"Strides Arcolab Limited Conference Call"

July 27, 2011

MODERATORS: **MR. NITIN AGARWAL**
MR. ARUN KUMAR
MR. T.S. RANGAN

Moderator: Ladies and gentleman, good day and welcome to the Strides Arcolab Q2 CY'11 post results conference call hosted by IDFC Securities Limited. As a reminder all participants' line will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Nitin Agarwal. Thank you and over to you Sir.

Nitin Agarwal: A very warm welcome to Strides Arcolabs Q2 CY'11 post results conference call. On the call today, we have representing Strides Arcolab Mr. Arun Kumar, Vice Chairman and Managing Director, and Mr. T.S. Rangan, Group CFO. I hand over the call to them to take it forward. Please go ahead Sir.

Arun Kumar: Before I start taking questions, I will give a quick overview of our Q2 results, which is a very strong performance for the quarter and a little ahead of our guidance run rate. Revenues have grown to Rs. 618 Crores, which is a 28% growth over the previous year and EBITDA is at Rs. 145 Crores, and this is in spite of licensing income guidance coming down in 2011 financial with increased focus on operations. The most important element for the quarter was the fact that our manufacturing sites for oncology and for non-oncology, the new facilities where we had invested significant Capex were both FDA approved and we received on July 26, 2011, yesterday, approval for our first oncology product of gemcitabine, which is a $700 million product, which was launched yesterday in the US market on day One. We now believe that all our guidances that we indicated in February in terms of numbers, plants getting approved are all in place and the focus is obviously getting the operations up and running. We are delighted that the regulatory approvals and product approvals, especially given the current regulatory environment on a global basis when product approvals are getting tougher and plant approvals are getting tougher, so we continue to focus on high-quality manufacturing business which is working well for us. Continued momentum on filings, you will probably notice that there has been a significant shift from regulated market filings away from the US. We have complete huge portfolio build-up for the US and we are moving now to file significant numbers of products in the European market. We have close to about 20 odd filing in Europe of which we have already filed , 48 dossiers and 9 approved, and many more to go in Europe and other markets. Commencements of filings for the Japanese market would start in this quarter. The continued focus on US will obviously remain, but as I said earlier the large pipeline buildup is over and we are now focusing on niche products for filing, which is happening rapidly. There is significant investment on newer products. We entered also into a tie up to set up a new biotech facility in Malaysia, which is a fully funded program by the Malaysian government, which is actually a build and transfer project, which we will operate for 20 years. This is a fantastic transaction because most of you know that bio-pharmaceuticals take a lot of time to get to market and the facility is critical for us to launch products, and the Malaysian government is setting up this plant for Strides. Another key element of the quarter was the successful privatization of the Australian stock exchange listed Ascent Pharma which is now 90 plus percent owned company of Strides which obviously helps in PAT consolidation and lesser minority interest. We continue to track well in our pharmaceutical business. A lot of you would notice that the pharmaceutical business has done exceeding well and that is primarily because of some significant product launches for the US market in soft gelatin products and obviously the Australian business is tracking ahead of projects ably aided by the exchange rate also. All this resulted in a fairly decent quarter. We have delivered an H1 topline of a little over Rs. 1100 Crores and consolidated EBITDA of Rs. 247 Cr. These are both a little ahead of pathway of guidance, so we comfortable to achieve the higher end of our guidance. We are not changing any guidances as yet. Additional point is that the manufacturing plants were approved in May 2011, where we had capacity constraints. Product shifts from our old plant to the new facility has commenced and this process typically takes 90 days. Q3 as a consequence will be our significant quarter as guided in February 2011, when a lot of new products will be launched. In the beginning of the year we had launched only 10 products in the US. In H1, we increased that by another six products. We have 16 products launched, but in H2 we have another 19 products being launched for which we have already started commencing certain products of shipments within the quarter. These 19 products are important products, where the current local market value of this product exceeds a billion dollar. So we believe that the specialty business is exactly on track as we guided and the pharma business is a little ahead of guidance in terms of performance. With that quick overview, I would be more than happy to take questions and be delighted to answer them.

Moderator: Thank you very much Sir. The first question is from the line of Kaushik Pal from Kotak. Please go ahead.

Kaushik Pal: Firstly to touch upon new commercialization on 19 new products to be launched, I was wondering that apart from the transfer time that it takes, is there any other hurdle in scaling up the operations in commercializing these new products considering it is a new plan?

Arun Kumar: The process of a site change takes a max of 120 days. Plants were approved in May 2011, so if you add the math, we will fall in well to start commercializing from this month onwards. Having said that, we did take certain products at risk prior to the FDA inspection and those products have already started coming approved, so these are obviously site change approvals, which are not newsworthy or a press release, but the fact is that we are getting approvals and we are commercializing. So the max time from taking a batch to an approval is 120 days and that is like mandatorily fixed by the FDA. It is not something, which you need to worry about, as long as you are not changing anything in the process of manufacturing cycles.

Kaushik Pal: Also, if I do a simple calculation of just tripping out the licensing income from your specialty revenues, we have grown sequentially in Q2 compared to Q1 in the specialty segment, I am just wondering out of the six products launched in Q2 or maybe it was 10, how many would have been there for the better part of the quarter? I am trying to understand the kind of delta that is available in Q3, both from the products that were launched in Q2 and also the new products to be launched in the second half?

Arun Kumar: The six products did not enjoy all the 90 days obviously; we probably had an average of 30 to 35 days of sales for all the six products. The six products will have all the benefit of entire H2. The rest of the products are also like that, as soon as we get approvals we are able to launch products and take market share simply because of the shortage situation in most products. Except for the 10 products launched in 2010, we are not enjoying as yet 100% of the whole financial year of any products because we are introducing products in different stages. For example, the 19 products in H2, a lot of it will happen in Q4, although some of the big ones will happen in Q3 simply because the oncology products are obviously going to market on approval because we do not have any capacity constraints.

Kaushik Pal: Finally on Gemcitabine, have you already launched or how soon?

Arun Kumar: That was launched yesterday, that was the day it was approved. There are only three companies, which have got all the three strengths of Gemcitabine, and it is a very critical factor for success. Almost there are seven approvals, only three companies including Strides have all the three strengths and as a consequence we can report that we have managed to secure a fair decent share in the market already.

Kaushik Pal: What kind of pricing behavior, is the product same as of now?

Arun Kumar: At the moment, on the one strength there is no product available, there is no great discount on the price, but on the other two strengths it is ranging at 50% to 60%, but we really will not know because typically on day 1 we will not know because there would be some pushback and back charges, we will only know during the course of the quarter. So towards the end of the quarter we can give you a more correct picture, especially we would have had IMS data by then.

Kaushik Pal: Okay. Your pharma segment actually saw a lot of margin expansion, both on Y-O-Y and Q-O-Q basis, if you can probably just shed some light on that?

Arun Kumar: There are two aspects of it. We have a soft gelatin product that is taking a large market share that is Ergocalciferol. It is a profit share arrangement, so when we launch the products in Q1 and Q2, we obviously took only sales and we only started taking the profit margins after we knew exactly what kind of margins we will make, so the first two quarters the product had only the transfer price mentioned in the pharma, but the product is doing exceedingly well and that is one good reason. Secondly, Australian business is tracking ahead of target and it is also obviously aided by the very strong Australian currency, which has resulted in a higher margin.

Kaushik Pal: On a normalized basis, can we take a margin around this number for the rest of the year?

Arun Kumar: It would be fair. The pharma business is also now able to attract a good amount of licensing income, albeit it is much smaller than the specialties. It would be fair to say that we should be a little ahead of our guidance in terms of EBITDA margin or at least at the high end, because if you recall our guidances were 13% to 15%, but at this moment we are comfortable to place it now at 15%, the high end of our guidance.

Moderator: Thank you. The next question is from the line of Krishnan Kiran from ICICI Direct. Please go ahead.

Krishnan Kiran: Congrats for a good set of numbers. First on the specialty business, if you see it is like a muted quarter this quarter, so can you tell us taking licensing income in both quarters Q2 this year and Q2 last year, what would be the growth on a comparable basis?

Arun Kumar: The licensing income was about Rs. 115 Crores in Q2 2010; that is about Rs.56 odd Crores this quarter which means that the operational numbers have grown by about 53%.

Krishnan Kiran: Second question is regarding your pharma business. In the last concall you have mentioned that the revenue booking has deferred because institutional business has been deferred. It is because of that pharma business has grown very high or going ahead what you can see?

Arun Kumar: In first quarter we have mentioned that we are changing our sources of APIs in our institutional business to a very new source and a very aggressive source, which will allow us to be competitive because we were not a fully integrated player like the Aurobindo or the Mylan's. We have since successfully completed that and received FDA approval for a new source. That business obviously has bounced back and it is delivering the necessary profits for us to be still invested in that business, so that happened during that quarter.

Krishnan Kiran: Sir, the other question is regarding tax rate. Tax rate during the first half was less compared to our guidance. Will the H2 tax rate would be higher?

T.S. Rangan: Yes. H1 was mainly because, I am sure that you must be understanding that, what we have done is we have set off against the carry forward loss. We expect that tax rate will be close to about 23% to 24%, thereby remain in our guidance range of around 20% to 21%.

Krishnan Kiran: Sir, next regarding Vancomycin, we understood that Optimus was launched deficit in US market. Do we have any impact because of that?

Arun Kumar: Optimus product is targeted against different therapeutic usage of vancomycin, oral vancomycin, but no relevance to the injectable vancomycin. There is a technical note, which is available even with Nitin, please do read that. There is absolutely no relevance of Optimus product to vancomycin injection. It has a relevance to the vancomycin oral dosage form of Veroform, at the moment no generic company product is available in vancomycin oral.

Krishnan Kiran: Sir, lastly on licensing income, in the first half we did not see strong licensing income. Are we increasing any license income guidance during this year?

Arun Kumar: We will talk about it in Q3. At this moment, none.

Moderator: Thank you. The next question is from the line of Hitesh Veda from Marwadi Shares & Finance. Please go ahead.

Hitesh Veda: First of all, why is the employee cost, other expenses as well as depreciation gone up Q-O-Q?

T.S. Rangan: Employee cost is mainly on account of Brazilian operation consolidation, so that has brought in about addition of Rs. 14 Crores on cost. It is not only depreciation, the line is depreciation and amortization that is one of expense of amortization close to about Rs. 8 Crores that has been accounted this quarter, but that is one off; otherwise the depreciation break is close to about Rs. 24 to Rs.26 Crores.

Hitesh Veda: Other expenses?

T.S. Rangan: Other expense, again it has about Rs. 8 Crores of privatization. We could have capitalized it, but we are very conscious about our practices and we have accounted it in the quarter. That is our privatization cost for our Australian privatization.

Hitesh Veda: Interest cost is also Q-O-Q gone up by almost Rs.2.5 Crores, whereas you said in the last quarter that you will be seeing fall in interest cost?

T.S. Rangan: Definitely, while I agree with you that interest cost in absolute value has gone up, but if you look at interest to EBITDA, the cover has improved significantly. It was 2.2 times the last quarter, it has become 3 times. Having said that, we have also converted close to about Rs. 180 Crores from rupee loan to foreign currency loan. We originally factored in Q2, but we bank with some of the banks that are public sector banks you will see the benefit occurring in the next two quarters close to about Rs.8 to Rs.10 Crores, thereby the run rate will come down to Rs. 40 Crores per quarter.

Hitesh Veda: As far as the other income is concerned, Q-O-Q it has gone up quite sharply? What is the reason behind it?

T.S. Rangan: I do not think other income has gone up sharply because if you look at this quarter again, largely we have been talking about only the distribution income in our Ascent Pharma in Australia, which is close to about Rs.20 Crores and we have also accounted increase of Rs.8 Crores, one-time expense on account of settlement of software, wherein that the software company paid us in view of compensation for not implementing the particular software, so that has been accounted as part of the other income, but that is a nonrecurring, one-time item.

Arun Kumar: Just to clarify on the Australian business, we are typically preferred distributor of authorized generics in Australia. We distribute a lot of products for big pharma in the patent regime and that is booked as other income and it is not booked as sale. Because, if you do the distribution income also into our business that will add another $40 to $50 million of topline; but, we need the whole portfolio products and we are a preferred authorized generic distributor, so we do this for Lundbeck, Pfizer and for GSK. That income is shown as other operating income.

Hitesh Veda: Is it fair to say that there have been significant amount of license income in the pharma business as well during the quarter because of which the pharma margins have gone up?

Arun Kumar: No.

Hitesh Veda: So it is only because of Ergocalciferol and the Australian business?

Company speaker: There is a significant operational improvement in margins. If you heard me earlier we went back to the institutional business because we now have price competitive situation and the profits that we are throwing out are of our Ergocalciferol sales in the US.

Hitesh Veda: Just a last question, how many injectable ANDA approvals we have as of now and how many have we launched so far?

Arun Kumar: We have a total of 40 products approved in injectables. We have launched 16 products as of now and we will be launching 19 products in H2 2011 and we will still not be launching five products in 2011. This does not include any oncology injectables that we are expecting approval where we will launch immediately because we do not have any constraints at capacity level.

Moderator: Thank you. The next question is from the line of Diwakar Shekar from Fortune Financial Services. Please go ahead.

Diwakar Shekar: In continuation to the previous question what is the one-time operating income that you have received last quarter?

T.S. Rangan: Settlement of our software into our pharma company.

Diwakar Shekar: Can you mention how much of it?

T.S. Rangan: It is close to about Rs. 8 Crores.

Diwakar Shekar: Can you give us latest debt and cash figures in your balance sheet?

T.S. Rangan: The gross debt is Rs. 2400 Crores and cash is Rs. 153 Crores.

Diwakar Shekar: You have some foreign exchange gains this quarter right? Do you follow any hedging strategy for that?

T.S. Rangan: We follow the simple forward cover. We have a prudent Forex policy wherein we cover 50% of our exposure based on the net exposure.

Moderator: Thank you. The next question is from the line of Bhavin Shah from Dolat Capital. Please go ahead.

Bhavin Shah: Few questions, one in the Brazilian facility any update on how the business is moving on the manufacturing and front-end part of it?

Arun Kumar: We guided last quarter that we will breakeven by the end of the year. We are very close to cash breakeven in last quarter. We are actually ahead of time I think by Q3 we should be alright, it is tracking well now.

Bhavin Shah: Any sense on how much would it be contributing for the quarter from the manufacturing side of it, in terms of sales?

Arun Kumar: EBITDA is about Rs. 6 Crores. We have a 25% EBITDA on our manufacturing business in Brazil, but our trading business takes away all that and that is what we said breakeven by the end of the year, the Brazilian operations on a whole. Manufacturing business is already profitable, it is a very nice profitable business at 25%, but the trading business will take a little more time as guided last quarter.

Bhavin Shah: Revenue contribution from that facility?

Arun Kumar: It is about Rs. 30 Crores.

Bhavin Shah: Any update on the onco filing how many have we done so far?

Arun Kumar: Filing, we do not have split up between onco and non-onco, but by the end of the year we would have completed our first phase of 35 filings.

Bhavin Shah: Just to come back to the interest component are you seeing that 6% of sales is what we should be looking at?

Arun Kumar: It's not sure, although we have got approvals for converting our rupee loans like Rangan mentioned, we may have missed that guidance by 500 or 600 basis point. We may be closer to 7 rather than 6. Because we are now in the high end of the EBITDA and the top line range we are confident that we will not have an impact on below the EBITDA line.

Moderator: Thank you. The next question is from the line of Ujwal Shah from Enam Securities. Please go ahead.

Ujwal Shah: Just wanted to know why the loan fund continuously increasing, we could see as on December 31 2010 it was around Rs. 200 odd Crores, we have again pumped or taken some loan and its standing in at Rs. 241 Crores by the month end or by this year end what do we see, where do we see our debts standing sir?

T.S. Rangan: There are two major drivers. One is that working capital funding and scalability we are talking about, we are talking about new product launches, we are talking about 19 product launches. There is a need for capital so close to about Rs. 120 Crores of working capital have been added to the existing inventory and strategic stock, etc. that is a one fine factor. Second one is the Ascent privatization actually wherein that the privatization of Ascent pharma in the month of May. I think the loan is Rs. 183 Crores, but then if we look at the same balance sheet, looking that similarly the minority interest close to about Rs. 234 Crores moved from minority interest to resource and equity, appropriate for you to consider that. If you really consider that while the loan funds have gone up by Rs. 184 Crores on Ascent, the values are much better than the value also moved to the resource and net worth. Technically, there is no impact on the second one on my debt equity in fact it is a very favorable one. We will request you to add both on in a holistic way.

Arun Kumar: **J**ust to add on to what Rangan is saying is that, the quality and the type of products that have been launched in this quarter are very different from what we were doing before. It is a product like Gemcitabine where we have market even after patent expiry of 200 million dollars, we expect to take a fair share of the market simply because we have all the three dosage points. Launch values are significant on day#1 launch you need to have inventory far ahead of time of approval that is the reason why our working capital increase and as the profit start flowing in they will settle down and we will comfortably meeting our guidance less than 1.5 at the end of the year.

T.S. Rangan: And also, we request you to note only the value may be appropriate and look at the EBITDA to interest cover wherein that in spite of the additional loans are being enhanced.

Ujwal Shah: That has improved a lot sir actually, EBITDA to interest have improved a lot, commendable set of numbers, and it is great to see the sites performing so well, just a question on specialty segment. The EBITDA margin actually faltered, is it mainly on account of licensing income and with 19 odd new product launches in H2 , we might see them reviving again to the higher levels?

T.S. Rangan: If you look at we are ahead of the guidance number even for the quarter. You cannot compare it by the previous quarter, the sequential quarter because it is a fact that licensing income obviously is a high margin business. Our focus is now more and more on operation so that we have a steady state of operating business. If you look at our H1 EBITDA guidance it is much higher than our guided numbers. The answer to, compare 47% in the previous quarter because we have a high licensing income to 34% this year as the benchmark. We have to look at this business in two ways, one is operational numbers are increased dramatically; licensing income is down and profit

Moderator: Thank you. The next question is from the line of Ashi Anand from Kotak India Focus Fund. Please go ahead.

Ashi Anand: Congrats for a good set of numbers. The first question I had was actually for Ascent pharma you mentioned that Rs. 183 Crores will be increased in loan fund, so what was the entire payment for Ascent pharma and what percentage stake did we get for the Rs.183 Crores?

Arun Kumar: We have the one when we privatized the company Ascent had very little debt less than $5 million of debt on a $100 million business. So it was generating a lot of cash flows and we have taken a debt in Australia to privatize the company and then used the cash flow that we generate to payout, so that it does not have an impact on our Indian operations that has also resulted in our ownership going up from 60% odd to 94% effective this quarter.

Ashi Anand: 60% and are we likely to go 100% or it is going to remain at 94%?

Arun Kumar: Original founders who continue to be involved in the company.

Ashi Anand: Basically the entire payment is happened through the Rs. 183 Crores which has taken on Ascent pharma books and will be paid off by Ascent pharma itself?

Arun Kumar: Ascent pharma cash flow will fund servicing and repayment.

Ashi Anand: Could you just help me with the revenues and EBITDA margins for Ascent pharma in this quarter?

Arun Kumar: We do not give specific subsets but the revenues for the quarter is approximately in H1 is Rs.340 odd Crores with the Rs. 40 Crores EBITDA.

Ashi Anand: Just a question on the Malaysian facility from what I have understood, it is a BOT project Malaysian government will setup and spend on it and we will actually operated for 20 years and pay some for our licensing fees through the Malaysian government, how is exactly will this work?

Arun Kumar: We lease rent to them which will cost as approximately about 8.5%-9% is the cost. It is designed to our specification to our technical expects and we actually built it, the only thing that they fund the whole project. More importantly we had a lot of assessment in terms of R&D reimbursements, so all our clinical trials for our maths, which you know are very expensive between $2 to $3 million for product gets reimbursed. There are a lot of fiscal benefits, we have no tax payouts, and we do not pay any lease rents until it goes commercial which is the good 4 years from now.

Ashi Anand: There are no lease rentals until it is commercial. Okay excellent. Just question on CapEx if I just look at a net fixed assets and goodwill, if I take the increase in net fixed assets and goodwill from March to the current quarter and I just add back the depreciation of the first half. It seems that we spent a total of Rs.674 Crores in net fixed assets and goodwill. I just wanted to understand the breakup of this Rs. 183 Crores as an excuses give a breakup of how much has come from which?

T.S. Rangan: The breakup is one on goodwill, in fact the goodwill has gone down by 60 Crores, it was 17753 on March 2011, it has come down to 17194, post-acquisition of Ascent pharma, what company has done again really a capital resource we netted of from the goodwill, so goodwill impact has come down and other fixed assets, including intangibles have gone up Rs.13965 to Rs.14223 million that is Rs.1397 Crores to 1422 Crores, basically it is a CapEx of Rs. 23 Crores increase.

Ashi Anand: Sure, just in terms of filings, Europe and Australia in terms of quarterly reporting from Q1 to Q2 there seems to be quite a drop in the cumulative filings, have we changed the reporting structure, now only reporting products compared to dossiers? In terms of press pact that you send across, if I look at cumulative filings in Europe and Australia, we have actually come down quite significantly?

Arun Kumar: Europe is a function of slots that we get. You cannot just go unlike in the US where you go any day and file a dossier; in Europe you pre-book your slots. When we say we will do 30 filings this year, which means that we have pre-booked those slots, and those slots are given to us on a particular day, you can only file on that particular day. It is a timing issue.

Ashi Anand: Just like you said, Europe example and these are cumulative filing so Q1 there were 95 cumulative filings until date that numbers come down to 48?

Arun, for a second; I will take this privately with Rangan.

Moderator: Thank you. The next question is from the line of Amit Shah from Motilal Oswal Securities Limited. Please go ahead.

Amit Shah: Congratulations on good set of numbers. One on, so you are taking forward the last question, Rs. 183 Crores is the consideration you paid to increase stake in Ascent pharma from 60 to 92 odd percent?

Arun Kumar: Correct.

Amit Shah: Second thing, currently in this quarter you did about 400 Crore of revenue from pharma business, so if I take that kind of run rate you will be exceeding your guidance of 1200 Crores revenue for pharma business for CY'11, so how should we read it?

Arun Kumar: I think you should wait for another 90 days to see if that is something which is repeating, that is because the institutional businesses is not something which we can clearly predict, but in Q3 when we announced the results we should be able to give you a lot better guidance there.

Amit Shah: Just now taking it forward what was the percentage of institutional business in that 400 Crores?

Arun Kumar: It should be about little over 120 Crores.(about 30%)

Amit Shah: Okay got it, around 30 odd percent, okay great.

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

Krishna Prasad: If you could help us with what was the capital expenditure spent for quarter?

Arun Kumar: 23 Crores.

Krishna Prasad: If you could also help us with your guidance for this full year for capital expenditure?

Arun Kumar: It is only maintenance CapEx it would be around same level.

Krishna Prasad: If you can quantify how much was foreign exchange benefit that you derived in Australia?

Arun Kumar: Total is 15 Crores, Australia, we do not have it specifically but happy to give you that data offline if you just send us a mail we will respond to that.

Moderator: Thank you. The next question is from the line of Kiran Chheda from Value Quest Research. Please go ahead.

Kiran Chheda: Sir again coming on the goodwill from December 2010 to June 2011 there is a substantial increase, and there was some disconnect and I was not able to understand what you said?

T.S. Rangan: In December we did not consolidate our Campos acquisition that is the Brazil acquisition, when we did a call of 150 Crores where it classified as part of the current assets that has moved since consolidated from current assets to goodwill. There is a reduction of 65 Crores.

Kiran Chheda: One more clarification on the loans that you said, conversion of INR loans to FCR, what exactly is that, what kind of foreign currency?

Arun Kumar: For working capital and long term loans are based on Indian Rupee funding, we got them converted to USD because as you appreciate that most of our revenues are in foreign currency, but one of our key bankers have not yet been able to convert all our approved loans to FCR because they did not have enough dollars, it is a small bank to give us to convert, so they are doing whatever best they can, even not therefore able to enjoy all that as we are anticipated it was approved in February, but even now we have only got half the loans convert into FCR.

Kiran Chheda: How much savings in interest are we expecting on this?

Arun Kumar: It is about 5 Crores per quarter.

Kiran Chheda: Even the cash balance has come down substantially from 340 Crores to 153 odd Crores what was that sir, have we have not been able to generate cash in this?

T.S. Rangan: You will need to go back to December balance sheet where again under the loans and advances you can capture the Ascent due that is under the current liabilities. The cash balance are closed about 352 to pay that 160 Crores that time the cash and cash equivalence will match with Q2 closing balance.

Moderator: Thank you. The next question is from the line of Nandita Vijay from PharmaBiz. Please go ahead.

Nandita Vijay: What is the total manpower strength currently?

Arun Kumar: Globally, we have now little over 3000 people.

Nandita Vijay: Are there any hiring plan on the cards?

Arun Kumar: No we do not have any great plans for hiring in India, fully staffed, as far as G&A cost is more or less steady state now, obviously we do take some people, but I mean 100 to 150 recruits per year is standard at sight, but no great plans that we did in the last two to three years where we brought in a lot more new people in R&D and manufacturing.

Nandita Vijay: Okay this is for India, what about international sir?

Arun Kumar: International is flat, already fully staffed.

Nandita Vijay: Of this 3000 would you be able to give us a split up as to how many in India and how many international?

Arun Kumar: About 700 people are overseas and rests are in India.

Moderator: Thank you. The next question is from the line of Fathima Khan from Khambatta Securities. Please go ahead.

Fathima Khan: Congratulations on a good set of numbers sir. Can you help me up with around 34% EBITDA in specialty segment. Do you think this is sustainable for the near future?

Arun Kumar: It is, that is how it also guided?

Fathima Khan: I think it will exceed the guidance at this rate.

Arun Kumar: At the moment let us take that the guidance?

Fathima Khan: About the pharmaceutical segment you said that Ergocalciferol has contributed a lot to the growth this quarter, so how do you see this numbers moving ahead?

Arun Kumar: Ergocalciferol, we are apart from Perrigo, now the only other operating player in the market, so we are able to take a large market share and we believe that this run rate we should be able to maintain.

Moderator: Thank you. The next question is from the line of Ashwarya Deepak from Alchemy Capital. Please go ahead.

Ashwarya Deepak: Very good set of numbers; congratulations. How you should look at the pharma business in terms of selling the full or part of that particular business and reducing the debt?

Arun Kumar: I said, our focus is the company is to stay put with our specialty business and Agila at the moment there are no compelling reasons for us to do anything. All businesses are doing well and something which we will let you know as it happens but we are not making any new investments in our pharmaceutical business in the manner we are doing in our specialty business, but we are focusing on operational excellences and cash flow throwing out cash in the operational which is the primary focus and in the appropriate time we will take a call on that.

Ashwarya Deepak: I have seen a lot of improvement in your pharma business in this quarter. Till what time we can expect these improvements to continue in this particular business?

Arun Kumar: Like I said earlier the 30% of the pharmaceutical business rides on institutional business and currently the institutional order books are looking nice and good, so we believe that we should be able to maintain the kind of rate, but we would rather wait for a quarter before we can do anything to the guidance in the pharma part of our business.

Ashwarya Deepak: In addition to this when you talk about 30% institutional business should we expect volatility in this particular business or how it will be?

Arun Kumar: There are only five players who are approved to be in this business, we are one of them. Like I said earlier in my answering another question we have changed our API sources from Indian manufacture to and international source which makes us very competitive, so we believe that will address some of the volatility issue and we should be able to service consistent demand. So it is not a business that is open to all, there are only five approved players in this foray. So we believe that we would get decent share of the business but in Q1 it was a function of, do we want to be in the business when the margins are too low, when we changed our source and got FDA approvals to do that the business obviously became a lot more profitable. Give us another quarter before we come back and tell you what we think about those numbers on a long-term basis.

Ashwarya Deepak: Last question is on the specialties that we have seen 220 Crores revenue this quarter and whereas I am understanding from this call that all these movement of the product from the facility will be through by July end or may be in August, so will I be a right to assume that this is a facility business what we have reported around 460 Crores numbers in the H1, so that will be growing much ahead, 1000 Crores is the number which we have considered as per earlier guidance and there is no issue I guess in this facility at this point of time?

Arun Kumar: There is no issue we just got our approvals, right in place. We do not see any difficulty in meeting those guidances. So a lot will depend upon how well, some of the new launches are doing like gemcitabine and others because the product was launched on day 181 and we obviously need to see what kind of price pressures are there in the market place. Once we settle on that we do not see any problem with regards the top line and EBITDA being met and if we exceed that, that’s something, which we cannot discuss today.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor back to Mr. Nitin Agarwal. Thank you and over to you sir.

Nitin Agarwal: Thanks everyone for taking time out in participating the call and thank you Strides management team also.

Moderator: Thank you sir. Thank you members of the management. On behalf of IDFC Securities Limited that concludes this conference call. Thank you for joining us