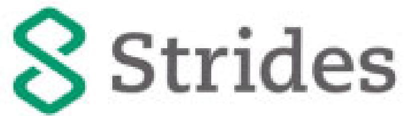

"Strides Pharma Science Limited Q4 FY2022 Earnings Conference Call"

May 25, 2022

MANAGEMENT: **1. MR. ARUN KUMAR** – FOUNDER, EXECUTIVE CHAIRPERSON & MANAGING DIRECTOR

2. MR. BADREE KOMANDUR – EXECUTIVE DIRECTOR - FINANCE & GROUP CFO

ANALYST: **MR. ABHISHEK SINGHAL**

Moderator: Ladies and gentlemen, good day and welcome to Strides Pharma Science Limited Q4 and FY2022 earnings conference call. As a remainder, 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 phone. Please note this conference is being recorded. I now hand the conference over to Mr. Abhishek Singhal. Thank you and over to you Sir!

Abhishek Singhal: A very good morning and thank you for joining us today for Stride's earnings call for the fourth quarter and full year ended financial year 2022. Today we have with us Arun Founder Executive Chairperson and Managing Director and Badree – Executive Director Finance & Group CFO to share the highlights of the business and financials for the quarter. I hope you have gone through the results release and the quarterly investor presentation, which have been uploaded on our website as well as the stock exchange. The transcript of this call will be available in a week's time on the company's website. Please note that today's discussion may be forward-looking in nature and must be viewed in relation to the risks pertaining to our business. After the end of this call, in case you have any further questions, please feel free to reach out the investor relation team. I now handover the call to Arun to make the opening comments.

Arun Kumar: Thank you Abhishek. Good morning, everybody and thank day for joining in early this is very unusual time for typical Stride's earnings call as we had to announce the results quite late yesterday given some of our directors were overseas. Thank you for the accommodation and look forward to this engagement. Before I start, let me start off saying that while it has been an extremely challenging year for Strides, we see green shoots. As a promoter and as the founder of the company, I take full responsibility for the events of the last year as regard the organization's performance. It is easy to rationalize on COVID, the business environment and other ailments, but it is critical to accept responsibility, fix it and move forward. I'm actually very delighted to say that I am happy to come back to work full-time at Strides and as a family we are fully committed to ensure that Strides gets back to its previous glory or past glory if I may and we are determined to institutionalize the organization to face challenges of the environments that we faced or any future environments that may come our way. I also give credit to the fact that while we have had difficult year, we had a set of extraordinary people staying fully invested with the company and its opportunities. With my coming back on April 7th, although I started getting involved into the business a little earlier, first of all I want to thank all the leaders who served the company in the last two to three years and have moved on for other interest or for the reason that the company has a revisited and recalibrated its strategy.

Having said that, I am very happy with the team that we now have in the organization and apart from my coming back I am also delighted to welcome Venkatesh who will now head our US business. Venkatesh until very recently was the CEO of Alkem's US business and Microlabs US business before he joined us. Being a seasoned professional with deep experience in the market, he will lead our sales and marketing activities in the US and US continues to be an important market irrespective of the business environment it currently operates in. The transaction with Endo in my view is extremely accretive to the organization. The integration of the Endo business, which actually technically integrates to us only from June 2022, is an important milestone to our refit and recalibration strategy. To have Venkat leading that business is an extremely important step that we have taken and I also wish to thank Terry who not only got us the transaction closed, but also integrated and is in the process of handing over the business in a seamless manner to Venkatesh and his team. Q4 nonetheless has been a much better performance especially coming back after two difficult quarters. We are seeing green shoots across all our businesses in spite of the doom and gloom, we have had some outstanding outcomes for example our US business has started to pick up. We are now confident of hitting $250 million guided. This is not going to be telescope towards H2 or it is going to be linear, which effectively means we will see growth pick up fairly quick and as early as in H1. We should get into a linear situation with our numbers in the US that would give us a lot of headways to build the business from thereon considering that we have over 150 products that come through the acquisition. We have a strong plan for a launch of 20 odd products per year starting now. All of these products are approved, so we are not dependent on any regulatory inspections or facility inspections, as these are approved investments as in approved products. More importantly in the US especially we are sitting on a significant inventory as the volumes dropped in the last year and with the volume pickup being quite significant, we are already seeing growth in volumes as early as this quarter, we believe this will improve our cash flows quite dramatically. This is an important step for us to bring our balance sheet size in order apart from the fact that we have guided that we will reduce our debt by 1000 Crores. We have requested and our partners in Australia have been very kind to bring forward our payments. We expect to receive these payments in H1 against December 31 as previously contracted. This is going to help our debt book quite a bit and also the fact that we have reset the businesses to focus on large businesses where we have complete control on cash flows. We would exit minuscule and tiny businesses, which do not move the needle for us for revenue or EBITDA that and free cash generation will significantly help us achieve our stretched target of reducing debt by a 1000 Crores and bring the company back to a very solid exit run rate of EBITDA exit run rate to be under three times EBITDA. This is the task that we have set for ourselves. We are very confident of achieving it. This will always also be aided by strong performance in other markets outside of the US. We reported in Q4 our highest quarter in the other regulated markets with strong pickup coming in post-COVID in the last

two quarters, and we believe that we will see a similar pickup in the US operations in the coming quarters. The emerging markets continue to grow. Of course, it is subscale but it helps us in our manufacturing under recoveries and we will continue to focus on that business and build from where we are in terms of top-line growth. The margin flow through is not very significant, but the absorption is very, very important for us. We have a series of cost improvement programs that includes very significant re-look at our cost structures, reducing the complex natures of our international businesses, reducing the number of subsidiaries, operating companies more in matrix and sometimes in a functional leadership manner, reducing cost consequently and we expect our cost improvement programs will enable us to get market leadership in several products and also reduce the cost structure quite significantly. Given our significant investments that we have and approvals that we have, we are reducing our R&D investments into the US as we do not see the need for significant R&D investments for the next three years, although we will keep our eyes open and continue to file critical products that we believe are important for our domains and new strategy, so that will continue, but we will not see 25 to 30 product filer anymore in the US and shift the focus to develop to launch our products that are already approved. What the transaction with Endo has done for us has clearly solved what used to be an acute only strategy, which worked very well for us pre-COVID but COVID clearly exposed the portfolio strategy gaps and now with the combined portfolio that we have from Endo and Strides, we do not have any more excuses on our narrowness of our portfolio and we strongly believe that the new domains in controlled substances, hormones, and nasal sprays will give Strides enough ammunition for future growth and also product launches. We have created significant working streams, clearly laid out scorecards for our leadership to execute across globally, so we are all working in sync to create what we call the One Strides and build a company of scale and size, which I am sure that you will see the results flowing through in the near term. I would not dwell too much on FY2022. Some of the key issues obviously were that a significant drop in the gross margins. For the first time we had a drop in revenues, although Q4 has started to look differently. We had a 16% increase in operating cost, employee, and other expenses. We obviously are sitting on significant inventory, which we are now already seeing normalization. We expect this inventory to be normalized to the extent that we need to have by the end of the year releasing cash, but also then starting on the under-recovery process in our plants considering that we are sitting on large inventories. We obviously are not filling in new stocks until the stocks are getting over, so this year it is going to be a very important year on razor sharp focus on execution, margin expansion and also bringing the balance sheet to size. The detailed deck has got individual slides on the US. For example, the US sales has moved from 38 to 44 million and if you are guiding the street for $250 million then obviously this needs to be closer to a $60 million run rate. We are very confident that we will get there very soon and that is mainly to do with the integration of the Chestnut Ridge operations in the US. We are expanding

significantly our other markets and in any markets that we are not present, we have significantly secured new partners and we are working on increasing our IP led B2B proper share model across Europe in markets that we do not want to operate ourselves in the front end and we have exited many markets like Canada and some parts of Europe where we cannot scale, but in the markets that we can scale we are putting all our energies to become a leading player with opex leverage and significant margin expansion. Our emerging markets especially our Brands Africa market was not impacted by COVID. We all know that COVID was not as severe in Africa especially in northern Africa where we operate and we continue to benefit from those in our margin expansions. Productivity of our sales reps, now numbering about 160 odd sales reps in French Africa and continuing to introduce new products will ensure that we will have an improved sales in those markets. There are a few markets in Africa that we operate that we are now revisiting if it fits into our overall strategy of scale that if you are not a top five player in a domain or a frontier market does that make sense for us to be in and we are reviewing those, but none of that is going to impact what would be an important year for sustained substantial growth in top line and EBITDA. We have a very detailed debt slide this time on how we propose to reduce our debt and when we open the house for questions, we will be more than happy to answer any specifics, but we also have detailed explanations on Stelis. We believe that Stelis has done extremely well as a pure player CDMO in its first year of operations. We have a revenue model, which we have articulated in our deck. We have two businesses mainly the CDMO business where bulk of our investments have been made and with the completion of our new site, we now have amongst the top 20 global capacities in microbial and mammalian manufacturing capability, but we are one of the few global players, which are fully integrated from cell line development to full finish. We are delighted to have on boarded six customers in our first year. In the first three months of our operations in this quarter, already we have added another six new customers. Market services agreements that we sign up with these customers are always linked to a contract for supplies and our supply book is now in the vicinity of 100 million for the first years of master service activities that we have done. Now just that it is understood well, market service agreement typically leads to a commercial supply agreement in about three years. We are approximately a year and year and a half away from breaking even that business. Outside the challenges of Sputnik and the sanctions on RDIF, which we are finding all kinds of solutions to resolve including taking the help of the Government of India to work with their good offices with the Russian Government to find solutions as we are sitting on inventory of a sale value of close to about $40 million, which is extremely critical for us to find a home and we are working for it. Luckily for us dating of our stocks are good. We still have 12 months of inventory so we do not see any risk for the next three to four months. The next two quarters for Stelis is extremely important as we find a solution for Sputnik, but more importantly our own COVID vaccine which is called AmbiVax, which is in-licensed from Akston Biosciences

has completed the full dosing of its phase three patients in India as some of you may know. We have a EUA status on this product issued by the Government of India and we have now applied for a booster study across all variants and this being the first or one of the fewer most stable vaccines which does not require cold chain. I mean it requires cold chain, but normal under 25 degrees makes AmbiVax a very unique vaccine and therefore we still believe that there are a lot of legs left in this program. Outside of that, the CDMO business will do well we expect the MFA contracts for this year will help us operationally break even and excessing investors have got an additional $65 odd million commitment of capital, which everybody is committed to invest. Consequently, we do not see any challenges for the funding of Stelis. Of course, this does not include the fact that there continues to be ambiguity around Sputnik, but we want the next three months to resolve for this and to also see how AmbiVax itself progresses because we are expecting to submit our phase three final clinical data to the Government of India by middle of June, so there is a lot of important milestones. Most interestingly, the facility we have three plants, two blocks were inspected by the EU Authorities and we are expecting formal approvals but we had great outcomes and consequently we are seeing a strong inbound of customers. Stelis' CDMO business is unique considering that we do not do small contracts. We do service contracts only with supplies, which makes us a very uniquely different biological CDMO compared to other players in the country and with the size and scale of what we have achieved, I am extremely confident that this will be an important pivot for Strides. We have also announced at Stelis two significant announcements with regard on the business development. We have a stellar team in house as work class in the last two years building out this business, but as we as we build, as we grow global, I am delighted to invite to welcome Frank and Dr. Axel both veterans in the biotech CDMO business development activities having more than 25 years of experience respectively both in Europe and in the US and with deep connects to big pharma, so I am quite excited about the opportunities around Stelis. I know that there would be questions on what are our plans for Stelis. We have put all our plans for Stelis on hold till we find a solution for Sputnik till we hear about AmbiVax and we continue to see value to convert some of the major customers that we are expecting to convert in this year. We have been announced of the USFDA inspection that is a very critical milestone, so in the next update I think we will have lot more news about two or three elements, which are still ambiguous at Stelis but we are right on top of matters and we are very excited about our investments in Stelis and we look forward to address any specific questions. I must also apologize that most of you may not have had time to read through our very detailed explanations including our slides on extraordinary items and we know that it is a busy day for many of you, so we will be more than happy to take calls from any individual investors or analysts who may want to ask us questions and please write to us or to Abhishek and we will be happy to address and we now are happy to take any questions that you may have.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Tushar Manudhane from Motilal Oswal. Please go ahead.

Tushar Manudhane: Thanks a lot for the opportunity and the elaborate explanation on improving the performance going forward, so just would like to understand on the US front like the Endo portfolio would have similar gross margins as the Strides portfolio in first place.

Arun Kumar: Yes, that is a fair estimate.

Tushar Manudhane: Secondly even on Strides side we had good number of products, which were already approved, could you just explain any reasons for not able to launch in the past and then what gives you the confidence that they would be still very profitable going forward as we launch in the coming years.

Arun Kumar: Tushar, out of the 200 or 150 odd **ANDA** that are not launched more than 100 of them came through the several inorganic transactions, small ones we did earlier and now with Endo. Many of them needed significant improvements in terms of cost, which means vendor changes, some significant changes mean that the past approvals from the FDA can go up to about six to eight months of work from our side and six months of approval time. We have now received several approvals and we continue to receive several approvals of key products on a regular basis and that is why we are now committing to launch at least 20 products from the current 55 to 60 odd products that are launched. We should be able to take that more than 20 per year, but 20 is the minimum.

Tushar Manudhane: Given that there has been good amount of price reception, I mean that is what we hear from the peers, so on our existing portfolio and even on Endo portfolio what kind of price erosion we would have experienced?

Arun Kumar: In FY2022, the price drop was very significant. You already know that for the fact that our gross margins have dropped by 10%. The drops have been in some cases as high as 30% to 35% in some cases as low as 10%, but what we are seeing is not across the platform, across some products, especially in our portfolio especially in **acute portfolio** we are seeing price higher by people who disrupted the market now no more operating after having got rid of their inventory because it does not make sense to play at those prices, so we are seeing rebids. We are bidding at higher prices. We are winning businesses and we are growing our base business. Our value deflated; we had a $50 million revenue deflation. We are now very confident of getting back the base revenue this year itself and then add it with the Endo portfolio and that is what makes our 250 million quite feasible, so we are not seeing more deflation on our portfolio because if we are seeing we are obviously not winning or bidding for them because it does not make sense, but overall given that we have the luxury of so

many un-launched products and with the fact that we started the cost improvement programs probably two years ago, we are very close and we are getting some very nice approvals as we speak. They are small but they are very nice and niche and we will see some more in the next couple of months. We believe that the margin uptick will come on the 250 million. I do not see a drop in margins from where we are, but it will not be across the board that we will be able to improve the margins and it is going to take us some time before we get back to our historical 60% gross margin. I mean to be fair US gross margin of 70% and now it is about 60% so getting back to 70% is a long haul and I think somewhere between 60 and 65 we should settle in the US and then kind of recoup at least 3% or 4% of the global gross margins that we have lost in FY2022, and I am quite confident about getting that.

Tushar Manudhane: Understood Sir and going little below the gross margin you have elaborated on good 300 bps improvement in the logistics cost if you could elaborate and this could happen over what period of time?

Arun Kumar: Last year because of the supply chain disruptions especially with input material either we were sitting on too much of inventory which means you are paying for very expensive warehousing costs in the front end and these are not cheap because you pay by the week by pallet, so normalizing that when you are not shipping new goods and getting pallets out of UPS and our warehouses that obviously will reduce our cost, but more importantly with very stringent focus on our AOP or annual operating plan which gets constant updates, we are now producing only to demand and not to estimates because we have a lot of inventory we do not really have to rush anything by air so from end of September except for extraordinary opportunities that adds to our $250 million uptick, we do not see the need to send any goods per air, sea fares have gone up from an average of $6000 to now $25,000 per container and containers are not available for the US as you would have probably heard from many other peer groups. The fact that we are able to take off even more expensive freight cost from air into sea will reduce the cost and most of the cost reduction would come from front-end warehouse reduction cost.

Tushar Manudhane: Got it Sir so considering the improvement in the sales and the reduction in the cost and we are currently at about 5% EBITDA margin as we ended FY2022 in fourth quarter, what kind of EBITDA margin can we think of let us say in FY2023.

Arun Kumar: I cannot guide you for a percentage margin. Our focus is to focus on revenue growth. Revenue growth will get back our volumes and not necessarily only from the US from all markets that will ensure that our capacity utilization in our plants will improve leading to lesser under recovery, which is important. If you go to our debt book you will see that we expect to accept at least 150 Crores of EBITDA for us to be under three times debt to

EBITDA after reducing 1000 Crores of debt, so I think our focus this year is about solving for inventory, improving our cash flows, reducing our balance sheet and to improve growth and when all of these inefficiencies that have been inbuilt in the business because of COVID or whatever we want to say will normalize to what we predict.

The idea is that by the end of the year we should be between 16% and 20% range if that addresses your question but you would see growth Q and Q from here. We are done with the bottoming out the business. We are seeing growth coming back and we are excited about the opportunity Chestnut Ridge brings and some of parts we are confident to get there, but I cannot give you an exact finite number. The focus this year is focus on growth, improve capacity utilization, reduce inventory, improve free cash, get out of few businesses that do not make any strategic or value sense in the near term and yet grow the business from where we are. All of this will lead to significant improvements to the overall business and you should be asking us percentages more closer to H2 and closer to the end of the year.

Tushar Manudhane: Just on this 450 Crores debt reduction that could be largely from the internal accruals because the kind of margin trajectory, which we are kind of building from the point where we are today so just to understand that trajectory.

Arun Kumar: Absolutely so free cash generation, we are sitting on inventory which is being exhausted this year and I think that when I look at exits of minor P&L. We are not talking of anything more than about 100 or 150 Crores in that range, so it is nothing significant. It is just that we want to focus on the bigger outcomes, but otherwise even if we do not do any of that we are confident of free cash generation to that extent.

Tushar Manudhane: Alright thanks.

Moderator: The next question is from the line of Vinay Bafna from ICICI Securities. Please go ahead.

Vinay Bafna: Thank you for the opportunity and good morning, everyone. I have a couple of questions. My line was a bit patchy at the start so I just want to clarify. we are assuming $250 million annual sale for the US business next year and you highlighted during your statement that it will be linear, so we are assuming a $60 odd million quarter run rate, which is approximately 35% sequential growth. I understand it might not be entirely in Q1, however just want to understand how much of it will be contributed by the Endo and considering our plant at Puducherry is still under regulatory concern, what is the dependency on the plant as of now?

Arun Kumar: Well, our Puducherry dependency is zero because we have site change. I mean we have developed almost all products from other sites and they are not material at all. To launch any approved product, the OAI in Puducherry has got no impact. You can launch a product from a site if the product is already approved right, so we do not have a problem with that so Puducherry is really not a challenge. It will be hard for me to give you specifics of how much is from Chestnut and how much is coming from India, but I can give you an indication that Chestnut Ridge will add so remember we take charge only in June, although we are starting to consolidate some of the businesses. We expect Chestnut Ridge to have an exit run rate of about $25 million a quarter in this year to our top line, but I cannot give you the quarterly outcomes on Chestnut Ridge.

Vinay Bafna: That is very helpful Sir. If I understand correctly then at least at the initial part of the first half is going to be driven by our internal growth.

Arun Kumar: We do have Vinay, some Chestnut Ridge products that we took charge as soon as the deal was announced, so there is a certain amount of value but the bigger product launches are happening as we speak, so you should watch Q1 and Q2 for launches out of Chestnut Ridge.

Vinay Bafna: Okay got it. That is very helpful. Secondly, we have said that we have gotten an upfront payment from our partners in Australia. Since it was a payout which you are expecting several years later does it impact our agreement for those steady sales, which we do over there and how much of the payment is left to reap from there.

Arun Kumar: First of all, it is not several years it is only a few months. The payment was due on 31st December 2022. We should have the funds in our bank in H1 so it is a few months in advance, six to seven months so that is what is important, it may be five to six months if I may and our contract was supplying to Arrotex is for 10 years, so we do not have any challenges on that. In fact, our business will grow from where we are.

Vinay Bafna: Do we have any more payment left on their side for this agreement or is this the last one?

Arun Kumar: This is the last payment.

Vinay Bafna: Okay got it. Last bit is you did highlight a bit on the logistic cost to the previous participant, but what we understand is that it was a significant jump during the quarter and you also highlighted how the air freights have gone high. I am sure that you have taken up several measures and you were highlighting how you want to reduce it but considering how the situation is and what the peers are saying no one is really talking about these costs going down. You want to highlight anything very specific wherein we are trying to save on costs.

Arun Kumar: Yes, like I said a large part of our logistics costs include our front-end warehousing cost so if you are sitting on inventory, which you sell out over six months then you are sitting on too many pallet stations that you pay too much of rentals on a weekly basis correct, so if you are not loading new pallet stations because you are not producing until the stock is resolved. Your logistics cost automatically comes down in our case, so it is not a peer-to-peer comparison. The fact that our volumes dropped last year by more than half, but our AOP or the production was for almost all the annual operating plan and that is how this business works because if you do not have inventory in the front end then you will not win business. You cannot win business unless you have stock in hand so considering that we have enough inventory for at least three to four months compared to the average two months and that normalization itself will reduce our logistics cost. In effect to sell the same dollars or more we will be shipping maybe 40% to 50% containers less than what we shipped in a bad year, so it is just a normalization. It is nothing to do with we getting any better prices than anybody else is getting with container freights.

Vinay Bafna: Understood but then I have actually two sub questions to it also; they will be the last of them. First part is that since we are sitting on such high inventory and we are wanting to liquidate them as well considering obviously there will be shelf-life issue as well with that, we are still assuming a growth on our base portfolio largely because of the volume driven, so is not it a bit contradictory at least maybe you can help me understand that we are trying to push more volumes but we are not expecting.

Arun Kumar: Now I am not pushing anymore volumes. During COVID times…

Vinay Bafna: Even if the demand is coming in. It will be at a cost of price, unless that it is…

Arun Kumar: No, it is not coming at a cost of price. In the **acute therapy**, the number of players continue to be few, in which what Strides flourished its strategy, so in the acute whoever dump the product is no more in the market in fact that market has become more attractive for us as a number of players have probably even reduced further. The volumes have started coming back with prescriptions coming back, which effectively means that we have not lost market share at all, so it is just that our market share let us say on ibuprofen was 28% or 30% for many years. It has not changed since COVID, but if the volumes move up by 500 million units so your 28% share also moves up by 500 million units so it is nothing to do with us selling at a cheaper price that is not what we do.

Vinay Bafna: Got it. So it is that our product baskets are benefiting in situations, which is improving at the macro level, which is fair enough got it. That is all from my side. Thank you Sir.

Moderator: The next question from the line of Gautam Bahal from Mauryan Capital. Please go ahead.

Gautam Bahal: Hi Arun thank you for taking my questions and for the detailed presentation as well, a couple of them. I am just trying to make sense of slide 16 that you guys posted last night. Would I be right in interpreting this as in Q4 you had 77 Crores of exceptionals to your EBITDA so you would pass 46 to 77 to get to 123. Would that be right? Slide number 16 in PPT non-operational items slide, I am trying to interpret that would that be right that in Q4 you had 77 Crores of exceptionals which will not be repeated going forward.

Badree Komandur: That is correct. These are exceptional items

Gautam Bahal: To interpret the Q4 number you just add the 77 Crores to the 46 Crores of reported EBITDA, adjusted per EBITDA.

Badree Komandur: What happens is see the company has got an accounting policy that traditionally in the last many years they have been reporting all these line items in exceptions and whenever there is a product recall it is treated as exceptional and it is consistent with the past practice and this is a one-time nature predominantly.

Gautam Bahal: Just trying to understand the 46 Crores that you have printed as your consolidated EBITDA.

Arun Kumar: It does not have any adjustments.

Gautam Bahal: I am just trying to get to the sense that if you add 46 to 77 that already implies a 14% margin is that the right way to think about it or not?

Arun Kumar: No.

Gautam Bahal: Okay, maybe I will reach out offline on that one. The next question Arun is the 1000 Crores debt repayment that you have outlined, does that include anything to do with Stelis secondary sales at all?

Arun Kumar: No.

Gautam Bahal: Okay good to know.

Arun Kumar: We will have no debt.

Gautam Bahal: I guess you have implied this already, but when you say 3x debt to EBITDA that implies a 650 Crores EBITDA would that be right in FY2023.

Arun Kumar: Run rate.

Gautam Bahal: Run rate in the exit quarter or something I guess?

Arun Kumar: Yes we are pushing to be better, but that is the target.

Gautam Bahal: Okay and that also implies around 16-17% EBITDA margin run rate.

Arun Kumar: Which is what I was alluding to earlier question from Tushar.

Gautam Bahal: Arun, given that we are almost two thirds through Q1 already are we sort of trending towards these better numbers? are we trending towards 60 million quarterly run rate in the US already or not yet?

Arun Kumar: Our headline says guides for an encouraging FY2023 outlook, which effectively means you are right if you are very close to June, we probably know what we are telling you and if we are headlining our US sales to be near linear then the answer to both your questions is yes.

Gautam Bahal: Last one from my side, I mean there is a lot of moving parts on the top line and on the cost line right, where does the business settle out in a couple of years or three years from now Arun.

Arun Kumar: These lines moving for everybody in the industry. I mean all these lines keep moving what exactly is your question?

Gautam Bahal: My question is where does it settle out in two or three years in a normalized basis? Do we ever see a 20% margin again on this business what is your thought?

Arun Kumar: Absolutely. We do not see any reason why we would not be there and that is because of the diversity of the business. All the emphasis of the people who look at us is for the US as is the case. Please look at our other regulated markets business how quickly it is growing, how rapidly it grows, it does not have the SGNA and costs associated to US, so while you may run a lower gross margin the flow through margins EBITDA is stronger and you will see lumpiness from here on because we are adding several new markets, but the base is a very solid base and I would not hesitate to say that we are now amongst the top 10 players in Europe in other regulated markets out of the country. We want to focus on that market. We have got lots of opportunities and product approvals coming our way, but it does not get too much attention, but that is where our focus is because it is a massive market, it has been massive consolidation of massive players in Europe. The big players are hurting for portfolio supply chain and we are partnering with them on profit shares and no contract manufacturing activities and yes, we are seeing an uptick in our business and you will see more and more of that in the next two to three years. Mirroring US the other big markets in

three to four years is a goal for the company and that is what is going to make the opex leverage very, very different and the EBITDA flow through being very different and we are very determined to get there with that strategy.

Gautam Bahal: Okay I appreciate the color, Arun. Just a final data point what is the sort of maintenance capex you should build in for this year approximately.

Arun Kumar: The good thing now is that when your capacity utilization is low as you have inventory and you do not have to use all your plants, we have the ability to move one product from one facility to another considering there are several FDA approved sites, so we are going to be very low on capex. Our typical capex will be about 100 odd Crores per year for the next two to three years. There is nothing major that will go into investments in terms of capex because all our plants are well equipped and have got large capacities and enough capacity for the next two to three years in terms of build out.

Gautam Bahal: I understood. Thank you Arun and I look forward to a better year.

Moderator: We will take the last question from the line Nitin Agarwal from DAM Capital Advisors. Please go ahead.

Nitin Agarwal: Hi thanks for taking my question. Arun on the US, you have talked about increased RFQ and all being coming in the market, what it is really implying, is it implying more volumes or are you seeing some improvement in the pricing also.

Arun Kumar: There are two things Nitin; one is if I am sitting on too much of inventory I can go and use an existing incumbent by giving a price and then how it works is that I get a rofr for to accept that price and in many cases we did not accept the price so we exited the market and once the inventory was exhausted you can serve a notice saying that I do not want to supply after 90 days or 180 days and then typically the customer then comes back to the market for a new vendor and that is what I mean so for about three to four months post-COVID and when US was really picking back nobody was getting any requests for quotes, but now it is back to normal. Of course, there is price intensity in some products but especially in our acute products, we are gaining back the contracts. We have many contracts that we have lost, we are winning back. They do not move the needle much in terms of revenues but they move the needle a lot in our gross margin uptick.

Nitin Agarwal: On the Chestnut portfolio, we have talked about how complex the presentations like hormones, by why when do you see some of these things begin to get commercialized for us those complex sorts of non OSD formulations?

Arun Kumar: You can look at our hormone launches in Q2. You can see our controlled substances coming back which are not being currently sold coming back in Q4, but there are several special products especially products like megestrol where we may be one of the only few players in the market. You would see us coming back in that product as early as this quarter. Now that we have complete control of the business starting in a couple of days rather a couple of weeks, you will see more uh launches coming out of Chestnut Ridge, so by H2, you would see the momentum of launches, but one of the reasons I am giving you more a linear guidance on US is because you are also giving Chestnut Ridge the attention it requires in terms of market share, so we are gaining market share in the products simply because when Endo is exiting the market, they obviously for the right reasons did not pick up new contracts, as they were not willing to take the liabilities of supply, but now that we have started bidding and winning new businesses that also adds.

Nitin Agarwal: Lastly on your debt, the question has been asked a few times, but on the guidance that implies ex- investments in **Stelis and CHC**, our net EBITDA number of 1800 Crores there about, net debt number of 1800 Crores by the end of year.

Arun Kumar: Net of investments or debt to EBITDA on the pharma will be under two by this year. Except run rate do not mistake me for that.

Nitin Agarwal: Okay. Thank you.

Moderator: Thank you. I now hand the conference over to the management for closing comments.

Arun Kumar: Thank you everybody for coming in this early and appreciate your time and questions. I am sure that many of you may have follow-up questions, please feel free to write to our investor desk or with Sandeep or Abhishek or even to me or Badree and we will be more than delighted to answer your questions. Have a great day ahead. Thank you.

Moderator: Thank you very much. On behalf of Strides Pharma Science Limited that concludes this conference. Thank you for joining us you may now disconnect your lines.

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