



Strides Arcolab Q2CY12 Post Results Conference Call

July 27, 2012



MANAGEMENT: **MR. ARUN KUMAR - VICE CHAIRMAN AND MANAGING
DIRECTOR, STRIDES ARCOLAB LIMITED.
DR. T. S. RANGAN – GROUP CFO**

MODERATOR: **MR. NITIN AGARWAL – ANALYST, IDFC SECURITIES**

Moderator Ladies and gentlemen, good evening and welcome to the Strides Arcolab Q2CY12 Post Results Conference Call hosted by IDFC Securities Limited. As a reminder, for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this conference call, please signal an operator by pressing '*' and 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. Nitin Agarwal from IDFC Securities Limited. Thank you. And over to you, sir.

Nitin Agarwal Good afternoon, everyone and a very warm welcome to Strides Arcolab's Q2CY12 post results conference call hosted by IDFC Securities. On the call today we have representing Strides Arcolab management, Mr. Arun Kumar – Vice Chairman and Managing Director; and Dr. T. S. Rangan – Group CFO and Strides Arcolab Management team. I hand over the call to Arun and the management team to take it forward. Please go ahead and take it forward sir.

Arun Kumar Good afternoon to everybody and thank you for listening into our post results conference call today. Before I start I just would give a quick update on our performance for the quarter. We continue to perform strongly in both our P&L and Agila which is our Injectables business and Pharmaceutical business. Consequently, quarter revenues have increased by 30% to Rs. 547 crores. EBITDA after adjusting for exchange losses is around Rs. 152 crores and the reported EBITDA is Rs. 128 crores, again showing strong growth through an underlying operating growth especially the leverage from our Injectables business, and obviously, the introduction of our first key pharma product in the US market. Importantly also, we paid FCCBs and consequently our debt has reduced significantly a little over 1000 crores since the beginning of the year to now about 1300 crores, of which about 500 crores is our working capital debt, giving us a comfortable net debt-to-equity ratio of 0.65 under our guidance of 0.75 to 0.8. This is obviously as a result of the successful closure of our Australian sale of Ascent which we have now completed all our conditions subsequent, and as a consequence, we have booked our additional profits in this quarter which is due out of that transaction.

During the quarter, the operating margins of Agila were at 26% against the guidance of 23% to 30%. Adjusted for the Brazilian operations which we guided to be EBITDA-positive our base business delivered an EBITDA of around 34%, reflecting stronger margin acquisition and market share acquisition in the US predominantly. And during the quarter we commercialized nine additional ANDAs. We received four approvals during the quarter, so we also commercialized nine products. So the gap between products approved and products to be commercialized is reducing, and we hope that by the end of the year we would be in a much stronger position with that.



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We also set up a joint venture in Canada and we have already commenced sales of our first product in this month in the Canadian market addressing significant shortages that have emerged in the Canadian market consequent to the issues with the key suppliers in that market. We do hope that we would be able to launch approximately 40-odd products in the next two years and emerge as an important market in a North American footprint.

Recently, we have announced an investment of Proparco, which is a French government-owned institutions which funds growth in Africa and they have invested for a minority stake in our African business which will help us grow the business regionally.

So, specifically of course, we have come to specifics, but in all it has been a good quarter, very much in guidance and resulting in strong overall growth. The highlight apart from Agila is the fact that we were Day 1 on Vancomycin Oral and amongst the four approved supplies on Day 1 we were the first company to have product in the market which helped us garner a very significant market share and also resulted an important profit in our Pharma business, and therefore a significant growth in our EBITDA.

I have obviously given a high level overview, get into specifics that we get into this call and I will now be happy to answer any questions that callers do have.

Moderator

Thank you so much. We will now begin with the question-and-answer session. Anyone who wishes to ask a question may please press '*' and '1' on your touchtone telephone. If you wish to remove yourself from the question queue, you may do so by pressing '*' and '2.' Participants are requested to use only the handsets while asking a question. Anyone who has a question may please press * and 1 at this time. We have our first question from the line of Ranjit Kapadia from Centrum Broking, please go ahead.

Ranjit Kapadia

My question relates to Vancomycin Oral. What was the price drop on the Day 1 when we launched the product?

Arun Kumar

The approximate price drop in the first quarter is about 60% and it stayed steady there until the first quarter. There have been two additional approvals recently, so we are not sure of the additional price drop, but it has been about 60% in the first quarter.

Ranjit Kapadia

So there are only three players now, excluding the Innovator.

Arun Kumar

There is an authorized generic and there were three other generic players. No product available in the quarter, but now product has emerged from the other players, and we would expect the price erosion to be significant going forward.

- Ranjit Kapadia** And regarding the Ascent, you have done exceedingly well and EBITDA is also well. So any guidance you can give for this business?
- Arun Kumar** You are talking about Agila I think?
- Ranjit Kapadia** Yeah Agila, sorry.
- Arun Kumar** Yeah, Agila, we have guided that the margin growth would be very significant especially in our base business. At the moment we are very preoccupied launching products and that is why in the beginning of the year we said you would have lumpy quarters. This quarter is a reflection of that although the profits are being much more in terms of percentage than the last quarter, but we do not have a specific guidance on revenue as yet, and as the year passes, we should be in a better position to give you a reflection of that, because we are addressing a market there, shortages are very significant, and we are not trying to exploit the market situation and shortages, we are trying to get a supply lined up for long-term contract, which is our focus, and as our order book settles, we will be able to give you more clarity towards the end of the year.
- Moderator** We have our next question from the line of Bhavin Shah from Dolat Capital, please go ahead.
- Bhavin Shah** Just wanted some clarification on one of the footnote items, the option costs which is there of about 342-odd crores. What does it really refer to? There is a footnote #9 resonated to be investment and asset which was sold.
- Arun Kumar** Can you tell us what is your exact question?
- Bhavin Shah** Basically this footnote really has a statement which states the surplus recognized in the earlier quarter sort of certain option costs amounting to 342,14 lakhs, which is 342-odd crores that were triggered by the decision to sell this investment accordingly has been treated as an exception items. So just wanted to know what this really option costs refers to?
- Dr. T S Rangan** This is the part of the Ascent distribution. Like for example, you know that we divested this business in Q1 of this year. This is the amount that reflects the distribution to minority shareholders.
- Arun Kumar** Based on a certain price target the minority shareholders, the founder and the CEO of the company and a shareholder of the company and the employees had options over a certain price that we were getting on the transaction and that was the option value.

- Bhavin Shah** Fine. And just coming back to the performance, Specialties, the margins per se, the differential between what we would have done without Brazil and with Brazil, do you think Arun in your view going forward this will possibly contract and by how much, just on the operating side?
- Arun Kumar** I do not think it will contract. I mean basically the reason why we are kind of showcasing the base business differently is because we have now get a steady-state situation in terms of both order book and visibility, and I do not see any great variation of any contraction there in that business. What you need to understand also that our model is a profit-share model. Our profits stay with typically between three and four quarters. So actually they will settle down around these percentage numbers is our view.
- Bhavin Shah** Yeah, but this is referring to the Brazilian operation consolidation and the Specialties segment, which is perhaps limiting your margins to be what they are, could be much higher. So just trying to -
- Arun Kumar** The facility currently is a drag because the capacity utilization of facility will only be reflected when we start exporting our penems. Obviously, that is the key trigger for the Brazilian numbers to dramatically change because using 10-15% of capacity for the domestic market in spite of that we are able to break even. There are significant upsides coming out of there. At the moment the FDA's preoccupation is to get the shortage product addressed and therefore their focus on approving products where there are't any shortages is not as robust as it should be. We are making all out efforts to get our penems approvals up and running, but I can now tell you that there is a significant visibility in the European approval status and we would commence exports from Q4 for sure but we are hoping that before the end of this year we would have had important FDA approvals, which obviously will significantly change the Brazilian landscape in terms of margins.
- Bhavin Shah** We will have to be perhaps patient for another six or nine months to get the -
- Arun Kumar** Yeah two quarters - we would be around that.
- Moderator** We have the next question from the line of Nimesh Desai from Motilal Oswal Securities. Please go ahead.
- Amit** Hi, this is Amit here. Just a couple of questions. One thing is that in the Specialties business we can see QoQ decline that is despite the currency benefit because the realization in this quarter was much better than the last quarter and also the company launched new products during the quarter. So I mean any reason for the sequential decline in the Specialties business revenues?

- Arun Kumar** When we had this earnings call in Q1 we guided all of you that we would have lumpy quarter this year and we do not have evenness in our launch. A product maybe \$10 million opportunity, a product maybe a billion dollar opportunity, a product maybe a million dollar opportunity. We are in a business unlike in the Pharmaceuticals Retail we sell through GPOs, we also advised you that significant GPO contracts were opening up for supplies July 1st and October 1st between two large GPO contractors, and our focus was to ensure that we had enough inventory to meet the GPO obligation so that we, as a new player, want to be sure that we are there, one. The other thing that you need to focus is that our business model is like I said in my opening remarks profits trail, so which means that if I have a transfer to the cost plus model, then the profits will only fall in much significant quarters later as we wait for the product to go into the distribution channel and our partners to certify the profit share. So that is why we said we would have lumpiness. So sequential drop this quarter is no reflection on any degrowth. It is a function of what products we launch, what contractual obligations we have from GPOs which we met and I think you should wait patiently, as this whole year unfolds, as we have significant new products to be launched when you get to a base number where there is steadiness. That is why we cautioned all investors about lumpiness. It is not a reflection of any degrowth.
- Amit** The second thing is on the licensing income. You had guided for the declining licensing income in CY12 compared to CY11. So I mean, what number one should go by for CY12 in terms of licensing income?
- Arun Kumar** We guided in the last call that our licensing income will range between \$50 million and \$60 million. We are not changing that guideline. If H1 is lower it is only a reflection of the work that probably would not have been completed for qualifying for revenue while the R&D has been very active. So there is no shift in revenue forecast which just means that H2 will be significantly more robust licensing revenue which you will be able to see.
- Amit** There is one more question for Mr. Rangan, I mean we can see in this quarter the interest cost has gone up again sequentially, I mean I was under assumption that since you have repaid quite a lot of debt from the proceedings of this Ascent transaction, the interest costs should have gone down QoQ. Am I missing something here?
- Dr. T S Rangan** Yes Amit, because the new Schedule VI if you really look at it is that if you look at my P&L there are two items. Earlier, we used to interest cost and interest income we net off and we report. If you look at it currently what you referring to is only the cost is 51, also the interest income of close to about 13 crores. So this is close to about 38 to 39, we mentioned that last year at was close to about 200-210, we said that that run-rate will come down somewhere around 40-42 crores. So that is what it is triggering, there is no change in that, it is more of a presentation in line with the new Schedule VI format.

- Amit** Oh understood. So that interest income is now reflected in the other operating income, is it?
- Dr. T S Rangan** Other income, not other operating income.
- Moderator** We have the next question again from the line of Hitesh Mahida from Fortune Equity Brokers, please go ahead.
- Hitesh Mahida** Can you throw some more color on your Canadian JV, how many approvals do we have in place and when can we expect all the 40 products being launched?
- Arun Kumar** We already have a portfolio of around 14 or 15 products that are approved plus we have got 6 to 7 fast-track approvals which we got approvals under 3 months, where we get approvals under three months, so we do have a fairly robust portfolio. And the balance 40 products that we have identified are already in active filing as in their very late stage of approvals and the Canadian authorities typically approve products in 18 to 20 months. So we are sitting pretty with a fairly strong portfolio. **Hitesh Mahida** Okay. And what would be your quarterly run-rate as far as interest cost is concerned, since we have brought down our debt significantly?
- Arun Kumar** It will be about 40 to 43 because you know that rupee is also moving, is depreciating, close to about \$100 million of foreign currency loan, but you can safely assume anywhere around 42 to 43 run rate.
- Moderator** We have the next question from the line of Raghuvan Chaudhari from India Nivesh Securities, please go ahead.
- Raghuvan Chaudhari** Other operating income has increased this quarter on QoQ and YoY basis. Can you please explain that what it contains exactly?
- Arun Kumar** Other operating income is predominantly a profit share on Vancomycin. So our profit share in the quarter on Vancomycin was close to about rs. 28 crores and the rest is export incentives.
- Raghuvan Chaudhari** And in the future also what about profit will be from Vancomycin that will come into the other operating income?
- Dr. T S Rangan** As long as it is in the nature of royalty it will be as part of the other operating income.
- Raghuvan Chaudhari** One more question I have is regarding when you have reported the numbers excluding the FOREX gain and loss, I mean I am combining Agila and Pharma, so it is coming from 550

crores and while in the financial results you have reported 508 crores, that difference is mainly because of that FOREX and we have news we have taken an consideration that is....

- Arun Kumar** It take up the operating income and then it add the PAT.
- Moderator** Our next question is from the line of Aditya Khemka from Nomura, please go ahead.
- Aditya Khemka** Just a small question on your USD exposure. Just want to understand what was the realization per USD this quarter?
- Dr. T S Rangan** Yeah, it is close to about Rs. 51 and that is why you see that we reinstated some of the open contracts at 55. So there is a non-cash loss of close to about 24 crores which we have said that it is the exchange loss impact.
- Aditya Khemka** Okay. So other than exports do we also imports to pay for in USD? What I am trying to gauge here is what is the sensitivity of higher EBITDA or net profit to every rupee movement in the USD-INR rate? So do we have a number for that as to the sensitivity of our particularly to movement in the INR-USD rate?
- Arun Kumar** We do not have it ready but we will send you an e-mail.
- Dr. T S Rangan** But having said that, that will not be a significant one because we reinstated both the receivables and payables. Important is that the open forward cover. We do have close to about \$40 million is a closing forward cover. Also that rupee stays at 55-56 there is expected of 20 crores but otherwise if there is any rupee appreciation then that will be a gain for us.
- Aditya Khemka** Another question I had is all about the US markets. So what level of competition are we seeing in a niche categories like say injectables or Topical or other areas that we are currently interested in, what has been the landscape there like? Basically, what I have seen is the main pharma companies are now talking about this niche segment, niche areas. Obviously, higher profitability is attracting them. So, how do you see the competitive landscape for the foreseeable future, say, in the next 2-3 years?
- Arun Kumar** So for us niche is basically focused in Injectables and in soft gelatin capsules or in technology there are on capsules like the Vancomycin Oral which is a very technically difficult product to manufacture and that is why probably we were the only generic company other than Cipla who had a contract with Akorn, I mean a supply contract with Akorn to have approvals. So in the case of Injectables we really have not seen any new players operating in this market in fact, actually there are a lesser number of players that is simply because of the regulatory situation. Not discounting the fact that all of them are reinvesting heavily and they will come back into

the marketplace. So, at the moment we are not seeing significant price erosions but having said that large molecules which are very significant molecules in the Injectables also attract all generic players irrespective of what kind of manufacturing formats they are. But from a portfolio standpoint of being an Injectables player we do not see too many players in that space. In the soft gelatin space, the space is very small. It is just a \$2 billion opportunity. We have not seen many players in that space too, but we do anticipate a lot more competition because the cost of setting up those capabilities are negligible compared to the Injectables. We are not in other formats like Topical, I mean we are obviously now into the ophthalmic space. We started filing ophthalmics and we have almost 14 filings this year. But having said that we do anticipate competition coming up, but at this moment in time we are not seeing so much price issues or challenges especially on the older molecules we are seeing price improvements.

Aditya Khemka Sorry to kind of drill you on this, but when you see you are not seeing too many players, what is the exact level of competition -

Arun Kumar Data and Injectables there are no more than 5 players in any key product. 85% of all molecules that are sold in the US do not have more than five players.

Aditya Khemka And what about the gelatin capsule space...?

Arun Kumar We would assume it is around the same range but for the kind of market opportunity it is quite intensive when with five players, whereas the Injectables space is significantly larger.

Aditya Khemka And you spoke about the Ophthalmic space and the Topical space. So what is the competitive landscape in these two places? I understand there are other few companies talking about the Ophthalmic filings and the opportunity there. So what we anticipate the competitive landscape to be by the time you get on the market?

Arun Kumar Yeah, we are seeing a lot more players making the intentions clear to be an important player in Ophthalmics, and that is primarily because the stability assurance packages around that while it still is important is not as acute as in the sterile injectables space. So I would say it is a one notch lower in terms of stability assurance packages. I think that we would see a fairly significant activity of generic competition in the Ophthalmic space.

Aditya Khemka Right, so sir given that the opportunity is not that big and there is going to be significant opportunities, you think profitability will be a little lower in the ophthalmic space by the time you get to the market? Is that a fair statement?

Arun Kumar It is a fair statement to make compared to Injectables, yes, but you need a larger portfolio at the end of the day to balance the growth.

- Aditya Khemka** Right. And sir the last part being the Topical if you could speak about that in two minutes.
- Arun Kumar** We do not do any Topical.
- Moderator** Our next question is from the line of Ujjwal Shah from Enam Securities, please go ahead.
- Ujjwal Shah** Sir, I just wanted to know about the Bangalore facility that is coming in. I just missed last time. What kind of capacity that new facility would bring in?
- Arun Kumar** It will add approximately 90 million new sterile units for us and they go commercial for us in Q4. It is already FDA approved, but we have taken an upgrade to do some kind of balancing around our capacities there to go on stream in Q4.
- Ujjwal Shah** Okay sir. And any update on our biological drug space where we have acquired that south based company? Can you just brief us upon how things are going because we are seeing many of our other Indian players also eyeing this market up?
- Arun Kumar** We already indicated to you we are a very early player in the space. It is in early R&D. We will not have any products coming into the market before 2014 and 2015 early. We are working very strongly in our R&D project. Our facilities will go into construction within this year and it is very-very early days.
- Ujjwal Shah** Okay sir and on the last part, CAPEX guidance remains intact as you had said before and does it stay the same sir? And are we looking at any new acquisitions considering our debt-equity ratio is now comfortably placed at around 0.65?
- Arun Kumar** We are very focused on building our additional capacities in Hosur which we acquired and Poland and that will keep us busy on all year. So no inorganic strategies.
- Moderator** We have our next question from the line of Bhavin Shah from Dolat Capital, please go ahead.
- Bhavin Shah** Arun, just on the oncology portfolio what is the pending approvals that you will have in, just wanted to get a sense and update myself on the launches that we have done in the addressable market?
- Arun Kumar** We have 38 filings to date in oncology, of which we have 19 approvals, two of them are tentative, so we have 17 products that we can commercialize and we have commercialized 11 products as of the last quarter and we will be commercializing the rest this quarter.
- Bhavin Shah** So you are saying that probably six products more will get added?

- Arun Kumar** Yeah, we have no capacity constraints with oncology.
- Bhavin Shah** Then what would be the capacity utilization from the block this is being supplied?
- Arun Kumar** In non-oncology we are now running almost at 100% in the new plant and in the oncology we are at around 30-35%.
- Bhavin Shah** Okay, and just on the last bookkeeping question, 24 crores of FOREX losses is probably included in the other expense line item?
- Dr. T S Rangan** Correct, you are right.
- Moderator** We have the next question from the line of Nimesh Desai from Motilal Oswal Securities, please go ahead.
- Amit** Amit again, Mr. Rangan, just trying to understand this 25 crore loss a bit better, I mean I did not get what you said that you reinstated some
- Dr. T S Rangan** What I said is that 40 million of forward cover is the average rate of cover is close to about Rs. 51. End of 30th of June it was close to 55. So the difference of Rs. 4 like as per the Accounting Standards, they have been reinstated and that has been accounted as part of our operating expense in the P&L.
- Amit** Okay, so that is MTM loss, it's a non-cash loss. I am just trying to understand the hedging strategies. You have just \$40 million of hedges which is substantially lower than the overall USD exposure probably you have in terms of revenue. So what is the strategy of hedging generally?
- Dr. T S Rangan** We hedge generally up to 75% that is the policy approved by the Board, 40 million generally reflects close to about 2.5-3 months of sales, close to a quarter.
- Amit** Understood. And sir could you just give us a tax rate guidance for the full year, CY12?
- Dr. T S Rangan** Guidance will be close to between 20-22%.
- Moderator** We have a next question from the line of Vinit Chand from IDFC Securities, please go ahead.
- Vinit Chand** Just wanted to understand the profit shares on the Pfizer deal will also be accounted in other operating income?
- Dr. T S Rangan** These are revenue, part of revenue.



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- Vinit Chand** So it will be part of our top line? Secondly, so what is our plan for total ANDA filings for CY12 and how many of them would be Para-IVs?
- Arun Kumar** We have 26 P-IVs as of date. We have already completed 20 filings in pharma and sterile I think we will have approximately 30-odd filings in H2, taking it to about 50 filings for the year.
- Vinit Chand** And how many we filed this quarter?
- Arun Kumar** 13.
- Vinit Chand** How many of them are Para-IVs?
- Arun Kumar** We do not give specifics, I mean at the moment we have 26 P-IVs.
- Vinit Chand** And lastly, this 51-52 interest cost that you said is the gross interest, right?
- Arun Kumar** Yes.
- Moderator** We have the next question from the line of Sriram Rathi from Anand Rathi, please go ahead.
- Sriram Rathi** What portion of the total debt will be in foreign currency?
- Dr. T S Rangan** Close to about \$100 million will be in the foreign currency.
- Sriram Rathi** Dollar denominated, right?
- Dr. T S Rangan** Yes.
- Moderator** We have a next question from the line of Khushboo Patwari from Subhkam Ventures, please go ahead.
- Khushboo Patwari** On your GSK deal when do we see the launch of rest of the products?
- Arun Kumar** Product launches have already commenced in various markets.
- Khushboo Patwari** Okay. As I remember that you said that eight products launched and two more left, so just asking you..
- Arun Kumar** We still are at the eight-product stage but we have expanded the territories and see that we get product registrations.

- Khushboo Patwari** Okay. So there are two more products left now?
- Arun Kumar** No, at the moment we have only eight products, so the 8 products are in the process of being launched in various markets and we want the registrations as they are coming.
- Khushboo Patwari** And do we see that any more contract for more products from then?
- Arun Kumar** We constantly talk to various partners on expanding the portfolio. So the answer is yes, we are working on that with various partners and as that happens we will keep the investors informed, but at this stage we cannot make any specific comments.
- Moderator** Our next question is from the line of Atul Bhole from Tata Mutual Fund, please go ahead.
- Atul Bhole** My question pertains to CY11 Annual Report. In the consolidated accounts, these 102 crores of software licenses has been shown as purchased during CY11. So just curious to know what are those licenses?
- Dr. T S Rangan** Yeah, that is a mistake, the oblique is missing, to read it as software plus licenses actually, it is not software licenses.
- Atul Bhole** And what are those licenses?
- Arun Kumar** We acquired certain IP from Aspen worldwide for Penems.
- Moderator** Our next question is from the line of Kiran Chedda from Value Quest, please go ahead.
- Kiran Chedda** You just mentioned that 24 crores of FOREX loss is included in other expenses. So what is this other line item of exchange fluctuation of 51 crores?
- Dr. T S Rangan** See, when you do a MTM there are two reinstatements that is possible, in fact, what you do about the current assets and liabilities that is where we talked about this forward cover, that comes as part of your operating expense and part of the EBITDA. What you are talking about is the 51 crore is the MTM again a non-cash item, reinstatement of long-term loans that is the USD 100 million, all these loans will have to be reinstated at the closing value.
- Kiran Chedda** So the current assets in dollars have been revalued in...?
- Arun Kumar** Current assets and liabilities revalued and shown as part of operating cost. Long-term liabilities are revalued and shown as part of exceptional items.

- Moderator** Our next question is from the line of Bhavin Shah, a follow up question from Dolat Capital, please go ahead.
- Bhavin Shah** Just wanted to know the proceeds post-Ascent divestment. What is it that's the residual part of it now in the balance sheet post the redemption and post other utilization moves that...?
- Dr. T S Rangan** We have a closing cash of 138 crores and like Arun mentioned in his opening remarks we paid close to about 1000 crores and also some more other in July about 1000 to 1100 crores we paid for debt.
- Bhavin Shah** I probably believe that 1000 crores plus 1100 crores you said.
- Dr. T S Rangan** I said 1000 crores of debt repayment happened in the first six months, there is also another reduction of 100 crore happened in July.
- Bhavin Shah** So off the 2000-odd number this is so far -
- Dr. T S Rangan** The total Ascent sale proceeds is equivalent to A\$375 Million. Last quarter we answered this. Out of 1600 crores after the minority distribution plus the transaction cost and also the other tax and related thing we also used close to about \$250 million towards a debt repayment. And we used some money for acquiring the Star Drugs.
- Moderator** Our next question is from the line of Urmi Keniya from Yes Bank, please go ahead.
- Urmi Keniya** I have a question specific to Agila. I want to know what are your CAPEX plans for Agila for the next one year and what is the CAPEX guidance?
- Arun Kumar** We already indicated that in the beginning of the year, we do not expect to spend more than about \$25 million a year, and of which some of it is already being spent, and to answer your question in the next one year we will probably end up spending about \$40-odd million from now.
- Urmi Keniya** Sorry, if this is a repetition but may I know what exactly is this CAPEX for?
- Arun Kumar** Expansion of capacity.
- Urmi Keniya** And this will be across all your plants or the newly acquired plant?
- Arun Kumar** Between the existing plant where we are adding two additional lines and the expansion of the acquired plant where we are adding one additional line.



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- Moderator** We have our next question from the line of Ranjit Kapadia from Centrum Broking, please go ahead.
- Ranjit Kapadia** My question relates to ARV landscape portfolio. Can you throw some light on that?
- Arun Kumar** For Strides the ARV business is fairly high on revenues but not necessarily great on profits because we are not fully integrated. So we work in specific niche products around ARV portfolio. We are approximately only about \$50 or \$60 million player in this space and we are comfortable doing the volumes as we are not focusing on the commodity ARV.
- Ranjit Kapadia** And how many products are there?
- Arun Kumar** We have 17 products I think approved by the US FDA under the PEPFAR program
- Moderator** Our next follow-up question is from the line of Raghuvan Chaudhari from India Nivesh Securities, please go ahead.
- Raghuvan Chaudhari** This question pertains to Pharma business. On QoQ basis EBITDA margin has expanded by almost 400 bps. So any particular reason for that?
- Arun Kumar** 400 bps increase is predominantly because of the launch of Vancomycin in the US market. It is our first major Pharmaceutical product in the market space.
- Moderator** That was our last question. I would now like to hand the conference over to Mr. Nitin Agarwal from IDFC Securities Limited for closing comments. Please go ahead sir.
- Nitin Agarwal** Arun, do you want to make any closing comments?
- Arun Kumar** I just want to thank everybody for participating and if there are more questions, please feel free to write to us and we will get back to you as quick as we can. Thank you all.
- Nitin Agarwal** Thanks very much everyone for participating in the call. Thanks everyone and good evening.
- Moderator** Thank you. On behalf of IDFC Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.