"Strides Shasun
Q1 FY18 Earnings Conference Call"

**August 11, 2017**

**MANAGEMENT:** **MR. SHASHANK SINHA - MANAGING DIRECTOR**
**MR. BADREE KOMANDUR - EXECUTIVE DIRECTOR**

**MODERATOR:** **MR. ALANKAR GARUDE - ANALYST, MACQUARIE**

**Moderator:** Ladies and gentlemen, good day and welcome to the Strides Shasun Q1 FY18 Earnings Conference Call hosted by Macquarie. 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 * then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Alankar Garude from Macquarie. Thank you and over to you, sir.

**Alankar Garude:** Good afternoon and a warm welcome to all participants. We at Macquarie Capital Securities are pleased to host the Q1 FY18 Earnings Conference Call of Strides Shasun. From the management we have with us Mr. Shashank Sinha, Managing Director; and Mr. Badree, Executive Director. Thanks to the management for giving us this opportunity.

Now I would like to hand over the call to Mr. Shashank Sinha for the opening remarks. Over to you, sir.

**Shashank Sinha:** Thank you, Alankar and good afternoon everybody who has dialed into the call. My name is Shashank Sinha and I am joined by my colleague, Badree.

At the outset, let me say that we were disappointed with our first quarter results. It has been a bad quarter all around, but I think particularly for us it was due to negative operating leverage, that is the story as far as our first quarter results is concerned. We had important key product approvals that didn't come through in this quarter, however you saw in our press release that we got 6 new product approvals. Post the product approval market formation takes some time, particularly OTC products. As you know, in OTC products with customers in the US, particularly, there are only two windows in the year when they reset their shelves. And you have to be able to present your product to them in time for the reset. So that is going to happen when the next reset takes place and we are going to take those into market. Overall, in our Regulated Markets business there are two parts to the business - In the US, products that we sell directly and products that are marketed through partners or that were filed with partners and are marketed through partners. What we sell through partners are legacy products because that was the time when we didn't have a frontend of our own and including some of the legacy products from the Shasun portfolio, example is vancomycin or carisoprodol. The partnered products had a really bad quarter. In the partnership agreement that we had in the past, we had very little role to play in managing the various marketing mix elements, so that is not a managed business. But our market share remains intact. I think there has been increasing amount of pricing pressure, because these partners have enjoyed opportunistic pricing in the past, but have faced pricing pressure. In contrast, our direct portfolio and increasingly about half of our business in the US is our direct portfolio. So our direct portfolio, which is all the products that we are marketing through our own frontend, is much more selective, it is more niche, more protected or defendable portfolio, that has done well. We have got good growth. Market share of our key products have gone up. I think last time we reported our product Ranitidine had 18% market share. Currently, our market share in Ranitidine is 30%. And that, as you know, was one of our first fully integrated products where we make everything from API and we take it to the customer. So we make the formulation and we market it directly through our own. Increasingly, our portfolio is going to be more and more such products.

So the direct business is done well. Market share for several of our products, Dutasteride, for example, between last quarter and this quarter, we have had from 16% of 26% market share. Buspirone, which is a new product that we launched, only one strength that we have in the market today 7.5 mg that garnered 11% market share. So the direct business overall has done well. Similarly, our direct business in Australia, where we have our own frontend, our own sales force and we have exclusive distribution agreement with one of the biggest wholesalers in Australia, Sigma. Again, that business has been on track and has had a steady quarter. The other big impact that was there in the results was emerging markets. And as you saw in our results summary, Emerging Markets we have had overall single-digit growth, but we were basically hit by the GST rollout impact in India. And that was industry-wide and across different industries as well, but that was the big impact of the business in Emerging Markets. What gives us lot of confidence is, when you look ahead, we are very close to several key product launches, including as has been in the public domain, Lovaza and our first modified release product. We have nothing outstanding on these applications. They are in the process of coming through. And we feel confident enough to commit to a launch of these products in this quarter. Of course, what that will mean is that we will only at best have one month of sales for these products in this quarter depending upon the approval if this comes now, but then we will have the full impact of these new products from quarter three onwards.

The other important confidence booster for us is our R&D engine is starting to fire. Based on significantly faster approvals, again, we have mentioned in the past that legacy applications have taken 4-5 years, sometimes even 6 years to come through for approval. But the newer applications under the new GDUFA regime are actually coming through much faster. Our recent new product approvals have come through in 10 months, so as a new entrant in the US market that obviously is something that is of great benefit to our future growth strategy. We have 29 pending ANDAs currently, but our portfolio is benefiting from the fact that not only will they come through faster, but it is a carefully selected portfolio of products. We have, for example, of the 29 applications which are pending and which we are expecting approval over the course of the year, 7 are topical products. We don't have a single tropical product in our portfolio that we're marketing today. There are 3 modified release products. There are 2 soft gel capsule products. So clearly, these are much more dependable and therefore the overall impact of the pricing carnage that you are seeing in the US market has been much more moderated in our case, and in fact, has been mid-single digit. So that is not really a major factor in our strategy in the US market. Also, after several years our R&D engine is showing the linearity that we would like it to deliver, which gives us a much better visibility on the pipeline. We are on track for 15 to 20 applications as we have said in the past. And on that basis and on the basis of the faster approvals that are coming through, we expect actually a very strong recovery in Q2, and we are very confident that we will be back on track with a strong H2. Now circumstances are driving us again and we would have expected better linearity in the business quarter-by- quarter, but because of the timing of new product approvals, we will still have a heavier second-half as we had last year as well.

Overall, the team and I feel very confident about our full year outlook and we are retaining, we are maintaining our full year outlook for FY18. So that is overall picture of the business. Of course, we would be more than happy to take your questions and get into a little bit more details based on what you would like us to talk about.

**Moderator:** Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. We will take the first question from the line of Anmol Ganjoo from JM Financial. Please go ahead.

**Anmol Ganjoo:** Shashank, you in your opening remarks said that what gives you a lot of confidence is that the approvals in US should come through. How is it different from what we heard last quarter, because there was some commentary indicating confidence that US should pick up and obviously numbers don't seem to be aligning themselves with that commentary. So what is qualitatively changed in terms of that? And also my second question is that, from a guidance perspective, we used to work with a certain EBITDA number, at least till the previous quarter. Given that you talk about certain visibility on certain key drivers, could you give us something to work with or at least tell us a range where we should be pegging our numbers to or at least looking at some kind of a sequential improvement not year-on-year improvement? Thanks.

**Shashank Sinha:** Thank you for your question, Anmol. So, the first one was about approval timing. I think that we want to separate out 2 different issues. As I said in my remarks, this quarter, the big negative impact on our US business or Regulated Markets business was the partnered business. That is nothing linked with approvals at all. We did indicate that approvals are expected. As you know, these are legacy filings. These are not under the new GDUFA regime where we have a much better visibility. Some of these important key products that we are talking about are legacy filings. There have been delays in that which is related to procedural delays. I think we are very close, because we have obviously been in close communication with FDA. And we have ticked all the boxes, as far as the FDA requirement is concerned. So today we are in a much better position to have, I would say, 95% visibility of that. I think a quarter before was different. So I think nothing has changed. That approval, which we expected to come through, we have more confirmation of the timing. On the guidance, as you know, we are not giving a guidance, but the only thing that we would say Indicatively is had we had these product approvals, we would have had a significant EBITDA growth versus the same period last year. So if you look at our kind of stable operating run rate, the timing of these two approvals was the important factor.

**Anmol Ganjoo:** Right. Just if I could follow up on that, so the second part of your answer, it shows that you would have a year-on-year growth had these approvals come through. Now with the corresponding quarter being a benchmark, how do we think about it from an FY18-FY19 perspective? So obviously, if some of these approvals are going to come through, they could back-ended, but on an annualized basis, whatever we seen in terms of deterioration of operating metrics this quarter, on a full-year basis how does the picture looks as you look out with last year as the benchmark?

**Shashank Sinha:** So look on the full year, so as I said, the timing can be different, but on a full year, we are still on track and we maintain our overall full year plan of more than 20% growth

**Moderator:** Thank you. We will take the next question from the line of Chunky Shah from Credit Suisse. Please go ahead.

**Chunky Shah:** So first question was on the gross margins. If you look at sequentially, our gross margins have fallen from 56.72% to about 50% on the consol reported basis that is almost a drop of almost 700 basis points. So any particular reason for this drop? So I understand that the pricing pressure in the US has been high, but if you look at our top line, the drop has been only about a couple of percentage points sequentially, but margins have really dropped a lot.

**Shashank Sinha:** Yes. Chunky, I will give you just generally some headlines and then Badree can fill in. Obviously, there are many moving parts in the gross margin. There is seasonality in some key products. So one of the products we sell which is an important product and we sell that directly, that is related to cough and cold. And the cough and cold season is related to weather, so that is an important part of it. The product mix in our institutional business, for instance, the malaria products have a much higher margin as you know. And the mix of that has been heavier towards HIV antiretroviral products which have traditionally lower margins, right. The impact of the partnership profit share that I talked about right, the partnership business, again, I mean, there they have had a severe pricing pressure on the product that our partners market. So I think it is a mixed bag of things, GST impact in India, it is a mixed bag of things. You want to add anything, Badree?

**Badree Komandur:** Yes. And also one of the things, Chunky, you should know is that the exchange rates are between 65 to 66 last quarter. And whereas it is currently in the range of about 64. So that is also contributing to the reduction in the gross margins.

**Chunky Shah:** Sure. So if you look at it, you know if you remove the seasonal factors and the one-off of GST, how much of it would be recurring? So for example, the currency is recurring, the pricing pressure is already taken hit on the base. So from this level how much improvement should we expect? And what is the kind of hit which is one-off and what would be recurring here?

**Badree Komandur:** Yes, we believe that the most of the impacts are factored in. And what we believe is that the operating leverage we are going to get from the new product launches will offset all of these margin impacts going forward.

**Shashank Sinha:** And one more just to add to that. Chunky, the thing your question about what is recurring, what is one-time. So look, I think from a one-time perspective, all the items that I talked to you about those seasonality related or GST related etc., the pricing pressure on our portfolio we have said in our press release as well, about 5% to 6%, which is negated by favorable product mix and higher margin on new products that we will launch. So the operating leverage kind of more than compensates for that. In Australia, where also we have talked in the past about pricing pressure from PBS cuts, basically the in sourcing of product from third-party manufacturers to our own factory and therefore cost reduction of that is a program. That is lagging a little bit right now, but again that is going to help overall margins.

**Badree Komandur:** To add, is the emerging markets in terms of the GST, that is a one-time impact for Q1 which will turn back in Q2.

**Chunky Shah:** But I think GST should not have an impact on gross margin, but…?

**Badree Komandur:** I am saying on operating leverage, the demand will pick up from Q2 onwards.

**Chunky Shah:** Right. Sure. So I think point taken. Sir, my second question was on malaria on the institutional side. How much is the market down? So I understand that we have maintained our market share. So couple of sub questions here, one is how much is the market down? Second is that we believe that the rebidding is going to happen in September this year. So do you expect the market size in September to be similar or we expect another downturn in the market size going ahead?

**Shashank Sinha:** So first question was about the overall market size. It's not demand driven, you know that right? I mean this is funding driven. So it is not the market, but it is what is the allocation of funding for malaria related, because they have to re-prioritize all the time limited amount of funds. Currently, the spending on malaria program has been down let us say mid 20%-25%. The rebidding is happening in September, obviously as one of the few companies which are qualified, we are going to be back in the bid and the overall spending is going to remain at this level or maybe improve a little bit, but is not going to go down from here.

**Chunky Shah:** Okay, understood. Sir, but our sales would also be then down about 25%-30% or we had a benefit of some additional sales in last year. Is it more than that kind of number, which is down in this particular quarter?

**Shashank Sinha:** For the quarter the impact is only timing. In fact, I can say that while we don't make forward-looking statement, but I can say that in this quarter, for example, our malaria businesses has already picked up and we will continue to do so in quarter three. So it is more of a timing, because it is not equal by 52 weeks or by 12 months, it always is these supplies are linked to malaria season when there is an epidemic or when there is a big issue in Africa, that is the time that the deliveries are taken.

**Moderator:** Thank you. We take the next question from the line of Prakash Agarwal from Axis Capital. Please go ahead.

**Prakash Agarwal:** Just trying to understand the two big products that you spoke about Lovaza and modified-release. Now, my understanding is Lovaza's size has shrunk quite a bit. I mean, it is about $200 million with 4 players. If you could correct me if that understanding is correct?

**Shashank Sinha:** The market is about $300 million, yes.

**Prakash Agarwal:** Okay. Understood. And the other product that we are talking about modified-release, if you could just give some broad level size and…

**Shashank Sinha:** Yes. We won't be making any kind of forward-looking statements on specific products, as you know. I can tell you this, that is higher margin product and it is going to be a significant contributor , because the modified-release has very limited number of players in the market. So is going to be something where we will be able to get a significant share as we enter the market, and we already have the key elements of that plan in place. Once we receive the approval we'll be able to obviously announce the product and be able to come out with more details on that.

**Prakash Agarwal:** Understood. Fair enough. And last time we alluded about the Sevelamer sales being already being felt in Q1. So that is what something we enjoyed in the quarter and that is picking up is what I understand.

**Shashank Sinha:** So Sevelamer what we are selling currently is the API, from the API division. We have commenced sales to one or two players and that happened in Q2. Sevelamer is not in the Q1 numbers. Am I correct?

**Badree Komandur:** Yes.

**Shashank Sinha:** Yes, not in the Q1 numbers, but we have commenced. I mean, I can confirm that we have commenced supply in this quarter to one or two customers.

**Prakash Agarwal:** And that is Q2 not Q1 they exist?

**Shashank Sinha:** Exactly.

**Prakash Agarwal:** Okay. So that is also giving you confidence of better Q2 is what I try to understand, yes. And looking at this API structure, which would you know, what you call, demerge into Solaris. So in a way, I mean, 10% EBITDA margin and obviously you would tend to be better margin in Q2, I'm trying to understand, I mean, like you gave some broad level highlight of your revenue and PAT growth of 20%, I mean, what is the margin number that we should look at given the some business volatility that is happening today? What is the target? Obviously, there are so many moving parts, but what are we really aiming at?

**Shashank Sinha:** If I understood your question, are you talking about the demerged entity's margin profile?

**Prakash Agarwal:** No. So I mean, what would we land up?

**Shashank Sinha:** I see, after the demerger what would be the margin profile?

**Prakash Agarwal:** Yes. And also the demerged entity margin profile, so that we can just add up the two.

**Shashank Sinha:** Okay. I think that it's premature for me to talk about it at this point in time. Look, the strategic intent of why we are doing that we have talked about before, and that is essentially because these are inherently 2 different business models. One is a B2B business, which supplies raw materials to other customers and the other is basically a fully formulations business where we will give the integrate the APIs that are for integrated products and for purely captive use within our own business. So clearly we will enjoy the benefits of vertical integration. So the benefits of vertical integration means that our margin profile is going to sequentially continue to improve as we transfer the captive APIs into our own factory. The margin profile of the demerged business, something actually I am not in a great position to talk about, because the business plans for that are being prepared by an independent management team, which is going to run that business and it is a little bit premature for us to talk about it here on this call.

**Prakash Agarwal:** So like any guidance on the EBITDA margin for our company?

**Shashank Sinha:** No, Prakash, we are not giving any guidance on that.

**Prakash Agarwal:** Okay. And lastly, just trying to understand basically the debt, how has that been moving?

**Badree Komandur:** Yes. So the debt is moving in the right range, Prakash. Last quarter, if you remember, we closed it at about 2,120 crores, that was before the Perrigo transaction and the closing of the JV which we made. So the debt has increased by about 100 crores. And anyway the working capital is optimally invested. And once we see a better Q2 and Q3 and Q4, we should be able to see better cash cycles going forward.

**Prakash Agarwal:** Please could you clarify the debt position please.

**Badree Komandur:** About 2,250, you can take it at this point of time. This includes API debt, so which is -- as we have told in the past, 450 crores of debt will go along with the demerged entity.

**Moderator:** Thank you. We will take the next question from the line of Tushar Manudhane from Motilal Oswal. Please go ahead.

**Tushar Manudhane:** Just with respect to your comment on the revenue growing by 20% and bottom line growing by 20%, logically bottom line should be growing much more right, and for that matter the EBITDA as well?

**Shashank Sinha:** There are many different moving parts and we didn't say whether this was high 20s or low 20s. And clearly I mean that is not something that we intend to do. So we are not actually going to be making very specific forward-looking statements, but I said in the 20s, and there is a range within that.

**Tushar Manudhane:** No. So taking you on the 20s as a number in terms of topline, so EBITDA would be higher than that and so the bottom line?

**Shashank Sinha:** Look, our EBITDA profile will benefit from vertical integration as we bring products into our captive in-house plant, the APIs, and we benefit from that. Plus the benefit of operating leverage as new products kick in should come through, we expect that to happen.

**Tushar Manudhane:** And this would be excluding any, let's say, FOREX gain?

**Shashank Sinha:** Operating leverage, I said. Yes.

**Tushar Manudhane:** And secondly, on the products approval, just wanted to check, let's say, compared to previous quarter and then to this quarter, is there any like queries which has been delaying these approvals or it's purely the procedural issue?

**Shashank Sinha:** This delay or this timing is purely procedural. There are no open items on these key products, there is nothing which is pending. And in fact, we have confirmation from FDA that, as I said earlier, all the boxes are ticked the final approval letter has to come through.

**Moderator:** Thank you. We will take the next question from the line of Alekh Dalal from One Thirty Capital. Please go ahead.

**Alekh Dalal:** On a sequential basis, based on your 20%-ish year-over-year guidance, we are expecting, sort of, it seems like the numbers would work out to about in the second half, something in the range of 30% type sequential growth. I mean, is that something you see possible because you would have to factor in sort of the price erosions coming in on your partnered portfolio as well and of course the other businesses. So I was just trying to understand sort of how that would be possible?

**Shashank Sinha:** I think the calculations are broadly in line with what our phasing is. Obviously, the partnered portfolio is going to become much smaller as our direct products and the products that we currently launch get into market, but clearly that is the plan.

**Alekh Dalal:** Okay. And on the Australia business, I think, you said there is some stocking issues and some small reduction on a quarter-on-quarter basis. What was the growth on a year-on-year basis on revenues and EBITDA in that business?

**Shashank Sinha:** So we don't split out growth by individual market. Suffice to say that we are on track in that business. As you read in our release, we hit an important milestone of our exclusive distribution reach of 1,000 stores, that gives us a status of being the frontline generic with an exclusive distribution in about 20% of the market. The total market in Australia is about 5,200 stores. So that is important. Our product portfolio continues to expand, brands continue to gain market share. Growth has been good, on track, and I mean apart from saying that is double-digit growth, I won't go further than that.

**Alekh Dalal:** And so this is double-digit growth on a prescription basis or something of that sort?

**Shashank Sinha:** Revenue growth.

**Alekh Dalal:** Revenue growth, okay. On year-on-year basis? Okay. Thank you.

**Moderator:** Thank you. We will take the next question from the line of Sachin Kasera from Lucky Investment. Please go ahead.

**Sachin Kasera:** Just one clarification. I think the API business is going to demerged from 1st of October. So when you say you are looking at 20% plus, it is adjusted for that on like-to-like or how you are seeing that?

**Shashank Sinha:** Yes, it is for the retained business.

**Sachin Kasera:** For the retained business, sure. Second question, sir, just a clarification, what is the type of debt that will go away when the API is hive off?

**Badree Komandur:** It is about 450 crores which will go out along with the divested engine.

**Sachin Kasera:** Sure. Sir, just one question on the US business. You mentioned that there are 2 parts of the business. One is your own front-end where the products are more complex, more niche, and that is where you had a good quarter, whereas it is the partnered products in the legacy business where the price erosion was more severe. Your release mentions the overall erosion to the tune of 5% to 6%. Is it possible for you to give us some sense, first of all, what is today the broad mix of revenue in US between your own versus the legacy end? Secondly, what was the price pressure in legacy specifically?

**Shashank Sinha:** So again, Sachin, that is a level of detail that is competitively sensitive. We don't split it out into each line of business. But clearly the direct portfolio, which is the products that are marketed through our front-end, I think pressure has, as we had mentioned before, has been low-single digit; in fact, in many cases, zero, because as you know with Ranitidine and products like that where there has been significant increase in market share and we continue to grow the business and are one of the only few suppliers of even the raw material, we directly or indirectly are participating in almost about 80% of that market. So I think it is not possible for us to break it down, but the partnered product business is where there has been really the big pricing pressure. I wouldn't be able to break it down further than that.

**Moderator:** Thank you. We will take the next question from the line of Punit Poddar from IndusInd Bank. Please go ahead.

**Punit Poddar:** Sir, my question will be particularly on the EBITDA side. As we can see, there is about 6% reduction in the margins from last year to current year, which comes to around 50 crores of effect on your EBITDA. Are you able to break it down between developed market and emerging market, that how much hit you have taken on the developed market and on the emerging market and particularly due to GST as well?

**Shashank Sinha:** Yes, there are multiple factors in this. One is the GST impact will be about 1% and the institutional mix between the malaria and antiretroviral will be about 2% and the balance can be attributed to R&D and the regulated markets.

**Punit Poddar:** Okay. So, as we can see the R&D has increased by around 67%. So going forward what will be the R&D run rate? It is going to be in line with the current quarter?

**Shashank Sinha:** So R&D investment is at peak now. We don't anticipate that we are going to be actually increasing the level of R&D investment. And that is what we have been doing quarter-on-quarter through all of last year, including the last quarter, where we have been stepping up the investment in R&D to create a pipeline of new products that faster approvals now gives us the confidence to be able to commercialize them much faster. So R&D investments, that is at this level run rate. Also we have said in the recent past in all our investor communications that the R&D's is capped at 30 million at the Group level, so we will be within that $30 million.

**Punit Poddar:** Okay. Fine. My last question will be on your API. API margins I think as you said in the press release, it's not up to your expectations. So is it in the single-digit in the current quarter?

**Shashank Sinha:** Again, we don't break out EBITDA margin by line of business. So I won't be able to do that.

**Moderator:** Thank you. We'll take the next question from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

**Nitin Agarwal:** Only couple of housekeeping questions. First, in the institutional business now how are we reporting that?

**Shashank Sinha:** Yes. Hi, Nitin. So we announced in February actually that we are going to, because so many moving parts, we wanted to set a pattern in the way in which we actually go out and report our business. So we are basically reporting our business regulated in emerging markets and institutional sits within the emerging markets. You know that business basically is in Africa.

**Nitin Agarwal:** Right. And secondly, although this question has been asked a few times before, on the gross margins, I mean, so this was a major sort of a negative surprise for us during the quarter. Is it right to conclude based upon your comments earlier during the call that a bulk of it was on account of the pressure in the US?

**Shashank Sinha:** The bulk of it would be related with the partnership and with some level of product mix, plus the one-off items that we talked about. So yes, it is a combination of things.

**Badree Komandur:** Plus the GST, Nitin. So all the three factors. There are three factors, one is the decline in the margins in the partnership business, plus the seasonality of one of our products, secondly the mix in institutional business plus the GST impact in India.

**Nitin Agarwal:** I guess I presume the exchange and the reduction in the partnered products are more sustainable in nature. I mean, other two probably we can sort of make up to some extent as we go forward. I mean, they are probably not recurring in nature as these two things are, right? I mean, the FOREX impact on the partnered products price erosion, there is nothing much we can do about, right? I mean that is the reality of those markets?

**Shashank Sinha:** Yes. And Nitin, I do want to say that the partnered products while we have said a lot about it today, but I think that going forward, we don't see major downsize there, because we know where we are versus where we were in terms of the profit share. We are now improving the governance mechanism with some of these partners and trying to understand that better. Clearly, there is less control we have, it is not a managed business, but we also see not a lot of downside there, I think most of the pressure is already in.

**Nitin Agarwal:** And do we have opportunities to take control back from some of these products?

**Shashank Sinha:** Our focus is the new products. So of these legacy products were filed through partners or with partners and have agreements that can go on for the next several years. So it is again product-by-product, but yes, we have very little control actually on that.

**Nitin Agarwal:** And, Badree, what is the FOREX gain that we have reported in the other income?

**Badree Komandur:** 6 crores.

**Nitin Agarwal:** And lastly, this interest cost which is slightly elevated in this quarter is going to remain at these levels as we go forward?

**Badree Komandur:** No. The net interest cost has come down, Nitin. It is 41.6 crores compared to the previous quarter. Some portions is reported in other income and some in the interest cost in the face of the P&L. The net if you see it is about 41.7. It has come down from last quarter.

**Moderator:** Thank you. We will take the next question from the line of Chunky Shah from Credit Suisse. Please go ahead.

**Chunky Shah:** Just wanted to ask on the pricing pressure front. So just to delve a bit deep here, on your own portfolio when you say that pricing pressure has been lower, but we have been gaining market share. So to gain market share, have we been bit aggressive on the prices? If that is the case, is that also a reason why our gross margins are lower, some clarity on how our base business sales of the own portfolio is doing, QoQ?

**Shashank Sinha:** I'll give you one example and perhaps that will give you an indication of the rest, because clearly again many different things here, which will be mixed up or different influences. Ranitidine, we talked about Ranitidine, right? Our market share, Ranitidine, we launched 3 quarters back. In first quarter after launch, our market share was 2%. After in the next quarter it was 18%. In the next quarter it was 21%, which was the end of last quarter. If you look at now, our market share is 30%. There are only a couple of other players. And in fact, we because of the vertical integration benefits, we supply material to those or at least one of those two players. So we have a very good idea of what are the volumes that are going through the market, and in fact, we have no pricing pressures on that. So market share will increase where you have limited competition and benefits of vertical integration, that is the strategy of Strides 2.0. Clearly, that is something that we will develop more and more as we execute to that strategy, but we also have a portfolio which is not essentially of either vertical integration or differentiation, because the bread-and-butter part of the portfolio is still instant release tablets, where there is going to be pricing pressure because of either new competitors or consolidation of customers. So when you add all of that together, you get in our direct portfolio low-single digit pricing pressure, but there is not in every line item, as the portfolio shifts towards more strategic products, we will be a much more defendable business. And therefore we have always said that kind of the market is going through a lot of pressure, but our product selection and our strategy is actually quite defendable in that. And therefore, we feel very confident about the way that the whole margin structure is going to evolve based on our strategy.

**Chunky Shah:** Sure. So have you benefited from the rebidding which took place between McKesson and Walmart, given that we would be on a few products more competitive or more given the backward integration, have you benefited from that all?

**Shashank Sinha:** We have. Yes.

**Chunky Shah:** So when you said the pricing pressure is mid-single digit, you only mean pricing or it is net of volumes as well? So you would have gained some volume then, so to my earlier question whether our base sales for the own product sales has been flat QoQ?

**Shashank Sinha:** Yes, I mean some part is volume, but it is mostly related to price or bidding.

**Chunky Shah:** So when you say mid-single digit, it is only pricing and not net of volumes?

**Shashank Sinha:** Yes, I said low single digit in our direct portfolio.

**Chunky Shah:** Sure. And so, again, on the base sales QoQ, has it been flat, negative or positive?

**Shashank Sinha:** Q-on-Q our base sales by that you mean the products that we sell through our direct frontend, right?

**Chunky Shah:** Correct.

**Shashank Sinha:** Look I want to clarify one thing here that in Q4, obviously we were working with a guidance, and in that guidance was assumption of new product approvals. As the new product approvals didn't come through, we have through putted more volume. So if you look at quarter-on-quarter, we still have the direct business that has grown, actually we should look at 6 months versus 6 months and you will see significant double-digit growth in the portfolio that we sell through our own direct frontend. I hope that clarifies it.

**Chunky Shah:** Yes, thanks.

**Moderator:** Thank you. Ladies and gentlemen, we'll take the last question. We will take the question from the line of Sachin Kasera from Lucky Investments. Please go ahead.

**Sachin Kasera:** Just one clarification, the numbers that you reported last year we have said there is some parts of the Africa business which we sold. So excluding that like-to-like what would have been the growth in revenue, sir?

**Shashank Sinha:** So these numbers which are reported are continuing business, correct?

**Badree Komandur:** Yes.

**Shashank Sinha:** It's like-for-like.

**Sachin Kasera:** Like-to-like, okay. Thank you.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

**Shashank Sinha:** Yes. On behalf of the management, thank you very much for attending today's earnings call. All the best. Thank you.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, on behalf of Macquarie, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

***