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09th February, 2022

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 FY2022 - Earnings Conference Call Transcript

We enclose herewith the transcript of the "Q3 FY2022 Earnings Conference Call" which was hosted by the Company on Friday, 04th February, 2022.

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
President – Legal, Company Secretary & Compliance Officer

Encl: a/a

"Alkem Laboratories
Q3 FY2022 Earnings Conference Call"

February 04, 2022

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

MANAGEMENT: MR RAJESH DUBEY - CHIEF FINANCIAL OFFICER - ALKEM LABORATORIES
MR. AMIT GHARE - PRESIDENT INTERNATIONAL BUSINESS - ALKEM LABORATORIES
MR. YOGESH KAUSHAL - PRESIDENT CHRONIC DIVISION - ALKEM LABORATORIES
MR. GAGAN BORANA - INVESTOR RELATIONS - ALKEM LABORATORIES

Moderator: Ladies and gentlemen, good day and welcome to Alkem Laboratories Limited Q3 FY2022 earnings conference call, hosted by Motilal Oswal Financial Services Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Tushar Manudhane from Motilal Oswal Financial Services. Thank you and over to you, Mr. Manudhane!

Tushar Manudhane: Thanks Nirav. Welcome to 3Q FY2022 earning call of Alkem Laboratories. From management side, we have Mr Rajesh Dubey, Chief Financial Officer, Mr. Amit Ghare, President International Business, Mr. Yogesh Kaushal, President Chronic Division and Mr. Gagan Borana from Investor Relations. Over to you Gagan for the opening remarks!

Gagan Borana: Thank you, Tushar. Good evening everyone and thank you for joining us today for Alkem Laboratories Q3 FY2022 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 our CFO, Mr. Rajesh Dubey to present the key highlights of the quarter gone by and strategy going forward. Over to you Sir!

Rajesh Dubey: Thank you Gagan. Good evening to all of you and thank you for joining us today for our quarter three FY2022 earnings call. I would briefly take you through the key operational and financial highlight of the quarter gone by and would then leave the floor open for questions and answers.

Starting with the financial performance of the quarter revenue from operation grew by 13% Y-o-Y driven by robust performance in India business. Despite the inflammatory raw material landscape our gross margin was almost flat Y-o-Y. This was largely on account of better revenue mix with higher contribution from India business. EBITDA margin dipped by 380 basis points Y-o-Y to 19% and the Y-o-Y deep in EBITDA margin was partially because of saving on the marketing and other promotional spend in quarter three of last year, which was impacted by COVID related lockdown and has got normalized this year.

Our net profit after tax grew by 16.6% Y-o-Y held by tax credit on account of restructuring in the year. During the quarter we also generated healthy cash flow which has helped us further to strengthen our balance sheet with net cash position of around 1500 Crores as one December 31, 2021.

Talking about our India business it registered a growth of about to 20% Y-o-Y during the quarter and about 35% for the nine months of the financial year. This growth was majorly driven by strong volume growth partially helped by COVID-19 tailwind in our acute therapy area of anti-infectives, vitamins, minerals, nutrients, pain management and gastro.

Most of our mega brands continue to outperform in their respective markets thereby maintaining their leader leading position. Our chronic portfolio also delivered a market beating performance for the first nine months of the financial year. Our trade generic business also grew well in the quarter and the nine months of the financial year despite the high base of last year. Our recently launched Pulmocare division catering to the respiratory segment saw an encouraging start with growth rate higher than the therapy growth rate.

Moving on to our international business, our US business with quarterly sales of $77 million was down 7% Y-o-Y. This was due to significant price pressure on our base portfolio that we try to offset by regular new product launches. During the quarter we filed one ANDA with the USFDA and received six approvals.

Apart from the US our other international markets delivered a robust Y-o-Y growth of 25% during the quarter with healthy performance in our focus markets of Australia, Chile, Philippines and Kazakhstan.

Updating on our progress in the biosimilar segment, during the quarter we signed an agreement with Theramex to develop and commercialize Tocilizumab for Europe market like UK and Switzerland and also Australia. The commercialization is expected in the year 2026. In terms of regulatory inspection all our manufacturing facilities supplying to US barring the Saint Louis has an EIR as on date. Our new manufacturing facility at Indore is awaiting pre-approval inspection by the USFDA.

With this I would like to open the floor for question-and-answer. Thank you for patient listening.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Damayanti from HSBC Securities. Please go ahead.

Damayanti Kerai: Sir, thank you for the opportunity. My first question is on some of the cost headwinds which industry is currently facing. So in your observation have you seen any moderation off late in headwinds such as higher raw material price, feed costs, etc.?

Rajesh Dubey: What I understand Damayanti from your question, you wanted to know impact of higher API cost on our cost, am I correct.

Damayanti Kerai: Yes Sir, and like how has been trend recently say compared to last quarter have you seen any moderation in recent weeks or so.

Rajesh Dubey: As you know this price increase on API started somewhere start of second quarter and we covered in our second quarter next call also API prices it has started rising up and it was expected starting giving impact in our COGs in quarter three and going forward. So quarter three also impact to certain extent it is there, but not significant impact, some impact is there, definitely since we ensure our raw material and packing material for at least three months. So whatever high priced API or packing material we have procured definitely quarter four is going to have major impact. So we feel somewhere between 2% and 3% of our margin it may get impacted in quarter four. As far as answer to your question whether softening of prices has started happening or not, so yes in some of the API little bit price softening we have witnessed but our expectation after winter Olympic completion I think that is the time when we have to see how China is behaving and how prices start indicating. So I think we will come to know better once this winter Olympic gets over. But definitely quarter four is going to have impact of higher API prices and ultimately impacting our margins also.

Damayanti Kerai: Then my other question is on India part of the business. So can you broadly specify what is the current contribution from chronic therapies and where you would like to reach in terms of chronic contribution in next three, four years from this year?

Yogesh Kaushal: In last quarter also we said that thing that we are currently contributing approximately 15% to the domestic turnover and by 2024-2025 our gross plan is that we should reach around somewhere in the range of 21% to 22% of domestic turnover.

Damayanti Kerai: My last question is can you also specify the MR productivity for your acute and chronic segments like where we are in terms of two segments in terms of productivity and what is the blended right now, blended number.

Yogesh Kaushal: Acute all divisions put together we are close to 7 lakhs in our productivity it ranges from 10.5 to around 3.5 but broadly across chronic acute it is 6.92 lakhs, chronic we have a productivity of 3.30. So these are two productivities and across company if you ask me which was like I believe was your next question was around 5.78.

Damayanti Kerai: My last question is quickly on the US part so obviously you mentioned the prices are very challenging right now. So again about recent trends are we seeing similar elevated level of price erosion the way we have seen in second quarter or so or in recent few weeks at least we have seen some softening on some specific products also.

Amit Ghare: Some softening we have seen but that perhaps is if we are looking a year-on-year obviously the price erosion started in the first calendar quarter of 2021. So to that extent the base is already now at a lower number. Overall the deflation continues which of course always continues for generic.

Damayanti Kerai: Okay, Sir. Thank you, I will get back into the queue.

Moderator: Thank you. The next question is from the line of Prakash from Axis Capital. Please go ahead.

Prakash: Good evening. Thanks for the opportunity. I just wanted to check on the India business what is the broad breakup of the GX and the RX?

Rajesh Dubey: Can you repeat your question?

Prakash: Broad contribution from the generic business and the prescription business?

Rajesh Dubey: You are talking about generic to formulation.

Prakash: The generic and your prescription business.

Gagan Borana: So it is trade generic is around 20% of our domestic sales.

Prakash: Would it be fair to say that it has grown higher than the prescription business?

Yogesh Kaushal: Yes Prakash. Generic it grew more compared to the prescription.

Prakash: On the prescription business, we had a good tailwind given the second, third round and all the four big therapies where we are present had this COVID lead which you have also mentioned in the press release and I would assume it is very difficult to call out what would be the base business growth, but any ballpark number, I mean, would it be high single digit if these tailwind would not be there?

Yogesh Kaushal: You are talking about year 2022-2023.

Prakash: Yes, current nine months.

Rajesh Dubey: Can you repeat your question again?

Prakash: No, I am just saying that we had some tailwinds of COVID Q1 obviously, but especially in Q3 also there were some COVID that tailwind which you mentioned in the press release just trying to understand if COVID was not there what could have been the base business growth and how do you expect it next year given the high rates you have.

Yogesh Kaushal: So see we do not have COVID specific products, but then our empirical treatment of supportive treatments which are there for COVID a marginal spike like products like PAN which is our GI product then some of the multivitamins, zinc based multivitamins, pains. So there is a marginal impact and of course in the first two, three months we had a good positive impact of antibiotics. So overall there is impact of COVID on our business, but if you ask me specific to third quarter then not really much even the marginal impact of COVID not much. Now your next question about how is next year we foresee, so very difficult to predict so far, but whatever some of the analysts they have done some working we see around if you remove COVID impact business in the current year or if you include COVID impact and then clock the next year I think the industry should grow at around what around 8% to 9% types that is my stretch number I would say and as a business we would try to outperform the market growth.

Prakash: Second question to Mr. Amit. On the US filing, so filings are about nine approval run rate is about 18 will see tentative how do we feel numbers obviously do not matter much it is the chunkiness of product, but how do we feel with this base next year should pan out for us in the year.

Amit Ghare: Next year in terms of filings I know your question is from the revenue, but just on the filings the ambition will continue to be in the 12 to 15 range and in terms of launches which will of course has helped the current year and will help the next year we have had a good number of launches this year and we are very optimistic in terms of growth going forward for next year that was a real question I understood.

Prakash: Also with the price erosion we have come to a certain base and now with new launches and ramping up of existing products would it be fair to say that the chunkiness or is not there anymore with most of the products and we could grow double digit would that be fair understanding.

Amit Ghare: If you look the objective would certainly be that to growing double digits, it now totally remains to be seen in terms of how good our launches perform what kind of market share we get and also remember the price deflation for all the new losses is always higher so if it is a day one launch it is a rapid price deflation day one, day 181 launches, if it is a follow on launch it still results into a fairly rapid price deflation compared to the legacy business. So keeping all that in mind however yes we are optimistic for a good growth going forward.

Prakash: And lastly to Mr. Dubey, given the strong cash position now. How are we thinking about adding some using the cash because I mean in the last one month itself we have started to see some small, small acquisitions I know as a company we have not followed that part but what is the thought process now and how do we use the cash.

Rajesh Dubey: We have replied various times in fact whatever cash we have it is for our business expansion and of course we are being reasonably well dividend also going forward. So when I say future business expansion besides organic inorganic opportunities also we definitely will consider if we get at right price, but we want to do any inorganic after having complete details and considering sizing of opportunities so definitely we have plans for cash available with us and in any case we will keep on giving dividend the way we are doing right now.

Prakash: Any major capex plan, Sir?

Rajesh Dubey: Sorry.

Prakash: Any major capex plan?

Rajesh Dubey: No capex guidelines we have already given to you this year we are going to have somewhere close to 400 crores next year between 400 and 450 and after that I think we will be somewhere of 450 to 500 kind of that.

Prakash: Okay Sir thank you and all the best. I am talking normal capex.

Rajesh Dubey: It is samething.

Prakash: Yes, nothing new no new media project as such.

Rajesh Dubey: Yes, not very specific but we may be requiring domestic facility say after two years.

Prakash: Perfect Sir, thank you.

Moderator: Thank you. The next question is from the line of Kunal from Edelweiss. Please go ahead.

Kunal: Good evening and thanks for taking my question. Sir, my first question is again on the India business growth. So I think you did mention that the market will grow at 8% to 9% next year and would like to grow above that. So while I understand this I think this year you have taken the market hands down because I believe the COVID allied treatment or drugs you have been very successful this year. So I am just wondering that on this base do you see growth actually tapering down very sharply next year.

Yogesh Kaushal: Not really see this year particularly the anti-viral treatment was restricted. So it is mainly antibiotics and all which were sold. So yes there will be some tapering which will certainly happen there is a reason the market traditionally which has grown by 9.5% to 10% we are talking about around 8% to 9%. So there will be certain tapering in the market and so is business. So our objective will remain to outperform the market.

Kunal: Even on this basis, you are saying that, I think no one is reported a 20% year-on-year growth in this quarter. On this stage also to grow maybe at 9%, 10% you think it is doable.

Yogesh Kaushal: See we are not saying that we grow at the same pace but we are saying will be outperforming the market growth.

Kunal: Sir, my second question again is regarding India so the WPI this year is in double digits I understand you have maybe 25%, 26% of your portfolio under price control. So what has happened typically you would take the full 10% or 11% kind of price growth next year.

Yogesh Kaushal: We will try to see that almost we take the full benefit of WPI price index.

Kunal: And then WPI is over 10% so you can take over that in the state of 15% you can take 15% price growth.

Yogesh Kaushal: It is in the range of around 10% or so. So that should be the impact o our overall pricing benefit not 15%.

Kunal: Just one more clarification when Mr. Dubey mentioned that you will see around 2% to 3% impact on gross margins in the next quarter so did you mean 2% to 3% on a nine month FY2022 base or over Q4 FY2021.

Rajesh Dubey: I was referring Q4 not nine months, nine months it has already gone. So we have margin more than 60% but for quarter four our expectation or we have estimate having impact of higher API prices to the extent of 2% to 3% to March end.

Kunal: Just to put that in context last you did around 57% kind of gross margin so maybe this time could be doing around 55%. So is that a fair understanding.

Rajesh Dubey: No actually if you see our last quarter our gross margin it was more than 61% so we expect we will be somewhere closer to 59% or 60%.

Kunal: But sorry Sir I do not understand this last year because the Q4 is typically a seasonally weak quarter your gross margins tend to go below 60% right the last two years has been 57% and 56%. So if you are doing 59% this year then how cum the price, I cannot see the input cost impact here.

Rajesh Dubey: Sorry actually I was not comparing this gross margin with last year's quarter four because in last year's quarter four there was few one-off items also write off there was a element of write-off in last year I was referring to quarter three or YTD and quarter four. So YTD we have gross margin more than 61% and we expect there will be a hit by 2% to 3% on that am I clear.

Kunal: Sure Sir, that is helpful and sir just lastly the new division that you have launched the Pulmocare division just want to understand a bit more in terms of what will be the recurring Opex going forward how many sales reps you have added and so on.

Yogesh Kaushal: We are currently at 130 we should be reaching close to 175 this year in Pulmocare that is your question right. So you only want to know about people or beyond this also something else.

Kunal: Beyond this, I mean, the opex will probably start up right so I am just wondering what should be the new run rate.

Rajesh Dubey: Pulmocare actually in fact recently we started and we cannot expect breaking over immediately. So this year our expectation at business level to have some kind of negative but that will not be big and as Mr. Kaushal he said we have 170 people going to be in 2022-

2023 definitely we have to wait for some period amount of negative this year is not big but it may be in the range of 30 to 40 Crores.

Kunal: Got it Sir, thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Sahil Mukherjee from Nomura. Please go ahead.

Sahil Mukherjee: Thanks good evening. On the India business the growth is strong, is there some sort of channel fill or buying in anticipation of omicron wave that we saw in December or you think this quarter would have equal strength given the omicron cases.

Yogesh Kaushal: We do not see any major panic buying even in December or January also because of omicron possibly in some element it will be there but we do not think any significant impact is there.

Sahil Mukherjee: And have you seen any impact significant impact this quarter I mean so far the month of January for instance where we have seen a lot of cases.

Yogesh Kaushal: As I said in the beginning this year the impact of omicron is not on the core antiviral kinds but some in fact you can say very minor, very difficult to evaluate so far, but pain and your zinc preparations and antiulcerant they may have minor, but not to the extent what was in the second wave.

Sahil Mukherjee: And Sir, can you just talk about volume growth and price increase expectations that you have for the India business typically like of course next year may be slightly higher on pricing but typically what is the kind of price and volume combination that you are seeing for your business?

Yogesh Kaushal: Well you want to know for this quarter?

Sahil Mukherjee: I do not know I mean maybe we can because there is COVID related demand sometimes so it sort of may skew of things but I just want to know like going forward on a normalized basis what is your expectation of how much of the growth you generally expect from pricing and how much from volume.

Rajesh Dubey: See pricing as you just a few minutes back Mr. Kaushal he indicated this time we have advantage of WPI also so and wherever we get opportunity definitely we are going to take rise in price but straight away we cannot apply all across because we have to see ultimate price our price vis-à-vis our peer price and all this but generally our price increase is in the range of 4% to 5% definitely this time it is going to be little bit more so you can assume around 5% to 6% we expect to take price increase and volume we are somewhere close to double somewhere close to 7% to 8% I think there we may need to realign and there we can have 1% or 2% lesser compared to it. But new launches are also there and they are going to add up so definitely we are going to outperform market.

Sahil Mukherjee: And Sir, in the US there is this decline that we have seen. So what exactly happened sequentially because this looks to be a steep decline any specific product you face price erosion if you can give some granular details on this.

Amit Ghare: Obviously the loss of market share in the previous quarters certainly what is one of the factors that was responsible the new launches that we had again in the previous quarter have gone through again a major set of price deflation so obviously the base business itself for the previous quarters compared to the current quarter that has been the overall deflation and that was obviously not offset by enough launches during the quarter enough launches from a value perspective. So I guess that is the reason for a quarter-on-quarter decline.

Sahil Mukherjee: And just one last question I think in your opening remarks regarding the tie up on biosimilar did you say you looked at commercialization in 2023 or I got the year wrong.

Rajesh Dubey: 2026 so my commercialization is going to happen in 2026.

Sahil Mukherjee: And when do you expect the filing 2025 is it calendar 2025.

Rajesh Dubey: Yes, 2024-2025 right I believe.

Sahil Mukherjee: Thank you.

Moderator: Thank you. The next question is from the line of Nitya from Sanford C. Bernstein. Please go ahead.

Nitya B Subramanium: Thank you. I had just one question on your outlook for the trade generics in India there has been a fair amount of interest in the recent past three or four of your large peers of launch divisions, health tech companies have also been talking about publishing more of private labels not technically trade generics but along the same lines. So how do you see this shaping of do you see this as a threat to Alkem's position trade genetics do you see that see this as a threat to branded genetics if broadly this is a zero-sum game or do you see this is something that is expanding the market itself just your thoughts on how you see this business shaping up.

Yogesh Kaushal: I think trade generic will largely play in a business of penetration because the prescription market if you traditionally see a prescription market it is largely in metro's class one and class two suburban and below that it is still 60% odd population we do not have a reach of medicine. So what we usually work on a channel management where they reach out to those places where traditionally a prescription business may not reach and strategically also as a business we do not encourage even in business also I came to see if there is an overlap between our brands and generics. So we maintain that line of differentiation between the branded and generics. But I do not see really personally if you ask me from the professional input I do not see on a short or medium-term any threat to branded business through generic a long way to go for generic to have a threat on prescription business. I hope I am able to answer you.

Moderator: Sir the line for the participant dropped. We move on to the next participant. The next question is from the line of Yash Tanna from ithought Financial Portfolio Management Service. Please go ahead.

Yash Tanna: Team congratulations on a good set of numbers my first question is on the US business so our business was around 1200 Crores approximately in FY2017 which is now around 2500 odd Crores and so we have kind of doubled in four years so my question is in how much time do you think from here we can double our US business and what will be the growth drivers because as we are seeing that the oral solid market is becoming more and more. So do you think we might need to venture into other dosage forms or is this a growth engine.

Amit Ghare: I do not want to predict when we will double from here the base is already pretty high and this year we are flat or currently actually in a degrowth on the nine months. So for me to give you a number of years for doubling from here very difficult. As far as your second part of the question is concerned number one we do not just sell oral solids so as you know we do sell powders, liquids, semi solids, also nasals. So even though that is a small part of our portfolio so I understand broadly what you are asking as our CEO has said in the past investor calls we are investing into some of the other more difficult generics it takes time the gestations are high as you know on this side of the business. So it will take time before some of those start coming into the commercial side but definitely for our company going forward there are very clear plans of changing our product mix more than dosage form mix let me say the product mix there may be some other dosage forms also we may look at investing and certainly biosimilars is one area that we have talked in the past as we invest.

All of these though may take at least two to three fiscal years before we start seeing them on the commercial side.

Yash Tanna: Fair enough that is helpful. My second question is on the MR productivity side so I think you just mentioned to the previous participants that our MR productivity on the chronic side is around 3.3 lakh. So I just wanted to know what would be the MR productivity of let us say your top best performing 20% to 25% of the MRs on the chronic side. So where I am coming from is eventually the others would move towards that range right so what is the broad 20%, 25% top MR range productivity range.

Yogesh Kaushal: See in chronic also it ranges because we have been expanding year-on-year so all those who are relatively new in the business in chronic say around two to three years there the productivity range will be somewhere between 1.5 to 2, 2.5 but those who are little senior in the business six to seven years our productivity range is as high as 10 lakhs in chronic also so it can average out from 10 to say 1.5 even thus it comes to 3.28.

Yash Tanna: So the top performing are around 10 lakhs also.

Yogesh Kaushal: Yes, there are quite a few people who are in the range of around 10, 9.5 or so.

Yash Tanna: And the others would eventually move towards that range.

Yogesh Kaushal: Yes, because we are literally new we keep on expanding for last three, four years once finally we will come to a reasonably good level of productivity.

Yash Tanna: One more question so this quarter I think we are two interesting press releases and one was about the exclusive agreement with John Hopkins University and one other one was about the launch of some patient technology for the treatment of diabetic portal. So how are we thinking about these tie ups and what does this bring on the table for us.

Rajesh Dubey: As far as the launch of food ulcer is concerned I think we still launch it has not gone actually the filing with regulatory is yet to happen we believe at the end of 2023 we will be able to launch it officially as far as John Hopkins understanding we had I think it is a long-term kind of project we have taken and on cost front I think it is not very significant but we understand we have guidelines of 6% of our revenue under R&D expenditure I think we are going to manage within that.

Yash Tanna: So anything on the diabetic foot as you said we will launch by the end of FY2023 so anything what kind of product is that what kind of a technology and what is the market of that.

Yogesh Kaushal: So see diabetic foot are largely it is something which lead to amputation because of gangrene and all so this is not a treatment of gangrene so what it does is when there is an initial damage because of foot ulcer and the wound gets deep so doctor treats wound and he tries to see that it does not reaches gangrene level. So this is pre-gangrene level treatment wherein doctor will try to heal the wound and then give a patch so that cosmetically the foot or whichever part the ulcer is formed it looks cosmetically good so aesthetically good that is the basic objective of this treatment. So wound healing and preventing further damage of foot that is the basis of genesis of this product.

Yash Tanna: So ideally it is like it is a mass or problem or is it a very niche problem that happens to some people or it is like most of the diabetes patients eventually do get this issue and there is no treatment to this.

Yogesh Kaushal: Not most of the diabetic but there are good number of diabetics on control at a later stage of life will have a tendency of foot ulcer first and if not treated initially can lead to gangrene and amputation. So you have to treat this patient's pre-gangrene level and there are good numbers of cases. This is not too niche also but literally I would say it is a niche market.

Yash Tanna: There is nothing else in the market right now related to that.

Yogesh Kaushal: So far there is nothing there are treatments for wound healing, post wound healing can any product give a cosmetic look similar to that of original skin this is the first of its type.

Yash Tanna: That is amazing and that was helpful thank you team and those were my questions.

Moderator: Thank you. The next question is from the line of Nitya from Sanford C. Bernstein. Please go ahead.

Nitya B Subramanium: Thank you unfortunately my call got dropped. So I did not really get to hear the response but I will ask a follow-up anyway. As the trade-generic part of your business continues to grow faster and becomes a bigger and bigger part of your portfolio I assume it is at a slightly lower EBITDA than your branded generic business do you see an adverse impact in that EBITDA therefore.

Rajesh Dubey: As you rightly said compared to our ethical business EBITDA and margin it is a little bit on the lower side that is very true and of course business mix if trade generic is on higher side definitely it impacts our margin. But let me tell you here we have opportunities there also to optimize our margins and I think we have reasonable margin in our trade generic also reasonable good margins.

Nitya B Subramanium: Do you see this current 20% share of India business becoming 30%, 35%, 40% or not in the near future.

Rajesh Dubey: No I do not think it is going to have that much share of our business domestic business right now it is 20% and we do not see it is going to increase substantially in coming three years also.

Nitya B Subramanium: Are there any updates on the trade margin caps that the government was talking about a couple of days back.

Rajesh Dubey: Initially it was discussed but I do not think any further discussion is going on. So right now I do not think any news related to this is in discussion.

Nitya B Subramanium: Thank you so much.

Moderator: Thank you. The next question is from the line of Gaurang from Motilal Oswal. Please go ahead.

Gaurang Sakare: Thank you for giving me this opportunity, Sir. I just wanted to ask you about the addition of MRs over next 12 to 24 months can you give some guidance on that?

Yogesh Kaushal: See we have taken extension of 650 people last year and this year we have added around 535 so total around 1200 people we have added in a span of 12 months. So currently what we are trying to see is how do we settle them and see the productivity but management is not ours to any opportunity if it comes we are open so maybe some expansion might happen in those businesses which is need beast as of now for next one year so far we are not seeing any opportunity of launching such full-fledged divisions.

Gaurang Sakare: And so obviously these additions of MRs over the last two years must have significantly affected the productivity which you highlighted was around 5.78 lakh correct me if I am wrong. So how do you see this trend moving forward.

Yogesh Kaushal: See there is a reason some of your colleagues previously asked me a question about our confidence of next year growth. So these are the people who will certainly add to business but yes there will be some dilution of productivity so it may not reach that level sooner but they will add to the overall volumes so reaching that productivity will take a reasonably good time so you cannot predict but it will take time. There will be some dilution of productivity for 1 200 people addition in acute and subchronic business.

Gaurang Sakare: Again on tax rate what would be your guidance on the tax rate?

Rajesh Dubey: Tax rate as we discussed this time we got advantage of recognition of deferred tax assets in quarter three and that is why if you see our result it is instead of expenditure now this income but for this year I think we will be somewhere close to 3.5% to 4% effective tax. Provided again since now this project has come out and there are few items which needs to be considered so I have not factored that so in normal course we expect our effective tax rate somewhere close to 4% this year and for next year and onwards we have already given guidance of effective tax rate of 10% to 12%.

Gaurang Sakare: One more thing I wanted to ask was on this. So Duexis are there any other niche product launches targeting over next let us say 12 to 18 months?

Amit Ghare: I would not like to comment on that.

Gaurang Sakare: One more thing on this biosimilar so what would be our investment till date for this business and how do we see this going forward.

Rajesh Dubey: Mr. Ghare do you want me to reply this.

Amit Ghare: Yes go ahead Sir.

Rajesh Dubey: Composite our investment in biosimilar opex, capex and clinical studies and everything is in the range of 725 Crores.

Gaurang Sakare: How do you see this moving forward what would be the let us say for next one to two years what would be the additional investment you would be doing.

Rajesh Dubey: We do not see any major investment going forward of course revenue stream has started at our biosimilar facility also but I think for some period some kind of support is needed we do not expect any major significant further support, but somewhere close to say somewhere around 80 to 100 Crores kind of further support may be needed before this business starts generating positive.

Amit Ghare: If I can add Mr. Dubey I think on the overall R&D investments we will stay true to our 6% revenue ambition or guidance that we have given and please remember because our revenue keeps increasing every year the absolute investment in dollars or rupees keeps increasing and obviously we will allocate that 6% amongst all the R&D that we take.

Gaurang Sakare: Absolutely thank you Sir.

Moderator: The next question is from the line of Rahul Jeewani from IIFL Securities. Please go ahead.

Rahul Jeewani: Sir, thanks for taking my question. Now fourth quarter is seasonally a weak quarter for us because of the seasonality which we have in the India business and that leads to some sort of margin moderation for us during the fourth quarter. Now for this fourth quarter we are talking about this incremental 200 to 300 basis point of margin impact being there on account of API cost increases. So how are you looking at the overall company level EBITDA margins for fourth quarter given that for the last 4Q so 4Q 2021 we had reported a 17% kind of a margin excluding the inventory write offs which we had taken. So for this fourth quarter do you think that the margins can go down below 17%.

Rajesh Dubey: Rahul you rightly said the quarter 4 is going to witness a hit from increased material cost and definitely that is going to have some impact fortunately in quarter four and you rightly mentioned quarter four normally because of seasonality it is weakest quarter for us but I think trend what it is indicating I think we are going to have a reasonable kind of quarter and as far as overall EBITDA margin for the year is concerned so we are not going away from our guidance and we will be somewhere close to 20% as we said in our earlier call. So rest of the thing you can work out backward and see so you will see we are not far away from what it was here.

Rahul Jeewani: How are you looking at margins for next year given that obviously there is some sort of cost pressure on the API side but the India portfolio for us next year would benefit from this 10% price increase for the WPI for the NLEM portfolio and given a sizable part of our India businesses under price control how should we think about margins for FY2023?

Rajesh Dubey: Right now Rahul we have to wait and let this Winter Olympic get over let us have some feel on pricing trend of material I think we are keeping our self away from giving guidance on margin for next year right now I think we will be having some more clear picture once we sit for quarter four and that will be appropriate time to indicate on margins.

Rahul Jeewani: But Sir on a broad basis you think that the API cost challenges or the API cost pressures which you will see that will largely be offset by this price increase which you will have on the NLEM portfolio.

Rajesh Dubey: Rahul actually I do not want to speculate actually there are various levers where you can work towards but I think at this moment it will be a speculative kind of statement from my side so my request to wait for some time and let some visibility come to material prices and we will be in better position to give you further guidance.

Rahul Jeewani: Sure, Sir. Thank you that is it from my side.

Moderator: Thank you. The next question is from the line of Vishal Thanvi an individual investor. Please go ahead.

Vishal Thanvi: In last three four calls we are talking about that we did expansion in management productivity and so just I wanted to understand this I got in last five years how many manageable person we have added and what is the productivity.

Yogesh Kaushal: How many reps we have added and what is the productivity new added productivity through new representatives that is what we are asking.

Vishal Thanvi: Yes.

Yogesh Kaushal: See we are no different than the former trend because when we add new people normally you will see it is because of for a large division which has multiple brands so it is not new launch of the division. So when we expand our expansion objective always remains to build large brands bigger so Clavam and Penn together so we create a Penn division in a Clavam division. But yes when we take a growth of around say 10% or 11% so new productivity added on that this is I can say roughly around 1 lakh or so 1, 1.25 comes from a new person who joins.

Vishal Thanvi: And if I will take that, if I put that in FY2016, 2017, 2018 what was the actual number and how much we have added. So can you give that number from FY2016 to 2021.

Gagan Borana: We will come back, so far we have not done this analysis we will surely respond to you. Vishal you can call me after this call and I will give you the numbers for that. We do not have the data with us for the previous year.

Vishal Thanvi: Thanks Sir.

Moderator: Thank you very much. The next question is from the line of Prashant Kothari from Pictet Asset Management. Please go ahead.

Prashant Kothari: I just wanted to understand on the thing again because we have been guiding for some years that our margin should be kind of trending up about 100 to 150 basis points every year is that the guidance kind of being a bit more doubtful given what is happening externally in terms of API price environment or do we still kind of stick by that for the medium to long-term?

Rajesh Dubey: Just now actually I reaffirm our guidance given earlier. So for the year we have given guidance of our EBITDA margin somewhere close to 20% and we expect we will be able to meet that expectation. Of course increased material cost is going to play a role in that but we understand and we are confident we will be delivering whatever guidance we have given.

Prashant Kothari: Sorry, my question was kind of more beyond FY2022 as well.

Rajesh Dubey: So beyond FY2022 just now I said we will wait for some time let us have some visibility and we will wait this Winter Olympic to get over and after that we will be able to give you guidance for 2022-2023 I think it is too early and we are also not having clear visibility on material price right.

Prashant Kothari: The current kind of out performance that you have kind of in the last few months is quite impressive are there any kind of interesting changes in strategy you have done by which you are able to win better a color on that would be very useful to understand how we are kind of doing this.

Yogesh Kaushal: You see last time I believe our MD also mentioned the same thing and I will repeat that see during COVID you would have seen that some of the companies they changed their strategy and came with antivirals and all and today we are succeeding because we stuck to the basic and we kept on emphasizing on our core strategy so it is not right for us to explain the strategy here but whatever we have been doing we will consolidate that because that is how we have succeeded so no major change in core strategy we will just drive what we have been doing right.

Prashant Kothari: All right okay thank you.

Moderator: Thank you very much. As there is no further question, I now hand the conference for the Mr. Gagan Borana for closing comments.

Gagan Borana: 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.

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