"Strides Arcolab Limited Q3 and CY12 Results Conference Call"

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Moderator Ladies and gentlemen, good day and welcome to the Strides Arcolab's Q3 and CY12 results conference call hosted by IDFC Securities Ltd. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Nitin Agarwal, thank you and over to you Sir.

Nitin Agarwal Hello, good afternoon everyone and a very warm welcome to Strides Arcolab's Q3 CY12 post results conference call hosted by IDFC Securities Ltd. On the call today we have representing Strides Mr. Arun Kumar – Vice Chairman and Managing Director, and Dr. T. S. Rangan – Group CFO, and the management team of Strides. I hand over the call to Arun to take it from here.

Arun Kumar Good evening everybody, thank you for taking time out today to join this session with us at Strides. Joining me as Nitin introduced is Dr. Rangan, our Group CFO and other colleagues from our Investor and Finance Group, who will be more than happy to chip in as we finish the introductions. We had a continued strong operational quarter for the Q3 results that we announced today. Sales were at Rs. 601 crores with a reported EBITDA at 27% at Rs. 154 crores adjusted for exchange rate that was Rs. 167 crores. Before I start I just wanted to introduce more about the year's performance. We had a very significant product launch in Oxaliplatin, which was in the second half of August, so considering that we only had approximately 30 trailing days in the month of September, as August was already fully loaded by Sanofi on the pipe, as we would see from the IMS data, a significant profit continues to trail which will reflect in the coming quarters. I am pleased to confirm that we have had significant achievements in our GPO conversion and we are sitting pretty on an important market share on this product, which will reflect in the coming quarters. So, profits in our business model continues to trail 2 to 3 quarters. The numbers although are healthy in line with our guidance would definitely have been better had the profits of Oxaliplatin accrued, which is in the process of being accrued as we speak and will be reflected in the next quarter. Also impacted and as guided in our last quarter was the Vancomycin profit share on day 1 of the launch. In Q2 we were the only company with product in the market. That has since changed as we are guided in our Q2 call where we reported that the other generic companies would have now arrived with stocks and that is reflected in a price drop as most anticipated. Having said that we continue to hold a very strong market position on this product and we believe that the profits reported currently at around Rs. 8 crores on this product per quarter settles to its logical levels and this will be obviously augur well as we go forward. Disappointing for us this quarter has been the performance in Brazil, the performance in Brazil is well within our overall guidance of the business to be break even. We had almost six weeks of no sales in Brazil in the quarter

due to ANVISA strike, which is the health authorities strike where we could not get our goods cleared in time, which resulted in lot of the stocks lying at port, which also impacted the Indian operations as sales of the final product were not converted, which impacted our inter-company sales and inter-company profits, as a consequence we have approximately a US$2 million impact on our numbers. All this has since been normalized and you will see these temporary bumps we have cleared behind us and having said that we still believe that we had a phenomenal quarter both in terms of operating leverage. Our ex-Brazilian operations are at 33% above our guidance and Brazil on an YTD basis is within break even guidance. Licensing income has been a strong quarter, but we have guided in the beginning of the year that we would have approximately $50 to $60 million of licensing income and we have had a poor Q2 in licensing. Licensing income is a function of work done, filings committed, and as you can see that we had a very strong filing quarter. We have a record 28 ANDA filings, which is a company record, and already what is considered an industry beating filing record. Our quarter record has been even more greater. Thats has been good. Commercialization has improved dramatically, a lag between products approved and products commercialized has dropped from 30 products when we started the year to 24, and we think by the end of the year this would even improve further as the two new facilities both in Poland and the new acquired facility at Hosur go on stream in Q4. For those of you just to recollect we have had Polish facility FDA approved without any 483 being issued. So we are on stream to start commercial production in this quarter towards the end of this quarter, and we have formally received FDA approvals last week to commence production in Hosur where after our improvement strategies, we took some additional batches and submitted certain variations from our existing plants and we have got approvals for our first product, so all our nine facilities are now all set to go. We continue to be disappointed by the delay in the Penem product approval for US. We had expected this approval in Q3. We are obviously disappointed that we have not yet received this approval. We have taken up the matter with the agencies and since the product is not so much in the shortage list, we are not getting the highest priority that is required, but we do hope that we are in the last mile of the product approval process on this important product and we hope we will communicate to the investor community very shortly about progress there. So overall, it's been a good quarter in line with our overall guidance and apart from the filing records we have also commenced a Canadian JV, and we have got our first two products launched. Major improvements on the key indicators from the financial front, which Rangan will touch upon for which I am sure there would be questions. Debt equity improving even more as we generate more cash and reduce debt, so that is a plus, and obviously the filing momentum will continue with Q4 having an even significant filing record as we rush our pipeline of filings prior to the new guidelines of the FDA both regards fee and the type of filings that they will receive going forward. So, operating leverage continues, the pharma business has stabilized post the spike we had for one particular quarter on Vancomycin, but we are adequately pleased with the progress we have made from the previous year in terms of both top line and operations. So, that is a

high level summary and I will just request Rangan to give a quick overview of some of the key financial indictors and then we will open the house for questions.

Dr. T.S. Rangan Thanks Arun. Arun has covered most indicators but nevertheless to emphasize on that the first biggest one is the revenue composition. If you really look at it in line with what we have been saying that what has really happened is between 2011 and consistent with the performance of Q1, Q2, and Q3, the operating composition has gone up to 81% of total revenue. Consequently, the EBITDA composition has been very tremendous from the operations, it has been more than 60 to 65%. We are able to maintain the contribution margin of 56%, EBITDA margin steady at 26%, which is, I am talking about the group level, which is significant 23 to 33%. EBITDA to interest cover, it has been again, we have done a lot of strengthening activities in we repaid, close to about Rs. 1300 crores, actually in the last about nine months, so this has improved EBITDA to interest cover, which traditionally used to be 2.5 times to 2.72 times now in the quarter has moved to 3.56 times. We are optimistic that the operating leverage and more and more capacity, we are putting into use, so this EBITDA to interest cover will touch the benchmark number of 4+ maybe in the forthcoming quarters. Interest to revenue has been flat at 7% and the last is net debt, net debt is about Rs. 1215 crores, it was actually Rs. 2306 in the beginning of the year. The last quarter was Rs. 1295, it has been moved to Rs. 1215. So, overall if you really look at it, the way the net debt has moved, the EBITDA and interest are tracking, so we are optimistic that our net-debt to equity 0.6. We will be able to maintain it and it has come down from 0.65 in June 2012 to 0.60 by September 30, 2012. These are some of the major indicators. One more thing is that the tax, if you look at the tax provision for this quarter, it is Rs. 29 crores, it is close to about Rs. 30 crores, effective tax rate of 36%. Our normal run rate is between Rs. 18 to Rs. 22 crores, having said that what really happened is that a) operating is taking place and 80% of the provisions are for Agila, where the bulk of revenue is generated in India, where the tax rate is close to about 30% to 35%, and second thing is that in the quarter, close to about 30 crores of unrealized exchange loss, where we could not really avail actually tax, because it is in line with the regulatory, so that has moved the tax rate from 20 to 29 crores, about 9 crores. Otherwise we expect that our tax rate will continue to be, run rate continue to be between Rs. 18 to 22 crores, which is the effective tax rate between 18 to 21%. Deprecation has slightly been moved out, that is post acquisition of Star Drugs in the facility near Bangalore. This has been fully integrated and we have taken depreciation on the assets for Q3.

Arun Kumar Thank you, happy to take questions as we conclude our introductions.

Moderator Thank you Sir. Participants, we will now begin the question and answer session. We have the first question from the line of Krishna Kiran from ICICI Direct. Please go ahead.

Krishna Kiran Hello, can you hear me. Thanks for taking my question. Sir, just to understand more on tax, if I understood correctly, if I remove the Rs. 13 crores of FOREX loss, that time also we are ending up with a tax rate of 30% during the quarter, just want to understand, this is mainly because of that majority of the products which were manufactured in India, I am right.

Dr. T.S. Rangan Yes, obviously like when you generate a licensing income, I am trying to see the previous year, the growth was driven by licensing. Now it has been operating and predominantly India is one Agila is a new entity. Your observation is right to some extent if you move the tax rate, but having said that, the FOREX loss where we are not entitled for that, that has pushed the tax by Rs. 7 to 9 crores.

Krishna Kiran Okay, okay. Fine. Can you help us out with pharma business EBITDA margins like if I exclude pharma licensing income and their contribution to EBITDA, but you know, if you look at Q1 it is around 19%. Q2 I understand, that we have Vancomycin tablets, which move to 23, but this quarter we are back to 14, so how are we going to look at it in this business front.

Arun Kumar The pharmaceutical business is always been in the 12 to 15 range. Right, that is where the legacy numbers always work. I do not think that is going to be any greater than that, if you continue to have product approvals like Vancomycin. There again in the pharma division two key approvals that were anticipated in the last quarter has been delayed. We have already produced product, we have not been able to convert this into commercial supply simply because our expectations of approvals have not taken place. We expect good news on both these products soon and once that happens we think that the EBITDA margins will improve, but I think that at this stage, we are still looking at the 14 to 15% range as the high end of the pharmaceutical business because the type of business we are in. Of course with some of these approvals I was mentioning that can go upwards, but I would not put a figure more than 20% on that business even with very important products coming our way.

Krishna Kiran Okay, the last from my end, if you look at specialty business, ex Brazil, may be Q1 it is 184, Q2 it is 181, and Q3 it is 196. I mean, we have got a lot of approvals in the pipeline, and we have launched many; are we seeing any more pricing pressure in the existing products?

Arun Kumar What we are seeing is that we are constrained for capacities, which has been resolved by Poland, and the star facility going commercial. That capacity is available to us only from December. As we have got the FDA approvals, one thing is to get an FDA approval, the second thing is to have a site change approved, in the case of the Hosur facility, we got the approval last week. We expect the Polish approval to happen in the month of November, so shipments will start from Hosur from November and that will add important new capacities to us. Okay, that is one. The second is that the profit share, we don't take it based on an estimation, we take it on an actual accrual, which will happen when we get a certificate of

whatever we are selling, we get the profits in Q3, there is at least 2-quarter trailing, and in some cases one quarter, depending upon which partners we work with, and so for example, oxaliplatin, you will see that bump up of profits in Q4, because we only had some 28 or 29 days of sale.

Krishna Kiran I have a couple of more; I will join back in the queue. Thanks a lot Sir.

Moderator Thank you. The next question is from the line of Hitesh Mahida, from Fortune Equity Brokers, please go ahead.

Hitesh Mahida Sir, just wanted to know, even though debt has gone down, interest cost is still pretty high at around, close to Rs. 46 crores, what could be reason behind it and what is this exchange loss of Rs. 13 crores above the EBITDA line?

Dr. T.S. Rangan First let me, first to take interest cost, interest cost if you look at it, in Q2 it was Rs. 51 crores, in Q3, the current quarter which you are talking about is Rs. 46, the savings is in account of interest on FCCB redemption, so you are already seeing that close to about Rs. 5.5 to 6 crores. On exchange loss, it is a reinstatement of current assets and current liabilities.

Hitesh Mahida Where do you see this interest cost normalizing going forward? Quarterly run rate.

Dr. T.S. Rangan Like I mentioned that, we is important is, you need to really understand that business is growing at 30 to 35%, and obviously I would say that, I would request you to consider rather than looking at actually number, what is important is, interest to EBITDA. If you really look at it, that cover is ever since being improved from 2.7 to 3.56. We will continue to improve and like I said that, probably may be in two quarters from now on, you will see that it is going towards the benchmark of 4 times.

Hitesh Mahida Of these Rs. 18 crores of other operating income, around 8 crores comes from the profit generated from oral Vancomycin, what is the remainder coming from?

Dr. Rangan Government incentives, scrips. Yes. Site transfer fee and others.

Hitesh Mahida Just one last question. We have done around 28 filings as far as Agila is concerned in Q3, which are the segments, wherein we have done these filings.

Arun Kumar Only sterile injectables between oncology and non-oncology.

Hitesh Mahida In non oncology what will it be ophthalmics or…..

Arun Kumar We do not specifically mention any products in our filing histories.

Moderator Thank you. The next question is from the line of Karthik Mehta from ICICI Securities. Please go ahead.

Karthik Mehta On oxaliplatin, could you just elaborate if you can, for such a large product, is there agreement on a different basis with the partner, because we are day 1 and it is early in the market, we have a different profit agreement.

Arun Kumar Karthik, we do not have any agreement, but I think, just to give you a little color on oxaliplatin, we are day 1 not necessarily in the true sense, as you are aware, 5 generic companies, which sold the product at risk, and then Sanofi won in the high court, all the five companies exited in the market, and after a 2-year period, they came back into the market, on 8th or 10th of August. We were the only additional company that got a settlement to launch product on the same day. What you need to appreciate is that all these generic companies have what is called a first right of refusal, when they re-enter the market to match or improve a price. Some of them like Hospira has used that to their advantage, and that is why if you look at the August IMS you will see Sanofi is still having almost 70 to 80% of the market share, although generics were available. So the true numbers will come out only in the month of September, but we are at the 15 to 20% range of the market contractually, and you will get to see that in following quarters. Having said that, everybody knows that oxaliplatin has taken a deep dive in terms of its price erosion, nonetheless it is still a very important product and we believe that we will have a 15 to 18% market share range based on the contracts that we already have.

Karthik Mehta Are you assuming, if I may ask, Arun, are you assuming in the 15 to 20% market share, any new company apart from Sun, Hospira, other two guys, or is it that the number of companies would actually remain where it is. Because I am fairly aware about the erosion, so what I meant is that till 15th of January, will you be there, so your 15 to 20% overall assumption, is it based on those numbers?

Arun Kumar We are not assuming another player in the market, apart from us there was Actavis**,** which got an approval, which is marketed by Sagent. But Actavis product is a lyophilized injection We believe therefore, we have an advantage as being the only presentation to the innovator and the other four players. We are not expecting another approval in the next immediate period, having said that, we have contracts where now, we have entered into right of first refusal, so there may be future price erosion if a new player comes in, but at the current state, I don't anticipate another approval as yet, but I could be wrong. Our competitive intelligence tells us that there wouldn't be, but we can't tell you for sure.

Karthik Mehta And one other thing, the two approvals that we got in this week for the onco space, in terms of the size of the products, they still continue to be strong, do you think at a cluster level, we have

some fair amount of size, in terms of the number of products of smaller market size, wherein which we can make an impact through the partner to have incrementally higher market share for any new approvals, because almost three quarters ago, when we had actually started receiving the approvals, from then till now, the number of products is higher, do you think we are at an area where any new approvals can have a higher advantage? I am asking about only the oncology products.

Arun Kumar

A long question Sir, but nonetheless I will try to make my answer short. The Strides philosophy of regulatory strategy is a cluster of small molecules, we have been doing this with the new FDA guidelines of fees and three batches and six months stability. We just believe that competitors in small molecules will only reduce going forward. We do have, out of 200-odd filings including pipelines, over 100 products qualify to this small molecule criteria where, typically we do not see more than two or three competitors in any product. Having said that, these are not big dollar value items but a big profit value items and that is why these small products are supporting a strong operating gross margin of 56% and also the EBITDA outside the US business operating technically at almost 40% and group at around 33%. So when we say Ex-Brazil at 33%. It means that our US business is heading at 40%. This is the small molecule that is an important part of our profit maximization, and our growth strategy and we will continue to have many products that will be US$ 6-12 million by we end up being the only player or one of the two players. So to answer your question, yes we end up typically getting forty to 50% market share in these products and since we are a new player along with Pfizer in the space, we take a little time to secure contracts but we have been successful with every single product we have gone and if you look at some of the products that we have launched and check your IMS data, you will see that we are in the 30-40% market range. But it does not add significant dollar values top line but supports the very strong EBIDTA growth. So that continues to be very important part of our strategy and to answer your point- yes, these products will add an important both top and bottom line value for Strides.

Karthik Mehta

Just one the last question if I may is that you have signed for Vancomycin oral with a different company. Is that going to be consistent that for any product were you have an entry advantage at least in the initial part where you had, would you be actually open to do this even in the injectable space, outside of Sagent….

Arun Kumar

Yes obviously we do have partners outside of Sagent and Pfizer, but I suggest you wait till you hear more about our actions on introducing some of these products, but yes the model has changed from an early stage where we had large partnerships, large licensing income to an operating leverage and multiple products, if they are not being commercialized it's because we are tying up with right partners and this necessarily do not by contract or for other reasons, do not have to be with any of our existing partners. So yes, we would be opportunistic and our model today is to maximize profits and we are obviously working with a right partner who will

typically only take a distribution fee to introduce our product. And just hang on for a few more weeks before you will get little more color on how those actions work.

Moderator Thank you. The next question is from Bhavin Shah from Dolat Capital. Please go ahead.

Bhavin Shah I just have a question on the Canadian Market. Do you want to get assessment of anything particular that deviates your strategy from what you are doing in US so far?

Arun Kumar Well unlike U.S. market, in Canada we don't have any partnerships. It's a virgin territory for us and we do not have any conflicts of interest. Every single product is in the process of being registered there are almost 50 products. I think we have already got 15 and odd approvals. It is available for the Canadian market, but unlike the GPO system in the U.S. the Canadian market is a provincial tender. So we have to wait for the right time to get to critical size and these tenders are open only once every two years in most provinces, but it keeps coming in a cycle. So at the moment we are an opportunistic player because we are introducing products which are in shortage but once we have a specific point it is an unconstrained market and we have freedom to operate all our molecules in that market because we do not have other relationships unlike North America where we would be cautiously optimistic about our frontend, we will not do anything that sill disturb our existing relationships.

Bhavin Shah We are very selective in this product launches in this region is it?

Arun Kumar Absolutely.

Bhavin Shah The question was Arun really on the Brazilian front- do you think that we have taken enough time to get this business in a positive direction moving or do you think we are pretty okay with whatever is happing there?

Arun Kumar In the Brazilian business, there are two parts of the Brazilian business. There is a trading business which has been making profits from the first quarter of this year. That is strategically being driven well and I think are positioned now as amongst the top five hospital players in the Brazilian market and we are getting good traction around that strategy. What is pulling the overall Brazilian strategy is under recovery of what is a very significant manufacturing cost that we are currently incurring while we are awaiting product approvals. We have started getting European approvals but we have to do the national process and of course the big ticket approval is the US which is the Brazil company changing event, which is almost completely recover our manufacturing under recoveries, which is where the challenge is, so it is nothing to do with the Brazilian frontend business of almost $70 million is actually rocking and we are growing quarter-on-quarter both from sales and profitability but it is the under recovery and overhang of the plant which will change as soon as we have the Penem approvals in place.

Bhavin Shah And you expect by Q4 or is it further going to be delayed. What do you think?

Arun Kumar To be honest, we were expecting it in Q3 and it didn't happen and I wish I could give you an estimate now.

Bhavin Shah Regulatory process has slowed down to an adverse projection that you think or you just have to wait and watch for it.

Arun Kumar Regulatory approvals also depend upon various factors. One is obviously the agency resources a lot more time and efforts to products which are under shortage or are not multi-sourced. Second obviously is then you are in a queue for everything else and there is very little one can do to expedite that. So that's where the challenge really is. We are petitioning the agency. We are trying to get help to try to resolve some of the issues and we are not pending for anything else because the file has already been approved in Europe and in other parts of the world but you know it's just the matter of kick start in the business. So, at least some parts of this quarter our recoveries will improve as European exports will start from this quarter.

Bhavin Shah So far really the strategy has been getting the products moving, and improving the manufacturing, operating leverage which we have seen in the past year or so, the more in fact. Now going from here, how easy it is to manage at this level or just that you foresee that could turn this to an adverse situation?

Arun Kumar We don't see any adverse impact on our operating margins. The challenge for us is to find the right mix of the skills and balance it with the capacity which is finite. We only have a certain capacity. So how do we balance the right mix of products and how do we leverage our Polish and Bangalore facilities this is what will take the business up and running but yes, we are extremely confident that the profitability will keep increasing and every quarter we have been above the guidance on our ex-Brazilian business. So we don't see any reason that would change in the coming years and in fact it will only improve as we believe, there are some very important products that would be available to us to be launched including the settlement products in 2013. So we are looking to a very exciting next full year with more positivity in the quality of growth and the profits.

Bhavin Shah Of course if you were to look at this way that with licensing income today, we just look at manufacturing leverage that we have. If we were to remove licensing income and see in 2014-2015 do you think the operating level would speak for the numbers that we have with the licensing income we have today?

Arun Kumar Yes without doubt.

Moderator Thank you. The next question is from the line of Khushbu Patawari from Subhkam Ventures. Please go ahead.

Khushbu Patawari Could you just help me with, what interest rate should we take or what could be the interest rate be going forward?

Dr. T.S. Rangan If you are talking about absolute number, it will be around Rs. 45-50 crores. If you are talking about interest rate, it will be around 7-7.5% of revenue.

Khushbu Patawari Because of shifting you are looking at the current assets and liabilities?

Dr. T.S. Rangan Like I said earlier, it is important to you to understand that while we can say 45 and 50 but some of these things actually, interest rates movements are also dependent on Rupee appreciation or depreciation. So on some of the FOREX loans, so again I recreate that what is important is we really need to look at the interest rates vis-à-vis the EBITDA. That is where we are very comfortable. That is what is very important for us to enhance our profitability, PAT, and also improve net worth. So I would suggest that it will be 3.56 now. We will continue to improve that and will move towards 4 times.

Khushbu Patawari What is the FOREX loan that you have mentioned like? What could be that amount?

Dr. T.S. Rangan It's about $100 million term loans.

Khushbu Patawari And this payment which you have around Rs. 80-82 crores, which you mentioned on television, that is of what like. It will be the FOREX loan?

Dr. T.S. Rangan These are all term loans. Not necessarily be FOREX loans, even a rupee loan where you will have a quarterly payment.

Moderator Thank you. We have the next question from the line of Sriram Rathi from Anand Rathi. Please go ahead.

Sriram Rathi I have two questions. One is on the tax rate which is 36% for the quarter. It could be great if you explain me a bit more about it, it's not very clear?

Dr. T.S. Rangan Yes, like I explained earlier, what really happened is that for this Rs. 30 crores, there are two factors. One is that as we said that operating leverage has commenced. So bulk of revenue will go from India. So tax rate will definitely be at 23-24% whatever you do. Second thing is very specific quarter close to about 7-9 crores was due to the unavailability of tax on the unrealized

exchange loss. This is as per the standard and income tax computation. So that has pushed the rate. Otherwise you can consider about 20-22 crores as the tax for every quarter.

Sriram Rathi This unrealized exchange loss, pertaining to what?

Dr. T.S. Rangan These are all the reinstatements of MTM loans and MTM processes.

Sriram Rathi But there can be some gains also in the coming quarter. So that time you will not be paying tax on that right?

Dr. T.S. Rangan Both are not considered for tax. What I am saying is that. If there is let's say that your example of a gain, what would have happened is, it would have moved the PBT. Then the taxes come out automatically. Correct? But it has no bearing on the exact provision of taxation.

Sriram Rathi So that is like around 30 crores of unrealized loss. On those 9 crores is what you are getting right? The second question is out of the net debt of 1215 crores how much will be the foreign currency debt?

Dr. T.S. Rangan About $100 million

Sriram Rathi $100 million.

Moderator Thank you. We have the next question from the line of Nimesh Desai from Motilal Oswal. Please go ahead.

Nimesh Desai Just one clarity needed. On this business restructuring reserve as I understand it this is going to come to an end by calendar 2012. So the expenses which are being adjusted against the BRR, will it be right to assume that they would then start reflecting on the P&L from next year onwards?

Dr. T.S. Rangan Yes if you look at the note on BRR in the SEBI report, there is a close to about 4 crores towards the interest. This is basically the interest on acquisition of Oncology stake and 5 crores on fair value of assets. These are the only two entries which are hitting the BRR. Except that your observation is right. In the absence of BRR they will go but they are below EBITDA. There is nothing, BRR utilization will impact the EBITDA.

Nimesh Desai But how much BRR utilization would have happened, year-to-date how much would you have utilized?

Dr. T.S. Rangan We will probably give you a separate, year-to-date from the date of creation

Nimesh Desai Not date of creation but for the current year.

Dr. T.S. Rangan For the current year if you look at it is about 8 crores.

Nimesh Desai That is for the quarter. YTD would be much higher no?

Dr. T.S. Rangan Yes that is what I am saying actually. You need to understand that your question is about P&L impact. The P&L impact is about 8 crores per quarter which I have clarified that it would be below EBITDA. The other utilization is onetime cleanup as per the courts scheme, obviously like some of the old unrealized loans, etc., we used it for utilization. We have done 100 crores till nine months and left out is 80 crores.

Nimesh Desai This question is for Arun. In respect of BRR as well as the licensing income coming off given the way the business is structured, do you think in CY13 our overall company level EBITDA margins could come under a bit of pressure?

Dr. T.S. Rangan Yes I just clarified on the BRR part of it. I made it very clear that BRR will not have any bearing on EBITDA.

Nimesh Desai How about licensing income being lower, will that impact EBITDA next year?

Arun Kumar There is another question in discussion where we already clarified that the operating leverage that we are seeing the reason why we are not licensing. We have over $15 billion of products filed which are not licensed to customers as we changed our business model to frontend some of these markets are felt. You need to understand that either we take a high licensing income, none of you included didn't like it, but once when we are saying it's going off the shelf, you seemed to be very concerned about it. But the operating leverage will be more than make up for the loss of licensing income. And this is what we have been consistently saying since the beginning of the year and this is what we are focused on because operating leverage and operating EBITDA delivers us the daily cash which is extremely important part of improving our balance sheet further and improving our cash position even more. So we can always restore to licensing model but that is not the intention as we speak.

Moderator Thank you. The next question from line of Krishna Kiran from ICICI Direct. Please Go Ahead.

Krishna Kiran Thanks, Sir Just one question. In this quarter what is the target this year and next year filing with USFDA? This quarter we have filed around 28 filings and we have booked higher licensing income so Q4 should be similar kind of licensing income because…

Arun Kumar Filing has got no kind of relationship to licensing income. Licensing income is a function of work we do at R&D, for which we have already contracts in hand we guided the market that we will between $50-60 million this year. We stay with that guidance. So number of filings is no reflection of our licensing income because most of the flings we do are products that we had not licensed or we will license at a very late stage. So number of filings has got nothing to do but yes this is going to be a most important year. I think YTD filings in sterile are already this year is about 40 odd filings and we expect another very strong Q4. We have 42 filings already year in Agila and we think we will end up this year to closer to 60 filings. So it will be another important Q4 in filings.

Krishna Kiran 13 crores of FOREX losses, were it added in other operating expenses - just wanted to check.

Dr. T.S. Rangan Yes.

Moderator Thank you. The next question from line of Dheeresh Pathak from Goldman Sachs. Please Go Ahead.

Dheeresh Pathak Can you just mention the CAPEX numher year-to-date and the full year number that you are expecting?

Arun Kumar It approximately including the acquisition it is about $15 million as maintenance CAPEX but this year it will be about $50 million including the acquisition of Star. This year because $35 million was the acquisition and upgrade of the facility we acquired and $15 millions is the maintenance CAPEX.

Dheeresh Pathak Next calendar year, what to expect in CAPEX?

Dr. T.S. Rangan The next year would be approximately $25 million in the new facility. In the existing facilities for capacity expansions, and about $15 million for maintenance CAPEX so another $40 million.

Dheeresh Pathak Why do we need to further expand the capacity? I was under impression that we are under utilizing our current capacity.

Arun Kumar You are under the wrong impression. What we said that we are under utilizing capacity only in Brazil for a particular type of pharmaceutical product called Penems. Every other plant is fully sold out for capacities.

Dheeresh Pathak On licensing income. It is not clear to me. Even I was of understanding that based on the filing it is somehow linked to it. But to a previous participant's question you mentioned that it is not linked to filing. Can you briefly touch upon how the licensing income is earned?

Arun Kumar We have an R&D book based on the contractual obligation, in that we already have with customers . In that R&D book two years ago was about $300 million. So there is one way of booking it is, we have probably have received lot more cash than what we book in revenues that we make our revenue recoganization based on an R&D milestone that we agree with our customers. And when we achieve that milestone, we are entitled to make a billing and receive cash, or we would have adjusted the cash that we already received in advance. It has got nothing to do with filings. Filing is for new portfolio products that we have billed or are billing. So some of these filings may be for some of those milestone obligations but they have got no direct link and we don't get a particular dollar amount per file. That is not how the model works. Our product licensing fees range from a million dollars to a highest of $10 million depending upon the product. So it's got to do with the type of product and type of milestone we agree with the customers which is then certified by our auditors.

Dheeresh Pathak This R&D book that you mentioned, are you saying that money is already received by the company and set in as deferred revenue somewhere in the liabilities?

Arun Kumar It could have been received or could be received based on month's time.

Dheeresh Pathak How much could be in the balance sheet as deferred revenue?

Arun Kumar Rs. 80 million as advances.

Dr. T.S. Rangan It is not as deferred revenue. It is treated as loans and advances. It is treated as advance from customers.

Dheeresh Pathak And this is related to the products that you are developing so you said R&D books. So can you elaborate like for which markets you are developing these products? This is not related to ANDA filings.

Arun Kumar It is related to global filing so it could be to any market, depending upon which customer we did a transaction with.

Dheeresh Pathak And if I can squeeze in one last question on the BRR reserves, as per the note it says some around 585-odd crores of BRR was created and last year we utilized some 60-odd crores and this year, year-to-date we have utilized about 100-odd crores. So cumulatively, out of 585 crores, how much has been utilized till September 2012?

Dr. T.S. Rangan 505 crores.

Dheeresh Pathak So 80-odd crores is left? So when this thing exhausts completely then these expenses which you are showing as part of a separate table, what are they, I mean, they are like cash expenses or they are non-cash expenses that you are showing?

Dr. T.S. Rangan I will explain that. Out of 505 crores, what I was trying to answer is that, when the scheme was done, there are two recurring items; one is the depreciation on fair value of assets, we are allowed to debit it to BRR , this is as per the scheme, this will be the non-cash item, this will hit my below EBITDA next year in the absence of BRR. Second one is the interest on acquisition loan, obviously, we consolidated our position in oncology two years back, we have bought 50% of JV interest and that is what it is paying today. So interest paid on this is close to about 4 crores. This is a cash item. It will come in P&L. So what I am trying to say is that 9 crores per quarter will come to EBITDA. Other than that the other utilization they were in the nature of onetime write-offs or one-time cleaning up and that is what we have done.

Dheeresh Pathak So once this is exhausted, how much will be the cash hit per quarter, if you can give that number?

Dr. T.S. Rangan 4 crores.

Dheeresh Pathak Which will be below EBITDA?

Dr. T.S. Rangan Yes.

Dheeresh Pathak And part of finance cost most probably right.

Dr. T.S. Rangan Not most probably, it is finance cost.

Moderator Thank you. We will take the final question from the line of Amit Shah from Prabhudas Lilladher. Please go ahead.

Amit Shah Mr. Rangan, just one technical question. I do not know if I understood it right. But in 2QCY12, Strides reported Rs. 24 crores as a FOREX loss that was there in other expenses. Now, if I understand it correctly, this is nothing but the difference between the closing exchange rate of the two quarters.

Dr. T.S. Rangan Yeah.

Amit Shah So if I look at it from 31st March to 30th of June, there was a significant depreciation that was roughly Rs. 5. Now, from 2Q to 3Q there is Rs. 3 appreciation. I do not understand how come

in 2Q when rupee depreciated you reported loss and how come in 3Q when rupee appreciated again you reported loss?

Dr. T.S. Rangan Let me explain that. Your observation is right, if it is an open-ended position, as part of FOREX we do forward cover. So in Q1, the average rate of forward cover was about Rs. 52 and Q3 is Rs. 53, it is a weighted average. What you have said is right, that is applicable for open-ended, where I have not covered anything. When the particular receivable is covered, it will be reinstated at the forward cover. So obviously, when the rupee is Rs. 55 and when I have a cover of Rs. 53 I will have to take a loss of Rs. 2. So, going forward the open position is about $27 million which has got Rs. 55.58. So this will benefit assuming that rupee stands where it is today like Rs. 53.69.

Amit Shah So as of now the outstanding position is $27 million at 55.5?

Dr. T.S. Rangan At 55.58.

Amit Shah And just one question for Arun, lastly, if he can throw some light, you have now nine facilities which are USFDA approved and most of them are sterile facilities and these have been built over a period of last five, six years. Now, just a theoretical question, suppose if a new company wants to enter the space and has to build a kind of infrastructure you have built, I am just talking about manufacturing infrastructure and not a product pipeline, what kind of investment it would be needed to build such kind of manufacturing infrastructure as you have as of date?

Arun Kumar We have spent so far total amount of $260 million on only building hard assets for sterile injectables.

Amit Shah It is $260 million?

Arun Kumar We believe it will cost at least double that money to set up similar facilities today.

Moderator Thank you. I would now like to hand the floor over to Mr. Nitin Agarwal for closing comments.

Nitin Agarwal Arun, do you want to add anything?

Arun Kumar I just want to thank everybody for taking their time out today and being engaged with us in our journey and feel free to write to us directly, if you have more questions or follow-ups and happy to answer them. Thanks, Nitin, as always to host us and see you soon. Thank you.

Moderator Thank you. On behalf of IDFC Securities Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.