"Strides Pharma Science Limited
Q2 FY23 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Strides Pharma Science Limited Q2 FY23 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 call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand over the conference to Mr. Abhishek. Thank you and over to you, sir.

Abhishek Singhal: A very good evening and thank you for joining us today for Strides Earnings Call for the second quarter and half year ended financial year 2023. Today we have with us, Arun - Founder, Executive Chairperson and Managing Director; Badree - Executive Director of Finance and Group CFO, 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 as well as stock exchange website. The transcript of this call will be available in a week's time on our company's website.

Please note that today's discussion may be forward-looking in nature, and must be viewed in relation to 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 will now hand over the call to Arun to make his opening comments.

Arun Kumar: Thank you, Abhishek, and good evening to everybody. First of all, apologies for the slight delay in the start of this call, it looks like there were too many investor presentations today, so appreciate the patience.

Overall, it has been a significant improvement from where we were a couple of quarters as far as Strides is concerned, and I am very delighted to report after 4 or 5 quarters where the business has returned to positive-adjusted PAT. With clear focus on gross margin expansions, cost containment, and also exiting several business lines that do not make operating sense either that doesn't focus on growth, profits or on cash flows. All of this has led to a healthy margin return for the company.

We are happy that we are heading towards historic highs of gross margins closer to the 60%, and we are in line to meet all our previously committed outcomes in terms of our US business, considering that we have reported our best-ever quarter since inception or since inception of our US business. This has obviously led to margin expansions. We have been very focused on exiting lines of commodities that do not make any sense for us long term over the price pressures. We have also improved market shares of our existing niche portfolio, getting back to market shares that we lost over the last several quarters and we have significantly improved our supply chain situations consequently, our freight and logistics costs have dropped dramatically, considering that we have now bought our supplies back to normalcy.

With this and significant new wins, we are very confident of achieving an exit run rate of $250 odd million with regards to our US business. We are also very confident of now meeting our EBITDA to debt ratio to be under 3. We were hoping that we would announce the receipt of our consideration that is due from Arrotex. I just wanted to give some context here. The money is due by 31st of December. We worked hard with the Arrow Australia management to see if we could bring this forward and of course, this involved cross-border partnership because Arrotex is also owned by Apotex and those of you who know, Apotex is preoccupied these days with the sale of its business to SK Capital, which was announced a couple of weeks ago. We are now very confident that all the necessary paperwork and Board resolutions at the Arrotex side is very close to completing and therefore, we are now very sure of receiving our consideration ahead of our contractual due date.

We hope to give the investors an update very shortly. I hope it is not going to take too long, but again, I can reassure the investors that there are no contingencies surrounding this payment and we are, there are 2 parts to it. The first part, which is the $94 odd million will arrive towards pre-contractual dates and then the $12 million, which is subject to certain other conditions. We are working on that, but again, no risk to either and we will keep you all posted.

Coming to business and specifics, the US business, as I explained, has now hit a $60 million run rate. We do benefit due to some seasonality, so we will see some improved uptake in the following quarters, but having said that, significant market share on existing products and new product launches and the integration of the Chestnut Ridge portfolio is helping us add to our revenues and margins.

And in the other reg markets, you would see this quarter an unusual dip in revenues, and this is a oneoff situation because we have taken several decisions in our other regulated markets to move away from B2C to B2B, especially markets like Germany and other markets. So, you will see this more an accounting flip for the quarter. I can also guide the market that as early as Q3, as in this quarter, we will get back to our historical numbers as far as our other reg markets. So, that Rs. 60 crores to Rs. 70 crores reduction in revenues, the Rs. 600 million reduction in revenues is a oneoff and you will see an improved climb back of revenues, but also an improved gross margin from that business.

So, our focus of staying invested in P&Ls that are accretive. The EPS is playing through. In the last 6 odd months, we have improved our network optimization and under recovery significantly. Our OPEX has reduced. We now have $25million to $30 million OPEX reduction completed. We have seen most of it in terms of the costs incurred, announced including the last big one in the US, where we have to follow in local regulations, issued very recently a warn notice to reduce headcount in the US, and that will lead to a further reduction of $11 million and end the year with $25 million reduction in costs across the P&L, which is a great outcome considering that we have achieved a lot of this at short notice. And given our guidance on debt to EBITDA, we also have a little more granularity on our debt book and Badree will spend some time explaining that. I just wanted to add some color around it.

Strides currently has a very significant inventory pickup, especially for the US and UK operations, as business comes back to normalcy. So, we also had very significant inventories due to our depressed sales during COVID. So, as we are building the business, we are also reducing our inventory levels which will lead to improved cash flows in H2. We are very confident of meeting our guided debt reduction of Rs. 1,000 crores, most of it as you will appreciate, occurs in H2 as we had previously informed.

You would see a slight elevation in our debt book of around Rs. 200 crores, which is predominantly because of an exchange rate reset. So, while we have grown the business with improved outcomes, we haven't increased our debt, but also very important on the debt book is that our long-term debt is very small compared to businesses of our size, more of our debt is associated to the long working capital cycle terms that are required to operate in the US, which is over 200 days as an industry norm. We still believe that we have a slightly elevated working capital usage today, but as we normalize in H2, we will see this also coming down and we are very confident of bringing down our net to EBITDA down to 3 based on a very strong order book in H2.

The business obviously is muted is the Institutional Business. For those of you who follow this business, this business is typically contracted for 2 or 3 years at a time. The large global fund contracts at the last award has been completed in H1, so we had a very strong H1 with a weaker Q2, a very strong Q1, as you would notice, that the new contracts are not yet awarded to any companies, and we don't expect this to fall in place until Q4. So, the institutional business will see a significant softness, but the rest of the business will make up for that. As we all know that it helps us in recovery of our manufacturing cost, but it doesn't add too much to our gross margins, so it is not unfavorable, but I just wanted to guide that the Institutional Business will be soft, although it will not be material in terms of EPS accretion.

As regards to the other parts of the business, of course, we can take questions and I have covered a little bit as Badree pointing out to me that I have covered a lot in terms of also on the debt page and considering that we started a little late, I think we should open up the house for questions and if we aren't able to address all the questions, please don't hesitate to contact us at any time, and we will be more than happy to explain.

But before I do that, I just wanted to give a little more color around Stelis. So, firstly, as far as Stelis is concerned, we continue to engage before we get into any arbitration or litigation with our partners in Russia to see how we can find solutions around the stock of Sputnik that we still hold, but having said that, promoters have committed to infuse along with our lead partners, TPG, an additional Rs. 500 crores into Stelis to ensure that we meet all our obligations. Consequently, between Strides and Stelis, between Rs. 1,300 crores to Rs. 1,500 crores of debt will be reduced in the group.

And while you will also see that the CDMO business numbers reported are not so strong, that is because we have a revenue recognition model which is purely based on work done, but we continue to add customers. We continue to get advances. Onboarding customers take time in this business. From an award to an actual contract, I think it can go as long as 8 to 9 months, but we are very encouraged with the prospects and the new customers that we are onboarding. We have had 3 significant regulatory inspections, including 2 from the FDA and 1 from the European authorities. We have already completed and received the EIR for the first FDA audit and we are already EU-approved, but most pleasing, of course, is to announce that on Friday, we received our first in-house development of our first biologic product for the European market.

A lot of our 20-odd contracts that we have signed for recombinant PTH across the world was based on our EU approval. This is a niche product. It is not a massive product, but this is an important product with 60% plus EBITDA business, which we think, post the approval recommendation, the national registrations across countries will take in the next 5 to 6 months. So, starting from H2, we can see some good uptake in those numbers. Other programs continue, but as we said, we are not investing in any new products and Stelis will end up becoming a pure-play CDMO business where we have already invested $250 million.

We explained that we would breakeven only in the next 18 odd months. Our focus now in Stelis is to reduce our operating losses, improve the debt book and acquire more and more customers. We are on track to achieve all of that and of course, we hope that in the next quarter and during the course of this quarter, we find a solution either way for Sputnik. It is a take-or-pay contract, so there are obligations around it. We will do everything that is required to protect those rights and benefits that we are supposed to have on that contract. Of course, the geopolitical situation doesn't help the process, but having said that, we will continue to find solutions and our strategic process of finding a strategic partner for us to support the growth of Stelis is ongoing. It is very early to tell you how that process is going in terms of timing, but I think for the next quarter update, we will have better color on solutions on Stelis.

We think we have all the solutions to meet all our debt obligations without any recourse to Strides, which is very important for us as a company, but at the same time, we are doing everything now to focus, to ensure our biopharmaceutical CDMO business, turns around quickly and rapidly, like we have done in the case of Strides.

So, that is another overview on Stelis and with that, I will be happy to answer any questions that you all may have.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We take the first question from the line of Mr. Vinay Bafna from ICICI Securities. Please go ahead, sir.

Vinay Bafna: Congratulations on the set of results. Just a few questions, firstly, on the US side, so you explained how the end portfolio has started contributing and the run rate which you are hitting 50 million to sustain for the next couple of quarters. On the presentation, what I understood is that roughly about 65 products of the portfolio have been launched and over 20 products are pending approval and I think we have roughly about 260 which are approved, so out of the pending basket, could you just explain what the kind of products which you believe are sustainable in terms of viable, in terms of financial aspects? And probably which you might not launch if you could give some qualitative aspect to it? That will be helpful.

Arun Kumar: Yes, sure. So, Vinay, what we have effectively done as part of our strategic overview and turnaround strategy of the company is to go back what we do well, which is to do products which have got some level of difficulty, very few players, small molecules, and we effectively exited all the commodity products. So, we don't do any large volume products where we are not fully integrated or we have control on integration. Out of the 200 plus products that are still not being launched, but approved, there's a lot of work that is happening, while some of these products, especially from Endo portfolio are old, we are reworking them for robustness to ensure that we get the right quality to source change because these are older files. We believe that an additional 80 to 100 products in the unlaunched or the relaunched products will meet that criteria of gross margin and EBITDA that the company is known for pre-COVID, which is gross margin is about 60% and the EBITDA in the 22% to 23% range. So, that is what we are looking at. So, we have products for the next 3 years in hand and therefore, you will see that our spend in R&D is more towards portfolio maximization to other territories and other regions as we build out new regions in the APAC region or Latin America, where we shied away and also building the emerging market play using US and India portfolio. So, we now have over 300 products with BE studies, but some work has to be done to ensure that they are competitive, they are robust, and we also need to find the right manufacturing house or network, so that we are competitive for the market that we operate. So, I think about 20 launches per year would be ideal, including new product launches, but products that would qualify to answer your question specifically would be at least 80 to 100 products.

Vinay Bafna: And the reason why I actually asked this question is because a lot of your peers have been talking about price erosion being stubbornly high and this year keen on launching or relaunching old products, are these products have become financially viable again because of our vertical integration or is it because you think that the situation of the environment is improving?

Arun Kumar: So, if you look at the small and niche products, the average sales for Strides were only about $3 million to $5 million per product. That is the range that we do. During COVID, while everybody had their own challenges, we are now seeing lesser players in this subgroup of opportunity because either some of them have exited or it doesn't make any sense for most of them. Now, we don't see price erosion on those group of products because we may be the only player standing or we may be 1 of the 2 players standing in these products. So, we moved away from very big businesses, volumes that we did. We actually took off almost $25 million to $30 million of products that we are not adding up to this model and we introduced new products. So, as we are showing a nice uptake in business, we are not adjusting for any of the businesses we let go. So, mainly some of the existing players, older players have exited these markets either part of their discontinuation strategy because maintaining ANDAs are expensive. That has benefited us. So, I think we have some nice runways going forward. There are some very good products that are due for approvals also. So, all of this will continue momentum in gross margin, but what is very important is that with the mutual recognition process that is happening worldwide, we are taking our US portfolio to a lot of other markets and getting products approved quicker. So, that is where you will see growth also coming up because obviously we don't believe our portfolio can get to more than the $400 million to $500 million range that we have guided from the beginning. We had a slip during COVID, but we are bouncing back and getting back to that range in the near term.

Vinay Bafna: And last question for my side, so with about run way of 60 plus launches in the next 3 odd years, do we expect this quarterly run rate, $60 million to be the new base, and then gradually ramp up from these levels? And where do you envisage the public quarterly or an annual number that you could target 3-5 years down the line? And the second is that since you already know the kind of launches which you are going to do, what will be the filing rates with Strides would do in the US business from now on?

Arun Kumar: I think 60 could be the new base, gradual ramp-up from there because we will still take a few products in the 60 that do not meet our profit criteria. Our goal is to get out this financial year at a 60% GM run rate, which is a historical run rate. That is our goal. We are 57% this quarter. We are actually quite pleased with that, so $60 million run rate should be the new place holder. Your second question was a little confusing for me. So, you were saying that if we have 60 products, what it will look like? Well, I told you the average revenue per product is in the $3 million to $5 million range, but we also have products that will take off. So, that kind of, basically, what I was trying to tell you is that going back to the $400 million guided number for the US, we should have had achieved that now and then COVID hit us. So, we are now back on track towards that journey. We probably have to give us a couple of years considering that we will build out this portfolio slowly and steadily, and we will not be in any urgency to grow the US business at a pace that we won't be able to manage and retain our profit strategy.

Vinay Bafna: And just last bit on the filing rates, so how many ANDAs do you intend to file every year?

Arun Kumar: So, actually, we don't plan to file too many ANDAs because we don't need to. For us, relaunching products itself is like getting the product back to R&D, right, so if we effectively tell you that there are 20 relaunches, trust me that most of these dossiers will go through almost as much work as developing a new product. So, our new filings for the US will be sub-10, because we don't need more than that.

Moderator: Thank you, sir. We take the next question from the line of Samitinjoy Basak from Kotak Institutional Equities. Please go ahead sir.

Samitinjoy Basak: So, my question is regarding Institutional Business, so in the first half, we saw total revenues of $39 million, so how much of the softness can we expect in the second half of the fiscal? Also about the new contracts which we will start contributing from the next year, first quarter, what kind of contracts are you talking about? And how much of an incremental contribution could they provide?

Arun Kumar: Yes. So, we have actually, if I may say, we have already completed all our institutional obligations in H1 itself. We have 0 order book because the new contracts will be awarded only in this quarter, so we do not know what is the extent of awards that we will get. What we have done is, earlier this business was extremely important for us, but we have moved a lot of our production to our Kenyan operations and all of that because there is a lot of talk about Made in Africa, for Africa. So, at this time, I don't have an answer for you because I don't have an order book. The tenders have not been awarded as yet. So, we will give you an update on the next call.

Moderator: Thank you. We take the next question from the line of Mr. Rishabh Jain, Individual Investor. Please go ahead, sir.

Rishabh Jain: My question is regarding the other regulated markets, so our other regulated market revenue saw a significant decline during the quarter, so historically, we used to do around $40 million at a quarterly run rate, so by when do we expect to get back to those levels?

Arun Kumar: Yes. So, I did tell you this in my opening statements. You probably would have missed it, Rishabh, but I will tell it for your benefit again. In our other reg markets, we made certain changes from moving from a B2C model to B2B model, especially in Germany. Consequently, we had a temporary drop for this quarter. I also mentioned that we will get back to a $40 million run rate as early as the current quarter in that vicinity. So, it is just a one-off quarter event.

Moderator: Thank you, sir. We take the next question from the line of Sarvesh Gupta, Maximal Capital. Please go ahead.

Sarvesh Gupta: Sir, I wanted some update on your balance sheet and financial cost, so I think the kind of net debt number, while the EBITDA is growing, but the overall absolute net debt number that we were chasing maybe a couple of quarters back has sort of gone up much higher along with the working capital, etc., so just wanted some color on that, because financial cost has also significantly increased in the recent quarters? And the second thing that I wanted to understand is there are sort of obligation that Strides has on its head because of Stelis, so what kind of corporate guarantees and obligations have we given? And in the existing funding round, as well as the new round of funds that we are trying to raise for Stelis, will that obligation go away?

Arun Kumar: Yes. I will answer the Stelis part and then Badree will answer your earlier question on debt. As far as Strides obligations, Strides is an equity partner in Stelis. It used to own 100% of Stelis, and as we were requiring more and more capital, we obviously got newer investors. Strides has Rs. 700 crores of corporate guarantees issued on behalf of Stelis. Stelis had, in the beginning of the year, including the Sputnik exposures, had a total exposure of around almost Rs. 1,100 crores. That will come down to under Rs. 600 crores in this financial year before March. And Strides has got corporate guarantees issued for Rs. 650crores and at no time, their has been any delays to pay those debt obligations. If the strategic process that we have currently ongoing concludes favorably, , then there will be no debt at the Stelis level. Consequently, there will be no obligations for Strides. Now even if there are these corporate guarantees, including the Stelis obligations in the next financial year, in FY24, we still believe that as a group, between Strides and Stelis, we will still be under 3x given the strong uptake of business in Strides, but also in Stelis breaking even next year from its own operations and it is in a strong position to meet this obligation. So, the Strides corporate guarantees were issued over the last 5 to 6 years and none of it has been called and we don't see any reason why there would be any challenges to meet those obligations. Stelis' shareholders are committed to ensure that it meets all these obligations on time, and we don't see any risk to Strides at all. Considering that, like I said, promoters and TPG Capital are just infusing Rs. 500 crores into Stelis to meet all those obligations, of which already Rs. 300 crores has been infused. And then I will let Badree answer the question related to your debt book.

Badree: So, on the interest cost, it stands at INR 466 million, a similar number like last quarter on the net. When you have taken this interest cost, you take the interest cost as well as interest income that is appearing in the SEBI. So, if you really see the net interest cost remains at $466 million both quarters.

Sarvesh Gupta: Yes, but there is some increase in the total pharma net debt, I think, like maybe?

Badree: Overall, the increase in the net debt is about Rs. 200 crores, Rs. 145 crores contributed by the exchange between 1st April to 30th September.

Arun Kumar: It is only a restatement because of the exchange rate fluctuations.

Sarvesh Gupta: Just once second, so for FY22, we were at Rs. 1,350 crores in terms of what we had shown as a net debt figure, and now, we are over Rs. 2,000 crores, so it is Rs. 650 crore plus change, so if you can give the breakup of this increase?

Arun Kumar: Yes, because in this debt, you are looking at Rs. 1,350 crores number there, it says that Rs. 700 crores of that is the equity investment in Stelis. So, when you add that back, it is also the same numbers.

Sarvesh Gupta: I will understand it offline.

Arun Kumar: Yes, please do that. We are more than happy to take it.

Moderator: Thank you. We take the next question from the line of Mr. VP Rajesh from Banyan Capital. Please go ahead, sir.

VP Rajesh: Most of my questions are answered, but I just wanted to make sure that I understood Stelis' debt repayment plan, so what you're saying is that we expect Rs. 500 crores to come from TPG and other investors before the end of the year, which will reduce it from Rs. 1,100 crores to Rs. 600 crores? And then what is the second leg that you were describing, which is not clear to me, as to what will bring it down to 0 next year?

Arun Kumar: So, basically, shareholders of Stelis is in the process of raising another round of capital, which is basically to ensure that there is enough growth capital for the reg till it gets into a profitable situation, because biopharmaceuticals business is a 7 to 9-year gestation period and with COVID been there, we are just about 5 years into that game. So, it is going to take us about 18 more months to be cash breakeven in the business. So, we have appointed a global banker to find a strategic partner for us for a minority interest, and that process has just commenced and if that process concludes successfully and at the right valuation, then Stelis will become debt free as part of that process.

VP Rajesh: And you expect that to be done sometime next year, right? Probably before next?

Arun Kumar: By March of ‘23, we should be able to give you an update, a more concrete update.

Moderator: Thank you, sir. We take the next question from the line of Mr. Rohit Mundra, Individual Investor. Please go ahead, sir.

Rohit Mundra: I have a couple of a few questions. So, there was a press release this morning regarding receipt of the market authorization from EMA for Kauliv, so could you please highlight the opportunity in terms of the size and how much sales are we targeting from this product? That is my first question. Second is, have you onboarded any new customers in our Stelis CDMO business during this particular quarter? And the final question is, could you please provide an update on AmbiVax?

Arun Kumar: So, PTH is an $800 million opportunity globally. Europe is about $200 odd million. We are only the second recombinant player in the market. We have now got the approval, now we have to get national approvals in each of the markets. This process can take up to 5 to 6 months. We are a B2B partner here. We don't market these biotech products ourselves. We have over 20 customers that have been signed up in Europe and other markets, so we have covered for the opportunity almost fully and we don't give specific product business opportunities, but all I can tell you is that there is a high gross margin, high EBITDA product. We do not give specific product-wise sales on this product. We did onboard 3 new customers during the quarter as far as the CDMO customers are concerned and you had the third question on AmbiVax. So, AmbiVax, we submitted all our clinicals, which we got outstanding readings on our clinicals on AmbiVax. As you know, it is a thermostable vaccine. We submitted our data to the government authorities here in India. They have, however, because it is no more an emergency, they have asked us to do some additional clinical work. We are in discussions with our partners in Boston to work through that and create the protocol. The small additional work, which may take 2 to 3 more months before we can submit that data that the agencies have requested. So, it is going on track and at this stage, considering that there is no particular emergency, there is no haste for data seeking also. So, we are seeing increased interest for products which are thermostable because COVID hasn't gone anywhere, as we all know, but at this stage, there is more work to be done.

Moderator: Thank you. We take the next question from the line of Ayushi Jain, individual investor. Please go ahead.

Ayushi Jain: I have 2 questions, firstly, on the gross margin, we have seen significant expansion during this quarter, so what are the drivers for the same? And are these margins sustainable in the coming quarters? And the second question is regarding our fixed costs, which includes employee cost and other expenses, we feel that we have been very well controlled it at 420 to 425 quarterly run rate, so is there any scope to reduce this further?

Arun Kumar: Yes, so thanks for your question. There is a little background noise, so we couldn't hear your questions well, but I guess, is the gross margin sustainable? The answer is yes. It is driven by combination of cost reduction, improved gross margin expansion, reduction in our logistics costs. We believe that this 57% is sustainable and we can grow modestly from there. Then on OPEX, there is a very significant exercise going on in the company to reduce our OPEX. A lot of the actions have been taken, but we have to follow due process in all of this and you will see that during the course of the year, we will have reduced our OPEX by at least about Rs. 150 crores over the current level, but the flow through you will see only next year as there are standard practices of serving notice, severance, so we are carrying on those costs as you see it.

Moderator: Thank you. We take the next question from the line of Piyush Sara from Yellow Jersey. Please go ahead, sir.

Piyush Sara: Sir, we have delivered double-digit EBITDA margin this quarter after almost 4 to 5 quarters, are we confident of getting to our previously indicated 21%, 22% kind of margin by FY24? And if yes, like, what would drive this margin expansion?

Arun Kumar: I just think that we have very disciplined approach of how the business is now being administered or governed and run. If we follow this for the next 2-3 quarters, yes, the answer to your question is yes. We think that we should expand margins even further from 11% even within this year for us to, even if you assume our guided debt-to-EBITDA, we need to get this number from Rs. 100 crores to Rs. 150 crores, which means that we should be more like the 15%, 16%, 17% EBITDA even in this financial year. So, we can speak until then and then probably discuss what happens to the next financial year.

Moderator: Thank you, sir. We take the next question from the line of Vibha from Citeline. Please go ahead.

Vibha: So, this is with regard to Biolexis, under which the Forsteo Biosimilar is expected to be launched. So, I just want to know, since you spoke about getting minority shareholders into Stelis, what is the logic of separating out the products business under Biolexis? Because does it not make the case a bit weaker for a higher valuation that you might be trying to get from the minority shareholder and does it step back the date for Stelis' breakeven?

Arun Kumar: No, it doesn't, because you can't be a CDMO and a product company at the same time. It is a conflict of interest.

Vibha: So, does it not affect the valuation then?

Arun Kumar: Well, there would be a valuation ascribed to Biolexis, and there is a valuation ascribed to the CDMO business.

Vibha: So, then what are the further plans for Biolexis?

Arun Kumar: Like I said, we have appointed a global banker for a strategic review, and all strategic options are on the table as part of that process. It is a little too early in the process for us to give you a guidance, and like I spoke to another investor earlier in this call, March would be a good time for us to give you an update on how that is going.

Vibha: I just have one more question, on the strategy for AmbiVax given that now there are even intranasal vaccines which are much easier to administer, even self-administer, so what is going to be a strategy for marketing this vaccine?

Arun Kumar: So, AmbiVax, once it gets approval and when it gets approval, is the world's only thermostable vaccine and it is designed for frontier markets where cold chain is a challenge and therefore, we just believe that in frontier markets like Africa or parts of Latin America, there isn't enough dollars for convenience. I mean, dollars for high-end products like nasal inhaler and other stuff. So, at this time, we are working with global NGOs, large organizations to partner with us and also working with large governments, as they believe that they need to support our kind of cause. So, we just see a marginal improvement in the delivery format in what we have and I really can't comment on how well nasal COVID vaccine is going to work or an oral vaccine is going to work. I am sure there is a lot of science behind all of that, but we are just not qualified to kind of suggest one is better than the other. I believe there is a value investing in program like AmbiVax and we are staying invested with that and let us see what comes up with the initial clinical data that is required before we take a call on putting more capital around that.

Vibha: My last question is around the Institutional Business, I believe you earlier said that you are moving some of the manufacturing to Kenya, so which would these products be? And have you identified, would this be a contract manufacturer or just another partner? If you could just throw some light on that?

Arun Kumar: Although it is deconsolidated from Strides, the Kenya business is fully managed by us. So, the company we own 49% of the company effective this quarter and we continue to manage and operate the business. So, we did not consolidate the topline, but we will consolidate the economics.

Vibha: So, this would be on facility where you would manufacture these products? And would you be able to name some of them, or?

Arun Kumar: It is a regular, for every product that we have approved under the WHO program, if you go to the WHO, you will see all our products that are listed for manufacturing either in India or in Kenya, but it is just that as we use our capacities for the markets that we are now focusing on, we will go more and more production to Kenya on the Institutional Business.

Moderator: Thank you. We take the next question from the line of Gautam Jain from GCJ Financial Advisors. Please go ahead.

Gautam Jain: I was looking at your US sales, you have done $106 million in first half and you said in the presentation, your full year revenue will be $250 million, so I think you are still to do $144 million in second half, how confident are you to do that?

Arun Kumar: We are saying that we will be at an exit run rate of $240 million to $250 million and absolute, we may be $10 million or $15 million less than $250 million, but our gross margins based on what we are now delivering will give us the same outcome if we do $235 million or $250 million. That is our focus. It is not so much, how much revenues we are going to get, it is how much margins we are able to extract out of the new strategies that we are deploying, but we will exit at the $250 million run rate. So, which means that we have to do an average of around $65 million to $67 million, which we don't think is very difficult to manage from where we are today.

Gautam Jain: And you also mentioned in your remarks that your exit net debt to EBITDA would be less than 3, so can you just throw some more light into it? Because, I mean, is it like you are analyzing Q4 EBITDA and then you are comparing with the net debt by end of the year?

Arun Kumar: Yes. That is exactly how it was when we announced the guidance.

Gautam Jain: So, you are assuming that your EBITDA by Q4 should be more than Rs. 150 crores?

Arun Kumar: You are right.

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

Arun Kumar: Thank you all. Thank you for joining this call and as we said, please feel free to write to us if you have any follow-up questions. Thank you and appreciate your support.

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

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