"Strides Pharma Science Limited
Q3 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Strides Pharma Science Limited Q3 FY2020 earnings conference call. As a remainder, all participant lines will be in the listen-only mode and there will be an opportunity for you 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 this conference is being recorded. I now hand the conference over to Mr. Abhishek Singhal. Thank you and over to you Sir!

Abhishek Singhal: A very good afternoon and thank you for joining us today for Stride's earnings call for the Q3 FY2020. Today we have with us Arun founder of the company, Dr. Anand – CEO & MD 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 as well as the stock exchange website. The transcript of this call will be available in a week time on the company's website. Please note that today's discussion may be forward-looking in nature and must be viewed in relation to the risks pertaining to our business. After the end of this call, in case you have any further questions please feel free to reach to our investor relation team. I now handover the call to Arun to make the opening statements.

Arun Kumar: Thank you Abhishek. Good afternoon investor, analyst and other friends from the financial community who have participated today. Before I start I will take the opportunity to introduce Dr. Ananathnarayanan who is our new CEO and Managing Director. He joined on board in the first few days of January and before I get more into details of the quarterly performance, I am going to handover the mic to him so that he can give you a brief introduction about himself and then we look forward the opportunity of meeting many of you along with Ananth in the coming weeks so that you can get a better perspective of his capability and his leadership over the many years. We at Strides are very excited to have Ananth on the board. He has had several years of leadership experience across marquee companies and it has been only a couple of weeks since Ananth has joined the company, but I am sure he will give you all the high level perspective of what he thinks about the organization.

Ananthanarayanan: Thank you Arun. Good afternoon everyone. It is truly been my pleasure and privilege and I am honored to be joining Strides as a part of the senior management team as the CEO & MD. As Arun said it is just been few days that I have taken on and been in the organization now. I know some of you, but for the others just a quick introduction. So, I come from the pharmaceutical industry with about over three decades having spent my time through a mix of technical, techno-commercial and P&L ownership roles. I have had the opportunity of spending time in India as well as outside of India in the UK and in the US. I have also had the ability to lead companies both on the API side and the finished dose side through a mix of big pharma, large multinationals and large Indian pharmaceutical companies.

I was most recently, prior to joining Strides with Cipla as their Global Chief Operating Officer and prior to that with Teva as the CEO for three of their businesses, the biologics business, the API business and the global generic B2B meds business. So, it is really wonderful to be here to interact with all of you. My objective would be over the next several weeks to be able to travel out and meet many of you and I think I certainly look forward to that interaction and that I could share some of my perspectives and what I would like to focus as well.

Just to give a perspective I think over the last few days that I have been with Strides, I am very excited. I am pretty excited at the opportunity that exists in the business, pretty excited with the strategy and I am sure during the most recent investor day all of you would have had a chance to go through some of the strategy that was presented. So, my objective is really to continue to reinforce that strategy, but really focus on execution of that strategy and focus on ensuring that we do not miss out on any of those execution elements and I see a lot of opportunity in the portfolio strategy as well as the go-to-market and the time to market approach that Strides has taken which is really playing out extremely well for the organization. So, with that, I ill hand over back to Arun, but I very much look forward to interacting with all of you over the next few weeks. Thank you.

Arun Kumar: Thank you Ananth. So, in terms of quick overview of the quarter we had a very strong quarter albeit continued weak performance in our emerging market. We achieved a historical milestone of 25% EBITDA on our operations for the first time, that is very pleasing given that the resets started about two years ago and we are very delighted with the Q-on-Q performance that the company has delivered. Pleasing of course is the significant increase in the gross margins this quarter. This has been obviously aided by continued growth in the regulated market especially in the US. We benefited this quarter for seasonality both with products like Benzonatate and Tamiflu and of course, we also benefited from the fact that we relaunched Ranitidine for about six weeks. For those of you following the company you will notice that the TRX on Ranitidine we have already come back to where we in terms of market share we have about 55% of the market share and we believe that we will be able to penetrate more given that we are the sole player in the oral dosage forms, I mean the tablet format which is about 90% of the Ranitidine opportunity.

EBITDA at 185 Crores obviously is higher than street estimates, but that is in line with our operating leverage and the incremental margins flowing through to the bottom-line. Adjusted PAT was about 101 Crores and EPS now run rate is about Rs.45 per share. What is important here is that we had a capitalization in Q3 FY2019 of our Singapore operations which had a run rate of close to 25 Crores, so technically year on year our EBITDA has grown from about 40 Crores to about 185 Crores per quarter.

The US business obviously has done exceedingly well, we continued to benefit from niche product selection, launches. We benefited in the last quarter with Losartan being introduced for the first time, we benefited from Ranitidine relaunch and obviously we have had a good run in the US business. 90% of the business in the US comes now from own front end and some of you would see an incremental increase in working capital, which can be attributed to this. Q-o-Q growth has been $20 million on the front end and that obviously resulted in working capital increases because as most of you know you need to invest in the gross sales and not necessary in the net sales in terms of working capital until you stabilize the business.

We will see some more increases in the working capital in the next couple of quarters before it stabilizes and we are now in good shape to grow this business even further to what we think would be the right size in next many quarters. For the year we are now very confident as far as the US business we like to believe that we will be closer to the upper end of the guidance of $240 million that will give us a significant leg up from where we left this business last year.

In other regulated market, systemically this quarter is always a weak quarter given Christmas and other events especially in markets like Australia and South Africa where they are closed for several weeks during the holiday season. So, it is historically a weak quarter. Q-o-Q growth has been flat but Y-o-Y growth has been 54%. In all the regulated market it is clearly been a complete execution excellence if I may say that and we are benefiting from our contrarian strategy.

Emerging markets, in every call in the last several quarters my commentary has not changed that we have been very focused on delivering business, doing less for more consequently the business that we do is of better quality, but clearly the growth has taken a toss. We would see a turnaround of these businesses, we have already seen some green shoots this quarter and we believe that the emerging markets which is getting very high level of management attention will lead the growth in the next financial years.

So that is about the overall business, specifically there been five-odd FDA audit outcomes over the last one year so that is pleasing that we have got many approvals including two consecutive zero 483 approvals for our Alathur facility. We have now completed all our necessary CAPAs and submitted them to the FDA and we are hoping that the agency will come to inspect us in the near term and we do hope to have a good outcome given all the work that we have done there.

So, Q-o-Q growth has been from 57 to 66 and year-on-year grew by 62% from 41 to 66 million. We spoke about the other regulated business. A lot of R&D spend is now focused on the other regulated business, you will see a significant new product launches and approvals going forward. We have been more or less at the same levels for some time now, but you will see a significant shift for the better especially given the uptake in our Australian demand given that we have now started servicing the Apotex volumes too for the first time this quarter. We are on track to see the visibility of the 20 million EBITDA that had guided when we exit Australia as early as next year few quarters ahead of schedule.

So that is good. The branded businesses has done well its turnaround and there are now no more challenges in terms of hygiene and we are hoping to receive our first product approval for our ARV business in the new regimen anytime now and that should obviously give us a lift to that business. So that is more or less the high level commentary in terms of what we have executed in the last quarter and the reset strategy in our view has played out and we believe that we will continue to grow from here qualitatively. I am not sure about the quantitative growth, but qualitative of the growth will continue to be very strong.

So, we continue to be very excited with our strategic reset, we continue to be excited having got our execution right and we obviously are getting ready for scale as we build up. My colleagues Badree and Ananth will be more than happy to answer questions for those of you may have questions based on our results today.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Alankar Garude from Macquarie. Please go ahead.

Alankar Garude: Hi Sir, thank you for the opportunity and congrats on a strong performance. My first question is on margins, while sequential top-line growth is just 2% we have seen a strong more than a 600 basis points Q-o-Q improvement in margins, so just wanted to know what magnitude of this expansion is sustainable? You mentioned various factors in the US but are there any other factors like say a lower contribution from Africa in emerging markets which have a much lower margin profile which has resulted in this strong margin expansion?

Arun Kumar: Yes, I think you answered your question. Between 2% and 3% points increase in the margin is predominantly because of the sub-scale Africa and emerging market business so that the margins presented benefited from that. But you know the US business and our business in Europe is tracking well, especially in the UK and both continue to contribute a very strong margins. So, I think once you see the emerging markets in the institutional business climbing back to where historically this business would be, you would probably see a moderation of margins by about 3 to 4%, but we are more and more confident that the range of 60% is something that we believe that we continue to keep given that our regulated markets will continue to grow from where we are.

Alankar Garude: Understood Sir. My second question is on the other regulated market, now would it be fair to say that you mentioned about the Singapore facility contribution starting in this quarter but would it be fair to say that there is still lot of room to grow rather lower your under recovery from the Singapore facility?

Arun Kumar: Yes, so the plan is that the Singapore facility is not necessarily supplying to Arotex as much as it was originally planned we have now shifted the Singapore focus to the US because as you probably know we have got VA designation for the plant and we have already got our first contracts from the VA and you know the VA business is obviously more sustainable long term and we are benefiting from that also in terms of margin expansion. We expect Singapore to be pre-dominantly a US centric business going forward and therefore under recovery would be almost fully sorted out in the next two to three quarters.

Alankar Garude: And then so supplies to Australia would be from which facility?

Arun Kumar: We have now converted one of our plants in Bangalore to a dedicated Australian approved facility which was earlier supplying to the emerging market, so a lot of the volumes are shipped from here but Singapore also supplies but not of any great volume or value.

Alankar Garude: Understood. And my final question is for Dr. Ananth, congratulations on the new role Sir, it would be great if you could just share your initial thoughts on what are your immediate priorities and which areas would you like to focus on?

Ananthanarayanan: Yes, thank you so much. I think clearly for me first immediate priority is to ensure that we keep continuing to focus on sustaining compliance as you all know this industry the criticality of compliance is very important and therefore continuing to have the focus on compliance will continue to be an important factor that is No.1. No.2 of course, while we are ready as a company with all the remediation in the Pondy facility I think ensuring that we try and get the FDA inspection and close that is also equally important. I think the third element would be to continue to focus on executing well on the deliveries on the supplies and ensuring that we maintain our security of supply and assurance of supply to our customers. I think are going to be key but my initial thoughts from initial days I think these are what I would say are my priorities as I keep going and getting into the details .

Alankar Garude: Sure, Sir and that is all from my side. Thank you and all the best.

Moderator: Thank you. We have a next question from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Hi thanks for taking my question. Congratulations on a brilliant set of numbers and congratulations Dr. Ananth for joining the team. Arun on the US business for the current quarter, I mean how should you look at the base so two parts you alluded to one is the improved Ranitidine contribution as well as some seasonality so just want to get a sense on how meaningful like how sustainable some of these impacts would be going forward?

Arun Kumar: I think for the current portfolio that we have and with our continued discipline in terms of margins and market share the Q3 base is a reasonable base for you to consider I mean growth from here would be there but it will not be in that kind blitz scaling that we have done in the last four five quarters.

Nitin Agarwal: Okay and on Ranitidine have we got the full impact in the current quarter of relaunch?

Arun Kumar: Yes, we got the full quarter because of the pipe was obviously stopped so we got 55% in that six weeks that we put the product in.

Nitin Agarwal: Okay and secondly on this institutional business, I mean you were talking about getting approvals for the new ARV regime and how competitive do you think we would be in this new sort of API construct which is going to be there in this regimen?

Arun Kumar: Here the API volume that are involved the new regimens are not kind of a large volumes like what it used to be in the first regimen and we have significant security also security and supply chain integrity this time on this new regimen so we are very confident of being as competitive as most of the other players would be as we have got all our ducks in line in terms of getting everything right to be to take a significant share. We expect the approval of the product in a few weeks from now and then we should be good to go hopefully from next quarter.

Nitin Agarwal: Okay, thanks and best of luck.

Moderator: Thank you. We have a next question from the line of Saurav Shah from AUM Fund Advisors. Please go ahead.

Saurav Shah: Two questions for you, one is in the US business. You mentioned that you are looking at adding new products over the near term as well including next year and I think you just mentioned that this quarter was a good base, so how should we see the contribution of new products from a top-line stand point, I understand a margin outlook in the US but just from an absolute size of the market how much more do you think in the US you think can be done?

Arun Kumar: So for your benefit we operate in a pyramid format where the bottom of the pyramid we have only six to eight products which deliver close to about $20 million on an average, we are not done with that strategy and the growth and the margin expansion comes from the middle of the pyramid strategy where our average sales is only about $4 million per product and this is where we are adding more margins not at the cost of potentially steady growth, but that is the margin expansion so that is why I was alluding to Nitin's question that you cannot expect blitz scaling considering that we have already achieved a lot in terms of getting the model right. If we have 15 product launches and if you are averaging $4 to $5 million per product and that is all you can grow from here. So, I hope that answers your question because we are not chasing top-line in the US market, we are chasing profits.

Saurav Shah: Sure. And the margins from the new product that you mentioned $15 million would that be kind of similar to what you are just now or you look at even more sort of accretion?

Arun Kumar: Typically, I mean the current quarterly average, slight or little more than what it is, but not materially different.

Saurav Shah: I understand just a separate point, what could be your US utilization currently?

Arun Kumar: What you mean by that?

Saurav Shah: Utilization of the asset for sales in the US from a US subsidiary?

Arun Kumar: You are talking about the capacity utilization of our total installed capacity?

Saurav Shah: Yes.

Arun Kumar: So, all our plant together can produce about 20 billion units what we call an equalized unit and the currently need about 7 to 8 billion units for the US market, about 40% of our capacity.

Saurav Shah: Okay great. A second point was on you know the EM strategy you mentioned that you are also looking to reconfigure that, just wanted to get a sense of two years out three years out what would your case would be for the size of the business and what margins you think would be appropriate for the business that you are seeking to build up?

Arun Kumar: So, I did not say that I am going to reconfigure the business, business is already being reset what I said is that you will see our strategy playing out starting from this quarter or next quarter. We already are seeing green shoots around it, we believe that we can double the business from our current quarterly rate, but getting back to the peak sale for institutional and emerging market business, which was close to about $150 million is several quarters away.

Saurav Shah: Okay and you think that that is optimal to build that scale out given your focus on margins and return on capital?

Arun Kumar: It will deliverreturn on capital but probably at the cost of lower gross margins.

Moderator: Thank you. The next question is from the line of Kunal Randeria from Antique Stock Broking. Please go ahead.

Kunal Randeria: Good afternoon everyone. My first question Arun would be on the Ranitidine. So, have the volumes for the overall market shrunk because I think when all these issues cropped up a part the market moved to famotidine, so how do you see this overall market playing out?

Arun Kumar: So we are not experiencing Kunal any drop in volumes it is also because the OTC business is also stopped for product so obviously there would be a natural switch between the OTC and Rx market and we do not operate the OTC business at all, although we have approval so we do not see any drop in the unit volumes as yet and that could be simply because we may be servicing a larger part of a diminished opportunity and then we are still getting the same volumes right, what we normally sell.

Kunal Randeria: Right do you see the pie then going up again?

Arun Kumar: I do not think the volume is going to go up it is the total market is about 2 billion tablets between OTC and private label and the Rx and the Rx is about a billion in tablets, 100 million in capsules which we do not sell and the rest is in the OTC and private labels, it is more on OTC than private label products. So, the opportunity for Ranitidine per se is for us to straddle across all the categories. It is a question of how we want to wait and watch the scenario in terms of the players coming back in the market. At this time, we are happily settled with our Rx strategy and we want to continue to focus on that.

Kunal Randeria: Right and would be fair to assume that price also played some role in good numbers US numbers and the margin in this quarter?

Arun Kumar: Price plays across the portfolio, Ranitidine is not a case of isolation. What we basically say is that our strategy is always been to be a secondary supplier for most of the portfolio portfolio to the buyer universe. Consequently we operate at a slightly better margins than most of the companies because we never take a primary suppliers status with anybody. This play out has been happening for the many, if you look at our commentary for the last eight quarters we have consistently been saying that we have no price erosion on any quarter.

This quarter is the same it is just that we have a larger base many more products in play and nine out of ten products we do not see a price drop we see improvements in many case but I cannot give you specifics around Ranitidine alone.

Moderator: Thank you. We have our next question from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Thank you for the opportunity. Sir in the other reg business there is stellar growth what is changing there and what is it mean, what is this growth mean for margins in that?

Arun Kumar: I mean it is stellar growth Y-o-Y, Q-o-Q it is flat but yet I mean you have to adjust for the weak quarter that traditionally is for seasonality, what we see growth coming mainly is coming from UK, Brexit is helping we are entrenched in the UK market quite well, serialization is helping, but not many players are in a position to offer serialized products across European territory so that is growing, we are seeing margin expansions in South Africa and obviously those bases are very small but we are seeing growth. So, what happens in this business is that since we front end most of the business you incur set of cost ahead of time and once you get your certain size then gross margin flows towards EBITDA and that is what we have seen. This business used to be about $20 million a quarter it is now we have a run rate closed to about $140-$150 million in this P&L by the time we get out, this year and then we believe that this is the market that we see more growth. We want to mirror the other right markets to the US business as you know that we were in US business over the last two quarters but we have also been guiding that this model will only take us to a certain level, we cannot build a billion dollar business in this story therefore the other business will mirror the US business in the next several quarters and that is our focus both in R&D and also in operational expense.

Chirag Dagli: Okay Sir that helps and just two clarifications, did you during the call sort of indicate that on the quarterly base of about $65 million for the Q3 we should still see growth?

Arun Kumar: Yes, not blitz scale growth but marginal growth.

Chirag Dagli: But you are viewing this as a growth business even on the base of this?

Arun Kumar: Yes.

Chirag Dagli: Just last one Sir, JV and associate is largely is Stelis?

Arun Kumar: And consumer health.

Chirag Dagli: Can you split the two pieces?

Arun Kumar: We would do that when we meet you Chirag.

Chirag Dagli: Alright. Thank you so much.

Moderator: We have next question from the line of Gaurav Maheswari from Unilazer Ventures Limited. Please go ahead.

G Maheswari: Hi my first question pertains to the US business you have seen a fantastic growth over last six quarters given that in your last presentation you mentioned about an existing business to be a $400 million opportunity in 12 to 18 months which means like $100 million for Strides, we are at 66 million so is this a right understanding 66 million we can see it moving to $100 million quarterly run rate in next 12 to 18 months time?

Arun Kumar: Well that is the idea that is why we guided that this scale can get to 400 in 18-24 months, you are right with that.

G Mahaswari: Okay. The second thing was on the Africa business would you be able to guide us on how do you see that panning out since you have seen a sharp decline in this quarter so where do we think that business to stabilize?

Arun Kumar: It is been a decline by design and not by default like I said and that is to do that whatever we are doing is profitable and that is what is helping us to ensure that our margin profile does not change but growth will come with a new regimen and we are expecting this business to grow, we would like to see this business at least doubling from this quarter run rate in the next three to four quarters, we are confident of getting that but a large is depend upon how quickly we can get the product approved by the WHO which we like I said is weeks away in our scheme of things and then how do we build it from there.

G Maheswari: Got it thank you.

Moderator: Thank you Sir. We have the next question from the line of Vishal Vohra from SK Ventures. Please go ahead.

Vishal Vohra: Thank you so much for the opportunity and congratulations on an excellent set of numbers. Just want to understand the run rate that we now have and given that is driven by US and to some extent other REG markets where we already have a lot of investments in place so would it be fair to assume that going forward the cash flow from the business the cash generation should be much stronger say over the next two years?

Arun Kumar: Yes, it is a fair assumption.

Vishal Vohra: And in that case what is our intention, what do we want to with that cash whether we are looking it for any M&A opportunity or looking to pay on debt I mean what exactly is there a guidance?

Arun Kumar: We give guidance when the pot arrives so at this time we told your assumption is right but the cash is not yet arrived so once it arrives we will have a chat and we take a call but at this time we have a comfortable balance sheet we do not see to need to do any big ticket acquisitions, there a lot of IP and assets that are available so that is not going to stress the balance sheet. So, it is little too early to talk, but directionally these are opportunities all what you said are opportunities for the company to evaluate.

Vishal Vohra: So, but let say from next two years perspective from a growth perspective we do not need any major incremental investments to drive the kind of growth we have seen over the four quarters?

Arun Kumar: Not with the current debt book and the balance sheet size.

Vishal Vohra: Second just to confirm Sir the US we mentioned a $100 million run rate what period is our intention?

Arun Kumar: I did not mention I was just when we did our investor meet we communicated that the current model is good enough will mature at around $400 million, we indicated between 18 and 24 months from December that we indicated and we think that we are on track to get there in the next two years.

Vishal Vohra: Sir third just if you can share, so already there is been a lot of detailing done from the company on Stelis but just to understand your vision for the company over the next two to three for that particular segment rather over the next two to three years, where do we see that business?

Arun Kumar: So as far as Stelis and the injectable business are concerned, these businesses will fuel our growth in next three to four years and the core business will also generate enough cash like you correctly mentioned to support the incremental investment that we require in injectables and Stelis, so we are a little early days in terms of where exactly I mean as we can articulate outcomes and numbers and all of that but what is important here for you to understand is that we got all the building blocks ready, heavy lifting is over, the long gestation process of developing a product, setting up a plant are completed so we are excited about this and while Ananth and rest of the team will ensure that the base business that we operate now and what we reported today will continue to have legs and grow profitably, we will spend more time investing in capabilities around biotech and the injectable, but it is very early days to make any specific commentary around this.

Vishal Vohra: Great Thank you so much Sir and wish you all the best.

Moderator: Thank you. We have a next question from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Arun for the next year in the US, I mean what kind of visibility on approvals do we have?

Arun Kumar: We have now little over 100 and 102-103 products, we have about 69 products approved and we only commercialized about 40 , so we have a lot of pipe available . for example Tacro we launched after three years, losartan we launched after five years, so there are big opportunities for us to even launch the remaining approved products, but to answer your specific question we will add probably about 10-odd approvals per year which what we think would fit into our commercialization bucket, we may have more but what we actually commercialize may be only about ten products a year and that is more than enough.

Nitin Agarwal: 10 of the new ones plus whatever opportunistic you do on the existing approvals?

Arun Kumar: That is right.

Nitin Agarwal: Okay. And on Capex what kind of Capex number should we pencil in over the couple of years going forward?

Arun Kumar: So about $25 million between west palm beach and further expansion in Singaporeif we need next year as capacities may be required to meet more demand for the US and also about 15 million to 20 million is regular Capex so yes, about in the next two years we are looking at about around $50 million.

Nitin Agarwal: That is on aggregate cumulative basis of $50 million over two years?

Arun Kumar: That is right.

Nitin Agarwal: Okay, thank you.

Moderator: Thank you Sir. We have next question from the line of Sachin Kasera from Svan Investment. Please go ahead.

Sachin Kasera: Sir congratulation for good set of numbers. Just one question regarding the investment in Biotech and consumer which currently is at 430 Crores approximately as on date next two years how much approximately we would need to put in more in this two ventures?

Arun Kumar: Atleast about 300 Crores more.

Sachin Kasera: Okay and just one question regarding tax rate, current year we are at very low rate how do we see that for the next two years?

Badree: Yes, so we have guided generally between 10% to 13% so that is what we hope to achieve in the next two years but that is also subject to there is some change in regulations which can happen in next few days because we are closely looking at the R&D benefit whether it will be extended for further period of five years or so, so after that once we get a clarity on that we should be able to guide it better.

Sachin Kasera: Sir just last question regarding these losses from JVs should be on 80-85 Crores this year in the P&L, how do we see this in the next two years should it come down or should it remain at current levels?

Arun Kumar: It should go up a bit till we make money in the Biotech division

Sachin Kasera: Okay thank you.

Moderator: Thank you. We have the last question from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Yes, Sir thank you for the follow up. Sir in the emerging market business over three years, I mean what will happen even if we double from hereon why be in this business at all? every few years gone through these iterations where we have sort of changed the strategy?

Arun Kumar: The only thing constant in our business is change because that is how the business is being disrupted, the emerging market and the in Africa for Africa strategies are important strategies, they are not a distraction for the company, they do not take cash there is no investments required so building these business are important the regulated markets look attractive now from what we doing but a diversified business model is what Strides is building in version 2 as we communicated two years ago and we are committed to make this successful. I think this, especially once we get the institutional business back on track which we will soon this question will probably fade away from your mind, but clearly, we just cannot be a Reg market player although sometime as a capital allocated you get tempted to follow your idea, but I think we need diversity in the business model.

Chirag Dagli: What will be the capital employed in this business?

Arun Kumar: Very marginal, capital employed in Africa would be about $25 million.

Chirag Dagli: This is across working capital as well as fixed assets.

Arun Kumar: Yes, about $25 million.

Chirag Dagli: Okay and then Sir you mentioned you have 70 products approved in the US but you commercialized only 40 are you seeing a lot of incremental opportunities given the kind of supply disruption and price increases you seen in specific product?

Arun Kumar: It depends upon the competitor landscape, it depends upon the regulatory status of an existing player we do not chase a market share at a cost of price, we would wait and watch often that patience pays off, we always have the ability to turn the tap on and bring a product in the market almost as soon as it is required, so yes, we see opportunities and I think we are benefiting quarter-on-quarter by incrementally moving our base and adding new product sales.

Chirag Dagli: In most cases, the reason you are unable to launch these products is because you are not geared up in supply chain because you are not backward integrated or because prices have come down at such a level where we are not sustainable?

Arun Kumar: There is a discipline in our pricing strategy in the US, the moment you compromise that then you are no more contrarian the whole model is to only operate products where if it is a commodity or fully integrated within the group companies we have complete control of the supply chain we are not depend on China, if it is a niche product it is just a matter of time when one of the three players or five players that operate in that product will withdraw the product or exit the market because it is too smaller volume or may have challenges in supply. So, we like the smaller products because that is what incrementally adds to our gross margin.

Chirag Dagli: Sir do you see this 40 or 70 ratio changing dramatically three years out?

Arun Kumar: No.

Chirag Dagli: Okay Sir, thank you so much.

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

Arun Kumar: Thank you all and as always, we are available to answer any specific questions, the IR team is more than happy to answer any specific so if you need to talk to me or Ananth or Badree please write a mail to us and we will more than happy to get on a call. Thank you all and have a wonderful day.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Strides Pharma Science Limited that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.