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12th August, 2024

To,

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

Sub: Q1 FY2025 - Earnings Conference Call Transcript

Dear Sir(s) / Madam,

We enclose herewith the transcript of "Q1 FY2025 Earnings Conference Call" which was hosted by the Company on Friday, 09th August, 2024.

The said transcript shall also be made available on the website of the Company.

Kindly take the same on record.

Sincerely,
For **Alkem Laboratories Limited**

MANISH NARANG
Digitally signed by MANISH NARANG
Date: 2024.08.12 10:38:35 +05'30'

Manish Narang
President - Legal, Company Secretary & Compliance Officer

Encl.: a/a

"Alkem Laboratories Limited

Q1 FY25 Earnings Call"

August 09, 2024

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

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

Moderator: Ladies and gentlemen, good day, and welcome to Alkem Lab's Q1 FY '25 Earnings 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. Thank you, and over to you, sir.

Tushar Manudhane: Thanks, Sudanth. Good evening and a warm welcome for 1Q FY '25 Earnings Call of Alkem Laboratories. So on the management side, we have Dr. Vikas Gupta, CEO; Mr. Nitin Agarwal, CFO; and Ms. Purvi Shah, Head of Investor Relations. Over to you, Vikas, sir, for the opening remarks.

Purvi Shah: Thank you, Tushar. So good evening, everyone. Earlier in the day, we have released our financial results, press release and investor presentation, which are also posted on our website. We hope you all had the opportunity to review it.

Before we proceed with this call, we'd like to remind everyone that this is being recorded and the call chances to be available on our website. We'd also like to add that today's discussion may include certain forward-looking statements, which must include in conjunction with the other set of business faces. And after the end of the call, if any of your queries remain unanswered, please feel free to contact us.

I now request Dr. Vikas Gupta to discuss the quarter's highlight and future strategy. Thank you, and over to you, sir.

Vikas Gupta: Thank you, Purvi. Good evening, everyone. We really appreciate your presence for today's first quarter FY '25 earnings call. I'll start by presenting an overview of the operational and financial achievements for the first quarter. And after this, we will be happy to answer your questions and engage in a discussion.

We are happy that our efforts to improve the profitability have started paying off, and we have seen a marked increase in margins during the quarter. We are committed to maximizing our EBITDA margin by carefully managing our product mix, controlling costs and taking advantage of the favourable raw material pricing environment.

The domestic business is our stronghold and we expect to build on it by furthering the growth of our large brands and bridging the portfolio gaps. Simultaneously, we are also focusing on growing our business in emerging markets. During the quarter, one of the important developments was the successful resolution of our US FDA Form-483 at our Baddi facility.

At Alkem, we remain steadfast to prioritizing quality and regulatory compliance. Just to give you a few highlights of first quarter. This has set a good beginning for the whole financial year in terms of profitability improvement of the company. We are pleased to announce the successful resolution of all the observations that we had received from Baddi facility. This exemplifies our unwavering commitment to adherence and regulatory compliance.

Our EBITDA margin improved by 700 basis points as compared to last Q1. So from 13.1%, we have improved it to 20.1% for the quarter. Net profit after minority interest for the quarter stood at INR545 crores. According to IQVIA, we have outperformed – we have registered a growth of 8.4% YoY compared to the IPM growth which grew at 8.7%.

So we are more or less in line with the market growth. We outperformed the IPM in six therapies which is antidiabetic, neuro and CNS market, the GI market, dermatology and VMN therapy and our ranking has improved in neuro and respiratory therapies. We aim to sustain and carry forward the momentum in the coming quarters for this financial year.

Thank you for your patience listening, and the house is open for any questions.

Moderator: Thank you very much sir. We will now begin the question-and-answer session. The first question is from the line of Kunal Dhamesha from Macquarie. Please go ahead.

Kunal Dhamesha: Hi, good evening. Thank you for the opportunity, and congratulations on a good set of numbers. One question on this product called Mirabegron, I believe we have a tentative approval for this product. So should we bake in as a near-term opportunity for us?

Vikas Gupta: So Kunal, thanks. Thanks for your compliments. On Mirabegron, as I had spoken on the last call as well, one or two companies have launched it and they are under litigation, whereas we have – we are bound by the settlement agreement that we have with the innovator. So unless the final outcome of all the litigations on the patent are clear, we would not be -- because we are bound by the settlement agreement, I don't see it getting launched in -- before the agreement date and which will be somewhere, I would say, 26 or 27, somewhere around that time.

Kunal Dhamesha: Okay. Sure, sir. That is helpful. And in terms of our EBITDA margin, with tracking around 20% in this quarter and we had given a full year guidance or the medium-term guidance that every year, we'll improve it by 100, 250 basis points. So where do and is there a meaningful change in a way we look at profitability now for our business? And what has led to this meaningful improvement, what has driven the meaningful improvement for us in this quarter?

Vikas Gupta: Yes. So I will begin by picking up the last part of your question. The reasons for this improved profitability; one is a good product mix. Second is improvement in the API pricing. So these are kind of strong cost control initiatives that have been running for various quarters within the organization.

So I would say these are the reasons for this significant improvement that we have seen. As far as the overall profitability numbers, I've always maintained that we'll continuously be improving it on an annualized basis. Of course, for the yearly guidance that we have given in the past, that remains the same, which should be somewhere around a similar number, overall number that we had in the previous year as well, around 18% is what we have clocked because as I mentioned, that though operationally, we would be improving it by a 100 basis points year-on-year.

But we are making investments into our new business opportunities. And that would say, require some investments in the future growth opportunities. Because of that, our guidance has been close to 15%, and we maintain the same for the year -- for the rest of -- I mean for the balance part of the year as well. So on an annualized basis, we will be pretty much in line with the guidance.

Kunal Dhamesha: Sure. Sir, and one last one from my side. In terms of the forex gain or losses, can you highlight that number for this quarter? And where is it baked into our numbers?

Vikas Gupta: Of course, we've not had – we never gets very granular breakup. But this is mostly from Chile in this quarter that we have had it to the tune of INR15 crores as a forex gain. So that is to be put a part of very -- so that is not part of EBITDA. So that features in the other operating income rather than -- sorry, other income, other income and not in EBIDTA.

Moderator: The next question is from the line of Bino from Elara Capital.

Bino: Just following up on the previous question on margin. For the full year, I just heard your answer to the earlier question, does it mean for full EBITDA margin you are expecting similar to last year's 18% or 100-point improvement on top of that, which makes it 19?

Vikas Gupta: So what I said is that, operationally, we would be improving it. But because we have new investments to make in the newer growth opportunities in large part and some part of it will also be on the opex side, so which will dilute our EBITDA by, say, another 1%. So net-net, what we would arrive at should be somewhere around 18%. But of course, if the API environment gets even more favourable, then we may look at some upside. But as is basis, currently, we are maintaining our guidance of around 18%.

Bino: Understood. Second, you mentioned that there was a favourable API pricing environment. Do you mind calling out a couple of APIs where there has been significant price reduction which has helped you.

Vikas Gupta: We had, say, for example, dapagliflozin, we had sitagliptin. These are now substantial value products for us, and we have a significant reduction in some of these molecules on the API pricing. And we expect them to stay there so for the balance part of the year. Even on the paracetamol side, we saw some softening, of course, not as significant as we saw on the other 2. But I think these are some of the products that I would like to call out.

Bino: Understood. And finally, any change or action in Penicillin G prices, that has happened in the cost.

Vikas Gupta: PenG, you know, even we are eagerly working like -- I would say. We are yet to see any impact of PenG pricing, so to say. In fact, in the recent times, I'm seeing that PenG prices are even seeing a marginal increase. So unless we see the large Indian players coming up in market with the offerings, I don't think we are seeing softening in the China suppliers on the PenG.

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

Neha Manpuria: My first question is on the gross margin. Since you mentioned the API price environment and product mix, while the product mix can change quarter-on-quarter, I just wanted to get a sense on how much of this gross margin improvement that we have seen is sticky? Meaning that assuming that API pricing remains where it is, you don't see any further improvement in that. How much of this could sustain, even if the product mix becomes inferior over the rest of the quarter?

Vikas Gupta: So I see the API pricing remaining more or less stable now. So I'm not foreseeing any significant change on the API environment. But as far as the product mix is concerned, of course, in the Q2 and Q3, we see our anti-infective portfolio, which sort of changes the product mix. So in terms of the product mix change, might impact margins for two quarters, by say, 2%, that's the kind of estimate that we have and that we may see. But on the API pricing, I see it quite stable. In fact, if the spend thing works to our favour in the coming quarters, we may see an improvement over there. But otherwise, as is basis, this is what our sense is.

Neha Manpuria: Okay. So to clarify, sir, so last year, we saw about 61% margin in the entire year. So given the benefit of API pricing, that what we have reported in the quarter, that should -- is already benefiting us by 100, 150 basis points. Is that a right assessment?

Nitin Agrawal: So Neha, you're right that last year, our gross margin was 61% this year, considering the improving product mix and better margin in the US market and also the further investment in API, we see it improve -- further improvement of around, say, 150 basis points in our gross margin for the full year. Definitely, quarter 1 was better because of, again, the product mix, the domestic competition was higher as compared to international.

Neha Manpuria: Okay. That's helpful, sir. And my second question on the investments in the future growth opportunities that you've talked about, the 100 basis points. If you could highlight what these opportunities are? Is this the CDMO business that we talked about. So where essentially are we investing this. How long do you think this investment continues? And when do we start seeing revenue from these opportunities?

Nitin Agrawal: So as we discussed in our last call also, we are investing in our US facility. And this -- it will be mainly for the CDMO business. The total investment is around between INR400 crores to INR450 crores. And as we also highlighted in last Analyst Call that since it will take some time for this business to actually breakeven. But this year, there may be some amount of losses, which business will incur and maybe in say first few quarters of next year also. But really very hopeful that we want to build this business. And maybe from FY '26, itself, we will see the positive business from this. But this year, there will be some impact because of this.

Neha Manpuria: Understood. Okay. And FY '26 is when you will break even on it?

Nitin Agarwal: Yes.

Neha Manpuria: Understood. And my last question is on the India business. I know I've asked this before also. Some of the larger therapies, pain and anti-infective we seem to be growing slower than the market. These are fairly large therapies for Alkem. I know we're doing very well in the other parts -- other therapies. But anything that you can highlight on what we are trying to do to address the lower growth in this segment versus the underlying market?

Vikas Gupta: So Neha for the past few quarters, we had seen some market also sluggishness as far as these therapies were concerned. I'm hopeful, and I'm seeing a trend as well in the previous quarter also, it was better than the previous quarters before. And now I am expecting that from Q2 to Q3, we should start getting decent growth on our large portfolio. And that is why we are bullish about our overall domestic performance. So it's a -- I think it's a good progress that we are making month-on-month, quarter-on-quarter. And we should see even these large therapies begin to contribute to our overall growth.

Neha Manpuria: Implying that these will grow in line with the underlying market? Would that be fair to assume?

Vikas Gupta: Because these are our leadership positions in many of these segments. So at least we will be in line with the market growth, as far as these therapy levels.

Neha Manpuria: Yes. Sorry, sir, if I miss -- missed this, but what's the growth guidance that we've given for the India business? Have we mentioned that? I joined the call a little late.

Vikas Gupta: So we've always maintained in line with the market is what will be our growth, and which should mean that I'm expecting the market to grow somewhere between 8% to 10% and should be similar for us as well.

Moderator: The next question is from the line of Viraj Shah from Motilal Oswal.

Viraj Shah: So my first question is on price volume, if you could let me know regarding the price volume and new launches growth in domestic formulation segment?

Vikas Gupta: So in domestic, we have had a volume growth of close to some 1.5%. We have -- the new launches have contributed to around 2.5%. And balances are, I would say, price growth, which is again close to 2.5%.

Viraj Shah: Okay. Can you also let me know regarding the price erosion in base business for US generics?

Vikas Gupta: So like I always maintained, the US generic is seeing a single-digit price erosion at trend continues even for this quarter. So, we are seeing that kind of price erosion in our US businesses.

Viraj Shah: Okay. And regarding PenG, so apart from PenG, how do you see the lower RM cost benefiting Alkem?

Vikas Gupta: So there are certain other APIs also, which I see that even going forward, we could see some softening, but I mean this is something which is difficult to predict. So, some of the API prices, the molecules that I called out on the previous question, we have seen definite reduction and that should start -- that has started showing the impact in our numbers as well. So I would say that, that is more sustainable. But I'm quite hopeful that in the coming quarters, we should see a few more products, where the API pricing environment should get more favourable. But I'll be able to give specifics only when they start giving us the real benefit.

Viraj Shah: Okay. And regarding the employee cost, there was a 1 billion increase in employee cost sequentially. So, if you could let me know the sustainable rate, which we can consider for that?

Vikas Gupta: So, I think that is largely the inflation related increments that we have generally taken for our employees. So -- and it is pretty much in line with what we had anticipated or budgeted for the year. So it is -- there is nothing abnormal that has come in as far as manpower increase.

Viraj Shah: Okay. And if I could put in one more last question. The R&D expense, it was lower for the quarter. So how do you think for FY '25 on absolute basis that would be as percentage of sales?

Vikas Gupta: The first quarter is always within the range of 4.1% because most of our filings are loaded towards Q3 and Q4. So, the annual spend will be within the range of 4.5% to 5% and in terms of absolute. So, we will continue to keep it under that percentage. So that is what we have been always maintaining.

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

Bharat Shelly: I just wanted to understand on the margin guidance again. So, in the last quarter when we mentioned that we will be maintaining 18% margin, at that time we were estimating that our gross margin will remain more or less flattish at around 61. Now considering we are increasing our gross margin guidance to 62.5, yet our EBITDA margin guidance more or less remains the same. Is there anything I am missing out?

Nitin Agarwal: So if you look at our, say, last year results, the quarter 1 gross margin was lower compared to the other 3 quarters. Actually, the API prices impact, we started seeing from quarter 3 and quarter 4. And also, it's a unique product mix. So if you look at quarter 4 margin of last year, quarter 3 margin of last year, it was better than quarter 1. And this -- say, improvement in gross margin it will continue -- or has continued in quarter 1, and that is why we see -- we have shared that our overall guidance for the year will be 62.5. So last year was affected by a lower gross margin of quarter one.

Bharat Celly: Right. So in the first quarter that we had guided for 18% EBITDA margin at that time, we are estimating our gross margins to be around 61. Now since our gross margin guidance has increased by 150 bps, yet our EBITDA margin guidance more or less remain same. So I'm just asking why that benefit is not showing to EBITDA, is there any incremental cost which your facing?

Nitin Agrawal: Sorry to interrupt in our last call also, we have shared that our gross margin for the full year increased in the range of 62% to 62.5%.

Bharat Celly: Okay. And on MYRBETRIQ actually, I thought that considering the two players have already launched that drug that would have considered our settlement? So, what I'm asking is there are two players who have launched MYRBETRIQ. Isn't that going to trigger our settlement?

Vikas Gupta: No. So like I told you, they are also under litigation and we are bound by our settlement agreement, which clearly mentions that we can launch it only when after the final outcome of all the patent clause, patent infringement that has -- so we will be launching it only after that. So there's an at-risk launch, I think would be players are under litigation with the innovator. So we will be waiting for the final outcome of the litigation.

Bharat Celly: And Vikas sir, in case let's say if those generics win the case, will it trigger our launch?

Vikas Gupta: See, I will just wait for all the litigations related to any patent for mirabegron to get over. And it's only after that, we will be getting into the market. There are various litigations I think that are going on for different patents with regards to mirabegron. So once all the -- we are bound by the settlement agreement and that once all these litigations are over, we can enter the market. So that's when we will enter the market.

Bharat Celly: Okay. That's helpful. And again, on the domestic business. Are we...?

Moderator: Sorry to interrupt Mr. Bharat, we request you to get back to the question queue for any follow-up questions. The next question is a follow-up question from the line of Kunal Dhamesha from Macquarie.

Kunal Dhamesha: In terms of U.S. outlook for FY'25 in terms of product launches and your growth expectation, if you could provide some colour here?

Vikas Gupta: So in terms of our U.S. growth, I've always maintained, we are looking at a single-digit growth from U.S. market. In terms of the new launches, we launched in generic Suprep in Q1. In Q2, we have just introduced dabigatran. And among the significant ones, I think that should be the one which we are pretty hopeful which should start showing impact on revenue in Q3 and Q4. So that's about the new launches. With regard to refiling, I look forward to around 8 to 10 filings that we would do in the current financial year. But a large part of it will come in Q3 and Q4. So that's how I think our overall filings for the U.S. would be.

Kunal Dhamesha: And because of that, are we expecting our R&D expense to basically reach up to 4.5% to 5% versus 4.1% in this quarter?

Vikas Gupta: Yes, because it's the phasing of the spend is like that because year-end, we will end at between 4.5% to 5%.

Kunal Dhamesha: Sure. And sir, one on the RoW business or the other international market business, which has just seen a top line growth of 2% year-on-year. So is any particular geography wherein we have seen some issues? Or how should we look at from an FY'25 perspective of this business?

Vikas Gupta: No. So 2.2% is not from the RoW. In fact, the RoW market, the emerging markets and the -- some of the European markets, we are seeing very good growths. But their base is right now not so high. But we want to develop those markets for future because these are the markets where we get much better profitability as compared to the U.S. market. So ROCE is very good from those markets as compared to the U.S. market. And that's what we are working on, on building top line from some of the non-U.S. markets. So especially the emerging markets and some of the European markets. So I think that's what we are now focusing on in terms of our international business, and we will continue that focus very strong.

Nitin Agarwal: Just to add. I think you're talking about the non-U.S. business. So under our non-U.S. business, Australia and Chile are the two major contributors. And this year, we faced two supply chain issues in Australia, and that is why the quarter for Australia was lower which impacted the overall growth of non-U.S. market. But all the supply chain issues are being fixed, we are very confident that our growth will jump back in the balance quarters.

Kunal Dhamesha: Sir, this Australia issue, is it lost sales or deferred sales? How should we look at it?

Vikas Gupta: No, it is just for this quarter, we were not able to supply a particular product because of our supply chain issues. And now we have resolved those issues. In the coming quarters, we will recover some -- I mean, large part of that sale.

Kunal Dhamesha: Sure, sir. And in terms of the Penicillin G or, let's say, our anti-infective portfolio. Are we a direct buyer from Chinese player? Or are we more like buying APIs from some of the Indian players who converts Penicillin V API into cephalosporin?

Nitin Agarwal: Yes. Are you talking about supplying Pen G in Chile?

Kunal Dhamesha: Yes.

Vikas Gupta: You're talking about Chile, or you're talking about domestic market?

Kunal Dhamesha: No, domestic market, sir. So anti-infective is a big therapy for us, right?

Vikas Gupta: Most of our procurement is indirect. So we don't get into component buying. But we keep view on various components of pricing and the various KSMs that are there. So that's why I said, so far, we haven't seen the impact or something on these prices from the suppliers.

Kunal Dhamesha: And as long as -- as soon as the sales in the KSM or intermediate prices happen, do you expect to get benefited from that. Is it correct understanding?

Vikas Gupta: Yes, that's how it flows because if our suppliers are getting some benefit, then that gets passed on to us. So I think that's how the market works.

Kunal Dhamesha: Sure, sir. And last one from my side with your permission. Our current medical representative count for the India business, including and excluding first-line managers?

Vikas Gupta: So 12,700 is what our count is, and managers would be over and above.

Kunal Dhamesha: Roughly 10% is what we should assume?

Vikas Gupta: I think we can get -- you can send a query and we can share the right numbers with you. But I think generally it's in line with the industry.

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

Madhav: Just had one question on the international business, except U.S. I think you explained why the growth was a bit soft in Q1, but last few years, I mean this business has grown by 20%, 25% CAGR. If you look at the next 2 or 3 years, given that we're a bit of a higher base now versus what we had before. So any sense to how -- at what pace will this part of the business grow?

Vikas Gupta: So I maintained the non-U.S. business, we would see mid-teens kind of growth even in the coming years, and that is what we are focusing on. And we will see that coming over a period of next 2 to 3 years.

Madhav Marda: And just the mix of entering new countries and expanding in the existing market, it's a mix of both is how we should look at it?

Vikas Gupta: Yes, it's a mix of both.

Madhav Marda: Got it. And in terms of the margin pecking order, this would be a similar margin business to India or higher or lower than India?

Vikas Gupta: Some markets are similar to India, but some markets are lower. But at a blended level if you would see, it may -- it is not as high as India, but in terms of -- it's not as low as U.S. So that's all I'll say. I mean it's a shade lesser than India, but it's not as low as U.S.

Moderator: The next question is from the line of Saurabh Kapadia from Sundaram Mutual Fund.

Saurabh Kapadia: First on the -- what was the growth for trade generics in the quarter?

Vikas Gupta: See, we don't share the segment-wise growth. But I've always maintained that it's a substantial scale business. It grows in line with whatever we see on the Rx side. So more or less, generally, we are seeing similar kind of growths on both the sides. But we'll not have segment level growth data.

Saurabh Kapadia: Okay. And in terms of the additional cost you mentioned because of the new initiative, can you quantify what could be the cost? And will it be starting from Q2, or it will be more back-ended?

Nitin Agrawal: So mostly it is starting from Q3 onwards. And we have not quantitative -- we are not quantified and shared it. But the impact on EBITDA will be around, say, half -- 50 basis points in the current year for say quarter 3 and quarter 4.

Moderator: The next question is from the line of Gagan Thareja from ASK Investment Managers. Please go ahead. Your voice is breaking.

Gagan Thareja: Yes. Sir, my first question is around the tax rate. I think for the full year the guidance last given was 13% to 15%, 1Q has been 11%. Should we assume that going forward in the next 3 quarter's tax rate will be 15% plus?

Nitin Agarwal: So it will be in the range of 11% to 13% for the full year.

Gagan Thareja: Okay, 11% to 13%. So you're reducing the tax rate?

Nitin Agarwal: Yes.

Gagan Thareja: And secondly, I mean, are you making any provisions relating to the tax demand notice that you have received?

Nitin Agarwal: So see, we have not still received any demand to -- just to give the status of the survey, income tax survey which happened. So Income Tax Department asked us to again file the return, and we have already refiled the return for last six year. Now we'll start the assessment. And once the assessment will get completed then only we'll come to know about the result. So, till date, we have not received any demand against the survey, which has happened in the month in last year.

Gagan Thareja: Okay, sir. Right. And sir, on the U.S. business, have you launched SUPREP?

Vikas Gupta: Yes, we have.

Gagan Thareja: When was this done, sir?

Vikas Gupta: In Q1. We just launched.

Gagan Thareja: Okay. So between SUPREP and Dabigatran, will you see those business managing to do a high single-digit sort of growth this year, despite being the 1Q not being strong?

Vikas Gupta: See, on Dabigatran because we've just introduced, we will start recognizing significant revenue only by Q3 and in Q4, right? So from the financial year perspective, the contribution that will be there to the top line will not be so significant that it offsets the value erosion, price erosion that we have on the balanced portfolio. And that's why our guidance is going to be like that.

Gagan Thareja: Okay. And sir, final one on the domestic sales, can you give some idea of how the acute part in the chronic part of your India business has grown for the first quarter. And I noticed that on the cardio, your still sort of going below IPM and any explanations there in that?

Vikas Gupta: So cardio has never been a very strong play for us. Our play has largely been on the anti-diabetic side and that's where we have large brands. So that is where we have the -- an anti-diabetic in chronic like I mentioned in derma CNS in anti-diabetic, we are really outperforming the market. So there, our growth have been pretty strong. So I think that's on the overall growth. In some of the other segments, where we have seen very high market kind of performances is the GI portfolio, which is our largest portfolio and the VNM portfolio, which is our nutrition portfolio. So I think these are segments which are really driving the overall growth for domestic.

Gagan Thareja: But if I were to split your overall domestic sales, would it be fair to assume a 85-15 between from acute product?

Nitin Agrawal: See chronic is increasing and somewhere close to 19% to 20% is what we have chronic. Yes.

Gagan Thareja: And it would be growing well ahead of the covered market?

Vikas Gupta: Because I mentioned these segments where we are really going strong and growing faster than market. So I've called out.

Gagan Thareja: And on the non-NLEM portfolio, what kind of price increases would you have been able to see in this year?

Vikas Gupta: So on non-NLEM portfolio, we are allowed to take a price increase of 10% but we realize because of the inventory, et cetera, and some anti-market driven pricing pressures. Generally, we get 5% to 6% increase on the annualized basis.

Moderator: Your next question is from the line of Bansi from JPMorgan.

Bansi: Sorry, if you have answered this before. But just on the other expenses excluding R&D, what has led to decline in the expense in the first quarter?

Nitin Agrawal: So as Vikas said, in his opening statement that we have taken various initiatives in terms of cost savings. And if you look at say, the service level penalty which incurred in the last quarter that was significantly higher as compared to what we have incurred in this year. And just to say, our production in Baddi and Daman has also significantly increased switched up to decrease in service-level penalties. And we also expect that in going further in coming quarters also there will be a reduction further reduction service level penalty. Other than that, last year, we incurred some forex losses. So if -- when we incur forex loss, we report it under other expense, while it will be forex gain we reported in the other income. So this year there was a gain in the forex. So we have reported it under other income. But last year, since it was a loss it was reported under other expense. And this has actually, these two items have led to improvement in say, the percentage of sales reduction in other expenses.

Bansi: Okay. So the way I understood it that this appear more to be a sustainable number. Obviously, from the second half of the year, you will see increase related to our investments, cost increase on account of that. But barring that this number looks more sustainable?

Nitin Agrawal: So see going forward, I just also said that quarter 1 generally the R&D expense is lower when we're doing most of our filings in quarter 3 and quarter 4 and R&D expense in our quarter 3 result will be put it in the other expense. So as a percentage of sales, it's very difficult I need to compute and share with you maybe separately that what will be the percentage going forward. But if you look at one-off items, so other than say, R&D, we don't see that there are many other major items, but definitely, it's very difficult to predict all the one-offs. But I think in absolute terms, it will increase by say, INR50 crores every quarter as compared to Q1.

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

Yash Tanna: Congratulations on a good set of numbers. I was going through the annual report and I was reading the MD's message where he mentioned that Alkem is set to enter the medical device space and the OTC category, which will be a significant business driver going forward and you guys are also exploring some inorganic opportunities in this space. So if you could highlight a little bit more on this? All my other questions have been answered.

Vikas Gupta: Thank you, Yash. So I think I will once again reiterate that these are going to be key growth drivers. But as we mentioned earlier as well that we are taking steps to build this business. So when they will become meaningful it's took a while. And we will keep you posted whenever we have specific details to share in this regard. But yes, these are really a part of plans. And in the coming quarters, we are setting up to launch these businesses. And we're right now we're just working on getting these products to market. So we'll give you a specific update whenever we have to we have more specific details to share.

Yash Tanna: Sure, sir. Got it. And just one more. Is it -- then -- can we assume that the cash pile that we have the capital allocation can be more towards these categories versus more towards buying out brand or something?

Vikas Gupta: I wouldn't say that. We have a part of as part of our plan, we are looking at heavy opportunity that comes up on table, I've said it in the past, we are open to and we are actually looking forward to any acquisition that we can do that can add value to our overall scheme of things and which are more strategic in nature. So we have today a cash or a decent cash reserve. So I would say, which is I think and whenever any opportunity comes our way, we can figure out the routes to funding to get those to fund those opportunities. At this stage, so there's nothing more that I can share, but I can just tell you that there is a very strong intent to look at inorganic options as well.

Yash Tanna: Sure, sir. Got it. And best of luck.

Nitin Agarwal: Just to add on other expenses, like I think the previous question I answered that maybe the increase of INR50 crores for the R&D expense on top of quarter I will also discuss that there are other initiative road initiatives which we have taken. So for those initiatives also we see another

INR50 crores, INR60 crores of exceed over quarter 1. So altogether, other expenses may increase been INR100 crores, INR110 crores from the base of quarter one for balance three quarters.

Moderator: The next question from the line of Tushar Manudhane from Motilal Oswal. Please go ahead.

Tushar Manudhane: So, just on the MR strength, which has been largely stable, that as a part of cost rationalization exercise, are we going to see the reduction in MRs as well by the end of FY25?

Vikas Gupta: No. So MR is, you will see an increase in productivity. That is our focus rather than reducing people. I think there are assets, and we are seeing strong traction in our performance because of our feet on the ground. So there is no such plan, but there will be a definite increase in productivity. Of course, there is no substantial increase in the numbers that we have as part of the plan, but we will see an improvement in productivity.

Tushar Manudhane: And if you could share the opex related to Enzene Biosciences?

Vikas Gupta: Opex related to Enzene Biosciences?

Tushar Manudhane: Yes.

Nitin Agrawal: So in quarter 1, there was an expense of around INR90 crores as opex for Enzene, including the depreciation.

Tushar Manudhane: INR90 crores, including depreciation. And how do you see this panning for full year FY '25?

Nitin Agrawal: It will increase a bit, as we discussed that we are also building our interest plan. So some amount of expenses in that target will be operational by end of say FY '25. So definitely, there will be the operating expenses. So there will be say against the third quarter in the balance quarters, there may be increase of INR20 crores, INR25 crores.

Tushar Manudhane: Sorry, INR20 crores, INR25 crores per quarter, right that or for the remaining year, you are saying?

Nitin Agrawal: Yes.

Tushar Manudhane: Understood, sir. Thank you.

Nitin Agrawal: When I said that the other expenses will increase. So I think that is already covered -- this part is already covered.

Tushar Manudhane: So that is to do -- apart from Enzene Biosciences -- I mean, any other levers you would like to call out for increasing, let's say, opex, which will keep the EBITDA margin at the earlier guidance?

Vikas Gupta: See, we have also entered into medical devices. We have signed an agreement with companies in the U.S. from where we will get the technology for knee replacement, and we are getting to this resource, and we definitely it will take some time to breakeven. So this business will also actually impact the EBITDA margin in the current year.

Tushar Manudhane: Sir, just on this medical devices, we should be more as a hospital -- I mean B2B products or this should be more like on OTC products?

Nitin Agarwal: So these are maybe -- currently, the segment which we are signing, we will get technology for hip and knee replacement. So we'll be dealing with through distributors, we will be promoting this products to hospitals and hospitals will actually implant this in the region.

Moderator: The next question is a follow-up question from the line of Kunal Dhamesha from Macquarie. Please go ahead.

Kunal Dhamesha: One on the EBITDA margin guidance. I think I'm a little bit confused here. So the gross margins are expected to improve by around 100, 150 basis points year-on-year. And then at some point, we said there will be 100 basis point incremental end on the new initiatives. And then at some point, we said 50 basis point incremental spend in quarter 3 and quarter 4. So, I think I'm misunderstanding something. But how much is the new initiative spend that will kind of offset gross margin improve for us? And then the cost efficiency initiatives should so picking, right? so, how should we think about it?

Nitin Agarwal: So having said that the gross margin for the full year will be in the range of 62% to 62.5%. And also, I said that for quarter 1, the other expenses will increase by say INR100 crores every quarter, mainly because of incremental R&D expense because quarter 1 generally on R&D expense is lower as compared to other quarters and also further investment in our biosimilar and Medical Devices business. So other expenses some -- on top of quarter 1, it'll increase by around INR100 crores, INR110 crores every quarter.

Kunal Dhamesha: And that is very good -- I think, right? R&D initiatives every thing 110...

Nitin Agrawal: This is what we are expecting. The final number will come only after the actual results are published, but this is what we have estimated.

Kunal Dhamesha: Sure, sir. And one more question on the seasonality. Since we still have a good amount of acute exposure, and we are roughly 1-month into quarter 2. So how do you say acute seasonality playing out for you this year?

Vikas Gupta: The IQVIA number is yet to come out for the month of July. So we are also eagerly waiting. But again, it will be too early, but it's much better than what it was last year.

Moderator: The next question is the call from the line of Yash Tanna from ithought. Please go ahead.

Yash Tanna: Sir, you mentioned about improving productivity of the MR. So if you can tell us what the consol productivity, and then break it up in acute and chronic. And also, what sort of productivity improvement are we targeting going forward?

Vikas Gupta: So our consolidated productivity is at around 5 lakhs, okay? And we are not looking at any significant addition to the numbers that we have. And we have a top line growth aspiration of close to 8% to 10%. So you can see that would be largely the productivity growth.

Yash Tanna: Sure. And sir, if you can break it up of chronic and acute?

Vikas Gupta: Segment level, but since acute is higher, you can consider, say, 10%, 20% higher productivity for acute and chronic is not way low now. So I would say it's catching up, but maybe 5% to 10% lesser than our consolidated level.

Yash Tanna: Thanks for this, sir. And good luck.

Vikas Gupta: Thank you.

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

Purvi Shah: Thank you. We want to thank everyone for participating in today's call and making this a meaningful discussion. If any of your queries still remain unanswered, please feel free to get in touch with us. Have a great weekend ahead. Thank you.

Vikas Gupta: Thank you, everyone.

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