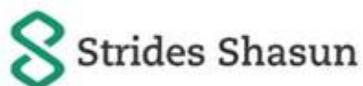


“Strides Shasun Limited
Q4FY16 Earnings Conference Call”

May 16, 2016



MANAGEMENT: **MR. ARUN KUMAR – EXECUTIVE VICE CHAIRMAN AND
MANAGING DIRECTOR**
MR. SHASHANK SINHA – CHIEF EXECUTIVE OFFICER,
MR. BADREE KOMANDUR – GROUP CFO & CS
MR. VIKESH KUMAR – INVESTOR RELATIONS
MR. SANDEEP BAID – INVESTOR RELATIONS

MODERATOR: **MR. ABHISHEK SINGHAL – RESEARCH ANALYST,**
MACQUARIE CAPITAL SECURITIES PRIVATE LIMITED

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Strides Shasun Q4 FY16 Earnings Conference Call hosted by Macquarie Capital Securities Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Singhal from Macquarie Capital Securities. Thank you, and over to you, sir.

Abhishek Singhal: Good Evening, All. Welcome to the Strides Fourth Quarter Earnings Call & the Full Year Results. We have with us Senior Management of Strides represented by Mr. Arun Kumar – Executive Vice Chairman and Managing Director, Mr. Shashank Sinha who is Chief Executive Officer and Mr. Badree who is the CFO. We will start with the opening comments from the Management and then open the floor for question-and-answers. Over to you, sir.

Arun Kumar: Thank you Abhishek for hosting us again. And thank you, everybody who is on the call to have taken time out today to talk to us or listen to us. I also have with me my other colleague, Sandeep and Vikesh, who have been handling Investor Relations for the Company. And before I start I thank you all for you to allow me to make a small brief introduction of the quarter and the year.

I am actually very pleased to announce that we have achieved a milestone this quarter. Revenues crossed Rs.1,000 crores for the first time with EBITDA of Rs.202 crores, so we also provided an H2 guidance, we met all the guidance criteria both in terms of revenue and we are a little ahead in terms of EBITDA. There was some revenue losses consequent to Cuddalore floods that we suffered in Q3, they were obviously not recoverable given that these are continuous production processes. But yes, other parts of the business did extremely well and we made up a large part of the shortfall in our Q3 numbers.

In all, it has been a fairly pleasing quarter as several parts of the business started delivering results. We strongly believe we are a couple of quarters ahead of what we thought we would take in terms of the consolidated business operating as a single unit that has been fairly quick., thanks to the integration and synergies coming through quickly.

In the year we have several announcements that we made, we had nine M&A transactions of which two were material - Shasun and Arrow. We had a full year of reporting for Shasun and about seven months for Arrow. The other businesses are very small in nature and most of that businesses would start fully getting consolidated only from this quarter. We had awaited for specific approvals from various regulatory bodies so there were CPs to be completed on the transaction. So we expect all of this to accrue to us starting partially this quarter and surely for from the next quarter all our acquired businesses will start performing.

Although our emerging market business is the only business which was a weak spot for the whole year running but I am pleased with the nature of the turnaround, the secondary sales has

been very encouraging in India and Africa. The pie seems to have been corrected between the supply chain and we believe this business is now on track to turnaround. The recent announced acquisitions in Kenya of Universal and also that in India of the brand acquisitions from Sun Pharma for the erstwhile Ranbaxy CNS portfolio and the J&J portfolio will start adding growth momentum to these businesses. We think the worst is behind us, we have had very measured approach to capital allocation and credit control in these markets given the volatility of the emerging markets. So although our growth in that area has been muted we believe that all the engines necessary for future growth are in place and we have a great new team leading that operation. And under Shashank, our new CEO it is a key focus area for us to get that business back on track and we believe that maybe lot sooner than what we had originally forecasted.

A stellar performance did also come from our regulated markets. We increased businesses significantly. Regulated markets for us crossed a little over Rs.1,000 crores, the revenue is almost doubling from the previous year and this is mainly led by growth coming in from increased market share in the US, we have had very solid market share growth in our key products and Arrow has consolidated well and we are doing quite well there.

There are two announcements we made today, one is the strategic partnership with Pharmacy Alliance, the Pharmacy Alliance is Australia's largest banner pharmacy management company and by virtue of this transaction, we continue to have regained relationships they had with Aspen, but not only that but we will get a higher focus in our generics being the first line preferred branded generic provider to the Pharmacy Alliance operations. We expect Pharmacy Alliance to have close to about 1000 pharmacies in about next two years, that is about 20% of all pharmacies in Australia and that gives us tremendous amount of branding and capabilities for the Australian market. So with the recently announced GP transaction which takes care of the supply chain and the portfolio and with Pharmacy Alliance, I think we have all engines firing in terms of the Australian business and we are on our way to become an important player in that market.

We also announced our exit of the CRAMS business and since this is a related party transaction please bear with me as I give a little background for some of you who do not know much about this business. So when we announced the merger with Shasun we announced on that day the intention to exit the CRAMS business. This is because it was non-core for us and the CRAMS business was a loss making operation for Shasun for over three years running and there has been significant amount of capital that was invested to keep the operations going. Under a new leadership the CRAMS business has turned around and it did report its first full year of turnaround result. However, this is no more a pure play pharmaceutical business, more than half its revenue comes from services and veterinary services which means that it just further aggravates the strategic fit for Strides which is focusing on integrated pharmaceutical play. But having done this, the business has turned around. And although the business did report £33 million of revenues and £3.94 million of EBITDA, the sustainable EBITDA is only £2.7 million because the rest was from a one-off services contract the company entered into.

Now for all practical purposes we are not obliged to take shareholders approval for this transaction but being a related party transaction it was of importance both for us as promoters

for the Board, even after the due process of having an independent valuation provided by a big four was available to seek shareholders' approval so that we maintain a high level of corporate governance.

So with that I would request Badree to speak, I just wanted also to give you a quick update on our API business. Now our API business has been flat but what is pleasing and I can tell you that margins have increased by 400 basis points in the last 12 months and that is mainly through portfolio maximization and also by rationalizing sales and moving away from commodities to more niche products. The API business will always be a flat growth business for us. So I was talking about the API business tracking in terms of margins and also improving its R&D portfolio, or new developments of DMFs for captive use except for the Japanese market where we continue to be an important player in that market. The new R&D center in Bangalore is now up and running, we now have 400 scientists across our three R&D centers in Pondicherry, Chennai, and Bangalore and this has obviously helped us commence the momentum of filings. We have had 10 filings in H2, this is the low-end of the guidance but I am glad that we have had that and we now expect a fairly strong portfolio of product being filed this year. We believe we can file between 20 to 25 products going forward. We believe the niche and complex natures of products are increasing and with API integration we will continue focusing on narrow niches and trying and retaining or achieving and retaining high market shares in each of these products.

So with that I would request Badree to give a few highlights for the year in terms of the financial metrics and then we will be very happy to take your questions.

Badree Komandur:

Good evening, all. So I would like to cover in the next five minutes the financial highlights and some of the qualitative highlights. So we continue to focus on profitability as a Company and that is evident in the guidance numbers we achieved. We achieved the mid-point of the guidance in terms of the profitability and we achieved the top-line of about Rs.1,850 crores. Our theme in the last year has been the multiplier effect and we believe that we have lived up to the theme in its true sense, we have tripled our revenue in the last three years and we have also tripled our EBITDA over the last three years. We have created a strong governance structure to manage the scale and scope and our management team is in place for the future years.

So some of the key highlights for the financial year 2016 are as follows:

We had the first year of combined performance, the true potential is reflected in the quarter three and the quarter four results.

Second thing which is very important is that we also regained margins at 20%. Initially when we have been communicating we said that it will take slightly a longer time for us to get to the margins of 20% because of integration and synergies, we believe that we have been able to achieve that in the second quarter as it is today. And our margins at 20% on a Rs.1,000 crores turnover. The third one is that the EBITDA by adjusted PAT is about 55%, we feel it is very healthy from an overall company standpoint. The net debt by annualized EBITDA is 3.1x and

this means that we are also able to create a lot of internal accruals in addition to the debt we have. ETR stands at about 17% for Q4.

On M&A front we announced nine transactions and we closed seven transactions during the year. As Arun mentioned that Shasun is consolidated from 1st April and Arrow is consolidated from September 1st, the remaining five transactions did not have material operations in the last few months of the year. And the two transactions are expected to close in Q1. We had a strong EPS at 13.25 and our debt-equity ratio stands at 0.74 and long-term debt is about \$230 million.

Some of the qualitative highlights:

We also had credit rating done by the rating agencies, we had A+ rating on all our debts and A rating from Fitch which we believe is a good rating. And our treasury investments in Oncobiologics is starting to get some fruits, the Oncobiologics got listed at \$4.8 per share and our holding is at \$1.83 per share. Overall, we are about 6 million shares at about \$1.83 and our investments are totaling about \$11 million.

These were the broad highlights and we are happy to take questions as we go along. Thank you.

Moderator:

Thank you very much. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Chunky Shah from Credit Suisse. Please go ahead.

Chunky Shah:

First one was on the HEP-C portfolio in India, so post our own manufacturing how does the profitability in that product change assuming that the prices for that would have not gone down because of competition, so the question really is with we benefitting versus taking the product from NATCO how does the metric change and update on the other EM filings and how we are doing on that? Second one is on the Australian investment, so what is the quantum of investment that we would be making over the next couple of years into the Pharmaceutical Alliance?

Arun Kumar:

Thanks Chunky for your questions, let me try and answer them. So after we started integrating the APIs of HEP-C we make this drug ourselves now, we have not seen any great traction in our sales in India because we believe the competitive landscape still continues to be a challenge. However, I am actually very pleased to report that we have had very important successes in the international market. We are able to realize an average of 3x the Indian ASP and we stay focused on that. So overall, we are competitive to sell in India, we are seeing traction in India too but it is nothing of the size and scale that one could do in India given the large patient pool. So we are seeing margin improvements but it has not become a big product as yet for us. We hope that will change very soon with some important legislations expected in key patient pool markets. Your second question was on the EM filings, so filings are progressing quite well, we now have a fair amount of new products being filed, we do an average of 20 to 25 filings in about 30 countries, so it is about 600 dossiers a year and it is a lot of work but we believe that the momentum will continue and it will help us achieve that model. As for the Pharmacy Alliance transaction, it is a very small transaction in terms of financial outpost, we do not see any additional investments in

that business, it makes enough money to consolidated because they are not acquiring any pharmacies, they only acquire for relationship management there is really not much of investments but what it does is just gives us better security of asking the permanent first line provider of the branded generics through the Pharmacy Alliance network. So they are doing quite well, we do not see any need for us to make any additional investments into Australia to complete our strategy to become a leading player there.

Chunky Shah: So follow-up, the first one on HEP-C actually, my question was about how much cost difference will it be because of own manufacturing versus getting it from one of the suppliers there?

Arun Kumar: Well, the API prices have dropped obviously with more and more volumes being produced but so has also the finished dosage form, so technically the margins still continue to be at the 15% to 18% gross margins for India but one would not want to do business at those levels, we are not very comfortable doing business at those levels.

Chunky Shah: And on the Australian bit, so the press release said that we would be investing certain amounts as would be required as Pharmacy Alliance goes on acquiring more for their growth per se.

Arun Kumar: Beyond what has already been done, we do not see the need for us to make any new investments in the near term. You cannot acquire pharmacies unless you go and make acquisition of additional pharmacy management companies which I think will then get into channels in terms of control of the front end market. So I do not think we will be doing anything, it is just basically if you watch the press release also a comfort to our pharmacy chain networks that they have backing of an important player to expand that business.

Chunky Shah: But earlier we were already a preferred partner for them, so what I am failing to understand is what incremental does this agreement get for us, we understand that we will now be the preferred partner or we will have the first right of refusal, we are the first partner but what will Pharmacy Alliance get out of it, that is to be a Quid Pro Quo.

Arun Kumar: The Pharmacy Alliance investment will get them to close to about 700 to 1,000 pharmacies in the next two to three years including what is being invested and including what they generate out of their management fees and that is what we are securing, we were earlier supplying 200 or 300 pharmacies, with this we will probably go 3x or 4x in terms of volume.

Chunky Shah: Sir, right now these guys have about 300-odd pharmacies, is it?

Arun Kumar: Yes, they are converting about 200 pharmacies a year.

Chunky Shah: So that is where our funding can help them.

Arun Kumar: Yes.

- Moderator:** Thank you. Our next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.
- Prakash Agarwal:** Sir, just trying to understand on the guidance, would you be giving any guidance for the year?
- Arun Kumar:** No Prakash, unfortunately no. We gave a guidance for a specific reason, there were too many moving parts, we thought investors needed a little more clarity and I think we are done with everything, our Q4 is a true reflection of what we are. If we knock off the CRAMS business and add all the small businesses that we do the base numbers do not change, so apart from that guidance I cannot give you another guidance. And the fact that I have guided that the emerging markets will pull back this year and we will have between 20 to 25 filings.
- Prakash Agarwal:** So basically why I was trying to get a guidance is because lot of the acquisitions that you said, though completed, has come at the fag end of the year and the current bas if actually the core business. So we need to add every month of two we will see the business getting consolidated with the new acquisitions.
- Arun Kumar:** Only for this quarter and that will be compensated by the fact that the CRAMS business will stay with us till the shareholders' approval happens either way, so technically there is really no pressure for you to be worried.
- Prakash Agarwal:** And secondly, regulated markets QonQ growth of 17%, so if you could help us understand is it led by the US market share largely or Australia is also contributed or any other thing that might have happened?
- Arun Kumar:** It is mainly US and Australia continues to maintain its previous growth, but it is mainly US.
- Prakash Agarwal:** And in Australia itself would we have seen a high single-digit kind of growth or we are still lower single-digit sir in Australia?
- Arun Kumar:** In terms of volume it is in double-digits, in value obviously it is single-digits because of the PBS impact as we had guided then, because we have yet to bring product into Indian onto our manufacturing. We are exiting current supply contracts or renegotiating supply contracts, that is work in progress. So it is double-digit volume growth and single-digit value growth.
- Prakash Agarwal:** And you expect this supply contract to come to India by say next 12 months, is that achievable target?
- Arun Kumar:** Yes, by the end of this financial year material products would have moved into India.
- Prakash Agarwal:** And sir so emerging market you clearly said that you are seeing the base here and with a lot of portfolio that we have added, but in Africa itself due to currencies so we have seen issues there, so how about the demand, if you can help us understand the demand scenario there.

- Arun Kumar:** Well, in the branded business there is really no challenge because we are in chronic care. We see some challenges in West Africa, especially Nigeria but our exposure there is very-very small. French Africa the euro has rebound so it is quite alright. So things are looking up in that market. I think the secondary sale has been very healthy, I like to believe our secondary sale growth is over 20% last year and that is a reflection of continued prescriptions coming our way. It is just that we were well focused on the hygiene, we are cleaning up the pipe and the oversupply and all that took a little longer. West Africa is a challenge but like I said the business is extremely small, it is very small exposure in that market.
- Prakash Agarwal:** So this is for the branded market you are saying?
- Arun Kumar:** Yes, so to answer your question, the generic, yes we are seeing some challenges because obviously the generics do not operate the same way as the brands do especially with the volatility, so we are seeing some challenges. Since two years we kept the generics business flat while we grow our branded business.
- Prakash Agarwal:** And if I may ask, what is the current ratio for branded and generics?
- Arun Kumar:** 45:55.
- Prakash Agarwal:** 45 being branded?
- Arun Kumar:** Branded.
- Moderator:** Thank you. Our next question is from the line of Chirag Dugly from HDFC Mutual Fund. Please go ahead.
- Chirag Dugly:** Sir, in Australia how have our margins behaved and if you can give us some context of margins versus competitors.
- Arun Kumar:** Well, there are three of the top players including us control close to about 90% of the branded generics market in Australia, nobody reports numbers, they are all private, so we do not have access to numbers. We like to believe our business is fairly significant in that respect given that we have a large portfolio and certain niche products where we are almost the only generic player. So the margins have been impacted by PBS as we had expected but with the synergies of manufacturing shifting back we should be able to handle those issues. So we think that the margins will increase but currently it is significantly higher, or it is not significantly but slightly higher than our company average. Our regulated market is profitable, it is fairly significantly profitable and the Australian business is within that range.
- Chirag Dugly:** Can the margin differential because material sir, 2x kind of a difference between competitors, would you think?
- Arun Kumar:** No, I do not think so.

- Chirag Dugly:** And sir what would be our Q4 filing rate for the US?
- Arun Kumar:** 10 filings.
- Chirag Dugly:** Fourth quarter, sir.
- Arun Kumar:** All 10 filings were in Q4.
- Chirag Dugly:** So this is some bunching up sort of?
- Arun Kumar:** Yes, and also the new center just got ready, so I think we have one in Q3 and nine in Q4 and there was bunching obviously but now it is kind of, I think by H2 of this year we will get into this linearity issue in R&D behind us.
- Chirag Dugly:** And what you are recently saying is that you can still file, so 20 - 25 kind of a number is what you are going to do on an annualized basis?
- Arun Kumar:** That is right.
- Chirag Dugly:** And sir last question, sir is this 20% sort of EBITDA margin, the base sort of a thing here what we have reported in the fourth quarter?
- Arun Kumar:** Well, ideally it should, I mean it has taken us a lot of work, we had a significant buoyancy from the anti-malarial business which was very significant quarter for us, so margins obviously we benefitted from that. We are not sure when the supply disruptions will get corrected, we think it will take a bit in terms of timing, if that continues it should be there. And also do not forget that our CRAMS business delivers only about 10% of margins and almost all the margins came in the last quarter, it is a very lumpy business. So one of these two businesses go off actually our adjusted margins will look up, so considering that to assume a 20% margin is reasonable.
- Moderator:** Thank you. Our next question is from the line of Kartik Mehta from Deutsche Bank. Please go ahead.
- Kartik Mehta:** Just trying to understand two things here on the R&D side, what is expected in R&D as a percentage of sales and also on the biosimilars business what would be your total amount that you will spend and how does one build a revenue in that business?
- Arun Kumar:** Your third question, how would you build revenue?
- Kartik Mehta:** So R&D cost as a percentage of sales for both the businesses, assuming that we do not have any revenue as such until now in the other business, so what is the amount that you expect that you will spread over the next three years.
- Arun Kumar:** So we spent Rs.75 crores last year in R&D, that is up some 40%. Now you have to consider the 75% on a reg market sale because almost 90% of R&D spend is in reg markets, so it is

approximately 7%. We expect R&D spend to close to double this year and that is because we are increasing the investment to do more complex products and more niche products. Our R&D spend on the Biotech division was approximately Rs.20 crores last year, do not forget that the Biotech division is being spun off and it will be a separate company with effective date of 1st April, this will happen in the next two to three quarters, so it will be a separate company and it will not have an impact on Strides. And we believe that **the** first lead product would have licensing potential within the financial year and that should take care of its going forward needs.

Kartik Mehta: And then in FY18 the absolute R&D spend of 150, so would that grow at the same rate assuming you file 25 products in FY17?

Arun Kumar: Kartik, I think at Rs.150 crores to Rs.200 crores range we have reached a peak potential of R&D spend. I do not think we need to spend more than that to continue a strategy that we are pursuing in focusing on niche and narrow niche products in terms of small products nice value and small volume that emerges out of that business.

Kartik Mehta: And on the current products for the US market which are pending approval, can you tell us roughly about the average size without getting into names and how long have they been filed for so that we can have some update on their approval time limits, that will be helpful Arun.

Arun Kumar: So I think we are expecting seven to eight product approvals in this financial year, we think more of it will happen in H2 based on what kind of responses we are getting from the FDA and we like to believe that currently our US business is about \$70 million, that is almost up from \$35 million - \$40 million last year. We think we will have a very solid going out situation once we have the seven products approved. I would like to believe that the opportunity of these products are close to \$1 billion, some of these have very large molecules and yet by nature of them being soft gelatins or soft-melt technology which we use for vancomycin and stuff like that. But I cannot give you specifics, I think these seven odd products will give us a nice bump up especially in our US business.

Kartik Mehta: And in terms of competitive intensity this will be similar to existing ones or will this be far more competitive assuming that this will be of slightly larger size than the Vancomycin?

Arun Kumar: Well, I think we still have three to four players in any product you take but it will not be the 10 and 12 player product.

Moderator: Thank you. Our next question is from the line of Manesh Jain from Sage One Investment Advisors. Please go ahead.

Manesh Jain: I just wanted to know on way the smart investment in Oncobiologics, would you remain a passive investor or at some point of time you will also play some role in directing the strategy at Oncobiologics?

- Arun Kumar:** No Manesh, the clear intent for us was that it would conflict our interest in Stelis, so this was a treasury investment opportunity we never took a Board role. We were never involved in operations, we did not decide the time of their IPO and why they went for the IPO market even in a weak market position. So no, we will have no such plans, we would work closely with them for certain markets where we are strong like in Australia but we have no plans to get into any operative roles. And when you see the list of the investors there, they are very marquee Biotech investors and I think they will add significant more value than what we could from a financial investor standpoint.
- Moderator:** Thank you. Our next question is from the line of Chirag Dugly from HDFC Mutual Fund. Please go ahead.
- Chirag Dugly:** Sir, why is depreciation so volatile quarter-on-quarter and what is the base that we should sort of pencil in?
- Badree Komandur:** You can consider the quarter four as a base because we concluded about seven transactions and each one goes through allocation process and you can consider the quarter four as a base.
- Chirag Dugly:** And sir how much money will we get for the CRAMS business sell out?
- Arun Kumar:** £25 million.
- Chirag Dugly:** And this will go down to obviously retired debt?
- Arun Kumar:** Yes, it is an enterprise value which will go down to reduced debt.
- Chirag Dugly:** Is there any debt on the books?
- Arun Kumar:** There are debts on the books which is currently part of Indian books and international books, but it is an enterprise value, yes.
- Moderator:** Thank you. Our next question is from the line of Nitin Agarwal from SBI Cap Securities. Please go ahead.
- Nitin Agarwal:** Arun, qualitatively when you look at the business over the next year or maybe to start with, what are the qualitative milestones that you set for the firm going forward without getting, obviously we are not getting the formal guidance division but in terms of milestones that one we can sort of monitor over a six month to a year period?
- Arun Kumar:** I think the difference between number two and number three in Australia is very small, we are number three, getting to number two position would be, the signal that we are moving significantly on market share because that market share ratios have not moved, so if you look at IMS we have moved in the fourth quarter 0.5% increase in market share of the total generic market, whereas the top two players have dropped between 1.5%. So that is a foster sign for us

because it was always a kind of set pattern in terms of market share for the top three players, so we seem to be shaking that a bit, if we can get that up by about 2% points then I think we have won this game as far as Australia is concerned and then after that it is OPEX leverage because we do not need to spend any more cost on front ending and all of that because all of that is already in place. I think we had as stellar North American operation for a three-year-old front end player including partnered products, this has been a fairly good outcome, it is very significantly profitable and I think getting some of those products which will ramp up that going out visibility of around \$120 million on an annualized basis will make me feel that the company has achieved its key milestones for this year on the reg markets.

- Nitin Agarwal:** So would you be looking to buy assets, acquire assets for the US business?
- Arun Kumar:** Yes, I know you would not believe this but we are done with our M&A for now.
- Nitin Agarwal:** And secondly Badree, we have seen some increase in debt on a QoQ basis, can you help us understand what has been driving this increase in net debt over the last quarter?
- Badree Komandur:** Basically the Sun's Solus and some portions of J&J transactions are funded through debt.
- Nitin Agarwal:** We have almost like a Rs.500 crores in debt QoQ if I get my numbers right, is that correct?
- Badree Komandur:** Yes, so that is correct.
- Nitin Agarwal:** And the Solus these were not such large transactions, right?
- Badree Komandur:** Plus we also borrowed from Biotech which is also represented in the form of cash which will move out during this year, so that was one. I think these were the three major transactions which happened. Are you looking from September to now or December to now?
- Nitin Agarwal:** December to now.
- Badree Komandur:** These are the three major transactions that happened.
- Nitin Agarwal:** So is it fair to say this is pretty much the peak debt that we should have on the books for some time, right?
- Badree Komandur:** Yes.
- Moderator:** Thank you. Our next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.
- Prakash Agarwal:** Just trying to get color on some other businesses, institutional business you did speak about that, a lot of tailwind came from the malaria business, now trying to understand going forward if you can share this one player moving out and we and the other player getting some benefit, can that continue for another year or what is the environment looking like for us?

- Arun Kumar:** I think malaria, the view that we have is that that environment will continue for at least this financial year, this is our understanding because the contracts have already been placed and you know how the system works. On ARVs it is competitive bidding on a daily basis. So on malaria it looks good.
- Prakash Agarwal:** And you did mention in your press release about the API business where in the past you mentioned that the focus is to move from volume to value and specially Ibuprofen, your own products coming in, so when do we actually see your approvals for the filings that you have made for Ibuprofen and other Gabapentin kind of products?
- Arun Kumar:** So our Ibuprofen is already approved, it is partnered with one of the largest generic companies in North America and we have the single largest market share of it. So we already sell on a partner product and we use a lot of Ibuprofen ourselves. More importantly, we have also been able to bring in discipline in our selling of Ibuprofen and we have kind of either expanded our market reach or started selling less quantities in markets where price pressures are there. As a consequence, there has been an improvement in realization, our per kg realization which has never gone up in the last five years has gone up by a dollar and when we make 6,000 tons that is a lot of incremental gain. So yes, so we continue to do some of those things, we expect some of our own ANDA filings, we have other variants of Ibuprofen so if you are referring to certain information that you may have in the FDA websites we have some other variants of Ibuprofen, other colors and other strengths which is what we expect from additional approvals this year. We expect Ranitidine approval this year, that is also an ANDA partnered, so we will see how it goes in terms of taking position and continue partner products or trading on our own.
- Prakash Agarwal:** But for Ibuprofen would we continue to do partnership or I was under the impression that we would take this product on our own and scale it from there?
- Arun Kumar:** That is the idea, we are not renewing any partner contracts and we are not adding new products into partners.
- Prakash Agarwal:** So the question was, actually when do we expect our own approval for Ibuprofen?
- Arun Kumar:** Like I said the ANDA is ours so we are approved, so if we do not renew supply then the ANDA reverts back to us, I mean the ANDA already belongs to us.
- Prakash Agarwal:** And last question is again on PSAI, so we saw QonQ jump again on 23%, so any specific thing to watch out which can be sustainable?
- Arun Kumar:** It has been the characteristics of this business for the last 10 years, Q4 is the biggest quarter for Shasun, it remains such every year, so nothing has changed.
- Moderator:** Thank you. Our next question is from the line of Chunky Shah from Credit Suisse. Please go ahead.

- Chunky Shah:** I had a question on Lovaza so any timelines, any target action dates that we have got from the FDA?
- Arun Kumar:** Chunky we do not disclose products and TADs or regulatory updates, Things are progressing with all our products, we feel confident of several approvals sooner than later.
- Chunky Shah:** Let me ask this the other way around, was this one of the six, seven products that you mentioned?
- Arun Kumar:** Yes.
- Chunky Shah:** Secondly, on the malaria business, so you said that this could continue for say another year or so, but is there any re-pricing at all which is happening there in the market or the prices which were contacted couple of years ago are continuing?
- Arun Kumar:** So the prices have dropped but so have the API prices, so there is no drop in gross margins for anybody operating on this space but the unit prices have dropped, so you have to do a lot more units to maintain your revenue numbers, we believe we are in that position thanks to the supply disruption. We know that the contract has been extended for one year and we also read from the other parties that they have not got the contract so they have gone public with that. So we feel confident that we would benefit or we have benefitted from those events at least for next year.
- Chunky Shah:** So this kind of benefit would continue, incrementally more benefit could come in or this is the kind of level or the entire part of the benefit is already flown through?
- Arun Kumar:** Q4 has a very unusual anti-retroviral business too, I think all of those numbers are not purely malaria and a lot if it is also anti-viral. But the anti-malarial is obviously more profitable which we think will continue in the same momentum as before for couple of more quarters before we really see what actions the competition has done in terms of getting back to the market.
- Moderator:** Thank you. Our next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** What is the annual run rate of the India branded business?
- Arun Kumar:** Well, there is all the inorganics, you should consider about Rs.250 crores, last year was Rs.100 crores, so it is a big growth considering that the secondary sales are doing well and the new inorganic near about Rs.200 crores.
- Dheeresh Pathak:** And Arun can you also call out the anti-malaria sales in the Rs.595 crores of the institutional business for the year?
- Arun Kumar:** I said we cannot break it up.

- Moderator:** Thank you. Our next question is from the line of Brijesh Kasera from Edelweiss. Please go ahead.
- Brijesh Kasera:** Sir, as you said that most of the major acquisition that we set out to do has been done, what are the synergies that we are looking forward for FY17 in terms of cost savings with Shasun acquisition even in Australia?
- Arun Kumar:** Well, see unfortunately now business synergies are a stronger balance sheet, better cost of money, all of that has been achieved. In terms of introducing products on the Shasun pipe into our regulatory dossiers it is a time consuming process, you have to take stability studies, we have to file data, it takes up to a year, year and a half to get approvals. So things are going well, we think that the full benefit will start flowing from next year but we have purchase synergies that have already occurred because we are buying with much larger volumes larger balance sheet strength. But in terms of Australia, I already mentioned it earlier that you take by end of this financial year to start moving some critical products in India that have got approvals and that will immediately add to our numbers. So I think we are a couple of quarters away before we can actually see turning of these two businesses.
- Brijesh Kasera:** See, even on the Shasun business you mentioned that when you acquired that the ARV business where you are not backwardly integrated, Shasun acquisition would help you garner more market shares and revenues from that business, so have we seen some movement on that front?
- Arun Kumar:** So our first product using Shasun API is in the process of being filed as a variation.
- Brijesh Kasera:** And my final question, is that a reason why the other income is higher this quarter or it is a normal run rate?
- Badree Komandur:** Other income is mainly because of some of the QIP monies we started earnings interest during the quarter and out of the QIP money what we have raised, about Rs.430 crores is been used, the balance is remaining as cash which will be used for future debt reduction.
- Moderator:** Thank you. Our next question is from the line of Bhagwan Choudhary from Sunidhi Securities. Please go ahead.
- Bhagwan Choudhary:** Sir, what was this Rs.12 crores minority interest in this quarter, this was pertaining mainly to what?
- Badree Komandur:** This is pertaining to the various acquisitions we have made and it is share of the minority interest. So this pertains to all the corporate actions what they have announced last year.
- Bhagwan Choudhary:** But it was not there in the previous quarter?
- Badree Komandur:** Yes, because this was the first quarter of combined performance and we have done that in the current quarter.

- Bhagwan Choudhary:** But I think the Arrow was there, major acquisition was there in the previous quarter as well.
- Badree Komandur:** No, Arrow does not have any minority interest.
- Bhagwan Choudhary:** So you are saying the other acquisitions what you have done which closed in this quarter?
- Badree Komandur:** Yes.
- Bhagwan Choudhary:** And secondly sir, what will be our cost of debt?
- Badree Komandur:** We do not give any specific debt wise guidance on this, but what we feel is the overall cost in the quarter is 5% to 6%.
- Bhagwan Choudhary:** And finally sir, what was the number you shared on the CRAMS business EBITDA in this quarter and some one-off number, if you can say please.
- Arun Kumar:** The EBITDA for the CRAMS business was one-off services income that means it is non-recurring services income which gets added to the EBITDA and the sustainable EBITDA is about 2.7 million and most of it is coming from new businesses that they have generated not in the pharmaceutical space but in the veterinary space. So they work with one of the largest veterinary companies in the world and that is the reason why the turnaround happened. And most of the one-offs were all in Q4 and that is why those numbers are reflected.
- Badree Komandur:** Just a small correction on the debt, so it is at 7%.
- Bhagwan Choudhary:** And this £2.7 million is there, right?
- Arun Kumar:** Yes.
- Moderator:** Thank you. Our next question is from the line of Chirag Dugly from HDFC Mutual Fund. Please go ahead.
- Chirag Dugly:** Sir, how have margins in the EM region sort of behaved over the last 12 months, just directionally if you can give us some sense?
- Arun Kumar:** From a currency standpoint it has been a very volatile, so we have seen the back of this currencies in the performance but the overall group perspective we are not affected by the exchange in terms of the profitability because we have taken some proactively some forward cover, simple cover at a company level which are at a much higher rate than what was there. So to that extent we are able to mitigate those risks.
- Chirag Dugly:** So the percentage margin in the EM business on this lower base has remained flat is what your are saying?

- Arun Kumar:** Margins in the EM business have actually gone down from last year because our OPEX cost keeps increasing while our revenues were flat which is contrary to the original strategy, we think that with the turnaround the leverage would start. So amongst all our businesses the EM business delivered the smallest margin.
- Chirag Dugly:** And sir on the European business if you can give us some sense of how big this is and how important this is, I know this is not a very large growth driver but I am sure this is a very profitable business for us?
- Arun Kumar:** It is amongst our more profitable business, it is actually more profitable than Australia or as much as profitable as US, but it is a very-very small business, we do just about \$25 million in Europe.
- Chirag Dugly:** And sir just an observation, there is no overlap in product selection between Stelis and Oncobiologics, right?
- Arun Kumar:** None at all, Stelis does not do any maps, Oncobiologics only does maps.
- Chirag Dugly:** And the Rs.75 crores R&D does not include Biotech?
- Arun Kumar:** No, it does not.
- Moderator:** Thank you. Our next question is from the line of Deep Master from Enam Holdings. Please go ahead.
- Deep Master:** I just wanted to clarify, when you say that the third quarter and fourth quarter represent the full potential of your businesses, does that mean that all the acquired businesses also sort of contributed for revenues in the entire quarter?
- Arun Kumar:** No, again for example our **universal** acquisition effective date would be May 1st. And some of other businesses like GP in Australia would be effective only July 1st, there are several **regulatory approvals** that the company needs to still meet. And like I said, GP will get consolidated only by 1st July and Kenya will get consolidated this month. What I said, this will get offset by the fact that we will still consolidated the CRAMS business, so it kind of balances the revenue numbers. So you should consider the Q4 number as a fair reasonable base number, except that we probably with all the inorganic will not add up to the top-line of the CRAMS business but certainly add up to the margins.
- Deep Master:** More than offset the margins you said?
- Arun Kumar:** It will definitely add to the margins, it a question of waiting for some more weeks.
- Deep Master:** In a way it is fair to sort of annualize this for a base you would say, even though Malaria has done really well?

- Arun Kumar:** Right, I mean malaria was an outlier so outcome of that issue to business was an outlier but outside of that I would like to believe that it is a fair assumption that you can make.
- Moderator:** Thank you. Our next question is from the line of Nitin Agarwal from SBI Cap Securities. Please go ahead.
- Nitin Agarwal:** Arun, when you look at the going forward would there be any seasonality in terms of maybe a more loaded H2 compared to H1 when you look through FY17 or we see a progression all through?
- Arun Kumar:** No, our issues really are with the API business, it is heavily, the linearity is just not there in this business, so it is more towards H2, I do not know, I have still not been able to historically find out what is the historical reason for that, but it seems to be the case, we are trying to change linearity a lot there but it does not seem to be working as much in the speed at which I would like it to. I like to believe that the rest of the businesses are fairly linear. So institutional had a phenomenal quarter, you would want to moderate that a bit and the API business actually delivered almost half or almost 40% of this EBITDA and revenue in Q4. I think for a year or two it is going to continue like that because we just need to shift customer wise behavior and stop keeping before all of that changes.
- Nitin Agarwal:** And in terms of the different pieces of the business that you have acquired over the last few quarters, in your own estimates when do you see all of these businesses sort of settling down and becoming like a completely Indian entity, at what point in time do we see these all actually settling down in a completely integrated manner?
- Arun Kumar:** H2 would be a good period, Q3 onwards you will see very solid linear performance in the business both in top-line and bottom-line.
- Nitin Agarwal:** With all the strategic advantages from all these acquisition probably we need to play through by that?
- Arun Kumar:** That is right.
- Moderator:** Thank you. Ladies and Gentlemen, due to time constraints we will take one last question from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** Can you explain the Rs.15 crores write-off and the exchange fluctuation gain, exceptional items?
- Badree Komandur:** See, as far as the exchange gain is concerned these were all because of the mark-to-market gains which we received from the last quarter to the current quarter, this is mainly because some of the loans have been denominated in Australian dollars, so we had a mark-to-market gain there, that was one. And second thing, in terms of if you write-off we have some investments in the emerging markets which as a precautionary measure we have provided it for it because we are seeing some more delays in the turnaround, so we have take a onetime hit on those expenses.

- Arun Kumar:** Just to add to Badree's statement is that when we complete reviewed the emerging market we decided to stay focused on markets where we knew we would completely be in a leadership position, so there are certain markets like central congo and other markets where we decided we will not enter and those are the write-offs that we have taken off in terms of our investments in those markets.
- Dheeresh Pathak:** And lastly, in local currency terms what would have been the growth in the emerging market business which is mainly Africa for the last year?
- Arun Kumar:** Constant currency has been good and secondary sale has been 20%.
- Dheeresh Pathak:** And that is what we should expect as a base case expectation for this year, 20% because now the channel would be clear is my understanding.
- Arun Kumar:** Yes, we have good base for your assumption.
- Moderator:** Thank you. Ladies and Gentlemen, due to time constraints that was the last question, I now hand the conference over to Mr. Abhishek Singhal for closing comments.
- Abhishek Singhal:** Thank you, all, for joining us. Thanks, Arun, for taking the time out. Thank you.
- Arun Kumar:** Thank you for having us.
- Moderator:** Thank you. On behalf of Macquarie Capital Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines