



“Strides Shasun  
Q3 FY17 Earnings Conference Call”

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**MODERATOR:** **ABHISHEK SINGHAL – MACQUARIE CAPITAL SECURITIES**

**Moderator:** Ladies and gentlemen, good day and welcome to the Strides Shasun Q3 FY17 Earnings Conference Call, hosted by Macquarie Securities. 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 entering '\*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Singhal from Macquarie Securities. Thank you and over to you, sir.

**Abhishek Singhal:** Yeah, good evening all. Thanks for joining us for the third quarter earnings call. We have with us the senior management of Strides, Mr. Arun Kumar – Executive Vice Chairman & Managing Director, Mr. Shashank Sinha – the Group CEO and Mr. Badree – Group CFO. I will hand over the call to the senior management for an opening comment post that you will have an option to ask question and answers. Over to you, sir.

**Arun Kumar:** Thank you Abhishek for hosting us. This is Arun and good afternoon everybody. I have with me my colleagues Shashank, Badree, Sandeep and Vikesh. Since we do have 2 sets of announcements today, one obviously with the results and also on the corporate actions. I will first request Shashank to take you guys through the Q3 results and the commentary around it and immediately thereafter, I will give you the overview of the corporate actions that we have taken today. Then we will open the house for questions and then you can ask question either on the operational matters or on the corporate actions whatever suites you. Thank you all and over to Shashank.

**Shashank Sinha:** Thank you Arun and good afternoon everybody. So, quarter 3 as you would have seen in the results we had a solid quarter of revenue growth (+20%) revenue growth and healthy margin expansion of 270 basis points on an overall basis. In line with our strategy we have now become a predominantly formulations business which grew by about 28% YoY this quarter and we are now about 84%-85% of our business mix is now formulations. Our performance was driven by strong results in the regulated markets. Regulated markets now account for roughly half our overall business and importantly this strong performance has come on the back of market share gains of our key products. We have listed out some here, but what I am more hearten to report is that we have introduced our first integrated new product Ranitidine in the US market as we mentioned earlier and within the first month of launch we have captured 6% market share.

Also it was a quarter where our API operations came back to normal and our strategy of driving higher margin in that business instead of higher volumes has started to yield results. If I just go into some of the details and if we look at our regulated markets, our revenues there grew 42%, as I said market share gains were really the driving force behind that revenue growth. Shares of some of our key products like Benzonatate 21%, Vancomycin at 54%, Ergocalciferol at 44%, I think have seen significant gains in market share in the US market. As I mentioned earlier Ranitidine in the first month was able to captured about 6% market share and this is where we go right from raw material or API to finished product.

In Australia, we made steady progress and we had a good quarter of growth, I think that as we have mentioned earlier this was in the phase of PBS cuts. We have taken several initiatives

successfully and our focus on distribution reach, new products and on supply chain efficiency is working and that is the reason we were able to drive revenue in Australia. Emerging markets is a mix of several different businesses. Overall, we had a 42% revenue growth in emerging markets. Africa brands business performed strongly. Our efforts in the first half to clean up the trade inventory and being bring hygiene back into the business has paid off quite well. Our newly acquired universal business is also tracking well and we have said it is a strategic asset for us in our future strategy for Africa and we are upgrading the universal facility further with investments.

Our India business was somewhat impacted by the events of the last quarter mainly relating with the demonetization around, uncertainty around GST timing and also bringing forward the budget timing. But overall the share of the India business in the overall scheme of things is small. The Africa generic business has dragged a bit and we do not consider it as a very defensible business in a highly volatile market. Also, compounded by adverse currency movements and as Arun will detail out later this is something that we intend to spin.

Institutional business delivered another quarter of steady performance. We benefited from favorable product mix in the institutional business. We continue to build up a pipeline of future products particularly as treatments regimens in diseases like HIV continued to evolve. We are also investing to upgrade as I said our Kenyan facility and we will target that as a base for supplies of institutional related tenders into Africa. API after a temporary plant closure last quarter, this was a quarter of normal operations. Our focus here really is to improve margins and pricing, I think the product mix is improving and instead of revenue growth we are much more focused around margin improvement. This has resulted in a healthy uptick in our margins in the API business. And again, we have corporate action related to the commodity part of the API business which we will detail out later.

And then to conclude, I think it is important to mention that we have significantly stepped up the investment in building our robust new product pipeline. So, our R&D investments year-on-year have more than double as compared to this same quarter last year and in fact even compared to the last quarter our R&D investment are up almost by 10 crores about 33% on the base of investment we have made last quarter. So, this will result in achieving our objective of building a healthy and a robust pipeline of new products. We are still on track with our objective of 10 to 12 filings in this half of the year and I think on this run rate over about 25 new products filings next fiscal.

So, that is the highlights on the results and over to you Arun.

**Arun Kumar:**

Thank you Shashank. So, coming to the corporate actions obviously we have been communicating about our intentions to do several actions that were required. Today's announcements are a culmination of our thought process of going through this over several conversations with our board and today we have finally decided on what we think is the best way forward with 3 significant structuring challenges addressed.

So, let's say first with the B2C Strides Shasun business which as we have indicated will be rebranded as Strides Pharma. When we sold Agila to Mylan we were almost a 100% B2B business.

Today as Shashank mentioned we have a run rate of close to \$550 to \$600 million of B2C business and that is a very critical business that we have built from scratch through a well thought of inorganic strategy and now we are pursuing an organic strategy lead by very solid R&D programs. It is taken us 3 years and significant amounts of capital and I think we are now poised for executing on that. In a B2C strategy obviously not that it is not relevant for other strategies, compliance integrity is clearly the need of the hour.

While we believed that the industry has kind of recovered from the regulatory challenges, we have had some bad news's of late again and I think we have still not solved for the issues of compliance integrity. As an industry we tend to have challenges or will have challenges in our supply chain integration and control. It is very important for a company like us which has got such a significant build out in a diversified regulated market to be on top of the compliance curve. While we have been very happy with all our results so far, we are only as good as our next inspections. So, we are very conscious about it and as we are expanding our B2C business we are getting into an environment where supply non-delivery is leading to significant penalties and reputation challenges for the organization. So, we have been carefully building a strategy which kind of ring fences B2C strategy over the last 2-3 years.

So, all our transactions have added value to what we have built in the B2C business. We have a very solid US business. We have a market leading position in Australia, we got retail control over the pharmacy chains in the Australian market and now we are backward integrating with solid R&D with 400 scientists both in API and in formulations. The company is moved away from on large commodity API led formulations to a more niche strategy. Niche API formulation strategy and approvals in the recent past is a direct reflection of that, including our second Para IV certification approval recently.

So, what we have achieved today is that we have retained all these strategic intent of all our transaction in a more organized set up with less manufacturing infrastructure, which allows our team to have larger over site on fewer facilities. So, rather than having many plants supporting reg market strategy we are consolidated our operations over 4 US FDA approved facilities, 3 R&D centers and that includes integrated API facilities with the new acquisition that we have announced of the Perrigo plant in Bombay. There we will make bulk of our APIs for our ANDA filings. Going forward we believe that all the building blocks for our B2C business to become a very significant player in the next 4 to 5 years has been achieved.

That leads us to our B2B business in our commodity API business. In the last quarter, we did announce that we have plans to bring that into a step downs sub. We further up the opportunity simply because we are contrarians. We think there is a need for a serious API player in the market today. Most large API players are consuming capacities for themselves. There is a market opportunity given the Indian pharma industry continues to be reliant on China if that is the subject of discussion and debate. I think there is an important play for a standalone API player who have both compliance and great cost control and they have got solid relations to work with the both the ethical and the generic players to create an opportunity. When we evaluated further and more from a promoter perspective before we have more and more questions about our own alignment with

our various interests in listed companies. We thought this would be a good opportunity for us to combine the sequent human API business which is sub scale yet niche and profitable with Strides Shasun API business. The combined businesses will have a potential run rate of between 1400 to 1500 crores making it a more important players in the next financial year or the first year of operations of as a combined entity. We think that is an important mile stone to achieve and that will help us grow that business even further.

And what is also does is to have different management teams, managing different businesses, shareholders riding the upsides and our fortunes or misfortunes in some cases in our various businesses that we run and operate. So, that is about the API business and we have also done a few other exit transactions. As articulated we are exiting the Africa generics manufacturing business with 6 manufacturing plants, as things change in the market with more and more business shifting to donor funding. So, we have decided to accept an offer from the existing management which runs that business to sell that business at a reasonable multiple including the possibility for us to continue to manufacture with them for several years, so that the in Africa for Africa strategy does not change for us as a company. I think we have done probably a little over 10 odd transactions. The one transaction which did not go well and luckily for us, it is a subscale transaction we had revenues of little over \$1 million in the Indian probiotic business and we realize that we could not integrate a nutraceuticals OTC business into a very prescription oriented sales and marketing force which obviously led to significant drop in revenues and we have decided to exit that business.

Coming to the last point is on the Biotech. We have been consistently communicating to our investor community since over 2 years that this is the high CAPEX, long gestation business. We believe that there will be value that will accrue there but it is too early for us to say when that could be achieved. We are still in the early face of product development but bio pharmaceuticals take a lot of time as all of you know to go to market. Our new plant will go commercial only in September, we lost about 2 years as we brought back our manufacturing plant from Malaysia to India due to the challenges we at that time faced in operating in Malaysia. We then brought in Jordanian family office which is got large interest in pharmaceuticals to come in as a strategic and financial partner holding 25% and we now recommend that this business be private. It has still not reached its maturity in terms of the listing opportunity and if we list today it will create a very low liquidity situation, which will also create a lot of complications. We do not see revenues coming up in the next 2 to 3 years, except probably some licensing income if that can come little earlier.

So, considering all of this, we have decided to cap the Strides investment at \$22 million and instead of the \$57 odd million commitment and that will ease up a lot of cash and it will also reduce the debt at the Strides level by about \$50 million, which allows the retained businesses at Strides to focus on value creation and execution excellence. So, we believe that the treasury investment that Strides will retain in Stelis will create disruptive and disproportionate value and we are known for having created value and distribute such values at an appropriate time. So, we will follow a similar kind of a strategy when that event happens. We do not see that happening before 2020 and this is a long gestation, high capex business. We like to state, I think there is a space, there is a need for an emerging player and we believe we would be that player in the next 4 to 5 years.

So, that is the high-level overview, ladies and gentlemen please accept my apologies for the data overload. But we do understand the constraints of time in this call, today we will be more than happy to take in individual calls as we always would do anytime next week and therefore I would request your questions to be short and probably as Abhishek should have said not more than 2 questions at this stage. Thank you.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Prakash Agarwal from Axis Capital. Please go ahead.

**Prakash Agarwal:** Sir, just trying to understand first on the P&L side of things for Q3, if I see your staff and SG&A that is comes off substantially Q-on-Q despite couple of acquisition which have been added, if you could explain what is really the case here?

**Badree Komandur:** So, there are two reasons for this. One is the CRAMS businesses consolidated up to the Q2 and second is that there were some one-time ex gratia payments which was done in Q2 which was not in Q3.

**Prakash Agarwal:** And in staff expense, what was the quantum sir?

**Badree Komandur:** The differences between the last quarters and the current quarter is about, I think it is about 300 bps. 16.5% is the staff cost as a percentage of sales this quarter and the last quarter was about 19.9%. CRAMS accounted for 250 bps and the balance is accounted by the one-time ex gratia payout in Q2.

**Prakash Agarwal:** So, we have seen a substantial improvement in the business just by exiting the CRAMS business?

**Badree Komandur:** Yes.

**Arun Kumar:** It was a low single digit EBITDA business and a very expensive operating base in New Castle.

**Prakash Agarwal:** So, this is the cost base we should built up at least for the next quarter before the whole restructuring is done, right?

**Badree Komandur:** Yes.

**Prakash Agarwal:** And sir, just trying to understand the debt portion, so we received about \$30 million from Mylan and we acquired couple of assets. So, what are the debt position, gross debt and net debt sir?

**Badree Komandur:** The net debt is about 2070 approximately here and there 1 or 2 crores. So, it is about 2070 pharma debt. The Biotech debt is about 230 odd crores. So, pharma debt for your purpose it is about 2070 crores.

**Prakash Agarwal:** Consol is 2300?

**Badree Komandur:** Yeah, consol is 2300 including Biotech.

- Prakash Agarwal:** Which is similar to the last quarter debt, sir?
- Badree Komandur:** Yes, that is correct.
- Prakash Agarwal:** And if you could help us explain the \$30 million where we have invested?
- Badree Komandur:** Some of this is reflected in cash and we had some CAPEX requirements in Singapore and for the biotech facility. As we have been communicating in the past that we are coming up with a FDF facility in Singapore plus a biotech facility in Bangalore. Some cash has also been used for the PediaCare acquisition and we also have some portions of the cash left which would be used for the B2C business.
- Prakash Agarwal:** No, so we had talking about net debt to net debt sir, 2300 to 2300 we are just trying to understand the \$30 million. You are saying Singapore CAPEX and the PediaCare acquisitions, so API Perrigo is still not close in this. So, we will see the impact next quarter?
- Badree Komandur:** That is true.
- Arun Kumar:** Yeah, you are right.
- Moderator:** Thank you. We have the next question from the line of Kartik Mehta from Deutsche Bank. Please go ahead.
- Kartik Mehta:** Just on the restructuring here, so with the API business which will be separated what is the debt that will go there and of the 1400 crores top line which you mentioned, so we can recollect Shasun API business for the low EBITDA margin business including the API that we have from sequent ...?
- Arun Kumar:** So, this potential merger will actually help us push close to about 400 crores to 450 crores of debt down in to the API business.
- Kartik Mehta:** So, the 2000 which you were just that will become 1600, right?
- Arun Kumar:** 1600 crores, yeah.
- Kartik Mehta:** And the profitability wise for that API business is there?
- Arun Kumar:** Kartik, as and all our deals, we have just today agreed to do the work related to this merger, right. We will obviously, our valuation reports and data all of that would be available as part of the documentation on our website when it happens. So, it is a little too early to comment on that question.
- Kartik Mehta:** So, just one thing Arun on the approvals which are required on the legal side, if you could help us with that? Do you require in this case competition commission or FTC approval?

- Arun Kumar:** Not from a product overlap because there are no products that overlap at all. But we have to evaluate from the point of a transaction value where we may have to get a CCI approval. So, we are still at very early stages and the process will take about 9 to 10 months.
- Kartik Mehta:** So, you are saying that from ... okay, I got it, but then ...
- Arun Kumar:** So, our effective date is from 1<sup>st</sup> of October
- Kartik Mehta:** But there will be some sales which will be happening in the US also, right. So, I am just curious to know on the FTC side that is why?
- Arun Kumar:** From the FTC side, no there would not be any FTC requirements at all.
- Moderator:** Thank you. We have the next question from the line of Sangam Iyer from Subhkam. Please go ahead.
- Sangam Iyer:** Sir, when we said that the API business is we are planning to consolidate into an entity the Perrigo facility will also go under that API facility or only the commodity component would go over there?
- Arun Kumar:** No, already mentioned that in our press release probably you did not get time to read it. The Perrigo facility will be the flagship manufacturing plant for the B2C business and those products will not be available for third parties to buy. So, the Perrigo plant is part of the formulations business and it is for captive use.
- Sangam Iyer:** And sir, in the Africa business that you are giving back to the generic facilities that you are returning and will entering into a long terms agreement for supply. So, in Africa what is the business model that we would be looking going forward, given that now that facilities would be belonging to the erstwhile owners we would be entering into an agreement for manufacturing only? So, marketing and branding would be part of our business model going forward in Africa?
- Shashank Sinha:** I can answer that, this is Shashank here. So, look as I mentioned during the results, In Africa there is the branded business and we are retaining the branded business. So, that is the sales force, the distribution, the brands, the marketing and the manufacturing of those products will all be with us. The generic business is what we are spinning off . The generic business is also currently supplied from one of our plants in India. The plan was to transfer some of those into the 6 plants dotted all over Africa. Until such time that they are able to transfer over those products to their plants in Namibia and Botswana etc we would have continued the supply from here. We will have an arrangement with these facilities to supply the generic into the market for a very long term period. But otherwise it is actually a very clean arrangement where the branded strategic business will remain in our control.
- Arun Kumar:** And just to add you asked what will remain in Africa, so we will have the branded business but we will also have the access markets. So, Universal is one of the two, WHO approved facilities in Africa outside of South Africa. We will expand a lot of manufacturing out of that plant. The donor



markets or access markets or the funded programs are more and more looking for made in Africa products, for which you need WHO approvals. Now although those plants are new they will not get WHO approvals. They were meeting local GMP requirement. So, Universal in Kenya which we retain is going to be a flagship operating plant and obviously because of Universal a lot of things have changed even our thinking because the plant is large and it is already a WHO approved plant. So, we have already started tech transferring products that have an access orientation because AID agencies are now happy to buy products in Africa provided they are manufactured in a WHO facilities. So, lot of our institutional business will also start shifting to be manufactured out of the Universal facility.

**Sangam Iyer:** And sir, finally just wanted to clarify for Gilenya that fingolimod we have received that fingolimod capsules we have received a TA right or it is final approval?

**Arun Kumar:** It is the TA.

**Moderator:** Thank you. We have the next question from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

**Nitin Agarwal:** Arun, once all of these restructuring our measures are completed over the next 6 months of thereabouts, directionally are there any other pieces that you need to strengthen or to reinforce or the business continue or are we have the entire core of your future business in place now?

**Arun Kumar:** Well, it is a tricky question. As far as the B2C business is concerned, I think I can safely say that we have all the significant pivots to grow. We will be looking at anything inorganic that make sense in our target markets of South Africa, Australia, but we do not see that opportunity occurring anytime soon. The balance sheet now has got only 1600 crores of debt and it can easily support enough transactions but at this time to answer specifically on your question, there is no need to add any more to the B2C business. On the B2B business considering our experiences of integrating some of these larger businesses, we want to first stay very focus on getting the synergies and the consolidation of the SeQuent and the Shasun API businesses together right, before we can even embark on anything. On Biotech we are in the growth phase. So, except for potential product in licensing we will not do anything. So, we think the next year would be more like the consolidation and growth year and I do not think you will see us in any big ticket transactions unless like I said a compelling transaction comes our way and we have the ability to do that transaction without obstructing the balance sheet.

**Nitin Agarwal:** And secondly on the US side, when we have not had too many approvals as probably we were expecting over the last quarter or so. So, how do we see this business over the next 12 to 15 months now?

**Arun Kumar:** So, Nitin when we sold Agila, we lost our R&D and obviously that is hurting. We had to rebuild our entire R&D set up. So, our problem really is with the files that are pending even prior to 2013 now Lovaza and products like that, our key products were filed during that period of pre-GDUFA. Post -GDUFA any file that we have filed not only meets the QBD standards, but we are able to get

approvals in 15 to 18 months. So, we are still very confident of that 15 to 20 product approvals that we are expecting in the next 12 months but we are obviously very disappointed with the Lovaza approval because we got our target approval action date for December and on 29<sup>th</sup> of December we had the FDA came up with new guidelines on that product. So, it is a little frustrating because we were in the last mile of an approval and obviously that is bothering. But I think in the next 3 to 4 months you will see a lot more important products getting approved including the one which we got an approval for yesterday was a very pleasing approval to be in the first wave of approvals for such an important product which kind of also validate the new strategy and the new thinking of that whole integrated API story and going forward. So, yeah I am firstly disappointed that we lost on Lovaza opportunity in December because that was a major program for us but I think, we have already been able to manage to meet the new regulatory requirements without doing any new clinical studies. So, we should be in a good situation to meet that revise 6 to 9 months' guideline to get an approval there. So, we are struggling with some of the pre-GDUFA files but post-GDUFA we are going good and filing momentum has started now Nitin. So, we should see a good approval flow coming in the next 12-15 months too. But overall, we are not changing our guidance of 15 to 20 product approvals in the next 12 months.

- Nitin Agarwal:** And if I can squeeze in one last one, the emerging market business after the divestment of the Africa generic piece, so do you see the challenges of scale for that business because we are small, reasonably small business across India as well as Africa?
- Arun Kumar:** What we sold is a \$20 million business. It is not even, it is not even 20% of our total emerging market. It just and if you look at it, it operates at a 5% EBITDA. So, it was 1.4 million business 5% or 6% EBITDA. So, we are being very clinical about profit maximization. So, that is what we are currently focusing on.
- Moderator:** Thank you. We have the next question from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.
- Chirag Dagli:** Sir, did you in your opening remarks say that margins in Australia have expanded?
- Arun Kumar:** No, I did not.
- Chirag Dagli:** So, where are margins in Australia versus where they were at the time of the acquisition?
- Arun Kumar:** So at the time of the acquisition the margins were high, but we had guided on PBS impacts at that time. So we are on the third PBS impact and hopefully almost at the bottom of the PBS impact. So, there is a significant drop but volume growth and market share increases have made up for no drop in absolute numbers of margins but obviously, percentage wise it has dropped. We do not report individual divisional margins. So, I cannot be very specific to your question.
- Chirag Dagli:** And sir, post this restructuring once this all the three pieces are consummated there will be no external API sales?

- Arun Kumar:** There will be external API sales in the commodity API business. There will be no external API sales for the integrated DMF filings that we are doing. Those products we do not sell to any third party.
- Chirag Dagli:** And like you said there will be 4 facilities of which one will be API and in Singapore you are still building, India and Europe which you already do have?
- Arun Kumar:** And we actually have 4 formulations plants and one API plant
- Chirag Dagli:** And sir, what was the R&D spent in 9 months if you can indicate absolute Rupees crores or what?
- Shashank Sinha:** It is 46 crores for the quarter.
- Chirag Dagli:** And for 9 months, sir?
- Arun Kumar:** 104.
- Chirag Dagli:** And this run rate you think will increase sir, as we go long?
- Arun Kumar:** We have now reached the capacity of at least 2 filings per month after almost 18 months of hard work. So, I think it will be fair to assume these numbers but it will not go beyond this.
- Chirag Dagli:** So, this run rate is now sort of stabilized in some sense probably next year extrapolating this number some marginal growth and that is where you sort of stabilize as an operation?
- Arun Kumar:** That is right.
- Chirag Dagli:** And this is last question if may squeeze in, \$500 million of B2C business that you indicated can you roughly split this into the several buckets that you have Australia, US, Europe?
- Arun Kumar:** No, a little more than 50% is regulated and the rest is the EM and institutional business.
- Chirag Dagli:** When you mean regulated, you mean Australia, US and Europe all of it put together is half of this?
- Arun Kumar:** Little more than half.
- Moderator:** Thank you. We have the next question from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.
- Sachin Kasera:** Just one question regarding the guidance that we had given after the second quarter numbers of 440 crores to 460 crores EBITDA for H2 in light of the restructuring we continued to remain with that guidance for the second half?
- Arun Kumar:** The restructuring has no impact for this; it is going to take us 6 to 9 months before we even get there. So the restructuring does not have an impact obviously on our guidance as we have qualified

it is subject to certain product approval in spite of Lovaza and not coming through at this time we do not see the need to revisit that. It is a stretch but we will do whatever we need to do to get that.

- Sachin Kasera:** So, as of now even without Lovaza we continued to maintain the guidance of 440 crores to 460 crores of EBITDA for H2 FY17
- Arun Kumar:** That is right.
- Moderator:** Thank you. We have the next question from the line of Kartik Mehta from Deutsche Bank. Please go ahead.
- Kartik Mehta:** On the India business, have you seen any traction or improvement further after you have acquired the assets of Ranbaxy in India and are there anything that you can share on the outlook that you have for the India business?
- Arun Kumar:** No, Kartik. As far as the India business is concerned, you obviously know that we acquired this, the Ranbaxy division from Sun and Sun had their own CNS division operating. So, it took us a little longer than we expected to integrate like we explained in the last quarter but we are now back to good state in terms of supply chain and getting all the products back to market and it is growing. So, it is very early days but I think the initial challenge is for us to get this business back to peak revenue of around 60 crores and when it was sold to us was about 35crores to 40 crores. So, our first goal is to get to that 60 crores which I think in the next financial year we should be there.
- Shashank Sinha:** Just to add Kartik. So, from a business perspective what we have done so far apart from integration is build out a national distribution network and that takes time but we have gone into the market, we have got full field force, we got distributors in every market. I think the product portfolio is now going to benefit from the distribution expansion and I think we will be back to the level of about 60 crores - 65 crores in the next 12 months.
- Kartik Mehta:** Second question is in case of Australia we keep hearing from newspaper reports that you are looking to add on to your existing skill which is also fairly large there. So, if you have to look 3-5 years down the line where would you think you should be in Australia and to reach there is there anything that you need to acquire there in terms of any more frontend assets or anything else that would be very helpful?
- Arun Kumar:** Kartik we also read the same newspapers, so apart from that I really cannot make any comments. But for us the diversity of our business is what we think is the uniqueness of our business model and Australia is a key market for us. It is a hard market to enter and you know there is no significant Indian player who even got sales there. The four top generic companies have close to 90% of the total pharmaceutical market and we are very happy to be counted in amongst one of them. It is a market where it is very hard to enter, so obviously where you have a leadership position you obviously would like to consolidate and improve it and anything which does not have a PBS oversight, relates to branding, OTC, are the businesses that we keep on looking in a market like Australia. It is a market where assets are also hard to get because there are not any significant players. So, whenever there is an asset in the market for sale obviously then a lot of local names will crop up and so, will ours. But other than that, it is a market that we keep looking. We have done 3 transactions in the last one year. So, we got the frontend to manage the pharmacy and also the back end in terms of GP. So, I think for now we are good but would we look

at that market for more of course we will. Will we do inorganic in US, the answer is no. Will we do inorganic in UK or Europe, the answer is yes. So, we are very focused on building a diverse market, our US strategy is very R&D organic led and we have done well. We have grown the business to good size and a good margin profile. But Australia is a market that we will want to expand on our leaderships. So, that is where we are currently but at this time we do not really have any specific ideas, the targets that we are chasing.

**Kartik Mehta:**

So, over a 3 to 5 year business, I am just asking you for fairly longer term view? Where would you get that sort of delta in Australia? It will be I guess only from your EBITDA margin, right because you alone almost about 100% of the market. Is there anything that you would want to shift to India; is there anything that is very different that you would want to do, because in that market how would you want to look at it?

**Arun Kumar:**

Kartik, on the base business there are 2 elements that we focus. One is how do you improve your market share. So, what happens in our market share is that while we are front of line for more than 25% of all the pharmacies in Australia, we do not have about the 100 products in our portfolio for us to be a comprehensive and complete provider. So, when you have the control of the retail pharmacist you also need all the 250 products that a pharmacist needs to be the true preferred supplier. So, one thing is to have a preferred supplier status but if we do not have the product then there is no point. So, we are very rapidly filling this gap of this 100-odd products and this is through in licensing, our own R&D programs and partnering with other companies including Indian companies of very large size and scale because they are better off working with us. Second is, as we been constantly saying about half the IP that we own are not manufactured by us and we have rights to manufacture them. That will give us a significant margin arbitrage and that work is in progress and our first product has been approved only last week on that route, or we have got close to 60 products to do and that is another year, year and a half. So, in the next 2 years a combination of getting more retail store exclusivity and getting compliance improved at the **store** level and wider product range, an improved cost of goods because you are bringing products back to India will give us not only a leading position in the market place but will also give us a significant EBITDA uptick. So, we have probably about 6-9 months away when we can see actually EBITDA margin expanding and we believe that we will be one of the few companies in the Australian market to have the ability to do that. So, that is the combination of all of this will get us to a certain run rate which will be very significant. Our current run rate for Australia is close to about \$45 million of quarter. When we went into that market it was \$20 million to \$25 million. So, we have already grown fairly significantly in the last one year. But that is not enough because there are much larger opportunities for us to chase. But then being a pure play generic business is not all what we look, so we are building our OTC portfolio because we have access to the retail pharmacy. So, anything a pharmacist would want to buy in an Rx or OTC or functional food we would want that product and that range and our focus in Australia is multi-pronged. We are working very diligently around all of these elements.

**Moderator:**

Thank you. Ladies and gentlemen, we will now take the last question and close the question queue. The last question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

**Prakash Agarwal:** So, just trying to understand couple of comments made in the press release on Africa tender market, there has been a comment that there has been some delay in awarding or the specific countries tendering into this I think it refers to anti-malaria business, could you clarify and when do you expect the tender back?

**Arun Kumar:** So, the institutional business if you recall, Prakash, we guided that we are ahead of target even in our H1 and effectively with this quarter numbers we have almost done what we did the whole of last year, very close to those numbers. The anti-malarial tenders is the 2 year renewed tender and the new tender is not in place as yet. Tender it is expected in the February and nothing is going to happen till about April and therefore we think that this quarter you probably will have no malarial sales for the first time and it will be a very depressed institutional business. So, the more specific to your question, yes, it is more on the anti-malarial. I think the tendering authorities exhausted all the budgets, so we had a very robust 9 months, which effectively had malarial sales greater than all of the last 12 months. So, the allocation is already predetermined but I think just that the funding has been fully utilized and the new funding and the tender placement and the negotiations will go on until about March-April. So, we are not seeing any great uptick in the malarial business and obviously, it will be a very depressed institutional quarter although we are doing everything that is required to try and change that situation but it is unlikely.

**Shashank Sinha:** And Arun, just to add there, so the thing is that there were changes in the way that tenders are awarded. So, there were some significant policy changes because of which two things happened – the 2 year award of tender which was going to happen now actually we got extensions on that and then that timing has been pushed out. We actually were able to bring forward some of the supplies of the third quarter into or the fourth quarter into the third quarter. So, I think that there is that gap between the time that new tenders get awarded and Arun mentioned it will take 3 or 4 months before the new malaria tenders will get awarded. So, it is also a policy change happening there.

**Prakash Agarwal:** And sir, second question on the structure now when we see this all of the restructuring getting over. So, Strides Shasun remains the key parent and Strides Pharma would be a part of Strides Shasun and the Strides Shasun would have a minority stake in Stelis and what about the API sir? Would it be minority or how would be the holding?

**Arun Kumar:** I think you are going all over the place. Strides Shasun is going to be renamed as Strides Pharma. That is the existing core pharmaceutical business that we have. We are going back to our 1990 name we started with because Shasun is predominantly know as an API company, so since we are no more going to be a predominant API company we took off the name Shasun and we are reverting back to the Strides Pharma name. The API business will be merged between the Strides API business and the SeQuent API business subject to shareholder approvals and that will be a new company. Shareholders of Stride will get shares and so also SeQuent shareholders will get shares in that new company in a ratio to be determined by third party valuers and the independent committee of Directors. Promoters will not be voting for that resolution. Stelis will be a privately own company where Strides Pharma will have a significant minority as a treasury investment.

- Prakash Agarwal:** The only follow up is, in that API Company which is getting merged we will get shares. So, we would have the majority stake or the minority stake?
- Arun Kumar:** I wish I was the valuer. So, we wait for the valuation reports and I was just being corrected that, no Strides will not get any share it will be the shareholders of the Strides who will get shares.
- Prakash Agarwal:** So, one shareholder will get a separate shareholder of that API Company?
- Arun Kumar:** Correct, exactly.
- Prakash Agarwal:** And sir last question here on actually two parts to it. One is the Shasun there was a directorship given to the Shasun promoters, so that still remains?
- Arun Kumar:** It was not like give on anything. We want Directors and we got one of the Director ...
- Prakash Agarwal:** As the effect of the merger I meant?
- Arun Kumar:** So, I mean it is not like there was a deal that we have to have a Board of Directors. We are making several changes related to the new requirements of governance and high requirements of global governance and all of that. So, please await our announcements in the next quarter results around board and board structuring and all of that.
- Prakash Agarwal:** And lastly on the 60 products that you spoke about currently about 25 are under development, is that correct?
- Arun Kumar:** Which 60 products that you are referring to?
- Prakash Agarwal:** No, in just one of the earlier comments you spoke that we are working on 60 products in the US market?
- Arun Kumar:** Well I do not really recall having made that comment, I mean you can check the transcript but I do not remember having made that comment.
- Prakash Agarwal:** So, you have talked about (+20) filing every year from now and may be higher number next year, so we are working on more than 56-60 products is what I understand?
- Arun Kumar:** Yeah, we have to have at least little over 100 products to have that momentum of over 2 filings a month.
- Prakash Agarwal:** So, question was actually related to the comment that you made that we have the first integrated product Ranitidine, which in my view is also like a not very Ranitidine kind of commodity. So, you spoke about niches, so we maintained that these will be small, less competitive with the EBITDA of 3 to 5 million that you had articulated earlier, is that still in place?
- Arun Kumar:** That is right. Yeah.

**Prakash Agarwal:** And which would eventually lead to better margins Australia and US business put together to the line share of revenue and EBITDA?

**Arun Kumar:** Correct and that is reflecting in this quarter's numbers too.

**Moderator:** Thank you. I would now like to hand the floor back to the management for closing comments. Please go ahead.

**Arun Kumar:** Thank you everybody for participating in today's call, like I said earlier Shashank, Badree and I would be more happy along with Sandeep and Vikesh to receive any calls from you as you digest this overload of information we have provided today. And we look forward to your continued support and understanding as we build out this company to the next level. Thank you all. Have a good weekend.

**Moderator:** Thank you gentlemen. Ladies and gentlemen on behalf of Macquarie Securities and Strides Shasun, that concludes this conference call. Thank you for joining us and you may now disconnect your lines, thank you.

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