"Strides Shashun Q2 FY 2018 Earnings Conference Call"

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

Moderator: Ladies and gentlemen, good day and welcome to Strides Shasun Q2 FY2018 Earnings Conference Call, hosted by Macquarie. As a remainder, 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 would now like to hand the conference over to Mr. Alankar Garude from Macquarie. Thank you, and over to you, Sir!

Alankar Garude: Good afternoon everyone. On behalf of Macquarie, I would like to welcome you call to the Q2 FY2018 earning conference call of Strides Shasun. From the management, we have with us Mr. Shashank Sinha – Managing Director and Mr. Badree Komandur – Executive Director. Thanks to the management for giving us this opportunity. Now, I would like to hand over the call to the management for the opening remarks post which we will have the Q&A session. Thanks and over to you Sir!

Shashank Sinha: Thank you. Good afternoon everybody on behalf of Badree and myself and the team at Strides, and welcome to the second quarter earnings call for FY2018. At the outset, let me say that we are pleased that our business has rebounded strongly in this quarter. Revenues have crossed Rs.1000 Crores and they have grown 20% sequentially.

Just talking about the component businesses, our regulated markets performed extremely well. Sales in the regulated markets grew from about Rs.415 Crores last quarter to more than Rs.500 Crores in this quarter. This was driven mainly by the success of new product launches, which we had referred to in our last quarterly call and that new product launches came on top of good organic growth in the business. We are very satisfied with our speed to market for both the new products that we launched in the quarter, Omega-3 and potassium citrate extended release tablets. They were launched within days of receiving approval. In anticipation of the approval, which came in September we had obtained Pre-Launch Activities Importation Request what is called PLAIR and by that we had manufactured goods and we were ready to introduce them as soon as approval was received.

As you know with Omega-3 our marketing strategy is quite a unique one. Our strategy gives us access to 25% market share on full distribution rollout, which will happen in this quarter and the economics of that marketing arrangement that we are significantly weighed in our favor. Potassium citrate launch is also progressing well. New customers are being signed up and supplies are now at full scale. So starting this quarter, which is in Q3 we will see the full quarter impact of these two launches, which were only for a month in the last quarter.

As I mentioned earlier, organic growth in the US market has also been good. So our base portfolio has also performed well. For our key products we were able to defend our market share and in fact for some strategic products like Ranitidine, which has also got special mention in our earlier calls we gained further 6% points of market share and we are now heading close to about

30% market share run rate. The quarterly market share was 27% and then new update is still awaited, but our estimate is that we will have almost one third of the market.

This really kind of gives us the confident that our run rate in the US business by the end of this financial year will be significantly higher. We should be in terms of revenue or quarterly run rate should be in the range of about $45-50 million.

The Australian operation, which is the other part of our regulated market, also had a strong quarter. We had early double growth in value and volume. We added 50 stores and crossed a 1000 store footprint where we are the first line generic company in Australia. We also launched seven new products in Australia and we have reported earlier that we acquired the Australian portfolio of Amneal. While the transaction was closed in the previous quarter or in Q2 we have not consolidated those numbers in our reported numbers yet that will happen later. This acquisition adds 200 more first line stores to our footprint. So we will immediately jumped from 1000 to 1200 stores. It adds 100 products to our portfolio and of these 100 products between 15 and 17 products is actually unique to our portfolio. The balance we will also be able to obtain backward integration synergies.

Our market share as a result of this will move to about 22%. Overall, we had earlier talked about the program of backward integration of the Australian portfolio. We started to apply for site approvals as supply contracts with contract manufacturers were maturing and we have been pleased by the quick approval we are getting from the Australian regulated TGA on our site change applications. We applied for 12 or 13 such products. We have already received 10 approvals within month and this is going to gather pace as we go along. We expect the supply chain synergies to flow through the margin as supplies come in house manufacturing. So that is regulated markets performance.

Let me talk a little bit about emerging markets as we commented earlier, we have rebounded quite well in the emerging markets as well. We are especially pleased that our Africa brands business grew mid teens in the last quarter. We have had several initiatives for sales force effectiveness and focusing our marketing and sales on our core brands. These are starting to pay off. Productivity of our sales force has now peaked and has started to deliver significant expansion in our margins in the Africa Brands Business.

We are also now replicating this successful model from West Africa in to East Africa pivoting around our Kenyan presence. As you know we acquired a business in Kenya and are now expanding the same model to East Africa.

India brands revenue also recovered strongly. After the GST led disruption during the last quarter and similar sales force effectiveness initiatives are underway in the India brands business and we expect to deliver productivity gains in the coming quarters in that business. Our institutional business was flat. Global donor agency procurement particularly for the anti-malarial products is still awaiting new tender awards. These awards were to be made earlier. Now they are delayed in to Q3, but this is also the award for the next three-year period. So as soon as those awards are made, we expect the volumes to pickup and new funding will become available for these programs.

There was growth in the ARV products and local government procurement also picked up based from our Kenyan facilities. I also wanted to add a comment that the Kenyan facility has recently been audited by WHO and received GMP status and the site transfer of our institutional products which was the strategy behind this acquisition in Kenya is on track. First set of filings has already been done and supplies are expected to commence from the Kenya facility from the second half of this year in the coming quarters. Overall EBITA for the quarter was at Rs.136 Crores. This was up over last quarter by 35%.

I want to add a note here about, two areas of investment obviously R&D and consumer healthcare business. But first I will talk a little bit amount of our consumer healthcare business. So we are investing in building a consumer healthcare business both in US and in India. In the US as we have announced in the recent past, we had acquired some brands namely JointFlex, Fergon, Vanquish, PediaCare . These were strong brands in the past, which were off strategy for their existing company and gave us a nice opportunity to inorganically enter a very large profitable and a market where there is not a pricing pressure that you see in the generic market, so we acquired that. We have also setup a Greenfield business in India. We are supported by an independent field force and we have launched our own brand Nixit, which is in smoking cessation category. So the branded consumer business in nature is different because it requires upfront investment in marketing and media support and that happens in advance of sales. It starts to pay off as sales pick up driven by consumer awareness and brand awareness. Due to this, EBITDA in the quarter was impacted by about Rs.16 Crores. If we want to normalize for that our EBITDA for the quarter would have been upwards of Rs.150 Crores, but also I want to make an assertion here that this was probably our heaviest quarter of the investment because sales are still to pickup as our brand sales gather momentum, this impact will taper off in the future period.

Other area of investment has been R&D. Our R&D investment has continued at a sustained level. We invested about 380 million, Rs.38 Crores during this quarter slightly up from last quarter and about 10% up approximately over last year. We have filed six new products to date and our cumulative filings are now at 68. We are on track to file 15 to 20 new products this year. Also our approval momentum is picking up. Most of the filing is almost all the filing now that we have is under the new time bound GDUFA regime. We have already received eight new products approval so far. We have 28 filings in the approval pipeline and as I mentioned most of them are under this time bound new GDUFA regime, so we expect all of these approvals within the 12 month period and as I said we will further add 15-20 new products filings during this year.

Last comment about just our Bengaluru flagship facility, it has recently received an EIR (Establishment Inspection Report) from US FDA and this report now close in the audit observation as you know there were three procedural audit observations, which took place in May 2017, so earlier this year.

So that was all that I wanted to focus on in the opening. Of course, we will open the lines for questions. I do have a request please limit your questions to the quarter under review as we will not be commenting on forward-looking items and now over that to you.

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: Thanks for hosting the call. I have a couple of questions on your opening remarks. You spoke about traction in various subsegments on the back of strong revenue growth. I understand that EBITDA can be impacted on a quarterly basis by various cost items, but what explains other weak gross margin performance for the quarter? You had launches, we made progress on backward integration in Australia some other gross margin picture does not reconcile with that thoughts on that?

Shashank Sinha: I will just come back to you on the gross margin actually Badree had a comment on that. You want to comment on that Badree.

Badree Komandur: As far as the gross margin is concerned that we are at 52% and on a year-on-year basis there is a drop of about 3% that mainly contributed because of the mix of the institutional business and growth in the API and we believe that the 52% is definitely sustainable.

Shashank Sinha: Just a comment on that, if you look at the component businesses, the regulated market business gross margin is absolutely fine if you look at US etc. It is related with where the adverse product mix that we talked about in the institutional business and that is just a component of malaria versus ARV and also the growth has been higher in the emerging markets business. So the emerging market business particularly will not have the same level of gross margins. So it is basically mixe elements that are different.

Badree Komandur: One more point to add here is that from Q1 we have expanded gross margins by 250-basis points.

Shashank Sinha: Sequentially the margins have gone up.

Anmol Ganjoo: But last quarter I mean I do not think was representative leave it as may, but when you want us to look those margins on a full basis given our mix stance are and what do you think is at least directionally what is that we should be working with should things improve from there?

Shashank Sinha: The full year number's has the component of stronger second half. I have already indicated what we feel is going to be our exit runrate in the US business that indicatively should give you a sense of what the components of gross margins are going to look like. Sequentially these will continue to improve as we have better mix and some of the malaria business comes back, which is not so far in our revenue.

Anmol Ganjoo: Thanks. That is helpful. And my second question is on the past pharmaceutical economic you spoke about it being in your favor, but can you just help with us with any more detail in terms as on to what the exact economics are and what the exact rational is for the partnership?

Shashank Sinha: The rationale I will give more granular details on the marketing arrangement. We are obliged under our confidentiality agreement not to be very granular, I will give a sense of where it is and I already mentioned that they are weighed in our favor. First of all let us understand this is a marketing arrangement. This product is our IP, it is sold under our label and it is distributed in the US market. It gives us an access to a market share of about 25%, fairly quickly. We expect that will happen within a quarter that will be fairly significant, also the rational for that is that we are first Indian generic company with this product. There is no Indian player in this product category. It is a complex product category and there is an already established market share. So for us to be able to take this product into market quickly and yet keep the pricing stable, the transaction gave us a fair access to do that. All the customers already tied in and we are just going to kind of phase in and phase out in the existing customer arrangements. So the rational is that it is quick go to market, it gives us some market leading position fairly quickly and the economics are structured in such a way that we have a protection against massive price erosion so there is obviously a floor price that has been agreed and overall if you look at the share of the total margin it weighed in our favor.

Anmol Ganjoo: Thank you. That is helpful. My last question before I get back into the queue. You spoke about a spent of around Rs.16 Crores for consumer division, what I wanted to understand was that going forward do you expect this expands to go away or this is to be distributed across the revenue that will accrue as a consequence of the spends because this kind of spend assuming that you are making a focused portion on the consumer, would be expected to repeat in normal course?

Shashank Sinha: We expect revenues to significantly ramp up. As I said the consumer business is such that you have to invest in brand awareness and demand generation ahead of revenue. We expect revenues to significantly ramp up and obviously as that happens the negative impact at the margin level or at the EBITDA level will taper off and we will obviously be watching this and monitoring this very carefully. So this will be monitored on a monthly basis or even on a weekly basis.

Anmol Ganjoo: Thanks. That is helpful and more questions I will get back you in the queue.

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

Prakash Agarwal: Thanks for the opportunity. Sir I am just trying to understand the current US base as you said that we would see an exit rate of $45-50 million, just trying to understand the current base as my understanding is that the real impact of the two big products that you launch in September would see much bigger benefit coming quarters or we have done enough stocking in the current quarter, so if you would help on these?

Shashank Sinha: Yes as I mentioned in my comment we had obtained pre-launch approval, which means that we had manufactured the goods and were able to launch quickly. We have approximately a little over a month worth of sale in Q2 that will ramp up in Q3 and there on we expect to add new customers and increase our market shares so that will be our more upon organic growth thereafter.

Prakash Agarwal: Okay and some colour on the current base Sir?

Shashank Sinha: Current base of?

Prakash Agarwal: The US you said our exit rate at end of Q4 likely to be $45-50 million, what is the reference point today?

Shashank Sinha: I am constrained not to breakup our current reported revenues by region, I can just tell you that with the pipeline that we have and the visibility of products and the growth that we have we expect to touch that exit run rate.

Prakash Agarwal: So that combination to what kind of growth rate is what I am trying to understand?

Shashank Sinha: You have already seen in the US business, I have talked about significant growth if you look at our regulated markets growth, which is about 20% or 21%. The US is obviously growing significantly faster, but this is a mix of our Australia and US business and we have talked about an early teens growth in Australia and so I leave that to for you to now bring it up and analyze that.

Prakash Agarwal: Secondly just trying to understand the P&L from the EBITDA to the PBT and PAT we see there are so many line items and it really does not, only less 10% is coming to part, so when do we see a normalized conversion from EBITDA to PAT I mean from exchange losses to major acquisition cost, there are so many line items, I am just trying to understand when does this normalize?

Shashank Sinha: Prakash this is in line with the, see the past three quarters numbers nothing has changed in lines between EBITDA to PAT. It is just operating leverage as to kick in and the same thing will go into the PAT in the near future.

Prakash Agarwal: I agree Sir. The operating leverage is started I mean in terms the EBITDA has grown significantly Q on Q, but I am trying to understand this various line items?

Shashank Sinha: Yes, line items if you really see the depreciation is very constant, interest is also constant, it is about Rs.2 Crores impact in the interest and if you really see the tax rates because it is consistent. See exchange rate is a more mark-to-market, it is because of foreign currency long-term loans and that is what we see whatever the EBITDA that flows in from now on it will straightway go into the PAT.

Prakash Agarwal: Okay, so basically the squeezed EBITDA and that is why it is getting shown like that once the EBITDA goes well?

Shashank Sinha: To clear point is that there are no one timers between the EBITDA to PAT. It is more or less consistent in the past. It is in line with whatever you have articulated in the past. It is just a leverage, once an EBITDA gets you to a particular level you will see from now on any increase in the EBITDA to flow through.

Prakash Agarwal: Thanks and more questions I am going to join back the queue.

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

Nitin Agarwal: Thanks for taking my questions. Shashank our Strides in the past has always been reevaluating our portfolio and there has been strategy actions being taken at different point in time, So when we look at the portfolio now I mean are there any parts of the portfolio that you may want to in that you probably actually looking to create value of in the near term or this is business structure that we will probably continue for sometime to come?

Shashank Sinha: Nitin, thank for that question. I think that as a company we have articulated our strategy fairly clearly that from the beginning we wanted to be B2C Company with a differentiated portfolio. As we emerged and did acquisitions we obviously got things in bundles. We have retained what is strategic. We have spun off or exited what we believe was non-core to our business and that process has completed. So we now have basically B2C business with essentially two pivots, the regulated market and the emerging market and we are now basically focused on executing our R&D pipeline in our distribution and go to market strategy. So long answer to you question, we do not see any major opportunities for us to further reshape our portfolio. We have what we wanted to have at the beginning a focused B2C portfolio with diversified geographical domains.

Nitin Agarwal: Thanks. Secondly on the US pipeline you mentioned that there are some 28-odd ANDAs which are pending approval, I mean there is a way for you to sort of calcify them, by way of, so I mean just as a qualitatively speaking, when you looked for your portfolio, how many Omega sort of opportunity that you see around there or basically what I just wanted to say is how many potentially high value products that you have seen the 28-odd that you have pending approval?

Shashank Sinha: I think rather than look at just size because size, we do have also para-IVs right we have as a part of our portfolio, but that will be one or two or may be handful. What we have is that we have about half our portfolio is quite differentiated. We do not see high level of competition because either there are different technology like extended release or soft gel that is not commonly offered in the market or like topicals, so it will be a much more focus, niche, defendable whatever you called it category where the level of competition is going to be limited. We are moving up the average size, the product chain as is evident. If you look at the size of our new products let us say a year ago versus what you are seeing now, the average size and I would not say these are by any stretch of the imagination blockbuster products but they are sizeable products then therefore as the niche pipeline kind of dries up because there are only so many niche products, we are moving up the size so the average size of products in the pipeline is bigger than in the past.

Nitin Agarwal: Thanks and lastly on the Australia business you talked about Amneal business will get consolidated from here on, so will it be EPS accretive or I mean how do we put this, this is obviously strategic value to it, but from financial perspective how does the business fit in?

Shashank Sinha: Obviously it will be EPS accretive eventually. We are not guiding on what kind of time it will take because the acquisition has just been made. We are integrating the businesses. We are integrating the portfolio. We are integrating the distribution footprint. As far as the consideration is concerned, we believe that it adds significant 20% to our footprint; it expands our portfolio to now almost 200 products in Australia. So strategic value of the business was real rationale behind it. It will be EPS accretive, but we will not be making a comment on the timelines.

Nitin Agarwal: With the last one, what are the thoughts on the free cash flow generation in the business in the current year and in the coming next couple of years? Linked to that free cash flow generation that you will be doing, are we looking a reduction in absolute debt levels as we go through the next couple of years?

Shashank Sinha: Badree will answer.

Badree Komandur: As far as the debt is concerned, our past communication remains, so we are consciously looking at reducing the debt, so there are two things which has to happen, one is because of the API divestment, which will reduced the debt by about Rs.450 Crores and this quarter there have been certain investments, which has been made because of the new launches from the approvals plus the GST impact. So the overall guidance as far the debt is concerned we hope to remain at the same level as we go along.

Nitin Agarwal: Okay. Thank you.

Moderator: Thank you. We will take the next question from the line of Kartik Mehta from Deutsche Bank. Please go ahead.

Kartik Mehta: You said that you have not talk anything which like a forward-looking statement but just trying to see in terms of the EBITDA margin, we have come down from 17% in Q4 FY2018. It was almost 18% and then came down to 10% and now back to 13%, how will the trajectory be, you mentioned about the individual parts of the businesses where you can have lot of traction but will the trajectory be improving EBITDA margin by 200 BPS every year or will it be higher I mean just trying to look that I do not want specific numbers, but I just want maybe have some colour on the EBITDA margin?

Shashank Sinha: Our Q2 EBITDA margin is 14%, not 13% and we have commented that operating leverage is kicking in. We have also commented on what we expect run rate in the most important markets where there is revenue growth which is driving our business. So I guess it will be for you to work out what kind of impact that is gong to have on the overall EBITDA margin, but if operating leverage is kicking in I guess you can make the conclusion.

Kartik Mehta: But would it be fair to assume that certain parts of the businesses will delayed as in Australia now that we acquired an asset to consolidate that. Would that be a year or two from now you see US maybe doing well now, is that the way to looking at it?

Shashank Sinha: No. It is not the way to look at it. I think I have made already a comment on the Australian business that synergies are almost immediate 200 stores increases our distribution footprint where we are frontline stores from a 1000 to 1200 immediately. This would have abnormally taken as much longer to get to 1200 stores. Our market share goes up from 20 to 22% and our product portfolio expands now to almost 200 products that we are offering all these frontline stores.

Kartik Mehta: Yes, so I get that which was actually addition. I am asking about whether your products can be sold from the Amneal entity, which we just acquired. So we find implying other than just adding it, is there any synergies, which you see, which will also be immediate or will that take time?

Shashank Sinha: The synergies which is you are talking cross selling synergies?

Kartik Mehta: That is right Sir.

Shashank Sinha: Cross selling synergies will happen. There is obviously all the portfolio, which is the Amneal portfolio will be rebranded to Arrow. It will be all sold into the Arrow label. Now there is inventory in the system, which means it is not day one but a phase in and phase as it normally happens in a retail business, but there is nothing that is going to delay that, and the execution is underway.

Kartik Mehta: I have some more. I will join back.

Moderator: Thank you. We will take the next question from the line of Madhu Upadhyay from Ishana Capital. Please go ahead.

Madhu Upadhyay: Mr. Shashank, congrats on a good set of earnings. Just to quick check, you mentioned about I think out of 12 or 13 applications you have got 10 site chain approvals in Australia, have this come through a little faster than we expected or is it largely in line?

Shashank Sinha: Thank for you questions Madhu. So the approval timeline is quite quick. This was really expected in the sense that we know that the TGA works very efficiently and the approval timelines are quick. This was the first lot that we had applied for and we were pleased that we were getting approvals a little bit faster than we would have expected .

Madhu Upadhyay: Got it and regarding the Amneal acquisition now that stores have to be rebranded, do you expect any one-time expenses next quarter?

Shashank Sinha: No see phase in and phase out I said, not stores, but products.

Madhu Upadhyay: The products, okay.

Shashank Sinha: That was the whole strategy that there will not be under the Amneal label anymore or it will go under the Arrow label. So it is just normal phase in and phase out. There is nothing that will hold them back.

Madhu Upadhyay: Understood and lastly just about the price erosion in the base portfolio, legacy portfolio in the years can you talk about the range?

Shashank Sinha: We have talked mid single digit price erosion raise in the base portfolio. The share of the base portfolio to overall revenue is obviously much smaller for us than for anybody else out there in the market because lot of our revenue as I said is new product driven, but mid single digit and it is not an average mid single digit right, many products, I will give you an example Madhu, one of the products we have also commented here in our press release one of the products that we have been selling in US for sometime is a vitamin D2 Ergocalciferol. First of all, Ergocalciferol we are probably the only Indian generic company or maybe there are very few other players. Our market shares there have been going up and recently we saw that for the first time, it has now been named as eighth most prescribed generic product in the US market, right. So that product is broken into the top 10. Now in that kind of a product you will not have any price erosion, but it is not across the board, but if you look at the base portfolio there are mid single digit price erosion, yes.

Madhu Upadhyay: Thank you.

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

Sachin Kasera: Good afternoon Sir. What is the type of cost benefit we can get once you move these products from to India and the Australian product at the end did you mentioned in the release?

Shashank Sinha: Sorry, are you still speaking Sachin?

Sachin Kasera: I am saying what is the type of cost benefit we can get once we move these products to India as far as the Australian business is concerned?

Shashank Sinha: So there will be margin expansion, it again differs from product to product. Overall there is going to be a margin increase or margin expansion as we take a product in-house that happens even if it was from a contract manufacturer in India to our own manufacturing facility. Many of these products were being supplied in the legacy business by contract manufactures or manufactures in

Europe and in South Africa and these kind of places. We see a benefit of site transfer. Margins can go up now. You have to read that margin expansion along with what we call in the Australian market, the impact of the PBS price cut which is low single digit so first it helps us compensate for that, beyond that it we will add to our gross margins.

Sachin Kasera: What is the sort of pipeline you have for the next two to three years as far as the Australian business is concerned?

Shashank Sinha: That was exactly the comment I was going to make. We have roughly about 170 products in the Australia market and now with Amneal we have maybe 185 or 190 products. We have approvals for 10 products right now. So this is a long drawn program. In those 10 products of course we will have margin expansion, but as the backward integration program gathers pace it will start to become noticeable. So before you start to read too much into the margin expansion from site transfer, it will have to gather some momentum, but we are encouraged that the approvals are coming quite fast and we have made applications and we are applying for more site transfers.

Sachin Kasera: Sir second question on the US market you mentioned that the type of momentum you are seeing you hope to reach $45 to $50 million run rate in Q4, so accounting for the pricing pressure that you are seeing across the products, do you think that this will still be margin accretive to you? Secondly do you see this $45 million -$50 million further increasing as we move along or that will be steady business for the next four or six quarters before we see the next leg of our improvement?

Shashank Sinha: I just want to understand your question. You are saying whether this increase in run rates will be margin accretive, answer is yes. The second question is what, sorry can you repeat that?

Sachin Kasera: See this $45 million to $50 million is where we stabilize for four or six quarters or it will keep improving from there on?

Shashank Sinha: Run rate, we are talking of our run rate, so our run rate of $45 million to $50 million by the end of the fourth quarter of this year that is the level at which our current portfolio grows and obviously we will continue to increase our R&D pipeline, but I think that will gather pace as we go along. I mean that is really out in the future, we will comment on it as our portfolio expands. Look, for our portfolio today we will not get approvals in the next 12 months. Now we have to file for new products, and the R&D momentum is what will drive growth, but at this point in time I think that is the quarterly exit run rate we will be aspiring for. That is our aspiration right now.

Sachin Kasera: Thank you very much Sir.

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

Tushar M: This was with represent to regulated market sales specifically in Australia in FY2017 approximately we have ended with 180-190 Australian Dollars, taking even more double-digit growth it comes to about 200-odd Australian dollars. Now which if I multiply by the exchange rate it comes to about Rs.1000 Crores and which if I take it on a quarterly run rate it comes to about Rs.250 Crores and we have sales of about Rs.500 Crores for the quarter, which effectively means that Rs.250 Crores would be made from the ex-Australia, which is like largely US and then it is again divide by the exchange rate then approximately 40 million dollars is what the totally run rate for this particular quarter. Is my understanding correct to some extent?

Shashank Sinha: I can only say that the regulated market not only as Australia and US it has many other businesses. There is UK, there is Europe, etc., etc. As you know it is not insignificant, I mean it is small, but not insignificant and again I am constrained not to be commenting on all the component businesses but it is your analysis, I would say you have to discount for the markets that you did not count in the overall.

Tushar M: So that is may be like to some extent maybe $6-7 million or still more than that the discounting for the other regulated business?

Shashank Sinha: I am not going to be commenting on that. So, regulated market is what we report externally as a combined business. You have done your analysis and I guess the only thing that I will point out is that in that analysis you have not accounted for our European business, which is the other component of the regulated markets business.

Tushar M: So, $45-$50 million is still a conservative estimate or its kind of?

Shashank Sinha: We said it is our aspiration. We want to achieve our aspiration. So, it is not something that we believe is out of reach, it is not something that we believe is in our pocket, it is an aspiration, but underpinned by realistic assumptions. Thank you Tushar.

Tushar M: Thanks for your comments Sir.

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

Nitin Agarwal: Shashank, on the Australian business, where are we in terms of the trends which are there about on price erosion, I mean have they changed any bit over the last few quarters, and how do you see that going forward, the government piece driving price reductions?

Shashank Sinha: Nitin, I commented earlier that the previous price cuts, so that is what the price erosion in Australia is about right because these are public benefit scheme of the government of Australia and they have twice a year price discovery or a price cuts that they announce. Overall, if you look at the trailing period our portfolio is roughly about 150-160 products in a full assortment of 300 products roughly, so that is the nature or the scale of it. Portfolio, we have had kind of low single digit price erosion. More than made up by pricing initiatives because part of our business is not under price control which is the OTC portfolio, there is no pricing set by the government because it is a private market business.. So, if you look at overall within the business, we have been able to mitigate the impact of the price erosion to a large extent and now with the backward integration, it will more than mitigate that.

Badree Komandur: Nitin, one of the things we have done very successfully in the last two quarters is what is the PBS impact is offset by the new product introduction plus the renegotiation with all the suppliers, we are able to see a very healthy trend there and we are able to substantially mitigate the PBS impacts in the last two revisions and as we add new product and improve the stores coverage, as we improve compliance, we should be able to see a real uptick in the margins of Australian business.

Nitin Agarwal: But at least near foreseeable future, you do not see these trends sort of going away of biannual price reduction on PBS products, it being introduced by PBS?

Shashank Sinha: PBS may be there to stay, but we have got a strategy to tackle it.

Nitin Agarwal: Secondly on the Africa branded business, I mean what is the thought process now on the business going forward, Shashank.

Shashank Sinha: Africa brands business is a good strategic business for us. We are the second largest Indian generic company. We are focused on West Africa. West Africa has good environment as far as regulatory environment is concerned. Our brands are strong and the initiatives that we have taken in the last six to nine months have delivered good results because our market share is up, our sales force productivity is up, our margins have significantly expanded, so it is not only a business, which is growing mid teens as I mentioned earlier, but our margins are in fact growing even faster than that and so all the operating leverage that we wanted out of a branded business is actually flowing through. We believe that that is a great model to replicate, which is what we have started to do in East Africa. So, our plans are that we will take the West African successful model, replicate that in East Africa. East Africa is a much bigger market, much tougher market, and we are entering late, but we do have a successful model and in the medium-term, we can replicate the same successful West African model of branded generic in East Africa and that is what we tend to do.

Nitin Agarwal: Thanks a lot. Best of luck.

Moderator: Thank you. We take the next question from the line of Kartik Mehta from Deutsche Bank. Please go ahead.

Kartik Mehta: In terms of capital expenditure that we have to planned for the next let us say one or two years, how much is that for addition to the existing manufacturing and on the tax rate if you could just throw some light it has been during this quarter?

Shashank Sinha: As far as the capital is concerned as we have articulated in the past last year that has been a very heavy capex year for us. We spent about $58 million in 2017 and from now on we expect to spent about $15 million on a yearly run rate for the maintenance capex and as far as the ETR is concerned it has stabilized between 12% and 14% so that is what we expect at this point of time.

Kartik Mehta: I am just trying to understand is there any tax benefit that we get to a large extent, it is quite to below MAT?

Shashank Sinha: We have got a tax strategy place and we also get the R&D credits typically of all the companies do and we believe that we also have multiple jurisdictions across the group. So to that extent, we should be able to manage within this range.

Kartik Mehta: Thank you.

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

Prakash Agarwal: Thanks for the opportunity again. Just one clarification I had on the Universal Corporation receiving GMP, so with this site getting this approval, WHO approval so is this for the institutional business for ARV or for the anti-malaria or both?

Shashank Sinha: The GMP is not product specific. GMP is site specific and so it will clear the pathway first of all any supplies to WHO. Then our applications to that site, transfer products to that site will be based on what we believe is the kind of best strategy now. Our portfolio will include both malaria and ARV products and those applications will be approved as we progress, but the GMP certification is not product specific.

Prakash Agarwal: Now I am trying to understand like is there any preference in terms of allocation or other quota that gets allotted and if so what happens to our earlier contract with SeQuent?

Shashank Sinha: First of all our focus is initially going to be around ARV obviously we are already serving them but we will have the alternate opportunity to do that under the WHO program from Kenya. You said you made a comment about procurement from SeQuent, was that correct?

Prakash Agarwal: Yes for anti-malarial products?

Shashank Sinha: Malarial is not in the program for site transfer at this point in time. It will be in the future period, perhaps but not at this point in time.

Prakash Agarwal: Any broad level outlook you can share given the fact that we all know that IPCA had moved out and it is coming back, I mean they have been asked to submit so I mean given that we have backward integrated already, so we have a good chance but would that mean that the share could for most place would come down a bit, is that a fair way to look at it?

Shashank Sinha: The visibility that we have currently as I mentioned to you is that the tendering process has been completed and IPCA has participated so that is the only comment I will make. Now the allocation of market share has been lopsided. IPCA's absence was basically that space was taken by other players. We expect to retain in fact hopefully increase our market shares slightly in the overall allocation. The real driver of the business there is what is the total funding behind malaria and because it does not mater what share it is, not a zero game, you do get allocated a certain kind of three-year indicative volume and then of course it depends on how the spending is year on year. We expect that the spending will increase as I mentioned earlier as the new three year contract starts and we should get some growth back in the anti-malarial business, but it is hard to predict. It is a tendered business, so there are no indicators that we can go on. We will have to wait until the tenders are out.

Prakash Agarwal: Okay Sir. Great. Thanks and all the best.

Moderator: Thank you. We will take the last question. We will take the question from line of C Srihari from PCS Securities. Please go ahead.

C Srihari: Thanks for the opportunity. I would like to share the addressable market size for Omega-3, potassium citrate and 28-odd pending filings that you have and secondly is are you providing any guidance for fiscal 2019? Thank you.

Shashank Sinha: I will answer the second question first. We obviously do not providing any guidance as I mentioned earlier. Market size, so the pipeline that we have is the mix of para-III and para- IV. So that is the first thing I would say. The pipeline that we have is around $12 billion in the addressable market size. Now that is lopsided in favor of the para-IVs thats how this business works. So I would not take $12 billion and divided by 28. I mean I do not expect you will do that, but that is addressable market. Second what is the size. So market size for Omega indicatively $250 million dollars. We are the first and the only Indian generic player. Market size for potassium citrate is upwards of $110 million roughly and we are one of the two India generic players there.

C Srihari: So both these products would have roughly four to five players?

Shashank Sinha: Overall?

C Srihari: Yes.

Shashank Sinha: Overall there are four players in the Omega-3 and the relevant base is how many Indian players are there. I would say that the potassium citrate there is one other Indian generic player and in Omega there are overall four players there we are the first Indian generic.

C Srihari: Thank you.

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

Shashank Sinha: In closing, I will just reiterate the fact that we again are pleased with our rebound in quarter two. We believe that we have the fundamentals in place to continue the momentum of growth in the coming quarters and we have the pipeline as well as the benefit of operating leverage kicking in and we looked forward speaking to you again at the end of the next quarter. Thank you for your time today.

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

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