"Strides Shasun Limited Q3FY16 Earnings Conference Call

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MODERATOR: **MR. ABHISHEK SINGHAL - MACQUARIE CAPITAL SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Strides Shasun Limited Q3FY16 Earnings Conference Call hosted by Macquarie Capital Securities India Private Limited. As a reminder, all participants' lines will be in the listen-only mode. 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 '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Singhal of Macquarie Capital Securities. Thank you, and over to you, sir.

Abhishek Singhal: Good Evening, All. Thanks for joining in on the Third Quarter Strides Shasun Earnings Call. We have with us senior management of Strides Shasun - Mr. Arun Kumar, Executive Vice Chairman and managing director and Mr. Badree Komandur the Group CFO on the call. I will first hand over the call to Arun to give an introductory statement and then post that we can open it up for a call. Over to you, Arun.

Arun Kumar: Thank you, Abhishek for hosting us. Good Evening, everybody who has joined in. We appreciate your time today. This is our first quarter where we have consolidated all the transactions that we were busy with last year as in the merger with Shasun and also the Arrow full quarter operations in Australia. Going by the guidance we provided last quarter where we moved to a new reporting format, let me take you through the four businesses that we operate which are regulated markets, emerging markets, Institutional business and Pharmaceutical Services and the Active Ingredients business as we call it the PSAI. But before that I must say that in spite of the volatility and the challenges that we have had including production stoppage at our Cuddalore facility in Tamil Nadu because of the rain, we did have a very strong performance this quarter; revenues at Rs.8547 million with EBITDA at Rs.1628 million came in nicely in terms of what we expected this business to deliver. I like to believe that we are a little ahead of our EBITDA expansion which has been brilliant. That is mainly coming from significant new market shares of our recently launched products in the US. Although the revenues may look a little lower compared to the range for H2, we reaffirm our H2 guidance. We are very comfortable with our order book in all our businesses and barring any unforeseen circumstances like we had with Chennai operations last quarter; we should be in a good situation to be in that guidance range in a very comfortable situation. So we are very happy with the way the business has been integrated. There have been two very significant transactions that we integrated well into the business and we are sharpening our strategy, our focus on creating what we think would be a very disruptive Version-2 and a very diversified business across geographies. We are happy with the progress that we are making in all of our businesses.

We had an EBITDA expansion quarter-on-quarter by about 300 basis points and revenues grew by 31%, EBITDA grew by 58%. This is in line with our focus of operating businesses which are attractive and those businesses which are not, we are working on the value chain to ensure that they become more profitable as we speak. Regulated markets obviously supported by the growth through the Arrow acquisition and also an improved business in the US grew over 100%. During the quarter regulated markets delivered revenues of Rs.3,186 million, that is over 100% growth. Our emerging markets was flat and this is more to do with our decisions about currency exposures, what kind of supply chain sluggishness we would want to manage given the fact that there has been volatility in that market especially in Africa, a little slow down in the Middle East mainly in Iraq, but generally it has been good from an operating standpoint. Revenues have not grown the way it should, but it is a business that has got all the right pivots for a strong near term growth.

Institutional business has had a stellar quarter; 29% growth over corresponding quarter, mainly led by a very strong Anti-Malarial business. We also have a very strong order book on the Anti-Malarial space for Q4. This I would like to believe is temporary given some of the supply chain disruptions in the system because of non-supplies from other companies and we are riding an upside. I hope and wish this would be more of a permanent nature, but it looks like the Institutional business will continue to deliver a strong performance in the near-term.

In the Pharmaceutical Services and Active Ingredients business, our primary focus has been about value addition and consuming as much as capacity for ourselves. All new DMF filings are only for captive consumption. Revenues have been flat and that has been our focus. We are not investing new capital around that business but focusing on how we improve our margins. Business has actually de-grown a bit by 3%, but it is definitely something that we are looking at integrating forward into our various businesses in the dosage form as we improve our margins. That is the revenue composition by division.

In the regulated markets, we had a full quarter of Arrow. The business has been integrated efficiently and is operating to its potential, as guided at the time when we acquired this business. We received two key product approvals in the US and I am delighted to say that we have got market shares on both. Especially on Carisoprodol where we are the only generic, although the market is small, we are gaining momentum in market share and pricing. Both of these obviously will lead to margin expansions going forward.

I spoke about the emerging markets business and there our focus is predominantly bringing rationality around our business in the emerging markets. We continue to invest in medical representatives in Africa, India and in Southeast Asia. We are very confident about where business will go in the near term. Our Institutional business is led obviously by the Anti-Malarial space. In terms of margins it has been a great quarter generally for the company. We have also received the Sovaldi Generic approval for India. We started selling in India now quite well. It is not as profitable as one would assume with all the price pressures on this product, but our Export business is tracking quite well and I am sure this will become an important product in the near-term.

Although we had only one FDA filing with our ANDAs we are still staying put with our guidance of around 10 filings. We would be in the lower end of the filing guidance and we have significant filings this quarter obviously with the new regulations of six month stability, we are very confident that most of these products will be filed within the year. We do expect some more approvals in the near-term mainly to come in the Creams and Ointment space and we think that there would be continued momentum in our US operations.

We obviously announced a couple of very exciting strategic transactions today both for the emerging markets and the regulated markets. Firstly, if I can talk a bit about the emerging markets, we received the CCI approvals on the two important transactions that we already announced, the brand acquisition from Sun Pharma which is now effectively integrated into the Strides system from 1st of February and the J&J products that we got permissions and integrated from 3rd of February. We will see a little bit of sales this quarter but going next quarter we will see more aggressive India story emerging.

Today's announced acquisition of a controlling stake in Universal Corporation which is one of the largest generic companies in East Africa and one of the only two WHO pre-qualified facilities in the Sub-Saharan Africa will accelerate our Institutional business. Donors are more and more keenly looking at facilities which are in Africa making for Africa. This being a WHO prequalified facility, we would be able to immediately transfer some of our Antiretrovirals and Anti-Malarial products for Africa to be made in Africa so that we get a larger share of donor funding. This is an important transaction for us. Universal Corporation is a fast growing company. It is strategic. We are not present in East Africa and this brings us the entire East African market opportunity to us and with our portfolio of products, our deep knowledge about the African market and our brand building capabilities, we believe that Universal will add significant value. Most importantly, the founders of Universal will continue to play a very significant role in management as has been with most of Strides investments where we partner with local players so that they create value together both for the company and for themselves. This transaction is subject to statutory approvals including the Competition Commission of Kenya and we expect therefore a closure only by Q1 of '17.

For our regulated markets, especially in Australia, we have a stated intent to become the leading player in the Generic space. Today's transaction involving Generic Partners where we have acquired a strategic stake in this virtual company based out of Melbourne. So what we have done here is that Generic Partners is a leading supplier to most of the generic companies including Arrow, but most importantly they have built a very strong pipeline of products and with this transaction we not only get an immediate access to over 47 commercialized marketing authorizations, but also about 18-odd products that we do not already have which will make us now from the third largest player potentially to be amongst if not the second largest player. What this also does is that because Aspen was not investing too much on the pipeline given its lack of focus in the Generic space, the Generic Partners portfolio will ensure that we will have Day-1 launches for most products going off patent in the next two years. That is because of the strong pipeline which is with the TGA for registration and approval.

Most importantly and very strategic for us is the continued leadership that we will embrace with this partnership of Sanjiv Puri who works out of Melbourne. He has built a very smart business over time and GP will end up becoming the engine for the pipeline not only for the Strides Australian operations but also for other markets where GP has portfolio like the UK, Canada and South Africa. Although this deal has been very focused on immediately back ending our portfolio and also increasing our market share, we believe that the leadership and the deep knowledge that Sanjiv brings to the table is a key reason why this deal makes it more attractive for us. The business will be run independently as we believe that the Australian generic industry has the ability to partner and Generic Partners will continue to lead that program for us. This is a transaction where we will take 51% stake while leaving Sanjiv to run the business the way he best knows. But we would also invest approximately $10 million to fund future R&D so that our momentum of pipeline will continue and will help us shorten the time to become the leading generic player in the important yet extremely difficult market for new players to operate. The business will add approximately $39 million of revenues and adjusted EBITDA of around 7 million. I must also caution that GP has had a track record of having spent significant amount of money in R&D and therefore minus the adjustments, the business probably does not make an operating profit but on a standalone sales and marketing operation, it does make the adjusted EBITDA of 7.1 million. We are excited with this transaction and we are very confident of increasing our market share as we fill in a significant part of our pipeline which was missing when we did this transaction.

Those are some of the key updates. We have also to give you a little update on our Biotech business where we have now successfully completed our first global pivotal clinical study for our first molecule with very encouraging results and we expect now the scale up studies to commence and should be ready for licensing this product in the next one year.

Separately, we have announced today the appointment of Shashank Sinha to be our new CEO. Shashank comes in with significant experience of running large P&Ls across the world and Shashank with his people leadership skills and deep customer facing knowledge will bring the leadership that we need as we move Strides from B2B player to B2C player.

I must apologize for this has been a fairly longish opening commentary but I am more than happy to take questions as they come. Thank you.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Chunky Shah of Credit Suisse. Please go ahead.

Chunky Shah: Sir, my questions are based on the Australia acquisition. Just wanted to understand what difference as you basically said that generic partners is already supplying to Arrow, it is already a supplier, so when you acquire other than the R&D engine that you provide in terms of the products, what difference will it make to Arrow as a player?

Arun Kumar: What it does, Chunky, is that Arrow has got multiple products in the market as we call "Marketing Authorizations." But about 40% of those Marketing Authorizations, we do not have manufacturing rights for that, but with the GP transaction, all MAs are fully owned by us, which means that it will be easier for us to get products manufactured internally within our own manufacturing system and will allow us to improve our margins and get synergies a lot quicker than previously planned.

Chunky Shah: So does GP then have its own manufacturing or the old plan of getting it to India will continue?

Arun Kumar: That is right. Only thing is that earlier in about 40% of our portfolio we did not own IP which means that we had to develop R&D and that would have taken us two years. Here in most of these products some of them GP have the IP, which means we can bring forward those products much quicker.

Chunky Shah: So I remember a number of 65% which you said that Arrow had its own IP. So now out of the 35% what proportion would be addressed by this acquisition?

Arun Kumar: About 15% more would be now coming through the GP portfolio, but more importantly we have a much cheaper source of procurement even for products that we do not own the MA. When we want the MA and the IP, we were buying products from Europe and other places. So bringing products into India was also while it is very important, this way we can continue buying the products from GP's suppliers in various parts of the world at a much lower cost.

Chunky Shah: In terms of the additional molecules, basically 18 is where we did not have the products though, will that be material or…?

Arun Kumar: They are important products, but more important than the 18 products that we did not have this transaction gives us access to almost every product that we need for Day-1 launch for this financial year. When Arrow was acquired, the Day-1 launches were not as good because the portfolio was not strong for new products but this covers that. So every product going off patent, every product that we think is interesting going off patent we will have Day-1 access.

Chunky Shah: So the amount of 10 million, so that would be like CAPEX into the entity or it will be like on a recurring basis?

Arun Kumar: No, it is a one-time payout, it is not a recurring pay. Obviously, it is a business requires for money we will find ways to fund it. But we do not think it will require more than this and there will be enough free cash from the business that will be generated to take care of future R&D growth once this 10 million is infused.

Chunky Shah: How many more products will that 10 million cover? Also, adjusted EBITDA that you mentioned, that will be after this 10 million expense?

Arun Kumar: This 10 million is basically the negative cash flow funding that is required to keep the momentum of generic players filing approximately 15-20 products a year. So effectively, what we are doing is we are shifting an R&D spend from Strides into GP with the ownership of the IP so that we still get the same number of products that we require without us doing the R&D ourselves here in Strides.

Chunky Shah: I also saw that you have set up a subsidiary in South Africa. Whether we will be using products from GP there or it is independent of that and what is our thought process about the South African market?

Arun Kumar: Chunky, one is obviously there are some significant products portfolios that GP will bring, but Strides recently acquired 65 dossiers in South Africa from a very large company. It was not a material transaction in terms of acquiring the dossiers, but we are in the process of converting these dossiers into India manufacturing. So that would become an important market in the near-term, but GP portfolio will kind of hasten that to.

Moderator: Thank you. The next question is from the line of Deep Master of Enam Holding. Please go ahead.

Deep Master: I just wanted to know if the Q3FY15 numbers also include Arrow?

Arun Kumar: Yes, it does.

Deep Master: If I can just understand this correctly, Arrow did not come with a big portfolio of filings, so that is what you are getting with GP Partners, now?

Arun Kumar: That is right. Arrow had interesting strong portfolio but the future portfolio is a little weak which is now being fixed with this GP front.

Deep Master: So, the existing base portfolio of Arrow, how much do you think you can grow it from here, any indicative terms?

Arun Kumar: We cannot give you guidance. The idea is to become #1. We have 20%, 21% market share. To be #1 we need to get to 30% market share. We think the GP portfolio will help us move to three percentage points in terms of market share by the end of the next financial year. That is important because in Australia it is more to do with range, reliability and pricing. So GP gives us the price arbitrage. We have a much larger range now and it just gives us more reliability in terms of our price points because we can get products manufactured quickly at lower cost manufacturing campus.

Deep Master: So in terms of the Australian market if I compare to the US market, would you be seeing similar sort of price erosion or does it not work like that, just in the base Arrow portfolio?

Arun Kumar: The Australian market is governed by the public benefit scheme completely, it is more like Canadian market. So there are two different types of markets. So it is really not relevant here.

Deep Master: So that means the Arrow business by itself can still grow in decent terms of volumes?

Arun Kumar: That is right. We are the second largest company in terms of range now with this transaction and probably the gap between #1, #2, #3 has narrowed significantly with this transaction.

Deep Master: Secondly, on the Institutional business, so we heard that the procurement itself is falling because of the reduction in the price of some of the raw materials and the prices of some of the Anti-Malarial Drugs. So are you seeing a similar trend?

Arun Kumar: Not in our case, because we are contracted on price and the prices have not been renegotiated, so we are still enjoying the prices that we were contracted at.

Deep Master: When does your contract come up for renewal?

Arun Kumar: The contract has been extended by a year.

Moderator: Thank you. The next question is from the line of Brijesh Kasera of Edelweiss. Please go ahead.

Brijesh Kasera: On your Australian acquisition, does GP have its own manufacturing facility or is it also manufacturing its marketing authorization from the European or other countries?

Arun Kumar: GP has no manufacturing facility. It is a virtual company. All it does is that it owns a lot of IP; it develops a lot of IP. So they produce and develop products and conduct clinical studies worldwide. So they do products across the world. They do not do any manufacturing, but they own rights on everything.

Brijesh Kasera: So does this transaction gives you access to the South African, New Zealand markets as well… you mentioned in your opening remarks that they have access?

Arun Kumar: It gives us access to all these markets. GP has not been commercializing these products in these markets. We expect to use our marketing bandwidth and our operations there to leverage on that portfolio too.

Brijesh Kasera: So you already have three facilities if I am not wrong in Africa. So how does this new facility in Kenya help you incrementally because already you have base in Africa? So you could have transferred the Institutional business to these facilities and availed a higher market share as you have been commenting on Nairobi.

Arun Kumar: Just to give you a little perspective of our manufacturing facilities, we have what is called in Africa, for Africa facilities which are basically small facilities which cater to small regional markets. So we have facilities in French Africa, under construction in Portuguese speaking Africa, in Mozambique, and in West Africa. We were never present in East Africa. There are only two WHO approved facilities and none of the plants that we have set up have received WHO approvals and we do not intend to submit for WHO approvals, those plants are small volume plants, they are not large volume plants. This facility in East Africa is a very large volume plant and it is WHO approved. So this is the only way we would get immediate access to the donor market of having manufactured in East Africa. Like I said we were never present in East Africa. So it gives us an East African presence too.

Brijesh Kasera: Are we on track with this acquisition that we had to increase the Institutional business from 50 million to 200 million in the next three years?

Arun Kumar: I do not know where you get the numbers from, but we have been growing this business as you can see we have grown this business at 30%, we think that this business will be important and the universal acquisition or strategic partnership I may say would give us the leg up to become an important player in this space. I would not put a number to it.

Moderator: Thank you. The next question is from the line of Prakash Agarwal of Axis Capital. Please go ahead.

Prakash Agarwal: The question on Australia base business before the acquisition. If I see your press release which gives you a breakup of regulated markets, so what I understand is 3Q16 has that number inside while 3Q15 would not have that number inside, right?

Arun Kumar: That is right.

Prakash Agarwal: Just trying to understand what would have been the growth and the margins since this is the first quarter with full impact to have a good sense in how the business has grown despite the PBS impact where we had some concerns?

Arun Kumar: Whatever numbers that we have forecasted with the PBS, we have hit those numbers. We do not go into the granularity of each of our businesses. But, just to give you a headline, regulated markets delivered an EBITDA of 26% pre-R&D, R&D spend has been high. So all the markets are tracking to what we think is the right percentage margins. In terms of Australia we have had a good integration, things are going well; we did have some stock out situation, but generally the margins are well within our anticipated range.

Prakash Agarwal: The growth would have touched double digits in Australia specifically?

Arun Kumar: Not really, and that was more to do with a very significant product not being available during the quarter which has now been solved for. It was an Indian company which could not supply for some regulatory issues and that has been since resolved we have moved to another site and therefore there would be a pick up. Whether with GP acquisition would we go to double digits, the answer is yes.

Prakash Agarwal: You are seeing on a sustainable basis not only because of the acquisition, but going forward also which adds to the pipeline?

Arun Kumar: Correct, that is right.

Prakash Agarwal: India plans what I heard correctly is may be a year after you would be looking for India supplies for Australia, is that right or…?

Arun Kumar: So we cannot simply just move all products right away because we have contracts. So that is why synergy will fall in place only next year. It is just that with the GP transaction and working with them we would be able to accelerate the number of products that we can take to market much quicker.

Prakash Agarwal: Secondly on the Africa business, if we see the growth is flat largely due to currency, so we have two parts; one is the Branded Generics and the Generics. If you could help us just give some more color how the businesses would have grown?

Arun Kumar: So basically the secondary sale is what we are interested and what we did not do this year is primary sales. So our secondary sale is growing, brand business is growing at 40% which is very-very healthy in spite of all the volatility in the currency and all of that. So we have actually further reduced the primary to secondary gap. Our French-based distributors given all the exchange fluctuations have kind of created the sluggishness in the pipeline that does not allow us to ship on normal and it is also fine for us because as you probably know in Q1 we announced a very aggressive plan to reduce the gap between primary and secondary which we have achieved to a very large extent. So the growth is there but it is just that we have not put new supplies into the market.

Prakash Agarwal: This is the Branded Generic business?

Arun Kumar: Right.

Prakash Agarwal: Which is largely the local currency sir…?

Arun Kumar: The French market is pegged to the Euro so we really do not have a problem. Naira exposure is less than 1% of our turnover. So it is not a very relevant market for us because Nigeria is not a big focus market for us given all the volatility. We have actually downsized that market almost 2-years ago. So it is not something new. So we really do not have a big challenge on the currency, it is just that Africa has had a slow quarter more from the Generic front. Generic is very dependent on the currency situation and we just decided not to take the exposure.

Prakash Agarwal: On the comment of utilization of cash through the fund that we have raised, you talked about $100 million earmarked for acquisitions. So we did two smaller ones along with the India pieces. So which are the missing links here today which we want to go for from this level?

Arun Kumar: More or less done, if you read the commentary on the fund use, it also talks about growth expansion that means the CAPEX, so we have more or less done on our inorganic, we have one or two very small transactions, which will not take too much money to complete, and with that we strongly believe that we are in course to start executing on a very profound articulated strategy of version-2 of getting leadership in the markets that we operate. There are probably one or two that you will hear from us in the next 2 or 3-months and they will be very suboptimal in terms of price but important from strategy. All our transactions unless they are significantly accretive we will not do them as you probably would agree. So we are more or less done with all of that.

Moderator: Thank you. We will take the next question from the line of Dhiresh Pathak of Goldman Sachs. Please go ahead.

Dhiresh Pathak: On your Institutional business for 9-months which shows as Rs.388 crores, how much is the Global Fund based Anti-Malaria business?

Arun Kumar: We do not give results of individual businesses, but Malaria is tracking very well is all I can say; it has grown over 40-60% over the last year, there is enough demand, our order book is very strong, we do not breakup between different types of donor businesses.

Dhiresh Pathak: In the emerging markets the Sun Pharma brands and J&J brands, they are effected in this quarter?

Arun Kumar: No, the effective date is 1st of February and 3rd of February.

Dhiresh Pathak: Last question is the GP acquisition. You are saying $15 million and $10 million funding, what you are saying is that we are paying A$25 million for a 50% stake roughly, is what you are saying, right?

Arun Kumar: Please try and understand that this is a strategic growth capital. So this is 15 million of funding now which will get us 51% and we gave $10 million loan funding which is a commitment to fund another $10 million for future R&Ds.

Dhiresh Pathak: $10 million will go as a debt instrument into the company in which you will own 51%?

Arun Kumar: But then there are significant upsides available to GP as they build the portfolio and products. So please do not construct it as a $25 million transaction, it is more like a $15 million transaction. You are right in that respect.

Dhiresh Pathak: The $37 million revenues what they are getting right now is royalty or they are ….?

Arun Kumar: No, they are actually selling into the Australian market.

Dhiresh Pathak: They are using their dossier to get it manufactured at some third party, then they are selling that product to Australian companies to sell in the local market is what you are saying?

Arun Kumar: With our manufacturing bandwidth we should be able to improve the margins at GP, allow them to make more profits to increase the portfolio in R&D, which will give us the pipeline that is required, allowing GP to expand third party sales as much as they would do business with us.

Dhiresh Pathak: No, Arun, what I wanted to know is this $37 million this is not royalty income, this is that they are using their IP to get the products manufactured at some third party site then sell that product to Australian companies to sell in the local market, right?

Arun Kumar: Correct. All I was adding to your statement is that because they use third party manufacturers there is obviously a margin that the manufacturers make in the process. With this transaction we should be able to improve considering that we can make most of these products within our global manufacturing network that we have.

Dhiresh Pathak: So what percentage of Arrow revenues are manufactured in-house now?

Arun Kumar: Our idea is to take it to 100% where we own the IP.

Moderator: Thank you. We will be taking the next question from the line of Sangam Iyer of Subhkam Ventures. Please go ahead.

Sangam Iyer: Sir just wanted a small clarification; how much is the current base portfolio of Arrow that we are having as a quarterly run rate?

Arun Kumar: $120 million per year.

Sangam Iyer: So, is there any seasonality in this business per se?

Arun Kumar: No, January is a quite month because post-Christmas most pharmacies end up stocking in December, but otherwise it is fairly steady.

Sangam Iyer: For us Q3 would be a pretty strong quarter in terms of the Australian business?

Arun Kumar: Correct.

Sangam Iyer: How much was for this particular quarter? This is the first quarter of integration of Arrow.

Arun Kumar: So we spent 120 million run rate, we are tracking those run rates in terms of sales.

Sangam Iyer: Sir Medispan also there is a 1-month integration that came in, right, or was it for the full quarter that sales?

Arun Kumar: Last quarter nothing, Medispan is only this quarter onwards.

Sangam Iyer: Sir you did mention about some healthy order book for your Institutional business which gives us visibility. Could you just provide how strong could it be and what is the kind of growth rate that we are looking at?

Arun Kumar: We have an unusually strong order book for Malaria and this I said could be because of the disruptions in the supply system relating to some suppliers. It is not a standard run rate that we are used to. So we are very happy with that order book. We have a healthy order book for Q4 but I cannot give you specifics, bulk of the order book has come in through the Malaria business.

Sangam Iyer: So if we just leave aside the lumpiness in this part what is the kind of growth rate that one should assume for the Institutional business going forward?

Arun Kumar: I think this quarter has been a stellar quarter in terms of numbers in that division, it has been our best quarter ever, we have done well in terms of building our business of important size and scale.

Moderator: Thank you. Our next question is from the line of Chunky Shah of Credit Suisse. Please go ahead.

Chunky Shah: So on other income, if you look at sequentially it has declined from Rs.25 crores to about Rs.8 crores. So first is what is the component and what is the reason for reduction?

Badree Komandur: In the last quarter we had some gain on sale of short term investment in Mutual funds and we also had forex gain which was not available in the current quarter.

Chunky Shah: So going forward what would be the quarterly or the annual run rate that you can guide us for?

Badree Komandur: We will be able to give you the guidance at the end of this quarter because we need to manage the debt-equity ratio as well as the debt to EBITDA. All of that which will happen in this quarter. Once we complete the growth capital estimates we will have much more clarity on this.

Chunky Shah: Also if you look at your EBITDA computation, there is some part of EBITDA which you say is sitting in the other income, the way you reported in your press release. So even that proportion has gone down this quarter? What is that proportion which would be linked to the business -- one is that part which is linked to your cash investments which are there in mutual funds or other instruments, the second part is which is linked to the business. Has that come down sequentially?

Badree Komandur: That is because of exchange, cumulative impact of EBITDA is about Rs.2.5 crores in this quarter.

Chunky Shah: So which is about the EBITDA line item?

Badree Komandur: Yes.

Chunky Shah: Last quarter was it an income there or..?

Badree Komandur: Yes, it was an income.

Chunky Shah: Can you quantify that for me?

Badree Komandur: We will give it to you offline.

Chunky Shah: Second question is on the GP transaction, so the pipeline that you are acquiring, Arun, is it going to be exclusive for Arrow or even that they will continue to ….?

Arun Kumar: There is absolutely no need for any of the top 3-players to have any exclusivity on any product because you cannot get into a chemist shop which is serviced by Mylan or Appotex for that matter, just like they cannot get into us. So there is really no need for any exclusive ownership of any IP and it is free for GP to go and sell it to anybody because for us it is about getting our 20% market share with more products. So the moment we bring in 10 or 15-new products we believe that we can maintain our 20% market share by just putting those products into the retail pharmacies that are aligned with us and our wholesaler. So we will look at exclusivity of products for Australia and other markets only if it is a patent challenging product.

Moderator: Thank you. Our next question is from the line of Nitin Agarwal of IDFC Securities. Please go ahead.

Nitin Agarwal: Arun, on the US business, I remember we mentioned about three odd key launches for us in the second half of the year, probably Dutasteride would be one of them. How is it looking going forward for the US business?

Arun Kumar: So we have got two of those three already, Nitin, two of them are doing well, we are expecting one more product approval soon. So we should be on target.

Nitin Agarwal: So how many approvals you are expecting in FY-'16 incrementally and FY-'17, any number that you are looking at?

Arun Kumar: I think that we should be between 5 and 8 products based on the target approval days and so far all the target approval dates have been met, so we hope that it should be between that 5 and 8 range in terms of product approvals in FY17.

Nitin Agarwal: Any color would you like to throw on the potential TADs which are there in terms of kind of opportunities which would be there?

Arun Kumar: This is the first quarter just to give you an idea, Nitin, that our US sales has crossed Rs.100 crores, so if you recall we were Rs.100 crores for the whole year. So it has been an important step up from that perspective but I cannot give you specific products and what could be the business, it is looking good is all I can tell you.

Nitin Agarwal: On that point increased scale which is coming in the business, is it having some any beneficial impact on your ability to get scale in the market or how is it playing out?

Arun Kumar: For example if you look at Carisoprodol we are the only generic. So it just happens that competitive landscape is much better to our advantage. In case of Dutasteride, we are the only Indian company with the soft gelatin approval. So it is much better pricing environment with fewer players having product approval, therefore larger market share.

Nitin Agarwal: On the GP transaction what proportion of our business is currently sourced from GP?

Arun Kumar: 5% or 10% may be.

Nitin Agarwal: But the product which GP is selling what proportion of those products essentially are there already with us, would….?

Arun Kumar: We have about 18-products in the portfolio which are new products for us.

Nitin Agarwal: 18 new products in the already launched products?

Arun Kumar: Yes.

Nitin Agarwal: Those 18 will get potentially added and plus whatever is coming from the pipeline will get added on?

Arun Kumar: That is right.

Nitin Agarwal: Badree, how should we look at the interest cost for this quarter it was pretty high at about Rs.50-odd-crores and how do we see it going forward?

Badree Komandur: The interest cost is consisting of two components -- one is with respect to the Shasun and another is with respect to Strides. One of the things is that we had funded the Arrow acquisition through the debt, so about 30 crores is contributed by the Arrow acquisition and going forward once we resize the debt and we will be able to give more color by the end of this quarter. So we want access the growth capital first and then repay the debt so that we can give guidance on that also.

Arun Kumar: There will be, Nitin, fair amount of debt repayment happening this quarter. We are obviously negotiating with the bank because these are all prepayments and like I earlier said in my commentary we are almost done with our inorganics. So there would be some amount of debt reduction which is part of our overall guidance when we did the QIP. So that will happen.

Nitin Agarwal: And is it possible to get any handle on the net debt which will be there on 31st December for us?

Badree Komandur: Yes, debt-to-equity is about 0.6.

Nitin Agarwal: In absolute amount net debt number?

Badree Komandur: It is about Rs.1600 crores that is including the working capital, Rs.2770 crores is the equity, on that 0.6x is the debt.

Arun Kumar: Of which about Rs.700 crores is working capital.

Moderator: Thank you. Our next question is from the line of G Vivek of GS Investments. Please go ahead.

G Vivek: The golden era of our Indian Generic Pharma for US market specially is it going down, meet with generic companies finding it difficult and the competition increasing on Day-1? #2 what impact is the currency depreciation in rest of the world market having on us? Any update on the Mylan issue please?

Arun Kumar: So obviously with the faster approvals that is coming in from the US regulatory agencies, we see more and more players entering markets which were otherwise more or less exclusive. Those price increases that happened in the last 2 to 3-years will kind of subside. That is our view. Yet there are significant opportunities in the world's largest market if you select your products right and there are companies who can do that right and we like to believe we are one of them. So there are opportunities and how we look at it. On a broad spectrum may be not but on a narrow spectrum, yes. The second question is that our emerging market currency issues were very negligible. It kind of dampened growth because we were rationale in our exposure, but otherwise like I said the biggest devaluation was Naira and we do not have more than 1% of our sales in Nigeria. So that is really not a big impact. Overall, we are fine because we have Branded business that runs on a on fairly high gross margins and we can sustain. As far as Mylan, there are no updates other than the ones that we have already issued in press releases in December. This is a process which can take very long periods of time and we are engaging with Mylan and at this stage there is nothing new to report that has arrived for us to look forward. So it is steady state and we believe that over time we will find solutions like we have done previously. There were certain payments due from Mylan during the quarter which we announced and we received those payments. So things are going on schedule and we will let you know if there is anything material. At this stage we are very confident with our position and we believe that we will come to a conclusion whenever it is due, but it is not going to be in the near-term.

G Vivek: We being in the soft gel space. Are we in a sweet spot in terms of pricing pressure once the patent expires reducing on a slower pace vis-à-vis the other Generic space?

Arun Kumar: Yes, you are right.

Moderator: Thank you. We will take the last question from the line of Prakash Agarwal of Axis Capital. Please go ahead.

Prakash Agarwal: Sir, if you could help us understand the US FDA audit status with respect to Strides Shasun?

Arun Kumar: So we have, Prakash, six FDA approved facilities and as you are probably aware that the FDA inspects facilities now in an interval of 2-years including API facilities. We have one of our facilities that is due for inspection in this quarter and all the other five facilities are fairly fresh as in less than a year, there has been an instance last year when one of our facilities received an inspection in less than 8-months, so that does not mean anything but generally they come for inspection once in 2-years and typically when you have six FDA approved plants you tend to have one inspection every 4 to 6-months. This is a routine process. We have been notified of an inspection for this which will happen this quarter.

Prakash Agarwal: Secondly on the Sashun piece, PSAI if you look at you clearly said because of the Chennai issues we have seen the degrowth, even 9-months we have seen (-3%) kind of growth and we always talked about that the reason for acquisition is shifting focus from volume to value. Now near term and the medium term what is the kind of growth we should expect for this kind of business, how is this moving and margins that the business would have got?

Arun Kumar: If you look at Sashun at the time of deal announcement we were at around 10.5-11% EBITDA and we are now running at around 15% EBITDA. So there is already 400 basis points improvement at the lower top line growth. So the strategy is in execution and we will be more and more focused on value add and less on top line growth. The other very important aspect here is that we now have in our R&D portfolio a little over 35-ANDAs that what we call is "Integrated ANDAs". Integrated ANDAs is that APIs come from the Sashun facilities and for the next year we have 15-filings which are integrated. So we have moved the model with more DMF filings coming in from Shasun, R&D spends increasing, pilot plants being set up. All of that has been done. We have been obviously a little bit lucky in terms of pricing on the API because of the petroleum price drop. So we have some natural benefits out it. I would not like to attribute all the 4% increase in margins with astute leadership, it is more to do with good governance and focus on execution.

Prakash Agarwal: So margins would have improved to 15% versus 12% last quarter?

Arun Kumar: It has.

Moderator: Thank you. Ladies and Gentlemen that was our last question, I now hand the floor back to the management for closing comments.

Arun Kumar: Thank you all. I really appreciate your time today and like I always say it is always a pleasure to engage with all our investors and analysts and feel free to contact the company anytime and we look forward to giving you more and more updates as they happen. Thank you all.

Moderator: Thank you. Ladies and Gentlemen on behalf of Macquarie Capital Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.