



“Strides Pharma Science Limited
Q1 FY-20 Earnings Conference Call”

July 29, 2019

**MANAGEMENT: MR. ARUN KUMAR – FOUNDER & MANAGING DIRECTOR,
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FINANCE**

MODERATOR: MR. ABHISHEK SINGHAL

Moderator: Ladies and gentlemen, good day and welcome to the Strides Pharma Science Limited Q1 FY20 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 an operator by pressing ‘*’ then ‘0’ on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhishek Singhal. 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 quarter 1 FY20.

Today we have with us Arun – Founder & Managing Director and Badree – Executive Director-Finance to share the highlights of our business and financials for 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 for this call will be available in a week’s time on our company’s website. Please note that today’s discussions may be forward-looking in nature and must be viewed in relation to the risks 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 relations team.

I now hand over the call to Arun to make the opening comments.

Arun Kumar: Good evening and thank you for joining us today. We just completed our board meeting little late today so obviously some of you may not have had enough time to review our data and like Abhishek mentioned in his opening we are more than happy to address any questions anyone of you have either today or later.

And before I start, as this is our first quarter since we divested our Australian business and for the benefit of our investors and analysts following us, please note that our numbers have been completely recasted only to reflect the continuing business numbers. So, consequently our reported EBITDA of last year of Rs. 469 crores, now should read as Rs. 257 crores ex-Australia yet including our supplies to the Australian market.

Consequently, our Q1 EBITDA of last year is Rs. 49 crores and our Q4 EBITDA is Rs. 95 crores. So, our reported numbers today of Rs. 688 crores with an EBITDA of Rs. 124 crores demonstrate a very significant growth across our core businesses. What is also important to note in Q1 is that our Singaporean facility has gone commercial considering that we have received our FDA approvals recently and although it is running at very limited capacity utilization as we move larger volumes over time, the current OPEX includes a cost of Rs. 25 crores both per quarter, both for the Singapore facility and the Chennai facility that we own 100% from Vivimed.

So, the Rs. 25 crores is the OPEX number that you will not see in Q4 of last year and the Rs. 124 crores that is reported today includes that number. Adjusted for that our EBITDA is closer to Rs. 150 crores this quarter. Having said that we are very delighted with the fact that the Singaporean facility has now already started winning contracts for the VA market for which it is intended and we should soon be having no under recovery in this facility and our aim is to have a zero under recovery by the end of the year.

Having said this overall it has been a great quarter, 11% sequential growth, 30% on EBITDA and our EBITDA margins on the base business have grown in the last 12 months from 10% to now 18%. And that is a very healthy track record most importantly our net debt is now Rs. 700 crores which is a significant reduction from where we started this in the last 12 months.

We have today announced a dividend of Rs. 12 an interim dividend including those dividend payouts our total debt would be about Rs. 850 crores which is significantly lower than the Rs. 1,000 crores we hoped we would end up by the end of this year. Having said this and as communicated in our earlier statements all this is blemished with the fact that our Pondicherry facility had a warning letter.

Coming out of 25 very successful FDA audits in the last six years this obviously is a setback but like I have mentioned post the warning letter and the announcements that we made, outside of one product which is a modified release product where we have currently revenues of around \$3 million every other product is fungible. Bulk of our sales already are being serviced from several of our other FDA approved sites and we do not think any reduction in our momentum to grow the US market. We are satisfied with the fact that post the Pondicherry facility both Singapore and Bangalore received favorable FDA outcomes.

Bulk of our throughput comes from the Bangalore facility and now that we have EIR in place, we are expecting several of our products to be approved. So, there is no change in our approval guideline of 12 to 15 products. We have also started work on moving some of the products that we have filed from the Pondicherry facility to other plants as alternative site so we seemed to be on top of this.

We are very confident that with the action that we have taken now we should get re-inspection sorted out in the next eight to twelve months and then we hope we will receive a good outcome and the remaining six to seven relevant filings from that facility will get through approval process.

So, getting in to specific businesses. Our regulated market business today have grown over the last 12 months from Rs. 309 crores to Rs. 560 crores which is 80% year-on-year growth. US continues to grow adjusted for the Oseltamivir and Benzonatate which are purely winter products our business has grown 10% QoQ. This is the fifth consecutive quarter that the US business has grown.

Zero pricing challenges we continue to have stable pricing environments with the product selection and the fact that we have a stellar track record on supply situations. No FTS for the company and we continue to build market share across several products. Our other regulated markets from now on will include our sales to Australia.

This quarter although growth has moved from Rs. 151 crores to Rs. 170 crores QoQ, Australia businesses are not really accounted for in Q1 simply because of transaction cut out dates. You will see a full quarter impact coming from this quarter onwards and this would continue to be a very significant business that we are seeing growth momentum.

We have fully invested in this business we have a great leverage on our portfolio maximization across our various markets. We are seeing good traction in Europe and in UK and our Canadian and South African businesses that have been recently acquired are going through a strategic reset and we are very confident that OPEX leverage will start demonstrating in some quarters from now.

Having said this we believe the other reg market will now receive significant attention like what we have provided in the US market considering the US market has gone to pretty good size and this is a typical strides strategy to stay focused on one market blitz scale that market and then start focusing on the next big region.

So, in the other Reg market you will see significant growth. Emerging markets is work in progress. I am delighted to say that I have no more excuses to make for the brands businesses. We are now settled and that business is now completely course corrected for hygiene. We have got a new leadership in our African operation. Business is looking up and our secondary sales are growing. Our institutional business bounce back from a low base so its good but we are far away from what numbers we used to do.

Our Kenyan operations now is the only remaining part of our business which does not make money for us yet and we expect by the end of this year that will have a settled strategy there. Getting into specifics the US market moved from \$51 million the revenues although we reported \$53 million including the generic Tamiflu sales that is gone up to \$56 million. Growth has been significant year-on-year 125%.

Almost on all key products we have seen increase in market share and this has been a steady quarter-on-quarter growth across portfolio of products. Two big wins in the last two quarters that have been - a significant market share on Ibuprofen tablets where we are now emerging as the market leader and a significant market share in Mycophenolate Mofetil which is an immuno-suppressant which has got significant disruption in the supply chain with the existing players. And we continue to build market share through focused approach to our go to market strategies.

We spoke a little bit about the other reg markets, the business has grown steadily coming back strongly from the realization issues we went through. This is now a settled strategy we have had

to get ready for BREXIT we have completed inspections from an European agency for our flagship Bangalore plant which went through very well. And we expect to be certified from the EU authorities although we have the UK approvals but in anticipation for BREXIT we think it is important that we have both UK and European approvals. So, that is now in place.

And you will see a full year like I mentioned earlier to the Arrotex operation and that is going to significantly expand our other reg business both in terms of topline and profitability. We spoke about the emerging markets and today we also announced our foray into the Chinese markets with Sihuan Pharma through a strategic partnership.

It is amongst the top 15 Chinese companies with over 7,000 sales force across the markets and we have started off with four products all of them are unique. Two of them will be first time products in the Chinese market so this is an important go to market strategy for us. We do not believe that you can thrust up on China with hundreds of products.

Chinese companies have specialization across therapeutic formats so we are going to work with two or three companies to achieve a strategic intent for the Chinese market. The structure here is that we would have a 49% equity we have created a JV we will have 49% equity in this JV. Strides will license the product to the JV and will receive a license upfront which is not significant, so we are not putting numbers around it. And then we will have a supply agreement a profit share and Sihuan Pharma would then take care of its front end marketing.

In terms of the net debt like I said we have it at Rs. 700 crores that is a significant achievement. Although we committed after the Arrow transaction that we will pay down \$150 million we chose to pay a little over \$200 million as debt and now as a consequence both our depreciation interest costs, amortization of intangibles got reduced significantly making the transactions EPS accretive almost immediately and once we add the supply contracts going in this quarter you will see the true value of our rational of this exit yet keeping significant control on the IP's and also on the supply contracts.

In terms of other updates like I said we have completed the Arrow transaction and have secured an excellent supply contract which is long term will allow us to retain at least 50% of the Arrow EBITDA. You will see from the financials that we are very close to reporting numbers in which always included Arrow. So, having sold Arrow, having reduced our debt book our growth rates are significant and now for us to feel comfortable that we will end this year with a very significant topline growth and an EBITDA growth driven across markets and not specific markets.

So, overall it has been a one year of strategic reset and we think we have come a long way. We thank you for the support that we have received from our investors and for those who believed in our story and I am more than happy along with Badree and my other colleagues to answer the questions that you may have. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the question-and-answer session.

The first question is from the line of Nisarg Vakharia from Lucky Investments. Please go ahead.

Nisarg Vakharia: Sir, the first question is that you mentioned that you are very comfortable with the pricing that you are enjoying in the products that we have in the US. Is this a unique situation to us because of our astute product selection or is it that the pricing in the US has now bottomed out and is improving sequentially?

Arun Kumar: I think it is a combination of both, so (a) while a lot of ANDAs have been withdrawn, we are seeing the actual supply challenges only emerging now. You will see it from the FDA website that oral dosage forms have more products in the shortage list than injectables for the first time in several years. We are seeing rational procurement from the big boys in terms of the consolidation and we believe that a product selection plays a big role.

You will see that more than 50% of our products are cater to very unique products with very few players in these markets that helps in our overall strategy. But this is our fifth consecutive quarter that we are commenting that we have had no price erosion in our US business.

Nisarg Vakharia: Okay. Sir, my second question was regarding to what is the sales of our molecules to the US as of now from the Pondicherry plant?

Arun Kumar: The Pondicherry facility currently delivers approximately \$35 million to \$40 million of sales but all of these products are serviced from two sites. So, we have already moved several of our products because part of our remediation exercise was to reduce this output by half but this is not changing our forecast or our ability to service these products from our other plants and both our facility in Bangalore and in Singapore have enough capacity to make up for all the outputs.

But even having said that we have no plans to reduce I mean we have plans to reduce the number of products, but the volumes on the reduced number of products is still be quite high from Pondicherry. So, in effect except for one product where it is a modified release, which is about \$2 million to \$3 million, every single product has already been completed in terms of regulatory work and alternative site and this is not something we do exclusively through Pondicherry and almost every product of ours we have at least two sites manufacturing the product across the Group. This is part of our overall risk mitigation that we have been working on since four to five years.

Nisarg Vakharia: Great. So, even we should not have any transient impact in any quarter where the sales are depressed for a quarter because we are shifting those products to the other site I mean things would be as usual?

- Arun Kumar:** But also try and understand that the inspection of the facility was in January so if you are alluding to some stringent or severe actions from the regulators it would have happened a long before than what we have now. But that is not the point. The point is that we are conscious of that remediation will slow down capacity. All I am saying is that we have enough capacity in all our other plants to take care of this throughput the demand that is required.
- Our growth is coming mainly from the niche products that we have that we have introduced in the last one year. Most of them come from our Bangalore facility and we have moved a lot of our capacity to Chennai and to Singapore from Pondicherry.
- Nisarg Vakharia:** I appreciate that. And lastly sir, what is the maximum sales that is coming from a single product for us from now in the US market?
- Arun Kumar:** We do not give specifics on any product but we now have several products which have revenues greater than \$15 million.
- Moderator:** Thank you. The next question is from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.
- Aditya Khemka:** A few questions for you, Arun sir. Firstly, on this reorganization merging the wholly owned subsidiaries into the parent, what is the thought process behind it?
- Arun Kumar:** Okay so basically we had an emerging market plant called Strides emerging markets which was predominantly focused on the African markets. About two years ago you recall that we decided to exit our generics business and we moved a lot of our products and we are in the process of moving a lot of our products to our Kenyan operation.
- Consequently we then converted the second plant in Bangalore to a regulated market facility and we have recently got TGA approval for the plant. So, this is going to be a designated facility for Australia and earlier it was part of a carved out P&L that was focused only on emerging markets. So, that logic is lost and therefore the whole idea is to bring it back to the Hold co so that the number of companies that we operate also reduce.
- Aditya Khemka:** Got it. Also this Singapore facility which has now been cleared, you mentioned the OPEX of that facility currently in this quarter is Rs. 24 crores. That was the number?
- Arun Kumar:** It includes recently acquired Chennai facility from Vivimed.
- Aditya Khemka:** But will that facility would already be contributing some revenue as well, right?
- Arun Kumar:** It was a 50:50 JV so we were not consolidating.
- Aditya Khemka:** Okay got it. So, Singapore facility how much is the capacity of this facility and what is the sort of peak sales you believe it can generate let us say in three years time?

- Arun Kumar:** It depends upon the products that you make there right, so currently the plant has got a billion units capacity. We have already expanding that to 1.8 billion which will be ready by end of the year and that is already part of our CAPEX plan and we expect the plan to be fully occupied by the end of this financial year. I cannot give you a dollar number because every plant depending upon what product we make between \$50 million to as high as \$200 million or \$250 million for the global market like our flagship plant would be.
- Aditya Khemka:** That is fair enough. But did you mean 100% capacity utilization by the end of this fiscal FY20?
- Arun Kumar:** We will.
- Aditya Khemka:** Okay that is good to hear. Also, your institutional business has shown a very decent up tick from the fourth quarter of '19 to the first quarter of '20, was this driven by malaria or anti-retroviral sales?
- Arun Kumar:** It was mainly driven by malaria.
- Aditya Khemka:** So, my understanding was that malaria global fund business has not been doing well because the funding issues and has that environment changed or is it specific to you in terms of market share gains?
- Arun Kumar:** No, we do not have any market share gains .The global fund has a certain pool of capital. That capital has not changed, Aditya. It is just that it is allotted to different countries and if we have a stronger position in a country like Ethiopia or Nigeria and where we have local presence and registered, then it depends upon the quarter when those allocations go to those countries. So, I do not think you should read too much to it. It is a good turnaround but if we can keep these levels, we think we would be happy.
- Aditya Khemka:** Okay also we have some Rs. 455 crores, or AUS 94 million pending from Arrow transaction so any timeline should we serve and what does it contingent upon?
- Arun Kumar:** It contingent on nothing. So, it is a secured debt, it is interest bearing and that is the reason why our net debt has reduced significantly and there are I mean it is due to the fact that we have agreement in place, we cannot give you any specific dates but it is not too long.
- Moderator:** Thank you. The next question is from the line of Shashank Krishna Kumar from JM Financial. Please go ahead.
- Anmol Ganjoo:** This is Anmol Ganjoo. My first question is on the impact of Puducherry. Arun, you said that this \$40 million setback on account of this would it not impact the full year picture, so what you are saying is that \$20 million will essentially get supplied by other facility and the loss of around \$20 million will be made up by throughput in other products. Is that?

Arun Kumar: So, what I mentioned is that we have taken a decision to slow down the outputs from Pondicherry till we finish remediation. Nothing prevents us from supplying product to the US markets from the Pondicherry facility. So, we have reduced our throughputs by half for the US market from Pondicherry, so from \$40 million it will come down to \$20 million. It does not mean the US business will reduce by \$20 million.

Pondicherry will continue to supply to the US market and the freed-up capacity we are operating for other markets so the Pondicherry facility is not going to result in under recovery. It is just that we have recast the market orientation from a very heavy orientation to the US to several other markets that plant has got approvals for the plant is approved by all regulators and even after this FDA event, we continue to supply to all markets.

Anmol Ganjoo: Okay that is helpful, so basically there will be a rationalization in terms of numbers. There is no change in the numbers, right?

Arun Kumar: Yes.

Anmol Ganjoo: The second question is also with respect to Puducherry. I understand that it was an acquired plant, but some of the observations or break through just does not match up a stellar compliance track record.

So, I just wanted to know what essentially went wrong and what are the sound measures that we are taking that we secure our supplies and this does not get repeated. Any thoughts on that because it is a slip from our relatively high standards of compliance over the years?

Arun Kumar: So, like I said, in the last six years we have had 25 FDA inspections, more than half of them had zero 483s. So, clearly this is a blemish. In spite of the fact that this facility was acquired, obviously it does have a different cultural fit, but having said that the plant had a very successful regulatory track record even after we acquired the facility.

This was clearly a leadership failure at the unit level and at the corporate level. So, clearly these were the issues that were not leading to product integrity. It is about how we displayed data and the quality of the data.

Data that is relevant to the product history or the backup data is available for all our customers and agencies. So, there is nothing that we worry about the product quality and the adequacy of the products but the way we keep our data and how we retrieve our data and the excessive documentation that we do as a consequence led to more display issues less to do with product integrity.

So, having said that, it is been a blemish and a blemish is a blemish, so we are very focused on remediating this plant and it is very important for us as an organization. The fact that this did not cover the other plants clearly says that this is restricted to a local unit. But having said that we

have increased our oversight, brought in new leadership changes and doing all the right things to gain back the confidence of the agency and we are very confident that we will get this plant back on track much quicker than most of the industry watchers would believe.

Anmol Ganjoo:

Okay thanks, that is helpful and reassuring. So, on the institutional business you have spoken about a rewired strategy. We also understand that last year the commentary around some of the global funding piece was that a lot of emphasis have moved from cure to prevention, is there a change there also and how should we be looking at the elements of this rewired strategy and revenue going forward for the full year because there is a full turnaround in the numbers?

Arun Kumar:

No, I mean I never think the rewired strategy is the good word to say that in institutional maybe it is the choice of words. But rewired strategy for us effectively means that we brought in a little more focus on the malarial business to get contracts because malarial business is very locally driven as in the demand is locally driven but for that there is no change in the donor funding

I think it is more to do with the fact that we just won some businesses in some markets that were important in the allocation of funds. Please try and understand that we are a very small player in this space and obviously the in roads that we have made even in this quarter is not significant enough. The significance of this business for us will emerge only when we start getting approvals for the new products that we have filed with the donors, which we expect by this year and then you will see an uptick in this business with a shift in product strategy.

So, the rewired strategy is predominantly to do with newer products and less to do with the older products that we currently are marketing.

Moderator:

Thank you. The next question is from the line of Nirmal Gopi from IDFC Securities. Please go ahead.

Nitin:

Thanks, this is Nitin here. Arun, on the Australia business the supplier business, is there any quantum of that business EBITDA in the current quarter or it is negligible in this quarter?

Arun Kumar:

It is a very, very small Nitin considering that the cutoff date of the transaction was 10th of July and so it is a very small portion, and you will see a lot of it. So, the other thing what Vikesh is prompting me is and rightly is that we will now get the combined volumes so you will see that significantly changing in the next coming quarters, Q2 onwards you will see the full flow of the Arrow impact with our revenue recognition issues and from Q3 and Q4 you will see the Arrotex that is both Apotex and Arrow volumes coming through. And before the end of the year we will get to the 40% to 50% retail EBITDA numbers as we have communicated earlier.

Nitin:

And secondly on the US business we finished at about \$56 million a quarter, this if I recall correctly it is pretty much the run rate that we guided you for the year. If you were to just analyze that. So, where do we really go from here because there are two things, one is (a) do you see still scope for expanding revenues from our current approvals? And secondly how should one look

at the potential of some of the newer launches, you are talking about 12 to 15 new launches going forward. I mean how should we look at these two pieces now going forward?

Arun Kumar: So, what we are saying is that we have only commercialized half of our approved portfolio. We see tremendous opportunities to grow the business, we are very focused on capacity allocation and margin to only launch products where we get the right margin profile.

And clearly, we see continuous growth but will it ramp up like we grow from the \$25 million which we had 12 months ago to the \$56 million run rate, the answer is no, we will not double from here. But I would be surprised if we cannot grow this QoQ. It will be on a much more moderated number considering that we have got to a certain significant size. But Yes, I do not think we have reached a plateau in terms of opportunity.

We are continuing to take market share and if you will see I have not specifically mentioned this, but in eight products we have increased market share over the last quarter.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: So, sir, you mentioned this Rs. 25 crores OPEX if you adjust for that Rs. 150 crores EBITDA so your reported EBITDA margin was 18% but if you adjust for that it becomes 22%. So, as you kind of like increased your utilization level for your Singapore facility, so how do you see your sustainable kind of EBITDA margin that?

Arun Kumar: You are breaking. You said your adjusted EBITDA should have been 22% and then we lost you?

Deepak Poddar: Okay Yes so adjusted EBITDA margin should have been about 22% now as you kind of ramp up your Singapore facility so how should one look at your sustainable EBITDA margins?

Arun Kumar: You have already done the math so.

Deepak Poddar: Okay so round about 22% is what one should?

Arun Kumar: I am not saying that. But your math is saying that.

Deepak Poddar: Okay understood. And sir, in your opening remarks you also mentioned that we are looking at significantly higher revenue growth. so the current momentum is what you want to continue in terms of whatever revenue growth you have achieved this year?

Arun Kumar: Yes, I mean that is what we hope to achieve. See one of the key objectives when we sold Australia was that the rest of the markets should have momentum because Australia was not growing. It had good cash flows but it was flat growth and there was no revenue growth because we were kind of plateaued there. While the rest of the businesses were either being course

corrected or were settled so yes we are in a phase where several of our businesses have steadied very well and growing from there.

Few of our businesses needs attention. I would say 12 months ago 80% of our business needed attention. Today I would say 20% of our business requires attention to get to a certain level and so there will be growth. Growth will predominantly come from other regulated markets and from the emerging market course correction and with the Australia build out on supplies. Like I was talking to Nitin earlier, there will be growth in US but it is time for you guys to moderate.

Deepak Poddar: Okay so basically US moderation will kind of be compensated by other regulated and emerging market growth so overall giving us a good growth environment for overall for the company?

Arun Kumar: That is right.

Moderator: Thank you. The next question is from the line of Vipul Shah from R. W. Equity. Please go ahead.

Vipul Shah: Arun, after five to six quarters where you know you really engineered this course correction do you have a specific sort of or broad ROE target for the company?

Arun Kumar: We have already improved our ROC from single digits to now 13.9% if you adjust for Singapore which I think is significant uptick from where we were. Our focus as an organization has moved significantly from EBITDA to cash conversion and EPS growth and some of the actions we have taken is all alluding to that and I think it will grow from here. By the end of the year we would have solved for Singapore I mean we would have absorbed all the Singapore under recoveries and to have moved from 8% to probably 15% by the end of the year would be a significant achievement for our leadership and we are very focused to achieve that.

Vipul Shah: That is good to hear. One more sort of question for Badree is that you know when we have reported the net debt numbers, we have also reported approx. Rs. 400 crores plus of investments. May I know where these are what liquid investments which we have?

Badree Komandur: Yes, this is secured by an instrument.

Vipul Shah: No, that is I am not talking about the Arrotex?

Arun Kumar: They are all liquid funds.

Vipul Shah: Yes because in the Annual Report you know there was one item Rs. 130 crores **Eastern Gate soaring Dragon** investment?

Badree Komandur: Yes so that is a mutual fund which has been invested in Singapore because it was giving us a rate yield much higher than the normal rates which is applicable in that country. So, that is the reason we did that.

- Moderator:** Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal. Please go ahead.
- Tushar Manudhane:** Sir, just on this China JV I would like to understand how much you plan to invest for this new manufacturing facility which is to be put up in China?
- Arun Kumar:** Our investment will be lower than the licensing income we will receive.
- Tushar Manudhane:** Okay and just coming to the US sales maybe near to medium term view but just would like to understand with this soft launch of Cinacalcet, do you still think that the growth rate would be moderate at least for next six to nine months?
- Arun Kumar:** You are breaking again you need to be on the main phone or get off the speaker phone please.
- Moderator:** The next question is from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.
- Aditya Khemka:** Thanks for the follow up. So, Arun, what I was asking was you know this Rs. 450 odd crores which is deferred receivable so if it is not contingent then is there any timeline to which we will definitely receive this payment, is it within FY0?
- Arun Kumar:** No, it is subject to certain either there should be a change of controlled situation or the maximum payout is within three years.
- Aditya Khemka:** Within three years okay and it is more back ended than it is front ended, okay fair enough and secondly on the vertical integration so how much of our API or import comes from the group companies Solara or Sequent or Strides?
- Arun Kumar:** It is about 20% of our total requirements and that is what we have received shareholder approvals for, it is within that.
- Aditya Khemka:** Right so the balance 80% is coming from external third parties?
- Arun Kumar:** That is right.
- Aditya Khemka:** So, how is the pricing environment there, I mean have the prices got stabilized or even cooling off or is the pricing environment still hot and if there is still price increases?
- Arun Kumar:** So, as you know Aditya, the Solara we are dependent on the bottom of our pyramid products which are mainly the commodity products which solves for our big market shares and also our under recovery so mainly Ranitidine and Ibuprofen. This constitute a very large part of our business. The rest of the businesses as you know are very niche products where our margins are significantly higher and API cost is not a very significant part of our cost of goods.

And therefore, we get into and these are typically European suppliers and we have got into long term supply contracts because they would not supply us otherwise so we have three to four years supply contracts. We are not seeing any changes in pricing as those prices are always high compared to other Indian companies. But we prefer to continue with working in that environment.

Aditya Khemka:

Understood. Just one more if I may. So, we are paying about Rs. 150 odd crores dividend while we still have a net debt on our books. What is the thought process I mean generally companies with net debt prefer to pay off debt rather than paying dividends, so just want to understand what we are thinking in that direction?

Arun Kumar:

Well, I think for us as a company we have brought down debt very significantly and there is enough free cash that we will generate in the next year or two that will make us typically debt free. Then it is important that we follow our dividend policy of returning some amount of free cash that is available either through a transaction or a strategic sale like we have done here.

It is normal for Strides to have done it and it is something that we have always consider we could have done a buyback instead and that is more complicated and this is something which goes to everybody's hands and it is more equally distributed from that perspective. So, no questions around that and it is a much more easier process to do.

The other way of doing it is probably do a buyback and start increasing promoter's stake holding which was not the intent. So, the point here is to do what we do right, and what we think is the right thing to do.

Moderator:

Thank you. The next question is from the line of Alankar Garude from Macquarie. Please go ahead.

Alankar Garude:

Firstly, I wanted to check on the Africa business. so we have grown by 1% year-on-year in this quarter and you mentioned about turnaround of emerging markets being the most significant outcome for this fiscal. So, how should we look at the Africa business growth in FY20, should we expect a sequential improvement from here on and if yes then if you could indicate any year-on-year growth range?

Arun Kumar:

There are two things. Africa has not delivered profits for us for the last twelve months. We are just started to start making profits so we are more focused on getting each of our businesses profitable to a certain point that is important for us to stay invested. Africa clearly fits that strategic goal for us, it is a frontier market.

We have been in that market, we have been successful there, we intend to course correct this business. So, we have become profitable and that is the most important thing first for us to get this business back to profitability and then focus on growth. So, I am not so sure I will be worried

of focused on increasing my QoQ or YoY growth but clearly this business needs to deliver our 18% to 20% EBITDA before the end of this financial year and we are on that track.

And currently until very recently it was break even or negative, this quarter it is breakeven and before the end of the year we will see this business swinging back to what we currently make as EBITDA so that is an important part of our overall strategy.

Alankar Garude: Understood sir. Secondly, you mentioned about a soft launch of Cinacalcet in July. So, can you help us understand the opportunity in this molecule now?

Arun Kumar: Well in the US, you cannot establish an opportunity for every single product. What we meant by soft launch is that we wanted to be sure that typically when there are more players in the market prices drop dramatically then there are significant challenges on gross to debt to net adjustments all of that stuff.

So, when we are in these kinds of products, we are cautiously optimistic, we are focused on ensuring that whatever product we sell in Cinacalcet it does not come back to us. That is very important for us and we do not give anything free or replacements and all of that stuff. So, that is what we mean by a soft launch.

At this stage, I cannot tell you what this product will end up to, it is looking good, it will meet our targets for a product which you know is typically a reasonable size in terms of opportunity or market share and we start off slow and we will get to a number which we are comfortable with. But at this time, I am not able to put a number on this product.

Alankar Garude: Right sir. One final question from my side, should we take the current quarter depreciation as the full year run rate, so basically has the depreciation impact of both Singapore and Chennai now fully captured in the first quarter numbers?

Arun Kumar: Yes, as Badree confirms.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera: Just one question regarding the net debt that you reported as on June 30th. Considering the type of incremental working capital requirements in the CAPEX for the current year, do we see this number further lower as we end the year or post the dividend buyback post this dividend we will see this number going up again?

Arun Kumar: Well we started off the year at 4.5 times debt to EBITDA. We will be very comfortable at 2.5 and below that is our internal target. We are currently with including dividends we are very, very comfortable with that number. I do not think it will cross the Rs. 1,000 crores that we have guided as a group and unless there are very compelling reasons for us to do it, but overall not more than 2.5, under 2 would be brilliant, so that is the current thinking in the company.

- Sachin Kasera:** Sir, what is the type of CAPEX you are looking in the current financial year?
- Arun Kumar:** About \$15 million like we guided in the last quarter.
- Sachin Kasera:** Okay and do you see the working capital going up from where we are sitting as on June 1st?
- Arun Kumar:** Because US growth will take incremental working capital but it will not change my overall guidance that I have just indicated to you.
- Moderator:** Thank you. Ladies and gentlemen, we take the last question from the line of Nirmal Gopi from IDFC Securities. Please go ahead.
- Nirmal Gopi:** On the Singapore business, where the opportunity is going to be largely around those the VA opportunities or there are newer products the general supply of new products that we will be doing from there?
- Arun Kumar:** We have only transferred products to our Singapore facility which caters to the VA opportunity because Singapore is the only country in Asia outside of Bangladesh which meets the designated country status. So, we are moving opportunities that products that we can make, that will get VA business like I said we have got our first significant business already and we are starting to supply them from September. So, we are not taking new products out of that plant because of the fact that it is a high cost center, it is fairly highly automated.
- We do not want to run that plant over the 1 billion or 1.8 billion in a 12 hour shift. So, there are some constraints that we have set for ourselves there under which our opportunity would be to make only 5 or 6 products with high volume and predominantly focus for the VA market.
- And like I said we also sell to Australia from that market so like I said we are very confident of being fully utilized of 800 million to a billion capacity by the end of the year and at that time we will fully recover the Rs. 25 crores per quarter or Rs. 18 crores actually Singapore costs us because Chennai is the rest but also do not forget that we have a preferred tax advantage as a consequence of all of that. So, although it may have a marginal impact on the EBITDA it will have a very significant flow through of any product produced in Singapore to the PAT line. So, overall it will be a good addition to the growth strategy and the margin expansion strategy.
- Nirmal Gopi:** So, sir, from revenue perspective it will be all incremental revenues from a business perspective?
- Arun Kumar:** 20% of the US market as you know goes to the VA so that is an opportunity we could not service thus far, so that is clearly something that has opened up for us.
- Nirmal Gopi:** And lastly on the OPEX the Rs. 250 odd crores of staff costs or other expenses that we have got for the quarter I mean that is pretty much is a base that we can analyze or there could be meaningful additions to it as we go through?

Arun Kumar: No. The only cost difference there would be the variable cost on freight and logistics on incremental sales. But overall that number will not change much. And of course we have a salary revision which happens in this quarter so that there will be a small impact on that but as you can see we have also improved in the last eight quarters I mean five quarters our gross margin by about 8% and that is a continued theme that we are building on.

Moderator: Thank you. Ladies and gentlemen, with this I now hand the conference over to Mr. Arun Kumar for his closing comments. Over to you.

Arun Kumar: Thank you. I will appreciate your time and I know you had a busy day with several other calls and I appreciate that you could join us. And if there are any questions, all of us at Strides will be more than delighted to answer them. Thank you for your time today.

Moderator: Thank you. Ladies and gentlemen, on behalf of Strides Pharma Science Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.
