvement. And there is scope of improving it even further as the time progresses. But I would say that, that is the sustainable level at which we will operate.

Chirag: Understood, sir. Fair point. The other one was on dividends. You've announced INR35 dividend that is broadly only a quarter's cash flow. We are sitting on a very strong cash balance, business continues to generate a lot of cash. Any incremental thoughts on how you're thinking about deploying this cash?

Vikas Gupta: I said it on the previous call as well, Chirag. We are looking at various opportunities of deploying balance sheet cash, whether it means acquisition, whether it means putting it up into newer opportunities of growth for the organization. Right now, there is nothing that's available to us, which is at the -- no acquisition opportunity is there in front of us, which is at the right valuation. But as I mentioned earlier as well, if there is any opportunity that we would see, which makes sense to deploy this cash, we would be very open.

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

Kunal Dhamesha: First, on the other expense. I think previous participant also asked, the INR811 crores other expense in quarter 2 has gone down to INR740 crores in this quarter. So any particular reason for this? Is this more sustainable level from here on?

Vikas Gupta: Could you just, Kunal, once again repeat your question. I just had something in between. I missed you.

Kunal Dhamesha: Yes. So other expenses, other operating expenses in this quarter is around INR740 crores; quarter 2, it was INR811 crores. So any particular reason for it to be lower by this much amount in this quarter?

Nitin Agrawal: So Kunal, as you know, that quarter 2, because of the seasonality is one of the strongest quarters of Alkem because -- again, because of high dependency on anti-infective and because of monsoon and all. So as a percentage of sales, if you look at our other expenses have almost -- is in the same range in the last few quarters. And because of higher sales, there were higher marketing expenses in quarter 2 of the current year.

And that is why in absolute value term, though you see that there is a reduction. But in percentage terms, we are trying to maintain the same marketing expense as a percentage of sales. But definitely, there is a change in absolute value terms.

Kunal Dhamesha: But sir, as a percentage also, it has come down, right? Last quarter, it was 23.6%. This quarter, it's coming out to be 22.3%. So is there any ForEx gain, which has been netted off against it?

Nitin Agrawal: Yes. So there is an amount -- there is an element of ForEx, as you rightly pointed out. So there is an element of ForEx, which is around 0.2%, which has impacted the other expenses.

Kunal Dhamesha: Can you adjust the amount?

Nitin Agrawal: There's nothing material element. So it's more about seasonality and the mix of domestic and international again because in domestic, we have marketing expenses; in international, it's a generic business. So the marketing expense is not that high. And also, we have reduced our distribution expense in terms of our air freight. So previously, we were incurring some amount on air freight and now we have worked on a lot of efficiency in other projects. So our air freight amount has gone down significantly.

Kunal Dhamesha: And let's say, when you said that 17% EBITDA margin is more of a sustainable number and from there we can look to improve, but within that, such a large swing on a quarterly basis are expected, in your view? Because first quarter, we were at low teens, then for the last 2 quarters, we are at 21%, 22%. Again, quarter 4 would probably be subdued given our 17% EBITDA margin guidance. So is that a similar seasonality that we should expect going forward?

Vikas Gupta: Yes. As we will improve our portfolio mix and swing it more towards other therapies as well, you will see it getting improved over a period of time. So -- but if you will compare it to our previous year's performance as well, right now, it's pretty much in line with that. But as we progress and as we see growth on the portfolio, which is beyond our current core, then over a period of time, you will see that changing. But in a short-term basis, I wouldn't say that it will change substantially or there will be a major change.

Moderator: Next question is from the line of Yash Tanna from ithought PMS.

Yash Tanna: So this question is related to the previous participant. She mentioned about anti-infectives and pain. But even if I see respiratory and cardiac, right, there is some sort of underperformance even if I look at this quarter or 9-month basis, so if you can provide a clarification there, what are we trying to do to bridge this gap?

And secondly, my question was regarding the biosimilars. If you can provide an update on the pipeline and what are our plans going forward, probably in the medium term, next 2 to 3 years, how are we looking at launching these in the rest of the world markets and eventually into the regulated markets?

Vikas Gupta: Yes. So I'll pick up the question on respiratory and cardiology. Both these segments, as I mentioned earlier from -- in our portfolio are very small as on date. And that's why it doesn't really affect too much whereas antidiabetic is getting big and that is where we had focused. On respiratory, if you will see the new launches that we did, they are doing pretty well, right?

So our growths are -- you will see in the coming quarters, you will see really improving growths as far as the respiratory business is concerned because now we have put a lot of focus behind that. We are coming up with newer products as well. So I'm sure these 2 therapies will get addressed in times to come.

Taking up your biosimilar question, I think our strategy on biosimilar, we are pretty much on track. The number of products, whatever that we have launched. Now we have almost 7 products that we have already launched. And all the products are doing pretty well in their respective markets. If you will look at the overall performance of our subsidiary, we are registering significant growth as far as both on the CDMO business side as well as our internal brand building side.

Now going forward, in the coming years, we have this plan of introducing it to the other markets as well. Our initiatives are on track with regards to that plan. And I don't see a major significant deviation in that plan from before. So I think our biosimilar strategy is pretty much on track and we are -- every quarter, we are strengthening it as we move along.

Yash Tanna: Just a follow-up. So we were looking to breakeven in Enzene, right, in the next year. So are we on track for that? And any timelines you would like to give for biosimilar launches probably in rest of the world or other markets?

Nitin Agrawal: Yes. So definitely this year, we will break even in the biosimilar business. And as Vikas said, including CDMO, we will gross around INR200 crores from the biosimilar business, so which is a very good sign for all our efforts, which we have put in the last 5 to 10 years on biosimilars and we will breakeven also in this year.

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

Damayanti Kerai: My question is to Dr. Vikas. So you mentioned like you have been focusing on some key growth areas, you are working on cost optimization initiatives, etc. And despite that, at least in near term, I guess, you are keeping your margin expectation of around 17%. So I just wanted to understand, say, in medium term, what kind of margin aspirations you are having? And also, I guess, on India part, it remains majority of -- sorry, acute therapy portfolio. So say, next 3 to 5 years, what kind of mix you are looking between acute and chronic therapies in India?

Vikas Gupta: Yes. So clearly, chronic is our topmost focus. And over a period of time, our chronic will continue to grow much faster than the other portfolio and within its respective market also. We'll have market beating performance as well. So on a 3- to 5-year basis, clearly, I would see the pie changing. So today, we are at close to 17%, but I see upwards of 20% in the coming years as we move -- as we keep growing that business.

And perhaps that should answer some part of your first question as well that as we will see more and more growth on that side, the -- even the margins -- overall margins, we expect them to be much, I would say, better. But I would say the guidance of 17% is more -- was on the sustainable basis, and we will continue to improve over a period of time. I meant 17% as more on the sustainable basis, when I'm giving this year's, right?

Damayanti Kerai: Okay. So say, next 3 to 5 years with a substantial pickup in chronic and then ROW business doing very well, etc. Should we assume like 20% kind of margin is not unachievable for Alkem?

Vikas Gupta: Nothing is impossible, I would say, but I would refrain from -- over a period of time, you would see definite improvement, but I wouldn't put a number to it at this point in time. So -- but yes, I mean, these are the initiatives that we will continue to take, and we will monitor it quarter by quarter. And we will see those actions would definitely show down in terms of the overall margin improvement.

Damayanti Kerai: Sure. My next question is on Enzene. So you said it should be achieving breakeven this year. So like INR200 crores is the annual run rate, right, annual sales run rate for it. So what kind of investments are going into this subsidiary from the parent? And how do you see it moving ahead?

Nitin Agrawal: Damayanti, this is Nitin. As we said that this year, we'll breakeven. And definitely, there are a lot of opportunities in biosimilar business. So we don't want to restrict ourself only for India. And as you may know that we are also entering the U.S. market. So we want to invest more into R&D or biosimilar and some amount of CapEx will also go into biosimilar business because U.S. is a big opportunity for us in terms of CDMO business.

So -- but considering the size of Alkem, it will not be very significant. But yes, our focus in terms of R&D and in terms of building capability, biosimilar will be one of the big thing for us. But in terms of absolute numbers or in terms of absolute, say, percentage of sales or percentage of spend, it will not be very, very material for us. But -- yes...

Damayanti Kerai: Nitin, can you specify like what kind of...

Nitin Agrawal: Sorry.

Damayanti Kerai: Nitin, can you specify the investment, which you are looking for this Enzene, say, in next 1 to 2 years, both in R&D and CapEx? And how much you have invested cumulatively so far?

Nitin Agrawal: So in case of R&D, it will be in the range of INR100 crores to INR150 crores every year. And if you look at -- we have significantly reduced our other R&D expenses like we had a unit in St. Louis, so we have closed down that.

So overall R&D, as a percentage of sales, will remain within 4% to 4.5%, but the mix will change towards biosimilars and the focus will be on biosimilar, including other markets like USA market. But there will not be any significant increase at overall R&D spend.

Also in terms of capex, we are building a facility in U.S., so we will be -- or we have already started investing and the total cost will be around INR250 crores for that facility. After that, we don't see any significant, say, requirement of capex for the next few years because we already have a plant in Pune to cater to the domestic market and a few of the other markets other than U.S. With the U.S. facility coming up in next 2 to 3 years, we'll not need any further major CapEx expansion.

Moderator: The next question is from the line of Madhav from Fidelity.

Madhav: Just on the previous question on the R&D spend, you said, 4% to 4.5% of sales and then it should be absolute number will not grow. So could you just clarify like over the next 2, 3 years, how the R&D trajectory could look like? It's come off quite a bit in the last couple of quarters. And I think last -- 2Q, you mentioned that we've not filed anything in the U.S. So I don't know what is the right way to look at this spending going forward?

Nitin Agrawal: Generally, our R&D spend in quarter 4 is on the higher side because more filings happen in U.S. in quarter 4 and the filing expense is a major contributor towards R&D total spend. So currently, we are at 3.4%, but we may end the year around 4%, and that is what we feel we will be continuing between 4% to 4.5% for coming years also.

Madhav: 4%, you mean for quarter 4 or for the full year?

Nitin Agrawal: For the full year, for the full year. So quarter 4 may be a bit higher, but we will end the year with around 4%.

Madhav: And then just very like basic question, but as we try to shift the business more towards chronic versus acute. Could you give some sense in terms of how different gross margin profile is between the 2? And as we look out to -- look to build the chronic therapies for Alkem at a larger scale over the next couple of years, do we need to add a lot more toward MRs or to promotion spend, sales and marketing spend? Just how that will play out over the next couple of years?

Vikas Gupta: So just to take up this question. I don't think for growing that portfolio, we need to do something very different. Of course, whatever investments are required, we continue to make them, but that's not going to change the overall picture drastically. And we do not have a very major expansion at hand.

Of course, if there are a few people here and there that we need to do. I don't think any significant investments that would change the overall P&L substantially that is required to grow that portfolio. So I think that is not required. And margin profile differs on product to product, so we can't give you a number, which is a ballpark.

So but it's known in the market that acute portfolio generally has 10% to 15% lesser margin profile than as compared to the chronic portfolio. And then, that's the ballpark. But of course, it differs from product to product. So it depends on what products you are building versus the other. And also at some time, depending on raw material costs also that fluctuates. So that's how I would pick it up.

Nitin Agrawal: And also to add, a large part of our acute portfolio actually is semi-chronic like Vitamin D3. You look at calcium or pain segment, where we see a lot of repeat purchases. So some -- like 17% of our total sales, which is currently domestic sales, which is counted under acute, actually is semi-chronic in nature.

Madhav: Understood. And just last question was in terms of as we grow the business next 2, 3 years, how much CapEx -- organic CapEx do we need? Or is it going to remain at INR400 crores range approx or it's going to be higher or...

Nitin Agrawal: It will be in the same range as current year. It will be between INR300 crores to INR350 crores. So other than biosimilar, I think we have sufficient capacity for other businesses, so we don't see any major increase. So the routine capex will be in the nature of INR100 crores, INR150 crores. There will be a few expansion, which we will do. But at overall level, we'll not go beyond INR300 crores to INR350 crores.

Moderator: Next question is from the line of Rahul Jeewani from IIFL Securities.

Rahul Jeewani: Sir, can you please explain the rationale for putting up a facility in the U.S. market again. So I understand that this facility is coming up for Enzene. But do you think that you could have serviced that part of the business from your India capacities? Or do you think that for scaling up on the CDMO side, you would need a facility in U.S. separately?

Vikas Gupta: So it's largely a CDMO business, and we would be serving the markets through other players as well. So I think for that, it is important to put up that facility over there. We evaluated all other options and then arrived at -- as this being the best route as part of strategic plan to get that business and build that business. So we have looked at the options. I think this is the best foot forward for building that line of business.

Rahul Jeewani: Sure, sir. And for the CDMO business, would we be targeting biosimilar kind of opportunities? Or would we be targeting innovative product sales?

Vikas Gupta: No. So it's mainly biosimilar. It's -- that is what we are targeting. So -- and we are putting up the facility, keeping that biosimilar portfolio on mind.

Rahul Jeewani: Sure, sir. So that is what my concern is that we seem to be, again, following a similar path that we recently closed down our facility in St. Louis because of the pressures, which we saw in the U.S. business. And if you look at some of the other biosimilar players as well, including companies from India, they also are struggling to scale up their portfolio on the biosimilar side.

So what, again, gives you confidence of setting up this facility in U.S. and trying to service that part of the business, which right now itself is seeing very aggressive competition from many of the innovative biologic companies as well?

Vikas Gupta: So one, we have our learnings of what we have gone through. So we are, I would say, much ahead on the learning curve with regards to setting up facilities in U.S. Second is the robust pipeline that we have, which is not as competitive. So our biosimilar products that we are targeting, the business case looks quite promising in terms of serving these markets through this portfolio. And this is a combination of these 2 reasons that we are bullish about that as an opportunity. But yes, as we move along, we'll keep taking those decisions in the larger interest of the organization.

Rahul Jeewani: Sure, sir. And sir, last question from my end. Can you comment in terms of any rep expansion plans for the domestic business? Because last time, you had talked about driving productivity led growth in the chronic business, so are we on track for that? And...

Vikas Gupta: Absolutely, Rahul. I think I maintain that. And I answered it on the previous question as well. There is -- the growth is going to be productivity-led growth. Does that mean that we will not add anyone? I'm saying the growth will not be led by -- it's not that substantial that we will have to do in times to come definitely it will be an expansion-led growth.

So my focus is going to be purely on productivity, and that's what is being driven down the entire organization, and you would see productivity-led growth in terms of -- even in the current quarter, it's all productivity led growth that we have got.

Rahul Jeewani: And sir, any number for the number of MRs, which you look to add for next year? .

Vikas Gupta: No, right now, there is no such plan, Rahul, that I have one at hand. So I can tell you it will not -- it's not very substantial that it will make any difference to the overall P&L at this stage. Whenever we have any such plan, we will get back to you on that.

Moderator: We take the next question from the line of S. Mukherjee from Nomura.

S Mukherjee: Sir, on the ex U.S. market, you mentioned LatAm and Europe, good offtake there. We have seen very substantial growth in these markets in the last few quarters. Concern here is that it looks unsustainable. Is it something one-off or tender-based? Because I'm just wondering the reasons why the growth is so sudden in these markets? And the number that you have this quarter, can you confirm that this would sort of sustained in the quarters ahead? And if you can guide us on how should we think about this over the next few years?

Vikas Gupta: So on the growth from these markets, see the nature of these markets may be tender or whatever you may call it. So I wouldn't say that -- and it's not only tenders that are getting us this kind of growth. Yes, of course, they are also a part and parcel of the overall business that we do in these markets. But I see no reason overall in terms of sustaining these markets that we might see a slowdown.

Of course, there may be some quarters where we may have some slowdown, but we will have other opportunities that we are working on parallelly, which may take the overall business forward. So that's the nature of these markets. It's not -- and we are not going against the nature of the markets.

But we are pretty bullish, and I don't see it as a one-off in this quarter. So I see -- of course, because of the small base, the percentage growth might look very high, and that might start easing out as we build base in these markets. But I don't see any major sustainability issue as far as these markets are concerned.

Nitin Agrawal: Just to add, it's not like 1 or 2 tenders have contributed to this growth. So I think a few of our markets like Chile, Germany, we are doing well. And this has been built over the years. So it's not like there are one-off tenders, which have added to this growth.

S Mukherjee: So is it possible to sort of call out of this overall revenues in next year's, how much is tender and how much is branded generics?

Vikas Gupta: No, we wouldn't have those details, I think, to call out right now. And we are pretty much in line with the way market is. So I think that's how we are moving. We are moving with the tide.

S Mukherjee: So sir, just to understand this. From a geographic perspective, when you say ex U.S., are there any markets, which are like dominant here? If you can call out the regional market, regional split if you can give so that we get some sense of the revenue construct here? .

Vikas Gupta: Yes. So like I mentioned, it is LatAm and Europe that's driving this growth largely. So these are the 2 markets from where we are seeing this kind of growth. So it's not a sporadic growth from, say, 20, 30 markets. These are the 2 regions from where we are getting this maximum growth.

S Mukherjee: Okay. On the U.S., what is the outlook from here on the base that you have? I think the price erosion has eased, so what are you looking for in terms of FY '25, what kind of expectations you have in the new launches and contribution from U.S.?

Vikas Gupta: So see U.S., the price erosion now is a single-digit price erosion, unlike the previous year's price erosion, which used to be a very high double-digit kind of price erosion. So I would say the prices are getting bottomed out. They may not have bottomed out as yet totally. But that's what we are seeing a price erosion of a single-digit kind of on the base.

So I see it staying at that unless something drastically changes in the market dynamics. So I see it getting stabilized on the generic portfolio more like that. And then whatever will -- we can grow in terms of volumes, the net growth would be a trade-off of the volume growth versus this price erosion. So I think we anticipate high single digit to maybe low double-digit kind of growth from the U.S. market.

S Mukherjee: Okay. And sir, one last question I wanted to understand on the cost and API prices, so we have seen some improvement there. Are we going to see more of this in the quarters ahead? And also any comment on -- specifically on PenG prices, which I think impacted us quite a lot in the past. So if you can just throw some light on raw material trend over the next few quarters?

Vikas Gupta: So I would say that this API prices improvement that has happened should stay at these levels. That's the way we are looking at it. PenG, we have still not seen it easing out. So it still remains the way it was. We haven't seen any major variation neither on the upper side nor on the downside on PenG.

So -- but subsequent quarters, let's wait and watch. It will be more hypothetical for me to make any predictions over here, so we will see as and when it goes. But I don't -- if you ask me personally, my view is, I don't foresee a major increase in the raw material prices in times to come. Of course, there will be a few products here and there. We will see that increase, but I think that should get evened out by the rest of the portfolio remaining stable or getting eased out.

Moderator: The next question is from the line of Bharat from Equirus Securities.

Bharat: Yes. So sir, just wanted to understand on the cost containment measure, since we mentioned that we have been undertaking some cost containment. So what sort of benefits you are seeing going forward? I am referring from the operational expenses perspective than on the R&D front?

Nitin Agrawal: So Bharat continuously look at how to improve our efficiency at plant. Also, we work on development of alternate vendors for our API. We work with big consultants in India. They help us to identify opportunities how to reduce cost, whether it's in terms of manufacturing overheads or in terms of yield improvement or to get better API rates. So our endeavour is to continue improving our gross margin and our EBITDA margin. So there are a lot of ideas, which we are evaluating and which will actually result into better margins going forward.

Bharat: Actually, I was just trying to understand on the other expenses part that we have been referring to the incremental cost, which will be coming through because of new plant and all? So I was trying to understand, is there any scope of further reducing the other expenses in absolute terms?

Nitin Agrawal: Yes. So definitely, as I said, that we look -- other expenses, the major component is manufacturing overhead. So we work with a lot of consultants to look at how to actually improve our efficiency at plants, plus we also get a lot of advantage of operating leverage because if you look at our sales growth, so if you look at the past and we grow in the range of, say, lower double-digit or higher double digit, but our expenses will not grow in the same range.

So definitely, the operating leverage will play its part. And also, we have -- I'll not say we have reduced on sales and marketing expenses, but we are trying to rationalize it, and that also will help us to improve our EBITDA margin and reduce the other expense. So definitely, we will see improvement in terms of percentage of sales, other expenses will further go down.

Bharat: And if I just -- was trying to understand on the overall profitability margin perspective, is it aspirational to look at a company achieving almost like 22% sort of margins over the next 2 years? That is something which you guys are also working on?

Vikas Gupta: We are working on actually a lot more things, but I wouldn't give a number over here to you. I think the previous analysts had also asked a similar question, but I would just maintain it to be the same. I think we are making a progress. We will move quarter by quarter, year by year. I wouldn't call out a number, but like I said, nothing is impossible, but I think that's a little bit too aspirational. And we will see how we are making a progress and then we'll pick it up over a period of time as it goes.

Bharat: But your earlier guidance of 100 bps improvement each year, that stands to be, right?

Vikas Gupta: That anyway is the guidance that we have also taken internally, and we are continuing and we are working towards it. That remains.

Bharat: I get that. And last one for me. And see, we have been referring to, right, we are seeing putting up all this new plant and all, so are you seeing any dilution in margins because of it? And when we are putting this plant, do we have any contracts in hand when you are talking to the [CBM] opportunity?

Vikas Gupta: So when we put that up, there may be a short-term dilution in the overall margin. But I think as the revenues start picking up, so we'll be back and doing better once that becomes fully operational. But whenever you will have to make those kind of investments, there may be a temporary blip in the overall margins that we have.

But as Nitin mentioned, we are parallelly working on improving certain efficiencies in our core business. And that should help us to make it more sustainable over a period of time. So that we would anyways continue to do. I would look at this as more of an investment to grow top line as well as profitability over a period of time.

Moderator: Next question is from Charul Agrawal from Bank of America.

Charul Agrawal: All my questions have been answered.

Moderator: The next question is from Madhav from Fidelity.

Madhav: Just one last question was on the tax rate, I think, in the earlier calls, we mentioned about this resetting to a more normalized level going ahead, I think, FY '27, if I remember, right? Could you just help us understand the tax rate when that resets and what's the effective tax rate to expect for the company then?

Nitin Agrawal: Madhav, it will be in the range of 10% to 12% at least for next 2 to 3 years. Our current tax rate is a bit lower. But going forward, say, for the current year or for the next year, you can assume it will be around 11% to 12% effectively.

Madhav: No, I think once that one of the facilities, which has the tax incentives, once that goes away, I think -- FY '27, I think there is some benefit, which goes away, so was asking more from that perspective, like more like 3 years out or 3 or 4 out?

Vikas Gupta: Yes. So by FY '26, end of FY '26, one of our Sikkim facility, which we have, the tax holidays will be over. But we are looking at some other opportunities. And so definitely, the tax rate will go up but we will try to see how to actually be in the range of 20% to, say, 25%. But yes, it's like we can't be forever in the range of 10% to 12%. So it will definitely go up, say after FY '26.

Madhav: Sir, FY '27 onwards is when it kicks in, right? The tax...

Vikas Gupta: Yes, yes, after FY '27.

Moderator: Next question is from Gagan Thareja from ASK Investment Managers.

Gagan Thareja: Hello. Sir, the first question is on NLEM. Can you give your exposure to NLEM? And also parallelly indicate WPI being negative this year. Does that have any impact on gross margins going ahead into the next year?

Vikas Gupta: So our NLEM portfolio is around -- within the range of around 28% to 32%. So it's within -- it's around that. And I would say that it will depend on the pricing that will be allowed by the government and we'll totally comply by it. But I don't see the margins going down. At the most, what would happen is, we will not be able to take the price increase.

I think it's the balanced portfolio that is 70% of our portfolio, where we have price lever as a growth -- sorry, price as a growth lever. But again, it depends largely on the market dynamics and it depends on the competitiveness of the market. So I think this portfolio has been at that percentage for very long. So that's the nature of Indian pharmaceutical market, so I don't think it will be -- we are the only ones, which will be impacted there.

Gagan Thareja: And if I go by your full year FY '24 operating margin guidance of 17% and back out what that means for the fourth quarter basically means around 11.5%, if I'm able to understand it, by and large, correctly. And that would mean year-on-year, you're talking of the fourth quarter margins to come lower than last year's fourth quarter.

Vikas Gupta: So last year, fourth quarter, we were at around 12%. So what we are looking forward is, again, this quarter is going, that we will have -- we will be within that range at least or better than what we were at last year, but it will not be very significantly different from what generally Q4 has been for us. So that's the point I meant.

Gagan Thareja: But you expect it to be either same or better, right?

Vikas Gupta: Yes, yes.

Gagan Thareja: And Suprep, have you launched it? Or is it still pending launch?

Vikas Gupta: No, not yet, not yet.

Gagan Thareja: Any idea of when you believe that can happen?

Vikas Gupta: Yes, that's -- right now, it's still a bit away. We'll get back to you once we have more estimate on its launch date.

Gagan Thareja: And freight costs are at least for the Red Sea channel are rising. So do you expect that to have any impact for your export sales in FY '25?

Vikas Gupta: It's very recent change. We are seeing that increase right now, I mean, that affecting us as well. But on the same hand, we had a significant reduction in the air freight that we were doing. So net-net, it has worked well for us so far. Going forward, I see it sustaining unless there is a very huge spike on this Red Sea issue and the macroeconomic scenario changes, then we will be impacted like everyone else. Otherwise, we will -- we are pretty much in control as of now of that.

Gagan Thareja: Okay. The final one from my side, sir. The geographic salience of Eastern part of India is relatively high for Alkem compared to its peers. And East being generally being a lower per capita sort of a market -- per capita income sort of a market, does that play into your pricing and, therefore, consequently into your margins, is that one of the inherent or inbuilt reasons for the margins that Alkem has had so far?

Vikas Gupta: I don't think so. I don't think so because we are not seeing any such trend that impacts our growth or this thing -g- I mean, there are companies that have dominance in one geography more than the other. So that's the nature of any business. For us, it happens to be East and we continue to grow over there. So there is -- I don't think this factor is going to affect us in any manner. In fact, that's our strength area and we will continue to grow over there even in times to come.

Gagan Thareja: And U.S., post loading on the R&D cost for the U.S. market, would you be making operating margin of anything comparable to what you report at an average corporate level? Or would it be substantially lower?

Vikas Gupta: It's obviously lower because that's a low-margin market. We have a low-margin portfolio. We're in the generic business in U.S. market, so it's -- whatever we report is a blended average of -- that's the margin profile at the company level. But yes, U.S. as a market is slightly lower, but it's not that low that it's not sustainable for us.

Nitin Agrawal: And just to add, actually, we see a good improvement in margin -- EBITDA margin of U.S. Historically, we have never shared geography-wise margins, but there has been significant improvement in U.S. business.

Vikas Gupta: Yes. Like I mentioned, the price erosion that used to happen in the past, in the previous years, somewhere we are seeing that as a trend slowing down. So now we see a price erosion of a single digit on that front. So that will lead to even better pricing in the market, and that's helping us in getting better margins out of U.S. market.

Gagan Thareja: And St. Louis would also have contributed?

Vikas Gupta: St. Louis is closed down now.

Moderator: We'll take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Kunal Kothari: Thank you, everyone, for attending this call. If any of your queries have remained unanswered, please feel free to get in touch with me. Thank you.

Vikas Gupta: Thank you, everyone. Thanks a lot.

Moderator: Thank you very much. On behalf of Motilal Oswal Financial Services Limited, that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.