



“Strides Arcolab Results Earnings Conference Call”

October 24, 2011



**MODERATORS: MR. VINEET CHANDAK
MR. ARUN KUMAR
DR. T.S. RANGAN
MR. VENKAT IYER**

Moderator: Ladies and gentlemen, good evening and welcome to the Strides Arcolabs Q3 CY11 Results Earnings Conference hosted by IDFC Securities Limited. As a reminder, for the duration of this conference all participants' lines are in the listen-only mode. 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. Joining us on the call today are members of the senior management team of Strides Arcolabs. At this time, I would like to hand the conference over to Mr. Vineet Chandak of IDFC Securities. Thank you. And over to you, sir.

Vineet Chandak: Thank you, Good afternoon everyone and welcome to Strides Arcolabs Q3 CY11 post results conference call. On the call we have representing Strides Mr. Arun Kumar, Vice Chairman and Managing Director, and Dr. T.S. Rangan, Group CFO. I'll handover the call to them to take it forward. Please go ahead sir.

Arun Kumar: Thank you. Thank you so much. And thank you all for joining us on this call today. I'll be discussing our Q3 results., my name is Arun Kumar and I'm the Founder and Vice Chairman of Strides and joining me in the call today are my colleagues Venkat Iyer, who is our Executive Director and CEO of Agila. Specialties Injectable's Business and Dr. Rangan, who is our Group CFO.

I'm delighted to report a strong quarter for the groups operation and what we believe has been a very difficult quarter from a macroeconomic environment particularly in relation to the significant volatility in the currency. Just to bring this in context the key trading and relevant currencies like the Indian Rupee and the Brazilian Real have depreciated by about 10% and 17% respectively. And we also noticed that since the closing of the quarter, the volatility continues while the Indian rupee has further depreciated, there are some positive movements in the Brazilian Real. So we're living in the new environment which with significant and sudden changes, but we believe that in spite of this we've had a very strong and superior quarter.

Quarter sales at 780 crores represents an 81% increase over the same period in 2010. This is primarily due to strong performances in our Pharma Division. We had a significant increase in licensing income also from the pharma division which is a first time significant transaction we have done in that division and an inline results of our sterile injectables business. On a constant currency basis our EBITDA reported is 182 crores which is approximately 23% and a 106% growth over the same period of 2010. We have, of course, reported a lower EBITDA of 153 crores after adjusting the 30 crores of forex losses that we have incurred in our operating EBITDA this quarter.

Both top line growth and EBITDA growth exceeds our guidance and therefore we've had an opportunity to up our guidance today where we have now guided revenues in excess of

closer to 2,500 crores from the previously guided 2,200 crores. This is mainly led by an increase guidance of licensing income from 260 crores previously guided to closer to 400 plus crores, and this like I explain in my previous statement that it was mainly from our pharmaceutical division.

However, although we have increase significantly our top line guidance, and obviously the licensing income is from our pharma division where the EBITDA margins are not necessarily the same as our sterile's business, we have now comfortable in exceeding our upper end of our full year guidance at 480 crores. we haven't changed that number significantly upwards because we're still in a situation of not knowing exactly where we'll end up in the quarter with the currencies, with the fluctuations being so dramatic and so quick for us to react. So we like to just to reassure / reconfirm our guidance at 2,500 crores revenue growth increase, licensing income moving from 270 crores to 400 crores and EBITDA now confirming the upper range of the 480 plus guidance that we have provided earlier.

Now, as indicated in our previous earning calls we can now confirm that our new injectables steriles complex in Bangalore is now operating at almost full capacity utilization in our non-oncology business, and going on quarter we seem to have a very robust order book. Continued momentum of product approvals and a successful transfer of products from our constraint capacity facility in Bangalore to the new complexes in the outskirts of Bangalore obviously have had, for those of you who have seen our manufacturing capabilities will understand and appreciate that the quantum of available capacity in the new complex is also a significant that we now are in the unconstraint capacity regime.

Interestingly and from a timing perspective we've seen that in the last quarter, there has been an increased scarcity of drugs in the U.S. markets especially for sterile injectables and there is a lot of articles that have come in major global publications about us. And the industry continues to face regulatory challenge with us. As recently as two weeks ago we've had another major player announcing a significant regulatory impairment of its injectable facilities indicating additional shortages in the market. Now, added with product momentum, approvals momentum including in the oncology space we believe that Agila is in a unique position to encash on this shortage of drugs. And as a consequence we are now full blast with manufacturing.

Now obviously this is because of our continued commitment to invest in our capabilities and our people and processes and we delight into the fact that we have a very high level of regulatory compliance in an otherwise difficult environment.

Quickly touching base on our pharma business is that we are tracking ahead of guidance, we continue to have strong performances in our Australian business. This business has exceeded all our budget expectation simply because of increase demand in the markets. We believe that

the recent acquisition of Sigma where Aspen has brought in a lot of corrections in that market from a competitive landscape that has resulted in better performances of our Australian business. And that business is more tracking ahead of \$100 million for the company. Also our institutional business in the pharma division have settled down well. It all goes well that our strategy of having our API sources last quarter.

From a regulatory standpoint we have continuous momentum in product development and approvals, we have now moved to the regime of first to file and into the P4 regime, we see strides to be in backspace going forward, and obviously we've also focusing on expanding our regional geographical presence beyond the U.S. into newer territories like Canada and Europe.

And before I start, I open this conference to questions I'll request my colleague Rangan to give a quick overview on the forex impact on our operations as this has a bearing on our results which obviously would have been significantly different, although we have a very strong set of numbers, the forex impact has damped that a little bit, and it will be a good idea for Rangan to give you an overview before we open this call to questions. Thank you.

T.S. Rangan:

Thanks Arun. During the quarter, we have reported about 58 crores of forex loss, as against 15 crores of gains in Q211. This is in spite of reporting a very strong performance. The 58 crores, out of 58 crores Rs.30 crores impacted the EBITDA, wherein that close to about 25.4 crores in the specialties division and 4.3 crores in the pharma division. And if you come below the EBITDA Rs.28.30 crores, impact has also hit our PBT. This is on account of reinstatement of FCCB's and ECB launched. So overall, there will be impact of 58 crores and if you add that the back we would have crossed 100 crores. Like Arun rightly said that it was a fantastic quarter for us in spite of the huge Forex impact we could actually report 35% of growth on the fact. Even though the Forex has impacted us but the company believes in its prudence actually Forex management and during this time we have not resorted any interest rate swaps or any other derivative. We continue to implement simple forwards and cover based on the net exposure, in fact that also helps the company in terms of limiting its liability.

Arun Kumar:

Thank you and we are more than happy to take questions.

Moderator:

Thank you very much sir. We'll now begin the question-and-answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone. If you wish to remove yourself from the question queue, you may press "*" and "2". Participants are requested to use handsets while asking a question. Anyone who has a question, may press "*" and "1" at this time. Our first question is from the line of Kartik Mehta from Daiwa Capital Market. Please go ahead, sir.

Kartik Mehta:

Yeah hi, I just had some two three things to ask, first is more of the tax rate being so low in this quarter, is it a function of your adjustments that you would do on account of the Forex? And on your interest cost, you had guided to some percentage of your revenue while you have

increased your topline guidance also due to increasing interest rates and the movement in the rupee, how would that impact? And the third is what would be the total amount return notes. Thanks.

Arun Kumar: Yeah, one-by-one. The first one is the tax, as you are aware actually Forex impact is not considered for the computation of tax. But as in said that the reduction in tax is because of the A is that significant amount of income received in the tax-friendly zones. It's the part of the global taxation initiative management has taken. Of course for this quarter, the provision this less because the Forex has impacted the standalone profitability so that that's why there is no provision as far as the standalone is concerned. Second on the interest, even though the rate is about 40 they are like – the rate was 46 crores last year – sorry last quarter and this quarter is about 49 crores, the difference is mainly on account of reinstatement of FCCB's and ECB's. It is impacted, the MTM has impacted about 110 crores on the overall debt and that is for the quarter is more close to 3 crores. Having said that, we've guided for 7% and the interest on the revenue is only 6.5% for the quarter plus you should also look at that the EBITDA to interest cover is at 3.1 times, which is also the better than the last quarter. Third one about the debt, we have not availed any term loans that in Q3 of 2011.

Kartik Mehta: So, would the debt at the closing rate of dollar where would that be? I am just talking about the gross number or if you can use a net number, its fine?

Arun Kumar: That's in dollar terms remain the same like \$525 million as have been shown in all our presentations.

Kartik Mehta: Yes. And if I may, just one more, Arun about the licensing income, how should one actually look at it in terms of, I know it is something that you would not want to guide at but we are in the third quarter of most what we earned in the first two ones if total them, if I look at it?

Arun Kumar: Yeah, but all those businesses, as far as, much as we know, licensing income is a function of portfolio expansion and geographical territorial expansion. They have a fair amount of forecast capability and there is forecast reliability on our injectable business. They have had a very significant increase of licensing income mainly led through our pharmaceutical business. We do not spend too much R&D resources on time developing that business the way we do our injectable business. So you should look at this particular increase R&D as one off in your scheme of sense because we haven't changed technically the licensing revenue in our injectable business.

Kartik Mehta: Okay. And can you throw some light on the approvals that we had from actually Pfizer under the JV in terms of how many products do you plan to sell, because you had guided for about two products in the second half. You're actually way ahead of that now, so any update on that or if any thought...

- Arun Kumar:** You are talking pharma or steriles?
- Kartik Mehta:** Only the steriles?
- Arun Kumar:** So we have significant number of products, I mean I am not sure what you are talking about two products, we have now close to 10 products commercialized in the U.S. market.
- Kartik Mehta:** No, I am talking about oncology.
- Arun Kumar:** Yes, yeah, we've already commercialized the first product and very successfully, we still do not know what kind of market shares that we have, that's a product is still going through the pipe. And the second product that we got approvals, we are a little ahead of our anticipated approval time and we will launch that product this quarter as we did not have enough -- you know we didn't expect the approval to come ahead of our target launch date. So we would have all the three products, see all three on go products. The first one has already launched last quarter and the other two will be launched now, in this quarter.
- Kartik Mehta:** What should one assume as a normalized...
- Arun Kumar:** Karitik it's a difficult question to answer because of the momentum of products unless we stop finding and getting product approvals the way we are doing now, we can't normalize it. I mean, we basically believe that the momentum for significant growth in injectables have commenced about a year ago, mainly led by our licensing income in the first two years and that's shifting to an operating business,. So, I can't guide you in terms of what would be a good level of settlement in that business.
- Kartik Mehta:** Yes. So in the last one month we understand from Indian pharma companies in the onco space and you also referred to it that one of the major players in the US has some issues with their overall manufacturing. How would that, if you can put some number would that?
- Arun Kumar:** We can't put number, the moment we are trying to meet the unmet demand and we can't put a specific number. It's something which we believe is could be opportunistic and short-term and therefore we would not want to put our number. At the moment like I said our pharmaceutical complexes -- steriles complexes in Bangalore, known on qualities is now running almost 100% capacity of utilization from less than 10% in Q1.
- Kartik Mehta:** Okay, thank you.
- Arun Kumar:** Thanks Kartik.

- Moderator:** Our next question is from the line Kaushik Paul from Kotak Mutual Fund. Please go ahead.
- Kaushik Paul:** Yeah, hello Sir, congrats on good the set of numbers. You know, the quarter-on-quarter improvement in the sterile segment is something as investors we're tracking. Now, this quarter the licensing revenue till last quarter was majorly, if not all of it was mainly in steriles, this quarter it has changed. So, can you give us some idea, what would be the ex-licensing income, you know, either the number or maybe the growth rate is, in the sterile segment?
- Arun Kumar:** Yeah, we don't do license split between the two P&Ls, this has been the company's policy from the beginning. All I can say is that the licensing income guided for the year in sterile, we are on track to hit back 270 odd crores in sterile injectables as licensing income. So, if you look back our original guidance for injectables which was a 1000 crores is about 250 crores obviously, like you rightly said, almost everything coming from sterile.
- Kaushik Paul:** Right.
- Arun Kumar:** Our operating businesses has doubled almost as we very aggressively launched new products.
- Kaushik Paul:** Okay. And just to – if I record the numbers correctly, you said two more Onco products to be launched during the year for Pfizer?
- Arun Kumar:** Yeah, Q4.
- Kaushik Paul:** Q4. Okay, thanks. That's all from my side. Great and thanks.
- Moderator:** Our next question is from the line of Aishwarya Deepak from Alchemy Capital, please go ahead.
- Aishwarya Deepak:** Sir, couple of questions. First is, we have the debt fee payment due of 320 crores and 635 crores in this year and the next year, are we are going to fund back? My second question is, that now we have booked some very good amount of licensing income in this quarter, so should we be looking at selling of the pharma business or it is unlikely? My third question is, the shifting of the product which was happening from the old facility to the new facility, whether those things are over or still we are into the process of shifting of the products?
- Arun Kumar:** So, let's check one-by-one.
- Aishwarya Deepak:** Yeah.
- Arun Kumar:** The company is generating much stronger level of cash from operations and the combination of licensing income, so steady states, we don't anticipate any problem in meeting any of our

debt obligations, we've been telling this earlier, we continue to maintain that. That includes the FCCB because we do have the opportunity of licensing, probably a little more than \$5 odd billion of products have already been filed with the FDA which is not being licensed, so we have opportunities to do that next year if we need to do it. The Pharma business has had a one-off event in terms of licensing, it continuous to be a good business, but in relationship to our Agila Specialties business it is not a strategic.

So we look at all actions, what all opportunities that we may have in that division, we've been maintaining that for a long, long time and I continue to maintain that. But we are under no stress or pressure for timing on that activity and we look at that. Your question is on how many products we shifted, we have commenced significant number of product transfers, we have been very successful with that. We are currently getting approvals for products very quickly with the FDA because of the shortages in the market and some key projects, products which have got large capacity needs, they have already been approved and commercial production has commenced and also products has already reached the U.S. market. So that momentum is continuing and it's a process, when there is shortage the FDA gives an approval fairly, quickly and there isn't a shortage, we still get it within about 90 to 120 days. So we are planning our strategy of site changes to meet an unmet demand in the U.S. and also to keep up the capacities full and that is why I have mentioned in my opening that going out this quarter we are full on our non-oncology business completely out of India.

- Aishwarya Deepak:** And Sir, how about the shifting of the product from the older facility to the newer facility?
- Arun Kumar:** We have already got more than five or six products approved, shifted successfully, I did mention that just before I concluded that. So, it is already happening well, and to plan.
- Aishwarya Deepak:** And Sir, the last question is, is there any guidance for the next year?
- Arun Kumar:** No, not yet.
- Aishwarya Deepak:** Thank you, sir.
- Moderator:** Our next question is from the line Girish Bakhru from HSBC Securities, please go ahead.
- Girish Bakhru:** Yeah, hi, just firstly on the Forex loss above EBITDA, is it largely in the other expenses?
- Arun Kumar:** Yes.
- Girish Bakhru:** So, other expenses have essentially kind of, remains flat quarter-on-quarter, right?

Arun Kumar: Yeah, because in our injectable business predominantly our costs are incurred ahead of production. So while we get full up there is very little incremental cost that will be added towards our expenses.

Girish Bakhru: Okay, and Arun, thoughts on this big player like Hospira facing issues with these Rocky Mount facility, and Luitpold also has been kind of in and off out of the market. So, where do you see this whole issue is kind of going, the shortage is continuing or is it likely to continue, are these big players are about to enter, say in next one year or so?

Arun Kumar: If you read through the Rocky Mountain issue that Hospira, they have mentioned that they're going to spend close to \$230 odd million getting that facility back in the shape and it's going to take them time and they have officially announced shortages if I have read that transcript right. Various shortages are continuing to expand, it's about 77% of all shortage drugs in the U.S. are now injectables. And at the moment like I said we were expecting going on quarter to be 50%, 60% full, but we are now going 100% full on our new plan which is an extra of our older plan capacity. So, it reflects, I mean, unlike Pharma business, in injectables getting back a facility is quickly is not so easy because of the longer time, it takes to get your stability assurance back in shape. Yes, so there are major challenges. Also with Boehringer Ingelheim last quarter is also the same, so it's three big players out of the market, I mean, Hospira is very much of any active player and they are not out of the market, but definitely, that is an, a shortage created with these consequences.

Girish Bakhru: Right. So, on the number of launches, like, we had about 19 products coming in second half, so how much is now remaining?

Arun Kumar: Everything will be launched here, I mean, we are going out quarter like we guided I mean, in the last earnings call, there will be no product, that's approved which is not commercialized.

Girish Bakhru: Okay. Would it be like fair to like, you know, on certain big products like vancomycin to kind of assume that market share is around same – like we commented earlier 15%, 20% or has it significant lead changed overtime?

Arun Kumar: It's, it's 15%, 20% because most of these large products are contractual. The GPO contracts typically comes once every two to three years. So 50% of all the GPO contracts are currently in the process of being re-contracted and if you are successful, obviously those volumes will increase, but, given the shortage situation we guess that we will be successful with more products. But typically in our partnership with Pfizer I would say that if you look at our IMS data, we ranged between 15% and 20% on any products launch.

Girish Bakhru: Yeah, right. And lastly on Brazilian, if you can comment how was the quarter at Brazilian JV?

Arun Kumar: Yeah. So, Brazilian JV, while we had – we had told the investor community that we breakeven by the end of the year, we were hoping internally that we would have achieved that in Q3, that has been impacted because of the sharp drop in the Real. As a consequence we consciously withheld a few product sales in the marketplace as you had to reedit some pricing because the fall was of 17% to 18%.

So operationally we still have a \$2 odd million that has dropped significantly compared to previous quarters, but we also had a significant onetime expense of readying the facility for all of the USFDA inspection for penems. So that was a one-off cost, but we still are confident and not changing our view that before the end of this year we should be at break-even of the operations.

Girish Bakhru: Could you give the number like how much was the sales from Brazil and how much was just trading?

Arun Kumar: The total sales was 78 crores.

Girish Bakhru: 7?

Arun Kumar: 78 crores, yeah.

Girish Bakhru: Okay. 78 crores is total Brazilian operations, right?

Arun Kumar: Yeah, for the last quarter.

Girish Bakhru: Any timeline that you have for this inspection for penems?

Arun Kumar: We are just waiting that formal communication inspection is over.

Girish Bakhru: Alright.

Moderator: Ladies and gentlemen, in order to ensure that this management is able to address questions from all the participants in the conference please limit your questions to two per participants. Our next question is from the line of Hitesh Mahida from PUG Securities. Please go ahead sir.

Hitesh Mahida: Yeah, thanks for taking my question and congratulations for good set of numbers. First of all, the margins in the pharma business has gone up quite sharply, is it purely because of the license fee income which we have received?

Arun Kumar: Yes, it is.

Hitesh Mahida: In partners, this is the license fee income?

Arun Kumar: Sorry?

Hitesh Mahida: Essentially this is license fee income?

Arun Kumar: Sorry, I didn't understand, what was the question?

Hitesh Mahida: Hello?

Moderator: Hitesh, could you please repeat your question?

Hitesh Mahida: Was the media partners from which you have received the license fee income?

Arun Kumar: Due to confidentiality we are not in a position to disclose at this stage.

Moderator: Do you have any more questions Hitesh?

Hitesh Mahida: Yeah. One more query, what is – which are the key geographies which are driving the top line?

Arun Kumar: Mainly U.S., Brazil and Australia.

Hitesh Mahida: Brazil and Australia, all 20% plus total?

Arun Kumar: Yep.

Hitesh Mahida: That is our current market share as far as Vancomycin and Ergocalciferol sir?

Arun Kumar: Similar In the case of Vancomycin it's about 17 to 20% in that range depending upon the strength we played. And, yeah, it's about 17% to 20% of the -- we now have all the four strengths approved, so it's about 20% of the \$190 odd million market.

Hitesh Mahida: Okay. And Ergocalciferol sir?

Arun Kumar: Similar.

Hitesh Mahida: If I not, you would remain a much higher market share?

Arun Kumar: Yes.

- Moderator:** Our next question is from the line of Ashi Anand from Kotak India Focus Fund. Please go ahead.
- Ashi Anand:** Good afternoon, management. I just wanted to understand firstly how many products have we currently launched and are in the market and you kind of made a statement saying by the end of Q4, all products that are approved will be commercialized. Was I right by that, so we have 74 right now?
- Arun Kumar:** Yeah, but 74 includes our pharmaceutical products. Yeah.
- Ashi Ananda:** Sure.
- Arun kumar:** So, all speciality products is what we will be launching, because our pharma products, some of them are tentative approval and some of them are the approvals related to the test program at our institutional business. Some we have in the U.S. but needs an FDA approval.
- Ashi Anand:** So if you look just at the specialty kind of basket, the cereal basket, how many have you launched currently, how much should we expect to be launched by December?
- Arun Kumar:** We have launched this quarter and what our total approvals will find, it's about, 48 products are approved so far, cumulative approvals in steriles are 48 and going on the quarter all the 48 would have been introduced or shipped out of company.
- Ashi Anand:** Second question, just a clarification, can you mention that the non-oncology sterile facilities are currently fully utilized?
- Arun Kumar:** From this quarter, yes.
- Ashi Anand:** So now, If that is the case, these incremental non-oncology sterile approval that are coming through, how exactly are we going to launch them, I am just trying to understand, I cannot believe that we had a higher amount of capacities with us?
- Arun Kumar:** As a higher...
- Ashi Anand:** Are we going to have a capacity shortfall going forward as non-onco approvals come from?
- Arun Kumar:** I think you are getting confused. Our new capacity was approved only in July of 2011 by the FDA.
- Ashi Anand:** Sure.

- Arun Kumar:** Once this facility was approved, this facility was approved by GMP compliance not for product approvals. We had to transfer products from our old facility to the new facility which are since being completed for many key products.
- Ashi Anand:** Sure.
- Arun Kumar:** As a consequence we have been able to use and the capacity that we were underutilizing until last quarter to a situation that we are fully booked for this quarter onwards. So what is your question?
- Ashi Anand:** No sir, now that we fully book in this quarter see from 1Q FY12, any new non-oncology approvals that come through, are we going to have capacities to service that?
- Arun Kumar:** Yes.
- Ashi Anand:** Given that we don't have any booking in the quarter?
- Arun Kumar:** In a non-constrained capacity situation we have enough capacities to meet all products to be launched on approval.
- Ashi Anand:** So we are turning at 100% utilization on the new facility there, that's what we maintain order to understand?
- Arun Kumar:** Fully booked means our order book is full.
- T.S. Rangan:** Yes, it's not capacity.
- Arun Kumar:** So we have enough capacity to meet our order book. And order book is also depending upon the timings and the product mix and also when we get the product approved. Whereas until very recently we had lots of products approved but we couldn't commercialize, in spite of having a potential order book we never had capacity to commercialize, that shifted is what we are trying to say.
- Ashi Anand:** Okay, thanks, perfect. Okay, great. Perhaps I will take this offline and I am little confused about it yet, I will take it offline. Thank you.
- Moderator:** Our next question is from the line of Krishnan Kiran from ICICI Direct. Please go ahead sir.
- Krishnan Kiran:** Yeah, thanks for taking my question and congratulation on good set of number. One, any update on biosimilar front?

- Arun Kumar:** Still early stages, I mean, we have already indicated that we will have, we have already started commencing work on animals tox and two of our key mabs, but we have already guided the market when we made the acquisition and advised you that nothing will be commercially available till the end of 2013, that doesn't change.
- Krishnan Kiran:** Okay. Secondly, and what is our hedging strategy?
- Arun Kumar:** Yeah, we don't, like I mentioned when we talked about the ForEx during the initial introduction we do simple forwards, we do based on the net exposure and cover, other than that we don't do any hedging strategy.
- Krishnan Kiran:** Okay, okay, fine. Sir, just more clarity to understand the numbers better, we request you to do now, if possible breakup of licensing income so that just to understand how like-to-like base of change has grown Q-on-Q if possible?
- Arun Kumar:** Yeah, we will take your request into consideration and maybe we will see if we can do that going forward next year.
- Krishnan Kiran:** `And second, and more question, licensing income of 172 crores during the quarter and how much of, this would be translated at EBITDA level?
- Arun Kumar:** Because like -- this is what I am saying that, it depends upon -- it depends upon the business model, our licensing model. It will take a lower licensing income which had a higher operating EBITDA. If we get high licensing income, we had a lower EBITDA. So these are -- they are lumpy and that is why we are unable to get consistent numbers there and that is why we only book our licensing R&D revenue under one bucket of R&Ds. And we take off all our R&D spend out it. And if -- like this quarter we had a huge spent because we had some very significant filings and obviously it depends as in one quarter the costs would be very high. So it's very, very difficult to answer your question and that is why it doesn't have the consistency of the operating business. And that is the difficulty in giving separate pharma and steriles and separate operating EBITDA's because it's like hockey stick in a quarter and it is very subdued in another quarter.
- Moderator:** Krishnan do you have anymore questions? Our next question is from the line of Krishna Prasad from JM Financial. Please go ahead.
- Krishna Prasad:** Hi, thanks for taking my question. Sir, you mentioned that there is a 30 crore loss, Forex loss, which is included in the other expenditure, is that correct?
- Arun Kumar:** Yes.

- Krishna Prasad:** Now, what is that Forex loss in account off?
- Arun Kumar:** This is on account of the reinstatement of current assets and liabilities, receivables and payables.
- Krishna Prasad:** So this is basically the translational loss that you had?
- Arun Kumar:** Yes, right, this is impact on EBITDA.
- Krishna Prasad:** I am sorry?
- Arun Kumar:** Yeah, yeah correct. Your observation is right.
- Krishna Prasad:** Okay. And you also had about 29 crores of Forex loss below the EBITDA line, right?
- T.S. Rangan:** Yeah. Correct, because one is the current assets and liabilities, since it's a current assets it's moving into account as part of operating one, that one is the long-term assets and liabilities reinstatement.
- Krishna Prasad:** Okay. And did you also have any MTM losses on account of you know your hedges?
- T.S. Rangan:** That is what we see in account on in the reinstatement of – yeah, but other than that we don't – yeah, like I mentioned our hedging technique is limited to simple forwards.
- Krishna Prasad:** Okay. So you're saying that hedging losses is accounted to the other expenditure, right? That's what you're saying?
- T.S. Rangan:** Yeah.
- Krishna Prasad:** And the losses on the Foreign exchange loans are accounted as far as the 29 crore which is below the line.
- T.S. Rangan:** Yeah, exceptional lines.
- Krishna Prasad:** Okay, okay, got it. So just one more question, now how many products have you actually launched this steriles space in the U.S so far?.
- Arun Kumar:** Close to 20 – 25 products already launched. We did 19 until last quarter and six so 25 products already in the market and we have lot of new product launches this year.

Krishna Prasad: Okay, okay, thanks. Just one more thing if I look at the raw material cost for the quarter, is there anything which is run off here or any production issues because the number seems to be a bit high?

Arun Kumar: That is because we have now moved into the regime of **costs** . So our costs of R&D can be significant on – based on the products that we are filing. So we have FTF's this quarter, for which obviously had expenses would have an incurred the last quarter because we need a three month stability. So we are now – our portfolio maximization for the U.S is complete and we're now getting the first trial of finding regime. So it – that is again why to one of the other colleagues in this call, we said it's lumpy for us and very difficult to segregate because of none of our MT minus one products have been licensed for example.

Krishna Prasad: No, I am sorry I mean I am asking about the raw material costs?

Arun Kumar: Yeah raw material costs, they will also be reflected in our R&D costs, what they are trying to get.

Krishna Prasad: Okay, okay and of your eight filings for the current quarter, how many are in steriles and how many are FTFs?

Arun Kumar: All of them are steriles.

Krishna Prasad: All of them are steriles. And any FTF or Para IV with you?

Arun Kumar: Now FTFs are coming now, because we took batches last quarter, expenses were incurred. Filings will happen after stability.

Krishna Prasad: Okay, which is probably why you're lower-middle costs are higher for the current quarter and is that something you should expect going forward?

Arun Kumar: Yeah, we have a very robust FTFs strategy going forward for most injectable products if not all. So yes, but I think it will also reflect in potentially higher licensing income or higher operating income if you're not licensing them.

Krishna Prasad: Okay. But the institutional businesses yet to take off clearly, so we haven't actually started seeing the impact this quarter, right?

Arun Kumar: In fact, in fact if you heard my opening statement in this call, I said that the institutional business has settled and as a consequence of those changes. So we're now back on – full track on that business. And it's not a great – it's not a hugely profitable business but very cash flow friendly and it has improved dramatically as we move out those changes.

- Krishna Prasad:** Right, so which is why I try to understand because is that also impacting the raw material costs during the quarter?
- Arun Kumar:** Because the margins there are much lower.
- Krishna Prasad:** Sure, okay, okay. Thank you. Yeah.
- Arun Kumar:** Thank you.
- Moderator:** Our last question for today is from the line of Bhavin Shah from Dolat Capital, please go ahead.
- Bhavin Shah:** Thank you so much, made my way. Arun just a few questions, how has been Ascent Pharma's performance for this quarter?
- Arun Kumar:** For Ascent we are tracking a little over \$35 odd million per quarter now, \$32 or 35 million you see this in a minute.
- Bhavin Shah:** This all will play for the expectation for the full year, or should have been higher?
- Arun Kumar:** Yeah, it's about \$45 million sorry.
- Bhavin Shah:** \$45 million. Okay, just one line item about 18 odd crores which would be neutralized from your reserve for business restructuring, could you just give some more insight to that?
- T.S. Rangan:** Yeah, this is as per the scheme and it is the every quarter you will find this line item when we did the valuation, so these are essentially the depreciation on valuation effect, amortization of brands and also the some of the interest costs. So it's a routine one, it is as per this scheme.
- Bhavin Shah:** Should we consider as one off or part of the...
- T.S. Rangan:** It will recur.
- Bhavin Shah:** It will be recurring.
- T.S. Rangan:** Yeah, just sort of against the BRR as long as we have the scheme.
- Bhavin Shah:** Okay, thanks. What could be a possible recording pack number for the quarter?
- T.S. Rangan:** There is one more thing also this BRR is available with us till 2012.

- Bhavin Shah:** Okay.
- T.S. Rangan:** After that the BRR the result will be transferred to **reserves**.
- Bhavin Shah:** Okay, great. I have this query again, regarding pack number for the quarter what should it be looking like, I mean, what kind of figure should be considered?
- Arun Kumar::** For this quarter?
- Bhavin Shah:** For this quarter.
- Arun Kumar:** we can't give you a number.
- Bhavin Shah:** Okay, no problems. Thanks so much. Thanks sir.
- Moderator:** I would now like to hand the conference over to the management of Strides Arcolabs for their closing comments.
- Arun Kumar:** Thank you, all for taking time on today and going through our Q3 numbers. Like we said, we've had great interactions with investors at calls and outside of calls. And thank you for your time today and wish all of you a very happy Diwali. Thank you.
- Moderator:** On behalf of IDFC Securities, that concludes this conference. Thank you for joining us. You may now disconnect your lines.