



“Strides Acrolabs CY11 Post Results Conference Call”

February 27, 2012



**MODERATORS: MR. ARUN KUMAR - VICE CHAIRMAN AND MANAGING DIRECTOR, STRIDES ARCOLAB LIMITED.
DR. T. S. RANGAN – GROUP CFO
MR. VENKAT S IYER - CEO - AGILA SPECIALTIES
MR. NITIN AGARWAL – ANALYST, IDFC SECURITIES**



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February 27, 2012*

Moderator Ladies and gentlemen good day and welcome to Strides Acrolab's CY11 Post Results Conference Call hosted by IDFC Securities Limited. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. I would now like to hand the conference over to Mr. Nitin Agarwal. Thank you and over to you sir.

Nitin Agarwal Hi, good afternoon, everyone. And a very warm welcome to Strides Acrolabs Q4 CY 11 and FY 11 post result conference call on the call today. We have representing Strides Acrolabs is Mr. Arun Kumar and his entire management team. I hand over the call to Arun to take the call forward and introduce his larger team. Arun please take it from here.

Arun Kumar Thanks Nitin for hosting us again and good evening to everyone on the call. We appreciate your time today to participate in our post results earnings call. Joining me today are Rangan, our Group CFO and Venkat Iyer who is the CEO of Agila Specialities business and also member of our Board and also we have Ajay Singh and other colleagues on the call.

Before I start into the Q&A session I will give a quick overview of our 2011 performance which has been a strong year for Strides and we exceeded our guidance significantly, on top lines and EBITDA. So we had consolidated revenue of Rs. 2577 crores with EBITDA of Rs. 518 crores and with an EPS of Rs. 38.65, representing a growth of approximately 46% to 48% in each of the head line items resulting in superior performance across most divisions.

In terms of business specifics it has been an extremely difficult year in terms of regulatory compliance for companies specially operating in specialties business. And given the circumstances we have been delighted with our performance in our specialties business has exceeded our guidance. Our revenues and EBITDA have been slightly impacted by Brazil. We have been surprised by Brazil, both in terms of performance and exchange rates, which have had a bearing. We therefore we took a very significant loss provision for 2011 of close to about 65 crores adjusted for that are front ended costs. As we are building our business model which is very different from a traditional distribution business model it has incurred significant start-up costs. EBITDA would have been in the vicinity of 32%, beating our guidance of 28%. Having said that, strong performance elsewhere supported by continuous growth in pharmaceutical business has resulted in EBITDA exceeding our higher guidance that we gave an updated during the course of last year.

Important and continuing our focus in R&D we received licensing income as in received cash in excess of \$100 million during the year and licensing income of 528 crores reflects a new capability at Strides in terms of defining more difficult to make products platform technologies,



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*Strides Acrolabs
February 27, 2012*

and we continue to gain from very heavy investments in R&D, which we believe will continue going forward, which as we build the business model we will see a lot of shift in the R&D income moving to operations, especially starting this year but having said that R&D licensing income will continue to form a cornerstone of our strategy going forward. So this is our second year when we have received over \$100 million of licensing income, licensing in cash and we believe that like I said earlier that there should be an ongoing process at Strides.

So to give a little overview of the specialties business, including the recent FDA approval of our facility in Brazil all our six plants in injectable are now FDA compliant. We hope that our Polish facility will get inspected, during the course of this year which will add on some more capacities, which are much needed as we are currently full of on our manufacturing capabilities and we have dramatically increasing products which are not yet commercialized into our new plants and we would see continued growth going forward. New launches have of course helped and in our traditional products and we continue to retain strong market share in between 12 and 20% in most cases. Interestingly, our joint-venture venture in US with Sagent has consolidated its position and is now getting to reasonable size, both in terms of reference to top line and profits.

Our pharmaceutical business bettered guidance, both in terms of revenues and in margins and this is due to a very successful strategy which is IP led. We commenced a lot of shipments into the regulated market also aided by source changes in our HIV business which contributed to growth. Australasia the business which we exited in January of 2012, also delivered solid growth. It has been a great year in terms of revenue and EBITDA growth, which is reflected in the valuations we received for that business; And we are stabilizing our African business, in spite of political and civil unrest in most part of the continent. The India Brand is growing steadily; we have now Renerve a very critical brand for the group at 34 crores growing at 45% and we believe that Renerve would emerge to be a very significant brand for the company. I'm going to let my colleague Venkat to quickly give an update on the regulatory compliance, products approvals and then let Rangan to take you through the financials before we open up the session.

Venkat S Iyer

Yeah, during the year we received, the US FDA approval for the new sterile facility, and the new oncology facility at Bangalore. Like we mentioned the US FDA approval for the Brazilian penems facility was received last week. We also received the European approval for the oral oncology facility at Bangalore, which takes the total US FDA approval facility at 7 which is 6 injectable and one oral. We also had a post approval GMP inspection of our facility in Bangalore. The older one which was successfully closed and also the oral dosage facility was again re-inspected by the FDA and was cleared without any 483s.



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*Strides Acrolabs
February 27, 2012*

With respect to product filings and approvals in the US market in the pharmaceutical area we had two filings in the year 2011, got 2 approvals. We also received a tentative approval of an earlier filing in which takes the total number of filings in the pharmaceutical space to 39, with 22 approvals. In addition we have tentative approvals, which is under the PEPFAR scheme for 17 and we have been able to commercialize 3. As far as specialties is concerned, we had 29 filings received 21 approvals three tentative approvals and commercialize 13 products, taking the total number of filings to 144 in the specialty space with 62 approvals. So all in all, the company had a total number of 183 filings are receiving approvals for 84, tentative approvals, 21, and we have been able to commercialize 36. The products not commercialized with improved capacities in place, we expect to launch more of the approved products in 2012. In addition we had 76 products filings in established markets, taking the total to 314 and we have received 43 approvals with cumulative approvals at 160. We also had 115 products filings in emerging markets during the year, and we received 91 approvals taking the cumulative number of filings to 1541 and approvals to 1084. Thanks.

T. S. Rangan

Thanks this is Rangan. If you go to the next table is the key financial indicators. The EBITDA margins for the current year is 2011 report that was 20% against 22%. Like Arun earlier explained that one-time extra provision in Brazil plus the exchange loss which is close to about 0.08% of my top line, if you adjust the adjusted EBITDA is 24.1% as against 22%. The current debt as of now is 2010 crores and the gross debt is 2.66 ; but then as of today the management account since we received the Ascent funds we repay close to about 250 crores. Cash and cash equivalents, 260 crores as of December 11 as for the management account since we received the cash is close to about 1050 crores. Overall we expect that net debt as of today being 1200 crores this is in line with our commitment. We have been saying that post FCCB that debt equity will be less than 0.7% and we will actually achieve the levels and we are confident that we are moving in that direction.

Interest to revenue with is 7% against the 9% even though we said earlier that the 6.5 to 7% but then the ever-increasing interest rates denies that kind of opportunity but having said that with the restructuring of the debt in place we expect a significant reduction in the interest income in 2012.

Revenue to net fixed assets improved and the number of times from 0.26 to 0.25 reflecting better capacity utilization we got most of the plant approvals in Q3 of 2011 with the penem approvals getting as we expect this term to improve in the current year. Effective tax rate like last year was 24% against our guidance was 21% having said that company followed a very prudent tax planning we had realigned our various investments we created global structure both for Agila and also for the pharma that helped us significantly reduce the effective tax rate and maintain at 14%. Now I'll hand over to Arun to talk about international strategy.



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*Strides Acrolabs
February 27, 2012*

Arun Kumar

Just to give a quick update on the transactions related to our Australian assets which we announced in January 24th but just to refresh memories here we sold the asset to Watson for \$375 million. We had a simultaneous closing in January 24th. This obviously has been achieved at a significant multiple because we added a lot of back ended India bit in terms of technical expertise and arbitrage into the asset; And likely we explained we would be using the proceeds to reduce debt to say about 250 odd million dollars and also even have enough capital to grow our Agila business during the course of the year.

Now I'll also talk about guidance. 2012 is an extremely important year for Strides. I just want to reassure the analyst community that we will continue to deliver solid growth but this is the year when we have very major products that were expected to be approved including products which are Day 1 launch products which are under litigation or settlement's and for that reason we decided that it is best to defer guidance at this time the company has decided not to provide a guidance except through this call to say that we will continue with robust growth with a high-performing injectable business. Thank you and I am more than happy to take questions that you may have.

Rangan

Before we get into the questions this is Rangan here I will like to offer a correction I've mentioned that exchange loss is 0.08% it is an actually .8%.I apologize for the error.

Moderator

Thank you very much sir. We will now begin with the question and answer session.The first question is from the line of Kaushik Pal from Kotak Mutual fund, please go ahead.

Kaushik Pal

Hi, congrats to the management team on a pretty long good year, firstly I would like to understand Mr. Rangan if you us what was the ForEx loss in Q4 and what was any loss related to the Brazilian subsidiary because tied to that is the margin seems to be slightly weak for the quarter if you can give us those numbers along with some margins understanding?

T. S. Rangan

Yeah Q4 ForEx loss is close to about 10 crores that has been considered part of the EBITDA and the additional provisions that we have taken in Brazil is close to about 31 crores.

Kaushik Pal

For the quarter?

T. S. Rangan

Yes for the quarter. It is not the quarters like Arun said that to be reviewed the entire business plan and with the backdrop of strong performance it is important that we also follow a very conservative policy and provide it for where ever we feel because the intention is to make a robust growth.

- Kaushik Pal** I understand basically probably letting off the nine months from the full-year result is not correct but just to understand till nine months how much loss was written off for the Brazilian subsidiary so it will make us understand what was the delta basically on the fourth quarter
- Arun Kumar** It is about 39 crores YTD nine months.
- Kaushik Pal** YTD nine months was 39 crores?
- T. S. Rangan** That is number for Q4.
- Kaushik Pal** Okay also Arun is it possible now to tell as what will be the net cash inflow from the Ascent transactions because you did mention that there was some items which were not clear at that point of time?
- Arun Kumar** Yeah we have post the upside share with management and the 94% ownership, we expect the total money that we would expect is approximately \$265 million, Australian Dollar it is closer to about \$300 million of which \$60 million is debt related to the Australian asset which we have already paid.
- Kaushik Pal** Okay so net post the payment of the debt net what is coming in is to 265 million is Australian dollars?
- Arun Kumar** 250 million Australian dollars.
- Kaushik Pal** Okay that is it for my side, thanks.
- Moderator** Thank you. We have the next question from the line of Krishna Kiran from ICICI Direct, please go ahead.
- Krishna Kiran** Thanks for taking my question. Just to understand your overall business in Q4 if I my math is correct I have removed licensing income from this quarter and Q3 FY 11, we have seen sharply 15% degrowth can you just through some light on it?
- Arun Kumar** I do not know how you have calculated it.
- Krishna Kiran** If I calculate 170 crores of the licensing income for the quarter and the Q3 FY 11 it is 172 for Q3 FY 11 sales is 608 and Q4 CY11 sales is 528, Q3 CY 11 is 608, is the numbers right or something?
- T. S. Rangan** Your observation is right. But to really net off the licensing income last year we had in Q3 2011 that is our project Aqua licensing income close to about \$15 million we recognized.



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*Strides Acrolabs
February 27, 2012*

- Arun Kumar** At Q3 2011 had significantly higher licensing quarter specific transactions related to our pharmaceutical business.
- Krishna Kiran** No, what I was trying to understand, I have adjusted that 172 cross licensing income and we are 170 which if I remove the 528 in to -9/ quarters number than I am finding 15% fall, is this is mainly because fall in specialty business?
- Rangan** There is no fall in specialty business.
- Krishna Kiran** QoQ what I was trying to understand?
- Arun Kumar** Yeah QoQ in Brazil we took our conscious decision in Q4 to accrue as we are course correcting the business we decided to take so we had a lower quarter in Brazil's in terms of sales to answer your question.
- T. S. Rangan** Right, every quarter was 11 or 12 and we said that while YTD was 39 crores 9 months Q4 alone we took a similar number so if you adjust the business the specialty margin will be a town close to about 32% to 34%.
- Arun Kumar** The adjustment Krishna was that the more from our distributor model to front ended model run by medical representatives in Brazil and that meant that our sales dropped consciously and I can only tell you that it has done us well because the current quarter is looking good and is going to target obviously when we have a business away from the distributors we end up spending a lot more money upfront in SGNA cost but then we catch up on sales which we have started doing this quarter. So to answer your question in Q4 we had a very significant drop in Brazil with regards to specialties business which is why also the EBITDA in the specialties business has been impacted as we provided for those losses as we were not recovering our SGNA cost.
- Krishna Kiran** Okay answer if you can share numbers on Australasia business for the entire year sales and the EBITDA level?
- Arun Kumar** 840 crores and 105 crores EBITDA, in the public domain when we announce transactions.
- Krishna Kiran** Okay fine and what would be the CapEx for CY 12?
- Arun Kumar** Approximately \$15 million.
- Krishna Kiran** I know it will be a bit difficult to understand licensing income but can you have some ballpark number for next year because we have clocked huge number this year which would be 520+?



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*Strides Acrolabs
February 27, 2012*

- Arun Kumar** Second year running where we have received over \$100 million of licensing cash, revenues are not reflecting to the cash flow is that we have receiving. We believe that licensing income will continue to be an integral part of our story as we build higher-quality assets in our R&D licensing portfolio. So it will be another strong year this year but I cannot give you any specific number at this time.
- Krishna Kiran** Okay fine just looking at balance sheet number how much of this post this Australasia demerger sales of this Australasia how much will be like goodwill and consolidations look like?
- T. S. Rangan** As of now the goodwill is about close to about 1900 crores but Ascent transaction happened in a January when we pass the transaction the goodwill will go down by another 300 to 400 crores. The effect of Ascent transaction will happen in Q1 of 2012.
- Krishna Kiran** Okay last if I can how would be fixed at the same level like gross block look like post-transaction?
- T. S. Rangan** Ascent has no fixed asset so I do not see any significant reduction in the gross block because of the transaction per se. But then trading business this front ended business and on the gross block is as of now is 1305 crores including CWIP and this will continue to grow by another 100 and 150 crores, like I mentioned that Ascent has no impact on this gross block .
- Arun Kumar** Ascent had only 20 crores of assets.
- Krishna Kiran** Okay thanks a lot.
- Moderator** Thank you. We have the next question from the line of Ashi Anand from Kotak India Focus Fund, please go ahead.
- Ashi Anand** Good evening to the management. The first question that I had was with relation to the 1000 crores of sterile revenues that you have done in CY11 who do give this breakup of this between the US Campos and the revenues coming from the rest of the world for the specialties business.
- T. S. Rangan** For the specialty business and India operations. It is about \$20 million from Campos and the US is now about 150 million. The US is approximately \$75 million and the rest is from the rest of the world.
- Ashi Anand** Okay 75 from the US, 20 million from the Campos and the balance from the rest of the world? Perfect could you also share how much of the 520 crores of the licensing income was in the sterile business in the year?



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*Strides Acrolabs
February 27, 2012*

Arun Kumar We do not give the individual splits but broadly ballpark is about 100 crores was in pharma and the rest was in sterile.

Ashi Anand Just a second question with relation to the US business when we started off the year we actually had I think somewhere close to 13 or 14 products to launch in the market and this is now come up to about 36 so just wanted to understand have all 36 products have been fully launched in the market have they been ramped up and how long does it take for the ramp up to happen?

Arun Kumar We will have all the 36 products enjoying a full year this year in 2012, we need to build up enough inventory before the product is launched because of the shortage situation. We first need to build up inventory which we have, so we have all the 33 products enjoying a full year in 2012 and that is how it works because you build up inventory for close to 4 to 5 months of sales before the product is launched.

Ashi Anand And we are hoping to actually end the year somewhere between 70 to 80 products launched in the US?

Arun Kumar Yes we expect a strong year of approvals this year but again we had 25 approvals last year and we expect another strong year this year too so we should have about 60 odd products in the marketplace by 2012.

Ashi Anand Just a couple of bookkeeping questions. CapEx you mentioned was the number 15 million or 50 million?

Arun Kumar 15 million.

Ashi Anand 15 million perfect and you also have a ForEx gain this quarter compared to ForEx loss in the previous quarter, just wanted to understand why that would happen because there would be movement for similar in Q3 and Q4? Why was the loss showing to profit?

T. S. Rangan If you track our financials what we have done three years back we also implemented a fair valuation accounting so that significantly reduced exceptional item generally we will find that the reinstatement order out of loans having said that with the Ascent transaction happening in January 2012 and also the investments becoming a monetary asset we have valued certain investments as per the accounting standards and the gains has been accounted in the books.

Ashi Anand I'm sorry could you please explain this again?

T. S. Rangan What I'm saying is that there are investments associated with Ascent Pharma. Right as per the normal accounting standards we do not revalue the investment you have to only revalue the

liabilities. These investments are made at Rs 44 since this transaction happened before the board meeting and it is post the balance sheet event we reinstated the investment at Rs. 50 what would be closing MTM of Rs. 50 the difference has resulted in significant gain that has been accounted in the books.

- Ashi Anand** Okay excellent. And one just last bookkeeping question other expenditure which went up from it was about 100 crores run rate in the first half has gone through a 126 crores in 4Q, if I'm looking at exceptional item other expenditure is really this 30 crores of Brazil and about 10 crores for ForEx loss any other exceptional item in the other expenditure component?
- T. S. Rangan** Exceptional item when I talked about this 10 crores, 10 crores is not the part of the exceptional item. Exceptional item generally you will find the reinstatement loss out of long-term debt, 10 crores is the part of the other expenditure.
- Ashi Anand** Okay so in terms of one-off items in other expenditure is only the 30 crores linked to Campos?
- T. S. Rangan** Yes.
- Ashi Anand** Great thanks a lot for all the answers and best of luck for the year going forward.
- T. S. Rangan** Thank you.
- Moderator** Thank you. We have the next question from the line of Kartik Mehta from Daiwa capital markets, please go ahead.
- Karthik Mehta** Hi, two things, one is if we look at the total income on account of the milestone or on account of the R&D licensing income now that have increased from 77 to 112, the EBITDA margin here is actually lower level of 200 bips, predominantly on account of higher expenses in the Brazil. Can you share what was the quantum of expenses or loss that was in Brazil in the last year and how should we look at this on recurring basis because the injectable part is almost at about 32% EBITDA which is what..?
- Arun Kumar** I did mention these numbers in my opening segment, you probably missed it. We lost little over 60 crores in Brazil.
- Karthik Mehta** In this year, right?
- Arun Kumar** Operations in the last year. This is our first year of operation. So we have two businesses in Brazil. The Brazil manufacturing business which we fully owned and front ended distribution business where we control majority we have 52% and that's where we lost money in the front



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*Strides Acrolabs
February 27, 2012*

end business and manufacturing makes profits. This is our first year that transaction was effect with January 1st 2012; this is our first year of operation. To answer your question, how do you reflect going forward, I think, going by the course correction we did in Q4 and the result we are seeing in January and February, I can safely say that the strategy has been redesigned and we should make a significant profit in manufacturing and will breakeven in our front-ended business this year.

Karthik Mehta

Okay, is it fair to assume here Arun that higher licensing income received though you don't share the breakup would effectively be at similar level of EBITDA margin or post-tax amount that we would be actually receiving in terms of the percentage?

Arun Kumar

That is another reason why we cannot give you guidance on this

Karthik Mehta

I don't want the guidance, all I am asking is may be actually for a direction here that supposing you received about \$100 plus million dollars of income in this year and 77 or so in previous year. The PAT or PBT intent on these two, would be the same? All I'm asking is, is the ratio of buying specialty to the non-specialty in 2011 and 2010 almost the same?

Arun Kumar

First of all, we don't see any significant R&D income coming from our Pharma business. Whatever we had in terms of portfolio was already licensed of last year, long term f our licensing income in the Pharma division. In our specialty business, it is not a correct reflection to say, our EBITDA would be similar to 77 million of the last year or 112, simply because the quality of our product and therefore cost of developing these products have increased significantly. Also, our regulatory fees, we spend more than \$20 odd million in regulatory fees around last year and with August coming in, where the FDA is also going to charge fees. We believe that the EBITDAs in our licensing income will be depressed and also the fact that we have now commenced products in the litigation phase. So there are litigation fees also that we have to incur. But having said that, because of the portfolio quality has increased significantly we believe that there would be significant licensing income coming not only this year, but years going forward at the support, even largest spend in basic R&D, litigation and also in developing new platform technologies.

Karthik Mehta

Okay and the last thing from my side was that we have actually mentioned that 25 products are not yet commercialized 2011 and 2012?

Arun Kumar

Yeah, we had a whole number of products approved in Q4. For those of who don't understand our business properly, I just need to re-emphasize that we do not have capacities in the facility from products have been approved form because that was a very small plant and we have to transfer from one approved facility to another approved facility and there is typical 120 days lag in that process. That is why we are not able to launch products as soon as our product



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*Strides Acrolabs
February 27, 2012*

approval is received, we always have 120-day lag. So bulk of the products were approved in Q4 and those will get commercialize typically in Q1 and Q2 and once product from the new plant get approved which will be products that we will expect approval this year onwards then the launch can be almost simultaneous to the approval.

Karthik Mehta Okay and can you share any number on the filings and specialty business that you do this year?

Arun Kumar A strong year for Stride, we believe our filings will be between 50 to 60 products and we believe our approval ratings would be similar to 2011.

Karthik Mehta Okay, thanks.

Moderator Thank you. We have the next question from the line of Ashwini Agarwal from Ashmore India, please go ahead.

Ashwini Agarwal Good afternoon. Couple of questions, if I look at licensing income you don't obviously disclose the margin breakup that can be attributed to licensing income but how much cost of R&D or accumulated R&D expenses are you carrying in your balance sheet which will be set off against future licensing income? Do you have any input on that?

Arun Kumar We don't have any large numbers sitting in the balance sheet but, we have less than about \$8 million is all because we write-off all our R&D spent as soon as the product is licensed and in that 40 crores bulk of the R&D is in the pharmaceutical business which is capitalized because we tend not to license most of our pharmaceutical products. So inflationary if you could have written off almost everything, there would be nothing which is kept locked or a very little.

Ashwini Agarwal So in this specialty business the way, if I were to mentally think about it, what happens is that you received let's say last year \$110 million \$120 million of licensing income and against that what you would write-off is all filings related expenses, R&D expenses and potentially going forward litigation expenses?

Arun Kumar Yes, right. As in 2011 itself we started litigation.

Ashwini Agarwal Okay second question is this sale of the Australian business, has the money been received?

Arun Kumar Yeah, it was closed on the same day.

Ashwini Agarwal And has the debt being paid down already?



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*Strides Acrolabs
February 27, 2012*

- Arun Kumar** we can't pay down, we have paid down about \$50 million if you see in our press release. The rest is cash in bank simply because some of the debts are time bound and we can only pay during the course of year, including the FCCB's we can't pre-pay. So we have money in term deposit.
- Ashwini Agarwal** Right. In terms of the Brazil losses which was about 67 odd crores for the calendar year 2011. Based on your previous comment, I take it that in the worst-case that 67 becomes zero but hopefully on a combine basis Brazil would be a profitable operation? Would that be the right assumption?
- Arun Kumar** Yeah, right.
- Ashwini Agarwal** Thank you so much. All the best for the next year.
- Moderator** Thank you. We have the next question from the line of Amit Shah from Motilal Oswal Securities. Please go ahead.
- Amit Shah** Just couple of questions on balance sheet side. Could you tell me there is an increase in goodwill of around 263 crores at the end of December 31st, compared to June 30th so what is that related to?
- T. S. Rangan** We acquired the three IPs from Aspen as part of our Brazilian investment so that has been accounted for.
- Arun Kumar** So, just to give you little more clarity here, we did not own the Penems, we have the plant, but we don't own the IPs. So we acquired all the IPs which were with Aspen and that we have commenced our own filings worldwide. I mean, although the IPs were created by us originally, we have bought back those IPs which was done in June.
- Amit Shah** So, Arun, just want to understand this penems facility approval you have got so how, how many penems would be there pending approval and out of which, how many would have been already out licensed?
- Arun Kumar** We have only three penems who are currently in the generic regime both have been licensed worldwide. There is no country where we have not licensed this product and we expect European launches in H2 and we expect US approval very soon.
- Amit Shah** Understood and this would target market size of approximately what million dollars?
- Arun Kumar** 1.5 billion, including Europe and US.



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*Strides Acrolabs
February 27, 2012*

- Amit Shah** That is genericized market size?
- Arun Kumar** Yes, that is generic and it is still growing, although it is generic side.
- Amit Shah** Understood that was helpful. And the other question is, there is an increase in current liabilities and quite significant increase in current liabilities compared to 30th June, so what is that on account of?
- T. S. Rangan** Like, Arun said last year that we received the licensing income cash close to about 100 million. What we do that the recognition is based on the R&D revenue recognition policy. The difference we generally show it as the advance from customers and then the product is approved, we will bring it back to the P&L. So I can say that close to about 350 to 400 crores of income is passed there from the big Pharma companies.
- Arun Kumar** It cash received about 350 crores of cash in excess of revenue recognized is what earlier we had a more revenues and cash following now we get cash up front and revenues following the cash.
- Amit Shah** Okay and Mr. Rangan, one more question. You mentioned that there were some gains related to the reinstatement of investments in an Ascent Pharma. So could we have a split between what were those gains and excluding those gains what was actual ForEx loss in Strides for the 4th Quarter?
- T. S. Rangan** It was not the gain in an Ascent Pharma, what we said is that since the divestment up front in Pharma, the investment the item which we have done overseas has lost its character and will attain the character of monetary effect since money already received. With that as per the accounting standard we reinstated at the closing the exchange rates, the up side of close to about 80 crores that has been recognized in the consolidated financials. The difference between 49 and 80 is the reinstatement loss on the ECB and other ForEx loans.
- Amit Shah** Understood. Okay, that was helpful, that's all from my side. Wish you all the best, thanks.
- Moderator** Thank you. We have the next question from the line of Bhavin Shah from Daulat Capital. Please go ahead.
- Bhavin Shah** Thanks for taking my question. Been a year almost acquired Inbiopro, any update on that, on the pipeline moving any strategic benefits that you would get once the biosimilars opens up just taking a long-term basis?
- Arun Kumar** Yeah, I can give you a long term view Bhavin; as focused we have got into the animal top stage for our first product, which would go during the 2nd Quarter of this year. Our first map animal



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*Strides Acrolabs
February 27, 2012*

tops will happen Q4 of this year on schedule. So things are progressing to plan and we expect to have a first biosimilar approved for unregulated markets by the end of 2013 as guided.

Bhavin Shah

That is good news sir. And coming back to Brazil, the losses when do we come back to breakeven point should be later half of the year?

Arun Kumar

We believe that 2012, we should be all right with the course correction strategy that we have already conducted, like I said, our January numbers look promising and if that trend continues we are very confident that the business will breakeven and like I explained earlier, the manufacturing business is already profitable it would be even more profitable as we launch the penems in global markets. But having said that, we are confident that the front ended business will definitely breakeven this year, but I think end of Q1 would be a good time to get a better update.

Bhavin Shah

Okay and lastly just wanted to get a feel on the products category moving so let's say 2012-13-14, is it going to be more onco driven or is it going to be penems or onco mix of all classified products. Is there any category that you are looking to ramp up?

T. S. Rangan

For this the oncology platform continues to expand. We now have 38 filings in the oncology, 14 approvals and we have at least another 60 products in R&D in oncology. So the domain will become a very major domain prescribed. We have expanded to the ophthalmic and we have if I am not mistaken 14 filings in 2012 in ophthalmic so that is the new domain that we are building. We have already completed the penems filings so we don't have any more products in that space, and we have now moved into the day-1 filing we have close to 14 FTFs this year first to file. Yeah, it is a very busy year from the R&D perspective.

Bhavin Shah

The execution will be all throughout Q1, Q2, Q3, Q4 or you are mapping for the second half side?

Arun Kumar

We have already commenced all of the strategies including our first day-1 filing was commenced in January so we were successful with that. We are hoping that we will be classified as a day-1 filer very soon and within the public domain you can catch it up from there. Yeah, things are moving rapidly and we also have the new platform technologies for Lyposomal which we will file this year. We have couple of 505 B2 for unique dosages forms which are getting accelerated reviews from the FDA. So things are progressing well on the R&D front.

Bhavin Shah

Great sir. All the best and thank you.



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*Strides Acrolabs
February 27, 2012*

- Moderator** Thank you. We have a next question from the line of Surya Patra from Systematix Shares and Stocks. Please go ahead.
- Surya Patra** Thanks for taking my question. Sir, just wanted to know the kind of R&D spend that we are indicating for the full year and also the progress we are witnessing in the Brazil side. So may be these two factors should we expect the margins for the overall injectable business would be somewhere in the range of what you have witnessed for the full year calendar level?
- Arun Kumar** So that may be a safe bet.
- Surya Patra** Okay and the depreciation number that we are currently seeing for the 4th Quarter, it is near about 30 crores. So is it possible because of the commercialization of the new plants and all so that is the kind of rate should we considering for new future or how is it?
- T. S. Rangan** Yeah, depreciation is nothing to do with the commercialization, it is more of a capital inflation but you can assume the rate is close to about 30 crores very quarter.
- Surya Patra** Okay, the oncology products so far, said we have received around 14 approvals but how many were launched so far?
- Arun Kumar** The launches have commenced this quarter. We already have three products launched and most of the 14 products would be launched within the quarter itself. So it is no lag in oncology launch.
- Surya Patra** Okay, in the current quarter that you mean to say?
- Arun Kumar** Yeah.
- Surya Patra** Okay and one more thing in the presentation that I'm seeing the gross debt is something like \$443 million which is higher than the previous quarter number of \$525 million. Any particular reason that you have added that?
- T. S. Rangan** I don't think we give any debt actually but the debt movement between December 2010 and December 2011 predominantly because of 213 crores which we incurred for the Ascent to privatization that is we already paid and close to about 140 crores came out of MTM exchange loss because the rupee is really moved from 46 to 52. So other than that you don't see any significant movement between these two financial years.
- Surya Patra** Okay. And there was a guidance, you have justified for the deferment of the guidance but I think we should be confident enough with all these facility approvals and product approvals to



Leadership through partnering

*Strides Acrolabs
February 27, 2012*

deliver a very strong numbers for calendar '12 and this should be possibly indicating the guidance for the current movement?

Arun Kumar

That is your view. But these numbers can swing significantly based on various events. I did in my opening statement say that we will continue to maintain very robust growth improvement in margins mainly coming from on an operating leverage in our specialties business. Very strong year for Strides but the shrink can be significant given the shortages in the marketplace. 50% of the US GPO market is currently tendering between Premier and HPG, they have 50% of the market. They are tendering, half the industry has got quality issues. We could be filling on very large contracts, very normal contract. So, just to start right time products to give you guidance we would like to meet our guidance and exceed them whenever possible but this is a very volatile year in terms of, except the fact that we have a very bright year in terms of performances of Stride but how bright is the function of various events which we don't control.

Surya Patra

And one more thing, I believe, out of the 60 odd products approvals that we are currently having for the US market. Of that 20 products are slightly more than that are currently in the list of the shortage products. So how do we capitalize that opportunity?

Arun Kumar

We don't capitalize the opportunity by price increases what we have done is we have got into very long term contract with the GPOs between 2 to 5 years supply contracts for various products. We can't give you specifics for this for confidentiality and other reasons, but we are using the shortage situation to establish Agila well as a very reliable and important player in the injectable business in US.

Moderator

Thank you. We have the next question from the line of Ujjwal Shah from Enam Securities. Please go ahead.

Ujjwal Shah

Thank you sir for taking my question. Just a couple of book entry queries from my side. Can you just tell us the revenues from Sagent and African business?

Arun Kumar

Africa is approximately \$28 million and Sagent is approximately \$10 million this year. We consolidate only half of it.

Ujjwal Shah

Okay sir. Just wanted to know when was the penem filed in the US market. Can you just give us the fair idea so we could assume that probably this year it could get launch that as such or get approved from the US market?

Arun Kumar

We don't disclose when we filed but we hope it will be a 2012 launch.

- Ujjwal Shah** And the last question from my side will be that you had stated about the amount that you will receive from sales of Ascent pharma, is it net of tax that you mentioned?
- Arun Kumar** Yes.
- Ujjwal Shah** Okay, that is all from my side sir. Thanks a lot.
- Moderator** Thank you. We have the next question from the line of Kaushik Pal from Kotak Mutual Fund. Please go ahead.
- Kaushik Pal** Thanks for taking my question again. Mr. Arun, you mentioned if I heard correctly 350 to 400 crores of licensing revenue is sitting in the balance sheet which has not been booked in the P&L yet. Am I right?
- Rangan** Yes. It is not revenue, I said as the cash received.
- Kaushik Pal** So the cash which is coming is sitting there which will be later booked in the P&L?
- Rangan** When this will get approval, we will take it in the P&L.
- Kaushik Pal** When these are booked in the P&L, if the R&D expenses netted-off from here or they go into separate line items, one as income, and one as expense?
- Rangan** They will get in to 2 different lines items, obviously we don't book net off but when we booked the income we will also book the corresponding expenses so that you remove mismatches in the P&L account between income and expense recognition.
- Kaushik Pal** Sure and also for the full year of QY11 what was the R&D cost booked in the P&L?
- Arun Kumar** We don't want to disclose exactly how much money we spent but it is significant. We also had almost \$20 million of only regulatory filing fees in 2011 but we don't discuss specific numbers of that.
- Kaushik Pal** And finally we have few tailwinds like operating leverage and more products being launched and also some headwinds like higher R&D expense. Now is it safe to sort of assume stable margin on the sterile side, if I understood you correctly. There was another question would that be fair thing anything to assume?
- Arun Kumar** In fairness the margins we are currently enjoying will be maintained how much better, it would be dependent on various events.



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*Strides Acrolabs
February 27, 2012*

Kaushik Pal Thank you.

Moderator Thank you. We have the next question from the line of Kiran Chedda from Value Quest, please go ahead.

Kiran Chedda Sir, what was the revenue and EBITDA from Ascent Pharma in CY11?

Arun Kumar 830 crores of revenues and 105 crores of EBITDA.

Kiran Chedda What is the current capital employed in Pharma business and in specialty excluding Ascent?

Management We don't have specific ready now but you can send e-mail and we will send you the data.

Kiran Chedda Just wanted to confirm we have filed 14 FTFs?

Arun Kumar We will have approximately 14 FTFs this year including some already filed in 2011.

Kiran Chedda Any launch expected in 2012-13?

Arun Kumar That is why we said that it depends upon settlement, it depends upon what kind of arrangements we have if the party litigates, does he litigate so we will not comment anything for now.

Kiran Chedda Okay sir. Thanks a lot.

Moderator Thank you. We have the last question from the line of Karthik Mehta from Daiwa Capital Market. Please go ahead.

Karthik Mehta Can you tell us on the tax rate that we should take 2012-13 onwards because since you will have fair amount of interest cost which will be lower now after you pay back your FCCB's so can you please help us with that?

T. S. Rangan We cannot obviously put a number. Maybe they'll be able to share some time in Q1 or Q2 Kartik, too early to really talk about the tax debtors.

Karthik Mehta Okay and on the shortages. Would you want to elaborate on any of our products now that Sandoz, etc., also have some issues? Anything for the next two-three quarters or one year where do you see the whole thing?

Arun Kumar Except for Brazilian Kabi and Agila there is no players in the US hospital market which does not have a problem. So six of the eight players have an issue concerning quality has led to



Leadership through partnering

*Strides Acrolabs
February 27, 2012*

significant shortages, improved processes, reduced time for approvals all that is done in that stage. But bottom-line is that we are not exploiting the shortage situation for price because just like getting expedited review if you read the Obama Administration review on the price hoarding this can cause serious complications to the corporate and also to GPOs participating in exploiting prices. What we are doing is we're using the situation to get into the long-term contract. We believe the innovation and premier contracts will be out in next 10 to 15 days and we believe that be a very important player in the new three-year contract that we will placed and then the HPG contract which will be due in June which are due now but will be announced in the month of April for supply starting June. Together we are using the shortages to kind of leverage a larger basket of products. We believe that the company will benefit with the longer-term strategy than exploiting the short-term profit maximization strategy. So business generally is profitable but we can secure long-term contracts and get some brawny point which the regulators and the GPOs and the clinics I think that is the primary goal at Strides today.

- Karthik Mehta** You have not shared any guidance but would you feel some amount of number would be given as the guidance after first half?
- Arun Kumar** We only defer to give the guidance Kartik as this allows you to work a little harder on our model sometime during the year.
- Karthik Mehta** Okay thanks.
- Moderator** Thank you. I would now like to hand the conference that Mr. Nitin Agarwal for closing comments.
- Nitin Agarwal** Thanks everyone for participating in the call and thanks Stride Acrolab team also.
- Arun Kumar** Thank you Nitin.
- Moderator** On behalf of IDFC Securities Ltd that concludes this conference call. Thank you for joining us and you may now disconnect your line.