“Strides Shasun Limited
Q1 FY17 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Strides Shasun Q1 FY2017 Earnings Conference Call, hosted by Macquarie Capital Securities India Private Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this call, you can signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Singhal from Macquarie Capital Securities. Thank you and over to you Sir!

Abhishek Singhal: Good evening all. Thanks for joining us for this First Quarter FY2017 earnings call of Strides Shasun. We have the senior management with us, Mr. Arun Kumar, Mr. Shashank Sinha, and Mr. Badree. I will hand over the call to Arun for the opening comments and then possibly we can open up for question and answers.

Arun Kumar: Thank you Abhishek and thank you Macquarie for hosting us again. Thank you all for joining this call at this hour, much appreciate your time and patience today. Before I start, let me just give you a quick high-level update on our Q1 results.

In all it has been and as all of you know that we are in our consolidation phase, not necessarily a great quarter from an operational standpoint but from a strategic standpoint, I think we have secured significant levers around our business. We are particularly pleased with the fact that our regulated business is now growing steadily quarter-on-quarter and the things for that business especially manufacturing, compliance, approvals and market share growth in Australia and the US are doing extremely well. And that of course is going to be the key part of our future growth. So we are very delighted with the growth there.

What is important for many of you to understand is that we have had nine odd inorganic transactions in the last 18 months. Several of them have integrated well, some of them have not within the timeframes that we had expected or anticipated, but work is in progress and strategically we seem to be well on track to become an important player in this space being fully integrated with phenomenal front end businesses.

The key highlights, I would rather say the key negative of the business for this quarter has been that there has been a significant drop of revenues in two of our key businesses, Pharmaceutical Services and active ingredients had a drop of around 70 Crores in this quarter compared to last quarter and our institutional business although grew significantly in a comparative quarter YoY, from the Q4 it dropped by about another 70 Crores. So these were the two big parts of the business, which probably contributed significantly to a drop in revenues. We would have probably been happier with about 7% to 8% increase in our revenue growth probably 10% to 12% increase in our EBITDA numbers and I think this is just a matter of timing. API business is structured strategically to focus on fewer customers and fewer markets given the current standards of compliance and regulatory standards that are required in this business. We need to
work more on improving our pricing here considering that we have long-term supply contracts on APIs. So it is very hard to move the needle, but we are working very hard on achieving that.

Q4 had a very strong institutional business given that the funding had budgetary allocation, which was higher in the quarter. We are seeing a strong rebound in our institutional business although like I said it has grown significantly over the corresponding quarter. We are seeing a strong rebound for that business and we can now confirm that we have very strong order books for the rest of the year. So we are very delighted with that. In all please look at Strides as a company as work-in-progress, several parts of our business are consolidated and performing well and some are not.

Our emerging markets business continues to suffer from the recent inorganic so the core pharmaceutical business in Africa has been solved for in terms of the primary and secondary mismatches. We think that we are completely behind that patch. It is a long cycle time of eight to nine months, but we are now resolved for that; however, our recent inorganic in India have not yet been fully integrated into our domestic operations. That is primarily because of supply chain disruption, transition from companies, loss of headcounts given the transition, but all that seems to be resolved, and IMS is picking up positive data on our business ramping back to more than the acquired levels in our CNS business. So we are happy with that.

R&D expenses have been higher, so if you look at sequential quarters and corresponding quarters, we are shifting gears. Our R&D spend has increased, so if you adjust for that then the EBITDA would be slightly more higher. So we are continuing to focus on growth. We are heavily investing on R&D and we are very happy with how our business is panning. I am sure I would have been a little bit more pleased with, had we reported slightly higher EBITDA number but I would like to assume this is a very temporary phenomenon and we should be back with strong performances in the near term.

With that I am going to let Shashank, my colleague and new CEO who has been with us for two quarters now for him to address the community in terms of some talking points on our business and then we will open the forum for questions. Thank you.

Shashank Sinha:

Thank you Arun. As Arun mentioned there have been many moving parts, multiple transactions so therefore this quarter was not comparable in that sense and clearly the first quarter tends to be a soft quarter in the cyclicity of our business. So it tends to skew much heavier towards the year end of a variety of reasons. Yet, I think, if we look at our regulated markets, the core business has delivered a consistent operating performance. It is showing good traction. We have consolidated well. The acquisitions that we have made in the US and in Australia have been completed. We have established a strong front end presence. Our product pipeline is healthy. We have received approvals for new products. We are seeing that the approval rates under the new guidelines have actually contracted and we are seeing some approvals coming out faster than they used in the
past. So I think that overall our regulated markets business in Australia, US, UK is trending well and that is really the core of our future growth strategy. So that gives us a lot of encouragement.

I think as far as the institutional business is concerned, Q4 is really not a comparable quarter. I think we should really compare our institutional business to the same quarter last year and if we look at that we have had a pretty healthy quarter this year. We have strong performance in our anti-malarial portfolio and also pretty good product mix. So that has also been a good performer in Q1. I think in emerging markets, because of again, what Arun mentioned earlier multiple transactions in India as well as in Africa there have been different levels of traction. Our Africa business overall is a strong business. We have more or less an unmatched footprint in Africa as far as our go to market capability is concerned. We have acquired a very good business there in Kenya, which is actually tracking extremely well and we are encouraged by the results we are seeing out of that. We also see that there is severe economic, political and currency related headwinds and I think for the time being we are consolidating what we have in Africa, we are cleaning up the system, we are also getting rid of excess inventory, so I think there is a whole lot of initiatives which are basically getting our business in better shape in Africa and clearly we will start to see encouraging results out of these initiatives in the coming period.

The India business I think we are done with the most of the integration. The trends we are seeing in the India business are very encouraging. We again have a very good business because of the acquisition, we now are a national company and for the first time Strides as a pharmaceutical player will have a pan India coverage with sales people and with a much wider product portfolio. We have rearranged our sales systems, we have put a lot of discipline in our supply chain and I think that our India business is now well on track.

I think the last part of what I wanted to mention is our PSAI business and particularly out of that our API business. The API business as again Arun mentioned in the headlines was weak, as we have been impacted by lower consumer offtake and also our inability to change prices based on long-term contracts with supply contracts with customers.

You have already seen in the press release that we have taken a strategic decision as far as the API business is concerned. It is a different type of business. I only want to underline here that if we were to exclude the API business, our base business EBITDA improves by 200-basis points, so in fact without the API business we would be tracking at around 19% EBITDA.

So I think I will stop here and turn it over to you and we will be more than happy to provide more details or answer more questions.

Moderator: Thank you. Ladies and Gentlemen we will now begin the question-and-answer session. We will take the first question from Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Thanks and good evening to all. Sir just trying to understand the Q1 numbers better I am not able to understand whether it is a case of negative operating leverage where we had lower sales from
PSAI and emerging markets institutional business or should we have seen better margins because of lower sales from ARV and API business which are lower margin business?

Arun Kumar: It is negative operating leverage with emerging markets and APIs, not with institutional business because institutional does not have any SG&A cost. So it is more to do with the negative leverage is due to lower offtake in the API business and the emerging markets being a front-ended B2C business costs are ahead of revenues.

Prakash Agarwal: But would not the margin should have been better with the mix being better because ARV as you said lumpy and not to that extent grown and the CRAMS and the API all being lower growth so has not the mix improved and hence we have seen better gross margins and better EBITDA margins?

Arun Kumar: We are not debating on that, we do not disclose it either as we do not guide margins by business units. Our institutional business is amongst the highest performing business in the company for many quarters and this quarter also it continues to deliver very strong performances. The real challenges is mainly in the API business and to a very large extent in the emerging markets business because both these businesses are currently running on single digit EBITDA which traditionally are significantly higher especially in the emerging markets.

Prakash Agarwal: Which one you expect to recover faster?

Arun Kumar: The emerging markets.

Prakash Agarwal: Yes I will come back no problem.

Moderator: Thank you. We have next question from Chunky Shah from Credit Suisse. Please go ahead.

Chunky Shah: Good evening. One question on the institutional business you said that now you are seeing volume uptake and you have a good visibility on the order book so in terms of quarterly run rate can we expect it to go back to 4Q level or how much below or how much upside can we see from this quarter level and my second question is on the Australian business in terms of the constant currency growth there for this particular quarter would it be up because last year in constant currency the Australian business was actually down, so for this particularly is that business up?

Arun Kumar: Chunky, see if you look at our institutional business last year we did close to about 600 Crores. Try and understand that 200 Crores of that was in Q4 so almost one-third of the business came in Q4 and we are already 1.5x of run rate are almost 40% up of our run rate on Q1 so it started of well. Now malarial contract as you probably are aware ends in December so it is being re-tendered and we do not know what is going to be offered for the malarial business. What we are very confident and we confirm that we would probably meet or exceed the last year’s run rate irrespective of a low offtake of malaria in Q4 assuming that the tenders would be announced. There is a typical lag of three months when the tenders are announced and offtake starts, so there
will be a significant uptick before a tender closes and once the tender has been announced, we expect that what is typically sold in four quarters will be sold in three quarters and we are not very sure about how Q4 will look, but in all we have seen visibility of meeting or beating last year’s annualized institutional revenue of 600 Crores.

Chunky Shah: In terms of large part of our discussion was around malaria but in terms of HIV would that be when you say it was lumpy what you would referring to higher it was higher in this quarter?

Arun Kumar: No, in Q1 the Malaria was higher but Q2 and Q3 the ARV will also be higher.

Chunky Shah: The second question was on Australia?

Arun Kumar: Sequentially Chunky it is flat it is not degrown it is flat.

Chunky Shah: And Y-o-Y?

Arun Kumar: It is not comparable because we do not have a comparable number. We had it only for seven months.

Chunky Shah: Agreed, no, I am talking of the Arrow business on its own even before so it was not part of Strides, agreed, but on its own?

Arun Kumar: I will do the math and come back to you separately.

Chunky Shah: Thank you.

Moderator: Thank you. The next question is from Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan P: Thank you for taking my question. Sir my question is around the margins and also the contribution from the share of minority interest because I remember that hitherto we have been gaining some of the share of on a minority but this time that is kind of being negative for us, so if you can throw some light on number one is I can see that there is bulge in our employee cost and our other expenses and also on the minority interest in terms of how this is going to improve going forward?

Arun Kumar: In this quarter we have consolidated two significant companies where we own 51% ownership Universal Corporation in Kenya and Pharmacy Alliance in Australia. Pharmacy Alliance was the pharmacy management company and Universal is fairly significant East African pharmaceutical company. Both these companies are significant in terms of our revenue and EBITDAs and therefore the minority interest will continue to be at these levels if not slightly more as these companies play a very important role in our overall growth strategy going forward.
Sudarshan P: On the cost side in terms of the other expenses and the employee cost one have seen a sequential jump as well as on a year-on-year jump so any specific comments on this and how do we see the margins probably for the full year?

Arun Kumar: My colleague Badree will answer.

Badree Komandur: As far as the employee cost is concerned it has moved from 17.5% last year to 18.8%. This mainly because of the international businesses being consolidated in the current quarter and the movement is predominantly because of that.

Arun Kumar: So just understand that as we move our business to more front-end it is normal for a SG&A cost to be higher and you will see this growing but obviously you will see also margins and revenues growing accordingly.

Sudarshan P: Sir one more question from my side on the international side there has been some talk about this TauRx, which is in Alzheimer. Do we have anything to do with this molecule?

Arun Kumar: The TauRx is Alzheimer’s molecule that was being developed at the erstwhile Shasun site in New Castle which has since been carved out. So we do not have a continued interest in this business. The product is nowhere near approvals. There is a lot of talk about it but there is no Alzheimer drug, which is close to an approval process and if it does it is not a very material product given the low cost of this molecule.

Sudarshan P: Thanks a lot Sir. I am joining back the queue.

Moderator: Thank you. The next question is from Kumar Saurav from Motilal Oswal. Please go ahead.

Kumar Saurav: Thanks for taking my question. Sir it would be great if you can throw some light on the biotech business how should we look at it going forward and what would be the way of monetization from this business?

Arun Kumar: Just that I want to remind you if you already do not know about it, in the last press release we announced that the biotech division is being spun off as a separate listed company. The court process is expected to be completed before April and that will be a separate company on its own. It will no more be part of the Strides business. It has been at works so long, we finally got all the necessary approvals to go ahead and spin this off. So it is a very different company and you are more than welcome to talk to management at Stelis, which we can organise at any which time you like, so that you can understand how that business will evolve.

Kumar Saurav: Sir this API business the commodity API particularly we have put it in a 100% subsidiary any thoughts around that?
Arun Kumar: What we have done is that just to be very clear here, there are about five or six APIs which constitute about 90% of our current API revenues of which only about between 12% and 15% is what we consume captively. So our idea about this when we announced the transaction with Shasun was about getting the knowledge and the capacities that are available to develop APIs for our own formulation development. So we have doubled our R&D spend out of our Chennai operations and out of the 35 DMFs almost about 15 to 20 of these DMFs will be now no more be available for third party sales that means we will be consuming these APIs ourselves, but however these commodity APIs which are legacy since we consume very little of this there is no way we can consume for example 5000 tonnes of ibuprofen when we can consume only 500 tonnes ourselves at best. That business cannot afford the cost structure of a large operation that we run and therefore it actually is getting impacted by the loading of our corporate overheads over a business where the margins are very low. So we have only taken out the commodity products, the two API plants in the wholly owned company. That facility will continue to manufacture for the main core in terms of all the new APIs. There is an expansion that has already been announced, there is a spend of around 300 Crores over the next two years where there is a new plant being set up which will be a captive facility that is going to be for captive use and then the commodity business will trade as purely third party API business. We believe that there is an opportunity given all the challenges coming out from China and we are seeing a lot of it today from a compliance perspective. We see value in retaining this business, course correcting it strategically and we think that will take a year or two and then we look at strategic options that could be available for us at that time, so that is the thinking around it and that is the rationale behind our decision today.

Kumar Saurav: I have few more questions I will join back the queue. Thank you.

Moderator: Thank you. Next question is from Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Thanks for taking my question. Arun, you mentioned the fact about the consolidation process it is still the work-in-progress. If you can help us get some flavor of the way you see the business really playing through over the next 12 to 18 months as the different phase of the consolidation process are underway, how should we look at the milestones and the progress of business in general?

Arun Kumar: Nitin let us take the API business which is the easiest to discuss that is about it used to be 45% of our turnover when we did announce the deal with Shasun. That is about 25% of our annualized run rate now. So we have brought it down to that extent. We do not intent this business to be more than 15% of our going out revenues in the next 18 months. So here our objective is that it is going to take us that much time to get this business course corrected. So it is going to operate at a fairly low EBITDA for a long time that is one part of the business. The regulated market business if you look at the business is now growing steadily and we are not even seeing any big linearity issues. We think starting from this quarter investors will see sequential growth quarter-on-quarter except for some quarters, there will be lot more linearity in our sequential growth in our REG
market so we are seeing a visibility of close to 400 Crores a quarter and we believe we can grow that business. So technically that business does not require any additional interventions in terms of synergy settling or leadership issues or any of those matters. The key part of our business and what will take lot of attention in the emerging markets. So the emerging market is now becoming a fairly large part of our business yet is the lowest contributing on EBITDA and two years ago this business used to deliver 23% to 25% EBITDA. We are now in single digits. This is mainly to do with the course corrections that Shashank spoke earlier and I spoke in previous calls about mismatches in secondary and primary. I think we have done with all of that. I believe that you will see from H2 the emerging markets coming back on stream with above company average EBITDAs. So we have done a lot of work. There is a lot of new leaderships that has arrived in that P&L and a lot of under recovery in new markets have since stopped so that is good news. The institutional business is an above company average EBITDA business. We think it is going to stay back there for some more time. So except for the API business you should assume that by the end of this financial year we would have got three of our most important businesses fully operating with linearity. The API business I must admit is taking a little longer than what I assume. When we have the new cost of compliance and quality standards we find this business to be very hard to crack in the near-term and this probably could be more to do with the current regulatory environment and also to do with the fact that our assumptions that we could improve pricing in it is not working the way we assumed because of the long-term contracts that the company had entered into with the customers. So what we are focusing on is to keep the API business steady state and probably work on improving those margins by 2 to 3% points during this year but the rest of the businesses take it significantly up and even with a higher R&D spend can we have a combined EBITDA greater than what we did last year in terms of percentage terms, we strongly believe we can do that even now.

Nitin Agarwal: On the regulated markets US is going to be obviously piece now we did get a couple of pretty decent approvals in the last quarter and how do you see the rest of the quarters really playing out for the US in terms of approvals and margins?

Arun Kumar: We kind of alluded the community to around eight approvals we are on track.

Nitin Agarwal: Thank you.

Moderator: Thank you. The next question is from Chunky Shah from Credit Suisse. Please go ahead.

Chunky Shah: Just more clarity on the API business so when you said that your margins are now at single digit so are the margins at lower level than what we acquired and you pointed out that we were not able to take price increases that we thought we will be able to so that is in our part of the synergies but if you compare to what the margins were doing before we acquired or during the course over the past one year so what has changed which has led the margin decline and in terms of the compliance cost can you elaborate more on that how has that impacted and what exactly do you mean when you say that compliance cost is increasing?
Arun Kumar: Chunky when we acquired this business the margins of the API business was 10% in less than two quarters the margins of the business reached 13% to 15% in that range so we were encouraged by the fact that we could take up the margins by 500-basis points on a fairly large base but since then the when we are harmonizing the companies Shasun’s quality standards and regulatory compliance standards with the rest of the organization and most importantly what the regulators want today we had to significantly increase our cost base in terms of new talent so that is what is and obviously compliance cost is leading to a higher cost of people especially in the quality and the quality control elements of that business. Plus we continue our investment for a Japanese portfolio and as you know the Japanese portfolio the R&D spend is fairly higher and the portfolio is very small yet, we expect that business to be significant in the next three to four years. So if you adjust for the R&D spend on the API business then the margins are single digits. Now we think that it is a matter of time when we can get back to 15% to 20% range but we are estimating this as two years compared to the earlier one year we had planned.

Chunky Shah: On employee cost earlier participant had asked you so basically on the Q-o-Q basis there is a jump of 17% so if you adjust for the couple of acquisitions that is there in this quarter is this on a run rate, which is sustainable, or are there any one-offs in this quarter?

Arun Kumar: There are no one-offs in the current quarter.

Chunky Shah: So there is no onetime payment so it is a sustainable run rate for the rest of the year?

Arun Kumar: That is right.

Chunky Shah: Thank you.

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

Prakash Agarwal: Thanks for the opportunity again. Just trying to understand Australia piece better in terms what we have earlier alluded in terms of bringing some products back to India to improve margins where are we in our one to two year program?

Arun Kumar: 25% not number of products, 25% of EBITDA positive impact will happen within this financial year. We are a little ahead of schedule on those products, the synergies that we had planned here is between $15 and $20 million over the next two to three years on our baseline products procurement from third parties, 25% of that would be achieved this year which is approximately two quarters ahead of that.

Prakash Agarwal: So 25% of the $20 million worth of cost of goods sold?

Arun Kumar: Cost of goods improvement.

Prakash Agarwal: Would it be a function of number of products or not really?
Arun Kumar: Now we are taking most impactful products because either we are not getting enough supply from a current provider of the costs are very high. So it is not number of products, by the time we do all the products it will be at least two years.

Prakash Agarwal: Question for Badree on the forex piece so this is largely the MTM forex loss with Australia debt?

Badree Komandur: India debt so where the functional currency is in rupees and we have some ECBs in India so this happened in the last four days of the quarter because of the Brexit, lot of other currency exchange the current rate we do not see any loss as this was a mark-to-market specifically on June 30.

Prakash Agarwal: But this is for the US dollar denominate ECB loans in India that is what you are saying.

Badree Komandur: That is correct.

Prakash Agarwal: If you could help us with the capex number for the quarter and the year and the debt?

Arun Kumar: The total capex for the year is about a 150 Crores. We do not know exactly how much we spent this quarter, but we can give that to you Prakash offline?

Badree Komandur: 2264 Crores as of June 30 is the net pharma debt.

Prakash Agarwal: 2264.

Arun Kumar: Yes including working capital.

Prakash Agarwal: And Sir gross debt also.

Arun Kumar: Pharma business I am saying the gross debt is 3747 Crores and the cash and cash equivalent is 1474 the net debt is 2264.

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

Brijesh Kasera: Good evening. Sir one question on the regulated markets last quarter you reported a revenue of 374 Crores from the regulated market. This quarter have been flattish so even after consolidating generic partners into the business plus there were couple of products that you launched in the US market so was there any degrowth in the base portfolio that we saw in the US or the Australian business?

Arun Kumar: Our generic partners was not consolidated it was the deal closed only on this last week so not the consolidation has happened on generic partners. As far as there has been no degrowth on any business so typically Q4 tends to be slightly greater especially for us in Australia when we supply a lot of the winter-related products stocking up with the cold season, which is exactly opposite on
the US so that is why we had a slightly higher sale in Q4, but otherwise if you adjust for that we are actually grown we are growing a bit so generic partners has not been consolidated typically a more specific answer.

Brijesh Kasera: Thanks a lot.

Moderator: Thank you. The next question is from Kumar Saurav from Motilal Oswal. Please go ahead.

Kumar Saurav: Sir on African business we have a pretty robust plan of adding sales force for our branded business particularly which would have helped driving our growth so how is that shaping up and if you can throw some color on that?

Arun Kumar: We are now at 250 reps so we are moving up a bit there and we are adding people but at this time we are also focusing on efficiency of sales force, effectiveness of our existing headcount so we are at 250 now and probably we will add another between 25 and 50 before the end of the year.

Kumar Saurav: Sir when you say that EM business margins should significantly improve going forward is it fair to assume that in terms of adding pieces or expansion plan on M&A front particularly we are largely done with it for time being?

Arun Kumar: Yes we are.

Kumar Saurav: Thanks a lot.

Moderator: Thank you. Next question is from Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Sir on the India piece I guess with the amount of regulatory issues, which has began to crop up in the market over the last few quarters how much were impact has it been for our view on the business and the transaction that we have undertaken in the recent past?

Arun Kumar: You are referring to the domestic market guidelines?

Nitin Agarwal: Yes I mean the domestic various multiple issues with sort of come through at the regulatory side?

Arun Kumar: Yes as for the base business, Nitin what we have been running has been compliant for at least three years so when I am alluding to course correction is basically to say that we technically did not sell anything until we got the new sales behaviors in place and the supply chain orientation right. Like I said if you go back and check with IMS today we have bounced back on the CNS business completely and we think we will even grow better than at what we bought, so yes to a large extent there was a shift of behaviors especially with the Medispan business less to do with the CNS business. It has taken us a little time to get the behaviors right. We have been very compliant some I guess blame us for being over compliant as far as the domestic market is concerned. The rest of the business now is just aligned to it and that has slightly impacted
performance, but that was the design. It is more to do with supply chain disruptions that we were transitioning from Sun Pharma Manufacturers, the Johnson & Johnson Manufacturers either in house or to another source including retaining the whole same supply chain. Getting all the quality systems in place took us little more than what it should normally have, but like I said we are now back on stock on every skew in the market place.

Nitin Agarwal: Arun on a two to three year view where do you see this business and eventually how do you see the business playing out over a little bit of a longer timeframe in terms of size scale given where we are, are there more pieces that you need to fill in gaps you need to fill to get it more bulkier or how do you see this thing playing out this piece per se playing out?

Arun Kumar: You are talking about the emerging market place?

Nitin Agarwal: The India piece in that particular.

Arun Kumar: I think with India we are done like Shashank mentioned we are in all India we do not find assets which are necessarily cost effective from a price standpoint to acquire so our focus and all is all on organic, quality of sales improved productivity. We hope our run rate are going out quarter we will give us take a business from what it was 100 Crores to about 270 to 300 Crores so that it is a fairly large move from where we were for many, many years and from there if we grow the average industry norm we will not be a very big player but we will be a relevant player in two to three years.

Nitin Agarwal: 270, 280 Crores by what is the timeframe you are talking about?

Arun Kumar: Going out this financial year we will be 270 to 280 Crores. Shashank want to add something?

Shashank Sinha: If I may just add. I think basically the India business our focus is on now that we have national distribution. There is significant headroom for growth in our current portfolio because we have acquired regional portfolio of strong brand. We are integrating different field forces and sales teams into one sales team, we are putting a lot of discipline and hygiene which is mostly done now in the system, so now our focus will be on delivering and achieving or exploiting the headroom for growth in a current portfolio. The second piece of that is on productivity, so clearly to a certain extent investments have been ahead of realizing the growth and as that kicks, with higher productivity there is headroom for growth that we will realize. I think that we will get the kind of results that we are expecting in India so that is really our focus. I think that we have wide enough portfolio in India and a wide enough sales force in India at the movement.

Nitin Agarwal: Thank you.

Moderator: Thank you. The next question is from Alekh Dalal from One Thirty Capital. Please go ahead.
Alekh Dalal: As you look at the build out of the business in terms of the acquisition strategy if you look at the older pieces Shasun obviously the API business now has had significant margin contraction that is one in the Africa business and the emerging markets business all which taken margin compression and seems like some inventory channel something that seems well been they have come for so now how do you think about the acquisition strategy going forward or what are the things you have got wrong here that you could have done better or how do you think of it because obviously in Q4 you are looking to build the business for more acquisitions come for many year or so. So could you shed some light on that? Thanks.

Arun Kumar: I think from a strategic standpoint there is nothing on an acquisition strategy, which has gone wrong. What probably could have gone wrong is our anticipation of the synergies flowing through these businesses so probably it would have taken one or two quarters more than what we had anticipated but we do not see any issue. Talking about the API margin contraction at the Shasun API business it is more temporary because we know that we have to invest ahead of time for compliance and if you are compliant then you can price if you are not compliant you cannot price in the first place. So our business is high capex long gestation, you put money upfront and then you wait for the business to evolve and I think it is just that since there are several moving parts. You cannot assume that the M&A strategy have not worked up. We have excelled in M&As, firm has acquired stressed assets, turned them around, build them to significantly profitable businesses and we believe every single deal that we announce meets that criteria we do not put money for trophy assets. We are very focused on return on capital and sometimes we do businesses, which may not make financial sense but makes significant strategic sense so it takes time and patient investors to understand how value evolves at strides.

Alekh Dalal: Thanks.

Moderator: Thank you. We well take the last two questions first we will take from Dhiresh Pathak from Goldman Sachs. Please go ahead.

Dhiresh Pathak: Thank you. Can you give me the constant currency and the sales for Australia business, India and the emerging markets for this quarter year-over-year?

Arun Kumar: We do not give individual splits between markets. It is a policy of the company.

Dhiresh Pathak: Thank you.

Moderator: Thank you. The next question is from Chunky Shah from Credit Suisse. Please go ahead.

Chunky Shah: Thank you for giving me the last opportunity. On emerging market EBITDA margins have been declined right I just wanted to understand whether the major impact is from India or Africa also Africa sequentially have the sales increased or they are down last quarter from the March quarter?
Arun Kumar: Sequentially, without adding any of the acquisition, it is down and that is mainly to do with us not stuffing the market anymore till the pipe gets cleared. Like I said that is the only reason, so we are still holding up stocks but not selling primarily so we are not booking revenues and that period has ended. So we are very confident that that phase is over for the company and you see the results as soon as this quarter end and we speak again. India the base business has grown. It has grown well but the acquired businesses which is almost 100 Crores of annualized sales we are doing Sun Pharma, Johnson & Johnson and Medispan has obviously contracted and that was contracted mainly due to supply chain issues and also to set the behaviors right from day one so that we do not have to repeat of our Africa experience. I can assure you that the emerging markets primarily secondary issues have been resolved. We acquired universal in Africa and it is performing well. For EM we should come back with some strong results much sooner than you anticipate.

Chunky Shah: Sir on the secondary, primary I think so this had started and I think in the first quarter of last year or in the middle of last year and you have alluded in the previous calls as well that you it is sort the channel inventory days had reduced from four months to two months and then it was sort of almost solved in the previous quarter so just a bit surprised that this has continued for such a long period?

Arun Kumar: Yes so when we did the deep dive analysis we found that there is a possibility to reduce our primary secondary cycle time this is a nine month gestation period for Africa by at least another three months. That has resulted in delay in what we assumed was close to complete. Shashank was very firm on what he wanted to achieve in terms of some ratios and I think it works well for the organization to stay focused on that. Like I said I can assure you that this is now behind us and it is not something that we will be talking to you in next quarter.

Shashank Sinha: If I may add just some comment I think the first thing that we must all understand is that it is internal and it was deliberate so we made a strategic choice that we wanted to get the system back. We do not have external demand related issues. The second thing to understand is that the supply chain in Africa is long much longer than it is in India so not all emerging markets are the same, same initiatives in India will yield results much faster and therefore as I said at the beginning we are seeing the traction already, what we are measuring we are already seeing the impact of that. I think in Africa it has taken little bit longer. I am not surprised we are in 28 countries of different parts of Africa so by the time we get that last country in shape, it spilled over into this quarter. I think that bulk of the hard work is done and what we are seeing is that the trends are very encouraging. As Arun mentioned we expect that the African business will be back to its desired levels of hygiene that we wanted within this quarter so I think we should start seeing the results of that very soon.

Arun Kumar: Chunky just to let you know if you refer IMS wherever IMS is available in Africa you see Strides has the highest growth in secondary sales in the last four quarters amongst all Indian companies so I just confirming that our secondary sales is growing phenomenally and we want to be sure
that the gap is in secondary and primary is minimum and at right levels so we are more than happy to share data with you. There is no company that has even grown half of our growth rates in Africa in the last five quarters.

**Chunky Shah:** The hit on the EBITDA margin is largely due to our primarily sales being slow and then the cost being loaded, so this is largely on the branded side of the business right?

**Arun Kumar:** That is right.

**Chunky Shah:** On the generic side things are well or any update on that the generic-generic in Africa for Africa strategy?

**Arun Kumar:** Yes so the generic side things are going alright but there the headwinds are more to do with the devaluations and volatility and therefore procurement power of the governments and all of that so we have a credit exposure limits fixed so that we do not have any halogens around this market. It is more to do with political issues geopolitical issues whereas the brand business is just a hygiene matter of the function of the hygiene.

**Chunky Shah:** Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen that was the last question I now hand the conference over to the management for their closing comments.

**Arun Kumar:** Thank you I really appreciate on behalf of Shashank, Badree and my team. I thank you all for joining in today and feel free as always to write to us or contact us or Sandeep and we will be more than delighted to answer any specific questions you may have. Thank you all. Have a great evening.

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

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