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22nd May, 2023

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: Q4 FY2023 - Earnings Conference Call Transcript

We enclose herewith the transcript of the "Q4 FY2023 Earnings Conference Call" which was hosted by the Company on Friday, 19th May, 2023.

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

Kindly take the same on record.

Sincerely,
For **Alkem Laboratories Limited**

MANISH NARANG
Digitally signed by MANISH NARANG
Date: 2023.05.22 15:56:52 +05'30'

Manish Narang
President - Legal, Company Secretary & Compliance Officer

Encl.: a/a

"Alkem Laboratories Limited

Q4 FY 22-23 Results Conference Call"

May 19, 2023

MOTILAL OSWAL PHYGITAL
The Physical & Digital of Investing

CHORUS CALL

MANAGEMENT:	**MR. SANDEEP SINGH – MANAGING DIRECTOR – ALKEM LABORATORIES LIMITED** **MR. RAJESH DUBEY – CHIEF FINANCIAL OFFICER – ALKEM LABORATORIES LIMITED** **MR. AMIT GHARE – PRESIDENT, INTERNATIONAL BUSINESS – ALKEM LABORATORIES LIMITED** **MR. YOGESH KAUSHAL – PRESIDENT, CHRONIC DIVISION – ALKEM LABORATORIES LIMITED** **MR. AMIT KHANDELIA – AVP FINANCE– ALKEM LABORATORIES LIMITED**
MODERATOR:	**MR. SUMIT GUPTA – MOTILAL OSWAL FINANCIAL SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Alkem Laboratories Limited Q4 FY '23 Earnings Conference Call hosted by Motilal Oswal Financial Services Limited. As a reminder, all participant lines will be in 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. Sumit Gupta from Motilal Oswal Financial Services Limited. Thank you, and over to you.

Sumit Gupta Thank you. Welcome to the 4Q FY '23 Earnings Call of Alkem Laboratories. From the management side, we have Mr. Sandeep Singh, Managing Director; Mr. Rajesh Dubey, CFO; Mr. Amit Ghare, President International Business; Mr. Yogesh Kaushal, President, Chronic Division; and Mr. Amit Khandelia from the finance team. So over to you, Amit, for the opening remarks.

Amit Khandelia: Thank you, Sumit. Good afternoon, everyone, and thank you for joining us today for Alkem Laboratories' Q4 FY '23 and Full Year FY '23 Earnings Call. Earlier during the day, we have released our financial results and investor presentation, and the same are also posted on our website. I 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'd 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 Sandeep Singh to present the key highlights of the quarter gone by and strategy going forward. Over to you, Sandeep.

Sandeep Singh: Thank you, Amit. Good afternoon, everyone. I will talk about key operations and strategic highlights and then leave the floor open for Q&A. On the domestic front, during the year, we have done exceptionally well on launch of new products. Contribution of new introductions to our growth was 3.1%, significantly surpassing the industry, which is at 2.3%. We had some very encouraging new launches during the year. We launched Dapanorm Trio in antidiabetic therapy and are ranked number 1 in this molecule. We have one of the most successful launches of sitagliptin in this year in an extremely crowded market where there are more than 50 players. We ranked among the top 5 in this molecule.

We also launched Sacuval in January of this year and -- which came after Vymada went off-patent. We are among the top players in this molecule as well. And when you consider this fact against the background of we not being on the top 25 in cardiac, this is a good achievement. We look forward to carry this momentum of market-beating performance in the domestic franchisee in the following year as well.

During the quarter, there was an exceptional item on account of impairment of assets which has impacted profit before tax to the tune of INR103 crores. We are taking a call to discontinue our St. Louis plant, which was meant for controlled substances due to the structural changes happening in the U.S. market. We understand that our EBITDA margin for the quarter and year is subdued, and we are working towards that.

With this, I would like to open the floor for questions and answers. Thank you.

Moderator: Thank you. The first question comes from the line of Mitesh Shah from Nirmal Bang. Please go ahead.

Mitesh Shah: My first question is regarding the discontinuity of this plant. What would be the operational benefit because of this impairment we have done and discontinued the plant?

Sandeep Singh: I think there are some financial benefits. I will let our CFO answer that, Mr. Dubey?

Rajesh Dubey: Yes. We expect to save our operating expenses to the tune of INR100 crores or INR110 crores. But just having your mind, this year, entire INR100 crores or INR110 crores is not going to come because we may continue this plant for another month or 2.

Mitesh Shah: Okay. So it would be like a 10 months of benefit, we'll see this particular year?

Rajesh Dubey: 8, 9 months, you can say.

Mitesh Shah: Got it. And with this restructuring, how would we see the margins going forward because this was one of the tough year for margins definitely?

Sandeep Singh: Mr. Dubey, you can.

Rajesh Dubey: Yes. So margin, actually, in fact, in our last call, our MD, he has already given guidance on margin front. So we'll stick to our commitment, and we'll definitely add 200 basis points or what we have right now. So I think we are going to be -- and we have to be somewhere close to 16% kind of situation.

Mitesh Shah: Got it. Got it. And our international markets growth are -- remained strong. What would be the reason in this quarter? And how would we look at going forward -- international market growth?

Sandeep Singh: Mr. Amit Ghare, if you can take that, please?

Amit Ghare: Sure. Thank you. We've been focusing on a few key geographies over the last few years, and that's now kind of paying dividends. Actually has been paying dividends from last several quarters. So we'll continue on that pathway. As our business reaches a certain size and scale, the percentage growth may come down. And overall, as a company, in any case, we are focusing on quality business and margin business rather than chasing revenue. So you'll notice the business continuing to grow. The rate of growth may come down going forward.

Mitesh Shah: Got it. And then about the U.S., what about the pricing scenario over there? It would be reduced to a single digit or still it would be a double-digit tag 0s and 4s?

Sandeep Singh: Amit, you could answer that, Amit.

Amit Ghare: Okay. During the entire fiscal year, the deflation was in double digits for us. And I understand your question is whether it will come down to single digit. In Q4, we saw a bit of an ease on the pricing side, but we continue to have pricing deflation.

Now going forward, will we end up with single digits? I think we are definitely hopeful that it will be in single digits for FY '24.

Mitesh Shah: Got it. And then just last housekeeping question. What would be the tax rate for '24, '25?

Rajesh Dubey: We'll be somewhere around 14% kind of effective tax.

Mitesh Shah: Sir, this particular year, we closed with the higher tax rate, what would be the reason for that around, I think effective tax rate itself is 21%?

Rajesh Dubey: In fact, we talked about 1 exceptional item. There is another exceptional item in that, and that is in that. So effective tax asserts to the tune of INR100 crores. We reversed in this quarter 4 and YTD March '23. So that is the reason why you see our effective tax rate on a higher side. But for next year, will be 14% or 14.5%.

Moderator: Thank you. Next question comes from the line of Rashmi Shetty from Dolat Capital. Please go ahead.

Rashmi Shetty: One question on other expenses. If you exclude R&D expenses, your SG&A expenses is pretty high quarter-on-quarter as well as year-on-year. So any specific reason for it? And how do you see ahead in FY '24?

Rajesh Dubey: So Rashmi, you are very right. Your observation is very correct. And especially in quarter 4, it was on higher side because just immediately previous year to this year, our marketing expense, it was muted to certain extent and we kept on engaging around 1,000 guys every year in the last 5 years. So our sales and marketing expense, definitely, it was on the higher side, particularly conference expense. Actually, first time we got opportunity to have conference in a way. That was the reason. But going forward, on other expense front, we expect somewhere around 23.5% to 24% line of situation. And that is really a normal situation in our case. Obviously, this time it is on the higher side.

Rashmi Shetty: So you mean to say that other expenses, including your R&D would be in the range of 23%, 24%?

Rajesh Dubey: You're right.

Rashmi Shetty: Okay, for FY '24. And then when you are saying that there would be a 400 bps improvement in the EBITDA margin. I understand that we might be seeing some softening in the input cost and the freight has also come down. But what are the other factors that would lead to this kind of expansion in FY '24? I mean if you can just give us like 200 basis points where all we can achieve?

Sandeep Singh: Yes. Dubey Ji, you can...

Rajesh Dubey: Yes. So when we talk 200 basis point, we talk consolidated. Of course, it's not any single lever of addition to ultimate EBITDA margin. Definitely, softening of API prices, one-off with. And in last call also, our managing director, he hinted, we are working on so many cost optimization drives. And we believe we'll be able to achieve our expectation. Then operating leverage is another thing. So manpower, what we have added, that is going to pay us going forward. And our internal working, it shows us we will be able to achieve 200 basis points.

Rashmi Shetty: Okay. And that includes by saving the expenses to nearly INR80 crores, INR90 crores from this plant, right?

Rajesh Dubey: Yes. Yes. You're right.

Rashmi Shetty: Okay. Okay. And my second question is on India business. What was our Trade Generic contribution as on FY '23? And what was the growth for the entire year? And how do we see ahead in FY '24 and '25?

Yogesh Kaushal: So the Trade Generic contribution to the business is 21% for the entire year.

Rashmi Shetty: Okay. And what is the growth in FY '23 only in Trade Generic?

Yogesh Kaushal: It's around 5%.

Rashmi Shetty: 5% -- and how do we see ahead in FY '24, '25?

Yogesh Kaushal: You're talking of only Trade Generic or talking about...

Rashmi Shetty: Only Trade Generic.

Yogesh Kaushal: Almost in a similar range, almost. Excuse me, let me correct myself, Trade Generic will be close to double digit.

Rashmi Shetty: Close to double digit. Okay, low double digit, you mean?

Yogesh Kaushal: Yes, yes. Low double digit.

Rashmi Shetty: Okay. And that would continue to grow in that range only?

Yogesh Kaushal: Yes, yes. We are hoping that will continue to grow in that range.

Amit Khandelia: Rashmi, just to clarify, you said 400 basis point improvement on EBITDA margin. So it's not 400 basis point. It's 200 basis point improvement over FY '23.

Rashmi Shetty: Yes. So 200 basis points only I asked.

Sandeep Singh: Yes.

Rashmi Shetty: From 14% to 16%.

Sandeep Singh: Yes. We understand, wonderful.

Moderator: Thank you. Next question comes from the line of Kunal Dhamesha: from Macquarie. Please go ahead.

Kunal Dhamesha: So the first one on the plant savings that we have done. Would You be able to provide some color as to which line item, which is INR80 crores, INR90 crores flowing?

And secondly, is there any severance related costs, etcetera, which is there in this quarter or expected in quarter 1.

Rajesh Dubey: Yes. When we say opex, actually, it will go line by line. So something will go in personnel cost, something will go in other expenses. And it has to be all across because we -- as per the reporting norms, whatever hits we have, it is going to go all of us. So let me just correct our understanding. This INR100 crores kind of saving is annualized. So this year, we expect we'll be able to save at least for 7, 8 months.

So accordingly, it will come down. So whether it is INR60 crores or INR70 crores, time will say, but our estimate is 7 to 8 months.

Kunal Dhamesha: Correct. And then will there be any cost -- onetime costs associated with it? Like severance, etcetera? Because I think in U.S., we have to pay...

Sandeep Singh: Actually we're factoring that. We're telling you net.

Kunal Dhamesha: Okay. INR100 crores, INR110 crores is net on an annual basis and then you are expecting INR70 crores, INR80 crores.

Sandeep Singh: Yes.

Rajesh Dubey: Yes.

Kunal Dhamesha: Perfect. And I think our employee expense on a quarter-on-quarter basis, I think, has come down a little bit. So is it more because of the accounting where you would have provided more bonus, etcetera, incentives earlier or something? Or is it something that the base is and -- So three is a new base of INR500 crores. Earlier, we were around INR525 crores and before that, INR570 crores. So is it...

Sandeep Singh: So there was some rationalization in manpower in R&D and manufacturing because of the business pressure we have.

Kunal Dhamesha: Okay. So basically, INR20 crores is the quarterly saving and which should continue going forward, in your view?

Sandeep Singh: No, no, it's not that much at all. It must be like lopsided this quarter because there was severance in the last quarter. So therefore, you're seeing a lumpiness over here. You could see a INR10 crores saving because of this every quarter, or more.

Kunal Dhamesha: Okay. Perfect. And lastly, on the Trade Generic. I think sir said that Trade Generic is around 21%. I think as far as I mentioned last year, it was around 32% and we have trade has grown at double digits versus our India business has grown at around 7.8%...

Sandeep Singh: No, no. The Trade Generic grew by double digits, we said for next year. For this year, that is. The question the lady asked Mr. Agarwal was on last year. We grew by single digits over there in Trade Generic.

Kunal Dhamesha: Okay. Single digits. Perfect.

Sandeep Singh: Yes.

Kunal Dhamesha: And then now you will be more or less in the Rx like whatever prescription business, India business growth, more or less in line with that? Is that a fair assumption?

Sandeep Singh: Yes, maybe a little bit more, but round about that.

Moderator: Thank you. Next question comes from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal Yes. Good evening, First question on gross margin. So last few quarters, we've talked about U.S. pricing pressure, etcetera. And so this quarter, the U.S. contribution is also lower, but still the gross margin is still muted. So is it got to do with the high raw material prices, which has still not come down? Or there is more to read into it?

Rajesh Dubey: You're right, Prakash. Actually, the materials which we procured earlier, ultimately, we consumed in this quarter. So in short, I want to say whatever we sold in this quarter, it was manufactured against material, which we procured in earlier quarter when prices were on higher side.

And then second, let's have in our mind, this NLEM came in quarter 4. And NLEM is also having impact on this gross margin. If we are referring to quarter 1 base.

So when you see annual, for the year, yes, pricing pressure in U.S. market and depletion in prices there, that is a major contributor. But when you see quarter closely DPCO and then higher material cost, which we procured in earlier quarter, we consumed in this quarter.

Prakash Agarwal: So are we done with using old high-cost inventory. And from first quarter, we will be with the low-cost inventory or how do we think about that?

Rajesh Dubey: Even today also, we don't see material prices coming in line with pre-COVID level. But the [PenG] kind of material, they have started showing positive trend. So -- but I think it takes normally 3 to 4 months because you procure and then you manufacture and then you sell. And then impact is going to come.

Prakash Agarwal: So maybe second quarter onwards, we'll you see the raw material price benefit?

Rajesh Dubey: Yes, I believe so. The second quarter onwards, it will be getting softening a little bit.

Prakash Agarwal: And the second piece, you said the NLEM impact. So we must have taken price hike in April. So that offset should be seen in Q1 or that also we will see from Q2.

Rajesh Dubey: Again, when you have material normally, even finished goods also, we keep for 1.5 or 2 months. So even though you implement NLEM or you take fresh batches in the month of April or May, it takes a little bit time to get consume your earlier manufacture and then your new product is going to go in market.

So approximately around 3 months it takes in this entire process. So I think by June, we'll be starting of taking advantage of price increase. But again, it will be second quarter when everything is going to come.

Prakash Agarwal: Okay. Okay. Understood. And 1 clarification on the comment made. So earlier, we were looking at 15% EBITDA margin, we came at around 14%. And we have talked about 200 basis points. So we are talking about 17% EBITDA margin for '24 or 16% EBITDA margin?

Sandeep Singh: 16%, Prakash. 16%.

Prakash Agarwal Okay. Okay. Understood. And lastly, on the U.S. sales, so how should we think about it. Do we see the impact due to closure of the products which we are manufactured, already outsourced to CROs? Or how should we think about U.S. going forward from here?

Sandeep Singh: Sorry, Prakash, I didn't get your question. On what parameter like do you mean, Prakash?

Prakash Agarwal: In terms of sales, so you had an exit run rate of say 270 million. So with the plant shutting down, do we see some impact of some...

Sandeep Singh: No, Prakash, because -- and I'll let Mr. Amit Ghare elaborate. But this plant was not contributing more than 2%, 3% to U.S. anyways. And going forward also, it should not impact. Yes. Amit, you have comments? Please go ahead, Amit.

Amit Ghare: No, you're right. And in fact, the contribution was less than 2% on the revenue side. So the revenue loss is very marginal. And overall, we are expecting a small growth in the U.S. business in dollar terms...

Prakash Agarwal: The growth on the basis of FY '23?

Amit Ghare: That's correct, overall.

Prakash Agarwal: What was the MR count as on fiscal '23, sir?

Sandeep Singh: okay, Yogesh MR count. MR count as in...

Yogesh Kaushal: As in company, we're around 12,000 overall as in organization.

Prakash Agarwal: 12,000 MRs. This is with the managers or...

Yogesh Kaushal: This is without managers. This is only representatives.

Prakash Agarwal: And with the managers, sir?

Yogesh Kaushal: So around 45% odd is the managers to the representatives. All managers put together, right from area manager to the sales reps.

Prakash Agarwal: 45% on 12,000.

Yogesh Kaushal: 12,000, managers, yes.

Prakash Agarwal: It's a big number.

Yogesh Kaushal: Sorry? It is a bit is a big number, yes.

Prakash Agarwal: So 5,000 people. So about 17,000 people we have on the field plus managers?

Yogesh Kaushal: Absolutely, yes. At a group level.

Prakash Agarwal: At a group level.

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

Damayanti Kerai: My question is on specialty business, specialty portfolio in India. So obviously, you have done very well in antidiabetic space. But cardiac is something, I believe, where you are lagging versus the market growth? And if I remember correctly, you mentioned you are planning for some chasing strategy, etcetera. So can you update on cardiac part because that, again, is a big market. And how do you see a specialty portfolio going as part of your India business in, say, next 3 to 5 years?

Sandeep Singh: So you have 2 questions. One is about the cardiac and second is overall specialty? Am I right?

Damayanti Kerai: Yes, yes, yes.

Yogesh Kaushal: See, let me answer first cardiac. I mentioned about slight change in our strategic approach towards cardiology. So we initially were focusing on niche products. I repeat again, because you are focusing too much on anticoagulants and antiplatelets, which are a little difficult and niche markets. So what we have done in the last quarter is, we are focusing more on mass-based cardiology products, which are your antihypertensives and lipid regulators.

So we will be focusing more and we are seeing results there. Last quarter, the cardiac growth was close to 1.8%. And this quarter, it has reached almost 5.5%, while the market is growing at 8.5%. So we are almost touching the market growth in cardiology. And this will take a little time, but this strategic approach has started yielding results. So this is how cardiology will be played. That doesn't mean that we will not focus on niche, but the larger focus will remain on mass products, mass users' molecule.

Overall, specialty, yes, diabeto, almost all newer molecules, which are being off-patent, we are targeting. So we have launched Dapa, Vilda, Sita. So all these are launched. Various combinations will be launched. And we are currently leading almost -- we are among the top 5 in all these categories. So diabetology, we are strengthening and we are going strong. We are currently 15, and we hope that in another 2, 3 years, we should be among the top 10.

In CNS, we are already ranked 7th. And for the month, we have now -- we are among the top 5. So my expectation is we should consolidate in CNS. In a year or two, we should be on -- annual basis also, we should be amongst the top 5.

Dermatology and urology, we are consolidating. We are growing 2x to 2.5x faster than the market. And fifth is our cardiology, where we are almost touching the market growth. I assume, maybe two quarters more, we should be able to surpass the market.

Damayanti Kerai: Okay. So compared to your anti-infectives growth, which is a major part of your India business right now, once to sort out some of these issues will cardio part, we should assume that specialty will be growing much faster than the acute portfolio?

Yogesh Kaushal: Yes. So that is -- currently also happening. Chronic is currently growing at around 21% to 22% while Acute is growing at around 7% to 8%. So Chronic is sustaining a growth level of around 21% versus market of around 10%.

Damayanti Kerai: Okay. Understood. Related question. Overall, this year, obviously, Sandeep, you mentioned in his open remarket contribution from new launches were much better versus your own historical performance and against the market. So say, for '24, how much we -- how much we -- how should we look at growth drivers, say, volume, price and new launches for the India part -- overall India business?

Yogesh Kaushal: Yes. So see, our -- while the industry still shows a muted growth of unit, but our -- we are still very bullish that as a company, we should be able to drive a double-digit unit growth. So we will have major growth drivers this year will be unit and marginal contribution will come from NRV and from the new products. So larger will be volume-driven growth.

Damayanti Kerai: Okay. And 1 last question is on your R&D. So R&D, obviously, we continue to see uptrend in recent quarters because of your progress in pipeline products, etcetera. So how should we look at this number in, say, '24 and beyond as a percentage of sales?

Sandeep Singh: 5% to 5.5%. We have always maintained that. That should be -- what it would be.

Damayanti Kerai: Okay. So it will stay within that...

Sandeep Singh: It will stay within that range. Yes.

Moderator: Next question comes from the line of Kunal Randeria from Nuvama. Please go ahead.

Kunal Randeria: So I think you mentioned double digit growth for India in FY '24. So I'm just wondering, which therapy to expect because it's unlikely that gastro or even a pain could repeat the kind of high teens growth that you reported this year. So just wondering where the growth will be coming from?

Yogesh Kaushal: Still, firstly, our Acute, we said as the company will grow at a double digit, right, at early double digit, which means around 11 types, 10% to 11%. So we still expect Acute to continue to grow at around 8% to 9% growth and Chronic will sustain a growth level of 22% types. So as a company, we will continue to go around 10% to 11%.

Kunal Randeria: Okay. Fair enough. And secondly, I still don't completely understand your margin guidance. So I understand 200 bps and you expect 16% margin. Last time around, you've guided to 17%. Now see, in the last 3 months, I guess you have had some tailwinds from lower input costs, that will benefit you in the coming year. I think freight costs also would have come down, plus the -- U.S. plant where INR50, INR60 crores coming this year. So there have been more tailwinds than headwinds, but still the absolute margin is coming from 17% to 16%. So is the cost of business actually going up and maybe a normal cost -- the savings are really not there?

Sandeep Singh: No, I think, see, the first thing, these things won't happen overnight. So obviously, we had anticipated St. Louis closure, even when we spoke to you all last time. But we were not sure when we will do it, but we obviously know. So all that was factored in when we said it will be a 200 basis point increase. Our RM going down, the stuff you said, obviously, Mr. Dubey answered that previously. For it to kick in, takes time. So those benefits will only come going forward.

We were a little aggressive on the marketing side this quarter, on sales and marketing. So the SG&A expense was like up -- still up by what we thought we would be by INR30 crores, INR40 crores. But yes, so I mean, what specifically do you think is kind of not very clear to you?

Kunal Randeria: So my question Sandeep bhai, is that, see, I mean, prior to COVID, you were doing somewhere around, let's say, 18% kind of margin, right? 17%, 18% kind of steady-state margins, right? So the fact is that maybe next year you do 16%, a year after that maybe 17%, 17.5%. So it seems that to generate every INR100 of sale, the opex has actually gone up significantly. So is my understanding correct?

Sandeep Singh: I'm not sure. See, again, you see gross margins have come down if you compare to pre-COVID. Look at the cost of cephalosporins, like PenG, China, we all keep hearing. You have to look at us differently. We are one of the few companies who have a very high acute portfolio. So when you compare it to others and all, it might not be apple to apple. It's basically because the RM cost has gone up. I think we have lost 100 basis points there, but Mr. Dubey can guide you better there. So it's mainly because of that. So cost of business has gone up. In a way, it's right, but only because of gross margins. Not that we have any operational challenges and things like that.

Kunal Randeria: Got it. And just one more, if I can squeeze in. I think the St. Louis plant closing down seems like a welcome step. But in terms of -- I think it always -- to improve the US margins, I think the product launch quality also plays a very important role. So would you like to point out the kind of launches that we should expect in the next couple of years that can really improve our US year gross margins?

Sandeep Singh: I'll let Mr. Amit Ghare answer that.

Amit Ghare: Kunal, we've always focused on quality than quantity. We never launched more than 15 products in a year. So our focus going forward will remain launching better products -- filing better products and obviously launching better products and launching on time. That is also very important. And we're focusing on that.

Moderator: Next question comes from the line of Madhav Marda from Fidelity Investments. Please go ahead.

Madhav Marda: I have two questions. First which was just asked by the earlier participant. I think this year, especially towards the end of the year, there was very good benefit for anti-infectives and respiratory. So very strong flu seasons I think in large parts of the country. So do you think given the other recently launched anti-infectives, does that create a tough space for us as we go into...

Yogesh Kaushal: Your voice is not clear, but whatever I understood, you were saying that last quarter, the anti-infectives was very good. And do we expect similar trends for the next year. Is this your question?

Madhav Marda: No I'm saying does that create a tougher base for us next year given -- I'm not sure that such a strong flu season will repeat again...

Sandeep Singh: So this year was a bad year, I think, for anti-infectives.

Madhav Marda: I'm just looking at the quarter 4 growth, seems to be 20%-plus...

Yogesh Kaushal: Yes. No, the quarter 4 was unlikely to continue because particularly Respiratory, Pain, these benefited because of flu. So that certainly will not continue in the next year, unlikely because those kind of predictions is very, very difficult to make. But flu benefits will surely not be there next year. That's what we foresee.

Madhav Marda: Okay. Got it. And just secondly, our tax rate is quite lower at 14%, 15%. Like when do we expect that to normalize? Like the tax benefits that we have. We had some facilities, when does that normalize for us? And what does it normalize to and by when?

Rajesh Dubey: So Madhav, that is a good thing. Our effective tax rate is on lower side. And actually, yes, so we have this tax advantage for our Sikkim facility until March '26. So after that, definitely effective tax is going to be normal. We'll see whether to go with old regime or new regime, that is our point of discussion. But it will become normal. Yes, of course, we do have a lot of MAT available with us, which we'll be using going forward. So on cash front, we still will be having advantage after that also. Am I able to clarify you?

Madhav Marda: Understood. Sir, the payment actually would move to the normal 25% most likely FY '27 onwards?

Rajesh Dubey: Yes. I think we'll evaluate whether to remain with old regime or new, it will depend. But yes, until March '26, we'll be having this tax advantage for Sikkim facility. So until that time, our effective tax rate is going to be lower. It may be lower than MAT 20% also. But definitely, it will be lower than normal tax.

Moderator: Next question comes from the line of Saion Mukherjee from Nomura Securities. Please go ahead.

Saion Mukherjee: Sir, can you -- so when you mention about margin expansion, you talked about three levers, four levers, softening of API prices, cost optimization and operating leverage. But the discussion that we had after that appears that a lot depends on the way the API prices move. Is that the right assessment? And what is the kind of gross margin expansion that we are factoring in for next year?

Rajesh Dubey: So we have in our mind our margins somewhere to be closer to 59%, 59.5%. That kind of expectation we have. Yes. But going forward, we have considered this gross margin in normal scenario. If something happens and our raw material prices, API prices or any excipient or packing material prices increasing abnormally, then we need to see what impact is coming on account of that. That much we need to see. But in a normal situation, we expect we'll be somewhere 59%, 59.5% for the coming years.

Saion Mukherjee: Okay. And then because there are a lot of moving parts due to the U.S. business, the price erosion that we have seen. I'm just wondering if you can state what kind of profitability is there for your domestic business, let's say, for FY '23? And how does that compare to say, FY '20, which was a pre-COVID year?

Rajesh Dubey: Saion, actually we never segregate and give different, different margins for our different, different segments. But you also know domestic is enjoying better gross margin and better profitability. I think as far as comparison is concerned, that we may take offline also.

Saion Mukherjee: Okay. But like next year, you're guiding for 200 basis points, which would take it closer to 16%. I mean, as things normalize going forward, you sort of focus less on U.S., India growth, you push higher volumes, maybe marketing expenses are higher. So overall, if you put all that together, where should this EBITDA margin stabilize with your business model, let's say, 3, 4 years down the line?

Sandeep Singh: 4 years on the line?

Saion Mukherjee: Yes.

Sandeep Singh: Yes, 4 years down the line, maybe close to 18% ,19%, around that time line. But you see a lot of moving parts and so let's take it year by year, honestly, but, yes.

Moderator: Next question comes from the line of Abdulkader Puranwala from ICICI Securities. Please go ahead.

Abdulkader Puranwala: Sor, just a couple of clarities. So I mean did you mention that in Q1 may be taking some heat on account of the severance payment for the St. Louis plant closure?

Sandeep Singh: No. We did not say that. We said that whatever is taken care in the past because some people have already been kind of laid out, yes. We did not allude to that in Q1 there would be some severance.

Abdulkader Puranwala: Okay. Got it. And secondly, If you refer to your cash flow statement, it refers to an issuance of preference shares, which was mid to an inflow of close to INR161 crores. Where does this reflect on the balance sheet?

Rajesh Dubey: Abdul, you're talking, this fee investment in Enzene, and you want to know where it is appearing in balance sheet?

Abdulkader Puranwala: Okay.

Rajesh Dubey: No, no. I have not replied. I was just asking whether I'm understanding your question properly or not. So actually, it is classified as equity instrument. And it is just below equity.

Abdulkader Puranwala: And the non-controlling...

Rajesh Dubey: And appearing under debt, but considering other obligation aligned with it -- when you see our balance sheet, it will get reflected under other financial liabilities. So you must not be having our detailed grouping-wise balance sheet. When you refer our consolidated balance sheet, it will appear under other financial liability.

Moderator: Next question comes from the line of Punit Pujara from Helios Capital. Please go ahead.

Punit Pujara: Sir, my question was on NLEM, bio. What was the revenue and EBITDA we generated for the full year?

Rajesh Dubey: Yes. So for the year '22/'23, on biosimilars, total revenue, we have somewhere around INR160 crores kind of.

Punit Pujara: And sir, absolute EBITDA?

Rajesh Dubey: EBITDA, we are still -- because R&D spending is sizable, but when we see on business level, it is breakeven. Right now, after taking R&D spending, there will be still losses in that. So we are not talking on EBITDA right now. We'll be talking to '24 onwards.

Punit Pujara: Sir, in the past, we have said that we'll be incurring close to INR100 crores investment in NLEM. So is that run rate likely to continue going forward?

Sandeep Singh: Yes.

Punit Pujara: Sure. And can you update on denosumab and tocilizumab clinical trials. I think you have guided for denosumab filing by calendar '24 end. So are we on track for that?

Sandeep Singh: Yes, we are on track for that for -- on denosumab.

Punit Pujara: Sure, sir. And what would be the current stake in Enzene after this fundraise on a fully diluted basis? And what's the use of the funds that we've raised?

Rajesh Dubey: We have given option to get converted to 8%. So remaining 92%, a small portion, it may be under ESOP, but rest of shareholding is with Alkem only.

Punit Pujara: Sure, sir. And the use of the funds?

Sandeep Singh: Enzene is going to use this fund for US requirement because for biosimilar, we have aggressive US plan as well. So capex is going to start from this year. And mainly it will be used for business and more particularly for US business, yes.

Moderator: Next question comes from the line of Saad Shaikh from BOB Capital Markets Limited. Please go ahead.

Saad Shaikh: My first question is, do you have any direct sales to hospitals? And if yes, what would be the percentage? And related question is with recent federal government order of curtaining MR activities at the hospital, do you envisage any impact because we are of contract acute heavy. So would that have an impact also with our recent MR addition, will we be looking at after this trend?

Yogesh Kaushal: A lot of echo in your voice. So the question was not clear. What I understood was you're asking about our hospital business and what is the percentage. So normally, our hospital business are more of a corporate in nature. So we don't participate much in public hospitals. So corporate hospitals? Yes, we have. And this is around -- in the range of around 6%, 7% to 8%. That's the corporate hospitals. We don't really participate much in government tenders.

Moderator: Next question comes from the line of Nitin Agarwal from DAM Capital. Please go ahead.

Nitin Agarwal: On the raw material costs, is the pressure during the year largely on account of the higher PenG prices? And if there is any sense you can give us in terms of what proportion of our raw material is around PenG and derivatives?

Sandeep Singh: He is asking how much you have already is PenG...

Rajesh Dubey: Yes. So PenG is used in so many anti-infective APIs. And our anti-infective, as you know, we are the leader in that. So around 40% of our portfolio is for anti-infectives. So you can understand PenG is a major contributor to overall API cost in that. As far as movement is concerned, yes, we saw prices getting a little bit softened. I think nowadays, it's going somewhere close to $32, $34 kind of situation. Earlier, it was quite high and that was pinpoint.

Nitin Agarwal: And sir, what has been the normalized pricing you've seen in PenG versus $32 to $34 right now versus maybe a couple of years back in a more sort of -- we think a more normal on the PenG pricing front?

Sandeep Singh: What is the question. He's asking what is the normal -- it was like $8 even two, three years back. So difficult to say now what whether it will go back and when it will go back. We don't know.

Nitin Agarwal: And, actually, when you're looking at this PenG as a product for us going forward, I mean, what is -- given what you already picking up on the market, what is the realistic level you see this probably settles at a more normalized level?

Sandeep Singh: We don't know honestly. That's what we just said. We cannot predict. Very difficult to say that.

Nitin Agarwal: So particularly, how does Alkem go about handling this because this is a large component of raw material -- so we will be -- so I mean just curious maybe if you can give us any sense on how does -- how are we looking to handle the raw material on the PenG side?

Sandeep Singh: So obviously, PenG is -- we buy the API. We don't buy PenG, point number one. So PenG is an input for a lot of our API suppliers. Now obviously, we have some norms where we think the price will either go up or go down. And we kind of -- we stock up if we think the prices are going up. Right now, our stock operations or inventory positions maintain more of a neutrality. We're not predicting stocks, I mean price going up or going down. We are following the norm right now. Not anticipating any up or down movement.

Nitin Agarwal: Even the last one, the planned expired commercialization of domestic PenG capacity, do you see some of these situations can ease for us maybe in a few quarters down the line on this account?

Sandeep Singh: Sorry, your question is what if domestic guys make it. That's what you're saying?

Nitin Agarwal: Yes, because a large domestic capacity expected to come through PenG...

Sandeep Singh: But we don't know what price they'll supply to us. We really don't know how China will react. There are a lot of moving parts. So we hope it does. But do we know it? Well, the answer is no. We don't know right now.

Moderator: Next question comes from the line of Rahul Veera from Abakkus. Please go ahead.

Rahul Veera: Yes. Wanted to understand the capital allocation policy going forward, like what is the capex and what is the investment that you are looking for the biosimilar assets from your own?

Rajesh Dubey: So I think you are asking for our capex for '24. So our estimate is somewhere close to INR300 crores to INR350 crores. And that was your next question?

Rahul Veera: What will be the proportion of the capex going towards the biosimilar assets?

Rajesh Dubey: So out of this INR350 crores, substantial is going to be biosimilars only.

Rahul Veera: Okay. And what are you thinking about the capital allocation, in terms of dividends or anything beyond -- because of the kind of balance sheet that we have as of now, plus the generation over the next two years? What are the plans for that?

Rajesh Dubey: Actually, declaring dividend is not in our authority, sir. And it has to be Board and ultimately, shareholders. But yes, our dividend policy is there. So our dividend guidelines is around 25% of profit.

Moderator: Next question comes from the line of Gagan Thareja from ASK.

Gagan Thareja: Yes. Sir, first question is on the R&D cost pertaining to Enzene. Could you enumerate the number?

Rajesh Dubey: Yes, R&D of Enzene, biosimilars for '24 is going to be somewhere close to INR150 crores.

Sandeep Singh: But this does not include the CT cost of biosimilars. It includes -- I mean it includes also.

Gagan Thareja: Second one, does the quarter show the full impact of the revised NLEM pricing on whatever bits of your portfolio has been impacted by it, or it will come through in the next quarter?

Rajesh Dubey: So actually, it is different, different period, NLEM notification came. So when we talk, a substantial amount, say, INR40 crores impact in our quarter 4. So we talk -- entire our NLEM covered products having impact in quarter 4. However, as we discussed from April onwards, even though we have opportunity to increase prices based on wholesale price in that. So the major portion is going to be neutralized once we implement increased price of DPCO-covered products. But still, yes, a small portion is going to remain in next year also.

Gagan Thareja: Right. And if I refer back to the third quarter call transcript, you had talked about the INR250 crores cost-saving program. You also indicated that a large part of that would be realized in FY '24 itself. Just wanted your thoughts on that. You've talked about INR70 crores, INR80 crores of savings on the St. Louis plant. But can you reach from there to the INR250 crores, both in terms of when that will happen and through what will that happen.

Sandeep Singh: Mr Dubey, you want to take that?

Rajesh Dubey: Yes. So St. Louis is one of the lever of our overall cost-saving initiatives which we lost. Yes, you are very right, our objective is to have cost saving to the tune of INR200 crores to INR250 crores going forward. In '24, I think we'll be able to launch most of the exercises. And we are very optimistic, sizable amount is going to come. But in different, different phases it is going to come.

So ultimately, on an annualized basis, it is going to be around INR250 crores. But we need to see our timing and all this. But still our expectation for '24, out of this INR250 crores, a sizable amount is going to flow.

Gagan Thareja: Then the final question is that if a sizable amount of this is going to flow through, I mean, what sort of changed in the last three months that you are now saying that your operating margin, which you sort of inferred or surmise, could reach 17% in '24. Now you indicate will probably be closer to 16%. I understand Q4 had its ups and downs, but that doesn't have any bearing on the cost programs that you had in this side. So just your thoughts on why that guidance has been shifted from 17%...

Sandeep Singh: I think guidance was also 200 basis points more than where we land. So there that we are talking to achieve.

Gagan Thareja: Yes. But I mean, I'm just trying to work the math there because the cost programs remain what they are. You have a softening of the API as well. So how does that -- because the absolute amount of savings is what it is going to be. It's got nothing to do with percentage, right? So in that sense, it should therefore actually lead to a 17% margin irrespective of what you generated in FY '23?

Sandeep Singh: No, not really. See your RM prices, as I said, we have an acute portfolio. It's not fallen as rapidly as we think to. We also want to be cautious on the RM prices. We were just discussing about PenG, etcetera. So I would really say that, yes, some safety would be great, but 16% is something what we think is more realistically which we could achieve because there are a lot of non-moving parts.

Moderator: Next question comes from the line of Harith Ahamed from Avendus Spark.

Harith Ahamed: On Enzene, you shared the revenue number of around INR160 crores for FY '23. Could you give some color on the traction that you're seeing on the CDMO side of the business. Is it a meaningful contributor in this INR160 crores number?

Sandeep Singh: It's not a meaningful one, but it's kind of growing. So close to -- maybe close to 40% of it could be -- no, 30% of it could be that. 30% to 40% is CDMO.

Harith Ahamed: These are for Innovator customers or...

Sandeep Singh: These are -- not all of them are innovators, but these are small biopharma. These are not big innovators.

Harith Ahamed: Okay. And the fund raise that you've done with Enzene, can you help us understand the thought process, especially given that we have a net cash position of around INR2,000 crores, and we continue to see strong cash generation. What's the rationale here?

Sandeep Singh: So the rationale is, one, see, we wanted to kind of set a benchmark for the valuations to some extent. Second, it validates our strategy because anybody who comes in, does a thorough DD. That's number two. Third, these guys, they're fidelity. So they have a huge network of other biopharmaceutical that they have invested in. So we get to learn from them, we could do business with a lot of them. And it helps us kind of make as a company truly independent but it's run by its own board and the investors sitting on the board asked the right questions. And eventually kind of in five to six years, we could list it. So we see Enzene as a full-fledged substantial independent company driving a lot of value in the next five to six years.

Harith Ahamed: Okay. That's helpful. And last one. On the margin decline that we've seen in FY '22 versus FY '22, around 500 basis points, is it correct to assume that almost this entire decline from the domestic business and the RM cost pressures in the acute portfolio in the domestic business? I'm trying to understand if we are profitable at the EBITDA level in the US business. So some color on that would also be helpful.

Sandeep Singh: I think you might have missed, Mr. Dubey gave details. But I would, first you see, last to last year was a COVID year. We had a lot of tailwinds. So therefore, your EBITDA all looks substantially great. So the comparison itself is, I think, not the best and 500% -- that basis point is the decline EBITDA, led by gross margin. And Mr. Dubey, you could throw some light there.

Rajesh Dubey: Yes. So out of this 500, definitely a gross level and the expenditure, it's equally divided. So in this year spending, it was on a higher side. Even we have a pressure on gross margin also, mainly API cost and price depletion in US market. So here, I'm talking for an entire year. So in that case, these are the two contributors to pressure on gross margin level. So putting both these together around 500 basis point, compromise has happened at EBITDA level.

Harith Ahamed: Okay. And will you be able to share the margin range for the US business, at least it's profitable post R&D at the EBITDA level?

Rajesh Dubey: No, individual business-wise margin discussion, we are not doing.

Moderator: Next question comes from the line of Tushar Manudhane. Please go ahead.

Tushar Manudhane: Sir, just on other expenses, excluding R&D, even if I leave aside INR30 crores, INR40 crores of higher marketing expenses, still the quarter-over-quarter other expenses is higher. So how do we think about it for full year and particularly for fourth quarter FY '23?

Rajesh Dubey: So Tushar, your question is after taking out INR30 crores, INR40 crores from marketing spend, still we are not in normal kind of situation and the additional spending is there. I think if I see quarter and compare with last year's quarter 4, I think INR30 crores, INR40 crores is not that amount, that is higher amount.

Tushar Manudhane: So quarter-on-quarter, not previous -- not -- last year quarter, 3Q FY '23?

Rajesh Dubey: Yes. So on quarter-on-quarter basis, in fact, it was INR670 crores vis-a-vis INR790 crores. So actually just give me a minute and let we just had this...

Tushar Manudhane: Yes, on the similar line, so INR670 crores to 790 crores. So even if I remove INR30 crores, INR40 crores, still the increase is good, another INR70 crores, INR80 crores.

Rajesh Dubey: Yes. So total INR123 crores. So if I take out INR40 crores, INR50 crores from marketing, so another contributor is forex. Actually, in quarter 3, there was a forex gain of higher amount, which has -- still we have a gain only in quarter 4, but that amount is not that big. So in quarter 3, it was bigger amount. And then on rates and taxes front, also a reasonably sizable amount debit it has come in quarter 4. So these two, three factors are there in that. So marketing spend, around INR40 crores to INR50 crores; second, forex gain in quarter 3 vis-a-vis quarter 4; and then rates and taxes.

Forex gain and forex loss, it's getting utilized. So when you have more gains, then your debit is -- it means your other expense is on lower side.

Tushar Manudhane: So INR700 crores, INR720 crores per quarter or roughly INR2800 crores can be the assumption for next year, right, in terms of other expenses, including R&D?

Rajesh Dubey: Yes. So around 24% kind of situation we expect.

Moderator: The last question comes from the line of Kunal Dhamesha from Macquarie. Please go ahead.

Kunal Dhamesha: Just two questions. So we have seen sales and marketing expense going up in this quarter. But let's say, on a full year basis, would you say that now the sales and marketing expense as a percentage of revenue has normalized for FY '23, which will be more in line with pre-COVID level? Or we had some earlier quarters where it was to -- and that could again normalize in FY '24, some normalization?

Rajesh Dubey: So Kunal, exactly, I was talking same thing. So our normal other expenses where marketing expenses is reported. That has to be in the range of 23.5%, 24% or 23.5% to 24.5%. So if you see, for this year, it is more than 25%. And in quarter, if you see, it is more than 27%. We believe going forward, it has to be somewhere in the range of 23.5% to 24%.

Kunal Dhamesha: So that assumes that our sales and marketing expense has now normalized and we would not see any significant growth in a way or the way we have seen...

Rajesh Dubey: That is our expectation.

Kunal Dhamesha: Okay. Perfect. And before, let's say, our field force expansion and right now, it's around 17,500, what would have that be in FY '22?

Yogesh Kaushal: We are adding roughly around 1,000 every year. So retrospectively, you can count for 20,000…

Kunal Dhamesha: Okay. So 1,000 MR and then roughly 40% additional…

Yogesh Kaushal: Yes.

Kunal Dhamesha: Okay. Perfect. And incrementally, where these people are being deployed, maybe in particular geographies we are focusing or particular therapy divisions that we are creating? Any color would be helpful.

Yogesh Kaushal: This is largely focused on therapy. So two years before it was kind of acute and sub-chronic and last year, we expanded more in chronic. It depends on our therapy requirements. And these, by and large, covers all the potential geographies.

Kunal Dhamesha: Sure. And then so when -- I would say then when you expect whatever, I think currently a 4 lakh productivity per month per member. Where would be the five-year goal and how fast you can improve that?

Yogesh Kaushal: So see, generally, this is not a fixed number. But if you go by the history of pharmaceuticals, generally, a productive increase from a new person on a yearly basis, depending on what kind of product you are promoting, it ranges somewhere around 70,000 to 80,000 on an annualized basis. If you are to, say, reach 4 lakh, 4.5 lakh, so 70,000 every year, it will be around four to five years to reach that level.

Moderator: Ladies and gentlemen, we have reached the end of question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Amit Khandelia: Thank you, everyone, for joining the call. If any of your queries are unanswered, please feel free to get in touch with me. Thank you, and have a great weekend.

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