# Laurus Labs Limited
# Q4 & FY2018 Conference Call Transcript
# May 11, 2018

**Moderator**: Ladies and gentlemen, good day and welcome to the Laurus Labs Q4 FY2018 earnings conference call hosted by Kotak Securities Equities. 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Chirag Talati from Kotak Securities Limited. Thank you and over to you Sir!

**Chirag Talati**: Good morning everyone. This is Chirag from Kotak Institutional Equities. I thank the Laurus Management team for giving us the opportunity to host this call. From Laurus we have with us today Dr. Satyanarayana Chava– CEO, Mr. Ravi Kumar – CFO and Mr. Monish Shah from the Investor Relations Team. Over to the management!

**Dr. Satyanarayana Chava**: Thank you everyone for taking time out for joining us today on our Q4 FY2018 conference call. I would like to take you through the key highlights of our business in Q4 FY18 as well as FY2018. One significant milestone was that we crossed INR 2 billion in total revenue in FY2018. The overall business was on track except Hep-C revenue, the operating profit and PBT also showed small growth despite of challenges in Hep-C revenue. Our Hep-C revenue was down by ~INR 84 Crores and we also spent little over INR 100 Crores in OPEX for Finished Dosage business and more depreciation than previous year on assets which are not yielding any revenue.

Despite of that we have shown a very good performance. One noteworthy point to know here is that, we had gone through seven regulatory inspections during FY2018. USFDA also inspected multiple times and we are happy to tell you we have received EIR for all the inspections done in FY2018.

We also successfully completed the inspections from various African countries, which will pave way for ARV branches in Africa. We were also successfully inspected by Russian authorities for two of our large API units.

All our new manufacturing units have generated commercial revenues. We invoiced finished dosage from Unit 2. We are also made an invoice for our CMO product in Unit 4 and also started commercial invoicing from unit 5 to Aspen.

As I mentioned for Q4 FY18, we did ~INR 565 Crores revenue over the previous quarter it is about 19% growth and also did INR 2,056 Crores for FY2018 showing a modest 8% growth. The significant points to note are; 9% excess revenue in ARVs compared to FY2017, we did ~INR 55 Crores incremental revenue in oncology that is about more than 50% than what we did in FY2017.

Synthesis business also demonstrated more than 40% growth we did ~INR 46 Crores more revenue than FY2017 as I mentioned we did maiden sales of formulation from Unit 2. If you look at overall numbers the generic API we did about ~INR 110 Crores more revenue despite of ~INR 84 Crores less revenue coming from Hep-C division. What is very important here all our divisions have shown a significant growth over FY2017.

Going forward our incremental revenue growth will come from ARV APIs because we have a full basket of ARVs we can offer all APIs in first-line as well as in second-line. We continue to ramp up our ARV supplies to European markets resulting some improvement in overall gross margins. So we are very optimistic our ARV business because current ARV patients enrollment in emerging market is about 18.5 million patients which will grow to close to 23 million in the next few years. So we expect to grow ARV API business on par with the ARV patient enrollment growth.

As I mentioned, Onco APIs we saw robust growth above 50% over the previous year and we expect to do the same in FY2019 as well. We also added significant additional capacity for Onco- high potent API, which will see significant ramp up in FY2019.

When it comes to Hepatitis-C we expect the markets have stabilized and we hope to sustain the current Hepatitis-C revenue as we did in Q4FY18. When we look at outlook for FY2019 in generic API since we are adding significant capacity for ARV API we expect to grow with the market trend closer to 8-9% every year. Hep-C will sustain similar numbers, oncology will continue to grow and other APIs in CMO for generic customers continue to grow as we expected.

Synthesis business was one of our major growth drivers last year and continue to be so in next few years. We have added high potent capabilities to our synthesis division to cater to two NDA programs. We also started manufacturing commercial supplies of an NCE, which was launched in few countries and expected to launch in US once the NDA program is approved by US.

We are very optimistic about the growth outlook for synthesis business from Aspen as we are about to complete the tech absorption from Aspen for significant number of intermediate APIs in steroids and hormones.

In the formulations, we have filed nine ANDAs and one NDA at the end of FY2018. We received our maiden approval for Tenofovir in US and also for emerging markets besides this we also filed Tenofovir in Canada, with WHO and also various other African countries.

Going forward, this financial year we expect to get three approvals, which we expect to launch in the FY2019. We also had done 6 validations for various products and expect to file about 10 ANDAs during FY2019. Q3FY19 onwards we expect to have revenues coming from formulations division. In Europe also we expect to have approvals in Q2 of FY2019, in the emerging markets we filed triple combination with WHO and it is under expedite review process

and hope to get approval in Q3FY19 as well. So formulation business will yield significant revenues from end of Q2 or early Q3 of FY2019.

On the ingredient division, we wanted to strengthen our portfolio with existing customers and we have added capacities for natural extraction in Unit 4 and also started working on the natural product derived high potent API, we have also started validation batches.

The outlook for Ingredients is also encouraging for FY2019 although we did ~INR 8 Crores less than compared to FY2017, but FY2019 looks very robust. With that I will hand it over to Ravi to share some financial highlights.

**V.V. Ravi Kumar**: Thank you Dr. Satya. Good morning everyone and thank you for taking time to participate in the early hours of the day.

We have completed the results for FY 18 and Deloitte & Haskins was our auditor and 1st year for them. The total income from the operations is ~INR 560 Crores vis-à-vis ~INR 480 Crores in the corresponding quarter. Net revenue growth sequential quarter is about 19% and then 8% for the year. Our gross margin has shown slight improvement because of the product mix. Our EBITDA stood at ~INR 442 Crores in FY2018 with the margins of 22% against the 23% margins in FY2017.

Our borrowing cost came down significantly for the full year basis but for the fourth quarter as there is a 4E adjustment of about INR5 Crores because of the exchange rate fluctuations in Dollar as well as Euro. On profitability, our PBT has grown by about 1% when compared to FY2017 but the tax component as we have been discussing in the last few quarters calls so the tax rate has increased by 10%. This is because of reduction of weight deduction for the R&D expenses from 200% to 150% from FY2018 onwards and also the discontinuation of 32 AC that is for an investment, these two contributed about the 10% increase in the effective tax rate. Our diluted EPS is INR 15.8 for FY2018 and for the fourth quarter is about INR 4.21.

A significant amount of gross block is being added, for example Unit 4, Unit 6 has been added. On manpower, almost around 500 people have been added in the current year. there is an increase in the staff cost mainly on account of additions and also because Government of India has increased the gratuity ceiling from Rs.10 lakhs maximum to the Rs.20 lakhs which also made us to do an additional provisioning for actuarial valuation of Rs.2 Crores in the quarter.

So these are all from my side and thank you and we would like to take any questions from the participants. Thank you.

**Moderator**: Thank you very much. Ladies and gentlemen we will now begin with the question and answer session. We take the first question from the line of Pranav Bhavsar from ASA Capital. Please go ahead.

**Pranav Bhavsar:** Thank you for taking my question. I just wanted to understand is it possible to share what would be the revenue from the FDF business this quarter Sir.

**Dr. Satyanarayana Chava**: ~INR 2 Crores.

**Pranv Bhavsar:** And for example any capex guidance on this year? So far we have already spent around ~INR 414 Crores for the FDF business how much incremental capex is expected this year?

**Dr. Satyanarayana Chava**: We are doing about ~INR 10 Crores additional capex in FY2019 in formulations, we expect to get three approvals from FDA, two from WHO and three from European authorities and two from Canada, we expect to create a positive cash flow from Unit 2.

**Pranv Bhavsar:** No problem Sir. And any guidance on the R&D spend this year is being moderating a bit around 5.9% so going forward this year what can we expect sir R&D spend how much percentage any idea.

**Dr. Satyanarayana Chava**: We expect to have R&D spend very similar to last financial year around 6% and in FDF we geared up to file 10 ANDAs per year keeping that in mind our R&D expenditure remain very close to 6% in FY2019 as well.

**Pranv Bhavsar:** And so this FY2019 we would close with 9 ANDAs that 10 additional right Sir?

**Dr. Satyanarayana Chava:** In FY2018 we ended with 9 ANDAs and one NDA with USFDA and in FY2019 we expect to file 10 more ANDAs out of 10 we already completed six product validations and those are under stability right now.

**Pranv Bhavsar:** Thank you Sir. That is all from my side. Thank you so much.

**V.V. Ravi Kumar**: One change for the R&D. We have regrouped FDF RM cost into the FY2017 and FY2018 numbers so earlier numbers we were not showing that as an R&D that is the one change we brought in this year.

**Pranv Bhavsar:** No problem Sir. Thank you so much.

**Moderator**: Thank you. We take the next question from the line of Tushar Manudhane from Motilal Oswal Securities. Please go ahead.

**Tushar Manudhane**: Sir I would just like to know the fixed expenses for the formulation facility for FY2019 full year basis.

**Dr. Satyanarayana Chava**: FY2019 we expect to be the similar size of number.

**Tushar Manudhane**: So that would be about?

**Dr. Satyanarayana Chava**: See the total expense is about ~INR 102 Crores out of those ~INR 30 Crores plus on R&D and around ~INR 70 Crores is on the opex that includes the FDF validation batches. So we expect to the similar number for the FY2019.

**Tushar Manudhane**: Sir R&D spend for the quarter on absolute basis were significantly higher compared to previous quarter though you have given full year guidance of 6% but for this particular quarter anything to do like for the higher R&D spend.

**Dr. Satyanarayana Chava**: As I explained the validation cost has been added to the R&D, which was not added before.

**Tushar Manudhane**: Understood and this C2 Pharma any revenue outlook from Unit 4?

**Dr. Satyanarayana Chava:** We have been working on CMO for natural derived API called Digoxin. We did invoice development quantity. We expect to do validation in this quarter and continue to do commercial production thereafter during the financial year.

**Tushar Manudhane**: Lastly this 8% to 9% growth guidance of the ARV API business so here if you can just throw some colour on the kind of tenders that have been coming for the coming years and at the same time molecule mix is it shifting towards dilutive reveal or is it not if you can just help us on that?

**Dr. Satyanarayana Chava:** The new enrollment of HIV patient into the access program is about 1.5 million per year and it will grow to 23.5 million from current 18.5 that means additional 5 million patients will be added in the next three years and beyond that we expect the number will remain more or less flat and we were thinking we will grow our ARV API business in line with the growth in the enrollment of new patients. We have a full basket of APIs to offer in both first-line as well as second-line. During this quarter FY2019 we are going to inaugurate one of the largest capacity for the Lamivudine and we are adding capacity for Dolutegravir even though there will be a new enrolment happening in Dolutegravir we do not expect significant shift from one therapy to another therapy. We are geared up to continue to grow in ARV API business despite of any changes happen in regimen.

**Tushar Manudhane**: Lastly just on the capex outlook for full year?

**Dr. Satyanarayana Chava:** We will have capex plans to do closer to ~INR 200 Crores in FY2019 versus which we did more than ~INR 350 Crores in FY2018.

**Tushar Manudhane**: Broadly where this capex would go?

**Dr. Satyanarayana Chava:** Significant capex will go in expansion of API capacities as well as additional capacities for Synthesis and Ingredient business about ~INR 10 Crores capex we are doing to debottleneck some commercial launches in FDF.

**Tushar Manudhane**: Thank you. That is it from me.

**Moderator**: Thank you. We take the next question from the line of Abhinav Ganesan from Canara Bank Securities. Please go ahead.

**Abhinav Ganesan**: Thanks for taking my question. Sir one thing I just wanted to ask is that will this pressure continue on the Hep-C front in the next couple of quarters or is there some recoveries, which is are in site?

**Dr. Satyanarayana Chava:** We expected to sustain the quarter four numbers. The pressure was there from FY2017 to FY2018 but what we have seen FY2018 numbers we feel we will be able to sustain the same in FY2019.

**Abhinav Ganesan**: Sir just one small understanding I needed a clarification. We are saying that we are able to grow your sales pretty well, but there is some scarifies on the margin front especially on the PAT front is my understanding correct?

**V.V. Ravi Kumar**: Actually see if you look at from PBT to PAT so the issue is that the effective tax rate has gone up from 18% to the 28% that is the difference and then as we explained in the previous calls this effective tax rate will be the new effective tax rates in the future years unless we get more profits from formulations and then Unit 5 because those two Units are SEZ Units and once they start generating and profits and then they will be exempted.

**Dr. Satyanarayana Chava:** That is all from my side. All the best.

**Moderator**: Thank you. We take the next question from the line of Ranvir Singh from Systematix Shares. Please go ahead.

**Ranvir Singh**: Thanks for taking my question. A couple of it on Hep-C business as you guided the Q4 number to be sustainable if you could just give a perspective of two to three years how where this Hep-C business as we is likely in next two three years?

**Dr. Satyanarayana Chava:** The Hep-C business we have partnered with NATCO and we believe together the Hep-C business has stabilized and we will be able to sustain the numbers what we have demonstrated in Q4 by the coming quarters and next few years.

**Ranvir Singh**: So at this level can we expect some even single digit growth going forward?

**Dr. Satyanarayana Chava:** We had close to ~INR 250 Crores in FY2017 and in FY18 the revenues were lowered to ~INR 166 Crores and going forward we anticipate we will maintain that number in FY2019.

**Ranvir Singh**: Synthesis business what was the contribution of Aspen in this quarter?

**V.V. Ravi Kumar:** We are not communicated the breakdown but it is roughly around 50/50 now.

**Dr. Satyanarayana Chava:** So broadly we have grown ~ 50% in Aspen business we are not giving the absolute number.

**Ranvir Singh**: Okay so you are saying 50% growth for contribution this is growth you are talking about?

**Dr. Satyanarayana Chava:** Synthesis business is contributing 8% of revenue in FY2018 it will continue to do so and maybe it will be closer to 10% FY2019.

**Ranvir Singh**: Fine because we had earlier synthesis business so just I trying to understand the base business is growing and whatever delta we see in this business is due to Aspen or base business has also grown in this quarter?

**Dr. Satyanarayana Chava:** No this business growth from synthesis is coming from Aspen as well as other advanced clinical based programs we are delivering and this use to be 7% in FY2017 and 8% in FY2018 we expect it will be closer to 10% in FY2019.

**Ranvir Singh**: How many products currently we are supplying to Aspen or if you could give the total number of projects current in Aspen presently?

**Dr. Satyanarayana Chava:** About 10 products to Aspen.

**Ranvir Singh**: All products are hormone and steroid?

**Dr. Satyanarayana Chava:** All are intermediates of Hormones or Hormones.

**Ranvir Singh**: Fine and Sir I see a very good recovery in HIV business also. I mean, HIV you just motioned commented some triple combination drug in emerging markets so just I wanted to understand this you are talking about formulation or API.

**Dr. Satyanarayana Chava:** Formulation.

**Ranvir Singh**: How many players are in the product category beyond tender market in emerging market or if you could give some light on regulated market as well?

**Dr. Satyanarayana Chava:** This is dossier filed for catering to emerging market needs. The triple combination there are already two tentative approvals and we believe there were two more filings including us so we expect two more additional filing so around six, seven people will complete for the tenders.

**Ranvir Singh**: In the regulated market, how is the breakup? How the competition and the product we are competing to is?

**Dr. Satyanarayana Chava:** I would expect it to be very similar, because even in the tender market they need to have tentative approval on FDA so the quality and regulatory standards are very similar. Once the patents expire this tentative approval maybe converted into final approval depending on the loss of exclusivity. So we expect in the US market the number of players will be very similar to the emerging market player numbers.

**Ranvir Singh**: So current HIV revenue is how much contribution is from tender and non-tender business how is the breakup there?

**Dr. Satyanarayana Chava:** The emerging market everything will be driven by tenders and their outcomes.

**Ranvir Singh**: And total HIV business is from emerging market only?

**Dr. Satyanarayana Chava:** Yes.

**Ranvir Singh**: And can you give a little bit light on NDA we have filed with the US FDA?

**Dr. Satyanarayana Chava:** That NDA is as part of the triple combination in ARV, because there is no branded drug is available we have filed an NDA that is the a routine program of the triple combinations where the manufacturer is taking for approval.

**Ranvir Singh**: That relates to HIV?

**Dr. Satyanarayana Chava:** HIV you are right.

**Ranvir Singh**: And you indicated that four approvals ANDA approval we expect have you got the TAD by any dates?

**Dr. Satyanarayana Chava:** We got the TAD for all the approvals that we are anticipating in FY2019.

**Ranvir Singh**: So that will be towards end of FY2019 or how is that spread?

**Dr. Satyanarayana Chava:** The approvals expected in Q3 and Q4 of FY2019.

**Ranvir Singh**: So one Metformin I know have you disclose the others one?

**V.V. Ravi Kumar:** We have not disclosed anything.

**Ranvir Singh**: You said that gross margin has improved but my numbers says that gross margin has been a stable in this quarter so is there some disconnect. I see the gross margin in the level of 48% in Q4 and last year was 54% and in Q3 it was 49% so I heard it correctly you said that gross margin has improved?

**V.V. Ravi Kumar:** Gross margins for the year FY 18 over FY 17 have improved by close to ~1%.

**Ranvir Singh**: So maybe the excluding Hep-C would be improved the margin would have improved Hep-C?

**V.V. Ravi Kumar:** Including Hep-C.

**Ranvir Singh**: That is it from my side. Thanks a lot Sir.

**Moderator**: Thank you. We take the next question from the line of Pankaj Tibrewal from Kotak Mutual Fund. Please go ahead.

**Pankaj Tibrewal**: Good morning. Couple of questions; one in your press release you have mentioned that in the coming years obviously because of the investments in Unit 2 and 6 your return on capital has come down. Can you help us understand how much of your capital is blocked which is generating virtually no returns or no revenues today and where would you think once you start stabilizing your Unit 2 and Unit 6, this return on capital is going to kind of stabilize there that is first question and I will follow up with the second question?

**V.V. Ravi Kumar:** Around INR 600 Crores of the asset is not generating revenue. This is includes the formulation Unit, Unit 4 and Unit 6 and even Unit 5 because we are not generating any commercial supplies we just recovering our fixed costs so we are not making any profits there. Once we start generating revenue out of these units then the ROA automatically will improve and ROCE also automatically will improve on this. This will happen some part in the H2 of FY19 and meaning fully in FY 20.

**Pankaj Tibrewal**: So by FY2020 end you think all the units probably should be ramped up completely is that a fair understanding?

**V.V. Ravi Kumar**: Actually this ramped up reasonably, some units are fully ramped up some units will be in the mid of ramping up.

**Dr. Satyanarayana Chava:** Going back to this question the Unit 5 we do not see any significant expansion. Unit 2 we do not see significant expansions but Unit 4 we continue to invest. So Unit 5 and Unit 2 will be easing significant cash from the operations but in Unit 4 we will continue to invest further in the next two three years.

**Pankaj Tibrewal**: But Unit 4 and Unit 6, which is generating zero revenue today you think that second half of this year and probably early part of next year you should start seeing cost absorption starting to happen there.

**Dr. Satyanarayana Chava:** Unit 6 is a captive unit for all our units for making intermediaries and starting materials whereas Unit 4 will be giving substantial revenues in FY2020.

**Pankaj Tibrewal**: And second observation was that your borrowings have gone up this year and so as they have been the interest cost can you give us some colour on that and how do you plan from this year perspective on the borrowing side?

**V.V. Ravi Kumar:** The borrowing side quarter-on-quarter it is at the similar level. There is not much change but when you compared to the March 2017 quarter then yes the borrowing has gone up and we have already taken another $25 million ECB in the month of May, so with that I do not think we are going to add any more borrowings after that. Coming to your question of an interest cost, as I explained in the call Q4FY18 we have 4E adjustment which is about an INR 5 Crores otherwise our cost of funds are very reasonable but when I compared a full year basis the interest cost has come down drastically.

**Pankaj Tibrewal**: That is all from my side. Thank you very much.

**Moderator**: Thank you. We take the next question from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.

**Aditya Khemka**: Sir just getting a little more colour into the ANDA that you said you have filed I had understand it is a triple combination but did you conduct clinical trials, how many patients were there in the trials, what are trials that you conduct to sort of submit the ANDA to the FDA?

**Dr. Satyanarayana Chava:** We got clinical waiver from FDA because the innovator gave letter to FDA. So we haven't done any clinical trials on the triple combination NDA. We have done only bio equivalence and that is enough for regulators to approve the NDA.

**Aditya Khemka**: So there is an existing innovator for this triple combination product?

**Dr. Satyanarayana Chava:** No so we have done bios for independent consistence of the triple drug.

**Aditya Khemka**: So currently these three drugs are present in the US market but maybe not present as a combination so you have combined the three, we have done some bio equivalence for all the three and then we file the NDA?

**Dr. Satyanarayana Chava:** We did bio equivalence against individual constituents of the triple drug and both FDA and WHO are happy with that approach and we have filed with FDA the NDA and also dossier with WHO, both filings are under review. We have not done any critical trials based on their guidance.

**Aditya Khemka**: And this guidance came from both WHO as well as FDA?

**Dr. Satyanarayana Chava:** WHO as well as FDA.

**Aditya Khemka**: And just to understand the economics here so first of all the chances of the product being approved by WHO and FDA seems to be reasonably high because there is no chemical trial data that three components are already present in the market and we have proven bioequivalence so there should be a reasonably high chance of you getting a approval of the product that is the correct understanding?

**Dr. Satyanarayana Chava:** You are right there were two approvals already given by FDA for NDA with the same three constituents so we do not expect any challenges in getting approval from FDA as well as WHO.

**Aditya Khemka**: Okay so there are other two players already marketing this triple combination in the US?

**Dr. Satyanarayana Chava:** You are right.

**Aditya Khemka**: Who are the other two players marketing in this triple combination Sir?

**Dr. Satyanarayana Chava:** Aurobindo and Mylan.

**Aditya Khemka**: Aurobindo, Mylan are already marketing this and how big is that market what is the market size of these two players in the US?

**Dr. Satyanarayana Chava:** It is not in the US this is only in the emerging market ARV treatment.

**Aditya Khemka**: Sorry I did not understand that so Mylan and Aurobindo are currently marketing these products in US.

**Dr. Satyanarayana Chava:** No they currently have Aurobindo and Mylan are marketing these products in Africa under the PEPFAR and WHO program.

**Aditya Khemka**: When you are submitting it to the FDA you are looking for the PEPFAR approval to supply in Africa it is not really to market return by United States?

**Dr. Satyanarayana Chava:** You are right.

**Aditya Khemka**: You are looking to market in Africa only where these two people are also present we will be the third player right?

**Dr. Satyanarayana Chava:** Yes.

**Aditya Khemka**: Do you have any clue as to how much is the size in Africa for this molecule for this triple combination from Mylan and Aurobindo.

**Dr. Satyanarayana Chava:** It is treatment is emerging right now. It is substantially big.

**Aditya Khemka**: So this is the TLD combination right.

**Dr. Satyanarayana Chava:** Yes you are right.

**Aditya Khemka**: Sir what about the challenges we are facing on the Efavirenz formulation front because that seems to be a larger market from the patient pool perspective and TLE seems to be the legacy sort of product, which has a larger acceptance for you in Africa so where are we on the Efavirenz stabilization of the formulation product? Have we made any progress there?

**Dr. Satyanarayana Chava:** We are doing two programs and a programs continuing Efavirenz. One we will file next month and two more will be filed during FY2019 when it comes to Efavirenz API we have not seen any challenges, FY2017 and FY2018 the quantum and as well as the value from Efavirenz franchise remained constant.

**Aditya Khemka**: But what about the Efavirenz formulation I mean we have been able to stabilize that and in terms of supply?

**Dr. Satyanarayana Chava:** We are doing formulations we will file during FY2019 formulations.

**Aditya Khemka**: And this will include the TLE filing for Africa.

**Dr. Satyanarayana Chava:** TLE 600, TLE 400 and the TEE these three will be filed in FY2019.

**Aditya Khemka**: And all three will be filed again both with WHO and with FDA or PEPFAR in Africa?

**Dr. Satyanarayana Chava:** You are right.

**Aditya Khemka**: Sir my last question if I may in terms of ANDAs now so we are seeing this environment in the United States whereas significant challenge in terms of pricing, significant challenge in terms of getting any significant market share given the number of players in each of these products especially like Metformin for instance of the product which is in public domain so there are too many players around that so how do you see your partners positioned to market these products and what are they telling you in terms of how much market share or how much volume uptake will be there from their end is there any committed level there or are there also sort of dependent on the market forces to see how much they will pickup from you?

**Dr. Satyanarayana Chava:** Obviously it will depend on market forces but our product development approach is not specific to US, the Metformin we have filed in US we have filed in Europe we are going to file in Canada, we are the exploring filing even in some African countries in other emerging countries so our product development approach is global. In US we are partnered. In Europe in fact we are currently we are running three parallel DCBs for Metformin, two for our partners and one for

ourselves, so we are not worried about Metformin that is going to be very stable business in the next two years for us.

**Aditya Khemka**: I wish you all the best and hope to see you soon whenever you are in Mumbai.

**Moderator**: Thank you. We take the next question from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

**Charulata Gaidhani**: My question pertains to the ARV business in terms of profitability the profitability has come down a bit how do you see that going forward?

**Dr. Satyanarayana Chava:** The profitability when you are talking about profit after tax has come down for other reason not for the margin pressure in ARV.

**Charulata Gaidhani**: No, I am talking of EBITDA margins.

**Dr. Satyanarayana Chava:** EBITDA margin was down by in quarter-over-quarter Q4 FY2017 to Q4 FY2018 there was a reduction that was because of significant volumes of ARV, APIs we sold to European launches in the previous year.

**Charulata Gaidhani**: How do you see the EBITDA margin going forward?

**V.V. Ravi Kumar:** The EBITDA margin has come down because of the additional expenses incurred for the two new units and we also recruited about 500 people all it been absorbed that is the reason EBITDA has shown the gross margin is impact, there is no margin pressure the only thing is when I explained when we start generating revenues from these assets so the expenditure will be normalized. So the way forward there is no we are not foreseeing any margin reduction.

**Charulata Gaidhani**: So you think this margin is sustainable?

**V.V. Ravi Kumar:** Yes, it should actually improve.

**Charulata Gaidhani**: Improve because of?

**V.V. Ravi Kumar:** Improve because of additional revenues and gross margin you can arrive from the existing asset.

**Charulata Gaidhani**: Yes so essentially it will be because of change in product mix?

**Dr. Satyanarayana Chava:** One is the change in revenue mix because the high margins Synthesis business we are growing significantly and high margin oncology business we are growing and rationalization of revenues coming from the units where we have done any revenue generation in FY2018, that is the rationalization of expenses also will happen. We are not adding any new units in FY2019 as well as FY2020. These units will continue to generate positive cash from operations.

**Charulata Gaidhani**: Now in oncology you have grown 54% Y-o-Y what type of growth you foresee going forward?

**Dr. Satyanarayana Chava:** We expect to grow but not 50% year-on-year but you see significant growth because we also added capacities in oncology division so our growth looks very interesting in oncology in FY2019 as well.

**Charulata Gaidhani**: So 25%, 30% growth?

**Dr. Satyanarayana Chava:** You can expect good growth, I leave at that stage.

**Charulata Gaidhani**: Thank you.

**Moderator**: Thank you. We will take the next question from the line of Vivek Kumar from GeeCee Invest. Please go ahead.

**Vivek Kumar**: Thank you for taking my question. Sir, we have been talking here in terms of formulation business so as it could be really helpful if you can just guide through from where we are today and in terms of three to four year trajectory where you really think is business can built up in terms of the revenue side let us by FY2020-2021 kind of a scenario?

**Dr. Satyanarayana Chava:** We can only give you our preparedness to take challenges and convert them into opportunities. See when we started our FDF business we start with 2 billion tablet capacity now we have 5 billion capacity and with little extra capex we can take that capacity 8 billion in next two, three years. We have filed 10 ANDAs. We are filing 10 ANDAs in FY2019, expect to do so similar number in FY2020 and we have 500 people in finished dosage division over 100 in R&D and close to 400 in manufacturing. We will add few more people in manufacturing in FY2019 as well as FY2020. So keeping that in mind I think we are geared up to for a big gain we do not want to give you a number right now as it all depends on how many approvals we get how much market share we will get from various regions where we are going to file these dossiers.

**Vivek Kumar**: Sir by which year or the quarter let us say in next year or let us say in FY2020 where do you think the PAT breakeven would actually start moving in the PAT breakeven?

**Dr. Satyanarayana Chava:** FY2019 we expect to cash breakeven for Unit 2.

**Vivek Kumar**: So overall and for the formulation business by FY2020 you should be PAT breakeven, which means?

**Dr. Satyanarayana Chava:** Hopefully yes.

**Vivek Kumar**: Sir my second question is most related to I think I was just looking at one of the channels in CNBC you have been talking about mid-teens guidance on the overall revenue right?

**Dr. Satyanarayana Chava:** For FY2019 yes.

**Vivek Kumar**: And the ARV segment you just talked about 8% to 9% or 9% to 10% somewhere I just wanted to verify that?

**Dr. Satyanarayana Chava:** Yes between 8% and 10% growth in ARV API business.

**Vivek Kumar**: So Sir my question here is that in terms of your pricing environment within the ARV segment how has FY2018 panned out versus FY2017 in terms of the pricing erosion because we hear from lot of formulators that they have seen a continuous pricing thing coming on so I thought that maybe they would like to negotiate, renegotiate the new guys so how do we see FY2018 for you and how do we see the scenario for FY2019 in terms of pricing environment for ARV business?

**Dr. Satyanarayana Chava:** FY2017 to FY2018 there was definitely pricing pressure and we were able to nullify that by improving our efficiencies by doing backward integration with some of the intermediates, by increasing capacities, and by increasing recoveries. So we are able to maintain gross margins, there was a price decrease in our sales price but we are able to decrease our cost of production also to match that decrease in sales price in FY2018. And FY2019 we expect to do same our gross margin will remain similar in ARV in FY2019 as well.

**Vivek Kumar**: So are certainly saying that your EBITDA margin there is actually not going to be much pressure within the ARV segment or ARV peace is that correct Sir?

**Dr. Satyanarayana Chava:** You are right.

**Vivek Kumar**: Thank you so much Sir.

**Moderator**: Thank you. We take the next question from the line of Karan Doshi from Subhkam Ventures. Please go ahead.

**Karan Doshi**: Sir my question is again on the ARV API side outlook of 8% to 10% kind of a growth. Sir do you feel going forward we will be able to the growth that we have shown in FY2015 and 2016 a mid-teen kind of a growth would be possible somewhere FY2020 onwards?

**Dr. Satyanarayana Chava:** The ARV APIs growth will depend on how many new patients are enrolled into the program that is currently around 8% and our API growth will be in line with the new patient enrollment. We do not expect to go beyond that but we have a full basket of APIs for both first-line and second line until FY2017. We had only first-line and we did not have Lamivudine, but FY2018 we started building Lamivudine capacity and doing validations for second-line APIs, so in FY2019 we are in a position to offer all APIs both in first line as well as in second line.

**Karan Doshi**: Sir second question is on the ANDAs we are expecting in FY2019 we said that we are looking at three launches in somewhere in Q2 or Q3 of FY2019 Sir if you could just help us out with market share data or whether those products are already in the generic space or still patented products?

**Dr. Satyanarayana Chava:** In FY2019 we are expecting three approvals one will be bigger launch product along with our players and two will be launches where there is a limited competition large volume products.

**Karan Doshi**: Sir anything on the market share if you could share or market size how big is the market?

**Dr. Satyanarayana Chava:** Market size for the Dolutegravir launch is very big whereas the existing molecules also market size is big and we expect to launch in Q3 and Q4 not in Q2 and Q3, Q3 and Q4 of FY2019.

**Karan Doshi**: And on the Dolutegravir launch how big would the competition be if you could throw some light on that?

**Dr. Satyanarayana Chava:** There are many tentative approvals already. It all depends on how effective people will be integrating both forward and backward, ability to allocate capacities for both APIs and FDF though we are watching carefully market size is very large.

**Karan Doshi**: Sir next question is we said that around 600 Crores of asset is not generating any revenue currently going forward we are expecting the revenue generations to start so on the EBITDA margin front how much expenditure is coming on because of this 600 Crores worth of gross block.

**V.V. Ravi Kumar:** It is around INR 130- 140 Crores.

**Karan Doshi**: And we expect around by FY2020 we might breakeven that.

**V.V. Ravi Kumar:** Yes.

**Karan Doshi**: And Sir my last question is going forward should we assume the tax rate between 28% and 29%.

**V.V. Ravi Kumar:** Yes, unless we make substantial profits from Unit 5 and Unit 2.

**Karan Doshi**: Thank you Sir.

**Moderator**: Thank you. We take the next question from the line of Bhagwan Chowdhry from Sunidhi Securities. Please go ahead.

**Bhagwan Chowdhry**: Thanks for the opportunity. Sir where we are stuck with the approval of Metformin I think we were supposed to get it?

**Dr. Satyanarayana Chava:** Current TAD is in July for Metformin.

**Bhagwan Chowdhry**: Second Sir as we are hearing from the different sources that the global fund and other institution has reduced their allocations for the funds so is it going to impact the overall HIV market and then to us as well going forward what is your outlook about this?

**Dr. Satyanarayana Chava:** The overall spend on buying drugs for HIV treatment is closer to $1.75 billion whereas the funding raised is six, seven times higher than this. So we do not expect any challenges in the buying drugs and one interesting point is 50% of these purchases are done by the governments so the agencies were able to shift burden from the procurement agencies to local governments.

**Bhagwan Chowdhry**: But there is no change in the volume that is what you are saying?

**Dr. Satyanarayana Chava:** No change in the availability or affordability of the medicines in those regions.

**Bhagwan Chowdhry**: Sir last one in Hepatitis-C earlier our assumption was like whatever loss there would be from the Indian market you will try to cover it from the emerging markets as and when we will get the approvals. So now again we are estimating that it should stabilize at the current level so the thought process is same that if there will be any further reduction from the domestic market so you will get it from the emerging markets as and when getting the approval?

**Dr. Satyanarayana Chava:** The current Q4 revenue is the mix of both domestic as well as revenues coming from approvals in other emerging markets. I think what we supply to our partners we continue to be sustainable in next several quarters.

**Bhagwan Chowdhry**: But Sir Point is that do you foresee that there will be further price reduction in the domestic market are you will adjust that with the emerging market volume or you see that they will stabilize in the domestic market the pricing?

**Dr. Satyanarayana Chava:** Domestic market pricing is stabilized and we do not see any further pricing pressure.

**Bhagwan Chowdhry**: Thank you Sir.

**Moderator**: Thank you. We take the last question from the line of Gagan Thareja from Kotak Investment Advisors. Please go ahead.

**Gagan Thareja**: In your initial remarks you pointed out that in the next three years 5 million patients might get added to the pool in LMIC ARV thereafter you expect it to stabilize so is it the case that in the next three years there will be volume growth and thereafter as per your understanding the market volume will stabilize out?

**Dr. Satyanarayana Chava:** Overall market will grow until 2023 with respect to the enrollment of patients after that we need to get more market share.

**Gagan Thareja**: You also indicated you have filed TLE400 so essentially is it that you believe that the first line therapy TLE600 will move to clearly TLE400.

**Dr. Satyanarayana Chava:** We are not very sure right now. If you look at the procurement they are procuring both 600 as well as 400.

**Gagan Thareja**: Yes, but in terms of efficacy 400 can generate the same efficacy as 600 from a therapeutic perspective, it would make sense to move to 400 and probably that would mean that the volume in Efavirenz will reduce?

**Dr. Satyanarayana Chava:** If you look at 16, 17 million first line treatments closer to 3.5 million in South Africa and about 1 million in India and in Brazil and Thailand these countries constitutes more than one-third of ARV treatments they are not moving to 400 all these are remain on 600.

**Gagan Thareja**: On Dolutegravir the latest trials indicate that from the patient pool, which is dually affected, by both HIV and Tuberculosis Dolutegravir trials have been good. It is now only the patient pool of pregnant something which is probably left for the efficacy and safety treatment, safety trials. Do you therefore foresee my understanding was that the South African tender, which is going to happen later next year they were keen on Dolutegravir and they were simply waiting for the trial data on the tuberculosis patient pool, which now has come out its positive so do you foresee that in the coming tenders there will be a shift away from this first-line into the new first line?

**Dr. Satyanarayana Chava:** We do not expect, so the reason is the trial results are positive when the co-infected patients get additional pill of Dolutegravir.

**Gagan Thareja**: Yes but it would still been twice a day rather than?

**Dr. Satyanarayana Chava:** Yes, it is a combination of both compliance and price. Why it is compliance issue is it took several years for regulators to move to a single pill from multiple pills for the co-infected patients then they have to give one triple pill and a single pill and they have to stop that additional single Dolutegravir when TB is under control and most of these regions they do not have logistics as well as diagnostics infrastructure to monitor this.

**Gagan Thareja**: If one were to look at it strategically you are moving into ARV formulations, you have filed for TLE, TLD, my understanding is that it will be fair to presume that if you were to ramp up in the formulation market you are essentially gaining market share from some of your existing client base, in which case the API supply that you have to these that will shrink away since you are ramping up in formulation so to that extent it will come at the expense of your growth in ARV,

APIs if that is the case would it be fair to presume that ARV, APIs for you can grow at 8% which is the underlying volume growth that you are presuming?

**Dr. Satyanarayana Chava:** See we made it very clear to current customers that we are getting into formulations so it is not an activity where we are not doing without knowledge of our current customers so we also made very clear we are creating enough capacity such that we will not hamper any deliveries to our existing clients.

**Gagan Thareja**: You may not hamper deliveries Sir but arithmetically speaking if we are going to take away their share any which ways they will lose out.

**Dr. Satyanarayana Chava:** Sure we are going to take away somebody else's share we are going to take the growth in the market.

**Gagan Thareja**: And Lamivudine you set up a significant capacity could you give some idea of the competitive landscape around Lamivudine right now? Who are the big suppliers in Lamivudine and what is the ramp up you are expecting from this?

**Dr. Satyanarayana Chava:** Most of the Lamivudine for nonintegrated players comes from China so our ability to compete those suppliers is very high because we have scale and technology to match those. So we expect to grow with the market. See if you look at every new player, every new patients enrolled into this program they need Lamivudine so every million patients had a will create a demand for 100 tonnes of Lamivudine per year.

**Gagan Thareja**: Incrementally and in what sort of market share of this 100 tonnes are you looking forward to and let us say of what timeframe you feel you can stabilize ramp up and then stabilize your Lamivudine supplies.

**Dr. Satyanarayana Chava:** See we have created 600 tonne capacity we expected to go that level in 24 months not right now.

**Gagan Thareja**: In 24 months you expect to ramp up to 600 tonnes?

**Dr. Satyanarayana Chava:** Yes.

**Gagan Thareja**: Thank you Sir. That is all from my side.

**Moderator**: Thank you. Well that was the last question. I would now like to hand the floor over to the management for their closing comments.

**Dr. Satyanarayana Chava:** Thanks for your understanding and questions, you were pointing it out and thank you for your active participation.

**Moderator**: Thank you. Ladies and gentlemen, on behalf of Kotak Securities, that concludes this conference. Thank you all for joining us. You may now disconnect your lines now.