"Strides Pharma Science Limited
Q3 FY2019 Earnings Conference Call"

January 29, 2019

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Moderator: Ladies and gentlemen, good day, and welcome to the Strides Pharma Science Limited Q3 FY2019 Earnings Conference Call. 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, 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. Abhishek Singhal. Thank you, and over to you, Sir!

Abhishek Singhal: A very good afternoon to all of you, and thank you for joining us for the Strides Pharma Science earnings conference call for the third quarter of financial year 2019. Today we have with us Arun, Founder and CEO; and Badree, Executive Director of Finance to share the highlights of the business and financials for the quarter. I hope you have gone through our results release and the quarterly investor presentation, which have been uploaded on our website. The transcript for this call will be made available in a week's time on the company's website. Please note that today's discussion may be forward-looking in nature and must be viewed in relation to the risks pertaining to our business. After the end of this call, in case you have any further questions, please feel free to reach out to the Investor Relations team. I now hand over the call to Arun.

Arun Kumar: Thank you Abhishek. Good evening everybody. Much appreciate your coming into our call today.

I am going to have this opening conversation into two parts one to focus purely on the operations and then since we have announced several corporate actions, I will take you through all of them and spend more time on the bigger ones.

Overall from Strides perspective we had a good quarter. We have achieved say close to about 800 Crores, 8% Q-o-Q with EBITDA growth of around 20%. This is mainly driven by the regulated market uptick, which is now 82% of our revenues. In spite of the African business and the institutional business just about breaking even in both cases and adjusting for that our regulated business now delivers approximately 19% EBITDA post R&D. This is a 400bps increase in margins for the regulated business from Q1.

Overall growth in the US has been fairly significant. We had a 30% Q-o-Q growth. Revenues have grown from 32 million to 41 million. The quarter like I mentioned was positive with significant margin uptick. We have had good start of new launches and good market share increases on our existing products and we now have ten products, which are amongst the top three products in US as per IMS.

Several of our corporate actions that we have taken today and earlier have resulted in us now converting most of the partnered products back to Strides. So when I came back to run the operations in April, I set some clear guidelines if you look at my first quarter call and that was to bring back partnered products into the business, improve the quality of the business and the sustainability of the business and continue with the differentiation in terms of diversity of the model. I think to some extent or to a large extent we have either completed most of these actions or embarked through these announcements on pivoting on them. So overall from a company's strategic proposition we believe that we are now on a good wicket and we look forward to the next few quarters where we will get a robust performance and improved margins as we go forward.

Australia was a flat quarter simply because it was the financial year-end for wholesalers and it is quite normal for them to destock, but overall it has been a good quarter with a standard EBITDA of around 20% to 21%.

Growth continues to amaze us in the other regulated markets. We are benefiting from improved pricing. We are benefiting from lesser players operating in several of the European markets and we had a 55% Y-o-Y and 14% Q-o-Q growth. We believe this business to organically grow rapidly benefiting from the fact that we are leveraging our Australian pipeline for these markets. As many of you know we have common regulatory strategies for Australia and markets like Canada, Europe and the UK so we get fast track approvals and we are benefiting from this.

Finally, I can report that the African business has broken even. The hygiene issues are behind us and I am now looking forward to a consistent and forward-looking growth where this business will become valuable for the company.

The institutional business continues to be a challenge for us. We faced significant headwinds. We have a guarded approach simply because we are very selective on what contracts we can continue to service. Some of them we are trying to renegotiate with the donors simply because not only us, but several companies are suffering from this fixed price contracts given that the API costs from Chinese suppliers have increased significantly.

Overall a good quarter, strong outcomes in the US and we believe that the momentum in the US will continue.

Now I will switch to some of the corporate actions that we have announced today and let me delve on the significant one, which is Australia where I am sure you will have a lot of question. So let me delve on addressing the Australian business first.

We firstly announced the transaction of potential merging with Australia as early as seven eight months ago in May of 2018 to be precise and it taken us a long time to get here and as you know that it has been a very complex process. So let me just take you through the process that was involved. When the two companies decided to merge in Australia to become the largest generic company in Australia, it was truly a very unique situation to be in. The first milestone that we had to cross was to get the competition commission approvals, which we did after which the two companies opened up its books for diligence.

Now this has taken a long time since we got the ACCC approvals. It has also taken a long time simply because the back and forth, all of these processes, advisors and third parties that were involved in the diligence took time to get to this stage and finally it was clear to us that these synergies that we originally envisaged was not panning out in the timeframe that we are anticipated.

We had an option to acquire the 50% share that we would not already own in the JV and that would have cost significant new leveraged situations for Strides and as you are rebuilding the business this was not a position that I was ready to accept and while I strongly believe that the ongoing challenges of liquidity is not a problem for India alone but also globally, this would have come at great cost to us and it would not accrete the business in the timeframe that we envisaged.

Consequently, in the best interest of the Strides shareholders, the management and the board strongly believed to support the recommendation to exit the business in Australia and to just give you a little bit of contours on the transaction, the business currently delivers approximately 40 million dollar of EBITDA. We have entered into a ten-year preferred and exclusive supply contract, which guarantees us almost 50% of the EBITDA for next ten years so when you look at the deal value and the deal contours, you must put up the value for the supply contract that will be secured for the next ten years. We take control of all the 140-odd IPs that we own and we license to Arrow which means that we retain IPs for global exploitation and then we have a limited non-compete period of three years after which we have a option to go to back the Australian market.

At the end of the day we have considered this is the transaction, which has an annuity EBITDA of almost 200 million Australian dollars for the next ten years that is 20 million dollar per year. It could really go up because of the preferred supplier, we have the opportunity to provide the merged company lots of new products and we will by far be the most preferred supplier simply because we have mastered the art of supplying and servicing the Australian market, which is otherwise a little complex for most of the other suppliers because of the small size of the market and we will also continue to develop products for a global other Reg markets, which include Australia and then we will have licensing opportunities with our partners.

We think that in all, the transactions give us about 395 million Australian dollars plus an annuity EBITDA of 20 million dollars for 10 years. This has resulted in a good outcome for the company given the circumstances that we were in this transaction. I am sure there will be several questions, I will be more than happy to answer specifics as we go through this call.

Now during the quarter, we successfully won the arbitration that was outstanding between Phosphagenics and Mylan. The arbitration was led by Strides with active support from Mylan and as a consequence of that we have received our escrow amounts and together with these two transactions and the first payment from Australia we have close to about 260-odd million US dollars as cash.

The Phosphagenics-Mylan arbitration escrow amounts have already been received and we proposed to pay down debt about 160 million dollars approximately 1100 Crores that will bring our net debt to under 1000 Crores. That would be a very important milestone for us to have achieved in these circumstances and as regard to topline fall of around 100 million-odd AUD or little more than that, a significant growth trajectory in US will continue and fill for the same. Our inorganic that we announce today will more than make up for that loss of topline, so in all if you go through all the corporate action that we have announced and add up the numbers we will get there . We believe we are now on the path of a strategic scaling at the speed which we believe this company can evolve in a next many quarters.

A strong balance sheet, great performance in the US and if I add the inorganic of US we already are now at 200 million dollar run rate that is little more than 70% to 80% more than what we did last year. Continued momentum in product approvals, filing, continued compliance and all of this puts us in a good wicket as far as we at Strides are concerned.

Alongside today we have announced a few of the deals. We also acquired the 50% of Vivimed Labs that we did not already own. We paid them the same valuation as we entered in 2017, which was 150 Crores for 100% so we pay another 75 Crores for the 50% that we did not already own. The transaction also allows us for the ANDAs to return from partners Vivimed had made, so effectively almost 80% of our sales would now come from direct sales in the Strides label and that will include the Vensun portfolio. Vensun had revenues of around 17 million dollars in the US and they have been a significant partner for Shasun, the legacy transaction that we have acquired. They bring in a lot of technical capabilities on what they call is niche and complex products and we have four products that we have currently commercialized through Vensun. The partnership also has our CGT product with 400 million dollars market size for which we are expecting approval in the next two quarters and with this transaction we will have control of that product, our profitability and our market share opportunities on what we think is a very critical product.

We also made an announcement regarding Canada which mirrors the Australian market. It is a small acquisition to get into the Canadian market and we have a very aggressive filing strategy for Canada and we expect Canada to be an important part of our other Reg markets.

To summarize we believe that there are several pivots that are now operating. All our businesses except institutional business have turned around completely and we are very delighted with the position that we are in. I also have my other colleagues, Badree and Vikesh here on the call and I will be more than happy to take questions and if there are any follow on questions given the paucity of time on this conference call. Thank you all and appreciate your time.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Vaibhav Gogate from Ashmore. Please go ahead.

Vaibhav Gogate: Could you help me understand how the 100 million dollar loss in revenues would be compensated by growth in US?

Arun Kumar: So I am saying that when we started the year we were at around 21 million dollars revenues in US. In Q3 we are already at 41 million dollars and if you add the inorganic that we announced that is 40 million dollar a year that is 10 million dollar for quarter so going out quarter this year is already 50 million dollars, so that is 200 million dollar in the US assuming there is no growth on these base numbers so that itself that incremental revenue of about 100 million dollars already makes up for the loss of revenues from Australia.

Vaibhav Gogate: Thank you.

Moderator: Thank you. The next question is from Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Good evening. Sir just trying to understand the statements you made topline loss of 100 million dollar, I mean, what you are saying the API supplies that you would do, would be worth 100 million dollar sales and the EBITDA would be 20 million dollar is the understanding correct?

Arun Kumar: Yes, the cost of goods is not a 100% of revenue right, so it is typically half so if the company as a revenue of 200 million dollars in Australia then the cost of goods is 100 we do not supply all of it, so we will end up supplying lot of it.

Prakash Agarwal: Okay. So if we are making EBITDA of say 20 million for example I am just trying to understand the kind of topline we would be reporting going forward?

Arun Kumar: Yes, so the Australian business can be between 60 and 75 million at peak.

Prakash Agarwal: Okay. And the corresponding EBITDA would be 20 for the peak sales?

Arun Kumar: Correct.

Prakash Agarwal: Understand. And you mentioned about the debt so currently you are at about Rs.18 billion of debt and the 300 million Australian dollars comes to us so would the entire money be used, I missed that statement in terms of debt reduction?

Arun Kumar: Because we also announced several corporate actions, which require cash so between the Australian payment, and the Mylan payout we have approximately 250 million dollars of which 160 million dollars we are going to pay down debt and 90 million dollars will be used for growth capital including some of the deals that we announced.

Prakash Agarwal: 160 million US you are saying?

Arun Kumar: Yes, and also the 250 million is US.

Prakash Agarwal: Just one on the strategy I mean I was looking at our past notes when we had announced the Apotex merger so we had talked about year one EPS accretion so what really has changed and I mean we could have gone I mean we build a very sticky business in the last three years to have a perfect edge against the fast growing US but bit volatile so what really has changed so (a) the EPS question and the mind set of selling the sticky business?

Arun Kumar: Well couple of things. One is that the Australian business as you know have more or less plateaued for us from a rapid growth so yes, it is a sticky business from a cash flow perspective, it is great from a margin perspective and all of that but the synergies like I mentioned in my opening statement has not played out post the diligence as far as we have concerned. We just do not believe that the combined margins are good enough, so we obviously at that time needed a reset of the economics and that was not doable, well probably the conversations around that were not successful if I may say and because the reset of ownership was not possible then that is when the discussion of a outright buy was discussed and then the leverage did not add up given the cost of money these days.

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

Aditya Khemka: Thanks for the opportunity. Arun Sir on this Australian divestment so Sir as the previous participant is asking that 60 to 75 million Australian dollar topline and 20 million Australian dollar EBITDA that is what you get from the business that you had in Arrow now with the Arrow entity merging with Apotex and you then sticking over that entity why does not you estimate include further to a backward integration from the Arrotex entity which includes the Apotex business?

Arun Kumar: It does. The thing is that some of the reasons why the synergies for us do not add up because (a) there are several supply contracts Apotex has, which may take a little longer than we anticipate it to move to Strides. There are several products that are in this supply contract including Apotex volumes. At this time there is opportunity for us to build more from here but I think it is better to err in the side of caution.

Aditya Khemka: Sorry just a clarification, so what you mean is that in future the combined Arrotex entity still be open to outsourcing products to Strides as a preferred supplier, yet for now what you would get is the 1000 Crores business that you are transferring to them the backward integration benefit of that is what you retain for now?

Arun Kumar: There will be some products, which will also be include but overall today we only supply 26 to 27 products as you know 200 products that Arrow sells but this 26 products we sell constitute a very significant part of their supply chain. So, we are not supplying a 100% of the Arrow procurement today So if they are buying 100 million we are not selling 100 million we are probably selling 25 or 30 million or whatever that number is and the number that I am giving you also includes in some cases, incremental volume of Apotex products.

Aditya Khemka: Then would it be right to guide to a day one 20 million dollar number from this backward integration I mean, by what you are saying it will be a day one 20 million dollar number?

Arun Kumar: I said it would be 40% and 50% and it will take us probably a year to get to 50%. Now to get to 20 it could take us all of 12 months.

Aditya Khemka: Understood. My second question pertains to this Vensun position so I could not really understand the language written in your presentation. Could you throw some light on this upfront payment and then the linked milestones, what is the structure of the transaction and I understand the majority of the deferred payout would be linked to the CGP product so could you throw some light on how that transaction is structured?

Arun Kumar: This is a legacy transaction that we inherited from Shasun. Vensun has transactions with several companies on the same basis that the process has split 50-50. When we acquired the business from Shasun we also inherited the contract, which means that this part of the business with Vensun was a fairly significant profit share arrangement. Out of the 17-odd million dollar that Vensun does, a significant part of the revenues come from products Strides. When we pay 18 million dollars which is the payment that we do for 100% with ownership the economic shifts from 50% to 70% in our favour so that is what we get for paying the 18 million so the economics of the profit share moves from 50 to 70. The 30% is an earn out for the shareholders because this company has invested significantly more money than what you are paying so the earn out is directly linked to certain outcomes mainly on the CGT product and several other products that are equally interesting and in a next couple of months you will see several new products that will get approval from Vensun and as that ramp up happens Vensun shareholders will get 30% of the economics up to a cap of 75 million dollars in a period of six years, which is the long stop date and we obviously wanted a control of the CGT product as such. I mean if everything goes to plan there is a significant amount of profits that we leave on the table and we wanted to have security of the marketing opportunities on these product. So I hope I am clear with.

Aditya Khemka: Yes, just one clarification on the previous question, that ten year supply contract does the Arrotex entity have a call option, the contract can be terminated before ten-year and in a similar line, do you have a call option renew the contract after ten years? Do you have the right to renew it or is it an obligation if they want to renew it then only you will be able to supply, how is that transaction structured?

Arun Kumar: Currently it is a ten-year guaranteed supply and at this stage after that there are no obligations on both sides.

Aditya Khemka: Understood. I have no questions. I will get back in the queue. Thank you.

Moderator: Thank you. The next question is from Sachin Kasera from Lucky Investment. Please go ahead.

Sachin Kasera: Good afternoon Sir. Couple of questions from my side; first question was you mentioned that you would be retaining around 90 million dollars as growth capital, I think the transaction that we have now totaling to something around 40 million dollars so what are the areas we are looking for this incremental 40 to 50 million dollars for deployment as per the existing both businesses are concerned?

Arun Kumar: Well, at this stage very little we are looking at mainly little more investments in Europe but these are all going to be a very small ticket amount and if we do not end up using anything in the next three to four months then we will use this money to further reduce our debt.

Sachin Kasera: Secondly you did mention that initially you would be receiving 300 million Australian dollars from the transaction what about the remaining 94 million Sir what are the timelines for that?

Arun Kumar: It is a little early for us to disclose that but it is a secured payment guarantee through an instrument so once the SHA is signed up and for the next board meeting when the final SHA is signed up we should be in a better position to let you know.

Sachin Kasera: The intent would be to use it also to roll down the debt or we may avail some growth opportunities once you get the final tranche from Australia?

Arun Kumar: Not yet decided, we do not know what to do as yet.

Sachin Kasera: Secondly Sir you mentioned that these two acquisitions that you announced for the US would incrementally around 40 million dollars to the topline. What are the types of margin synergy we can bring with these two transactions to the overall US business?

Arun Kumar: Currently our total global business has a gross margin of 52% and regulated market is slightly more so we expect the margin flow to be the same in this acquired assets but obviously in the Vensun transaction we already consolidate 50% of that margin because of our ownership so this incremental business should deliver a target EBITDA of at least 20%.

Sachin Kasera: Okay, thank you very much Sir.

Moderator: Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Securities. Please go ahead.

Tushar Manudhane: Sir just on the Australia part now that we are going to be preferred supplier but when the price cuts as and when they happen from the Australian government side will that have any impact on our profitability or that remains intact?

Arun Kumar: About 90% of the portfolio that we supply Arrow has completed all the previous price cut cycle so there are no more official price cuts on those products.

Tushar Manudhane: Thanks a lot.

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

Nitin Agarwal: Thanks for taking my question. Arun on the Stelis business we have been made an incremental investment announced rather incremental investment, I mean what are the opportunities that how should we look at the business from a Strides perspective over a next a year, and year and a half in terms of what kind of opportunities is it offer us?

Arun Kumar: We are looking at several opportunities to capitalize on that business, (a) one we expect atleast two products approved in Europe one before 12 months and one in about 18 months. So we expect significant two product approvals so we should have revenues and we are contemplating how best we can monetize this to benefit the Strides shareholders. So we currently are evaluating those options Nitin and we probably need a couple more months we come back to you with more specifics.

Nitin Agarwal: Thanks. Secondly on the US business you know that the run rate that we projected at where you see this business really ending up for us as a combined business over the next few quarters I mean CGT obviously going to influencer on the run rate on the business if you barring the CGT product how should we look at this business now with these two inorganic transactions will be coming in place if we take a 12 month view of the business?

Arun Kumar: Like I said if you are assuming no incremental growth in Q4, which was not the case there would be incremental growth because if you recall in my first quarter call I mentioned to you that the partnered products will return to us in Q4 and they have, so we will actually start commercially selling those products in Q4, so that is typically a four to five million dollar business that one should add to the base line minimum per quarter or little more than that actually so we think that including the inorganic it will be safe to say that 55 to 60-odd million dollar quarterly run rate should be the reset number for the US which is almost 3x of where we started.

Nitin Agarwal: How do you look at the next year in terms of approvals barring the CGT product as mentioned?

Arun Kumar: 12 to 15 products approvals, we have the TAD for about that many products.

Nitin Agarwal: Thank you.

Moderator: Thank you. The next question is from Dhaval Shah from Birla Sun Life. Please go ahead.

Dhaval Shah: Just wanted to understand on the other regulated market is now 500 Crores annualized revenue run rate what is the outlook on other regulated market from here on?

Arun Kumar: That is going to be a most significant market going forward in terms of growth and profitability, we have grown from a low base we have grown at around 55% so I think it will be safe to assume at 25% to 30% CAGR on this business for next two to three years.

Dhaval Shah: Which markets are driving this growth?

Arun Kumar: Mainly UK and Europe.

Dhaval Shah: My next question is on the US margins you know it is mentioned in the presentation that you have broken even at the current levels and you mentioned that you know if you are going to hit 55 to 60 million dollar kind of a run rate what is the margin that you should expect from US when you are at that kind of run rate and growing on the overall business?

Arun Kumar: Dhaval, we mentioned in our press release that we broke even in Q2 that is at 32 million dollar so obviously we make money this quarter out of the US. Typically every incremental dollar over 32 million dollars per quarter you should assume approximately 35 to 40 cents going to EBITDA for your calculation.

Dhaval Shah: Thank you.

Moderator: Thank you. The next question is from Shashank Krishna from JM Financial. Please go ahead.

Anmol Ganjoo: This is Anmol. Arun, we are looking at CGT approvals in next couple of quarters. US business has also started to fire, our leveraged situation is not as to precarious as it was three four quarters back yet we have chosen to withdraw from Australia and double down on the US, you have realigned the company to materially different markets what causes the change in volume we are refocusing priority markets?

Arun Kumar: When I returned I set an agenda publicly that I want to reset the strategy. It takes a little while. It has taken us three to four quarters to reset the strategy. I think it was important for us. I mean if leverage was not a challenge we would have kept Australia to be honest,.Having said that as a new player in the US we just come with the clean slate, much better pricing, more robust product supply chain, strong customer advocacy. We are just getting more and more market share and if you look at our press release you will see that that over ten products are amongst top 10 in US, we have actually increased market share significantly from Q1 to Q3 on almost every single product and that is not on price that is purely on supplies, a lot of withdrawls were actually announced last year. Actual effect of those withdraws is visible now with the product not being in the shelf. So we are seeing an upswing in demand. It is not across the board but in specific products we are seeing upswing. I would like to say that we could see this coming and we kind of stood firm with our strategy and it has paid off well. I think that there were several key products that we had partnered and with all these actions that we did with bringing back products from all these players, as there was not enough money for two companies to share. Itis a very different situation today when you control the economics yourselves so overall the momentum of filings and approvals have also added to our growth. I think it is a good situation to be in , and the end of the day there is no other market other than US that will give you the volume price and the growth that you need at the scale that we are at, so if you have so much resources and with those resources what is the best outcome you want and that is the reset that we did.

Anmol Ganjoo: Thanks that is helpful. I will get back in the queue.

Moderator: Thank you. The next question is from the line of Alankar Garude from Macquarie. Please go ahead.

Alankar Garude: Thanks for the opportunity. Arun firstly how does the Arrow sale impact the profitability below EBITDA?

Arun Kumar: Actually positively, because there is a 130 Crores amortization and interest cost attached to Australia so that itself adds almost Rs.10 per share to EPS.

Alankar Garude: Understood. The second question is quite similar to what the previous participant was asking so you mentioned about Apotex synergies being lower than earlier expectations so my question is had you not announced the Apotex merger would you have retained Arrow and basically whether we had considered selling our stake in Arrow even before Apotex came into the picture so before May 2018, have you consider even selling some stake in Arrow?

Arun Kumar: No. We would not have and your point is right. The only thing that would have change is now with the challenges that the Australian market has delivered for the wholesalers, as you know there is been some activity around Sigma and Sigma is our exclusive supplier I mean preferred wholesaler, so around that there would have been some uncertainty but to be very honest and to answer your question direct if this transaction was not announced with Apotex we would have been happy to keep Arrow not have changed anything in our scheme of things.

Alankar Garude: So even a share swap deal was not considered is it?

Arun Kumar: No the share swap deal was considered but the point is that the economics and the synergies that added up meant that we have to renegotiate the percentage of ownership which did not work out the way we wanted.

Alankar Garude: Understood. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Pankaj Tibrewal from Kotak Mutual Fund. Please go ahead.

Pankaj Tibrewal: Couple of questions, one over the last few years too much of to and fro in the Australian market 2012 then 2015 and now 2019 we are exiting the market again. From a priority and a shareholder value creation can you outline your thoughts that will US be the core market from our growth perspective or US entry could again be possible in the near term I means one or two years? Earlier you had thought about Africa been a core mote for the business getting created that did not happen, Indian business did not execute well so what are the ways you are outlining the growth over the next one to two years from a shareholder value creation, can you just help us understand on that? Thank you.

Arun Kumar: Basically the model is based on the principal of what is the differentiator that we have and that we think is to operates in difficult markets and portfolio that is quite unique to Strides. Third is that as we are building a sustainable business and the sustainability is where we are able to deliver not only growth but profits and cash flow. While profits and cash flow would have continued from Australia, growth would have been a challenge but unless we did this transaction with Apotex. We think that the growth will come from the other Reg and in the US business. You are right that several missteps in Africa did happen. We believe that what we have retained in Africa is very valuable. We will continue to stay invested and grow that business and you will see outcomes of the actions that we have taken in the last three quarters emerging in the next few quarters. So we are committed to the strategy of being a player in the highly regulated market. There has been a lot of disruption in the market in terms of compliance and supply chain and Pankaj we have to accept the fact that the generic business is all about agility and shifting focuses and we just do that I mean we cannot deliver a steady state strategy. You can say that we are opportunistic or label us however, you like, but the bottomline is that we are chasing sustainability in our reset model and I think what we are doing today are all the right drivers and pivots, we are building an organization around institutionalizing the processes and getting the people skill sets and continuing to deliver on compliance and execution R&D efficiently. So I think we have all the enablers in place. We have the differentiation strategy in place. Scale is important, speed is important and that is what we are now building on. So we will continue to chip away from our strategy till we get it right and I know a lot of people get very upset with an uncertain strategy but I think generics is all about being uncertain.

Pankaj Tibrewal: Sir the transaction in seven years this firm has not created value because I remember in 2012 you were selling it for 375-380 million dollar except for the currency part I am not talking about that then you bought around the same amount you bought generics partners, you bought in 2017 one more company which you integrated with Arrow and here you are selling at 380-390 million dollars again so just wanted to understand in seven eight years back to the same field with the same amount so what did not work?

Arun Kumar: I think you got few fact wrong Pankaj. Firstly the first business that we sold was Australasian 65% of the EBITDA came from Asia and not from Australia so you cannot call that an Australian business. It was an Australasian business. We had manufacturing in Singapore. 65% of the EBITDA came from Singapore. So what we did is we went back and learn from our experience in Australia created a business what we think is valuables, you have chosen not to value our preferred supply agreement value, if you put a value to it if there is a 200 million dollar value even if I put a ten time multiple to it and if you look at the NAV for a ten years contract or 200 million dollars of

EBITDA that is another multiple for it. So you can pick and choose how you want to address but the bottomline is that we think that given the circumstances the global pharmaceutical industry is going through and the fact that liquidity is a concern this we thought was the best option for Strides.

Pankaj Tibrewal: Wish you guys, all the best.

Moderator: Thank you. The next question is from Sriram Rathi from ICICI Securities. Please go ahead.

Sriram Rathi: Thanks for taking my questions. Two questions only one, what will be the tax implication of this transaction in terms of the mid cash outflow that we will be getting from the deal that means Arrow?

Arun Kumar: I am going to let Badree answer that on tax.

Badree Komandur: Australia business (Arrow) is held through Singapore subsidiary, there are implications from a taxation standpoint so we will be able to come back with exact quantum closer to completion of the transaction.

Sriram Rathi: Will it be possible to share what will be the balance sheet impact because of this transaction in terms of fixed assets, goodwill and on the payment side, depreciation how much of and was there of any debt involved in the Arrow book?

Arun Kumar: That this is an equity transaction so there is no debt included in the transaction.

Sriram Rathi: I mean to say that we are selling the Arrow in Strides books and in consolidated books the debt is there so, the debt in the Arrow books that would also be part of Strides books?

Badree Komandur: Some debt is because of Arrow , so we will be cumulatively repaying the debt of about 160 million dollar. The assets worth is about 300 million dollar plus so we will see that reduction in the assets plus we will also see a reduction in the debt by about 160 million dollar, and we should be having a debt in the range of about 1000 Crores continuing on the balance sheet.

Sriram Rathi: What will be reduction in the depreciation in the P&L in quantum?

Badree Komandur: It is about as Arun answered between the depreciation and the interest is about 130 Crores.

Sriram Rathi: Thank you.

Moderator: Thank you. Next we have a follow up question from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.

Aditya Khemka: Thanks for the follow up Sir. Just on the last participant's question, 120 Crores Arun you mentioned was the amortization of the goodwill of the Arrow transaction am I incorrect to read that there would be some fixed asset transfer and there should be depreciation in over and above the amortization number?

Arun Kumar: It is amortization and interest together it is about 130 Crores.

Aditya Khemka: Arun I could not hear you for the last 30 seconds so could you repeat?

Arun Kumar: There is no fixed asset, a reduction is there due to interest and the amortization of the intangibles.

Aditya Khemka: Okay there is no fixed asset per se to be transferred. On the US side your exit rate being let us say 55 million dollar or 60 million dollar or whatever, turn out to be and with your CGT product now in your own front end, Vensun marketing it so what is the competitive landscape that you expect for the 400 million CGT product any update on that could be very helpful?

Arun Kumar: I was telling Aditya that the premise for CGT is that there is no competition. It is still the innovator. So as soon as the first generic approved the CGT status is lost, we still believe that we are on track to be hopefully the only player getting this product to be approved but we cannot say that at this time and we expect this product to be significant if we get the approval which we expect in the next two quarters.

Aditya Khemka: Two clarifications in that if I may Arun, one this 400 million dollar sale is it the IMS sale or is it the primary sale of the product?

Arun Kumar: It is an IMS sale.

Aditya Khemka: Secondly you know you even if you get CGT designation you have own exclusivity my question on that was you know your understanding of the competitive intensity post the one CGT window and as you say even at this point in time you are saying hopefully does that mean that there are other filers also fighting for approval and if they get approval before you then you might actually get CGT exclusivity and not you?

Arun Kumar: That is the exclusivity, but at this time we believe that this whole product hinges on a very complex clinical study and the clinical study is a very long drawn process and that is a hope that anybody who even started work on this have cracked it, probably be behind us but at this stage Aditya it is just speculation. We believe we have a good situation with this product but time will tell.

Aditya Khemka: But there are other people doing clinical trails therefore you know that there are other filers for the product already?

Arun Kumar: We do not know as yet.

Aditya Khemka: Thanks.

Moderator: Thank you. Next question is from Sachin Kasera from Lucky Investment. Please go ahead.

Sachin Kasera: Sir if you could give us some sense on the outlook and margins for the African institutional business going for FY2020?

Arun Kumar: Well at this stage the institutional business looks like muted for several quarters. We do not think it is going to contribute any EBITDA. We are going to downsize that business to only a limited obligation. We are moving to the new regimen of products and we believe that this business will bounce back only after 12 to 15 months, but the Africa business will get to a company average regulated market average very soon probably one or two quarters so that is something which will be positive.

Sachin Kasera: Sir just one clarification on the US business this EBITDA breakeven 32 million dollar you mentioned us including R&D or excluding the R&D expense Sir?

Arun Kumar: Including R&D.

Sachin Kasera: Sir how do you see the overall R&D spend going forward because I believe now you end up R&D spend 35 Crores a quarter?

Arun Kumar: I think that is the peak. We do not go more than that. We had a lot of filings this year so this quarter R&D cost was high as we had six filings otherwise the R&D the maximum run rate is about 32-33crores.

Sachin Kasera: Do we need to know incur any significant capex next two years post all the transactions Sir?

Arun Kumar: No.

Sachin Kasera: Just lastly Sir will you be possible to break this 120 Crores below EBITDA Australia between interest and amortization?

Arun Kumar: 60 is amortization and 70 is interest.

Sachin Kasera: Thank you so much Sir.

Moderator: Thank you. The next question is from Tushar Manudhane from Motilal Oswal Securities. Please go ahead.

Tushar Manudhane: Sir I was just calculating the EBITDA breakdown so institutional and Africa had EBITDA zero, Australia business largely at 20% and US business had incrementally 9 million dollars to be EBITDA of 3.5 million dollar so does it indirectly mean the other regulated market is at a very significant EBTIDA margin?

Arun Kumar: It is.

Tushar Manudhane: Is it sustainable, or this is one off?

Arun Kumar: Sustainable.

Tushar Manudhane: Any probable reason for this if you can highlight?

Arun Kumar: Again it is same, if you look at IMS around this market is all about operating in niche products, single one or two company products so this is the strategy the company has been following through constantly.

Tushar Manudhane: Thank you.

Moderator: Thank you. Due to time constraints we will be able to take one last question, we take the last question from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Thanks for the opportunity again. When we were discussing about 250 million dollars of which 160 towards debt reduction and 90 towards acquisitions this is just adding the one that you announced adds up to about 30 million dollars now what we are thinking about the rest?

Arun Kumar: At this stage, nothing as yet, Prakash so if we do not spend that money in the next couple of months we will reduce that further.

Prakash Agarwal: But entering into specialty or complex generics would that be something, which would excite us?

Arun Kumar: It will, but I think our scale in the US will take care of incremental R&D. If you remember that we been always saying that we will not build the US business to beyond a certain standpoint in terms of revenues and that 400-500 million dollar range. For that kind of a portfolio we are more or less done with R&D so we think that our generic R&D spends will start reducing and we will improve within the 170 Crores that we spend a year we would be able to fund the specialty programs that we have.

Prakash Agarwal: Thank you.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Arun Kumar: Thank you all for your patience and your questions. Like always please feel free to write to me or to one of my colleagues and we will be more than happy to revert back to you. Thank you all. Good day.

Moderator: Thank you very much. On behalf of Strides Pharma Science Limited that concludes the conference. Thank you for joining us. Ladies and gentlemen you may now disconnect your lines.

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