



“Strides Pharma Science Limited
Q1 FY-19 Results Conference Call”

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MODERATOR: **MR. ABHISHEK SINGHAL**

Moderator: Ladies and gentlemen, good day and welcome to Strides Pharma Science Limited Q1 FY19 Post Earnings Conference Call. As a remainder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Singhal. Thank you and over to you.

Abhishek Singhal: A very good afternoon to all of you and thank you for joining us today for the Strides Pharma Science Earnings conference call for the first quarter of financial year 2019. Today, we have with us Arun – Executive Chairman and Badree – Executive Director (Finance) to share the highlights of the business and financials for the quarter. I hope you have gone through our results release and the quarterly investor presentation which had been uploaded on our website as well as in stock exchange website. The transcript of this call may be made available in a week's time on the company's website. Please note that today's discussion may be forward looking in nature and must be viewed in relation to the risks pertaining to our business. After the end of this call, in case you have any further questions, please feel free to reach out to the investor relations team. I now hand over the call to Arun.

Arun Kumar: Good afternoon everybody. Thank you for joining in our Earnings Call today. Along with me as Abhishek mentioned, I have Badree and Vikesh and we will be more than happy to answer your questions after my opening comments.

Coming out of a difficult year, this has been a quarter which from a management perspective has been satisfying. The numbers don't reflect the green shoots that we are currently seeing in our several businesses. Like we mentioned in the last earnings call, we are extremely confident about the strategy playing out with OPEX leverage and with enhanced focus on portfolio especially in the US market to get on track fairly quickly.

If you look at our business, we have 3 parts of the business as all of you know, our settled business is the Australian business, it is doing well and it is growing greater than industry average and we are happy with the performances. Sequentially, the Australian business would have seen a decline. On a Q-on-Q basis, there has been significant increase of 18% and let me just also take a minute to explain the reasons for that decline. We had phenomenal quarter in Q4 of Rs. 2.7 billion that is down to 2.33 billion in Q1 FY 19, although year-on-year that grew by 18%. In Q4 of 18 we had a zero back order situation as in we had several out of stocks for almost a year which we mitigated with the portfolios that we brought back to Strides, so that had an unusual quarter obviously and we are now back to the steady state run-rate quarterly with a very handsome growth.

June is a typical month where destocking or lower stocking at the distributor level has happened. This is because of the upcoming PBS or the price benefit scheme programs. Customers normally take slightly lesser stocks and we see this moving up subsequently. At the number that we have announced, we strongly believe that we are in a leadership position. Our OPEX leverage is

playing out and our portfolio maximization program including new product filing and bringing products into our manufacturing system is creating the value that we have been focused on. We believe that Australia will continue to be a very difficult market for several of our competitors to operate in what is a unique model of control on the pharmacies with increasing focus on pharmacy build-outs. It is a very differentiated and transformational model. We have announced a merger with Apotex, which is Australia's leading pharmaceutical generics company. This is currently under review with ACCC, which is the Australian Competition Commission. We are also on our respective due diligences between the two companies and we expect to provide another update towards the end of September when we hope we would be in the fag-end of this process.

The US has been an important market for us. It has been a growth market. We believe we have couple of quarters before it becomes anchor market for the company. We have had an improved performance. The Q-on-Q growth was 31% mainly driven by our own portfolio products, increased market shares. Like most of the commentaries that you must be hearing from other Indian companies we see pricing environment to be more or less stable for most products. We are obviously looking forward to commercializing the products that we took back from our partners which we expect to commercialize and invoice from Q3. Adding to what the partner is selling currently, we believe our run rate is about \$35 million from the \$26 million, so our partners are doing well with the portfolio and as soon as stocks are exhausted we will be going into the market with our own labels on those products. We got some good approvals this year and this quarter also saw highest number of filings. We have never had more than 10 filings a year in the company for the last three years. We are now upping our filing guidance between 20 and 23 from the 18 to 20 range, so we expect to file a little more than what we have planned earlier. Our R&D investments are tracking within the budget. We are also very excited with some of the products that we got approved recently including Cinacalcet and Oseltamivir which obviously is a winter product. So, we hope that we will have some good news to share towards the end of the year. We were trying hard to work on market share around that, so it is a little early to comment around Oseltamivir, but we are very confident that these products and some more products that we expect approval in the next couple of months will add great momentum to our US story.

Coming to our other regulated markets, which is our fastest growing market, we grew that business by 49%. Q-on-Q, there was a degrowth that is simply because of the lumpiness of this business. It is still in growth phase, but there are specific markets that we had quite a lot of sales. We expected to be sequentially settled only in about a year's time, but we still believe that this business which had \$52 million of sales last year will grow to become a very important part of our business and will be growing significantly more than the CAGR for the rest of the business.

Our portfolio maximization strategy here is working well. We expect 25 filings across Canada Europe and the UK and this will give a nice fillip to the business in the next year. Trinity Pharma, our recent acquisition in South Africa has been successively integrated. The regulatory process

in South Africa is longer than normal. So, we expect results to flow through only in a couple of years.

Coming to the institutional business, while it had an improved performance on a Q-on-Q basis we grew 33%. If you recall, I did mention that we have commitments on the donor businesses. We actually just exhausted all our commitments. These were done at great cost to the company as we have no ability to renegotiate our pricing. We suffered from increased input cost and this increase not only impacted the business margins that have been significantly low, but it is also responsible mainly for 600 points drop in our global gross margins. We believe that the institutional business will be sluggish, but the lower business that we would continue to do in the coming quarters will be at significantly better margins because more and more of those businesses will come with products that have been renegotiated or from products that we do not make at the same price. So, our contractual obligations have been completed and the Q1 is the reflection of that and less about the market opportunity and also it is primarily the cost that led to a margin drop.

If you recall in my commentary in the last quarter, we did mention that we continue to have significant challenges with a mismatch between the secondary sale and the primary sale in Africa. I guided that it will take us up to three quarters before we get this in good shape. In Q1, we had zero primary sales by design in the branded business and that is the key reason why the sales in Africa is low. I must however report that our secondary sales grew at a healthy 19% which is great considering the market is growing only at single digits, so the brands are taken well. We continue to have market share growth. We will see the gap between secondary and primary settling only in Q3 and Q2 also like I mentioned earlier would be subdued. But we are happy that the gap has reduced dramatically in the last three months and we will reach the ideal gap between primary and secondary by end of September and from October we will start invoicing. So for the last 6 months there has been zero invoicing to the African brands business so that we course correct the inventory mismatch while still focusing on execution. It is a very important market for us, but it is also one of the key reasons why you will see an EBITDA drop in the overall company because we spend close to about 2 million Euros a quarter in operating this business, so even though we don't sell anything primary to manage our secondary sales, there is an expense.

The rest of Africa business what you see here is basically ownership universal. Universal is in Africa for Africa strategy business, it had a flat quarter mainly to do with the plant getting ready for certain significant inspections during this quarter. So, we took a partial slowdown in some of our lines for some parts of the quarter. We are now back on full production and we expect Q2 to be fairly reasonable quarter for the generic business in Africa.

This is in essence the high-level summary and I will be more than happy to answer questions. Before I do that, I just want to clarify our net debt. Our constant currency net debt has increased by 70 crores predominantly driven by the working capital increases because of GST. A bulk of our refunds will start coming through this quarter. We think that will get normalized to its

previous levels as a consequence. We have been very focused on operating cost. We have significantly reduced our OPEX and we believe that the base that we are working on in Q1 would be the base that we will go forward, say for the marginal salary increases that occur in this quarter which is a review period and then with increased sales, there is an increased distribution cost, but for that the base will remain fairly flat and we think we have done quite a lot of work in the last 4 to 5 months to improve our cost base.

So, with that and relentless focus on R&D, there has been zero reduction in our R&D spend. We are very excited about the portfolios that we are building. We believe in the next couple of months we will receive very important products that will take us to the next level of growth. With that, I open the session for questions, please.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Arun, on the US business as we look through the next three quarters for the year, directionally how should we sort of look forward for the scale up in the business?

Arun Kumar: Nitin, like I said adjusted for what is currently partnered that will revert back to us. We are now trading at around \$35 million if I add what is currently sold by partners. We believe we will be able to not only maintain it but will grow it from that level. This is on the existing range of products, but we will be launching Ibuprofen tablets and Ibuprofen soft gelatin in Q3 and Q4, so that will add some nice numbers given the acute supply issues around these products. So, the adjusted base is now about \$35 million. It should go up a little more significantly from there, but I cannot put a number as yet. We obviously have to look at some of the settlement agreements and how those play out especially with Cinacalcet and products like that.

Nitin Agarwal: And in terms of the newer launches, how does the year look like for new launches going forward?

Arun Kumar: We are expecting at least another 8 approvals this year and they would be slightly more material than what we have already announced, and we think they will be important pivots for our growth in the US.

Nitin Agarwal: And secondly on the gross margins, sir you talked about for this quarter, gross margins are impacted by the pressure on profitability in the institutional business, so if you were to make those adjustments, what would be the term normalized gross margins for a business going forward?

Arun Kumar: Our regulated market business operates in the range of 55 to 57%. That has not been impacted even in this quarter. Our institutional business is the dampener when it comes to gross margins because like I said, we are committed in terms of pricing, we had no choice but to honor those commitments. They still form a part of our under-recovery strategy in terms of manufacturing cost, so the emerging market is the combination of how well Africa does, how well our brands

are performing and how the institutional business is running, but the reg markets where we focus runs in a 54 to 57 gross margin range depending upon a mix of products.

Moderator: Thank you. Next question is from the line of Chirag Dagli from HDFC Asset Management. Please go ahead.

Chirag Dagli: Sir, quarter-on-quarter gross margin dip is fairly sharp, and the level of sales seems to be broadly similarish. Is there anything specific to call out or as you mentioned in the opening comments largely this is because of the institutional business input cost changes?

Arun Kumar: In the case of your question on gross margins, the answer is yes. It is predominantly to do with institution, we cannot get into a default situation with these organizations. So, we completed all our obligations. You will see our institutional business dropping but we will have better margin profiling.

Chirag Dagli: Have the new prices been renegotiated across the board? Where does this business go from here?

Arun Kumar: Like I said, we completed our pending obligations and that is why you will see an uptick of the business. We have exited all products which do not make the margins that the company needs to make. We have guided that our malarial business has reduced to about \$15 million. We still retain that guidance. The institutional business will probably be within the range of what we did last year which is about 500 odd crores, but we believe that the next quarters will be slightly better in terms of margin profiling.

Chirag Dagli: Okay sir and one more question. The other expense base seems to have declined quarter-over-quarter 4Q versus 1Q and in your initial comment you mentioned that this level of OPEX is that what one should consider, should we sort of annualize this 137 crores of other expenditure quarterly based?

Arun Kumar: You should just be careful about two items there. The employee cost, there will be revision of salaries in this quarter, you will see it next year, but that on a global basis, it will not be a very big number. The OPEX, you should assume these numbers moving only for incremental sale as we had distribution cost as part of our OPEX and that is approximately 4% to 5% of our total sales. Any incremental sales from the numbers that we have reported, you will have to adjust for that.

Moderator: Thank you very much. Next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Just trying to clarification on the statement you made on the US sales, you mentioned \$35 million is the run rate or my numbers is \$25 million for the quarter?

Arun Kumar: Prakash, what I mentioned is that if you recall, we have \$80 million of partnered products. We mentioned in the last call that 50% of all the partnered products have returned to us. These products can be only commercialized from Q3 due to our agreement with our current partners that we can only get to the market after the current inventory is exhausted. I was adding up what our partner sold as per August data in terms of units and attributing the sale of \$35 million, so include those two products that if we were marketing ourselves would have a run rate of 35 million.

Prakash Agarwal: Which would start coming to us from Q3 onwards?

Arun Kumar: Q3 onwards, right.

Prakash Agarwal: And incrementally new approval will add up to that run rate?

Arun Kumar: Yes.

Prakash Agarwal: Okay and this includes you mentioned about this Ibuprofen OTC and the products coming in, so those are apart from that or you will also see 8 new approvals just to reiterate?

Arun Kumar: Ibuprofen OTC is already approved Prakash, we got the approval.

Prakash Agarwal: No, launches I mentioned.

Arun Kumar: The launch is going to happen in Q3 in December because in November we will receive hopefully the change of API source to our group source simply because Ibuprofen is not available from our current approved source.

Prakash Agarwal: Okay, understood and if you could help us, the approval that we got for generic Sensipar, Cinacalcet, what is the landscape there in terms of the launch?

Arun Kumar: We can't discuss anything about that. It is a settlement agreement. We are bound by confidentiality.

Prakash Agarwal: Okay, understood and lastly if I were to look at Stelis, what is the current update there and what is the percentage we hold?

Arun Kumar: So, currently Strides owns 36% of Stelis and the current update is that the manufacturing facility of Stelis is currently under validation. We expect the first product for Stelis to be registered in Europe which is a device with a Biotech drug with a device in this quarter and commercialization of that product will happen sometime towards the end of the year.

Prakash Agarwal: Okay and lastly the net debt absolute number sir?

- Arun Kumar:** It is increased to 1770 crores mainly led by GST. We expect most of the GST refunds to start, it has already started happening, so that is the net debt, 1770.
- Moderator:** Thank you. The next question is from the line of Ashish Rathi from Lucky Investments. Please go ahead.
- Ashish Rathi:** Sir, question in particular for generic Tamiflu, so how should we look at this opportunity for Strides? What kind of contribution and what kind of target market share we would be looking at?
- Arun Kumar:** It's so early to say, Ashish. Currently there are 5 incumbents; they obviously have control of the market. We are a new player. It's a little too early. We need to see how the flu season evolves. If the flu season is like last year it will be a great year for everybody and there will be space for a new player to get significant market share. But we believe that everybody will define their market share. It's a little too early; I mean I can give you some more color in the Q2 earnings call simply because we will have a little more visibility. It's very early; it's not even peak summer in Europe, US for us even to start thinking on these lines.
- Ashish Rathi:** Sir, another thing on the Insti business except the antimalaria where we have the ARV portion, so what is the basic molecules we are supplying here? And if I am not wrong these are maybe second line of ARV treatment drugs?
- Arun Kumar:** Yeah. You are right.
- Ashish Rathi:** So, do you think there is a risk to this business as in you know when the first set of treatments increase or say replaces comes for newer molecules like dolutegravir, etc.
- Arun Kumar:** If you read my commentary on the institutional business deck, we have mentioned that the R&D pipeline is now almost complete for the entire next generation combinations of all the drugs. As the new drugs are in the donor list of procurement, we will be in the forefront of that.
- Ashish Rathi:** Which drugs will this be?
- Arun Kumar:** The dolutegravir range of products.
- Ashish Rathi:** Another thing on this ARV, some of the competition players have reported that there has been an increase in the API prices for them from where they used to source from China. How is the case for our products in this particular business segment?
- Arun Kumar:** In this today's call I probably spoke about it 3 times. It's also mentioned in my institutional business readout. The escalation of API prices is significant and that is the reason of the drop of the gross margins.

- Ashish Rathi:** I thought this was applicable to the institutional business for antimalaria. You are mentioning for ARV is it?
- Arun Kumar:** My note also talks about ARV.
- Moderator:** Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Securities. Please go ahead.
- Tushar Manudhane:** Sir just on the Australia business, would like to understand how many products in total has been now transferred to in-house manufacturing and how has it helped in improving the margins till date?
- Arun Kumar:** 20 have been filed, 15 have been approved. And all 15 have been commercialized. So, if you look at the last line on the Australia deck, it says that a total of 20 products have been filed with the TG for Stride transfers. 5 are filed during this quarter. And 15 products have been commenced already, supplied.
- Tushar Manudhane:** And secondly on the US adjusted number of \$35 million, is there any assumption of the partner coming to market or how does it work?
- Arun Kumar:** Partner is not coming to the market.
- Moderator:** Thank you. The next question is a follow-up from the line of Chirag Dagli from HDFC Asset Management. Please go ahead.
- Chirag Dagli:** Sir, just in your initial comments, you mentioned about PBS cuts. When do these take effect? Is there any sense of the quantum for our portfolio and what this means for our margins on the business?
- Arun Kumar:** So, about 80% of our portfolio is already completed the entire PBS cycle, which means they don't have any new cut. It's just a procurement behavior in the marketplace that impacts, nothing to do with any potential impact for us. The next cut is in October.
- Chirag Dagli:** So, on 20% of our portfolio we will see some cut?
- Arun Kumar:** We will see some cut, but that's factored in our margin expectations.
- Chirag Dagli:** And empirically sir, how big can these cuts be?
- Arun Kumar:** It depends. If you are in the first cycle of a cut, the cut can be as high as 20-30%. But if you are in the 5th or the 6th cycle, it may be 1 or 2 or 3%.
- Chirag Dagli:** And this comment that you are making is currently on the Strides business, not on the combined Apotex business?

- Arun Kumar:** It is on the Strides business.
- Moderator:** Thank you. The next question is from the line of Sriram Rathi from ICICI Securities. Please go ahead.
- Sriram Rathi:** Just 2 questions. One on the Australia, I mean how has been the margin trend this quarter; I think by Q4 it is closer to 20% odd. So, just to get an idea....
- Arun Kumar:** Q4 we had a margin which was slightly higher than 20%. And the commentary was because of that throughout the whole year we reached a 20% EBITDA. We are now retaining a 20% EBITDA, so there has been no drop in the margins for this quarter.
- Sriram Rathi:** Great and how should we look at it going forward?
- Arun Kumar:** I think, I mean it can move up very marginally because we continue to be dependent on the third party supplies. Until a lot more of these products come into the Strides system and we have 30 other Stride transfers happening in this year. But the benefit of that will only come towards the last quarter. So, I think that if we can retain a 20% margin on this business with above 3 or 4 times the industry average growth, I think we are doing alright.
- Sriram Rathi:** Secondly, in terms of net debt which is around 1770 crores right now, what is the target in terms of repayment? What kind of repayment we can expect?
- Arun Kumar:** You have to understand included in this we have a working capital limit of around 800 crores which is normal revolver on the working capital. The rest of the debt is long term debt fully borrowed for the Australian acquisition. There is no repayment of the debt for the next 2 years. There is significant free cash that the Australian business delivers to take to service this debt.
- Sriram Rathi:** And what is the CAPEX plan now for the next 2 years or what kind of CAPEX are we expecting to incur?
- Arun Kumar:** \$10 million dollars per year maintenance CAPEX.
- Moderator:** Thank you. The next question is from the line of Rahul Jeewani from IIFL. Please go ahead.
- Rahul Jeewani:** Hi sir, although it is too early to comment anything on the Apotex merger, how has been the due diligence process going on and what kind of divestments can we expect from the competition authority for the merger to go through?
- Arun Kumar:** So, firstly if the merger goes through, there will be zero divestment of any portfolio from either of the companies. We have explained this several times that there will be no divestment of any product; it's not a combination of products Australia is bothered about. If this doesn't go through, it would be for other reasons as in the competition, the pharmacy is complaining about this deal, distributors objecting to this deal. This is unlike a US merger. It is not about portfolio because

every company has got a large range of products. So, even if Apotex has to sell all their products, they can sell our products or if all our products have to be sold, we can sell Apotex products in Australia. It works very differently. If the issues could be if our distributors are unhappy with it because the combination will make distribution negotiation and may create some issues around distribution that may be one of the reasons. Otherwise the combined entity will only have about 30 or 35% of the total market by units and of course while itself become the market leader. We don't see any big issues around this to be honest.

Rahul Jeewani: So, essentially the combined sales on the two entities would remain as such and there would not be any dilution as far as your overall topline is concerned for the combined business. Just to clarify, you said 35% market share in terms of volume?

Arun Kumar: Yeah, unit sales.

Rahul Jeewani: For the combined entity?

Arun Kumar: Yes, you are right.

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

Nitin Agarwal: Arun on the other developed market business that you sort of alluded to in your opening comments, which are our key markets and what is about these markets that make us sort of optimistic on the outlook going forward?

Arun Kumar: So, one is you know, we front end our markets in UK and Canada now. In continental Europe, we partner as we licensed our products out, we do a profit share arrangement only. We have some very good products where we have very good market leadership. Our biggest product is Vancomycin, we almost have 50-55% of the European market. We make significantly more revenues than in the US on that product, our profits on that product. So basically, it's the product selection, it's the ability for us to partner our product which across continental Europe and yet get significant market share and profitability.

Nitin Agarwal: And in terms of the product portfolios in these markets are there any specific, is it the US portfolio that you will be replicating in these markets or there is something else that we are looking for specifically...

Arun Kumar: We are leveraging the Australian portfolio for these markets because Australia, Canada, Europe and UK follow a similar regulatory process.

Nitin Agarwal: And if I get you right you did say that the growth rate for this segment is going to be faster than the overall business?

- Arun Kumar:** Yes, it is.
- Nitin Agarwal:** And this is applicable even for FY19 also?
- Arun Kumar:** That's right.
- Moderator:** Thank you. The next question is from the line of Amey Chalke from HDFC Securities. Please go ahead.
- Amey Chalke:** I just have 2 questions. One is related to our filing strategy in the US market. You have said in the PPT that the R&D spend is capped at 20 million and we have increased our filing rate to more than 20. So, what kind of filings we are looking at, in terms of how much would be the Para III filings or how the formulations would be divided like how many would be the derma products? So, if you can give some color on the filing for the US market?
- Arun Kumar:** So, our portfolio has got a mix of soft gelatin capsules, dermatology creams and liquids and ointments. And most of these products have got some level of complex technology involved or a manufacturing challenge or a clinical challenge. So, our product selection is based around this. Most of our products, we don't have more than 2 or 3 para IV challenges but the ones we have we think are important. And it's a combination of difficult to developed products, difficult to manufactured products or there is a clinical strategy that requires great attention to development strategy.
- Amey Chalke:** But in terms of the number of players what are we looking at, when we would be launching this product we would be at least among first 4 or first five players.
- Arun Kumar:** I don't think that matters for Strides. This is not a strategy that impacts us. Take an example of Ranitidine, there were 14 ANDAs approved. We were the last approved and we have the highest market share. So, it depends upon what we think is the problem why the 14 companies are not commercializing the products or what is that one factor in the Ranitidine entire supply chain that where we have an advantage. Or if you take a product like Ergocalciferol or Vancomycin where we have more than 30 or 50% market share, this is not for today, we have been having market share of Ergocalciferol or Methoxsalen or dutasteride for maybe 3 or 4 years continuously. So, the idea is that the product selection, the ability to be one of the few players and the next generic comes out to 5 or 6 years, gives what is the differentiating strategy in our product selection model.
- Amey Chalke:** But you think that the power product revenue would be higher for these filings from the current run rate?
- Arun Kumar:** First, EBITDA would be higher than industry average but not revenue.

- Amey Chalke:** And on the second thing is on the Ibuprofen OTC soft gel capsule which we are looking at which is a substantial product. But how do you see, what would be the difference between the OTC products and the RX products when you will gain market share? Like would it be similar in terms of like what happens when we launch RX products, it is very easy to get market share, but do you think it would be similar in the OTC market when we have thin product portfolio in the OTC side?
- Arun Kumar:** In the OTC, we partnered to go-to-market. The IP belongs to us, we keep all the profits, we only pay a distribution charge to one of the largest repackers in the OTC business in America. So, we have a strategic relationship with them and Ibuprofen is a part of that program. They control close to 30 to 40% of the store brands business.
- Amey Chalke:** So, is it right to say that partner is already there in the market or you would be launching that product with a new partner?
- Arun Kumar:** The partner already has the product from somebody else. It would be replaced in the larger conversation that we have had with this partner.
- Moderator:** Thank you. The next question is from the line of Anmol Ganjoo from JM Financial. Please go ahead.
- Anmol Ganjoo:** Arun, you spoke a lot about US and some of the stuff that you have been doing there in terms of reverting partnerships etc. But from an FY19 perspective given that you would have some sense for next 3 quarters should we be able to better the \$120 million odd run rate that we had for the full year in FY18?
- Arun Kumar:** Well, that's a very leading question. You have to do the math yourself. On an annualized basis, we will beat the number by far considering that along with partnered products we are already at 35 million. But what will we report because of this mismatch between primary reporting and secondary sales is a function of how some of our new products that we have approval now and the ones we are expecting in the near term will add to our revenues. So, you will have to be guided market right from the beginning. It is for the last year that Strides will have a significant edge to outlook both in product approvals, filing and sales growth. And this is the first time that we have linearity in our filings on a quarterly basis starting from Q4 of last year. So, from Q4 of last year an average filing of 7 files, 8 out of 10 files are Strides are approved in 10 months gives us a very different perspective of what we think we will be achieving in the near term without the lumpiness of our business and with reduced dependence of our partners. We are a lot more bullish on what we think we could build out of the US business.
- Anmol Ganjoo:** Second question is around the comments you made around in the institutional business. Obviously, the sharp drop in the gross margins you attributed to certain obligation which has to be met. But at the same time when you say that going forward we should still be able to do the

500 crores odd annualized run rate in institutional business, then what is the incremental business that we let go for an inferior margin profile and what will bridge the gaps. So, any color on that?

Arun Kumar: That's the problem of price and the obligations of others who have completed the contracts are not unique to Strides. I think all of us probably would have completed all the contracts. Donor agencies are not getting products. Everybody has recalibrated the obligations to the low end of the range and we expect the new contracts to come and to be in place for the next couple of months which will show much better pricing. But it's a tactical business for us. I think the more and more that we sell in the regulated markets, our manufacturing under recovery dependence on the institutional business reduces. We probably may be slightly different of having build capacities ahead of time. So, under recovery has been a challenge at Strides. We are seeing that gap narrowing dramatically. And as far US business builds out and more and more products from Australia come into our manufacturing system, the dependence to do significant numbers in the institutional business obviously reduces.

Anmol Ganjoo: So, if I understand you correctly what you are saying is that the incremental contracts that we are going to see in quarter 3 and quarter 4 are going to be much better priced at an industry level?

Arun Kumar: Right.

Anmol Ganjoo: My last question before I get back into the queue. You spoke about very tight cost containment measures, so if you look at the current quarter you know other expenses have shown some kind of a plateauing, but in terms of the areas go after in the cost, how should we be thinking about them for the next 2-3 years?

Arun Kumar: I really don't think there is much to squeeze out, when you go through any program of cost reduction, you tend to get big results immediately, the squeeze out from here would be very marginal.

Moderator: Thank you. The next question is from Dilesh Daniel from GeoJit Financial. Please go ahead.

Dilesh Daniel: Sir, my question is regarding the regulator markets. We have YoY basis, we have a growth of 49% but when we look at the quarterly it's like down by 20%. Can you explain the exact reason for that drop on a quarterly basis?

Arun Kumar: The other regulated markets? So, we had, like I said this business is in its growth phase and we do have lumpy quarters. Sometimes the customer ordering style especially in Europe which the market is fairly tender based. They may buy for half the year upfront so that they are not out of stock on any supplies especially in markets like Germany and Netherlands, the penalties for non-supply is very high, so the lumpiness in the order taking is what is causing this.

Dilesh Daniel: So, how much percentage of this growth can be attributed to Trinity pharma that it is already integrated last quarter right?

- Arun Kumar:** Yes, it's a small part of it. But it will be approximately \$2 to 3 million.
- Dilesh Daniel:** Sir one more question like considering the cost of materials on a quarterly basis like its high right? What is the reason behind that higher cost of materials?
- Arun Kumar:** I just explained the whole story about the institutional business, the gross measures, so that's attributable to that.
- Dilesh Daniel:** So, like you said the margins will be bettering by 3rd and 4th quarter right for the institution business?
- Arun Kumar:** On a lower scale of revenues probably for some time.
- Dilesh Daniel:** And sir my last question, what is the R&D spend in this quarter?
- Arun Kumar:** 29 crores.
- Moderator:** Thank you. The next question is from the line of Anik Mitra from Stewart & Mackertich. Please go ahead.
- Anik Mitra:** Sir, I probably missed your guideline on CAPEX. My first question is what could be your CAPEX during this quarter and can you provide some guidelines for your CAPEX for the year?
- Arun Kumar:** We don't give a CAPEX by quarter. We explained to you, our CAPEX would be between \$8 to \$10 million range on an annual basis.
- Anik Mitra:** I have one another question like in the presentation you did mention regarding a few molecules and your market share like Ergocalciferol, Ranitidine. Can you throw some light on, in terms of their market size?
- Arun Kumar:** Market size?
- Anik Mitra:** Yes.
- Arun Kumar:** So, you could just write as a note, I am not going to read aloud the total market size in an earnings call. You can write a note to the investor group and will send you that data.
- Moderator:** Thank you. The next question is from the line of Alankar Garude from Macquarie. Please go ahead.
- Alankar Garude:** Arun, you mentioned that our partners in the US are not going to supply those products from 3rd quarter onwards. So, just wanted to understand is there any possibility of them pushing their inventory in the first half? And could possibly that number be included in the \$35 million sales which you mentioned in the first quarter?

- Arun Kumar:** Maybe possible. It would really not bother me as long as they get rid of the inventory, the quicker they get rid of the inventory, it's good for us. So, I would not want to comment around it because if you look at it when we were supplying to them directly, we had 2 quarters of sales of over \$35 million. So, I don't think it's very different from what they normally sell, but we have motivated them to exit the stock quicker could be the adjustment maybe \$1 or 2 million.
- Alankar Garude:** This is for all partners, right? So, we will be doing primary sales or sales on our own for all the products?
- Arun Kumar:** For 2 of the products where the total sale is \$40 million.
- Moderator:** Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Securities. Please go ahead.
- Tushar Manudhane:** Sir just with respect to the business which is the partnered business which is getting on to the front end, if you could just help now with what is the market size of those 2 products?
- Arun Kumar:** Market size?
- Tushar Manudhane:** Yeah.
- Arun Kumar:** So, one is omega, we already told you the product, it is approximately \$120 million in sales total market and IMS and Ibuprofen is approximately \$400 odd million.
- Tushar Manudhane:** So, Lovaza, we are like factoring in, probably selling at a similar price at what the current price is?
- Arun Kumar:** We are not going to get into specifics. Currently, our partners have approximately 20 odd percent of the market in terms of units.
- Moderator:** Thank you very much. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.
- Prakash Agarwal:** Just wanted to check on the approvals that we have got for Artesunate suppository during the quarter. What is the market opportunity here for us and we still maintain about 15 million or less for antimalarial business? Would not that help us in moving this \$15 million run rate?
- Arun Kumar:** Basically, the Artesunate suppository is a novel drug. It is developed in partnership with the global grant which was shared between supplier and us to develop a novel soft gelatin suppository which is for pediatric use for children suffering from severe malaria. This is like any new drug in Africa. It's a function of creating awareness and marketing around it which is what we do. We think it will be an important product in the near term. I don't see anything much happening this year, but it will probably add \$1 or 2 million sales on an annualized basis this

year, but eventually this will become an important product because currently there is no drug approved for severe malaria in pediatric use.

Prakash Agarwal: And that's why your \$15 million doesn't change much is it?

Arun Kumar: Yeah, that's right.

Prakash Agarwal: But with IPCA coming, wouldn't the volume and pricing be little more impacted?

Arun Kumar: IPCA doesn't have this product.

Prakash Agarwal: No in general I am saying for the antimalaria business like \$15 million last year and this year.

Arun Kumar: Prakash when we gave the 15 million guidance, it assumed correctly that IPCA will be in the market.

Prakash Agarwal: Sir my question was actually we did 15 million last year and we gave a similar guidance for this year, that's why I am asking.

Arun Kumar: Like I said the donor quantum has reduced, but our market unit share has slightly increased.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Kumar for closing comments. Over to you, sir.

Arun Kumar: Thank you ladies and gentlemen for joining us today at our earnings call. Thank you for your support as always. Like Abhishek mentioned should you have any questions, please don't hesitate to contact me or one of our colleagues and we look forward to continuously interacting with you in the near term. Thank you and good day.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of Strides Pharma Science Limited that concludes today's conference call. Thank you for joining us. And you may now disconnect your lines.
