Date: 14th August, 2024

To,
The Manager,
Department of Corporate Services,
BSE Limited
P. J. Towers, Dalal Street,
Fort, Mumbai – 400 001
Scrip Code: 533573

To,
The Manager,
Listing Department,
National Stock Exchange of India Ltd.
'Exchange Plaza', Bandra Kurla Complex,
Bandra (E), Mumbai – 400 051
NSE Symbol: APLLTD

Dear Sir/Madam,

Sub: Transcript of Post Results Conference Call held on 8th August, 2024

Ref: Our Intimation dated 25th July, 2024

With reference to the captioned matter, please find enclosed herewith the transcript of the Conference Call held on 8th August, 2024.

We request you to kindly take the same on record.

Thanking you,

Yours faithfully,

For Alembic Pharmaceuticals Limited

Manisha Saraf Digitally signed by Manisha Saraf Date: 2024.08.14 14:54:32 +05'30'

Manisha Saraf
Company Secretary

Encl.: A/a.

"Alembic Pharmaceuticals Limited

Q1 FY '25 Earnings Conference Call"

August 08, 2024

MANAGEMENT: MR. PRANAV AMIN–MANAGING DIRECTOR
MR. SHAUNAK AMIN – MANAGING DIRECTOR
MR. R.K. BAHETI – DIRECTOR-FINANCE & CHIEF FINANCIAL OFFICER
MR. AJAY KUMAR DESAI – SENIOR VICE PRESIDENT-FINANCE

Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY '25 Earnings Conference Call of Alembic Pharmaceuticals Limited. We have with us today Mr. Pranav Amin, Managing Director; Mr. Shaunak Amin, Managing Director; Mr. R.K. Baheti, Director, Finance and CFO; Mr. Ajay Kumar Desai, Senior VP, Finance.

As a reminder, this conference call is only for analysts and institutional investors. 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. R.K. Baheti. Thank you, and over to you, sir.

R.K. Baheti: Thanks. Good evening, everyone. Thank you all for joining our first quarter results for FY 2024-'25. I'm sure you would have received the results. However, let me briefly take you through the numbers.

During the quarter, our total revenue grew by 5% to INR1,562 crores. EBITDA at Rs.239 crores is about 15% of sales and grew by 14%. Net profit grew by 12% to INR135 crores, comparing the results corresponding quarter of last year.

EPS for the quarter is Rs.6.84 per share versus Rs.6.14 for the previous corresponding quarter.

Our gross borrowing is about Rs. 589 crores compared to Rs. 430 crores of March '24, and we have Rs. 147 crores cash versus Rs.120 crores in March '24.

I would request Shaunak to take you through the India business.

Shaunak Amin: Yes. Hello. Good afternoon, everyone. For the quarter, India branded business grew by 9% to Rs. 572 crores.

We recorded robust growth in our specialty therapies of gastroenterology, gynaecology, antidiabetic, ophthalmology and we performed relatively better than the market in acute therapies.

Excessive heatwaves in Q1 led to unnatural market disturbances in specific affected geographies and that was a negative for the business.

Animal Health care business continues to outperform with 23% growth for the quarter, backed by a basket of strong brands driving this outperformance.

New launches also continue to do well as a category for us with some key promising new launches that have happened in Q1.

I would now hand over the discussion to Pranav.

Pranav Amin: Thank you, Shaunak. Our OSD facility, F1, was inspected recently by the U.S. FDA. I'm happy to say it happened without any observations underscoring our dedication and to compliance and quality. The U.S. business performed quite well and grew by 18%. We had 2 launches during the quarter and expect to launch 10 more products during the quarter.

The ROW business has a good outlook, and we've grown this business quite well over the last 5 years. It should return to better growth in the subsequent quarters. The muted growth was on account of constraint of supplies. The API business underperformed as compared to a higher base of last year. We hope to improve the growth in the subsequent quarters.

R&D expense was 7% of sales at Rs.114 crores for the quarter. We filed 3 ANDAs during the quarter and cumulative ANDA filings are at 262. We also received 11 approvals and launched 2 products in the U.S. during the quarter. As mentioned earlier, we should launch about 10 products in this quarter itself.

The U.S. generics grew 18% to Rs.461 crores for the quarter, whereas the Ex-U.S. generics grew 2% to Rs. 271 crores for the quarter. The API business degrew by 15% to Rs.260 crores for the quarter.

With that, I would like to open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Tushar Manudhane from Motilal Oswal Financial Services.

Tushar Manudhane: Sir, just on U.S., as we see the pace of launches ramping up and even the first quarter numbers have been better than the quarterly than its earlier quarters, so could you provide some guidance in terms of what kind of run rate one should expect in FY '25?

Pranav Amin: Tushar, we're not giving a run rate, but we do expect -- as I said in the last quarter, at the end of the year, we do expect to grow the U.S. business. I'd like to grow it by about 10% to 12% this year. And we'll hold that true. It's a combination of the competition and the price erosion that we see.

The last quarter was quite good. As you know, with growth of 18% is a good quarter. However, there was some lumpiness in that first quarter, which would not be on recurring basis. But we will launch about 10 products in the current quarter and hopefully, some of the big ones might come also. So let's see how that goes.

Tushar Manudhane: Understood. And this timeline as far as Selexipag product is concerned, and if you could also highlight in terms of the contours or constraints for the launches?

Pranav Amin: Yes. Selexipag, still some time off. We're the first to file -- we have exclusivity on that we are the non-NC-1 first to file on that, but there's still time for that. I don't think that launch is until FY '26 or '27. So it's still early days.

Tushar Manudhane: Even FY -- go up to FY '27, is it?

Pranav Amin: I think so. I have to just double-check with it. I'll get back to you. I don't have it with me.

Tushar Manudhane: Okay. And for this product for the API initiatives, so where is -- from a manufacturing standpoint, where there's a key line? Is it more of a formulation as tricky or API is a tricky, per se?

Pranav Amin: The formulation. It was IP, actually. More than anything that was intellectual property and filing the product before anybody else.

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

Damayanti Kerai: My question is again on the U.S. So you mentioned like you would expect it to grow in the coming periods. But I just want to understand how supplies pickup -- getting pick up from the new plants, especially for the non-oral solid plant?

Pranav Amin: Lot of the growth still is from the OSD. OSD is still the largest part of it. But pickup from the new plants have been quite good. Some of them have done a little better. Some will still take a little bit more time for ramping up. But it's been quite successful. Hopefully, by the end of the year, we will see a lot more products coming from these plants.

In terms of the ophthalmics, the lines are running very well. The oncology is also we've picked up some traction. And the general injectables is something that we're working on, especially the pre-fill syringes, we may see a few launches by the end of this quarter that should help it.

Damayanti Kerai: Okay. So very broadly, like, what are your expectations in terms of sales split between OSD and non-OSD sales 2 years from now, very broadly?

Pranav Amin: We haven't -- we don't give that breakup. But what I can tell you is that about 4, 5 years back from 100% OSD, gradually, the dependence on OSD will come down and you'll see growth coming from the other dosage forms. OSD will continue growing as well, and it will still be more than 50% in the long run.

Damayanti Kerai: Okay. And can you also comment on the U.S. pricing environment? Have you seen any change compared to last 2 quarters?

Pranav Amin: There's still pricing pressure, I would say, double-digit pricing pressure. It's still there, we're still seeing that in the market.

Damayanti Kerai: Okay. But it's more product specific, right? Because what we are hearing from other -- somewhere like mid-single digit? And my next question, you mentioned constraint to supply was one of the reason why we saw less ROW sales this quarter, and if that's the case, like how you're planning to resolve this?

Pranav Amin: Yes. So you're right. We have the orders booked and the outlook is looking quite good for the U.S. as well as the ROW markets. What has happened is we faced some constraints in supplies. How we're addressing it, we do have the new formulation facility, F4, that we built a couple of years back. So increasingly moving more products there, and we're ramping that up. And in F1, we're looking at debottlenecking some of the areas where we have constraints. So I expect that in another quarter or two, it should be back up to supplies and ROW business will end up growing into the last couple of quarters of the year.

Damayanti Kerai: Okay. So maybe a quarter or two and then you expect growth to come back in this segment?

Pranav Amin: Yes, Absolutely.

Damayanti Kerai: Okay. And my last question is on your margin trajectory. So we have seen gross margin in the last 2 quarters remains broadly stable. So should we assume this level to sustain ahead? And also, if you can comment on the R&D expense. You always said Rs. 550 crores, Rs. 600 crores kind of? is that number which you are looking for this fiscal...

Pranav Amin: Yes, so let's take the R&D first. R&D -- as you see, the first quarter has just been about Rs.112 -114 crores, but by the end of this year, it will ramp up a little bit more. So I expect to close at about Rs. 550 crores-or-so for this year on the R&D side.

As regards to margins, I said we do expect that the margins over a 2-3 year period go up closer to the 18% to 20% kind of ranges. And that will happen as the new facilities get better utilized, and we've already optimized the R&D. Last quarter was a little more lumpy because we had a few onetime benefits of the EBITDA. But on a year-on-year basis, you will see an improvement in EBITDA margins.

Damayanti Kerai: Okay. And last, if I can, in the new non-OSD plant, your utilization is right now, what, like below 30% or it's better?

Pranav Amin: Again, it's tough to quantify, but yes, it's not much right now. Few streams are more, few streams are less, but it was built for future expansion. It was just built for taking up the future capacities and we're on track for that. We will start debottlenecking that and adding more areas there as well.

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

Abdulkader Puranwala: Sir, my first question is pertaining to the U.S. business. So out of the 206 products which have been approved, you have launched 149 so far, so the balance 57 products, would it be fair to assume that this would be mainly oral solids?

Pranav Amin: In terms of the total approvals?

Abdulkader Puranwala: No, no. I'm talking about the products which are yet to be launched close to 57 products...

Pranav Amin: Yes. as I said, we'll launch about 10 products in this quarter. Roughly half of them, in my opinion, would be oral solid, the rest would be some of the new areas.

Abdulkader Puranwala: Understood. Understood. And sir, in terms of your animal health business in India, so for the last couple of quarters, you have seen a quite good amount of traction. So in the next 3 to 4 years, I mean, how do we see this business in terms of the overall contribution to the India business? And if you could throw some light in terms of the segments which are currently working well for us?

Shauanak Amin: Yes. So in the animal health business, we expect to see a continuation of the momentum. As you're aware, we added a new division in the livestock space last financial year, and that's obviously giving us a little more traction and momentum in terms of sales. Conservatively, we should expect to be in and around the CAGR that we've been generating for the last 3 years, we expect that momentum to continue on the India business.

In terms of levers that's really driving this business, like I said, it's -- some of it could be attributed to manpower expansion, some of it is through some new launches as well as, operational execution and discipline, which is a more a pan-India business strategy. It's a combo these 3 things that's really helping us move.

Abdulkader Puranwala: Understood. And my final question is also on the branded portfolio in India. So if I look at one particular slide on the therapeutic performance, your gastrointestinal growth has slowed down a bit as compared to the market growth. So any thoughts or color there?

Shaunak Amin: Sorry, could you repeat the question?

Abdulkader Puranwala: Starting, with respect to your gastrointestinal portfolio in India. If you look at one of the slides where you have given a comparison between the company growth of this portfolio as well -- versus the market, the growth has been slightly below the market growth. So any thoughts or color you'd like to share, which would help us read to those numbers?

Shaunak Amin: sometimes you just have a little bit of submarket segregations of where your stakes a little more, those markets don't do as well. I don't think it should be a major concern.

Ajay Desai: See, broadly, there is no gap, like we grew at 12% and the market growth is also 12.6%. So broadly, we are in the line with the market.

Moderator: The next question is from the line of Bhavesh Gandhi from Yes Securities.

Bhavesh Gandhi: I have one question on the U.S. business. So any updates on the approvals that we had got in Q1, So any update on the 3 products, whether they will be launched or we're yet to launch?

Pranav Amin: we launched 2 products in the quarter, and we will launch about 10 in this quarter and some maybe or three take because they're not day 1 launches, so they'll all be launched within in a period of time.

Moderator: The next question is a follow-up question from the line of Tushar Manudhane from Motilal Oswal Financial Services.

Tushar Manudhane: So this on the API side, only to understand this is it to do with the inventory in the system, or this is more customer specific?

Pranav Amin: Yes, the lower sales due to -- I mentioned a couple of quarters back that while the API business over a 5-year period has grown quite a lot. We had few customer level shortfalls in the pickup.That is due to various reasons. One, business was very lumpy, that's why it will come up by the end of the year. The other one is one of the customers had an FDA issue, which is why there was a little lower offtake. And third is there was some pricing pressure that we saw, which we lost some business. But I hope that by the end of the year, API business will go back up to growth, and I hope that this business will expect it to grow by 10% year-on-year after this.

Tushar Manudhane: Is that FDA issue resolved so that his offtake is back on or it will be subject to inspection?

Pranav Amin: Issue is not at our level. It is at a customer level. It's not resolved as yet. And I believe that market share has got transferred to somebody else.

Tushar Manudhane: Understood. So effectively -- sorry to drag on this, but effectively for us to scale up the business will be subject to resolution of FDA issue for the customer or any which case, till the customer will be able to sell more in the market?

Pranav Amin: It's just one customer. I believe we'll make that up with other business as we go along.

Tushar Manudhane: Understood. And sir, secondly, on the gross margin front, where the share of API business overall over the last -- you may look at year-over-year or quarter-over-quarter, the share of API is being reducing, but the gross margin has been largely stable at least for quarter-over-quarter if I think about?

R K Baheti: Yes, that's right. I have said earlier also that we'll be happy with 70%-plus kind of margins. For every quarter, it will be some product mix, specific consumption patterns. On a long term trend, we would continue to be 70%.

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

Bharat: I just wanted to understand on lenalidomide launch plan. So when we are going to launch that product? Is it going to be towards FY '26 May or sometime later?

Pranav Amin: No, we're going to be much later. We were not in the first couple of waves. We're still a good couple of years away from that.

Bharat: Okay. But will it be a sizable opportunity for us whenever we launch it?

Pranav Amin: No, no. it won't be because we'll be too late to the market. So that's not a product that will be sizable for us.

Bharat: And is it based on some settlement? Because as far as I know many companies have settled in such a way that they were going to launch before everyone could come. So before this volume restrictions is lifted. So are you seeing some of those will be getting some value share?

Pranav Amin: No. we were very late on this product. So here's a whole bunch of people before us. So our settlement is much later, and I don't expect there'll be much of market left by the time we get in.

Bharat: Okay. And as far as talking from the perspective of U.S. business, now what will be our top 4 or 5 to the product composition of the U.S. business what proportion will be coming from these top four or five products?

Pranav Amin: percentage of revenue?

Bharat: Yes. U.S. revenue, top 5 or top 10. I'm just trying to understand the concentration of the U.S. market.

Pranav Amin: So I think the concentration for us has come down from what it used to be back in the days of the starting. So I don't have the exact figure. I'll send it out to you offline. The top 5 also keeps changing depending on the opportunity, but I believe the concentration has come down quite a bit.

Bharat: So actually, the reason to ask is because we have talked again a double-digit price erosion while our peers are yet talking about that price erosion actually been very moderating a lot. So what is leading to the sort of price erosion for us? What difference we're seeing in the market?

Pranav Amin: Maybe we sell at higher prices than the others, I don't know. But that's what we're seeing in the market product to product.

Bharat: Right. And it is across the portfolio, not some specific products, right?

Pranav Amin: See, the price erosion is, you extrapolate it, right? Because a few products that will be double-digit; few products, it will be stable. Some haven't lost anything. So it's tough to say. That's why when you all ask for the price erosion, and when I do see price erosion, I'm seeing double digit. I'm not seeing single-digit price erosion. And of course, some products, we don't see price erosion.

Bharat: Yes. But at an aggregate portfolio level, you are seeing double digits?

Pranav Amin: Yes. We're seeing price erosion.

Bharat: Right. And you talked about some lumpy revenue during this quarter. So are you even calling out the number as well for that?

Pranav Amin: No, we haven't quantified a number. It just happens sometimes. Once in a while, we'll get a onetime or maybe some supply base or some third-party supply. So we get that once in a quarter. And it's -- I think every year, we get it. Once every few quarters, we get it. So it's just led to this.

Bharat: Right. And our overall U.S. business margins would have taken a hit largely because of new facilities. How long do you think it will take for us to turn our overall U.S. business after deducting for R&D expenses to turn profitable?

Pranav Amin: So the U.S. business has always been profitable for us if you take our R&D business out. It's just that the new facilities right now, new facilities are shared across all our markets. If you add the new facilities then there that in spite of that, the generics business is still positive, still profit-making in spite of that.

Bharat: Sure. And last one, on the other expenses, we have again seen other expenses shooting up during this quarter. So any number to call out or anything there sitting, which might be one-off?

R.K. Baheti: You would have seen some increase probably on a Q-o-Q basis, but on a Y-o-Y basis, it's like a consistent increase. So some expense are a little more cyclic than others.

Moderator: The next question is from the line of Gagan Thareja from ASK Investment Managers.

Gagan Thareja: I think in your introductory comments, you indicated that gross borrowings have gone up from close of fourth quarter to now. Any explanations there? Is the working capital gone up?

R.K. Baheti: Yes. A little bit of working capital has gone up, that is because of new launches, which Pranav mentioned, we have to create enough inventory. And also multiple plants are now in stream. So obviously, the inventory levels at each of these facilities would add up to the increase in inventory.

Gagan Thareja: In terms of days sales, inventory would also have gone up other than apart from being in absolute values being up?

R.K. Baheti: Number of days have also have gone up because the sales will follow. Inventory buildup is preceding the sales are happening. I believe that by end of this financial year by March '25, it should be back to normal, again.

Gagan Thareja: Okay. All right. And the tax rate also seems to have gone up year-on-year. What would be the full year tax rate roughly to work with?

R.K. Baheti: We expect full year tax rate to be at around 17% on a standalone basis. Depending on the subsidiary company's profits and taxes there on.

Gagan Thareja: Right. And if I look at your standalone numbers there's a very sharp jump in profits, which does not -- obviously not -- does not show up at a consolidated level, any explanation there?

R.K. Baheti: Largely the same reason that we have built up inventory in the U.S. for the new launches. And those products are now when they get on the market, it will be sold, As of now, it's an unrealized profit in stand-alone books.

Gagan Thareja: Okay. And for India, any addition to sales force that you have planned this year? And what is the current sales force count?

R.K. Baheti: We have done some additions already. We have created divisions and new division in Gynec. We have done a new division in Cardiac. So now, there are no major expansions planned this year.

Gagan Thareja: And what's the total sales force count as of today.

R.K. Baheti: 5,500-plus.

Gagan Thareja: And the PCPM would be how much?

R.K. Baheti: Sorry?

Gagan Thareja: The yield per month per man would be how much?

Ajay Desai 3.8 lakh per month.

Moderator: The next question is from the line of Harshit Dhoot from Dymon Asia.

Harshit Dhoot: Two questions from my side. First one is on the Entresto. We have received approval on Entresto. I just want to understand on the launch time lines and the settlement terms or litigation. How to understand when we can launch this product?

Pranav Amin: Yes. On Entresto, we have settled already with the Novartis. I think we're just awaiting the outcome of some of the others, what's going on. So we're on a wait-and-watch mode. Let's see if someone launches, then we'll decide if it makes sense for us to launch based on a settlement, but we've already settled.

Harshit Dhoot: But if the other guy was not able to launch, then by when we can launch at earliest?

Pranav Amin: As per settlement, it really depends. It's tough to say and but we would wait for somebody else to launch because we can't launch right away. As per the settlement, our launch is later. But if somebody else launches, then we may get an opportunity to launch. With this, next couple of days, a couple of hearings going on and we'll get a better idea in a couple of weeks' time.

Harshit Dhoot: Okay. Got it. And one more thing on this. Is the settlement related to the volumes or how it is?

Pranav Amin: No. It's based on IP.

Harshit Dhoot: Okay. Okay. Got it. And the other part on the domestic business, excluding the Animal Health business, what kind of thoughts do you have in mind? Can you also form the IPM market by 200, 300 bps, excluding animal health business?

Shaunak Amin: Yes. that is the objective. We have always maintained that the India business under normal circumstances, over -- not on a quarter-to-quarter basis, but over a long-term consistent basis, we expect to outperform the IPM. And I've mentioned this in the past that my target is to deliver a few basis points higher than the IPM.

Yes, it becomes a bit of a challenge, like it has been in Q1 and some of the quarters of the previous financial year when the RPM and the IPM, there was a big dissonance in terms of growth. I don't want to get into the multiple reasons of why the market grows slowly. But against a normalization of the market, ex of any large base, unmanaged base impact or some extreme external circumstances like climate and such. if RPM is growing in line, we expect to outperform the IPM by at least a couple of basis points consistently.

Harshit Dhoot: Excluding Animal Health business, right?

Pranav Amin: Yes, excluding Animal Health business.

Harshit Dhoot: Okay. And the last one on the book-keeping question. Again on the gross margin front, anyways doing 70%-plus from last 8, 9 years, right? So this quarter, we were around 75%, last quarter also 75%. I just wanted to qualitative aspects on that. How should we read the gross margin in terms of mix when U.S. Become heavy, then it will build more upwards or downwards? So just a qualitative statement on that. The 70%-plus is a big range, right? So just more comments on that, sir?

R.K. Baheti: As I said, we constantly monitor it, and we'll be happy with anything which is 70%-plus. It has been between 70% and 74%. So, now for a specific quarter, it depends on our realization that is the top line, the cost of material, the consumption pattern, product mix of production and so on. We don't get into quarter-on-quarter discussion. Overall, 70%-plus is good for us.

Harshit Dhoot: Okay. And in terms of the geography mix, which can you know the margin upwards or which can put pressure on margins? So if U.S. becomes highly, which will be next quarter, then we can see some acceleration in gross margins or it will be something like flattish? Just wanted to understand how gross margin is getting impacted by mix?

R.K. Baheti: Each of these factors affect gross margins. Price erosion in U.S. will affect the gross margins. Price rise in India will affect the gross margin. Cost increase impacts the gross margin. Any of these things or all of these things can happen or may not happen.

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

R.K. Baheti: Thank you, everyone, for joining the call and always pleasure interacting with you and look forward to see you again at our Q2 H1 conference call. Thank you all.

Moderator: Thank you. Ladies and gentlemen, on behalf of Alembic Pharmaceuticals Limited, we conclude this conference. Thank you for joining us, and you may now disconnect your lines.