



“Strides Pharma Science Limited
Q4 FY19 Earnings Conference Call”

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MODERATOR: MR. ABHISHEK SINGHAL

Moderator: Ladies and gentlemen, good day and welcome to the Strides Pharma Science Limited Q4 FY19 Earnings Conference Call. 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 the operator by pressing ‘*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand over the conference over to Abhishek Singhal to introduce the management. Thank you and over to you sir.

Abhishek Singhal: Very good afternoon and thank you for joining us today for Strides Earnings Call for the Fourth Quarter FY19. Today we have with us Arun – Founder & Managing Director and Badree – Executive Director (Finance) to share the highlights of the business and financials of the quarter. I hope you have gone through our results release and the quarterly investor presentation which have been uploaded on our website as well as the stock exchange. The transcript of this call will be available in a weeks’ time on our company’s website.

Please note that today’s discussion would be forward looking in nature and must be viewed in relation to the risk pertaining to our business. At the end of this call, in case you have any further questions, please feel free to reach out to the investor relation team. I now handover the call to Arun to make the opening comments.

Arun Kumar: Good afternoon and thank you Abhishek. Thank you all for joining our earnings call of Q4 19 and FY19. First of all, I must say I am delighted with what we have achieved here in the last four quarters. Before I delve into the numbers, let me first address the issue of the OAI action in our Puducherry plant as I am sure lot of question will be around that. Clearly this has been a very disappointing outcome for the Strides management considering our stellar track record on compliance. This is a facility that we got along with the Shasun transaction, but having said that the facility has gone through 3 audits successfully since our ownership. So this has got nothing to do with that, it is just that I am stating it is a legacy facility, it had some challenges during the audit. We believe our responses to the FDI have been comprehensive. And we believe we will be able to work through these programs quite aggressively and meet our compliance standards quickly.

In the interim, we will be giving you regular updates on what is happening in this facility. I just want to reassure investors that this facility currently produces only about 6 of our commercial ANDAs. Only one of those ANDAs can’t be produced at alternative site and we have significant capacities in the group to take care of any unforeseen eventualities. This is the model of the Strides Group where we always have 20% to 25% of forward looking capacity readily available originally designed for opportunities of scale or make up, for unforeseen situations like these and this incremental capacity will solve for this. So the one product that we can’t take out of the Puducherry site is a modified release product where we have an annualized run rate of around 3 million dollars, outside of that all these products, all the products manufactures at Puducherry are already produced at other sites because of the

volumes that are involved in these products. There would be also questions relating to our CGT, so I have in all my previous communications mentioned and requested all our analyst group and the investor community, not to factor the CGT numbers into their math which in this case is less to do with the facility but more to do with the fact that we have to repeat a clinical study which is a very complex study in our opinion which met all the end points. But the FDA requested us to do some additional studies and as a consequence when those new studies were to be done and this product also being a modified release we have taken this product in a dual site approach. So we will continue to file our clinical strategy around the Puducherry site but we will also have this product manufactured in an alternative side of the group. So for the complex nature of this product we think it is still valid and relevant for us to stay invested. That is the high level overview that I wanted to provide on the CGT and now I will get into the numbers.

It has been a strong quarter, business was reset in the beginning of the year. We believe that we are now resurgent with our strategy and it is executing to plan. I am particularly pleased with the fact that the US business has now delivered \$53 million of revenues this quarter which was \$25 million in Q1. So the business broke even in Q2 at \$32 million and since then it has seen a significant upward trend. What is really pleasant about this business growth has been that there has been zero price erosion on any of our products. More importantly, we have only commercialized 37 products out of our 68 approved products. So we are very focused on allocating resources of either capital or capacity on products that make the most economic sense for us. So we still have a long tail of products that can be launched to make up for growth. Importantly, 9 products today are market leaders. We have number one market share on 9 products. That is up from one product the last financial year and 10 of our products are either the number 2 or number 3 in terms of volume and value and so this is an important outcome, kind of validates the strategy of staying focused on products which are difficult to manufacture, small products with niche or complex API involved and that model continues to deliver some phenomenal results. Having said that, we have the benefit of the winter sales of Tamiflu where we were a fringe player as a late approved player in this space. So we only had about \$2.5-odd millions of Tamiflu sales and the consolidating effect of Vensun was very limited. We only had approximately \$1.5 odd million of sales from Vensun. So effectively the Q4 sales have been predominantly organic aided by \$2.5 odd millions of seasonal products like Tamiflu and Benzonatate. So from that perspective growth has come from the fundamental base portfolio driven by increased market share and compliance with supplies. We have had zero, almost negligible failure to supply the whole year with zero failure to supply in Q4 which also has resulted in increased working capital needs as we keep inventory given we are ramping up our US business. It has been a great year from an R&D perspective.

We have filed 21 ANDA's which is almost double of what we did the previous year. We received 15 product approvals and we will continuously to focus on developing products which are niche. We expect to have a similar kind of filing momentum even this year. The Puducherry site has about 10 ANDAs one of them is duplicate, so it is about 9 new products from the site. We were expecting 4 target action dates during this financial year. They

obviously will not come through unless we complete our regulatory actions at Puducherry. But having said that with a bank of products that are not commercialized we are very confident to build momentum from where we left off in FY19 in the US business.

Our other regulated market business is growing significantly. We had close to about Rs. 300 million of revenue recognition challenges in Q4 because of serialization issues as you know that serialization came into effect in February. We have some challenges like most of the companies in India and elsewhere to meet all the serialization needs due to significant machine slow down as the technologies were being adopted. So adjusted for that we had a great Q4. So I think this business now attained a critical size where future ramp up would be significant. A lot of filing, in fact filings in these markets have been significant almost 30 odd new filings and it continues to leverage our Australian portfolio where we own IPs for other markets. In Australia we have had steady growth, that we had guided, we squeezed all the growth out of these market but there have significant margin improvements because of our supply chain integration to the Strides system and therefore our margins have increased. Shareholders have now approved the exit of Arrow on 27th March. There are two more closing conditions which are still in the works, that is our supply agreement and also the official merger between Arrow and Apotex. The competition commission approvals are required with the revised structure of ownership. We expect things to fall in place in the next couple of weeks and we will keep you update until such time, Arrow continues to be an important business for the group and operates as an independent company.

Most disappointing businesses for the whole year was the emerging markets and the institutional business. I have been heavily focused on ring fencing the tactical businesses to convert them into strategic businesses where there is forecast reliability both on the business and also on how we conduct these businesses with complete hygiene in our brands business. Primary sales has just about commenced in Q4 and were very marginal. So we have taken, between these two businesses a drop in revenues and our EBITDAs on this business is in the mid-single digit numbers which is very disappointing, But having said that we believe all the hygiene and the course correction to operate in products and portfolios which are only profitable is done as these businesses are now competing for capacities with the US business. We would be very clinical with how we approach the emerging markets and the institutional business. We still think the business will continue to be of the same size but with an improved margin profile.

So in all we are delighted that what we have achieved in FY19. The regulated market now contribute almost 90% of our global revenues, adjusted for emerging markets post R&D our EBITDAs are now about 20% and that is after a very significant increase in R&D spend and the key challenge would be to grow it from here. We expect that to be possible considering that we will continue to grow in some of our key markets especially the other regulated markets and in the US. We have kept cost under control, both in terms of our manpower cost but also OpEx and as a consequence our margins have improved with better pricing environment which is flown through to EBITDA which is great this quarter. And we believe

that we will continue the expansion on our existing portfolio in the US and will add new products. And then of course once the Australia cash comes in, the balance sheet gets significantly improved although with current annualized run rate and with further improvements that we will expect from emerging markets, we can comfortably handle the components of our total debt as we speak. And then we believe that the rapid expansion in the US and other regulated markets will more than recoup for the revenue loss in Australia when that deal is done . In terms of an overall focus for FY20, we believe the US growth will be driven by portfolio. Other regulated market is benefiting from a large pipeline of products that have been filed with the regulators. We expect several approvals. We see significant pricing improvements in Germany, in the UK, in the Netherlands which is there and of course the key focus this year would be to ensure that Puducherry facility comes back in shape. The immediate focus for the larger part of the leadership is to bring Africa's manufacturing infrastructure back to shape and then also scale up of the recently approved USFDA approved facility in Singapore which is a designated facility as per the US regulations which allows us to sell to the US government. We have already won our first contracts from Singapore. So to convert these opportunities into business would be another key focus for the company.

All in all, we are satisfied with what we have achieved thus far and we are very confident of what FY20 will bring to the company and its investors. So with that I am open to question, I have my colleague Badree who will address questions related to the balance sheet or cash flows or the ratios and I will be more than happy to discuss and address questions related to the business and strategy and like Abhishek said in this opening, if there are questions or calls that you like us to set up later we will be more than happy to do so when we are available. With that I request, Nissan to take over and open the floor for questions. Thank you.

Moderator: Thank you. Ladies and gentleman, we will now begin with the question and answer session. The first question is from the line of Tushar Manorane from Motilal Oswal Securities. Please go ahead.

Tushar Manorane: Sir, just on this remediation of the Puducherry, any remediation cost that will be there?

Arun Kumar: No.

Tushar Manorane: And any incremental R&D spends with respect to the repeat of the complex study?

Arun Kumar: Yes, there would be approximately a million and a half to \$2 million of incremental R&D spend, which was anyway budgeted as soon as we got news of the clinical challenges.

Tushar Manorane: I understood and this recent recall from this Vivimed Life Sciences will that come under our P&L now?

Arun Kumar: Prior period event, it was prior to our 50% ownership or so, it was just that the recall happen now and we were obliged to announce it, but it has got no impact on us.

- Tushar Manorane:** Okay, great. And this lastly, this Australia transaction deal some more time, so will the interest cost would come in for at least for couple of more quarters or....?
- Arun Kumar:** I don't think this is going to get extended by more than a quarter. Its just because the competition commission has to accept the new terms in the deal and the commission is being only reformed after the Australian election which is next week. So it is just that. So we don't expect this to run for several quarters in terms of a decision.
- Moderator:** Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.
- Prakash Agarwal:** Sir, question on the business gross margins. We have seen a very strong uptake in the US which is typically good margins and we have also brought in products under frontend. So just struggling to understand YoY dip in gross margins?
- Badree Komandur:** So Prakash, your question is that why is there a dip in the gross margin or why there is an increase in the gross margin?
- Prakash Agarwal:** No, dip sir. From 56% to 53.5%, YoY sir, Q4 of last year?
- Arun Kumar:** It is 0.2%, right?
- Prakash Agarwal:** 280 basis points?
- Arun Kumar:** No, I don't think the numbers are right, Prakash. Can we go offline and give you more clarification.
- Prakash Agarwal:** Yeah, sure. I will take that, okay. And secondly on, so the timeline for doing the additional studies, would it be like 6-12 months or is it going to be like much faster?
- Arun Kumar:** It is a very complex study; it is more like a 12 month. It is more like a 12 month reset of the TAD.
- Prakash Agarwal:** Oh, is it? Okay. Got it.
- Arun Kumar:** Which is why if you recall in the last transcript I did mention that please do not consider this?
- Prakash Agarwal:** You did, yeah.
- Arun Kumar:** I just want to reassure you that nothing has changed materially from our internal thinking around this.
- Prakash Agarwal:** Okay. And on Sensipar we do have an approval, you see couple of guys launching at risk, what is our take on that?

Arun Kumar: To give you an update, only two of them have launched that at risk and two of them followed different approached in terms of how they have addressed the market. We have to follow one of them, but we are waiting for an important event in terms of a milestone from what we have been advised by the 20th of this month and then we will give you an update. We have the product available to launch if the pathway is clear.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Sir, on the US business, I don't know, we have closed it at about \$50 odd million for the quarter on organic basis you mentioned. Now at the current portfolio level is there more scope to extract more value of the current set of products or a growth next year or going forward is going to be largely driven by new launches?

Arun Kumar: No, we have only launched 37 products out of our 68 approved products and if we look at it, we have been very calibrated in our approach in the sense that for example in immunosuppressants of Mycophenolate and Tacrolimus, we had zero sales last year. This time it is very significant product if you look at Symphony data you see that we already are picking up significant market share. So we just ensure that the timing is right before we launch a product. So all the balance of the 30 odd products which are not launched have got late as far as the market place is concerned by design, What is interesting is that we have seen our base 37 products also increasing in terms of market share.

Nitin Agarwal: And in terms of, when you look through FY20 in terms of new approvals, I mean how many TADs which are there expect the Puducherry facility where you can get approvals?

Arun Kumar: We should be able to get the same number of approvals like 13 odd products.

Nitin Agarwal: Okay and you hope to commercialize most of them next year or how do you see that?

Arun Kumar: Like I said our approach is a little different. We don't launch all our products on day one. So we will wait and most often this strategy has worked very well for us and we would continue to monitor the market, if your question is that and if your question is on possibility of expansion in base portfolio, the answer is yes?

Moderator: Thank you. The next question is from the line of Kunal Randeria from Antique Stock Broking. Please go ahead.

Kunal Randeria: Couple of questions. So firstly just, Arun, if you can throw some light on one of the statements that you have made in the presentation saying that 45% plus of the previously approved ANDAs are potential market opportunity given the changing market dynamics, that seems to have very optimistic kind of a number. So if you can just run through some of your thoughts on this?

- Arun Kumar:** Sorry, yes sir it is a very optimistic number. You are talking about the US?
- Kunal Randeria:** Yes, about the US. Sir, 45% of you know the approved ANDA. So that seem to have a tad too high, so I was just wondering if you can share your thoughts?
- Arun Kumar:** Yeah, so, what we are basically saying is that, 45% of our previously approved ANDAs are potential market opportunity which means that we have not commercialized, 45% of the products that are already approved. But if we take an example of the two products that we have launched in the last 6 months there are many other products that are now showing a certain kind of uptick. For example, Ibuprofen soft gelatin capsules we were never launching the product. So it is becoming a very important product starting from next quarter. It is going to be launched two years after the ANDA got approved. So there are several products where we are seeing that the ANDA withdrawal effect is coming to play or that some of the existing players have exited the market while they are focusing on other products. So that is why we believe in value of products now yet commercialized. On the same slide if you look at all the key front end molecule for which we are showing the market shares, last year none of these products which we had approval for had these kind of market share.
- Kunal Randeria:** Sure, thank you for that. And just one more, you also mentioned that in a few European countries you are seeing some pricing improvement. So is it in existing products or the kind of launches that we are going to make which are probably low competitions and we expect higher realization?
- Arun Kumar:** No, I think we are seeing a mirror image of the US in specific products which have seen price improvement and in some we see acute competition. So we have seen in older molecule the prices going up a lot more than some of the newer products, but in our case it is a combination of new launches and existing products.
- Moderator:** Thank you. The next question is from the line of Shashank Krishnakumar from JM Financial. Please go ahead.
- Anmol Ganjoo:** This is Anmol Ganjoo. Arun, a couple of question on the US business. One is that you know the improvement that we are seeing is a function of very sharp increase in market share in certain products, as you detailed you know the positioning in a lot of these products it looked quite credible. What would you attribute this primarily to?
- Arun Kumar:** I think supply security. The fact is that we have product when a customer needs, so its supply security. Getting a supply chain in place before we go and take businesses of some of the larger buyers. The model hasn't changed , typically become the secondary supplier and at the fault of primary suppliers we then become the primary supplier to any product. We typically are not the primary supplier for any product at the start.

Anmol Ganjoo: So are we beneficiaries of certain shortages in some products or which this supply chain disruption would have caused and how should we look at this?

Arun Kumar: Yes, we are beneficiaries of shortages, but not on all.

Anmol Ganjoo: Okay. And my second question again on the US business side, heard you on TV after your results say that we are exiting at \$200 million and looks at for 20% growth for the US on that base, so which is incremental \$40 million. What I also wanted to understand was that how much of this assumption is vulnerable to things not panning out in a satisfactory manner at the Puducherry facility as we worked through scenarios, what is the vulnerability of this assumptions assuming things don't pan out as per plan at Puducherry.

Arun Kumar: The question was whether we will be able to deliver 20% growth considering that we have grown 80% over a lower base and even on a strong Q3 we have grown almost 25% Q-on-Q. It will be and now that we have reached a certain critical mass it would be quite fair to assume that our growth will not be in the same blitz scale rate that we have had in the last 4 quarters, but clearly 20% growth from here in spite of Puducherry is something that we would be able to deliver. Like I mentioned in my opening, Puducherry doesn't have an impact on supply, it only has an impact on new products and even if there is an adverse action which we hope will not be the case considering how we are proactively reactive to the situation, I am very confident that the US business will get to a decent number and you would see it panning in the next couple of quarters.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Arun, just to reiterate, the point that you made on the emerging market institutional business earlier in the call, the revenue for these two segments will stay around the same level as this year?

Arun Kumar: Yeah, it will stay around the same level but it will not operate any more at a 5% to 6% EBITDA that which we achieved. So the idea is to get those businesses to the group, the regulated market EBITDA, so that it is a tall order but we will get the considering the sizes not so big.

Nitin Agarwal: And secondly just on the guidance again, on the US you maintained a 20% growth, this is organic or this is improving the Vensun and Vivimed business also?

Arun Kumar: It will include the Vensun business, Vivimed business also yes and that is why we are more than comfortable in telling you that. So, like I said I think it will be great if you guys will follow through next few quarters as we ramp up our business in a more robust way. Like I said it will not **blitz** scale like the way we did last year because the base was lower. But we are very confident of getting to a reasonable number in the US.

Nitin Agarwal: And lastly on the other developed markets, you mentioned the fact that the business is now at a critical scale which gives them the position to grow, the critical mass to grow strongly from there on. I mean are there from a regulatory perspective, from a market perspective, are there development specially on the serialization bit which sort of enhance the opportunity for players like yourself?

Arun Kumar: The serialization effectively has taken away all the small players because a) it is a very expensive process to run and Europe unlikely US is serviced a lot by fringe CMO players in small time, small base, I don't want to say small time everybody was regulated big time. They have smaller capacities therefore to make the necessary investment as a CMO does not make any sense. So we are seeing a lot of the fringe players exiting the market or asking us to put capacities or investments around it. So I think it is good as serialization will make the business more complex for smaller players and we think it will be a good time for companies like ours where every investor goes for probably on the ability to offer products in these markets.

Nitin Agarwal: And further as this market now the strategy would be lastly, the key market for us would be the different European markets, Canada or are we looking to add any other markets to it?

Arun Kumar: So we are fully covered, Nitin. We now operate, we just did a deal in Canada. So we are in Canada, we are in South Africa, we are in UK and we are in continental Europe. So we are now covered. We just now are not in East Europe and those markets but we are in Germany, we are now in Netherlands, we are in the Scandinavian markets, so we are quite well diversified in those markets and it is the same dossier that is going to all these markets and we have now created a lot of capabilities around that.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments?

Arun Kumar: So, thank you all. I really appreciate your time and like I mentioned please feel free to contact us if you have questions, any time. Thank you and have a great weekend.
