"Strides Arcolab Discuss the Transaction of Sale of Agila Specialties Division to Mylan & Q4 CY12 Results -- Conference Call"

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Moderator Ladies and gentlemen, good day and welcome to the Strides Arcolab's Analyst Conference Call hosted by IDFC Securities Limited. As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand over the conference to Mr. Nitin Agarwal from IDFC Securities. Thank you.and over to you sir.

Nitin Agarwal Thanks, Shaima. Hi, good afternoon, everyone and a very warm welcome to Strides Arcolab's conference call hosted by IDFC Securities to discuss the transaction involving sale of Agila Specialties division to Mylan as well as Q4 CY12 results. On the call today, we have representing Strides management Mr. Arun Kumar – Vice Chairman and Managing Director; Dr. Rangan – Group CFO and Mr. V. S. Iyer – CEO, Agila. Heartiest congratulations to Arun and his management team for successfully concluding this landmark and a fairly awaited transaction. I hand over the call to Arun to take it forward from here on.

Arun Kumar Thank you, Nitin and thank you for hosting us as usual. What we are going to do today is spend a little time discussing the operational performance for the year as we finished our financial year and then get into the transaction and then get into the Q&A. First of all, thank you all for joining today. I do understand today is a busy day with the budgets being announced and in spite of that thank you and appreciate your time and I look forward to an engaging conversation today as we go through not only our operational performance but also what we think is transformational announcement we made concerning our Agila business this morning.

So I am actually very pleased with our operating leverage that we have been executing very successfully in 2012 and Q4 by far has been most important quarter which delivered highest operating margins in any quarter. Taking off the licensing income both our Agila businesses and our Pharma businesses delivered the highest EBITDA for any quarter reported during the year. This obviously is as a consequence of Agila ramping up its product launches, profit shares accruing as a consequence of the product actually been sold into the marketplace and that has also obviously helped the business.

So just to give you a sequential overview of Agila ex-Brazil business, the business grew from Rs. 196 crores with an EBITDA of Rs. 67 crores representing 34% with Rs. 236 crores in revenues with EBITDA of Rs. 106 crores, representing a 45% EBITDA margin which is an all-time high. Mainly backed by profit shares that we received from partners and also mature product launches. What I mean by mature product launches is that we have now products in the marketplace, since some time and our GPO contracts opened up in the second half of the year, we do now have a steady flow of businesses where we can predict the business a lot better. This is far, far ahead of our guidance for this business. At 45% we are about 50% more than our guidance in terms of percentages of EBITDA.

Our Brazilian business we guided will break even in the year and we actually did that. We did report a single-digit minor loss predominantly because of the ANVISA strike in Q3 and also the exchange rate. So Brazil reported almost flat sales in the quarter. We had sales of Rs. 70 crores and against Rs. 75 crores of previous quarter and we reported a loss of Rs. 9 crores but on the whole we kind of broke even with the very marginal loss for the whole year and also meeting our guidance of a breakeven or a single-digit EBITDA. Except for the ANVISA strike we should have been on target and the strike has impacted almost all companies operating in the Brazilian market. Most important for us has been the phenomenal growth the Pharmaceuticals business has delivered during the year. Q4 was another important quarter. The margins more than doubled from the previous quarter. Sales grew from Rs. 213 crores with EBITDA of Rs. 20 crores in Q3 to Rs. 270 crores with EBITDA of Rs. 48 crores, representing an 18 percentage of EBITDA and this is again because supported by higher profit shares and launches.

Now, linked to today's announcements of our sales of Agila to Mylan we had taken certain corporate actions in our licensing model. We had the opportunities to pick up a few products that include our positioning to sell the business a lot better. We have managed to renegotiate certain contracts with some of our partners both in Agila and Pharma. And that is the only reason that for some of you the Q4 numbers will look a little depressed because of a significant reversal of R&D income. We had close to about Rs. 45 crores of reversals during this quarter both from Agila and Pharma as we took back high quality products, especially in our Pharma business the whole range of immunosuppressant's including Tacrolimus and Mofetil where we expect approval for Tacrolimus very soon and expecting a launch of this product under our own livery very, very soon. Obviously, this was a big move and as we sell Agila, as we put Agila in the sale mode, we have been consciously building our Pharmaceuticals business our core business which has done exceedingly well and when we talk about the transaction the remaining business I will dwell on that subject a little more in detail. So operationally this has been a great quarter for the company both in the two divisions and delivering far superior EBITDA than what has been guided in both the divisions.

So in terms of the whole year our Injectables business grew very rapidly. We reported sales of Rs. 1,089 crores with an EBITDA of Rs. 289 crores adjusted for Brazil and we still have had an EBITDA reported of 27% which is in the high mid-range of our guidance of 22 to 29% which we guided. So we did quite well with our Injectables business.Q4 being extraordinary. And likewise in our Pharma business too we had a good year. We increased sales to Rs. 883

crores and our EBITDAs were Rs. 115 crores which is almost double the EBITDA that we achieved in 2011.

So we are very excited with our operating leverage in both our businesses and we had a phenomenal quarter. Adjusted for exchange losses - approximately Rs. 15 crores, so there was a Rs. 64 crores impact on exchange losses and licensing monies reverse as we took back products, we had what we think one of our most important quarters during the year. The operating leverage in the company continues. We have now reached a very high efficiency rates of execution in our Injectables and Pharma business and as we are building more and more capacities and adding more lines and getting more product approvals, we strongly believe that the numbers will keep adding significantly.

In terms of regulatory approvals, the last quarter has been fairly disappointing. We did expect the approvals for the penems, for the Piptaz**,** some key product approvals were still amiss and that is disappointing and we are working very closely with the agencies to get our approvals in place and we do hope to announce some news towards this in the coming weeks.

In terms of regulatory filings however, this has been a great year in terms of filings. We now have a total of 210 ANDAs in our Injectables business; 47 ANDAs in our Pharma business, including some very important niche products in our Pharmaceuticals business what we will retain after this transaction is successfully closed. Including strong filings of total 25 ANDAs holding in the quarter of Q4, taking a total filings with FDA to 257, total approvals to 107 including 81 in Injectables, we received 4 approvals during the quarter and 1 approval for Agila and 1 approval for Pharma taking a total approvals to 107, out of which 22 approvals are tentative, available products for commercialization is 85 and we have commercialized 7 products in Q4. It has been a good quarter for commercialization, taking the total products commercialized to 57 and we now have increased our momentum and reduced our time lag between product approval and commercialization as we have released more and more capacities through more efficiency drives through our plants.

Apart from the US other market cumulative filings have been strong. We continue to develop a portfolio of products across key markets and niche products in a Pharmaceuticals business across various markets.

In terms of an overall performance we have had an important quarter, a good year in range with our guidance, little ahead of it in some cases and we are very satisfied with the operating leverage and the cash flows of the company is generated during the year.

Significant events took place in terms of debt reduction, FCCB repayments and my colleague, Rangan will touch upon the improvements in the balance sheet, our focus on cash flow management and our focus on allocating capital. CAPEX continues to be important for Agila as we still have some more growth phase investments in that area and we are making those investments. We have reduced a licensing model significantly as we build our B2C business model and we are now moderating our licensing income to the extent of R&D spends and in some cases even taking bold decisions to take the spend on the chin, although it impacts the P&L we believe in the near-term it will deliver a far superior result.

So those are my opening comments on the operations and I am going to hand over the line to Rangan how will give you the highlights of the balance sheet and then we go back to the transaction overview and then we will open the forum for Q&A. Thank you.

Dr. T. S. Rangan Thanks Arun. Arun has already spoken in detail about operations. What I am going to do is that at the overall group level, some of the key financial indicators and how things have moved for us between 2011 and 2012, if you look at it for the year 2012 the contribution margin has improved from 51% to 57%. This is again linking back with what Arun talked about operating leverage. Interest cost has been reduced from Rs. 190 crores to Rs. 163 crores; and net debt if you really look at it we started the year with Rs. 2385 crores and you are all aware of it that during the year we redeemed the FCCB when we divested Ascent, we Consequently, the debt has as of 31st of December is Rs. 1431 crores. This has significantly improved the debt-to-EBITDA which was last year 5.76x has now become a 2.53x and the EBITDA to interest cover has improved from 2.72 to 3.45. Interest to revenue 7.4% in 2011. That has been reduced to 7%.

Also, we talk about the goodwill, goodwill in the beginning of the year was Rs. 1983 crores, it is closing at Rs. 1690 crores but then when Arun talks about the transaction and post this transaction we expect to become a zero-debt company and we will not carry any goodwill in our balance sheet. We expect these things to fall in place when the transaction is accounted in the books; the timeline is 30th of September.

Another very important topic for all of us is always the BRR. I am happy to share with you that BRR has been closed in line with Court approved Scheme which was about Rs. 177 crores. So you do not find any more BRR transactions in the company. Consequent of various actions the EPS as reported in the financials improved from Rs. 38.65 to Rs. 144.30 for the year. The tax was 14% last year and that has been reduced to 10.19% but if you take out adjusted for the Ascent it will still be about 13%. So overall it has been a very good performance on the P&L side, at the same time we also maintain the balance sheet and the financials, maintain our very strong focus on proactive hedging and forward cover strategy. Because of that we could actually reduce some of the losses but having said that the exchange loss that was the part of the EBITDA was Rs. 52 crores as against Rs. 23 crores last year. Reinstatement of exchange on account of long-term loans is Rs. 64 crores vis-à-vis the gain of Rs. 33 crores because during the year rupee went up from Rs. 50 to Rs. 55. So almost we have to face about Rs. 5 of depreciation. In spite of all the huge fluctuation in exchange loss and also in terms of the fluctuation and our hedging strategy we could report very strong EBITDA performance and also the significant actions that have strengthened my balance sheet.

I have done now and I will hand it over back to Arun.

Arun Kumar Thank you. Ladies and gentlemen, I will take time now to take you to today's transaction. Obviously, this morning's announcement marks a very new and exciting development for Agila. As all of you are aware we today announced that we entered into a definitive agreement for the sale of our Injectables division Agila to Mylan. Everybody is aware of Mylan's background. It is one of the world's leading specialty and generic pharmaceutical company, operates in over 150 countries and have over 18,000 employees worldwide with a strong India manufacturing presence too.

I think it is an extremely important event that positively impacts stakeholders at Agila and strategically fits very well with Mylan and I take you through that in a minute. In terms of the transaction highlights, let me just clarify a few points so that there is no ambiguity. The transaction have got no conditions of financing other conditions of earn outs. It is only dependent on FIPB approvals and customary anti-trust approvals. At closing, which we expect will not happen before six months because of the time these agencies take for approving a transaction of this nature and considering the fact that we have a global operation operating in Brazil, in Singapore and in Poland and in other parts of the world, we expect closing to be somewhere towards end of September or early Q4. At closing, we will receive $1.6 billion in cash and there is an additional contingency payment of $250 million. I want to emphasize this $250 million is not an earn out. It is based on our ability to achieve certain customary closing conditions. A lot of you are aware that our business model had significant partnerships. A lot of partners for Mylan. Our understanding is that all these partnerships are important. They want to continue focusing, building the model as it has while building the unencumbered portfolio through a front end and model which they want to put their efforts. So all existing partners and customers are extremely important and that is why there was a compelling transaction that was announced today, and there are certain conditions that we need to meet in terms of novation, in terms of change of control conditions where we expect a certain amount of spend to be incurred out of this $250 million. We are guiding the market today to assume that about 50% of this amount is bankable from a conservative estimate. So we expect to receive this $250 million minus the spend which is expected to be about $125 million, approximately 4 to 6 months from the first closing, at which time we will receive the $1.6 billion.

To repeat and for clarity, at first closing, on FIPB customary approvals and the FTC expected around end September, we will receive $1.6 billion and four to six months thereafter we expect to receive an additional $250 million, of which we expect to incur about $125 million to achieve those contingency conditions and we guide the investor community to consider $1.725 billion as the potential final payment that we will receive out of these considerations.

This transaction was independently approved by the respective boards of Strides and Mylan and the business had revenues of $255 million including licensing revenue and an EBITDA of $86 million in terms of licensing and operations delivering a multiple of around 18.7x times.

Now, it is important here to understand that for us, Agila is the business which was on its cusp of its next growth. We built the business in the last six to seven years through a very profound focus on operations, technical arbitrage capabilities, regulatory filings and R&D and we need to move the next level of value chain, and we needed to aggressively expand ourselves into a global front ended market. This would have taken significant new cash, experience and knowledge that the company had in parts of the world but not necessarily on a global face. Mylan fitted this bill perfectly. They were a global player; they had a small injectables business, a large ambition to become an important injectables player and a stated ambition to become a billion dollar play by 2015 in the US market. Agila was a perfect fit, it was no overlap of products, very complementary cultures, and we had a great, great process that allowed these two companies to achieve this transaction.

For me personally and for my employees this is a phenomenal transaction. We believe that the cultural fit, the strategic perspective and the opportunities for our employees and for our stakeholders as a consequence is of immense value. It was a compelling transaction where a compelling seller and a compelling buyer met and we think that the price that we receive today clearly values the business for a scarcity value and I am sure that Mylan will deliver significant benefits for the stakeholders as its builds its model over its 150 country operations.

So we believe what we have achieved today in five years of active growth phase where we invested close to about $400 million in building world-class assets, fantastic team of senior leadership team which has not changed in the last many years, clear focus on execution, high level of compliance and today’s result is the testimony of those skills and our capabilities. So I just think that we have had a good achievement and a good outcome for both our employees and our stakeholders.

In terms of the consideration and how the value crystallizes. The $1.6 billion consideration plus the $125 million significantly is greater than a total enterprise value of $1.3 billion as of yesterday including debt and this clearly reflects a premium price the asset received, but this is also based on the fact that Mylan sees significant upward trend and Q4 results is a clear indication of the value the business has created and the opportunities a strong front-ended player can achieve by leveraging this business by combining our operating leverage with their front-ended capabilities. The business is delivering stable cash flows, it delivers a fantastic EBITDA margin and it has got an industry beating record of filings, plants and capabilities. So I just think that the near-term growth and profitability will make this transaction an attractive buy for Mylan. I am delighted that there has been compelling reasons for the two companies to combine our interest.

If you look at Agila's historical financial performance, the business previously in the last few years driven by licensing income, in 2012 it was driven by operations and in H2 of 2012 it kind of stabilized a significant upticks in EBITDA growth, improved cash flows and reduction of working capital and the works as we were the building model. The business delivered approximately $255 million of revenues and about $85 million of EBITDA including licensing income.

To summarize, the key objectives that we laid out five years ago when we clearly shifted the strategic perspective to build a global injectables business has been achieved. We have become a leading player in the niche and difficult operating injectables segment. We have a best-in-class manufacturing and operating infrastructure. We have a market leading track record of filings and approvals. And now we have not only strong partnerships but as we moved away and those of you who follow this company closely we guided the market that from 2012 onwards we will reduce our dependence on licensing and thus as a consequence the unencumbered pipeline and underpinning strong R&D capabilities made Agila very attractive asset for the buyer universe. And it is positioned for future significant growth and profitability which allows the buyer to leverage the capabilities and also enjoy the fruits of what we thought was a strong foundation that we laid.

The buyer universe in this space is small. These assets typically sell at high multiples as all of us know. There were lot of overlaps and the opportunity to find a buyer that was perfectly fitting was difficult and Mylan obviously stood right on top in terms of being a compelling buyer. And why is Mylan such a perfect fit for us is because we provide the injectable infrastructure in scale to provide the global capabilities. It leapfrogs Mylan from being a bottom ten player in the injectables market where they have about $600 million sales to become a leading global player overnight. The operation synergies across other Indian plants, I understand that more than half of Mylan's employees and manufacturing is based out of its legacy matrix acquisition. They have a phenomenal manufacturing infrastructure here. We will fit in very well into that infrastructure. A very unique situation of the limited overlap of products in pipeline and significant sale synergies utilizing Mylan's extensive front-ended operations around the world being a global player with 150 market operations we would have significant opportunities to leverage the portfolio that we have built consciously worldwide for a player like Mylan to leverage almost immediately which we would not have been able to do. And then of course the emerging market of Latin America with Brazil being a key market for any target acquirer that was an important footprint for us and that made it even more attractive, and obviously, we believe strongly that it significantly accelerates growth for Mylan and the transaction is accretive.

So from a timing perspective it was a compelling reason for us to close the deal now, simply because of the scarcity of assets. We believe that there are new investments that have been made by companies that have been impacted by the regulatory fall outs, although these assets will take two to three years. The scarcity asset value may not be same in three to four years. The patent cycle opportunity there is a huge portfolio of products going off the patent cliff in the injectable space with an industry leading pipeline, we fit that bill very well. The drug shortage opportunities Strides has been recognized by regulatory agency especially in the US to address significant challenges around shortages and we did not exploit the situation but we actually work with regulators and kind of mitigated shortages to a large extent for the key products. We obviously have a very good track record with FDA as a consequence and it has also helped us because of a high level of compliance. And we have now reached an inflexion point with regard to our unencumbered ANDA. If we are going to build our own pipeline we would have run out of cash and obviously that would have led to new equity decisions which would have been counterproductive in the near-term as we would have to find new monies, not only to build our R&D but also to find a front end. So that made sense too and the pipeline therefore made it attractive.

The fact that I touched upon earlier the significant investments it takes to build a business in the front end is not an easy ask and while we were continuing to invest in a growth of our capacities to also focus on a front end business would not make it very easy task and we were taking a risky bet which we decided against. Growth and diversification industry is driving consolidation and we fit in logically and a company like Mylan has got access. First of all, they are doing exceedingly well from an operating standpoint, strong growth in EBITDA, phenomenal cash flow growth and access to cheap capital. All of this made it a right time for us to seriously consider deal and that is the logic of reason why we concluded this transaction today.

So we believe that this is a good time for us to discuss what we do with our distribution and we today announced upfront that we will distribute approximately $700-800 million and let me take you through that what we need the money for. There are certain parts of this transaction which is ambiguous. There is nothing to do with the transaction itself. It is the ambiguity around tax. We operate in a global regime, tax regime and we have an estimate of what tax will look like but we do not have a final idea of what tax would be and we are cautiously optimistic in our forecast of tax and there maybe some leverage around that.

So in terms of the distribution first of all it is a 100% share sale. It is not a slump sale as some coverage reported this morning. And all businesses globally save the Biotech business. The Agila Biotech business is not part of this transaction, all its facilities, its people, its IPs will all transfer on closing. And there are no conditions attached to the first closing which is at $1.6 billion which we reemphasize is a top value for a scarce asset and we expect to spend approximately $400 million in retiring debt. And when we are talking debt we estimate debt at closing to be $250 million for the entire company. So we are retiring total debt of the company. As in all transaction and previous history, Strides has a phenomenal philosophy of sharing its upside with employees. There is an employee payout which is estimated to be about $50-55 million which is typically 5% of the equity value of the distribution value is what we normally do. Minority interest -- we have a minority partner in Brazil, we have a minority partner in Canada, and we have a minority partner in Australia. Although we have controlling interest there would be minority payouts and transaction costs. So we estimate the employee payouts, minority payouts, transaction costs and debt to be approximately $400 million.

Now, the things that we do not know as yet is what is the final tax amount. And like I said we today are estimating a certain amount of tax and that is in the range of $275 million to $300 million of the transaction. What is important for investors and analysts covering the company is to know is that we have no plans to be in any business other than the businesses that we currently are or what we will be left with which is the Pharmaceutical business with a profound frontend in Africa and emerging market in India in the southern Indian space and of course the Pharma Generics business and the Biotech business.

We estimate that our growth capital will not exceed $100 million. Minus all this and at customary closing whatever excess amounts that would be available will be redistributed to stakeholders. At this moment in time we are not able to estimate those amounts and that is why today we went up front to comfortably commit $700 to $800 million distributions, which we are very confident of releasing on closing. So there are typical conditions in a transaction like this; there are tax covenants, there are warranties, and there are reps. So as and when those actions get released, escrows get released and based on those cash flows we will redistribute. So, except for $100 million the employee payment, minority interest payout the Strides management and the board do not believe in retaining any cash for any other reasons other than the growth capital that we explained earlier. Now, we have not yet decided how we are going to distribute. You will all know that we are in the midst of new regulation and in the midst of a new budget regime. We still need to get into a fine print of all these and we will work hard with our advisors to distribute this cash in a tax effective manner so that we can return as much as possible to our stakeholders who have supported this company in its growth.

So again, there would be an amount that we are confident of $700-800 million at first closing and immediately whenever distribution allows us to distribute in terms of a timing. So would it be a share buyback? Would it be a dividend? At this stage it is too early for us to make commitments. Towards closing around September we will have a fine handle on what would be the distribution method and which will meet the highest levels of compliance across from a tax perspective and also maximizing returns to stakeholders.

What stays back with the company is our Pharmaceutical business. A lot of sound vibes on Agila, but very few people probably have been following the phenomenal changes that we have made in our Pharmaceutical business. So we have for the first time guided the pharmaceutical business for 2013 simply because the remaining business is still significant for Strides, this business has grown from a single digit EBITDA in 2011 to 13% EBITDA in 2012 and we will now have 20% guidance in 2013. So at 200 crores of EBITDA the Pharmaceutical business will be completely debt-free, no CAPEX, almost negligible depreciation which effectively means EBITDA to PAT conversion is almost in the high 90s, delivering a very solid EPS to stakeholders and therefore that business becomes an important business going forward.

The investments that we have done, the actions we did in Q4 in taking back products, the imminent launch of key products, specialty soft gelatin products were one of the few, FDA approved facilities will make this business attractive and up front ending in Africa where we are now emerging as the significant player with the new investment partner Proparco which is the French Government Institute who owns 20% of our African business, we will build an industry beating asset in that region and we will create a scarcity value for that asset in the next many years. And the remaining business will be a Biotech business which we believe in the next few years will follow the model of Agila as in growth phase, investment phase and then the discovery of value phase.

And today I am going to introduce Dr. Anand Iyer who is our CEO of our Biotech business and he will take two minutes to quickly give you an overview of the Biotech business and what exactly we are doing about that space as we will spend more and more time explaining how that business is evolving. Anand.

Dr. Anand Iyer Hello, good afternoon, everyone. This is Dr. Anand Iyer. I just want to give you an overview of Agila Biotech and its plans for the future. First of all, let me tell you that Agila Biotech strongly believes that we can reproduce the success we have had in the steriles business in the biotech sphere. To this end, Agila Biotech is developing a fully integrated biotech business to research and develop biotherapeutics. With emphasis on strong technical capabilities and on maintaining and unsurpassed quality, efficiency, speed and costs Agila Biotech is building a state-of-the-art R&D center here in Bengaluru and a state-of-the-art manufacturing facility employing the latest technology in bioprocess engineering in Malaysia which would cater to Agila Biotech's portfolio biosimilars, biobetters and value-added products as well as partnering efforts. Two of Agila's products will be soon entering animal toxicity studies. This should happen sometime by July of 2013 and we hope to be in clinical trials by the end of this year. This is a brief overview of Agila Biotech and what we plan on doing.

Arun Kumar Thank you Anand. My conclusion is that we believe in the last five years we have developed this company into a significant enterprise and we have delivered over 700% increase in market cap for our stakeholders in the last five years outpacing the **BSE** increase of 10% over the same year. This is through a very profound focus on strategy, execution and our commitment to quality. We believe we will be able to repeat all this in our remaining business and I conclude with thanking all my investors and our analysts who cover us for their patience and patience as to evolve this business. Thank you.

Moderator Thank you. We have the first question from the line of Bhavin Shah from Dolat Capital. Please go ahead.

Bhavin Shah Thanks Arun and team and congrats on the deal – a fantastic one. Just wanted to get an assessment on the residual business now. Biotech probably is going to be a long-term haul, the kind of clinical trial work or the spade work that we have to do on molecules going on. When do you feel this business could be as big in a four figure mark or something like that, would it be five years, six years, what kind of commitments that you feel are required?

Arun Kumar Five to six years. I explained it to follow the same cycle of investment and growth that we did in Agila.

Bhavin Shah And would you be really requiring a lot of CAPEX deployment in this business compared to what you had for steriles or what you have seen in the past or any possible M&A?

Arun Kumar Not in terms of capacity. In a Malaysian facility, first of all, we are anchor investor in the Malaysian biocell ecosystem which means that we get a lot of benefits and funding which have to be returned to the Malaysian government only after commercialization. So it is an asset-light business for now. The 100 million that we will retain will predominantly go towards OPEX and R&D and will take care of the expenses that are required till we breakeven this business. But you will hear from us sooner. We think that from a manufacturing standpoint we will have some quick manufacturing arbitrage with some partners that we have already signed up and from our own portfolio it is going to take us four to five years. So the business will start breaking even from 2014 but it will start making significant monies in the five year range.

Bhavin Shah And the guidance that you have set out from this year to what immediately follows next year, there is a good margin expansion that we are looking at. Is there anything that is really driving that change in the business per se?

Arun Kumar The US product approvals.

Bhavin Shah That is it?

Arun Kumar Yes.

Bhavin Shah And these launches that you plan to go by yourself than partnering it out?

Arun Kumar Yeah, all we will still partner but we will keep bulk of the value chain.

Bhavin Shah Would that remain the sole business model that you will follow, I mean, going by yourself to the market?

Arun Kumar For the rest of the business in the Pharmaceutical business it does not take too much capital to go front end ourselves. We already have it in India. We already have it in Africa. We are just expanding in Africa with the lot more investments in medical reps.

Bhavin Shah So Arun this would not be a licensing fee model as such in the years to come?

Arun Kumar No.

Moderator Thank you. We have the next question from the line of Hitesh Mahida from Fortune Financials. Please go ahead.

Hitesh Mahida Congratulations to the Management on the deal. Basically a couple of queries. One is on the capital gains. What sort of tax rate can we expect and how much is exact capital gains on your deals?

Arun Kumar We are not able to guide a percentage. Hitesh please consider $275 to $300 million is the broad range and closer to September we will have more specific information.

Hitesh Mahida And basically we are saying that in the six months time we will have a far more clarity **Arun Kumar** Correct.

Hitesh Mahida And just a couple of balance sheet queries. One is what should be the impact on the gross block and goodwill going forward after the deal?

Dr. T. S. Rangan Goodwill I already clarified that after this transaction is accounted let us say by end of September we will not carry any goodwill in our books. As far as the gross assets are concerned, it will be still about Rs.500 crores in our books.

Hitesh Mahida And we are expecting a huge jump in EBITDA in the remainder of the Pharma business. So can we sort of guide in terms of which segment particularly will bring in this improvement?

Arun Kumar Our US operations. I already spoke that.

Hitesh Mahida US operations okay, but anything particularly in US?

Arun Kumar I cannot give you product-specific, we do not do that, nothing has changed.

Moderator Thank you. The next question is from the line of Surya Patra from Systematix Shares. Please go ahead.

Surya Patra Congrats on the deal. A couple of queries. What is the value of the asset that we are likely to transfer to Mylan in the deal?

Dr. T. S. Rangan Gross block is about Rs.1500 crores.

Surya Patra Any other thing apart from the gross asset -- plant & machinery?

Dr. T. S. Rangan No, I am talking about the net investment actually – Rs.1500 crores.

Surya Patra And after this Rs.1500 crores we will be having gross block of around Rs.500 crores for the remaining business, is that right?

Dr. T. S. Rangan Yeah.

Surya Patra And the majority of this goodwill whatever that is there Rs.1690 crores, it is relating to Agila. Should we consider that way?

Dr. T. S. Rangan Yes, that is what we said. The closing balance sheet has about Rs.1690 crores. Except for Rs.20 crores, all of them pertaining to Agila business. From September we will not have any goodwill in our books.

Surya Patra And what we believe is the deal possibly will be closed around September or by that time. So any financial commitment prior to the closure of the deal that is there, any CAPEX that we are required to do for the Agila business?

Arun Kumar There are steady-state CAPEX investments have to continue, but in that period there would also be operating EBITDAs which will kind of net off.

Surya Patra On the remaining business can you just give us some idea regards to what is the current positioning of the Pharma business in the regulatory market and the emerging markets and what is the filing strategy since we are saying that US business is going to drive majority of the growth. So what is the filing strategy that we are currently following.

Arun Kumar You obviously are not reading our "Investor Pack." There are 47 pharma filings in the US.

Surya Patra I mean strategy means the complex product, and what is the nature of the product that we will be filing?

Arun Kumar The model follows through the injectable model. We do not do commodity orals. We do only niche products. Vancomycin capsule is a good example we have identified products of that nature and we will have a few products but very important products, both in soft gelatins and difficult to make products.

Moderator Thank you. We have the next question from the line of Kartik Mehta from ICICI Securities. Please go ahead.

Kartik Mehta On the Johor Malaysia facility can you please help us in terms of expected to come on stream by end of 2014? We have already mentioned that we have some advance capacity booked. Is there possibility that you can throw some color on the revenue, the geographies…?

Arun Kumar We do not give forward-looking numbers. All I am saying is by 2014 we expect the Malaysian plant to breakeven through partnership manufacturing deals that we are already booking. And the capacities that we are building is of a next generation biotech plant and it is completely new design and a new technology which makes us a very important cost provider of biologicals and that is the reason why we believe that even before the plant has been constructed, we are able to influence the capacities based on the relationships we are building but except to say that by 2014 the plant will breakeven operationally, I am not able to give you any revenue guidance.

Kartik Mehta Can you just confirm if sales to the regulated market would also start by that time?

Arun Kumar No.

Kartik Mehta So you are saying that you will be able to break even only from the sales to the less regulated markets or the semi-regulated market, is my understanding right?

Arun Kumar Correct. All through our manufacturing partnerships.

Kartik Mehta And just last one on the deal. So we are saying that in the next six months we will have the first closure. So actually how is the switch from maybe the Mylan guys to your plants across, will they be actively involved **Arun Kumar** See Kartik it is not going to impact anything. It is an operational theme. The idea for the two companies is to shorten the time for integration. So whatever makes reasonable sense we will do all that and those which can be done we will do and which we cannot we will work around it. And the idea is to quickly integrate on closing so that they save time to market. So it is not important for us. We have a fantastic relationship with the leadership team in Mylan and we will work through that. I do not think it is a matter that I would like to discuss on a call.

Moderator Thank you. We have next question from the line of Manoj Garg from Edelweiss. Please go ahead.

Manoj Garg This is regarding the margins from the Pharma side. Though you have given the guidance for the next year, but if we would like to understand in terms of long-term sustainable margins for the Pharma business what could be your outlook on that?

Arun Kumar I think in about two years we can inch it forward to about 25%. We brought it from 10% two years ago. I think we will get it to about 25% as the brands business stabilizes. At the moment the brands business is going through its growth phase. Between India and Africa we are adding a lot of new reps and that is why the margins are slightly depressed. But we think we can get it to about 25% in about two years.

Manoj Garg Within India are you looking to expand your portfolio and what could be those segments, if you can share?

Arun Kumar In India basically we are regional player in the South of India, we just want to be staying in focus here, and we are adding a few states and our main focus is the diabetics area, where we already have an important brand, you know, Renerve currently sells close to Rs. 40 crores, it is an important brand in India, and we are building that brand and increasing line extensions around that front.

Manoj Garg Another question on, as you indicated that you are going to payback the shareholder around 700 to 800 million dollars, is it inclusive of all tax liability if it comes in terms of dividend, tax or whatever?

Arun Kumar We need to do analysis here, Manoj, simply because as you are already probably aware that today's budget has got some new language around it, so it is too early for us to evaluate, we need to appoint global consultants who work around taxes on a global basis, and we will come back to you. Please give us some time. We are only messaging to the investor community is, we have no other plans expect to distribute money back to stakeholders, save for the 100 million dollars that we will need to keep for our biotech business. The pharmaceutical business generates significant cash flow, does not require new monies, does not require CAPEX, and R&D is moderate.

Moderator Thank you. We have the next question from the line of Prashant Prem Kumar from East Bridge Capital. Please go ahead.

Prashant Prem Kumar Congrats on the transaction…I heard early in the call that there was a reversal of license income of about Rs.45 crores that was done in the quarter. How much more is left in sort of the first quarter and what is your guidance for license income till the first closure?

Arun Kumar We are not guiding. Obviously we do have an understanding with the acquirer that our model has to be on unencumbered pipeline, so we are not looking at any new licensing deals, but there is a licensing book that is still open, so there are revenues coming our way, which is expected to maybe about $25 to 30 odd million, that is what we think is the revenues that is left, that is not going to change, because they are already committed contracts. We will not be raising new cash through a licensing model, and in terms of reversals, we think that we have one more bunch of products that will revert, but they will not have significant financial impacts.

Moderator Thank you. We have the next question from the line of Sanjay Dham from Motilal Oswal Securities. Please go ahead.

Sanjay Dham The tax liability that you are saying of 275 to 300, does it include the payment that we might get a year down the line or does it just pertain to $1.6 billion.

Arun Kumar No, it pertains to the entire transaction.

Sanjay Dham To the entire transaction. The second question, just to clarify, if I heard you right, the payout to employees and minority, and other cost would be around 150 million dollars, right?

Arun Kumar Correct.

Moderator We will take the next question from the line of Amit Maskara from Carlye Capital, please go ahead.

Amit Maskara I have just one quick question, you still run the business for the remainder to the duration before the deal closes, what is the expected cash flow to be generated from Agila over this timeframe minus the CAPEX. Do you expect to have net money there or do you expect ….

Arun Kumar It will meet all our debt like obligations and will leave a little, so currently our debt book is about $275 million, and we have estimated that debt at distribution will come down to $250, that obviously from our operating surplus is after meeting debt like expenses for R&D and Capex, so it needs to generate about $75 odd million of cash, is what we expect it to generate and that will go towards ongoing CAPEX, R&D spends, and also reduction of debt to the extent of $25 million.

Moderator Thank you. The next question was from the line of Charulata Gaidhani from Quest Investment. Please go ahead.

Charulata Gaidhani My question is relating to injectables, will you be continuing in the injectable space in pharma.

Arun Kumar No, we cannot, obviously we don't do a transaction of this size and then get into competitive situations, but Agila Biotech is also in injectable business, so we can work in the biosims and biotech space, but not in the human injectable space.

Charulata Gaidhani And my second question pertains to R&D. What will be size of the R&D, and the nature of the R&D also for the continuing business? It will only be in pharma and biotech?

Arun Kumar Exactly.

Charulata Gaidhani All your US FDA patents also will move into Agila?

Arun Kumar Whatever is related to Agila, will stay with Agila, because the transaction included all the IPs, and what is in pharma will remain with the surviving company.

Moderator Thank you. The next question is from the line of Ranvir Singh from Sharekhan. Please go ahead.

Ranvir Singh In the balance sheet, we see the goodwill of Rs.1900, and if I heard correctly, that would completely be written-off, just wanted to understand a part of the goodwill would be transferred to Agila and the remaining would be written off or how will that happen.

Dr. T S Rangan We have goodwill in Agila business, a very small, less than about Rs.20 to 30 crores pertaining to pharma business.

Ranvir Singh Okay, and then the R&D, which has been Rs.45 crores, which has been taken in this other expenditure, so just I want to know how this happened, because once we license a product, we get a licensing income and we have renegotiated for this, that means that portfolio currently has again come back to us and we have refunded the amount which has been advanced earlier.

Arun Kumar Either we would have refunded the amount or we would have taken back the products, the first point is we have taken back the products. Now do we normally have to refund all the monies that we pay, the answer is no. It depends upon how we negotiate with our customers and that is how it is, so we cannot give you specifics, but we don't lose any cash flow as a consequence. This much I can tell you.

Ranvir Singh Okay, you indicated that gross block of around Rs.1500 has been transferred, what this actually constitutes, whether in the balance sheet it is Rs.1600 total net asset including Agila and pharma, so what else does this include?

Dr. T. S. Rangan What we said is that about Rs.1568 crores of gross block will go with Agila business, and remainder will stay with the company.

Moderator We will take the next question from the line of Siddharth Khandekar from ICICI Direct. Please go ahead.

Siddharth Khandekar Just one question to Rangan. This Rs.45 crores reversal has been taken into which line item, during the quarter.

Dr. T. S. Rangan Operating expense.

Moderator Thank you. We have the last question from the line of Purvi Shah from Dalal & Broacha. Please go ahead.

Purvi Shah Just one clarification on the pharma business that we retained, what will be the tax rate that will be applicable basically.

Dr. T. S. Rangan Our tax rate is close to about 15 to 18%, if you look at it, in the last two to three years' time. Obviously we are not giving any guidance this year, because we do have this transaction. We will be paying significant taxes. We will be probably able to tell you that post-September.

Moderator Thank you. I would now like to hand the floor back to the members of the management for closing comments. Please go ahead.

Arun Kumar Thank you. This is Arun, I just want to thank everybody for the time today, and to hear us through our two important announcements, both with our operating results and the transaction with Mylan. Please feel free to contact me or one of my colleagues if you have more queries. Thank you and talk to you soon.

Nitin Agarwal Thanks everyone for participating in the call, and thanks to the Strides Arcolab's management team. Thanks.

Arun Kumar Thank you, bye.

Moderator Ladies and gentlemen, on behalf of IDFC Securities, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.