Strides Shasun

"Strides Shashun 3Q FY2018 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, good day and welcome to Strides Shasun's 3Q FY2018 Earnings Conference Call. As a remainder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case you need assistance during the conference call please 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. Alankar Garude. Thank you, and over to you, Sir!

Alankar Garude: Good day and a warm welcome to all participants. On behalf of Macquarie, I would like to welcome you all to the Q3 FY2018 earnings conference call of Strides Shasun. From the management, we have with us Mr. Shashank Sinha, Managing Director and Mr. Badree Komandur, Executive Director. Thanks to the management for giving us this opportunity. Over to you Sir for the opening remarks!

Shashank Sinha: Thank you Alankar. Good afternoon and welcome to all of you. Thank you for joining on a busy day of earnings today. I would like to welcome you to our third quarter earnings call. I am joined by Badree as mentioned before and other team members. Before we get into the financials, I would like to spend a couple of minutes underlining the fact that we have been pursuing our strategy with discipline in the previous quarters.

There are three pillars to our strategy. First our focus on regulated market, secondly our effort to build a repeatable business model and third to drive operating leverage and in this quarter I am pleased that we are able to see some early benefits of this strategy coming through and I will talk a little bit more about it as we go on.

In Q3 we are reporting number of the continuing business and the rationale for doing that is to give visibility of our repeatable model on a like-for-like basis. The reported Q3 EBITDA is for the continuing business, which means it is net off the demerging API business and net off the divested India brands business number one. This EBITDA is also adjusted for the temporary upfront advertising investment that we have been making in our consumer healthcare business last quarter and this quarter and I will give you some explanation of how this is going to trend as we taper it down in the future. Because this is for a temporary period we are adjusting our EBITDA for the advertising investments and on that basis the Q3 EBITDA we are reporting was 144 Crores the like-for-like comparison to last quarter is 121 Crores and the same number in Q1 was 79 Crores, so 79 Crores in Q1, 121 Crores last quarter and 144 Crores this quarter.

The impact of advertising investment that we have adjusted here, which is behind our consumer healthcare business was negative 12 Crores in this quarter, which is down from negative 16 Crores last quarter. This will taper down as I just mentioned to around 5 to 6 Crores next quarter and will become negligible from the first quarter of FY2019.

Our sequential earnings growth is mainly driven by the performance and the ramp up in our regulated market business. The regulated market business now comprises nearly 80% of our portfolio of our total business. This when you compare it to last year was about 60%, so the weightage of regulated market business has gone from 60% odd, 62% odd to close to about 80% of our business. The regulated market business was 585 Crores this quarter, this is up from 500 Crores last quarter and was 415 Crores in Q1 and again you will see these quarter-on-quarter numbers in the press release that we have put out.

Our US portfolio now is about 1.5 times last year size and this is driven by both a stable base business and good new product growth. The base US portfolio is built mainly around some strong market share positions that our products continue to enjoy and therefore is relatively well protected against price erosion. Again we have a niche portfolio so the price erosion that is being talked about in the industry is perhaps less relevant for our portfolio even so to give you an example for our Ranitidine business. Our market share this quarter was 33%, which is up 6% points compared to what we reported last quarter, which was 27% and for a product like this we do not see any price erosion.

Similarly our Vitamin D product Ergocalciferol where we are the market leader with 42% market share, we continue to maintain our market share and again we do not see much evidence of price erosion. So therefore our base portfolio is well protected against significant price erosion. We launch two big products as we mentioned in the last quarter potassium citrate extended release tablet and we also launched Omega-3 and as you would recollect last quarter it was launched towards the end of last quarter. These two products are contending with some aggressive pricing action from incumbent players, which in some ways is natural as it defends their market share position with our entry. So they are contending with that, but the products are being distributed with key customers and are tracking well, they are in line to achieve their market share objectives, which we have stated earlier of more than 20% and as these progresses we will continue to report back in the future.

I want to talk a little bit about our R&D program, which is mainly targeted to the regulated markets, mainly to the US markets; we continue to invest in our R&D program. The investment in our R&D program this quarter was 42 Crores this is up 4 Crores from last quarter where it was 38 Crores, 12 new products have already been filed this year, we have stated our objective of filing 15 to 20 new products during the fiscal and we are on track to achieve that, to deliver that. Cumulatively so far we have filed 74 ANDA applications of which 44 have been approved and of the 44 we have received 12 approvals so far this fiscal. We obviously would like to launch most of our new product approvals into the market as quickly as possible and we are doing that in a majority of cases, but we are also being disciplined about ensuring that the timing of launch of these products is based on the market and the pricing and the margin scenarios and while time to market is important, we also believe timing to market is important to ensure that we have a profitable portfolio. Certainly in an environment where there is a lot of shakeout in the US generics market with legacy players rationalizing their portfolio. So sometime in a few cases we have experienced that it is perhaps better to wait for the right opportunity to launch our products immediately and we are taking those decisions product-by-product.

So that is about our US business I want to turn to our Australian business. We have obviously a leadership position in Australia it is a good strong business and it continues to track well. I am pleased that the integration of the acquired Amneal business is ahead of schedule and therefore the synergy benefits will flow through faster than we had anticipated in the future periods. Our distribution reach has grown to 1200 pharmacies this quarter compared with 1000 pharmacies last quarter a lot of that obviously is the new distribution we have gained and the distribution synergy we gained from the Amneal acquisition. We have launched 23 new products this year of which 9 were launched in Q3, so our new product launch momentum is also gathering speed. The backward integration program, which is really crucial as we go forward in margin expansion, is accelerating. We had been awaiting approval of site transfer applications from TGA. We have now received 13 site transfer approvals and in fact we have commenced supplies for several of them from India. This is obviously good to gather pace and as that happens we will see the benefits of reduction in cost of goods flow through to our margins. These are objectives that by the end of next fiscal we will have backward integrated roughly half of our Australian portfolio.

So let me turn now to the emerging markets and the institutional business where you will see that we have dropped in Q3, which is mainly due to the timing of orders of the institutional malarial business I will come to it in a minute. Now compared to 270 Crores of revenue last quarter our emerging institutional business this quarter was 169 Crores roughly 100 Crores down in revenue and obviously is consequent gross margin impact on the business. The tenders for our institutional business they have been won, so last quarter we had reported that we were awaiting the tender awards, these awards have been made, we have won our tenders and we have received our volume share of the total business. However the procurement orders from the beneficiary agencies who this funding goes to those orders are expecting in Q4 and supplies are expected to commence from Q1 of the next fiscal. So that is about the malaria business purely timing issue we should recover the drop sales that you are seeing in this quarter from Q1 FY2019. The ARV business has also been hit unexpectedly by supply chain disruption, mainly from API suppliers ex-China and that obviously has also kind of curtails the total availability of API for the ARV business, which again we expect in time will come back to normal.

On the other hand, the good news is that our UCL business, which is the Kenyan operation that we have where we have been busy upgrading the quality systems, upgrading the processes and also we had the certification of that side as a GNP side by the World Health Organization, which was reported last quarter. We have received our first site transfer approval from WHO for this side, which means that we will now be able to supply those approved products for the institutional business, which finally go into Africa from the Kenyan side and that should commence with the first approval now in. We expect to receive more site transfer approval and therefore a part of our institutional business portfolio, which shift from our Bengaluru flagship facility to the Kenyan facility, which was the rationale for this acquisition.

The Africa brands business remain study is tracking well and obviously there this is underpinned by good brands with strong market share is a sticky business and therefore that is tracking well. With that I will conclude my opening remarks and obviously we will open the line for questions both Badree and I will be happy to address questions that you have. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. First question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Thanks for the opportunity. Sir just trying to understand the Q-on-Q movement of the regulated market, so understand you have an acquisition of Amneal in Australia, so ex-acquisition how would we have grown in the regulated markets if you could give colour and would it be fair to assume that growth in US is higher versus the Australia base?

Shashank Sinha: The simple answer to your question is yes. The growth in US is significantly higher because obviously the base is smaller and we are launching many new products, which as I remarked earlier so we have significantly higher growth in US the Australian portfolio base is obviously much bigger and there your question was related to the impact of the Amneal acquisition right.

Prakash Agarwal: That is right sir.

Shashank Sinha: Badree you have an idea for the Amneal acquisition.

Badree Komandur: It is incremental and it is not very material number Prakash.

Prakash Agarwal: I am just trying to understand is whether the full quarter impact of?

Badree Komandur: Yes, impact of Amneal has been put in the regulated market.

Prakash Agarwal: If we look at US and Australia how would had been the growth organically Y-o-Y and Q-on-Q?

Shashank Sinha: The US growth is upwards of 20% and obviously in the mix the Australian growth is high single digit.

Prakash Agarwal: The second question is trying to understand the deferment of the tenders, so one I understand the anti-malaria has been shifted to Q1 not Q4 and the ARV should come back to Q4 or that also shifts to FY2019?

Shashank Sinha: The tenders are not deferred Prakash the procurement orders and those we understand is not a deferment it is procedural delay. By the time the budgets get allocated and purchase orders are raised and this I believe is across the industry not specific to Strides. ARV is obviously sensitive to margin, so because of the shortage or the supply disruption of API we continue to watch the margins and it is not that there are no orders we will only accept orders where the margins are at our threshold levels. So again I am saying if the ARV disruption is mainly related to API supplies that pushes up API prices and squeezes margins and therefore it is more discretionary company-by-company, so we have certainly orders on the table that we could supply today, but we would stay away from them if that is below our threshold margin. I hope that answers your question.

Prakash Agarwal: And lastly on the gross margin and EBITDA margin if I look Y-o-Y, so gross margin is actually flat given the fact we had good US launches would have improved and actually EBITDA margin is actually down Y-o-Y, so just trying to understand this better would the emerging markets especially the tenders would that be above company level gross margins and EBITDA margin I am not able to get this?

Shashank Sinha: Difference in the gross margins is mainly because of the malaria we had an excellent quarter in last Q3 not the case in the current quarter and the gross margins are similar because what we got in malaria is replaced by the launches in US in the current quarter.

Prakash Agarwal: And the decline in EBITDA sir Y-o-Y?

Shashank Sinha: Decline in EBITDA is mainly because it is again the same reason in the sense that we also had the malaria decline was much higher than the new product launches, so to that extent it contributed to the EBTIDA margins also and second thing is there was also some small decline because of the CHC, which was about 1.9% so that those are the two factors, which contribute to the decline in EBITDA margins from 20.6% to 17.5%.

Prakash Agarwal: Thanks. If I have more questions I will join back the queue. Thank you.

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

Nitin Agarwal: Shashank on the ARV business now as you mentioned there is lot of supply disruptions and price escalation happening on the API side. Now we being reasonably sort of not vertically indicated in this segment so what is the strategic rationale for us to continue in this business given the fact that we are reasonably clinical in terms of approaching in terms of business segments?

Shashank Sinha: Yes vertical integration is not the big factor here the situation is for the entire industry it is not specific to Strides. We are an important supplier in the ARV portfolio and what we are talking about is our existing product portfolio we have several new products in our pipeline where there is not the same API situation, so as you know these are combinations right, double combinations, triple combinations and new molecules, which are in different combinations. ARV treatments evolve every few years and as the next phase of products come in we believe that still it is going to be a very interesting and incrementally a very good business to be and also the disruption is temporary because the reason for the disruption is related to some environmental issues among suppliers in China this we have seen in other APIs as well, but they sort that out and they come back into the market. So again it is temporary and I think that we have a pretty good position in the ARV market, we will continue to evolve our portfolio and improve our margin mix as we go along.

Nitin Agarwal: On that note have you filed for DTG combinations also and where we stand in terms of approvals?

Shashank Sinha: We have filed new products I would not go into the specifics of what combinations we have filed, but clearly we have filed for new combinations as they evolve and we are in close touch with authorities as to what is the evolving treatment and continue to adopt our portfolio to that.

Nitin Agarwal: And secondly on the US business you mentioned that the market share gains on the two big launches have been slow, would they have contributed in any meaningful way in the current quarter these two launches in revenue as well as profitability?

Shashank Sinha: So second question was whether they have contributed meaningfully, the answer is yes. I do not recollect saying that the market share has been slow I said that as we have ramped up in Q3. They have received distribution on the key customers and are on track to achieve their market share objective. Obviously these market shares will not be achieved on the first day, so as we go along this will get reported as well.

Nitin Agarwal: If so I mean just to finish that and do you see scope for further contribution from these two products in the coming quarters?

Shashank Sinha: Look the portfolio will include these products so as we report results in the coming quarter it will improve both these products as well.

Nitin Agarwal: Thank you.

Moderator: Thank you. The next question is from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead.

Pavan Ahluwalia: Two set of questions, one on the Australia business, could you give us a sense of why the Australia market looks the way it does, so it is not clear to me why the supplier market needs to be so concentrated because I understand that if you have a large disburse set of pharmacies it makes sense for that will be a small number of wholesale as because there are scale advantages and the ability of people to make bouquets, but these wholesale should be contracting with whoever it is around the world that can give them each specific product at possible cost. So if you could help us understand why aside from the wholesale market the supplier market has concentrated and that would be helpful and when you did these acquisitions whether it is Arrow or Amneal what were you really buying, were you buying relationships to pharmacies, were you buying brands that have customer mindset, were you buying products that had regulatory approval and also to the extent that you need to offshore some of the manufacturing of this really create margin expansion, create value in these acquisitions, how easy is it to do that from one Australian regulatory standpoint. The second broad question is the rationale for the API demerger so one reason for getting into Shasun to start well was the business case for being it fully integrated player in an era where cost pressure in generic drugs is intensifying substantially, by spinning of large part of the Shasun business are we basically saying look we do not see value and being a fully backward integrated player anymore?

Shashank Sinha: I just try to summarize the question so that I am able to answer it better. So the API question you wanted to understand was related to the rationale we have stated whether rationale of our business is to be a B2C business and Strides 2.0, which is the second coming of the Strides portfolio is basically concentrated on B2C business to the extent that the merger with Shasun was strategic was to provide vertical integration, source security, and cost advantages of the APIs for the products that we formulate in market to customers directly that is the rationale and that played out, is playing out, will play out in the in the future.

Pavan Ahluwalia: How will it play out if you are spinning it off and how are you B2C when you are really supplying to the Walmart, Rite Aid's of the world and the US, which are effectively businesses?

Shashank Sinha: And clearly we can spend more time with you on one-on-one to take you through some of the strategic aspects since the focus of this call is on the quarterly earnings, but to answer your question on how is it B2C business to customer is what B2C in the pharmaceutical business is right so we do not sell to consumers directly because the supply chain in regulated market does not allow you to sell to consumers directly unless of course Amazon comes in and you know consumers are buying online, but there is much into the future. However rather than the theoretical discussion I would say the vertical integration you said how will it be vertically integrated if you are selling, if you are demerging the business. Again we have stated in the past that we are keeping the strategic API business with us and demerging the commodity API business. The commentary talks about demerging of the commodity API business this is what we sell to the rest of the market. The strategic APIs we do not sell to the rest of the market it is only for captive use and we are keeping that. So that is the differentiation that I would like to draw there. On the Australian market your general question is quite broad and it requires us to spend some time for us to take you through how the business is structured, is a point well taken, but I would suggest that we take it offline for the benefit of the other people on this call.

Pavan Ahluwalia: Okay.

Moderator: Thank you. The next question is from the line of Amey Chalke from HDFC. Please go ahead.

Amey Chalke: I have just followup question from the earlier participant related to EBITDA margin, that the year-on-year decline was there from 19% to 16% in this quarter, so if we assume that it was on account of lower malaria sales in this quarter. So if this institutional sale is back again in the first quarter of FY2019 then do we see the margins again moving up to 18%, 19% kind of a level?

Shashank Sinha: Thank you for that question Amey. So we are close to 18% margin already without the benefit of the institutional business as I commented, if you look at that piece we have basically a negative revenue delta of 100 Crores in the emerging market in institutional business, when that comes back we will have the benefit of that clearly in our EBITDA margin and you are right we should expect that EBITDA margin to be back at that level.

Amey Chalke: And second question is on Australia business and going ahead how many launches do we expect in FY2019 and other thing is related to the in-house manufacturing we have stated that 50% of the business of the sales will transfer to our facilities in India and Singapore so how that would change the margin trajectory from here or the margins would change in FY2019 for that business?

Shashank Sinha: This new product is concerned we have an objective of 15 to 20 new product launches in Australia on a year-on-year basis you will appreciate that the total portfolio that we can take to market in Australia is about 300 odd products of which total portfolio in a pharmacy .When we become first line generics we have the opportunity to supply the entire assortment of which we are about two thirds of the way there with 200 products including the product that we got from the Amneal acquisition. So we still have headroom of about 100 odd products and we are aiming to launch between 15 and 20 new products it could be up or down a little bit from there year-on-year. Obviously there will be some tail products that would not make sense for us, but most of it we aim to do. Your other question is sorry can you repeat that?

Amey Chalke: Related to the in-house manufacturing that if we achieve that 50% of sales coming in from the Indian facilities or Singapore facility how much would be the margin impact?

Shashank Sinha: Yes, it is early days right now because as I said the first supplies started we have approvals, but we have not yet fully started the supplies. So I guess we will be in a position to answer that question a little bit better let us say the start of next fiscal year where we will have had one more quarter of more product supplies into Australia. Clearly the margin will go up, how much they can go up we will have to drill it down and look at the product-by-product cost of goods reduction based on what they are sourcing from third parties versus what we are able to supply in-house and we able to work that into the full margin. So it is a fair question, but we need some time before we can give you more details on that.

Amey Chalke: And the third question is largely that we have outlined that we want to become a B2C company so any clarity on the OTC franchise on US and Australia both what are our plans over there and what are the key products, which are there in both these markets and how do we expect to scale up because we have started spending on advertisement, so how do you see that thing going up?

Shashank Sinha: Yes I will just answer that before that I do want to clarify when we say B2C it is not strictly only the consumer. The differentiation we are making in the Strides context when we say B2C and probably this applies to the earlier comment as well is that we used to be a B2B company, so Strides 1.0 was basically a business where we sold product to principles like Pfizer, like GSK, like Eli Lilly, like other products and so all that like a contract manufacturing type of operation where we had handful of customers like it happens in B2B business. Handful of customers with kind of large portfolio that we would supply to them, but we will not frontend integrated we did not have a frontend, we were basically a manufacturing business, the difference between that and what we have today is that in Australia, in US, we take the product to market ourselves, we distributed ourselves, we have our own frontend and we take it to the next level of customer, which is basically the retailer of the pharmacy or the wholesale ourselves and therefore it is more vertically integrated towards the frontend. Coming to your question but specifically about the consumer healthcare business, so consumer healthcare business that we have in Australia, which is the Chemist's own business this is the full spectrum over the counter business. If you walk into a pharmacy in Australia the basically three types of product assortments in that pharmacy, one is the cosmetic product that is really the front of the shop as you enter, there could be deodorants, there could be sunscreen, there could be cosmetics, etc., etc. then there is what is called the middle of the store, middle of the shop, middle of the counter, which is where the branded medication and the store brand medication is sold, which is Nurofen for pain and then you will have Ibuprofen from Chemist's own as the alternative product. This is the same as you see let us say in a boots store, when you go into boots we will have the brand and then OTC brand we will have Nexium and we will have Boots Omeprazole.

Amey Chalke: Yes the white label one.

Shashank Sinha: Yes correct the white, so Chemist's own there is no store, no pharmacy called Chemist's own it is a brand that is adopted by all pharmacies in Australia as they are white label or private label or store label brand and therefore has the entire assortment we sell everything we sell sunscreen and we sell of course everything from GI products, pain products, etc., etc. full speck and in the 1200 pharmacies, which we have today we are the incumbent store brand. We are also distributed in other pharmacies because other pharmacies also are attracted by the kind of assortment that we have. The US business is a branded business that is like actually trying to sell Advil or Nexium or something where we sell Join-Flex and we advertise it on television, consumers walk into the store and they have to pick our product from the shelf. So the prospect for the business is that we are seeing very encouraging signs to our advertising campaign. In the US we expect that this business will become self sustaining as I mentioned earlier in my commentary and will have kind of separate revenue stream and a separate value stream of its own.

Amey Chalke: Is there any key strength of ours, which we are utilizing in that business like soft gel manufacturing or anything else, which where we are leveraging basically in that business?

Shashank Sinha: Clearly as far as the product format is concerned, so we make topicals as well. We are transferring the Join-Flex manufacturing facility to our in-house manufacturing in Italy, this is used to be supplied by third parties, so there is obviously that competence that we are bringing in-house, but we also believe that we understand the entire kind of healthcare category better than non-pharma companies because I mean whether the product is prescription or it is OTC they still addresses the consumer need and we understand the ability to serve that consumer better than let us say a food company or a cosmetic company or some other company. So that is the core competence that we bring to the business we just understand the healthcare needs of our consumers better.

Amey Chalke: Thanks for taking my question.

Moderator: Thank you. The next question is from the line of Anmol Ganjoo from JM Financial. Please go ahead.

Anmol Ganjoo: My first question is around the various drivers for the quarter. Is it fair to assume that this quarter for a while does represent the steady state business that we will be operating as we go into FY2019 in terms of stabilizing the current businesses, restructuring the rejig, which we had in terms of selling some of the brands divesting Strides is this hit for a while?

Shashank Sinha: Yes, to answer your question absolutely that is the intent on the objective. I said one of the pillars of our strategy is to create a repeatable business model and by stating or the results of the continuing operation and also the historical or at least the last two quarters the comparable numbers we are attempting to provide good visibility and the answer to your question is that yes that is the intent.

Anmol Ganjoo: On visibility in the past in similar situations you have helped us with some kind of a directional guidance on EBITDA would it be possible to kind of given the state of business that we are in not an exact number would probably provide us a range of what we are aspiring for from an FY2019 perspective?

Shashank Sinha: You mean visibility of the future numbers?

Anmol Ganjoo: Yes.

Shashank Sinha: That we are not providing right now.

Anmol Ganjoo: And my second question before I get back into the queue is that the rationale for reentry into Australia was driven by two factors, one was the expectation that there will be rationale competition and there will be a consolidation of the market, so if you can just provide us some colour with respect to the fact that what part of portfolio is now available at a discount what has the government saved more than what they envisage earlier and what gives the confidence that Australian landscape lends itself to sustaining the kind of high margin reasonable growth trajectory that we are aiming for?

Shashank Sinha: Sure. I can talk about essentially what we are seeing evolving as the policy related to the PBS pricing environment in Australia. There is recent policy around the fact that the PBS cuts are kind of bottoming out and the reason is that they have defined a level of discount between brands and generic that once achieved will probably be the steady state. This is very new it is in the past few months that this has been in the Australian policy framework, but they have defined a certain level and at that level the PBS cuts on those products will be minimal or actually zero. Also they have said that after a series of PBS price reduction for any product it cannot continue forever so there will be five or six that they have defined and remember there are two PBS events in every year, so let us say for any product after five or six PBS actions there will not be any further action. So I think overall the policy in Australia is that the discounting or the PBS environment is going to stabilize, is bottoming out if it is going to stabilize and obviously for the existing portfolio. Related to that is the point about consolidation, so I think as mentioned earlier also the comment is that the Australian market is consolidated is essentially a four player market and all the wholesaler alignment, etc., work like that. We believe the market is consolidating, so all the kind of other smaller players are consolidating and one of the examples is the Amneal acquisition here because to without scale benefits or operating leverage it is impossible to operate in that market and unless you have a threshold level of scale in terms of distribution and in terms of product portfolio it is not a market where you can afford the overheads and the SG&A cost that comes with operating because remember you still need a field force to be able to serve that market is not as efficient or efficiently structured in the US market where three or four big retailers and you basically require four, five people to manage and four, five sales people to manage the business. So the general comment I am making is both that the pricing environment is stabilizing, the market is consolidated and will consolidate further in Australia.

Anmol Ganjoo: If I may squeeze just one last question. Can you just help us understand what is the best way to track the progress on the US business because we have some kind of an arrangement so it becomes difficult to track the progress of individual molecules so that there are no such prices after the end of the quarter, on a monthly basis is there a good way to track the progress that we are making in the US? Thank you.

Shashank Sinha: In the public domain it would be the IMS I would say there is a lag, but that is the best way to do that.

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

Anil Sarin: I have questions regarding the Australia business again. What is the quantum of products that are now getting in-sourced, you mentioned in our opening commentary that around 13 are going to be manufactured in Singapore and India, but is this the sum total or it is a part of much more and also going forward let us say next year this time how many products would then be getting in-sourced from own resources of Strides as opposed to buying them from outside?

Shashank Sinha: Yes, first clarification on the 13 is that we have been filing for site transfer approval with TGA of the product that we have filed we have received 13 approvals. We have filed more and I do not know the exact number right now of the cut, but many more products that we have filed and we have received approvals for 13. We have started supply of the first one or two products now because all of this has happened in the last few months and we have started to supply. So these 13 obviously we intend to supply as quickly as possible. There are commitments and transition timing because commitments from let us say third party manufacturers and other manufactures who used to supply the Australian market sometimes we have to provide notice, so once you get approval you have to provide notice, you have to run through the inventory, etc., etc., so it does not happen overnight, but our intention is to as quickly as possible ramp up and bring in-house supply of the 13 approved products. As we go along , we will make obviously disclosures related to that. We will get more approvals of the pipeline that is pending. If you look at the next year obviously we expect this to double. I restated that we want to almost have 50% of our portfolio in Australia sourced out from India by the end of next fiscal that broadly is our plan. Have we filed all of them no, but the approval timeline is also shorter. So we have to go product-by-product and it is classically a make versus buy decision, what you buy versus what you make and it is a margin related and therefore you have to go product-by-product and also we are a high volume manufacturer, so there are smaller niche product then would not make sense for us to transfer in-house it is better to continue to outsource them. So it is a detailed work, but the comfort I can give you is that what we have talked about now is the beginning of a process where we want to bring in half of our portfolio in-house and the timeline that we are defining for that in the next 15, 18 months.

Anil Sarin: And as a rough yardstick what kind of cost saving would you achieve by in-sourcing by set of manufacturing?

Shashank Sinha: This can be very variable, so I would not want to make a very general comment. As you know depending on where products are sourced from I can tell you that products into Australia are sourced from multiple locations from Europe, from South Africa, from other contract manufacturers in India, so which means other Indian generic companies has also from some one or two local Australian suppliers, so it really depends on where the product is coming from. I would not be in a position to make a very general comment with much confidence right now, but clearly the objective is that the cost of goods will be lower when supplied in-house and it will have its impact on the gross margin a positive impact on the gross margin.

Anil Sarin: One last thing on the US of the 12 approvals that you have received how many products are you not proceeding with launching given the situation on the ground over there?

Shashank Sinha: Of the 12 only one or two.

Anil Sarin: Thanks so much.

Moderator: Thank you. The next question is from the line of Sriram Rathi from ICICI Securities. Please go ahead.

Sriram Rathi: Most of the questions have been answered. Just couple of book keeping questions, in this quarter we have seen a gross margin of around 53.3% and which is not very different from the previous quarter gross margin despite of the fact that API business is now not into the numbers. So does that mean that our API business gross margin and the remaining business gross margins are more or less similar?

Shashank Sinha: You are saying that the gross margin reported this quarter as compared to last quarter is similar, but the API business is not integrated I did not understand your question correctly.

Sriram Rathi: Generally their thought purpose is that API business has lower gross margin compared to the regulated market formulation business.

Shashank Sinha: At the gross margin level there would not be a big difference in my opinion, but please carry on with your question.

Sriram Rathi: Basically if gross margins will be more or less similar maybe slightly better regulated market business.

Shashank Sinha: Yes, you would not see that big delta in gross margin that yes it is a matter of operating cost really gross margin so to answer your question yes it is a fair question, but I would not expect that the gross margin difference. EBITDA will obviously change as that as a different level of EBITDA margin.

Sriram Rathi: And on the personal cost in this quarter it is around 118 Crores so this will be now likely run rate, which will continue going forward right?

Shashank Sinha: Yes correct.

Sriram Rathi: And lastly on what is the gross and netted figure for this at the end of December 31, 2017?

Shashank Sinha: What we have done is we have repaid all the cash back to loans, so what we have is 1775 Crores of net debt that is the current position now.

Sriram Rathi: So how much net debt?

Shashank Sinha: 1775.

Sriram Rathi: Perfect and this interest cost for this quarter that is around 50 Crores, so the impact of domestic business sales will be visible in next quarter right?

Shashank Sinha: Yes that is correct and the net is 43 Crores and this also included some prepayment expense, which you have done at the time of borrowing and this contains some, so the sustainable figure will be in the region between 38 to 40 Crores.

Sriram Rathi: Okay perfect. Thank you so much.

Moderator: Thank you. The next question is from the line of Dimple Kotak from SKS Capital & Research. Please go ahead.

Dimple Kotak: My question is pertaining to what will be the growth guidance for FY2018 and FY2019 in terms of topline and the margins and sir secondly if you can give me the cash figure on books as on today and sir I just missed on the question somebody asked regarding why have been the reasoning for the flat gross margin?

Shashank Sinha: We will come to both your cash question and the gross margin question. Related to your question on guidance we are not providing guidance on revenue or on gross margin we are not making forward looking statements related to that. On gross margin the point the question that was asked earlier is that with the demerger of the API business why are we seeing a big change in gross margin and the response to that was that the gross margin levels are similar it is at the EBITDA level that there is a difference between the formulation and the API business and therefore you may not see the gross margin variation and then there is a cash question right, so it is about 1000 Crores.

Dimple Kotak: And sir at the end of the year what kind of tax you would be having on your books?

Shashank Sinha: Yes, this depends on the GST refunds have to be accelerated and we have got one more quarter of quarterly performance. Currently we are at a debt of about 1775, so we will be I think in the range of about 1700.

Dimple Kotak: That is the net debt figure right?

Shashank Sinha: Yes.

Dimple Kotak: That is all from my side. Thank you so much.

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

Nitin Agarwal: Shashank in the press release you mentioned about going near the stated exit rate for the North America business can you just remind us again of the numbers that we should be watching out for, for the exit number?

Shashank Sinha: That I will point you to transcript of the last quarterly call, but Nitin the point that we have made here is essentially with the objective of providing visibility or this repeatable kind of model that we talked about. Look our business has expanded in the US and it is about as I mentioned 1.5x what it was last year. If I look at the second half of this year, which is Q3 and also kind of how we are tracking in Q4 we are close to the $40 to $45 million number that we were talking about earlier and that is kind of what I will point you to, but more details obviously that is if you go back to the transcript you will see the details of what we talk about.

Nitin Agarwal: And secondly Badree on the India business got divested sometime in December, so will it includes some component of the overheads and all will be there right some portion of some part of the quarter, the staff cost and the other expenses?

Badree Komandur: That is classified as a discontinuing operation Nitin, all of it is taken what you are seeing in the P&L is a complete formulation, the P&L including the CHC business.

Nitin Agarwal: So the number that you have given for Q2 also represents on an ongoing continuing business basis only?

Shashank Sinha: The quarters I have been restated to reflect the formulations business.

Nitin Agarwal: Thanks. That helps. Thank you.

Moderator: Thank you. The next question is from the line of C Srihari from PCS Securities. Please go ahead.

C Srihari: You have mentioned about supply constraints and price hikes in the ARV segment can you please be a bit specific regarding the products and what is the situation currently and secondly as regards the Australian business what would be the delta between the blended margins and the Australian operation margin? Thank you.

Shashank Sinha: So your second question first. So we are not breaking out margins by individual lines of business at this point in time, so I would not be able to comment on that. Your first question can I request you to repeat it because I could not get it clearly.

C Srihari: The ARV business, which molecules in particular and has the situation stabilized now?

Shashank Sinha: So the molecules we are talking about Lamivudine, Zidovudine APIs there will be others that these companies are supplying to the market. The situation is normalizing; it is not fully normalized yet.

C Srihari: What would have been the price hike?

Shashank Sinha: I cannot go into specifics of details there because obviously this is competitively quite sensitive.

C Srihari: Regarding the Australian operation if you could let us know whether the difference is significant or not that significant?

Shashank Sinha: If I understand your question correctly are you saying that if the total margin of the business is 18% is the EBITDA margin in the Australian business in line or out of line with that is that your question?

C Srihari: Yes that is my question.

Shashank Sinha: I would say broadly in line that is what I would say.

C Srihari: And you expect a significant uptake in this regard?

Shashank Sinha: We expect uptick in the Australian margins.

C Srihari: Thank you.

Alankar Garude: Moderator can we take the last question please.

Moderator: Sure sir. We have the last question from the line of Amit Yadav from KJMC Group. Please go ahead.

Amit Yadav: Just I want to know that whether the commodity API business court has approved the demerger or not?

Badree Komandur: Yes it is expected to happen in Q4.

Amit Yadav: In Q4 we can expect that?

Badree Komandur: Yes in the month of March.

Amit Yadav: And you can throw some light on what will be the record date and date of listing?

Badree Komandur: The appointment date what we have given for the merger is October 1, 2017, once we get the NCLT order it will take about 60 days to complete all other process and to get it this kind of a separate company.

Amit Yadav: That was helpful. Thank you Sir.

Moderator: Thank you. Ladies and gentlemen that was the last question. On behalf of Macquarie that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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