



“Strides Arcolab Q1 CY12 Conference Call”

April 26, 2012



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Leadership through partnering

*Strides Arcolab
April 26, 2012*

Moderator Ladies and gentlemen, good day and welcome to the Q1 CY12 conference call of Strides Arcolabs hosted by IDFC Securities 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 at the end of today's presentation. If you should need assistance during this conference, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nitin Agarwal. Thank you and over to you sir.

Nitin Agarwal Hi good evening everyone and a very warm welcome to Strides Arcolabs Q1 CY12 post results conference call hosted by IDFC Securities. On the call representing Strides Arcolabs management team we have Mr. Arun Kumar, Managing Director and Deputy CEO and Dr. T. S. Rangan, Group CFO and their management colleagues. I hand over the call to Arun to take it forward. Please go ahead Arun.

Arun Kumar Thanks Nitin for hosting us again. This is Arun Kumar and I have with me my colleagues Dr. Rangan our Group CFO, Venkat Iyer, who is the CEO of our Agila Specialties Division and other colleagues to support this call. Thank you all for joining in and before I start let me just give you a few opening statements concerning our business results and our recent acquisition that we announced today of a new facility. It has been very pleasing results, set of numbers that we have delivered Q1 2012. Those of you who have been invested in Strides and following this company and having had meetings with management will often remember saying that 2012 would be a defining year when our operations leverage would commence. I am glad to report we have commenced that on schedule and we have had a great quarter as we have started operating our new Strides facilities to full capacity. Obviously this is aided by the severe continuing shortages in the global industry. The shortages have now spread onto other countries like Canada, Poland, Europe and Australia and as a consequence we see continuing demand for our product.

We have been using this opportunity to secure longer term contracts so that we have a longer term visibility rather than exploiting this situation from a price point. Having said that we have now reached our peer group EBITDA margins from an operating standpoint and we feel vindicated for our commitment to invest in high CAPEX long gestation business. Our specialties business delivered very significant results. All our numbers that are in press release are adjusted for the divestment of our Australian asset which we had ownership for approximately 24-odd days so that there would be some distortion of numbers. We have tried our best to clarify them through press release this time we will obviously take in questions as we go but minus the extraordinary gains that we have received through our Australian divestment, the pure play operations have had a phenomenal quarter. The revenues growing by 40%, core EBITDA growing by 64% and the company have in the interest of higher clarity

and the request from the analyst community have agreed to segregate our licensing income to our operating income as we are able to demonstrate a better leverage going forward. So we have had continued strong performances with our regulatory product approvals world wide, both in our pharma and in our steriles division. We still are guided, although you would see that we have only filed 5 filings in Q1, We had a rush of filings for the last quarter, as a consequence we had a slightly modest filing quarter but we continue to guide for 50 filings for the year. Obviously our quality of filings have improved significantly so as our R&D spend as we go forward.

Our R&D licensing income continues to be in the range we guided in the last quarter, last conference call which was as the payment as last year between the \$60 to \$80 million range is what we believe we could achieve. So again these are we have guided directional guiding of more significant lumpiness in both in our operating our R&D numbers but I am sure that with superior quality of analysis all of you would be able to see the operating leverage increasing significantly on a quarter on quarter basis. So we see prospects to be bright for our two businesses obviously magnified by strong successes that we will achieve in our Injectables business. Having said that we are a little ahead of our capacity utilization. We predicted our non-oncology lines to be fully booked by 2014.

We are fully booked out as we speak and therefore we participated in a process where we bid for the asset of Star **drugs** and I will talk to you about that. And I have already received a few feedback that there is a feeling that because we share the same trading symbol, we just want to clarify that there is no interested party transaction here. Star drugs is an independent company which is owned by a group of entrepreneurs located in Hossur.

There was a formal banking process this company engaged in and we bid for the asset and we were successful as we were able to (a) provide a price which met the expectations of buyer but more importantly for us this strategic rationale being that we have over 31 products that we have still not launched which are approved and as we are fully booked and contractually bound by longer term contracts. This facility would give us the additional leverage that we needed to secure new GPO contracts that are currently ongoing on a global basis. So it made tremendous sense for us. We spent almost 300 crores to invest in liquid lines in our Bangalore Complex. Obviously the state of art status is slightly different because this is in extremely modern facility. Having said that Star meets and exceeds FDA requirements with a 0483 inspection recently. That augers well for site changes of products that we haven't yet launched and as we speak we have already commenced that activity and we have completely changed the model of Star **drugs** from a contract manufacturing company. Obviously everybody knows that Strides does not manufacture injectables and we will be utilizing all these capacities for our in-house demand. We have already exited a lot of our contract sub manufacturing contracts as CPs to our transaction and we are very confident that we will be able to start

shipping from this facility as early as Q3 following their very good FDA inspection. So basically independent assets are no more available in the country. It makes immense sense and Hossur is only 20 km from our current Injectable clusters so it makes management control a lot more easier and obviously like I said earlier it will only help us expedite the introduction of new products. So it is both from a financial and strategic standpoint a very important and incremental deal. It is EPS accretive almost immediately and you will see that reflected in our Q3 numbers. I would also like to touch base on Brazil which has been a talking point for quite sometime. We explained in our last teleconference in our full year earnings about our difficulties in getting a corrected strategy for Brazil. We are happy to announce that we have successfully completed a termination of our joint venture in Brazil and we have now in control of our future strategy there as we move to a front ended model with pure play ownership rather than distribution model. So it is going to take us some more time and we are cautiously optimistic and pleasantly surprised with the Q1 results from Brazil but I would like investors to be cautious as we keep giving you constant updates but we continue to be confident that the Brazilian operations where we breakeven during the course of the year. It started out well and we hope to create the momentum and if there are positive surprises that we will add to the overall pleasantness of the Injectables business.

Having said this I would also like to say that we have as good accounting practices made provisions of potentially impairments related to Brazil and my colleague Rangan when he takes you through the numbers will explain that part and I am sure there would be questions surrounded. Finally we did mention when we announced the Ascent transaction that closing was simultaneous, we can now confirm that all closing formalities were achieved within the due dates and we have received all funds on due dates and we currently have over 900 crores of cash and cash equivalence in our possession which will meet all our debt and FCCB redemption needs during the course of the year and it will also pay for the Star drug acquisition with very little leverage we should be able to continue to grow the business quite rapidly. Because of current capacity needs I must say that our 2014 CAPEX needs are being brought forward and in our Bangalore facility line 4 and 5 which is the two lines will be invested during H2. We still do not have how much of the spends we will do this year but we are bringing it forward by 6 months. We also indicated in the last quarter earnings call that a Polish facility which was originally intended for the European business will also now be presented for the US and we expect a US inspection hopefully within this quarter and we should be able to give you an update as that progresses. We are making, currently we are happy to say that the Polish facility has already been qualified to meet the shortage situation in Canada, so at the moment we are very busy supplying products to the Canadian markets, pharma Polish facility so that is the additional upside like that we will indicate as time goes. In all this while you must be happy with the numbers, we are extremely pleased with the fact that we have addressed more than 9 or 10 shortage product list in the USFDA and these are no

more shortages, thanks to our efforts. And this has meant that we have achieved significant goodwill with the agencies and the GPOs as we have addressed small product needs without exploiting the situation. This has helped Strides secure longer term contracts for more profit-driven products and obviously this augers well for our future business. It has been a longish opening comments, my apologies as they were so many events that occurred in these 90 days and I now leave the floor open for questions and then my colleague Venkat will speak specifically on regulatory filings on the Star drug facility and any questions related to manufacturing leverage and Rangan will talk to you about all the financial issues. Thank you all.

Moderator

Thank you very much sir. We will now begin the question and answer session. At this time if you would like to ask a question please press * then 1 on your touchtone phone. Participants are requested to use only handsets while asking a question. Participants are also requested to restrict their questions to 2 per participant. The first question is from the line of Krishna Kiran from ICICI Direct, please go ahead.

Krishna Kiran

Yeah thanks for taking my question and congrats for great set of numbers. Sir, one regarding this ascent exit, sir, can we just if we can just how these 632 crore workout number comes into the picture. Like the ESOPs of \$30 million and exit event, like when we look at it, it is like expecting a bit slightly higher number than what we have reported. Can you just throw some light on it?

Arun Kumar

Let me just try and explain to you the disproportionate ownership, although we own 94% the distribution ownership of 70-71%, the consequence of the privatization that we did where we had the employee and the employees incentivize for the valuation of the company. There was a set value that we had expected. All of you will recall that we beat the street expectations consensus of what we would get out of this asset and as a consequence at the upside valuation increase the optionality upside share for the employees and the management who owned about 6%, change significantly and that is why the exit option events have been significant. So net-net Strides received more than what we had anticipated as a consequence and that is why we said we would receive close to \$300 million of the total proceeds from day one after all the exit events and tax and other expenses related to the transaction of which \$50 million was paid off for debt, related to that position and the balance has been received by Strides as cash. And I guess this addresses that you are free to talk to Rangan if you like on most specifics.

Krishna Kiran

Sure sir. And sir just looking at your pharma business numbers, I know it is kind of less but at EBITDA level from your press release it says that excluding only operations it is like 19% EBITDA that works out to be around 29 crore but if I look at press release downside you have mentioned 23 crores. So is it like 6 crore loss because of licensing income, my observation is something I know wrong.

- Arun Kumar** Your observation is perfectly right. 6 crores is the R&D spend which we have not recovered because we do not license pharma products as much as we do Injectables.
- Krishna Kiran** Okay sir. Sir, I will get back to you if I have couple of questions more. Thanks.
- Moderator** Thank you. The next question is from the line of Ranjit Kapadia from Centrum Broking, please go ahead.
- Ranjit Kapadia** Hearty congratulations for a good set of numbers. My question relates to supply arrangement with Pfizer, if you can give an update on that and the second thing the Star drugs & research laboratories which we acquired, if you can throw some light. What is the sales and how many filling lines are there?
- Arun Kumar** So I guess what you mean by supply agreement with Pfizer is that you are asking Ranjit is, is it going on online and on schedule, the answer is yes, right because 33% of our total revenue to this quarter to the US market and you will realize that Pfizer is obviously our largest partner. So a bulk of that sales has gone into the Pfizer system. So that is working well and as we increased our revenues on new product launches you will see that increasing. Concerning Star drugs, Star drugs was predominantly pure play contract manufacturer including for international companies. Star has got 2 lines and although we mention that it adds 97 million sterile units, the total capacity of the facility is over 200 million units in different pharmaceutical formats. But none of those formats are FDA approved and therefore that is the conscious decision why we mentioned in the press release that we have only 97 million units because those are the units that we can use for our US operations. The rest of the facilities will go for an upgrade and it will be available only by end of next year when we will offer the facility again for the FDA inspection with two suites where we will take this capacity up to about 200 million units.
- Ranjit Kapadia** And this 200 million units when you take the capacity up with modernization what is the CAPEX for that?
- Arun Kumar** In fact since the facility has already had the footprints of the sterile plant, we only change the equipment to meet our speed requirements. So we expect to spend about \$7 million and that is why I said we will come back only in H2 with a more comprehensive CAPEX plan because at the moment our priority at Star is not to disturb the facility but to facilitate quick transfer and utilize the first line before we take a shutdown.
- Ranjit Kapadia** Okay thank you very much and wish you all the very best.

- Moderator** Thank you. The next question is from the line of Hitesh Mahida from Fortune Financial, please go ahead.
- Hitesh Mahida** Yeah sir, congratulations for a good set of numbers. Sir just wanted to know what would be our guidance as far as licensing income and the pharma business growth rate, top-line growth is concerned because the growth during the quarter has been very excellent for the pharma business as well.
- Arun Kumar** See we cannot gauge, the pharma business although has got very few products, it has also got approvals on two important products in the last few weeks, Vancomycin Oral where we are the only Indian company and this was a 5-year citizen petition litigation which was won. It is a little too early and that is the reason why we cannot tell you as yet because the pharma business is also shifting its focus into the US market and it is a little early but I can only assure that growth will be robust there too, more focused on bottom-line rather than top-line. So the focus in the company is an overall improvement in its operating margins. It is applicable to the pharma division although it may not be as big as you see it.
- Hitesh Mahida** And sir as far as the pharma business is concerned after Australian Ascent sale are we still looking to sell some more amount of pharma businesses or will we retain all the existing businesses?
- Arun Kumar** I mean this is all niche businesses we are retaining, that is what we are saying that this continues to be a niche business for us. So we are under no pressing hurry to do anything but as an organization we keep our options open always.
- Hitesh Mahida** Okay sir. Thank you
- Moderator** Thank you. The next question is from the line of Bhavin Shah from Dolat Capital, please go ahead.
- Bhavin Shah** Hi Arun, congrats on the numbers. What are the hiccups that you foresee in Brazil operations giving a cautious outlook, is there anything that you foresee going wrong? Any positive surprises could be noted around the corner.
- Arun Kumar** It behaves very much like India in terms of the currency. That has a bearing because we do have a lot of products, Brazil unlike India does not make APIs so we import most of our APIs. So there are challenges from forex standpoint and secondly we in Q1 to answer your question more specifically, we are a very large provider of a drug called Enoxaparin in Brazilian market and the innovator had a shortage situation, actually a recall situation in Brazil. So we had an unusual quarter and that is why we guided that we are committed to a breakeven situation and

if this quarter looks good because we made a single digit EBITDA we have put up more investors to extrapolate that into a very different number.

Bhavin Shah

Okay so this Enoxaparin sales would not possibly sustain for long?

Arun Kumar

It does, it is but I am saying that it was an unusual circumstance, and we probably could maintain that. That is the only accelerate the breakeven standpoint.

Bhavin Shah

Got it and there is the distribution model that is undergoing a change. Any update on that?

Arun Kumar

Yeah, so what we have done is we are moving away from distributors to our own labeled products where we sell into private hospitals ourselves and also we sell into the tender system which is a lot more robust and lot more, it is electronic system in Brazil, they are very high-tech on that. And we just believe that therefore the controllership of the entire process works well and our payment cycles are improving a lot as a consequence. And it is progressing well. So we will give you updates as we go but everything is on the right track. Obviously the forex situation will get simplified once we start exports of Penems, we are expecting our product approvals of Penems very shortly. I am pleased to report that we received a day 121 approval last week in Europe. We are just waiting for the formal three months before we get individual country approvals. So yeah, I think so once that happens then there will be a natural hedge on a forex and we will be a lot more comfortable giving you a longer term guidance.

Bhavin Shah

So is this a wait and watch Q3 that would give us some defined EBITDA role of Brazil to play on this?

Arun Kumar

Correct.

Bhavin Shah

Okay and in terms of launches from the new acquisition, any specific category that we are looking at, the new launch.

Arun Kumar

liquid vial injections.

Bhavin Shah

I understand but would it called Penems or would it be some oncology product profile or

Arun Kumar

It has to be the non-penicillin, non-cephalosporin liquid Injectables.

Bhavin Shah

Okay thanks. I will be in the queue.

Moderator

Thank you. The next question is from the line of Nimesh Desai from Motilal Oswal Securities Limited, please go ahead.

- Amit** Yeah hi this is Amit here, just a couple of questions, regarding note #5 to the consolidated accounts there is one debit of Rs. 50 crore to the BRR related to some advances and the other thing is that note #7 it mentions about some guarantee which has been given to Watson in relation to the Ascent sale. So I am just trying to understand the nature of that guarantee and the amount.
- Arun Kumar** Yeah, I am going to let Rangan answer this question.
- S Rangan** Amit the first one which Arun has already talked about the Brazilian one where we said that when we have restructuring done conservatively we have taken some provisions, so it is exactly reflecting that. As far as the Watson transaction is concerned it is a guarantee given for tax liability which is there for 10 years. Having said that we do not anticipate any issue at this point of time.
- Arun Kumar** This is a normal standard practice in any transaction. So we expect the tax be cleared in Australia within the course of the year at which time the guarantee should get released.
- Amit** I understood. And one more thing Arun you mentioned that some CAPEX will come forward I mean it will be pre-poned in light of shortages and shortages of capacities, we are just trying to understand what would be the CAPEX guidance you are giving for CY12?
- Arun Kumar** See we had earlier mentioned that our CAPEX would be in the range of \$25-odd million. I do not think the spend per se will increase. Our commitments may be a little more but cash outgo is not going to be more on that because you only say it is small down-payments for equipment and stuff like that. What we are saying is that we are bringing it forward by about 6 months. But we do not think that the total cash outgo would be more than what was already budgeted.
- Amit** Okay understood. Thanks so much.
- Moderator** Thank you. The next question is from the line of Bhagwan Chaudhary from India Nivesh Securities, please go ahead.
- Bhagwan Chaudhary** Yeah congratulations for a good set of numbers. I have a couple of questions. One is that in the press release you have mentioned that the lumpy quarter is going forward from specialty divisions so can you please elaborate a little more on that?
- Arun Kumar** Well a lump is a lump, I cannot elaborate more than that. What we are saying is we could have a quarter which could be smaller than what we reported, could be much bigger than what we reported but the EBITDA range is what we have given for you to worry so if you know how much, if you estimate what operations we will do as a company then the range of EBITDA is

something which we have given for more clarity. So it depends upon a particular product. So if we are launching a product which is a \$500 million market and probably the launch volume would be very big in that particular quarter and then it will go down in the following quarter. So we will need a couple of quarters before we have what is called a base business and that is when you can start a very robust guidance in terms of our business because there are so many products being launched and the new facilities have come up and that is why we cannot give specific and that is what we meant by lumpy quarter.

Bhagwan Chaudhary So you mean to say that there is not too much clarity on particular products to launch in the US market from this particular division.

Arun Kumar Plenty of clarity but if a vial can be sold at \$1 or a vial can be sold at \$10 and it depends upon a particular quarter which product we are launching and which product we are not launching. So that is why we have complete predictability of our business and that is why we say we are fully booked but we also share profits with our partners. So as a consequent we do not know how much of profits will come because they trail by 2 or 3 quarters, that is why we say lumpy quarters. So just to give you an example for this quarter if we sold goods to the North American markets, those profits will accrue to us may be 2 or 3 quarters from now and it will take us a few quarters before we get steady state.

Bhagwan Chaudhary Okay so considering the same effect you had mentioned such as large range of the EBITDA margin is from 23 to 30.

Arun Kumar That is the reason.

Bhagwan Chaudhary Okay. One more thing, I just want to understand this 632 crores of the exceptional items, how you have reached at that, means I can get some more than that what we have received from the Ascent divestment?

Arun Kumar Yeah, this is like earlier we explained and this is out of the total proceeds, company also has taken out the investment and goodwill written-off close to about 515 crores, the balance 632 crores is being recognized as profit on sale of business. This is from our Ascent divestment Australian business.

Bhagwan Chaudhary Okay, where is the remaining, I missed that point.

Arun Kumar What I was talking about is I understand that your question is out of this 632, what is this 632? 632 is profit on sale of Ascent divestment. Out of the total consideration after knocking out the investments including taking a very proactive goodwill write-off of 550 crores, we have booked 632 crores as profit on sale of assets in the P&L.

- Bhagwan Chaudhary** Okay and one final question, just want to know that how we have reached at the evaluation of 125 crores for the newly acquired facility?
- Arun Kumar** It is based on what we think it will cost us to set up a plant of a similar capacity and also the time to market advantage by the fact that how much incremental gross margins we can add by filling up 97 million because we have products not launched. So there is no specific rationale other than our business rationale here.
- Bhagwan Chaudhary** So apart from more products waiting from that facility which are in a developmental stage or....
- Arun Kumar** It is a contract manufacturing site.
- Bhagwan Chaudhary** Okay. Thanks.
- Moderator** Thank you. The next question is from the line of Nilesh Pathak from Goldman Sachs Asset Management, please go ahead.
- Nilesh Pathak** Good evening. Thanks for taking my question. What would the gross debt at the end of the quarter?
- T.S. Rangan** Gross debt is supposed to be close to about 2000 crores. It was about 2300 in December 2011. We paid up close to about 350 crores during the quarter.
- Nilesh Pathak** It was 2500 at the end of December.
- T.S. Rangan** Gross debt is about 2500 crores. That has been reduced to 2300 crores in Q1 of 2012 but having said that the net debt has come to 1200 crores with a debt-equity has come down from 1.67 to 0.60.
- Nilesh Pathak** Right. So as I understand that cash proceeds from the sale of Ascent would have been closer to around 1200 crores after tax.
- T.S. Rangan** Absolutely.
- Nilesh Pathak** So debt is reduced by around 250 crores and cash is increased by about close to 700 crores so that totals to about 950 crores. So the delta between 1250 crores and 950 of 300 crores is that in working capital or....
- T.S. Rangan** Let me address you firstly from a different perspective. The closing cash balance is 975 crores, 945 crores is the cash and cash equivalents. And the debt has reduced to 300 crores. I am

talking about in the 1200 crores. 1200 crores is equivalent to about \$300 million, \$250 million. What we have booked is 632 is the P&L after knocking off the investment.

- Nilesh Pathak** No, no that I get. I am talking about you received 1250 crores of cash after tax. I am asking where that is gone into. So of course there is an increase of 700 crores in cash and there is a reduction of 300 crores in debt so that totals to 1000 crores. I am asking the balance 250 crores, where is that?
- T.S. Rangan** Let me just rearticulate. 1960 is a long term debt as of 31st December. I am sure you must be having the number. That has come down to 1611 with 359 crores reduction in debt. The cash and cash equivalents improved from 259 crores to 945 crores.
- Nilesh Pathak** Exactly sir, that is what I am saying. So that 700 crore increase in cash, 300 crore reduction in debt, right.
- T.S. Rangan** 776 crores increase in cash, 359 crores reduction in debt. So if you add both you will get 1135. We also said that we paid for Star drugs acquisition through internal accruals.
- Nilesh Pathak** No, but that money has not gone out yet, or has it gone out?
- T.S. Rangan** Yeah, it has been paid.
- Nilesh Pathak** Okay, it has been paid, alright, understood. And what is the breakup of this 2300 crores of debt other than Rs. 600 FCCB, how much is short term, how much is long term and how much is FOREX in that?
- T.S. Rangan** I would put that short term working capital is 540 crores, long term is 1611.
- Nilesh Pathak** How much of long term is FOREX loan?
- T.S. Rangan** It is close to 600 crores.
- Nilesh Pathak** How much of long term is FOREX loan ?
- T.S. Rangan** \$100 million is a loan. You are asking about the FOREX loan?
- Nilesh Pathak** Right.
- T.S. Rangan** FOREX loan is close to \$100 million.

- Nilesh Pathak** Alright. And when you say that capacity is fully booked, so of course you are not supplying the entire volume, it is just that as part of the contract the capacity is fully booked. So by when do you expect to fully supply that contracted volume so that your capacity is fully utilized? By the end of this year or by the end of next year?
- Arun Kumar** Yeah, so you see more leverage happening as we go on each quarter but by end of this year we would be fully sold out on all our FDA approved capacities.
- Nilesh Pathak** Sold out meaning actually selling the volume in the market. And the profit share that you get and the royalty that you get you show it as part of licensing income or you show it.....
- Arun Kumar** Part of operations and it gets booked when they accrue in 2-3 quarters.
- Nilesh Pathak** Right. I will come back again.
- Arun Kumar** Please feel free to write to us, we will be happy to answer you.
- Nilesh Pathak** I will come back in the queue. I will give opportunity to others.
- Moderator** Thank you. The next question is from the line of Aishwarya Deepak from Alchemy Capital, please go ahead.
- Aishwarya Deepak** Great set of numbers sir, a couple of questions. One is that we have launched 9 products in this quarter so I just wanted to know that what kind of revenue those 9 products have generated and next question is how many more products we are likely to launch in this particular year and the last thing is how is our capacity utilization level at different plant which got approved recently or last year?
- Arun Kumar** For the first question we cannot give you numbers, we cannot give you any specific numbers on what is the value of these 9 products. You will, like I said earlier, it is a question of selecting products which need both a shortage situation in the marketplace and contractual obligations. We do not have any separate set of numbers. Feel free to write to us and we will see if we can give you that data. Our intent has not changed from what we spoke in the last call and that is to reduce the gap between the products approved and products launched. Obviously there was constraint in the capacities, Star will help us in launching. 30-odd products have not been launched so far which have been approved, it is because either they are not in the shortage list or we have contracts that only Start supplies in October or November. So there is time in our favor. So the hope is that by the end of the year any commercially important product or day-1 launch product as we get into that phase of our business will be launched with priority. Our all oncology products are launched almost immediately on

approval and we have no product, so exported from our penicillin's block, it is not our core business. We have no product sold from our Penem plant. We have enough capacities and we are waiting for product approvals, hopefully this quarter or early next quarter and our liquid freeze drying lines are completely sold out of capacity.

Aishwarya Deepak

Sir, can you give us an idea in terms of number of products which we will be launching, like you said that 30 products were there which are not being launched and we have the approval.

Arun Kumar

Well I cannot give you a number because we also are expecting approvals as we speak, right. We balance launches through a combination of commercial maximization and product shortage situation. So I cannot give you a number where you can hold me onto it in a couple of quarters from now. Our interest is to maximize, which is what we are doing.

Aishwarya Deepak

Next question sir, how is our current capacity utilization level in this new Bangalore plant?

Arun Kumar

Oncology has got around 60% odd. We expect it to be almost 70 to 80% by the end of the year. Liquid and freeze drying plant, the new plant as of this quarter we are at 100%.

Aishwarya Deepak

Sir my last question is we have seen the Sun Pharma to report some significant revenue acquisition coming out of the high pricing of the same product, I mean the prices have gone multifold because of the shortage so I am wondering that whether you people are in a position to get that kind of benefit with the shortage of supplies?

Arun Kumar

No, we do not because we are not selling products in the marketplace. I am not suggesting Sun Pharma does that. I do not what is the source of that information. We run a fairly significant portfolio of Injectable products and we have deep relationships with the 4 GPOs in the US who control 90% of the market. This is the time for us to gain their confidence and their commitment for long term contracts, which is what we have done, sacrificing short-term gains in profitability. So the answer is no, we do not use the current situation. We kind of secure our business for more long term contracts which have been very successful in proceeding.

Aishwarya Deepak

Thank you very much.

Moderator

Thank you. Ladies and gentlemen due to time constraint only 2 last questions would be taken. The next question is from the line of Surya Patra from Systematix Shares & Stock, please go ahead.

Surya Patra

Yeah, congrats for the good set of numbers. Just a couple of queries, sir in fact the facilities that you were acquiring at 125 crores, what is the kind of the goodwill that we are adding to the books if any?



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April 26, 2012*

- T.S. Rangan** We do not add anything to goodwill. There could be some intangibles.
- Surya Patra** But again what could be the intangible asset that it would be or what could be the value of the assets that we are adding to the books?
- T.S. Rangan** 68 crores is the value of our assets.
- Surya Patra** Okay fine. And regarding the filings, in the opening comments you have indicated that around 50 product that you would be filing this year. Can you just tell what would be the mix between the sterile and orals or whatever?
- Arun Kumar** About 45 in sterile and 5 in pharma because in pharma we focus only in niche end soft gelatin capsules.
- Surya Patra** And regard to Orals, do you have any specific plans for the regulated market?
- Arun Kumar** Yeah, these products are for you as we already started commercializing products in the US market.
- Surya Patra** Okay, otherwise we do not have any big plan as such like we have that Injectable, right.
- Arun Kumar** No that is not there.
- Surya Patra** In the guidance also you have mentioned that the operating margin for the Injectable business would be in the range of 23% to 30%, seems to be a larger range.
- Arun Kumar** I think you would have missed the opening remarks and certain questions, so we did mention that because of the lumpiness we are not able to narrow that range as yet so you need to do your math around it and as we go forward we should be able to tighten that range as we go forward but not at this stage because like I said it depends upon what kind of profits we estimate our partners will make. We do not want to give these numbers until we actually know the real market situation of our profits that are there in the partnership before we can accrue it.
- Surya Patra** Earlier we have elevated that somewhere around 350 odd crores are in there in the books we would be recognizing that as licensing income so whether that 350 would be over next 2 years or how that should be, because we have also said that the license income be tapering hereon.
- Arun Kumar** Yeah but we also guided that, it is tapering but last year we had a \$100 million. We guided that to \$60 to \$80 million this year. That is the 350 crores.
- Surya Patra** Okay fine. Thanks for taking my call. That is all from my side.

- Moderator** Thank you. The next question is from the line of Krishna Kiran from ICICI Direct, please go ahead.
- Krishna Kiran** Yeah, thanks once again for taking it. Sir just missed the debt number. What debt number which we are comfortable at the end of the year?
- Arun Kumar** We are comfortable at our current levels, which is at 0.6, I think we are very comfortable at this current level so we can service all our repayments and also manage our growth.
- Krishna Kiran** Okay. And sir what about our tie-up with GSK? When we are going to launch the products?
- Arun Kumar** We have already launched and it is reflected in this quarter also.
- Krishna Kiran** Okay, how many have been launched so far sir?
- Arun Kumar** About 7 or 8 products we have already launched.
- Krishna Kiran** Actually we have tied up for 10 products so any extension of the products has happened?
- Arun Kumar** No, no extensions.
- Krishna Kiran** Okay, sir in the new facility will start from Q3. This is mainly because of just for the site transfer need to take place otherwise everything is ready right?
- Arun Kumar** Facility is ready to go but we are doing site transfer activities which would take us that time, 90 days.
- Krishna Kiran** Sir, a last question from my side. Looking at may be, we have signed with 4 GPOs, we are getting long term benefit. Just your view may be in the next 2-3 years down the lane, where you would like to see may be in terms of top-line which you are looking at may be in the next 2-3 years down the lane?
- Arun Kumar** What is our guidance long term and we do not provide one as yet.
- Krishna Kiran** Okay.
- Moderator** Thank you ladies and gentlemen. That was the last question. I would now like to hand over the floor to Mr. Nitin Agarwal for closing comments.
- Nitin Agarwal** Arun you want to add something before we close this?



Leadership through partnering

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Arun Kumar

No, I just want to thank you all for taking time today. We know it is been a busy results day and I appreciate your time and your pertinent questions to our business model and if there are more questions that are required or which some of you would not have asked us, please feel free to write to us and we will be more than happy to take you through that.. Thank you all. Have a good day.

Nitin Agarwal

Thank everyone. Thanks Arun and the management team.

Moderator

Thank you on behalf of IDFC Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.