"Strides Shasun Limited Q4 FY-18 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Strides Shasun Limited Q4 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 day and a warm welcome to the Fourth Quarter FY18 Earnings Conference Call of Strides Shasun. From the management we have with us Mr. Arun Kumar; Mr. Shashank Sinha and Mr. Badree Komandur. Thanks to the management for this opportunity. And over to you Arun for the opening remarks.

Arun Kumar: Thank you Alankar for hosting us. Good afternoon everybody. My name is Arun and I am the Founder and Group CEO. I am here after one-year sabbatical with not necessarily great news for all of you but I just wanted to take you through what FY18 has been. Firstly, like most of you are, we are all disappointed with our overall subdued performance for the year. A lot of things have not gone well for us in the last 2 quarters, mainly with our US partnered business and we had a significant challenge with our institutional business.

We also timed the launch for our consumer health division in a difficult environment which in hindsight wecould have done better with our strategy and then we continue to struggle with the gap between our secondary and primary sales in Africa. Having said all of this, what I take away from the results is obviously that our strategy continues to build momentum. Our execution obviously was not to our expectations which I am sure that with the new rigor that we have established at Strides, we will bounce back strongly.

We have completed several of our corporate actions that we had to do. And that is behind us. Now we can focus on building the company to a diversified B2C player. In the midst of all of these dark clouds there was great success with our Australian operations. A Non-US Non-Australia regulated market was a win considering the significant growth that we have achieved albeit on a low base. And of course we also exited the India brands business which will allow us to pay down debt. I am going to take a little time in this call to explain the business a lot more differently than what are normally have been doing earlier.

This is in the interest of or rather a response to several investor requests for us to have more granularities on all of our businesses which we have made an attempt, which I am sure many of you will appreciate and will also help you understand the business a lot better. Clearly let me first focus on how we are proposing to course correct this business. I do not think that this course correcting strategy is going to take us much time. I am very confident of Strides and all of its businesses bouncing back in 3 to 4 quarters at the best.

And we will see improvements in the near term based on some of the actions that we have already taken. The US continues to be a market for our largest growth. We will have a recalibrated strategy and I will talk about it in a bit. 65% of our business is currently partnered. And we are working very hard to reduce that dependency on our partners and I will explain what has already being done. Our next obvious strategy would be to bolster our Australian leadership position.We have already done a great job this year with the business with an increase of margins over 300 basis points. We have recently announced a transaction involving Apotex, I will talk little more about it in a bit. We believe that our focus on markets outside of US and Australia leading to early success with some traction visible. We have been fairly successful with our UK

operations, parts of Europe and now South Africa. And that will continue to help us de-risk the US bias.

More importantly our Africa business is tracking very well on a secondary standpoint. If you look at IMS data, we are tracking approximately 3x the industry growth which is great in the markets where IMS data is available. But our base being suboptimal it continues to be an opportunity that we will focus on. Our institutional business has had its toughest year yet, simply because the malarial opportunity has compressed. It is almost negligible from what it used to be at one point in time. We have long-term contracts for our ARV business which suffered significant API price increases.

This is now a very common trend that we are seeing, increased prices on APIs across the board. In some cases, we have been able to take the prices up and in many cases we have not. And therefore, we have been very frugal in how we are approaching this business. It still forms a very significant part of our under-recovery strategy for manufacturing operations. We will continue to stay invested, but this is a business that is going to be muted for some more time. Allow me to now take you through specifics. Australia is our biggest market by revenues. We completed the year at around 184 million Australian dollars with an exit of little over 50 million Australian dollars.

We delivered sequential growth on that business, above industry average growth, margin expansion of over 300 basis points from Q1 to Q4 mainly led by supply chain efficiencies and side changes that have happened. We think that we are right on track to continue in FY19 to grow this business at double digits and to retain the FY18 exit margins which will allow a margin expansion in absolute basis. The key levers will continue to be expansion of portfolios. We had 29 new launches last year.

We would like to beat that if we can and also enhancing our pharmacy footprint. We increased our pharmacy footprint by about 400 pharmacies. We will continue doing that on a standalone basis. But adding on the new transaction that we recently announced subject to several approvals the Strides and Apotex combination will make us the undisputed leader in the Australian market with phenomenal synergies of cost and also corporate cost because we do not need that cost to run a merged entity. We will have synergies of scale, the volumes that we could bring back to our manufacturing sites between the two companies and also the expansion of our pharmacy engagement from 1,400 pharmacies to 3,200 pharmacies will give us significant synergies but like all of us know this transaction is subject to customer closing conditions.

We expect to hear back in about two quarters on how that is progressing as this is a public process of the competition commission and we expect the transaction to cross the line in terms of an approval and we will keep our investors and analysts posted as we hear more. The US business is where our issues for Q4 are. Operationally there is nothing wrong with the business. The way the business has been structured has some challenges.

So if you look at the business, it has grown fairly well between the first three quarters. And it has dropped dramatically in the last quarter resulting in misse in terms of consensus estimates on EBITDA. And let me take a few minutes to explain this because this is important. 65% of our US business is from partners and 35% is front ended.

The business, in spite of a low Q4 grew from $100 million run rate to $120 million. I do agree the base is small but considering the environment of the US market, we are happy with the 20% growth but significantly lower than what in Q3 the management provided an

outlook for a $50 million run rate. If you notice in Q3 FY18, we had revenues of $42 million almost doubling from where we were in Q1.

Unfortunately for us both the products, the two significant products that were responsible for the ramp up of Q2 and Q3 revenues mainly Lovaza, or Omega3 and Potassium Citrate. In spite of not having significant number of players both products have not met our initial partnering goals. The reason we partnered with PAR on Omega3 was that they had 29% of the market when we got product approval. They were switching their existing partner to us and it was logical for us to get to a 29% market share without much effort.

Little did we consider the competition that would come from mainly US players including TEVA, who aggressively priced their products. This disrupted PAR from their 29% market share and led to a severe drop of revenues and profits. As a consequence, we effectively stopped shipments of products to PAR as there was no way we would be sitting on inventory if their market shares dropped from 29% to 12%.

We are now seeing a small uptake in this market share, but it is nowhere near to what we had forecasted. So had they met their initial 29% market share objective we would still have had a significantly improved Q4. Regretfully in Potassium Citrate we had the same issues. The product was a $115 million IMS opportunity. We had only one approved player in this product, an Indian company and there was an AG and surprisingly both the AG and the Indian player aggressively brought down prices to ensure that we would not get any market share.

This effectively shrunk the market by 50% on both products and led to a significant drop in our opportunity. As a consequence, we are sitting on inventory which should have been exhausted in two quarters. We are potentially sitting on inventory which will not get exhausted only in 4 quarters considering the market share that our partners have. I will come

back to some of the partner's strategy in a bit but on the frontend as we have been consistent in our commentary although the revenues are only 35% of our total business we continue to increase market shares because of our focus on niche and narrow products.

We had only a single digit price erosion throughout the year which we think is better than the rest of the industry. And what actually led to a management outlook in Q3 was the confidence of the company having received a target action date for generic Tamiflu for an approval in September . And regretfully on that date the API DMF had a major CR which resulted in significant rework on the DMF. We had already tied up our customers which should have given us significant share of the Tamiflu generic opportunity especially given it was the worst flu season in the US.

So it has been a double whammy for us both on not having got our most important product approved on time but more importantly our two significant products where we had partnered having challenges. We had an option not to have partnered on the Omega because it was a very recent partnership. It was done after we got the product approval. In hindsight it looks had we kept it ourselves, maybe we would have had better pricing discipline.

This obviously is a big learning for the company which leads to our FY19 perspective where our recalibrated strategy is to build the frontend business ourselves. I am pleased to report that more than 50% of the revenues that are partnered have since been brought back to our own fold in terms of value and you will see products including Omega in our livery being sold towards the end of the financial year. This is because we obviously have to exhaust stock and then we will have the control of the product.

Clearly given where the market prices are in the US there is not enough profit for two companies to share. This is clear to everybody operating in the US business. The US business still continues to be an exciting and profitable business for a new player like us so clearly no more partnering. There are three or four more products that needs to be approved which have been already partnered but there has been no new partnered product in the last 12 months after the Omega product there is nothing which is partnered. Like I said 50% of the value of our products have already been returned to us.

Documentation has been complete and then we will see a significant momentum in H2 onwards because we will start selling the products that we have currently not in our own livery starting from H2. We expect inventory to run out by then. R&D has been frugal. It has been effective. We had only 12 ANDA filing for the financial year. However, we filed 5 additional files in April and May. We do tend to take a month or two extra to ensure our filing qualities are lot superior so that we get approval in 10 months which is our aim.

We received approvals for 14 new products in FY18 and three additional approvals in April and May. We have got approvals of these products fairly quick. One of the larger products that we got approved was Ibuprofen Softgel capsules which is an extremely important product. And as many of you may know that there is an acute shortage of the Ibuprofen raw material, so although we have an approval we have not commercialized the product as we are just waiting the FDA approval for the source change of the API from our strategic partner Solara where we have committed sources of supply.

So we think we will have the approval of the source changed product by the end of the year through a PAS process which typically takes about 6 months to 7 months. I am very confident that we will get to the momentum that we were used to in the past year but with fortunes being

controlled by us. So sorry for the long explanation of the US because if you do the math the slip of the US is directly responsible for the the consensus miss on the EBITDA.

I would like to say that it is a one-off, but time will tell us that what we have done in terms of course correction has been the right strategy. We continue to believe in the US market. We do not believe that we can grow at these rapid numbers in the other markets where we operate. So we will be staying focused building our own fortunes here in the US with continued focus on niche products or products where we have complete control. So we are confident that we will rebuild this business, recalibrate it and deliver or exceed expectations.

Now if you just add about other regulated markets, there has been very little color that has been provided on the other regulated markets. Most of you will notice that we have had a good run. We have almost doubled the business from Q1 to Q4. It is grown fairly rapidly from a very low base to $52 million. We are very confident in FY19 that we will be able to grow this business at the Q4 levels which means that it will be one of the our most strong more focused growth market for us.

And this is mainly coming from our UK operations which has seen significant price improvements. There has been a lot of supply issues that many companies have which we have been able to benefit. It is not like the US where the prices increase significantly as the market is highly generalized and we have a solid footing with a nice product selection. And our recent transaction in trinity where the margins are very suboptimal at this time but with our actions like we did in Australia we are very confident of building this business.

What is also important in the other regulated markets is that, our IPportfolio in Australia is very valuable and is fungibility in all these markets and we are very focused on leveraging that portfolio across

Canada, Europe, UK and South Africa. And that will allow us to ramp up our business in the segment. And we believe in the next 2 to 3 years this will emerge as a very significant part of our business.

So that we do not confuse people with how we were reporting earlier, we have set the institutional business from the emerging market place so that makes it lot easier for everybody to understand. If you look at the institutional business, our average revenues from institutional business has been about Rs. 600 crores, about $90 million for the last three years. The first half of the year we were tracking above that. We were riding an upside of an overflow of the malarial business from the previous malarial tender where donors were exhausting funds, so we benefitted from that. Then the malarial tender was declared only in the second half. There was very little sale of any malarial product. Having said that the market as most of you follow, the institutional business has shrunk in terms of donor availability. There are two new players in the market, as a consequence what was a $35 million business has now shrunk to $15 million which is very unfortunate considering that antimalarial is the profitable part of the institutional business.We have retained our malarial tender which effectively means that we will still hit our FY18 numbers, but it is obviously almost half of what or less than half of what we did the previous year. In case of ARV, we are seeing the problems of the price increases for all players in the market. Donors understand that at these price levels not many companies are able to supply products. There has been some rationalization of volumes we are trying to renegotiate some of the supply contracts or reducing the exposures that we have.

API prices in ARVs have increased on an average of 20% with no increase in the selling price. So effectively the margins have evaporated from the business but having said that the volumes in this business make up a significant part of our under-recovery strategy of our manufacturing

plant. So we will retain this business, we will continue to stay invested. What is also happening in the institutional business especially in the antiretroviral there is a significant shift in the products that are used in the new treatment regimes.

And we believe in that phase we will have a better say in our market share and opportunity in the next coming year. So we want to stay invested, we are confident of rebuilding this business and we think that pricing adjustments will automatically happen if nobody is supplying and I just think it is a matter of time.

Africa has had peaks and valleys on quarter basis. Again, solid growth in the beginning, primary sales was high but the gap between secondary and primary were ever increasing. Consequently, we took a conscious decision of reducing our exposure and therefore there were no primary sales or very limited primary sales in Q4. Business is $41 million, we think we can build this to $100 million business in the next 3 to 4 years.

But for that we need a better discipline and in H1 we are creating the enablers to get there. So one must expect a soft H1 in Africa while we continue to reduce our primary sale but our secondary sale a growth of 20% to 25% will continue. So while secondaries are not getting impacted, obviously we will not be booking revenues on the primary side.

And there is a slide on our financial performance. Clearly it has been a very disappointing year. Quarter-on-quarter our performances have been suboptimal much to our liking. All I can tell you is that this company is completely rewired, we are very focused on COGS, we are very focused on productivity and outcomes. And I and my leadership will get this company rocking again.

So thank you guys and ladies for listening and we will be more than happy to take questions and I have my colleagues, Badree and Shashank who are also available to chip in as and when required. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Chirag Dagli from HDFC. Please go ahead.

Chirag Dagli: How would the outcome had changed for whatever has happened in the US how would the outcome has changed you had your own frontend?

Arun Kumar: Had your own frontend on those products?

Chirag Dagli: Yes.

Arun Kumar: If you look at our own frontend business we have had discipline pricing approach and we would have let go of certain accounts but not let go of price.

Chirag Dagli: So you would have had a lower market share but the pricing would have held up?

Arun Kumar: That is right which is what we have done judiciously even in a product like Ranitidine if you look at IMS there is no price fall from us and we now have 35% of the market.

Chirag Dagli: In hindsight whatever is happening with the ARV business there API prices have gone up, there is extreme competition and pricing pressure in the US. Does it seem that we could have kept the API business within the Strides' fold would it have made sense because that would have given you vertical integration?

Arun Kumar: We still have if you look at all our releases around the exit of the API business firstly no antiretroviral products were manufactured by the API business that was hived-off. There was nothing that they were manufacturing. In the new regimens that we spoke about Solara makes all the APIs and we have most favored customer status for capacity and price. So we will lose nothing of our intended integrated approach when it comes to the new range of products. In the old range of products like Zidovudine or Lamivudine there was nothing. All the seven or eight years we were in this business all are APIs are coming from China.

Chirag Dagli: And the last question if I may. Given the significant uncertainties in the next few quarters sort of entail is there an overall guidance that you want to share especially for FY19?

Arun Kumar: No, I do not. I think if you look at the work that we have done in terms of giving comfort around the numbers you can do the entire Math's. We simply are not giving a guidance, our performance should speak for itself and be rest assured there will be comfort coming in sooner than later. But at this time the company will not provide a guidance.

Moderator: Thank you. The next question is from the line of Aditya Khemka from DSP BlackRock. Please go ahead.

Aditya Khemka: Sir, you mentioned that this 65% of your revenues is US are partnered, so is this 65% for the fourth quarter or is it for the full year of FY18?

Arun Kumar: Full year.

Aditya Khemka: What would it be for the fourth quarter because your fourth quarter number is so different from the rest of nine months it does not really give me any sense of what it will be?

Arun Kumar: It will be less than 10%, $2 million or $3 million.

Aditya Khemka: So $2 million or $3 million of your 4Q 18 sales is from partner products?

Arun Kumar: Yeah, in that range.

Aditya Khemka: And you said that of this 65% partnered sales half of it you are going to bring in house and the other half you will still probably continue to partner, why do that?

Arun Kumar: Sorry, I could not get can you just repeat?

Aditya Khemka: Yeah, so you said 50% of the 65% of US sales which are partnered we will bring them in house. So which means balance 32.5% of partnered sales currently will again continue to remain partnered sales?

Arun Kumar: Yeah, we do not have an opportunity on those products to renegotiate. We have brought in stricter controls, even such as not to supply product if you do not have discussions around pricing and discipline around it. But wherever we could we did the first two to three weeks of my coming back here I used my connectivity with the leadership in the company where we have partnered to get these products back.

And I think it is a right thing to do. Strides will have zero partnership by 2020 on almost all products except with one company where we have a good control on how products are being priced. That will end up only till 2022. That is a legacy contract that we had from Shasun.

Aditya Khemka: So this again in the context of the current quarter?

Arun Kumar: We are okay for so many questions, I am more than happy to answer as long as the moderator is fine but otherwise I am always available on a call just that you and everybody else knows.

Aditya Khemka: Sure sir, I just wanted some color on the question I just asked you. So you said $2 million or $3 million in this quarter was the partnered sales?

Arun Kumar: There is a small correction. It is approximately 33% was partnered.

Aditya Khemka: So out of the $21 million that we reported $7 million was partnered, correct, which basically so what I am trying to understand is out of this $7 million we are going to take $3.5 million in house and $3.5 million will remain partnered. That is the right way to look at it?

Arun Kumar: That is not the right way to look at it. The right way to look at it is that if you take Q2 and Q3 the run rate is $60 million on those it is about $70 million and 60% of that is $40 million. Because we did not supply omega to PAR and on potassium citrate to the partner that is why there were no partner sales for these in Q4 because there is inventory. We are exiting some of these products so unless we exhaust inventory we do not sell. But other partner products we continue to sell because they are selling or keeping market share.

Moderator: Thank you. The next question is from the line of Sudarshan Padmanaban from Sundaram Mutual Fund. Please go ahead.

Sudarshan Padmanaban: My question is on the US business. I mean we have on a quarter-on-quarter basis seen a very sharp decline as far as the numbers go both profitability and the sales. Going forward this business and even as we move towards the frontend across the industry we are seeing a lot of price erosion excess competition getting in. From a strategy point of view does it really make sense to go after the US business when both the effort is not really yielding into in terms of profitability or do you believe that at the same time if you have probably if you focus the same investment into say in Africa branded business and Australian business where you have pretty good hold into it. It should actually yield better results?

Arun Kumar: That is exactly what we are doing. If you look at our business we are a diversified market, our biggest regulated market is Australia. We have

$150 million business in Australia compared to $120 million in US and if the Apotex deal comes through then Australia will be more than double. So we are doing exactly what you are saying but having said that just because there is a current challenge in the US market it does not mean that the market is not attractive.

It continues to be attractive for newer players like us, approvals come faster, and we are happy with the price points. But what you really need to understand Sudarshan is that there is a minimum critical size that is required in any business for the business to be profitable. In the US considering the R&D spent and the manufacturing and the cost of quality $120 million size does not add up to EBITDA. But after a certain point your cost do not go up in the same ratio because your R&D is flat.

Sudarshan, sorry I did realize that we lost few. Can you tell me till where you heard me?

Sudarshan Padmanaban: Sir, you were actually talking about just because in this quarter the numbers are bad it does not mean that long term strategy might not be lucrative in the US business?

Arun Kumar: Yeah, so what I am basically saying is this quarter the numbers are backed by design and not by default. We did not supply to partners because we are disengaging with them and therefore we have to exhaust the inventory and when you are having your own inventory you cannot make your revenue booking. So it is just a deferment of timing. I was answering also that your point that quarter-on-quarter it has been a de-growth in US , however Australia is a strong growth.

In fact, overall quarter-on-quarter we have been growing and we are growing nicely in terms of our numbers. But for these challenges we had on these two specific products the rest of the US business is tracking

well, because of our base is very small the issue we have with these two products is obvious, so we want to see.

We think it is temporary and we continue to stay invested in the United States because there is no other market like the US that can give us the growth. The quantum leaps in growth as a new player will be visible as approvals come quicker and we believe getting to a critical mass will translate to significant margins in this business. So we are going to stay invested Sudarshan to answer your point.

Sudarshan Padmanaban: And sir, specifically back to the US I mean earlier we were sticking out to the $50 million run rate by the fourth quarter. Now I am not exactly talking about what timeline should it take for you to get down, but I mean where do you think probably one year, two years down the line both in terms of profitability vis-à-vis your consolidated business and in terms of scale when you are looking back with the product pipeline that you have. Where do you think you are going to be in the US in terms of scale as well as profitability?

Arun Kumar: It is hard question to answer. We cannot give you a guidance around it but if we have had a business that has grown from almost nothing to $120 million with all its problems of price erosion, partnered products and all of that thing that we spoke ,we think we can build this to an important size and we can get into our peer group's EBITDA margins in the next two years.

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

Nitin Agarwal: Arun, you mentioned about probably the mistiming of the CHC business launch. So can you give us a little perspective on where this business is and what you intent to with it going forward?

Arun Kumar: We have taken a decision that the CHC businesswill not spent new capital. So which means that it will not add any margins as it is very sub optimal it is about $10 million in revenues. And we will have a zero EBITDA, zero cost, zero add spent scenario till we get our main business in order. And so we are evaluating the options but it will not go through the spends and our budget for next year does not include any losses coming from the CFC business.

Nitin Agarwal: And secondly, this quarter excluding the just in terms of the numbers we did about Rs. 85 odd crores of EBITDA excluding the other income. Now this is a quarter based upon our commentary barring the US I mean all the businesses are at levels where you probably see them continuing going forward and Australia contributed a good Rs. 45 crores to Rs. 50 crores based upon the disclosure that we have had. So where is this incremental lift in profitability in the business going to come through given the fact that barring of US all the businesses in Q4 were pretty healthy exit rates?

Arun Kumar: The institutional business for the reasons I explained with the price increases do not give us a positive contribution except on the recoveries. Africa on a secondary standpoint did well but had limited contribution from a primary standpoint.

Nitin Agarwal: So you see margin improvement possibilities in Africa in institutional business apart from the US going forward?

Arun Kumar: Yeah.

Moderator: Thank you. The next question is from the line of Anil Shah from Birla Mutual Fund. Please go ahead.

Anil Shah: The question is while you have not giving any guidances in terms of going forward overall just one simple question is, have we hit the turf in terms of the US sales that Rs. 120 million from a yearly perspective?

Arun Kumar: Yeah, I think so for sure.

Anil Shah: Okay and second question is since you have been giving a lot of granularity as per demand. Could we have a list of could we get some more details in terms of the product launches that we are looking for in this year or next year that we would have filed and looking for some target action dates or whatever?

Arun Kumar: I said we have given 90% of your ask, you were all complaining that we were not giving any granularity, so we have given 90% of your ask. We still have some challenges on the products simply because some of them are partners we have challenges around it. Give us some more time before the end of this year we will solve that too.

Moderator: Thank you. The next question is from the line of Anmol Ganjoo from JM Financials. Please go ahead.

Anmol Ganjoo: My question is again related to the US market. Shashank during the last Conference Call you said that the US growth has been upwards of 20%. Now if you were to adjust for inventory rationalization what Arun called for what would that like-to-like number be for this quarter?

Arun Kumar: So we are not sure we got your question, can you just repeat it?

Anmol Ganjoo: The US growth as per your commentary during last quarter was 20% and if we were to kind of all the factors that you alluded to in terms of inventory rationalization on partnered products for this quarter and so on. If we were to adjust for that what would that like-to-like number be?

Arun Kumar: Yeah, so $120 million should have been a $140 million.

Anmol Ganjoo: And my second question Arun is that when we enter into these partnerships especially Lovaza that time the sense we seem to get was that we are entering these partnerships because we want to have some

kind of a floor as far as the market share accretion is concerned. We want more like a put option on market shares. It has panned out exactly in an opposite manner.

What was wrong in terms of assessment because if within four quarters things can move so dramatically then it kind of basically put some kind of a question mark on the confidence we ought to have following our strategy for next four quarters? So any specifics you can share with us in terms of where was the negative surprise?

Arun Kumar: So clearly the partner strategy does not work in the environment the US business operates today. This is clear, this is our biggest learning. In the case of Lovaza or Omega partnering with a market leader at 29% we assume it is a logical shift of or an ownership of the 29% market share. What we did not factor and especially since we did not have Indian competition, we did not factor for the aggressive disruption that the other players in the market and there were no new approvals. And that is what is bothered us.

So we think that because of the rationalization announced by TEVA and by Apotex both of them have this product we believe that it could have been a stock exit strategy too. And if you look at IMS data we are slightly moving up the market share we think that we have seen the bottom of it. It is too early to predict but I think it is a one off.

So if you look at current IMS you will see that there is a slow pickup of that. So we have been completely disrupted and in my view if PAR had to defend that market share of 29% they would have probably sold that product at a loss. So I think they behaved rationally but at the end of the day it is that our forecast reliability around this opportunity was completely a miss as you mentioned correctly.

So clearly partnered business do not work. We are more confident of building our own fortunes. Whatever we have done we have got a good track record although the size is small. We have a track record of having grown businesses including large products.

So if you look at Ranitidine our run rate now is close to about $17 million, $18 million. So it is not that we as a small player cannot handle a large product. In hindsight we should not have done a partnership. So to answer your point is that no more partnerships. Get out of them as soon as you can we have already been successful with 50% of the value and we live with the others with a discipline and those products are not material to impact us.

Anmol Ganjoo: My last question if I may. Arun, as you said FY18 has been a year of corporate actions we have done multiple exits and increase into different segments. Would you be able to give some kind of a comfort that FY19 will get the final pleasure of comparing the businesses sequentially as well as a year-on-year basis on a like-to-like basis and the focus will be more on execution as opposed to various businesses and have we settle down?

Arun Kumar: We have the confidence of providing the data that we have done today. It is because we were able to answer your question as a niche. If we have given you quarter wise sequential growth every business that we operate it is for you to get to know that our corporate actions have been settled. We rewired the company to what we want to be, and we have achieved those goals from a strategic standpoint.

Our focus like I articulated earlier in my opening statement is on execution, is on frugality, it is on being agile and running this business. And I strongly believe my own personal experience of having been in these situations earlier. We will ensure that this turnaround will be quick and rapid.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Birla Sunlife Mutual Fund. Please go ahead.

Dhaval Shah: In the opening remarks you mentioned challenges in the institutional malaria side as well as the Africa business because of the gap in the primary and the secondary sales. But at the same time in one of the responses you mentioned that the key margin drivers would be institutional and Africa business. So just could not connect both of them in terms of what you were trying to suggest?

Arun Kumar: I was clarifying to Nitin's question that Nitin assume that all the businesses were making money. So I was clarifying to him that Africa and institutional did not deliver profits in Q4 and with the course corrections that we have highlighted in our presentation it will start delivering the results that we want.

Dhaval Shah: Despite the challenges being there in institutional as well as the Africa business for the first half or the fourth quarter?

Arun Kumar: Yes, our presentation says that first half will be soft.

Dhaval Shah: On the R&D side how much of the R&D is actually getting spent on US?

Arun Kumar: So we have what is called a global portfolio story these days considering that we operate in so many markets but you could assume almost 65% to 70% of the R&D spent being attributed towards US and that is mainly driven by the fee structure of the US filings and not so much of the product development cost.

Moderator: Thank you. The next question is from the line of Anil Sarin from Edelweiss. Please go ahead. As there is no response we take the next question from the line of Chirag Dagli from HDFC. Please go ahead.

Chirag Dagli: Just to clarify in FY18 you had an EBITDA loss of Rs. 45 crores from the Consumer Health Division and that you are targeting at nil for the current year?

Arun Kumar: That is right.

Chirag Dagli: The EBITDA loss is targeted at nil basically?

Arun Kumar: EBITDA loss as nil.

Chirag Dagli: And sir, can you share some thoughts on how the launch schedule looks like for FY19 for the US?

Arun Kumar: Product launch exactly?

Chirag Dagli: Yeah, just some broad color the number of launches?

Arun Kumar: We have targeted 15 product launches this year.

Chirag Dagli: And all of these will be under our own label?

Arun Kumar: Two or three of them will still be partnered. But these are partners where we have significant control on the decision making.

Chirag Dagli: And the number of filings that we might do in FY19 sir, are we now back on earlier we have mentioned that we want to try and get to the 15 to 20 mark?

Arun Kumar: We have so although we reported a filing of only 12 files we had 5 signings in April and May and that is mainly just to from a quality perspective of the file and I think it was technically fileable in the financial year.

Chirag Dagli: And then just last clarification is, what will be the CAPEX for FY19?

Arun Kumar: For about $12 million.

Moderator: Thank you. Ladies and gentlemen, due to paucity of time we take the last question from the line of Gautam Jain from GCJ Financial. Please go ahead.

Gautam Jain: Looking at Q4 number our current debt is Rs. 1,700 crores so can you guide us how that will be in next two years? Would you be able to repay some amount from them?

Arun Kumar: So I will request Badree my colleague and CFO to answer that question.

Badree Komandur: Yeah, so currently the net debt stands at Rs. 1,704 crores. With operating leverage and the superior cash generation we should be able to reduce term debt. .

Gautam Jain: Okay so next two years you think you would be able to pay any amount from current debts?

Arun Kumar: I do not have any repayments on our debt for the next two years. Badree is basically referring to your question of debt reduction.

Gautam Jain: And on the US sales this year we have done $120 million so can you just have a broad guidance on both I mean we will be able to achieve more than that in current year 2019?

Arun Kumar: Yes, we will.

Gautam Jain: Okay so Q4 number will not be I mean repetitive in Q1 and Q2 as you said the recovery will happen from H2 onwards?

Arun Kumar: I am not making a comment on that. Your question was specific will we do more than $120 million, the answer is, yes.

Gautam Jain: Okay and you said Australia will grow a little?

Arun Kumar: A little, right.

Gautam Jain: And how the EBITDA margin will do in 2019 I mean because in Q4 we have sequentially Rs. 20 crores of extra other cost. Can you just throw light on that what was that? The Rs. 159 crores to Rs. 179 crores in Q4, from Q3 to Q4?

Badree Komandur: Yeah, so this is basically there are some additions in Trinity which got added in the current quarter because of which we are able to see the increase in the expenses. And we also have some operating expenses in terms of the freight and all of that. So we broadly if you see the expenses in terms of the major heads will be broadly in line and in terms of the gross margins it has actually expanded.

Gautam Jain: So there is no one off in the other expenses in Q4?

Arun Kumar: No.

Gautam Jain: And what could be your interest cost next year, full year?

Arun Kumar: Yeah, so we are currently at about Rs. 38 crores we hope to maintain the same range.

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

Arun Kumar: Thank you all for your patience and time today. I know there will be several questions, please feel free to call me or any of my colleagues and we will be more than happy to have face-to-face meetings or clarify any questions that you may have. Thank you all and have a great weekend. 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.