“Strides Pharma Science Limited
Q2 FY2020 Earnings Conference Call”

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Moderator: Good day, ladies and gentlemen, and welcome to the Q2 FY2020 Earnings Conference Call for Strides Pharma Science Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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: Thank you. A very good afternoon, and thank you for joining us today for Strides earnings call for second quarter and half year-end financial year 2020. Today, we have with us Arun, Managing Director & Group CEO; and Badree, ED - 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 of this call will be available in a week's time on the company's website. Please note that today's discussion will 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 hand over the call to Arun to make the opening comments.

Arun Kumar: Thank you, Abhishek. Thank you all for joining today. Before I start, Happy Diwali and Seasons Greetings to all of you and your families.

Quickly, in terms of a high level update, we have announced a very strong set of results today. We are delighted that our strategy of focusing on profitability over growth is playing out. We have had some stellar performances in our key businesses that we are focused on. We still do have some parts of our business which is work-in-progress. We have challenges continuing with our emerging markets, so on and so forth. We have seen a dip in our institutional business, primarily because we do not yet have the new regimen products where most of the new donor funding is going .

Having said that, we have had a great outcome from our regulated markets. Delivering on a contrarian strategy has been our hallmark, and we believe in what is, otherwise, perceived as a difficult market scenario or business environment. We have picked the right products in the right markets, and that is now playing out to our satisfaction.

Key market, U.S., had a sequential growth of $57 million. We had a temporary suspension of Ranitidine five, six days before the quarter end. It is not a material number considering that we stopped the sales only in the last week of the quarter, but having said that, we witnessed significant improvements in our gross margins in our U.S. business, predominantly led by the launch of Cinacalcet, but more importantly, now becoming a significant player in the immunosuppressants, both Tacrolimus and Mycophenolate Mofetil.

No market share drop on any product. This is our eighth continuous quarter where we have no market share drops. On 9 out of our 10 products, we continue to grow market share. A very disciplined approach to customer advocacy. No stock outs. It is playing out quite well. We are conscious about the fact that our model does not support very significant top line, but works well for our gross margins, and this quarter clearly demonstrates that playing out.

The clear outlier has been our focus in the last six to eight months on the portfolio maximization strategy that we have had for our other regulated markets, and we have seen phenomenal growth, 60% Y-on-Y, 30% Q-on-Q. But I must also highlight the fact that we now have a $40 million front-ended business in the U.S., which will also address some of your questions later in terms of increased working capital as all of you know that incremental growth in the U.S. comes at the cost of new working capital needs, which reflects kind of a blitz scale of the front-end business that we have now executed on. Partnered businesses are coming down and that is by design.

Having said that, we are very, very confident of continuing to grow our U.S. business, but both filings and approvals have been a little slow, more to do with us kind of going back and resetting our filings in view of the significant CRs the industry has been receiving off late, mainly to do with supply chain, starting right from the key starting materials to APIs to impurities. There has been a slowdown on approvals consequently. So we have been a overly cautious to ensure that our filings are in good order. We believe momentum of that will pick up. That has not stopped us from being invested fully in R&D, and we continue to spend our targeted quarterly numbers on R&D.

We are obviously very excited by the fact that our worldwide non-compete on injectables will end in a couple of weeks, and we will now start building an injectable portfolio with our vast capability and experience that we have had building a very successful business in that space.

Key focus for the organization in the next six months is to course correct our African markets. I mean, we have sorted for our branded business in Africa, but our generics business out of our manufacturing operations in Kenya is still work in progress. We have done a lot of work in terms of rationalization, then in terms of cost and product portfolio. We have now completed 2 WHO audits at that facility, and we believe that facility is now ready for our "In Africa for Africa" strategy.

We recently announced an acquisition of a stressed FDA-approved asset in West Palm Beach, Florida, which is an FDA-approved site for soft gelatin capsules including containment products. Today, our soft gelatin business is about $75 million on an annualized basis. So that is a very big part of our niche business and the Made-in-USA gives us advantage to participate in government procurement businesses. So we are very excited about what happened thus far in the U.S. We think growth will be steady from here.

Our focus is more to achieve more profitable growth, and I think we are on the right track. We will continue to launch 1 or 2 products every quarter because we see that opportunity emerging with a

long tail of products that we have not launched, and we have been very successful with that approach of waiting for that right opportune moment before we put in a product and then supply with no supply issues.

Puducherry, obviously, has been a blemish. I will keep repeating this till we get this sorted. We have got external consultants. We are very happy with the progress that the consultants have made. We get a good feel that we should be able to request for a reinspection in Q4 or early Q1. We expect to write to the FDA in December. Our consultants and we are confident of being able to meet all the commitments that we made to the agency in an appropriate manner. Since Puducherry, we obviously have got 2 EIRs issued for the Bengaluru flagship plant and, of course, the Chennai plant which was recently issued.

U.S. market, just before there is confusion on what was the guidance. We are already done about $112 million, $113 million of revenues in H1 compared to the $150 million we did last year. We are very confident of continuing to have this as the base, assuming Ranitidine will not be there. We continue to be very confident about being probably one of the few players who will be able to offer Ranitidine should that product be approved by the FDA. We actually hope it would in the next couple of weeks. Then obviously, we would see a significant uptick from the numbers. We did about $10 million in H1. But in spite of Ranitidine not being there, that should be the base that one should consider going forward. But clearly, based on how we are tracking on our gross margins, our gross margins in absolute numbers will reach about the higher end of the revenue range that we had suggested.

Other regs continue to work well for us. All markets are doing well. Australia is now 2x of supplies. Arrotex including a new contract with Apotex will fall in place soon, and we believe this will be the next engine for the company and we hope to mirror the other reg markets to the U.S. market.

We have explained our rationale on Stelis. We have made that earlier, we have given a little more clarity on portfolio, where we are and what products we are doing, the sterile injectables is, of course, the key element here, which we will start filings. Within the next 12 months from now, we should have at least 10 filings in injectables and they are more specialty injectables, a space that we know very well.

We have had a good outcome in terms of EBITDA percentage. This is after several quarters. We have crossed 20% again, now at 21% of EBITDA in spite of almost flat to zero EBITDA coming in from our emerging markets. If you adjust for that, we have a very, very solid EBITDA number now. We are very confident to maintain those numbers going forward for the regulated markets. Like I said, emerging markets and institutional business is still work in progress.

Our PAT and EPS is also amongst the highest in the last 8 quarters. So we think that a reset has taken place. We still have like I said, about 25% of the business which is still work in progress,

especially the institutional business and emerging markets, and give us 6 to 8 months before you see those businesses getting back to where it used to be for Strides.

So with that introduction, a fairly longish introduction, I am more than happy to take questions. And I am going to request Abhishek to take it over from me. I am more than happy to answer any questions if there are.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Vinay Bhavna from ICICI Securities. Please go ahead.

Sriram Rathi: Sriram here. Firstly, is on the gross margin, the sequential improvement which we have seen. Is it largely because of business mix or there is something more to that?

Arun Kumar: Mainly to do with our regulated market growth and opex leverage around that

Sriram Rathi: Okay. Since we believe probably going forward also regulated market contribution will remain high, so we can expect this to sustain?

Arun Kumar: This would be the target for the company, yes.

Sriram Rathi: Okay, great, Sir, secondly, on Stelis, particularly, I mean, the $40 million additional investment which has been approved, how much has been done already in this quarter, the first half of FY2020?

Badree Komandur: About Rs. 40 Crores, about $6 million to $7 million.

Sriram Rathi: Okay. Sir, I mean, since we are entering again into sterile injectables, I mean, apart from this investment, will we require any further investments for the capacity of plant?

Arun Kumar: Not for the first stage of growth. No.

Sriram Rathi: Okay. And Sir, on the R&D side, like Rs. 25 Crores for the last two quarters per quarter is happening, which is lower than the previous year figures and now since you are entering into injectables also, so what kind of increase can happen on the R&D going forward?

Arun Kumar: There will be no increase in the R&D. We are done with our orals play for the U.S. and the shift is to injectables.

Sriram Rathi: Perfect. Got it. Thank you so much. I will be back in queue if I have more questions.

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

Alankar Garude: Thanks for the opportunity. Wish everyone a very Happy Diwali. Sir, first question from my side on Ranitidine, do you believe that the U.S. FDA has definitely ascertained that the LC-MS test is

the most appropriate one for determining the amount of NDMA? Has there been any communication received from the U.S. FDA regarding the timelines? You mentioned two weeks in your opening remarks. So has it something which has been communicated by the U.S. FDA to the companies?

Arun Kumar: We have in our presentation for everybody's benefit a complete section on Ranitidine and it will be a very useful document for everybody to refer so that we can address this once for all. The test method that has been recommended by the U.S. FDA is the most appropriate test method. Not many companies have access to this very complicated machine, which is the LC-HRMS machine; a) it is very expensive; two, there are only two or three equipment in India and so the FDA has further come up with a new method LC-MS method. The only regulatory agency until now that has come up with the NDMA accessible limits is Australia and in their press release and on their website they have also confirmed that the most appropriate method is the LC-HRMS method, and they have followed that method when they tested all the samples. And as we have mentioned in our press release, it is only the Strides' products that have passed the acceptable limits for the Australian authorities. We do not know what the U.S. FDA limits would be, but based on previous experience of Sartans which had similar impurities, we presume that the European limits or the TGA limits may be the appropriate limits. So we are awaiting news. Specifically, to answer your question in terms of timing, the FDA has given time till the end of this month for all companies to provide data and obviously, because of these equipment shortages they have come up with a new method and we expect they would have given couple more days for other companies to provide more data. We have submitted all the requested data. Now it is almost a week. We have submitted all the relevant data for FDA to make informed decision and that I think the FDA is also testing our product and the sample. So we are awaiting information. At this stage, we believe it will be fair to assume a two-week period.

Alankar Garude: Thank you so much for the comprehensive answer. Just a quick follow-up on that how big is the Ranitidine market in U.S. and Australia put together?

Arun Kumar: Well, you see, Ranitidine is predominantly an OTC product because the prescription business in the U.S. and Australia maybe approximately $100 million to $150 million at current pricing. But the OTC market runs to $300 million to $400 million in the regulated markets. We do not operate the OTC business although we have all the OTC approvals. We do not sell OTCs in the U.S. as yet.

Alankar Garude: Understood. My second question, Arun, is regarding our U.S. guidance. So in the media interview today, you mentioned about $220 million to $240 million for FY2020. Did I get it correctly, $220 million to $240 million?

Arun Kumar: Well, I think there seems to be some kind of makeup on the math. When we spoke about $53 million in Q4, there was approximately $3 million of seasonal drugs, which is also mentioned. We said that it is fair to assume a 20% growth to a specific question I was asked. If you ask me, we are

on track. With Ranitidine, we will get there. Without Ranitidine, we will get there on the gross margins.

Alankar Garude: Understood. Again, on this, does it include any of the 2 CGT products? And what is the status of CGT?

Arun Kumar: Well, we are on track for one of the CGTs, not yet on track for the other CGT because we will complete some additional work only in a couple of weeks. We still think that we will be the only company on that product. So we are on track for one CGT probably in Q4.

Alankar Garude: Understood. So basically, your guidance for FY2020, $220 million to $240 million includes one quarter sales of one of the CGT products?

Arun Kumar: Not necessarily. You should assume, even if you do not get the CGT, we have been introducing one or two products, Alankar, every quarter. We have a very measured way of getting to this market, and we are getting there. What I am saying is that, do not focus on the topline, focus on the gross margin expansion which is coming from the U.S. market by product selection and larger market share. So we will be in that range comfortably from a gross margin 100%, from a revenue, assuming Ranitidine is there, we would probably come on top of that number. Otherwise, we should assume $220 million as the number, but if you have done your math, I am sure which you have, and then you please assume the gross margin of $240 million even at $220 million of revenues.

Moderator: I would request Mr. Garude to come back in queue for follow-up questions. The next question is from the line of Kunal Randeria from Antique Stockbroking.

Kunal Randeria: Good afternoon. Arun, just on the clarification on Ranitidine so assuming Strides' product is cleared by the FDA, so does the marketing strategy change? Do we continue to supply products to partner at a pre-agreed, not predetermined price? Or if there's a new pricing, do you supply at higher prices or stop supplying altogether? Do you have that option also?

Arun Kumar: All of the above. A) we sell directly and we also sell with a partner. But obviously, the opportunity is for us to decide what we want to do. At this stage, our focus is to get the FDA cleared and us being completely aligned on what is required. In terms of what we think that the agencies will come up, most of the API manufacturers will have to increase prices for a reduced capacity for the additional work they may have to do, so all of these will play a role. But overall, if Ranitidine comes back, it will be a good product for us, I would like to believe.

Kunal Randeria: Right. And our acquisition cost for the API will also go up, I believe?

Arun Kumar: Yes, but APIs if our reported gross margins are 58%, then the API cost is only 42%, even assuming Ranitidine, so yes, it will go up, but typically it is normal for you to pass on the price.

Kunal Randeria: Sure, sure. On Tacrolimus, what has changed? Because I believe there's been a sharp ramp up in volume in the last couple of months and, I believe, there's some price hike also taken?

Arun Kumar: We were not selling Tacrolimus until about three to four quarters. We had this product approved for 5 years. We did not take any price increase. It is just that we sold it at the right price.

Kunal Randeria: Okay. But even in the volume, there's been a sharp uptick. And I think one of your competitors is, I think, losing some market and Strides is gaining, is my understanding correct?

Arun Kumar: A competitor will not lose market share if we increase price, so that is really not the case. It is very counter I mean, your argument just does not add up, right? So basically, Tacrolimus is very hard for us to make. Two, there is currently shortage of both the API and the ability of companies to make this product. When the ANDAs are withdrawn, that is when we say that opportunities arise. We are in a good position. We have got a very measured market share. We do not have a significant market share, contrary to what you say. We have about 20% of the Tacrolimus market of only on one strength and not in all of the strengths. Yes, it is been a good product for us but there is several other products. If you dig deep, you will find products which are even better than Tacrolimus that have emerged in the last two to three quarters, and that is what is driving our front-end sales from $10 million to what it is today at $40 million. And that is why we do not partner new products with anybody.

Kunal Randeria: Right. And lastly, on other regulated markets, if you could shed some light on what is driving the growth? Is there any particular geography or have there been spate of launches?

Arun Kumar: I mean, a lot of you, including you, Kunal, had challenges or questions when we took up Australia where you all assumed that good free cash flow business was taken off. But what it did for us is that apart from us regaining the supply contract, we got access to a little over 140 dossiers which were fungible to several markets because as you know Australia has mutual recognition program. So that is very marginal work. We are now filing and getting approvals of significant new products in EU and in the U.K. Thanks to Brexit, there are supply disruptions in Europe, in U.K. especially and we are benefiting by being one of the few compliant players with serialization, with local QP, local releases. So yes, we see momentum both in growth and mainly organic growth, so all our inorganic growth like Canada or South Africa are not adding even $1 of profits. But we are now finding products from our portfolio and in the next two years, you will see this business getting even more significant, even more bigger and more important size. Yes, this is an important part of the Strides' strategy playing out in Continental Europe and U.K.

Moderator: I would request Mr. Randeria to come back in queue for follow-up questions. 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 Stelis, I mean, what role do you see this business really playing for us when you take a slightly more long-term view of the business?

Arun Kumar: So if you go to the Stelis deck, we have designed kind of a value chain document there for all of it to play out. So what we are saying is next year, the focus will be on operations breakeven, mainly coming from drug product CDMO. So we have a biological and nonbiological CDMO activity. The biological CDMO is currently getting very busy with marquee customers because there is a shortage of capacities both in drug substance and drug product, especially in microbial and not mammalian. So we are very focused on microbial capacities. We have very unique automation and if you take a virtual tour of the plant, you will see that in capabilities in prefilled syringes, pens, cartridges and vials and freeze-drying and then we have also the mammalian capabilities through isolation. So it is a very high-tech plant which can make biologicals and parenterals together. So we do have some CDMO customers. Then we will, obviously, superimpose the injectables business. That is our Ajila version 2, if I may call it for now until we have a name for it.

Then following biologicals, our first product filing is in May 2020. We have just got Phase III label from the European authorities. We expect approval of that product in about a year from then and we are triggering inspections of the facility here. Of course, the most important part of our strategy is our insulin platform technology where we do not use fermentation technologies, but we use a very unique manufacturing process which requires only 7 to 8 steps, and we produce a batch in 7 days compared to 30 days of all other manufacturers. So we acquired these assets three years ago, and we have really built on it. We have just got a very important grant from the Government of India to fund our study. So there is a lot of activity going on. So we do CDMO services. We expect to announce our first client in the next two quarters. Our CDMO biological businesses have already commenced. We cannot communicate customer names because of confidentialities. And then our own product in the microbial space which we will be filing in May 2020. We just got the EU slot for them to accept the files. So yes, there are quite a few exciting things happening there and we have completed the high capex long gestation phase. And it is a perfect time for us to get back into injectables, as you know our non-compete ends in December. We have got a waiver for certain markets already. So we are operational in a few markets and by December, we will be full-blown in several markets. So yes, we are excited about rebuilding this business. From what we see, we have not seen a player who has got to our size when we sold six years ago. So we think there is enough opportunity for a player like us to come back to this market with what we have built in the last decade or so.

Nitin Agarwal: Then Arun on the injectable bid, so the intent would be to recreate Ajila all over again or do you see a different play injectable this time around?

Arun Kumar: It will use the same philosophies that we adopted in Ajila, but it will not be a large basket player. It is more to do with some amount of delivery technologies. We are focusing on cold chain management, freeze-drying, and stuff like that. And prefilled syringes ready-to-use, some more patient support and nursing facilitation. And we are doing in-licensing of technologies. We are doing suspension injections, all of those works. So yes, you will see some exciting filings within the next 12 months.

Nitin Agarwal: Thank you.

Moderator: Thank you. The next question is from the line of Shashank Krishnakumar from JM Financial. Please go ahead.

Anmol Ganjoo: This is Anmol Ganjoo. Congratulations for great set of numbers. I had a couple of questions. One is that, obviously, the performance has been well-rounded and the U.S. is firing multiple cylinders. But even sequentially, we have seen around 400 basis points plus gross margin jump. Anything specifically would you want to call out for the quarter, which we probably should be aware of?

Arun Kumar: One is, when you have a front-end operation, there is a fixed cost for whatever we do, right. So once it cross certain threshold level, obviously gross margin flows into EBITDA. So that is one margin expansion. Second, especially the other reg markets have played a big role here. U.K. and Europe are really firing a lot better than the U.S., I mean, in terms of growth although it is from a lower base. U.S. has been very, very good for us in the sense, I am repeating this again and I do not get much support here, but nonetheless, this is our 8th straight quarter where there is a gross margin increase quarter-on-quarter. That is simply because we are disrupting the market on what we call niches. So we select products which are very small and we focus on margin expansion. If you look at our portfolio, 5, 6 out of 10 products, you do not have more than 3 or 4 players. Our business is further magnified by the lack of Indian competition. It helps. These are nice complex products, soft gelatins. We are the only serious prescription only soft gelatin players globally now. We are annualizing closer to $100 million business in soft gels. There is more to come as we launch our private label. So there is plenty of stuff that is happening. And we obviously are benefiting from opex leverage because whatever numbers you do in markets like U.S. or U.K., you do not need foot soldiers to increase your sales. It is more than the back-end for customer advocacy and technology takes care of that. So yes, we are seeing the benefit of having hit critical size in a few markets. So even if you do not see sequential growth Q-on-Q in the U.S., our gross margins even in the U.S., has grown significantly. One, obviously, one of your peers mentioned about Tacrolimus, yes, it is a very important product. It has never been a product that we have increased pricing. We have launched the product at the right price and we stood invested at that price. And currently being the only player or supplier with that product, we obviously are benefiting from that opportunity. But even larger products that we operate as in ibuprofen or buspirone and these products, we continue to gain market share. So overall, all of this is playing. And if you adjust for the gross margins for the institutional and emerging markets, I am actually pleased to report that our regulated markets now actually operate in the near 60s. So that is something that we are focused on, not necessarily top line growth. I think we have some more opportunities there in terms of margin improvements, and you will see that playing out.

Anmol Ganjoo: Great. That is helpful. My second question is regarding your comment that you are not going to see any increase in R&D given that most of the work has already been done. But if you probably look at couple of years out and also to now support $225 million to $240 million kind of a run rate in the U.S., so we would love to hear your thoughts on what the growth drivers are? I mean, this

$225 million looks like having been established and we are done for that, But if you have to look at the business two, three years out, how should we be thinking about it?

Arun Kumar: Yes, so I think we have had conversations around this, Anmol. Basically, we think this small product strategy has got its limitation of size and currently, we only commercialize about 30, 35 products in that range. For the orals format, we have either filed or completed development and/or will file before the end of this year, closer to 110, 115 products. So there is a plenty of momentum for us to get to a reasonable size without compromising the philosophy of margin expansion. Injectables, as we know, because there are no clinical studies attached to most injectables, our cost of development are probably half of a standard oral dosage form. So we can actually half our R&D spend and have the same number or double the number of ANDA I mean, add the same number of ANDAs that we would have every year. So the injectable business will be a nice overplay on our base orals business. So we will be able to continue growing this business. But what I am trying to say is that unless we get into a different domain like we have in injectables, we will struggle to grow this business at rapid pace in the base business, and that is why we diversify our model across other markets. And we are not chasing top line. We are very happy. We will be very contented with $350 million, $400 million, $500 million U.S. market as long as it delivers the kind of numbers it currently delivers for us. And then the injectable business will playout and that will add up to getting us to an important size in the U.S. market more from a profitability standpoint and less on growth. I mean, I will just flip immediately to another point, which I did not use in my opening statement, just for your benefit, we started off this reset at ROCE of 7% and in this quarter we are at around 16%. And our focus now is all about ROCE and cash flow and all that stuff. It is a very different reset model in our version that with all the headwinds that the regulated markets that we operate in, I mean, we come across, then you have to change your models and that is what we have done. And I think it is playing out well. But like you said, it has its limitations, but I think there is enough growth opportunities here for the next three to four years.

Moderator: I would request the current participant to come back in queue for follow-up question. The next question is from the line of Mehul Sheth from Axis Capital. Please go ahead.

Mehul Sheth: Congratulations for a good set of number and wish you all a very Happy Diwali. Sir, can you throw some light on your anti-malarial business during the quarter and outlook for the same?

Arun Kumar: Thanks, Mehul, and wish you also a Happy Diwali to you and your family. The anti-malarial business, we do not split numbers on our institutional business between anti-malarials and ARVs. We have approximately 18% to 20% of the malarial total donor market. We continue to maintain that share.

Mehul Sheth: One more question. Like, sequentially, if we see the U.S. sales has remained kind of flat only, like from $56 million to $57 million, but the gross margin has improved significantly from 54% earlier to almost like a 58%. So can you give some more details related to gross margin expansion?

Arun Kumar: I think to be fair, Mehul, you should appreciate that I have already addressed this question to several of your other colleagues, and I am more than happy for one of my colleagues at my office to take you through exactly what I said to. I think either you joined late or you probably missed what I said. So it will be unfair on all the other participants for me to repeat what I said. So why do not you just link up with Abhishek or Sandeep and will take you through that again.

Mehul Sheth: Sure. Sir, one last question on tax rate. So it is almost like a 9% now. So can you guide for the full year then?

Arun Kumar: Badree is going to answer this question.

Badree Komandur: Yes. So traditionally, we have said that the tax rates will range around 10% to 12%. So we continue to believe that it will be within that range.

Mehul Sheth: Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of C. Srihari from PCS Securities. Please go ahead.

C Srihari: Thanks for the opportunity. My question is pertained to the U.S. market. Firstly, if you could please outline the growth of the base business, and you had mentioned somewhere that of the 70-odd approvals, you have launched only 35, you are marketing only 35. So when will the remainder get launched? Finally, on the injectables piece that you mentioned 10-odd filings, if you could give some color, has it got the addressable market size and the competitive scenario? Thank you.

Arun Kumar: Well, your first question, I have to be honest, I did not understand when you said your base business. What were you specifically asking?

C Srihari: Base businesses.

Arun Kumar: No, I know that. The second question was when the 35 will be launched, but the first question was base business growth. I did not understand that.

C Srihari: The older products. How are the older products panning?

Arun Kumar: So like I said, we have only launched Cinacalcet additionally this quarter, and we did not do Ranitidine for about a week or two weeks in terms of sales. So the base business is doing very well. Your second question was on launch. I explained this earlier that we launch a product only when we get an opportunity in terms of establishing a certain gross margin and profitability that we want in the U.S. business. Typically, we get those opportunities of one or two products every quarter. So we are in absolutely no hurry to launch these products. We can launch all of these products and incrementally increase our revenues, but that comes at several other costs in terms of challenges in supply chain and manufacturing capacities and all of that. So we have a very guarded approach to launch, and we will continue to stay invested in every product that we have approved because we

know there is value. It is just a question of timing. Injectables, the addressable market that in Phase I, we have about 30 products over the next two years, 2.5 years of filing because our first exhibit batches will start in January is approximately $3.5 billion.

C Srihari: Okay. So as a result of 35 products, would it be fair to presume that somewhere northwards of 5 products will get launched every year?

Arun Kumar: Our filings as I have explained in the deck, our filings for injectables will start in Q3 of next financial year.

C Srihari: No, I mean to say, the 35 products which are yet to be launched. So would it be right to presume that 5 or 5-plus products will get launched every year?

Arun Kumar: No, your presumption will be wrong. I said that we will launch a product when we see the opportunity is right from revenues, growth, profitability and cash flow.

C Srihari: So it is likely to be lumpy?

Arun Kumar: Well, if you say the growth is lumpy, if your understanding of lumpiness is what it is, then yes, it is lumpy because as I have seen it is that it is been steady for the last 3 quarters. But if you think that is lumpy, then that is lumpy.

C Srihari: I mean to say maybe in a year, you would have 5 launches and then another year 10 launches that kind of a breakup?

Arun Kumar: You asked for a quarter, but on an annual basis, that will be a fair assumption.

C Srihari: Yes, I meant annually, yes, correct.

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

Tushar Manudhane: Congrats on a good set of numbers, and Happy Diwali to the team. Just would like to understand in terms of the pecking order qualitatively, the gross margins into different geographies, say U.S., U.K., EU?

Arun Kumar: Tushar, you know us well, we would give you that data.

Tushar Manudhane: Not quantitively, but qualitatively if you would like to highlight?

Arun Kumar: I think all the regulated markets for us now give a certain gross margin which is within that band where we are comfortable.

Tushar Manudhane: More or less are at a similar gross margins and secondly, with respect to the shortage of API for Tacrolimus, if you would like to highlight particular reason for this? Is it like regulatory or any other reason?

Arun Kumar: I think there are two things. One is, there are not many manufacturers of the Tacrolimus and API. Two, manufacturing Tacrolimus as a finished dosage form is very hard. So you make an API, but you may not be able to make the finished dosage form. So it is a combination although you would see that there may be about seven or 10 ANDAs approved for Tacrolimus, you would see only two or three active players in the market since more than two years.

Tushar Manudhane: And we outsource the APIs that is it?

Arun Kumar: Yes, absolutely. We do not make this.

Tushar Manudhane: Thanks a lot.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Swan Investment. Please go ahead.

Sachin Kasera: Congrats, Sir, for great set of numbers and Seasons Greetings to everybody. Sir, can you just update on the China JV? What is the progress there?

Arun Kumar: Chinese JV has been announced. We have created all the necessary infrastructure. Work is ongoing in terms of due diligence of the dossiers. It is very early days. And we have to do, as you know, probably you know that in China, although you have an FDA approval, you get a fast track process, but there is a lot of localized work that needs to be done including incremental clinical studies and all of that. So it is all work in progress. We indicated earlier when we announced this JV that we do not see any revenues for at least three years, and there is no change in that.

Sachin Kasera: Sure. Sir, secondly, on the Singapore plant, if you could give us some sense on how the ramp-up is happening and when do you expect to reach breakeven at the Singapore plant?

Arun Kumar: Well, yes, the Singapore plant, we still have an under-recovery of now probably not Rs. 25 Crores a quarter, but maybe about Rs. 15-odd Crores. So it has come down a bit. We expect it to be breaking even before the end of this financial year, but a lot of it also depends upon Ranitidine because we are currently the only suppliers of Ranitidine to the U.S. government procurement programs, and that has to be made in Singapore for qualification purposes. So I would rather give you another update on Singapore specifically when we have an update on Ranitidine. So if Ranitidine does not come through the under recovery, still it is about Rs. 15 Crores per quarter. So otherwise, our EBITDA would have been higher by that because we do not capitalize that cost. But otherwise, we hope by the end, I mean, at least about two or three quarters, we should be all right.

Sachin Kasera: So that should support EBITDA expansion from Q3, Q4 if this Ranitidine starts from Singapore?

Arun Kumar: That is right.

Sachin Kasera: Sir, the next question is regarding the return ratio. You mentioned that your focus is now laser focused on the return ratios and you have improved significantly to 16%. Going ahead, what is the type of improvement we can see further? And even on the Stelis investment, what is the type of return we could look over a period of four to five years?

Arun Kumar: Yes, it is important that you understand that our ratios that we are mentioning is on our base business, which is ex-Stelis and ex-CHC business. Our consumer health business will breakeven by design only by end of next financial year. It is growing well, but it will breakeven only then because we are heavily invested in our SG&A there. Stelis is a high capex long gestation business. Typically, an injectable business takes six to seven years to make money. We are about five years of investment phase behind us. So I think two years from now, that part of the business will make money. But the base business is what I am referring to has moved from seven to 16, and we think there is opportunity for us to expand that a little bit more, which we hope to. But the new growth businesses that is mainly under-recovery of Singapore quickly getting started our West Palm Beach facility in the U.S., course correcting our emerging market strategy, those are our key priorities which will lead to improved ROCs.

Sachin Kasera: Just one last question on the debt front. This quarter you mentioned in the presentation that because of other investments, it has moved up quarter-on-quarter. How do we see it in the second half of the year? It will stabilize or we see further increase in second half?

Badree Komandur: So the debt we have for guidance that it will be within the range of Rs. 1,000 Crores to Rs. 1,200 Crores. So we expect to be in that range.

Sachin Kasera: Sir, if you could just update on the consumer business, how is that doing?

Arun Kumar: The consumer business is doing exceedingly well in terms of revenue growth, but it is in the phase of investment, which effectively means that we are operating consumer health business both in U.S. and India, both online and offline and while it is growing, we indicated when we called out that business we will lose close to $20 million before we breakeven, and that is why we got a private equity to invest with us for a minority shareholding. It is going on track. And I think by the end of the next financial year, you will see that business getting to a good size, but it is tracking very well. Portfolio is doing exceedingly well, especially in the U.S.

Moderator: Thank you. I would request Mr. Kasera to come back in queue for follow-up questions. The next question is from the line of Aditya Khemka from DSP. Please go ahead.

Aditya Khemka: Happy Diwali to everyone at Strides. So I have two questions. First, to begin with the Arrotex supply agreement. Could you just refresh our memories on what is the tenure of the agreement? Is there a call or put option with either of the parties in terms of ramping up the agreement even before the tenure ends? Thirdly, if the customer, Arrotex, has the option of switching suppliers even before the tenure ends in case it is for the pricing?

Arun Kumar: Aditya, Happy New Year to you and everybody at the DSP family. As I said, Australian contracts and we have a 10-year supply. It is mutually exclusive. There are functions where price renegotiation can happen in both ends like in a typical supply contract. But that allows us leverage to offer product to third party, which is not in the interest of Arrotex, and that business is doing well. So the Arrotex volumes will flow through next year fully. So that will be other filler for our other regulated markets. But yes, otherwise, it is a good document where we have access to IP exclusivity, mutual exclusivity. We have first choice to refuse any price, and if we do not take a price, we got freedom to sell it to any competitor of Arrotex.

Aditya Khemka: Do they have a call option on whether they can wrap up the agreement and try to take the entire production into their house before the tenure expires?

Arun Kumar: First of all, it is a virtual company. They have no manufacturing capabilities and answering your specific question… I said they do not have that.

Aditya Khemka: Yes, all right. I got that. Lastly, on the minority interest expense that you report so is my understanding correct that, that minority interest expense is largely the consumer business and Stelis or is Stelis reported above EBITDA?

Arun Kumar: Minority interest is largely represented by universal corporation. Stelis and consumer business is reported as long term investment in the balance sheet

Aditya Khemka: Stelis and consumer health. All right. Thank you.

Moderator: Thank you. We will take one last question from the line of Hari Belawat from Techfin Consultants. Please go ahead.

Hari Belawat: Congratulations for the best of the results, which has been shown during this quarter. Now Sir, this is regarding the finance cost, in the consolidated statement, this quarter's financing cost is Rs. 40 Crores. In past quarter, it was Rs. 35 Crores, and even earlier to that Y-o-Y was very less. What is the reason? Is it because of the lease liability adjustments or what is the reason for that?

Badree Komandur: The finance cost is Rs. 30 Crores. You have to adjust the interest income which is accounted in a different line. So if you really see from the last quarter to the current quarter, there is an increase of about Rs. 1.8 Crores or something. So it has moved from 28 to 30. So you have to see both the

lines and of course, the lease disclosures are there specifically in the notes, so that factors in all the adjustments what we have.

Hari Belawat: One more question related, with Ranitidine, certain restrictions are there from U.S. FDA and other things because of their observation. Is it affecting our India business also? I mean, total Ranitidine business of the company, is it affected because of these observations?

Arun Kumar: We do not sell anything in India, first of all. We are 100% export-oriented unit. Second, even from this plant in Puducherry, we continue to export products to the U.S.

Hari Belawat: Thank you.

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

Arun Kumar: Thank you, everybody. Really, it was pleasure talking to all of you, and I take this opportunity to wish you and your families a great Diwali and a Happy New Year. Thank you.

Badree Komandur: Thank you.

Moderator: Thank you. On behalf of Strides Pharma Science Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.