



## Unichem Laboratories Limited Q2 FY 2017 Results Conference Call October 24, 2016

**Moderator:** Ladies and gentlemen, good day and welcome to the Unichem Laboratories Limited Q2 FY2017 Results Conference Call, hosted by Systematix Shares and Stocks 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 telephone. Please note that this conference is being recorded. I now like to hand the conference over to Mr. Dinesh Bajaj from Systematix Shares and Stock. Thank you and over to you Sir!

**Dinesh Bajaj:** Thank You. Welcome all to the conference call. From the management we have Mr. B.S. Dhingra, Chief Executive, Domestic Pharma, Mr. Rakesh Parikh, Chief Finance and Compliance Officer, and Mr. Monish Shah, Manager, Investor Relations. I would first like to request the management to take us through the quarterly numbers post, which we can proceed with the question and answer session.

**Rakesh Parikh:** Thank you Dinesh. Good afternoon and a warm welcome to all participants. We had the board meeting on Friday and the results have been uploaded along with the investor release.. Just to quickly take you through some highlights, for the quarter ended September 30, 2016 showed an total income from operations at Rs. 368 Crores which was a 19% growth YOY over the corresponding quarter last year ended September 30, 2015. This was driven by the International Formulations grown of 26% and ably supported by more than 60% of our business, which comes from domestic formulations, which also grew at 18%.

The EBITDA for this quarter reported was Rs. 39.6 Crores which was a 15% YOY growth over the corresponding second quarter of last year. In terms of the first half the H1 results shows a topline of Rs. 710 Crores, which is a 14% growth again driven by International Formulation growth of 21% and domestic formulation growth which was about 15% and EBITDA clocked was Rs. 83.8 Crores for the first half.

Before I hand over to Mr. Dhingra, I would just like to touch upon the non-India formulations business of Unichem, predominantly the one which the company continues to



focus is US subsidiary which continues to show a robust growth growing by about 27% for the six months ended September 30, 2016.

Our Goa facility has been significantly expanded and also the backup of the API plant at Pithampur has completed few projects under the expansion mode as a result of which there will be a good support in terms of capacity and manufacturing side will enable this growth to continue.

US Subsidiary has clocked a turnover of \$19.3 million for six months and it continues to report profit from the past couple of years. Also I would like to bring to your notice that Niche Generics, our UK subsidiary has recorded a sales of GBP 5.5 million compared to GBP 4.1 million for the corresponding half year last year and it has also reported a net profit for the six months against a loss of half a million last year, the net profit is GBP 0.18 million. This has been driven predominantly by the UK business, which has shown a good traction in terms of the topline as well as the margins.

I would now hand over to Mr. Dhingra and request him to just share the highlights of the India Formulation Business.

**B.S. Dhingra:**

Thank you Mr. Parikh and good afternoon and evening to everybody. First and foremost festive greeting to all of you and to your families. In standalone if you see the quarter two as against Rs. 192 Crores last year we were able to touch a number of approximately Rs. 227 Crores giving a growth of around 18% and when it comes to standalone numbers for H1 as against Rs. 389 last year we were able to touch the numbers of Rs. 448.49 Crores with a growth of around 15% in a corresponding period.

As you would look at the highlights of the business given in Investor Release to you where if you see portfolio wise; chronic portfolio has started showing a better growth of around 16% on MAT basis, when it comes to acute portfolio there also we are matching the market growth of around 10%, when it comes to NLEM products though the market is growing at around 4.3% while Unichem Domestic Formulation is growing at around 14.5% similarly known NLEM as against market of 12.6% we are growing at a speed of 13.4%.

As you know MAT is a 12-month data which reflects the moving annual total, but if you look into apple-to-apple April to September the H1 primary the similar data if I look into AWACS that is called as YTD AWACS data where the IPM has grown only at 9.8% even the represented market where Unichem is operating is also growing at 9.8%, while we at Unichem has grown at 16.2%. So the AWACS data, which is the secondary data, is showing a similar reflection of 15% growth as we are showing internally in H1. We can now open the floor for Q&A. Thank you.



**Moderator:** Thank you we will now begin with the question-and-answer session. We take the first question from the line of Rashmi Sancheti from Anand Rathi. Please go ahead.

**Rashmi Sancheti:** Mr. Parikh can you tell me the outlook for niche generics since it has posted strong growth in first-half so what is happening there and what is our outlook in second half as well as what do you think, can it turnaround in FY2018 in a big way?

**Rakesh Parikh:** What you have said is right, the first half has shown a good growth and predominantly it has been driven by the opportunities, which were available in the UK market. As you are aware Niche Generics has their own plant in Ireland and they service the UK market as well as the European market and about more than 1/3rd of their products are sourced from Unichem. Because of our priority to US market the supply to Niche Generics was lower. The tender market which has become very prevalent in the European countries especially the Western European ones also had an impact on it. This base effect which the company faced also enabled them to show a robust growth; however, we are reasonably confident that the current level of business should continue and in terms of the future growth is concerned with our expanded capacity in place, along with US we are seeing whether we can also launch some new products in the European market.

Further the tender market is something which we are considering but it will take some time before we get any award of a particular tender and most of these tenders are for two years so it will take some time. I would say the company is trying to see and we are reasonably confident that we should be able to maintain these levels of business and at least ensure that we are profitable and with the new products launch which are likely with the expanded capacities we should be able to show a better growth.

**Rashmi Sancheti:** So you are saying that the earlier when your focus was more on US business the products were mostly sold to the US rather than the European business so now you are saying that because of the expanded facility you do not have to forego this UK business?

**Rakesh Parikh:** No the UK business was serviced by Niche Generics from their own products which have done well.. So those products have done well and now we are able to supply our products also, mainly with the help of the expanded capacity, which should further add to the growth.

**Rashmi Sancheti:** So you think that this niche generic can continue to show 20% plus growth year-on-year?

**Rakesh Parikh:** I am not saying growth because as I mentioned earlier the growth could be due to the base affect also, initially our objective is to see that we are making profit at the net level and we are able to maintain this kind of growth. I mean maintain growth in topline. Further to that we will start improving the topline depending upon competitive and pricing pressures by launching newer products.



- Rashmi Sancheti:** Sir what is the capex guidance for this year and for next year?
- Rakesh Parikh:** Overall our capex we are talking of something like Rs.250 to Rs. 300 Crores over a span of two to three years.
- Rashmi Sancheti:** How much that would be in FY2017?
- Rakesh Parikh:** In current year practically it is around Rs. 150 Crores and the balance will get spilled over to the next year.
- Rashmi Sancheti:** So in first half how much have you done out of this 130 to 150 Crores?
- Rakesh Parikh:** First half we would have done something like about Rs. 75 Crores.
- Rashmi Sancheti:** So in FY2018 and FY2019 it will decline, it will come back to say around 80 to 100 Crores kind of?
- Rakesh Parikh:** In 2018 it may be slightly higher depending on what spillover happens and how we want to do because one of the major things in future now is our new API facility at Kolhapur which we are doing in phases. So that will be the major driving force otherwise right now there is nothing as planned because most of it is over at Goa.
- Rashmi Sancheti:** Thanks. That is it from my side.
- Moderator:** Thank you. Next question is from the line of Amey Chalke from HDFC. Please go ahead.
- Amey Chalke:** Thank you for taking my question. I just had two questions, first is related to other expenses where we see significant sequential uptick in the cost. So how much of it is recurring in nature and what are the key reasons for this uptick and second question is related to our growth in domestic market, which is 18%, so what are the key factors, which has led to this growth?
- Rakesh Parikh:** Now one of the major reasons is we had a significant expansion at our Goa plant, as well as our Pithampur API plant. As a result of which the manufacturing related expenses are now being written-off for the entire quarter this year because it was at the end of first quarter where the capitalization happened. The increase also is contributed by various manufacturing expenses and it is seen in the topline and the growth in the output which has come.
- The other reason is there is an increase in R&D expenditure because of certain projects, which were taken up during the second quarter. Also if you see one of our major growth drivers has been the US business and the selling and distribution in terms of freight for that business is much higher than the company average. Another major reason is in the India



business where we have been talking about going to the over the counter route for Unienzyme and we had a commencement of advertisement and marketing.

**B.S. Dhingra:**

May be after quite some time you must have seen a growth of 18%. It is very positive growth if you relate this growth to the market realities, so as I said in H1 though internally we have shown a 15% growth AWACS is also reflecting almost to 16.2% growth so that means our internal growth and secondary growth taken up by the market is at almost at par. So what all is happening is because of secondary and the efforts and the strategic decision which we have taken whether be it restructuring our business of acute, chronic or neuropsychiatry that has starting paying dividend.

Now further dipping it further down if you look at the overall acute season has been good and we have delinked our Unienzyme from one of our acute division and where we have taken Unienzyme to OTC so that division since it did not have Unienzyme they have really worked hard and that is the way the acute that division has shown a very good growth. Second restructuring business of chronic has started paying dividend because if you look at AWACS growth of chronic business it is almost 10% while in AWACS if you see the chronic business so Unichem is showing almost 21.5% growth and that is internally true also. So that means the data what you are saying is not one off and I think it has come because of continuous effort of restructuring now strategic decision will taken and that is the thing have started turning to very favorable one.

**Amey Chalke:**

And one more observation I saw in our secondary data is that there has been consistent price hike in our major products for last two years however the volume uptick was not that much so are we seeing that also in terms of volume growth in our primary numbers?

**B.S. Dhingra:**

Thus if you look at overall growth hence it is 15% it will not come on account of price growth only, because you know that today NLEM basket is there with every company and there is a non-NLEM basket also and then there is a FDCs fixed dose combination also. We are showing a robust 8.5%, 9% volume growth plus 6%, 6.5% of price growth and this is in spite of the ban of around Rs.4 Crores of FDCs has impacted our volumes. If that would have not been there our volume growth would have been around 10% plus.

**Amey Chalke:**

So is that fair assumption now like at least 15% growth on next two to three quarters is it right way to look at it or would it be lumpy because of acute business may not be that good over next two quarters because of seasonality?

**B.S. Dhingra:**

As I told you that our chronic growth is double as compared to the market growth of 10%, we are showing a 21% growth as per AWACS, if you recall in our previous discussions that is strategic realignment is done more into chronic so definitely the growth part in chronic is much better which is more sustainable as compared to the acute growth. The second

question on next two to three quarters, definitely when we look at growth part I am quite confident we will continue a good growth trajectory for next three to four quarters.

**Amey Chalke:** Thank you so much for taking my questions.

**Moderator:** Thank you. We take the next question from the line of Meeta Shetty from Kotak Securities. Please go ahead.

**Meeta Shetty:** Thanks for the opportunity. Just one thing on the other expense again Sir you mentioned that the couple of expenses reasons why which has gone up I see that R&D as well as the selling expenses in US are something which will be continuing in nature. So going ahead can we expect that this kind of quarterly run rate are may be slightly higher as we go ahead is the thing to look for in the coming quarters?

**Rakesh Parikh:** By and large what you are saying is right but there are two things one is that in terms of R&D it depends upon the kind of projects which we take, so the major cost is on materials and the bioequivalence and the payroll is anyway being captured in payrolls. So to that extent it depends and it can little bit vary and the other component as I said is about the OTC - Unienzyme. If we have to support this kind of growth which we are reasonably confident of, I think this higher level would be there but we we are reasonably confident that the topline will grow higher than what is the increase in that expenditure.

**Meeta Shetty:** Because if I see percentage to sales almost at 35% for this quarter vis-à-vis 31.7% in the previous so if you think that 33%, 34% is a reasonable number going ahead?

**Rakesh Parikh:** See percentage wise we cannot say because as I mentioned earlier there are two things one is these plants got commissioned during the current quarter so obviously there are always some teething issues and it takes sometime before they translate into the sales. And second as I mentioned about the wellness division (OTC) that again would depend on how the Unienzyme as a product pans out and what we decide because it is for the first time we have done the TV ad campaign.

**Meeta Shetty:** How much of R&D expenditure are we looking to spend this year?

**Rakesh Parikh:** Total earlier we have been guiding it is roughly between 4% and 5% of our total turnover and it has remained in spite of this R&D expenditure increasing on a sequential or a Y-o-Y basis it still remains within the 5% band of the company's standalone turnover.

**Meeta Shetty:** How many numbers of filings we expect to do each fiscal?

**Rakesh Parikh:** We are looking at maybe one or two ANDAs per quarter. There are few which are at an advanced stage and hopefully that should get converted into filing; however, other filings in



terms of DMF and the European and other countries filing continue, in fact this quarter also we have done two filings of USDMF.

**Meeta Shetty:** No my question was more related to ANDA so this is something that we have been talking in the past as well one to two per quarter so we maintain that we will be continuing with this run rate?

**Rakesh Parikh:** Right now we are working towards that and it should get translated. There may be some bunching up, it may not be exactly for quarter, so you can say something like 6 to 8 over the next year or so is what we are looking at.

**Meeta Shetty:** Of the 21 approved how many are we marketing into US right now?

**Rakesh Parikh:** About 15 products.

**Meeta Shetty:** You mentioned 19 million you have booked for the quarter?

**Rakesh Parikh:** For the half year.

**Meeta Shetty:** Alright, just one more thing on the depreciation part so you gone through some expansions and all that, but has it been already captured in this quarter's run rate or do you think that that will go up going ahead?

**Rakesh Parikh:** The significant portion has been captured, the main reason being our Goa expansion which has been captured in this quarter and also Pithampur API plant also been captured.

**Meeta Shetty:** Just lastly on the OTC part of domestic may be Mr. Dhingra can answer are there any other products also lined up to be launched in the similar fashion or is it only we are trying right now with one product?

**B.S. Dhingra:** Right now it is one product and there are other products in pipeline which is in development process but if you look at the digestive enzyme the GI part where we have ventured there is not many products available so we thought that it is apt to cash on Unienzyme equity and reach it to the consumer.

**Meeta Shetty:** So at least for I can say for this fiscal we will have only one OTC and may be going ahead in next fiscal onwards we might see some addition to this portfolio is that the right way.

**B.S. Dhingra:** True.

**Meeta Shetty:** All the best. Thank you so much.



- Moderator:** Thank you. We take the next question from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.
- Nimish Mehta:** Thanks for taking my question. Little bit more on the other expenses. Is it fair to say that from here onward we will mostly look at inflationary growth or there will be some meaningful growth on the other expenses?
- Rakesh Parikh:** I do not think it was inflationary, it is not because of inflation.
- Nimish Mehta:** No from here on it will more or less reflect only inflationary growth or there will be some?
- Rakesh Parikh:** It will be a combination of both because we expect the US business to continue this kind of growth. Also, with launches which we have not made and the filings which have not yet been approved and with the capacities now having gone on-stream so to that extent pertaining to sales and distribution for the US business would continue though economies of scale will start growing, it may not be directly proportionally increase. And if you take a slightly long-term view our one more API facility is going to go on-stream in another five six months time or so. So that time initially in that particular quarter there could be a little bit of increase. And also about the OTC expenses which we said is also a kind of a discretionary expense depending on how the benefit comes in, and we are getting a good feedback and good numbers then only we will go ahead and increase our exposure to that kind of expenses.
- Nimish Mehta:** So have you start seeing the benefit of freight cost or you will see that now at the Goa facility and Pithampur plant also this kind of there is a backup?
- Rakesh Parikh:** See what happens is the more our volumes increase to the US obviously the percentage to sales comes down. With increase in volumes we are able to get much better rate we are able to negotiate better with the shipping companies.
- Nimish Mehta:** Is that substantial enough to actually have an impact on the overall breakup at a full potential level?
- Rakesh Parikh:** In what way I am not able to understand.
- Nimish Mehta:** That the kind freight cost?
- Rakesh Parikh:** The freight cost as a percentage to total is much less so we have to see it in line with all the other products.
- Nimish Mehta:** Finally we have just to reconfirm we would have written-off what about 7 Crores for the Brazilian subsidiary is that right?



- Rakesh Parikh:** This quarter again Rs. 7 Crores has come In the other expenditure part which wasn't there last year, it is a provision not a written-off.
- Nimish Mehta:** Yes it is a provision right, and we kind of do not see outlook improving on the Brazilian subsidiary?
- Rakesh Parikh:** We are seeing an improvement in the outlook in fact we have got one approval and we have done a soft launch. So now let us see if that is beneficial then things may change but at least we do not expect anything immediately in the next two, three months or so.
- Nimish Mehta:** On the domestic side despite the OTC launch we had also some other launches like Vilazodone and I think some Teneligliptin which would have happened earlier as well so what is the uptick there what is the kind of run rate that we are seeing there?
- B.S. Dhingra:** For Teneligliptin if you see in AWACS we are now the fourth largest in the market though in anti-diabetic space we were nowhere but the introduction of Teneligliptin and the Tenepure we have two brands and now luckily we are able to also introduce a combination with Metformin so we are going with the right pace and we agree that have a sizable market into anti-diabetic with the launch of Teneligliptin and its combination.
- Nimish Mehta:** Are we also looking at adding few more products in the diabetic segment new products meaning first to market?
- B.S. Dhingra:** In Diabetic segment the other two things are SGLT-2 which are under patent from MNCs so we are working to find some ways that how we can tie-up with some of them. But otherwise nothing much is available into diabetic space so it is very difficult to comment on this.
- Nimish Mehta:** There was one more gliptin that was launched by Lupin I am forgetting the name and that the impacting Teneligliptin or it would not?
- B.S. Dhingra:** That is Linagliptin. Actually Lupin is in marketing tie-up with BI and BI is the only company having the research molecule in name of Linagliptin so they have tied-up with Lupin and similarly they are like SGLT-2 the other anti-diabetic portfolio also they have given rights for co-marketing.
- Nimish Mehta:** So that has a cannibalizing impact on Teneligliptin?
- B.S. Dhingra:** No actually in anti-diabetic space the traditional molecule the glimepiride and all sulfonylureas as we called them are going to get impacted by the growth of DPP-4 that is that is the Gliptins. If you see the AWACs data the Teneligliptin launch has not impacted Sitagliptin or Vildagliptin, which are with MSD, SUN or with USD, because those gliptins have also started showing better growth traction. Because the side effects of these products



are low, the acceptance in terms of overall HbA1c reduction and no hypoglycemic effects, so therefore these new molecules are going to gain more popularity in long run at the cost of old molecules. So linagliptin is not going to impact Teneagliptin or Sitagliptin or vildagliptin. All gliptins will have and capture its own market because market is going to grow faster.

**Nimish Mehta:** There is space for new molecules basically?

**B.S. Dhingra:** There is not much availability for new products, except may be for new gliptins, so let us see how the market will roll out but currently in India Sitagliptin, vildagliptin, Teneagliptin and then linagliptin so there is saxagliptin also but these four gliptins are doing well.

**Nimish Mehta:** Understood. Any commentary on Vilazodone launch and Azilsartan launch?

**B.S. Dhingra:** Vilazodone overall market has not done well. Therefore if you see even SUN, Intas, Torrent and Lupin everybody has failed to do something on that because when a new molecule comes it all depends on how the particular specialty accepts that. So for Vilazodone the story is not very big but because of the price constraint doctors are yet to pick up. So if something comes in terms of price reduction then the market might look exciting and we can like really start doing better as it is doing in the world. What was the second product you mentioned?

**Nimish Mehta:** Azilsartan

**B.S. Dhingra:** Azilsartan we were very excited with that because we are ARB company, but still DCGI has not approved that product, so as I understand from two to three companies which have already done CT, BA BE and all so I understand the product is likely to hit not before November end or December. We will be first few to launch that product in the product and let us see how that molecule does.

**Nimish Mehta:** Do we have any other products lined up as among being the first five let us say in the market in India?

**B.S. Dhingra:** In Dermatology we are planning few and one or two products we have launched in our Derma space and one or two products are likely to hit in the next one to two quarters.

**Nimish Mehta:** Last one, if I may squeeze then I do not have. I just have follow ups. So is it the same run rate that we will be launching new products next year as well let us say five six new products in India which are among the niche launches of first two market launches. Is that a fair assumption?

**B.S. Dhingra:** We are trying for that. We come to your expectation because that helps us to get volume and value both.



- Nimish Mehta:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Rashmi Sancheti from Anand Rathi. Please go ahead.
- Rashmi Sancheti:** Just want to know that once the product has moved from prescription to OTC your Unienzyme brand will there be any impact on the price and will the price fall or something?
- B.S. Dhingra:** No. Actually this is registered in drugs only. So once it comes to price increase we can take maximum 10% price on a year-on-year basis, so we have taken that 10% price hike for Unienzyme tablet this year. So there will be no negative impact of price.
- Rashmi Sancheti:** That is it. Wish you Happy Diwali.
- B.S. Dhingra:** Thank you. Same to you!
- Moderator:** Thank you. We will take the next question from the line of Rahul Sharma from Karvy Stock Broking. Please go ahead.
- Rahul Sharma:** Sir just wanted to ask in the sense that our expenses have moved up on a QOQ basis. So do you expect yet your EBITDA margins on a standalone to move up by 150 to 200 BPS on a YOY basis despite this additional expenses coming in?
- Rakesh Parikh:** 150 to 200 BPS on consolidated basis is what we have been trying at and now that India Formulation is more or less in line and we hope that in the second half we may not see the kind of dip which we have been historically seeing in H2 and if the US traction continues with Niche Generics also then there is still a chance. We mentioned earlier, we do not look at one quarter to another quarter, but overall the intention and the effort is all towards seeing that we come on any 12 month basis that we increase by about 150 basis points or so.
- Rahul Sharma:** Another thing, in Brazil just wanted to know will this be the last year which is there of write off which will be there, so 28 Crores this year, last year was 21 Crores, so is there anything or any write offs which will be there next year or this is done with?
- Rakesh Parikh:** This year will be the last because then the entire thing will be written off unless if things turn then it could be written back also, let us hope for that. Otherwise yes, this will be the last year, because whatever we have invested that will get provided for and in addition to the Ind-AS which has come where we have to carry at a fair value and the conservative accounting we prefer.. Yes, your answer is right that for this year end that will be the end of it and if things improve obviously we can have a relook at and not make further reduce our expenditure, but otherwise everything would be provided for.



- Rahul Sharma:** On Unienzyme what is the marketing spend which we did in this quarter and this will not be recurring type, so probably going ahead it will not be there?
- B.S. Dhingra:** As Mr. Parikh has briefed on the question earlier, that the recurring expense on marketing will be based on the response what we are doing today in that market place, and advertisement expense which has been done it is added into other expense. But overall our market sense is that if all ads what we are showing today, and if we start seeing good growth in the product then definitely we will continue to spend the way we have spent in Q2.
- Rahul Sharma:** Thank you. I will join back the queue.
- Moderator:** Thank you. The next question is from the line of Dinesh. Please go ahead.
- Ranvir Singh:** Sir, my question was related to more of industry that Supreme Court has now backed NPPA for fixing a price so what to your opinion would be the impact on our company or industry as a whole?
- Rakesh Parikh:** Can you clarify?
- Ranvir Singh:** Yesterday news came that Supreme Court has backed NPPA to fix up a price that litigation was going on for long and I think few companies had challenged the government procedure to fix price on drugs or capping the drugs and the Supreme Court has taken side of NPPA that means that whatever NPPA has fixed up the price stays there.
- B.S. Dhingra:** The government has taken a stand to fix lower price for many molecules and products for the industry. So if Supreme Court has decided to be the part of NPPA so that will continue and even if I look at the government statement coming day in and day out, that Pharmaceutical industry will continue to face those NPPA issue in coming years too.
- Rakesh Parikh:** In our case, Unichem has per se not gone against NPPA nor we have any other major issues if you see the list of the companies, you are referring to the last week's judgment, isn't it?
- Ranvir Singh:** Yes.
- Rakesh Parikh:** Yes. So we are not part of it and we do not expect any impact arising out of this.
- Ranvir Singh:** So whether we have absolutely nil liability as far as overcharging is concerned or we have something there?
- Rakesh Parikh:** Always some or the other notices which keeps on coming, but we have never contested that or gone into a court for that. .



- Ranvir Singh:** So, this is financial aspect, but what I understand in a broader context that whether the decision gives NPPA an unrestricted power to fix up a price on other drugs also or we can expect more drugs to be added and there would be no valid ground to challenge now on these types of decisions?
- Rakesh Parikh:** I think Supreme Court also in the judgment laid down various conditions and the provisions and the boundaries of the laws and the rules under which NPPA can function and NPPA is functioning accordingly.
- Ranvir Singh:** Sir, second question is related to OTC. So in this quarter we have not captured any revenue from this Unienzyme OTC or it is too small to mention this?
- B.S. Dhingra:** Are you asking for the cost?
- Ranvir Singh:** I am asking for Revenue.
- B.S. Dhingra:** Revenue is a part of domestic vertical. So Unienzyme was earlier with the other domestic products and it will continue to be the domestic product and domestic overall revenue but when it comes to revenue growth in Unienzyme it is not very high. So therefore we thought this was a strategic move because the product like Unienzyme in spite and despite of having good perception was not growing because doctor promotion was not helping it, therefore the strategic decision was to take it out from doctor promotions and move it to OTC so therefore the continuous effort in that direction may help us to make it grow.
- Rakesh Parikh:** In fact it is a brand having more than Rs. 50 Crores in revenues and it continues to show growth. There is no decline in sales We are trying to boost sales by going through an additional channel.
- Ranvir Singh:** My question was after moving it to OTC and promoting it through our advertisement whether we have got anything incremental or any indication that next quarter will see some good growth there, just because of OTC?
- B.S. Dhingra:** After TVC internally we are showing almost 10% growth but when it comes to secondary data September data is showing a very positive traction, but still since it is very early to comment on. It is just six months into OTC. I know that all of you must be aware of gestation time for OTC. So let us breathe easy and understand how next few quarters move for Unienzyme. I am sure you will find positive results of it.
- Ranvir Singh:** Sir, for promoting OTC whether we have to fix up any budget or anything provisioning to spend on our marketing and promotion of OTC for whole of this year or next year?



- B.S. Dhingra:** Obviously those all provisions are there into our annual budgets and accordingly we are spending the money into OTC.
- Ranvir Singh:** What kind of budget?
- Rakesh Parikh:** What happens is it is more like an iterative thing, because we have to see how it functions and whether we can grow like you know how ad is. I mean you can go and release your ad in an IPL or something or you can get a celebrity to endorse it or the other time you can be much more focused whereby the cost benefit analysis works out. So what happens is that it is being seen in this line and every time it is based on the feedback, as Mr. Dhingra mentioned we have got the September feedback, which at a primary level seems to be good enough so now we are working on whether we should continue or when the next Ad burst has to come and for what quantum or so.
- Ranvir Singh:** In OTC category whether we are planning to add more products apart this Unienzyme?
- B.S. Dhingra:** First effort is on Unienzyme because we find a huge opportunity for Unienzyme and on the other hand we are working for simultaneously for many other products, which can come into OTC.
- Ranvir Singh:** Can we quantify in terms of number? How many products we can expect in one or two years to be in OTC? Sir, just I wanted to see whether the OTC as a basket we are planning to have a bigger basket there in OTC side or this is just a parallel running of this business for few products only?
- B.S. Dhingra:** As you know Unienzyme is into GI, Gastrointestinal market, so we are working on a few products which are under development at this stage and down the line three to four quarter you will find that some products out of that development will definitely come into OTC space.
- Ranvir Singh:** For US business whatever products which has been approved but not launched yet, so I think some six seven products are there, so can we expect some launches there in next few quarters?
- Rakesh Parikh:** Yes, we are looking at a couple of launches before the end of the financial year out of what we have not launched and for other few products we have to see the market competitive pricing and we may not launch till that makes it a profitable one.
- Ranvir Singh:** So Irbesartan has already been launched or this is pending?
- Rakesh Parikh:** No it has not been launched.
- Ranvir Singh:** Quetiapine Fumarate generic Seroquel?



- Rakesh Parikh:** May be what we will discuss it offline please.
- Ranvir Singh:** That is all from my side Sir. Thank you. Happy Diwali to everybody.
- Moderator:** Thank you. We will take the next question from the line of Shri Shrihari from TCS Securities. Please go ahead.
- Shri Shrihari:** Thanks for the opportunity. My question is mainly pertaining to the US market. Now with the supply constraints out of the way what is the kind of growth do you expect in the base business and secondly can you give an idea you have about 15 odd pending filings. What could be the addressable market size of this basket?
- Rakesh Parikh:** As far as the manufacturing back up is concerned that has reasonably eased and it is aligned and that was one of the major reasons for continued growth of over 25%. Obviously it would also depend on the approvals when they come and when you launch. Now as regards to the addressable size for the molecules which we have already filed would be roughly about 15 to 20 million at the manufactures end that is net of all rebates, discounts, charge backs, though in IMS could be many times more.
- Shri Shrihari:** So basically you mean to say easing of supply constraint that has already got factored in significantly for the existing business?
- Rakesh Parikh:** Basically the expansion was to meet the future requirements. Now what will happen is that whatever we have not launched and whatever the additional approvals, which we are getting will be more easy to launch so that we are able to maintain these kind of a growth rate.
- Shri Shrihari:** When I see your DMF filings, there seem to be many interesting opportunities so are there are any Para-IV filings earmarked over the next let us say 12 to 18 months?
- Rakesh Parikh:** We are working on it. It would depend on how our intellectual property cell comes out with but yes in fact, you must be aware that we already have one para IV approval albeit for very small molecule. Once the filing of earlier identified older molecules, Company will shift to filing bigger market size products. So the future filings will be all these kinds whether they are complex or slightly difficult or whichever are already in patent and depending on where scope and opportunities available and we are able to have a conviction, it could be Para-IV or even first-to-file or so.
- Shri Shrihari:** Can you quantify, let us say how many attractive opportunities are you working on right now.
- Rakesh Parikh:** That I do not think we will be in a position to share right now because it is at the R&D stage.



- Shri Shrihari:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Ashwar Agarwal from Reliance Mutual Fund. Please go ahead.
- Aishwariya Agarwal:** Good evening. Thank you very much. Just a couple of questions; the first is we had done some changes in the distribution system, which was supposed to have an impact on the revenue reversal so are we doing that or how it is Sir?
- Rakesh Parikh:** As far as this quarter is concerned and all that or this half-year I do not think there has been any change. What earlier we were talking and with the imminent GST now in place obviously we would like to wait and watch and as a result of GST whatever changes are required obviously we will do it.
- Aishwariya Agarwal:** So how do you see this thing going forward? Are we going to reverse this probably in the next year or so or it will remain the way it is and what will be the quantum of reversal?
- Rakesh Parikh:** We are not talking of any reversal. It all depends on how the GST transition provisions come, so which I think will take at least three or four months before they are out.
- Aishwariya Agarwal:** Next is I want to know on the cost side, so how we should see the employee cost and other costs going forward other than R&D charges obviously?
- Rakesh Parikh:** Basically, I said in this quarter it included the increase arising out of the number of people, which was predominantly at our Goa and Pithampur and some at R&D. Also one thing is that the India business the vacancies have been reduced compared to past. Also with the interest rates going down, if you see the retirement benefits under Ind AS 19, their provisioning has slightly increased, almost about 80% of all this would be more or less fixed expenses.
- So they would expect it to be continued in future. We do not expect any major additions right now. We have not planned per se. So we do not expect any major increase. Only once our new API facility goes on stream there could be some slight increase but as a percentage of the existing base that would be much lower than what we saw when Goa started in this year.
- Aishwariya Agarwal:** For Mr. Dhingra just if you can help us in terms of how we should see the growth in the acute, chronic segment as well as the US and the OTC part, so overall I just want to have a view on these segments?
- B.S. Dhingra:** Mr. Agarwal as you know that H2 generally is weak half for acute so next two quarters, not for us even for industry is not going to be that buoyant. When it comes to chronic, as our chronic numbers are almost double as compared to the market growth, so we feel we are



into right trajectory in chronic and which is going to be consistent growth driver for us. And then Unienzyme OTC impact is yet to be seen which may take another two to three quarters to come in, so I believe that all three growth drivers will be in line or better than the market.

- Aishwariya Agarwal:** Coming to US business?
- B.S. Dhingra:** US we have shown growth varying if you take on all the various past quarters anywhere between 20% and 30% and we are reasonably confident and we would like that rate to continue for the next few quarter or so.
- Aishwariya Agarwal:** That is very helpful Sir and coming to the EBITDA margins so is there a possibility that we foresee some kind of margin improvement going forward because the costs are in control and the revenues are doing good?
- B.S. Dhingra:** What happens is these are basically investment related costs which are of a revenue nature so ultimately it is a question of the delta playing in so as our turnover improves the cost will not improve in the same ratio and therefore the margin should improve. In fact if you see our consolidated profits are better than our standalone already and so is the case of margin also.
- Aishwariya Agarwal:** So effectively what we are foreseeing that there is a scope of margin expansion with EBITDA performance?
- Rakesh Parikh:** Correct. That is what earlier also we had answered. We have to just see the pace at which it happens.
- Aishwariya Agarwal:** Sir one last thing, if you can help us with the capex amount for this year and next year?
- Rakesh Parikh:** We are expecting something around Rs. 150 Crores for the current year and next year would may be slightly lower but it will continue to depend on what we do at the API facility because that will be the major expenditure next year. Overall the plan was to do almost about Rs. 300 Crores over three years of which last year is already over. Current year will come and the next year in addition to the maintenance capex.
- Aishwariya Agarwal:** Sir, one more last thing, can you share what are the US ANDAs you are likely to launch probably in the next one year or one and a half year?
- Rakesh Parikh:** I do not think I am authorized to share that kind of information.
- Aishwariya Agarwal:** So in terms of number of molecules which you will be launching and what could be the potential market size of those molecules?



- Rakesh Parikh:** In the current financial year may be about a couple of molecules what we have not launched we are launching and at the manufacturing levels net of all rebates, discounts, charge backs and everything the molecules which we have filed or approved, they are generally about \$15 to \$25 million at the manufacturing level stage.
- Aishwariya Agarwal:** \$15 to \$25 million in terms of the market size?
- Rakesh Parikh:** Addressable market. IMS of course would be many times more.
- Aishwariya Agarwal:** Here what kind of market share do we expect to garner out of this 15 to 25?
- Rakesh Parikh:** It can be anywhere between 5% and 25% or so.
- Aishwariya Agarwal:** And how long generally it is taking? What is your experience in terms?
- Rakesh Parikh:** That varies from molecule to molecule. It is very difficult to predict, but I mean based on the past what we have launched if you see there are at least five molecules where we are amongst the top five with market share well above 20%. There are a couple of them where my market share is only lower single digit numbers. We have to see what is our strength, competitiveness, who are the other competitors so all those factors would play.
- Aishwariya Agarwal:** And these products are crowded space or limited competition space, how is it Sir?
- Rakesh Parikh:** Right now they are into the crowded space because these are the older generation molecules yet these are the molecules, which are almost evergreen. So there is no major interest from larger players because these are not blockbuster type and they have been around with more than 20 or 30 or even 50 approvals, but active players are generally between three and five who survive and where we are doing business we are amongst them.
- Aishwariya Agarwal:** And here we are backward integrated, I mean, all the APIs what we are launching?
- Rakesh Parikh:** Almost about 80 to 90% we are backward intergrated.
- Aishwariya Agarwal:** Thank you very much. This was very helpful.
- Moderator:** Thank you. We will take the next question from the line of Charu Lata Gaidhani from Dalal & Brocha. Please go ahead.
- Charu Lata Gaidhani:** My question is pertaining to the acute products. What type of rate of growth you expect for the next few quarters or one year down the line?
- B.S. Dhingra:** If you see this year H1 was very good for industry when it comes to acute because of various epidemic across country may be Chikungunya to Dengue and others so I expect that



for God sake there should not be any epidemic, just for my sales but acute business in IPM on YTD basis is showing around 9.8% growth I think and a similar growth trend will continue even for the next three to four quarters and we in Unichem will also match up or may be do shed better compared to market in acute.

- Charu Lata Gaidhani:** Chronic should continue around 15%?
- B.S. Dhingra:** Chronic is showing positive movement based on our strategic initiatives so I think that getting a current growth will not be difficult. It will be in double-digits.
- Charu Lata Gaidhani:** My other question pertains to new launches in the US. How many launches do you expect over the next two quarters?
- Rakesh Parikh:** We are contemplating to launch around two more products before the end of current financial year.
- Charu Lata Gaidhani:** In FY2018?
- Rakesh Parikh:** FY2018 it will depend on the approvals and the balance couple of products which we have not launched. We are just working on so that we are quite cost competitive and able to withstand the pricing pressure or so then those two are there plus the new approvals, which we hope will now come through.
- Charu Lata Gaidhani:** Now how many products you have been approved but not launched?
- Rakesh Parikh:** It is about six products or so.
- Charu Lata Gaidhani:** Thank you.
- Moderator:** Thank you. That was the last question. I now hand over the conference over to Mr. Dinesh Bajaj for his closing comments. Over to you Sir!
- Dinesh Bajaj:** On behalf of Systematix I would like to thank the management of Unichem for the valuable time. A big thank you to all the participants as well. Thank you so much.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Systematix Shares and Stock Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.