“Strides Pharma Science Limited
Q2 FY19 Earnings Conference Call”

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MODERATOR: **MR. ABHISHEK SINGHAL**

Moderator: Ladies and gentlemen, good day and welcome to Strides Pharma Science Limited Q2 FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that 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 to all of you and thank you for joining us today for the Strides Pharma Science Earnings Conference Call for the second quarter and half year ended financial year 2019. Today, we have with us Arun - Group CEO and Managing Director and Badree - Executive Director, Finance to share the highlights of the business and financials for the quarter. I hope you have gone through our result release and the quarterly investor presentation which had been uploaded on our website as well as on the stock exchange site. The transcript of this call will be made available in a week's 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 out to the investor relations team. I now hand over the call to Arun.

Arun Kumar: Good afternoon everybody and thank you for joining us a little early today considering it is a trading time, much appreciate your time today. To start off, I am very pleased with what we have reported this quarter more from the strategic outcomes and less from the financial perspective. I am happy to announce, and we strongly believe that most of our businesses have course-corrected and have started delivering on our stated intent of becoming a diversified and profitable player. It has been a good quarter from the regulated market perspective. We have achieved a key milestone this quarter in terms of our US business where we had a quarter breakeven at $32 million that is slightly ahead of what we had hoped to achieve. Adding to that the products that are marketed by our partners and are in the process of being taken back, will add another $4 to $5 million of revenue to the reported number. So it is a good outcome from US perspective. We continued to have good approval momentum and filing momentum. We believe that we are in the cusp of creating an important size in the US market and we will continue to give you updates quarter on quarter as we progress.

If I look at the business overall, we had a Q-on-Q growth of 10.2% coming back from a very poor Q4, this has been quite a strong pull back. We still have got lots of work to do both on our topline growth and our EBITDA and I am sure that in the next couple of quarters, you will see that panning out. We have had a good regulated market outcome at 13% Y-on-Y, 14% growth Q-on-Q and regulated markets now contribute about 78% of business. Australia especially has been very good for us, there are no product shortages. Most of these product shortages have been sorted out by supply chain management of Strides as we brought more and more products into the Strides manufacturing system. Our other regulated market continues to be the fastest growing business and we only see more improvements as we speak and go forward. What is also important is that in the last 12 months we had 16 filings and almost equal number of approvals

in the US. We also have 18 goal dates that have been set for us by the FDA that now gives the linearity both in our filing momentum and approvals. Interestingly and pleasingly, I must say that we did not have any price pressure on any product lines in the last quarter in the US and that is a good trend. We believe that for the products that have less competition and for products that are commodity but have fewer players, a lot of incumbents have exited the market which has resulted in improved market share.

US particularly has seen market share increases for several of our key products. FY19 Q3 and Q4 will have important product launches. In the US, we have launched the Ibuprofen Rx product which was a fairly large partner product, in the middle of Q3. We think this will become an important product and there are several nice small niches that we expect launching. Potassium Chloride modified release is an important product and we have already got an important market share in this product and we will continue to build on market share on this product.

Australia, we have had another solid quarter. Our business grew from 46 million to 48, we are growing slightly ahead of our guided growth targets. Profits have been steady at a little over 20% and we will see further improvements as we go forward. Other reg markets are growing well. It has grown 52% Y-on-Y and 15% Q-on-Q. We believe we will be able to continue this momentum for some more quarters. We have strong H2 order book in our reg markets and we are continuing to maximize the products across different markets.

The problem child continues to be the institutional business, it had a very muted quarter, in fact it had Q-on-Q degrowth and also Y-on-Y degrowth. This is of course getting less and less important for us. As we build out our regulated market, capacity is being reassigned to these markets. We still believe Institutional business is an important business to stay invested in but with a more guarded approach in terms of margins and focusing on fewer molecules as we get into the new regimen of products which we are either in development or are in approval stage.

I am also pleased to report that Africa has since been course-corrected. We started small primary sales into the African territories, nothing as much as what we would normally do, so there has been a small pull back of the business. Margin improvements will start flowing through the system once we increase our business by another $3 to $4 million which we hope to achieve before we end this year.

Overall, a good business performance from strategic outcomes. From a financial standpoint, we have had an EBITDA of little over Rs. 100 crores, which is an improved number over the last quarter and we believe that we will have a very solid Q3 in the US especially with all the other markets continuing to grow and then we hope that we would have a very differentiated outcome going forward. We continue to invest in R&D, we had a quarter where we had significant momentum, therefore our R&D costs are slightly ahead of what we normally spend, but we believe that especially with the quality of the filings our approvals are coming through normally within the first cycle in most cases. We have two product designation of CGT which we believe

we would be the only Indian company having that designation and these are important opportunities for the next financial year and we are excited about what we are building.

In May, I discussed with investors about a consumer health business, we lost a lot of money investing in that. We now found a marquee private equity investor to put in, invest $20 million in our CHC business, so it can live on its own legs and can be funded from the capitals. It is an important business, but at this time when Strides has preoccupied in rebuilding its generics business and its branded business in Africa, this is best run as a separate entity where we still hold interest and therefore, we decided to go ahead and do this investment with ICP which a niche investor in the healthcare space and we are delighted to have them as our partner. So, with this, I am more than happy to take questions and I have my colleague, Badree who will address questions around finance and other expenses, but if there is anything to the strategy I will take those questions. Thank you.

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 Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Sir, just trying to understand US better in terms of run rate, you mentioned that it is breakeven now and you called out few important products which would be launched now with your own front end and so how do we see this momentum building up by the Q4?

Arun Kumar: Prakash, I can't give a specific guidance but if you look at the US business, we have moved in from $21 million to now $32 million in the last 6 months. I think it is quite reasonable to assume that we can add $6 to $7 million for the next two quarters and we will see how it goes from there.

Prakash Agarwal: So, in effect when you say it is breakeven at about 13% margin, so once that run rate comes, it flows through and we do see a good margin expansion in the business. This is my understanding.

Arun Kumar: Right.

Prakash Agarwal: And secondly tender business so last time, I think there was a mention that the tender business for the new contract has begun for us. So, is there any change there or since you mentioned that price and volume, both have come down that is why this momentum is likely to be such but the tender business is still on for the anti-malaria global tender business I am referring to?

Arun Kumar: There is no change to those numbers, but those numbers are not big. It is only $15 million if you recall which we mentioned is the tender that we won, so we still have that and we are on track execute that, but the larger issue is on the antiretrovirals where it is very price sensitive for the APIs.

Prakash Agarwal: That is the bigger pie basically which is getting hit. And this global you said is $15 million?

Arun Kumar: Yes, that is antimalarial.

Prakash Agarwal: And one more if I may on the other expenses, so there seems to be a good jump on a sequential basis, so is it related to Africa, Australia or if you could highlight that would be great?

Arun Kumar: The other expenses have mainly increased because of an increased R&D spend of around Rs. 4 crores in the last quarter and then we have two more things. One is we have important Q3 and Q4 as we could see from the portfolio and we have mentioned in our slide for launches in the US which means that we typically produce against the players and we ship out goods prior to an approval. So, it is quite common in the industry that you build an inventory in anticipation of the launch, otherwise you don't get market share. So, we have incurred significant cost in adding more stocks into our US business because as we build our new business by $5 to $6 million every month and we have also taken back the products from our partners, we have to deliver more products into the supply chain that resulted in a significant inventory build out and as consequently to that a higher manufacturing cost was incurred to get to that size so that we could have a significantly different Q3 and Q4. We also had several shortages in the UK market and we had to airfreight lots of goods to kind of cash out on the UK business and that is why our other reg businesses have ramped up and that has also incurred some one-off cost. So, all of those together add bulk of the increased change in the Q-on-Q on the other expenses.

Prakash Agarwal: And the debt and the working capital, also you mentioned is largely due to the build out for the US launches? The number seems to be pretty large sir.

Arun Kumar: It is only the restatement of the currency and the increased working capital on the inventory build out.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Arun, can you help us understand a little bit more on those two CGT filings, filings which are there on the CGT route, how should we look at those filings and what kind of opportunity could be there?

Arun Kumar: The CGT actually works when it has to be one of the products that have been listed by the FDA where there is no competition, no generic or limited competition or supply chain disruptions existing. Such files gets a priority review from FDA which assigns more experience and senior reviewers for the file. Typically you should get the approval in the first 10-month cycle. As a consequence, your reviews move very fast, you get very little time to respond to your deficiencies and if you get a CGT designation which we have and you get the product approved on time, then you get 180-day exclusivity provided you launch the product within 75 days of

approval of the product. We have two products, one of them is in the high $400 million range and another one is the smaller product and together we had about $550 million of opportunity. Our current target action dates for both these products will be in H1 of next year. We feel very confident that we will be first off the block on both these products. So, we will keep you posted as we hear more but at this time we obviously can't for various reasons give you specifics on the products.

Nitin Agarwal: And secondly on the US, now you have been talking about ramping up and it is evident also in terms of the new ANDA filings but in the market given the competitive situation which was there on especially in the oral side, do you still see opportunities in the oral space, the general perception is there is not much money to be made in the overall solid space in the US market anymore?

Arun Kumar: Considering that we are a newer player, we do not have a cost base of operations of some of the more established players. Secondly, even in the oral products considering that we are coming up with a newer file, we believe the robustness of the product determines a lot in terms of how much competitor is willing to offer the product in the market place. We believe that we have very solid robust products and good supply chain integration to ensure that we have no out of stocks in the market. We currently are considered to be one of the few companies in the US which do not have out of stocks and we are taking more and more market share simply by supply chain efficiency. So, I just don't think that you should colour us with the general feel that there is no opportunity. Our continued focus on either new technologies in APIs that are being used to make APIs cheaper or developing a dossier differently with a different cost point allows us to grab market share and yet maintain a margin. If you look at our gross margins, we are not different from players who are not necessarily only in the oral dosage forms. I don't think you should ignore the fact that the significant amount of ANDA withdrawals by the big 5 players have also resulted in a capacity squeeze available on the big products and therefore there is a lag between the time when the product was withdrawn and when the product actually going off the market and it takes typically a year for a company to withdraw product. So, we believe that these are good times in a reset US market. If you look at the drug shortage list, you will be surprised with the products that are now appearing in the drug shortage lists and for the first time you will see oral dosage forms coming up like products like Buspirone and Mycophenolate that is Mofetil coming back in the drug shortage list. So, these are new situations which you should watch carefully and then you will probably appreciate why we strongly believe that niche product selection and robust supply chain continues to be a good combination to take significant market shares in the US.

Nitin Agarwal: If I can squeeze in one more. With the increasing proportion of the US business, there should be incremental stress on the working capital cycle for us. Given that construct, how should we view our net debt situation over the next year or so?

Arun Kumar: I think on the debt what you need to understand net debt is that we have approx. Rs. 900 crores of net long term debt where we have no repayments still for another 2 years and we have little over Rs. 900 crores of working capital which is backed up solidly by inventory or receivables and all of that stuff. We think that especially since we are increasing our business in our front end, to answer your specific question, yes we will need more working capital, but we think that we have already started using a large portion of that key working capital because you have to invest in advance of the sales for that working capital. So, I think we don't probably have to increase too much from here, probably $25 to $30 million more to get to very important size and from there on, the businesses will manage to use this profits generated to support the working capital.

Moderator: Thank you. The next question is from the line of Vipul Shah from RippleWave. Please go ahead.

Vipul Shah: I have couple of questions. One on the balance sheet where we have seen a sizable jump on the capital work in progress, so is this amount significantly related to our Singapore facility or is there something which I am missing?

Badree Komundur: Yes, it has for Singapore facility, perhaps the facility is coming up in full swing. So, as you know the last 2 years have been very capital intensive for us, we have invested about $100 million. In the last 6 months also we have continued our investments in Singapore and that is what you see in that line.

Vipul Shah: And how much further more commitments do we have and when do you think this facility will start generating revenues for us?

Arun Kumar: Next financial year from Q1.

Vipul Shah: FY20. Another thing I just wanted to check on the receivables now from Solara, when do you think these will be settled?

Badree Komundur: Before next June.

Arun Kumar: It is in payments one coming this year and one in next June.

Vipul Shah: And last if I may squeeze in, just going through your notes on the exceptional items where these unwinding of discount on the put options which we have written on some of uncontrolling interest in subsidiaries, so I think we had liability on our balance sheet last year of around Rs. 38 crores. I think we have added another Rs. 4.75 crores in the first half. How do you think this will pan out in the next 6 months?

Badree Komundur: This will continue because these are all the put option obligations which we have taken on certain acquisitions we did in Australia and Africa and this will go on up till it unwinds itself.

Vipul Shah: So, will we have a net obligation to pay or you think these are accounting entries which will reverse?

Badree Komundur: We pay contractually in 2020, so that is the reason we are recording this as an obligation to cover means that we are recording the interest element of the obligations in this plan.

Moderator: Thank you. The next question is from the line of Chirag Dagli from HDFC Asset Management. Please go ahead.

Chirag Dagli: Sir, the presentation mentions about 17 product supplies that started for Australia from India, what is the value of sales that 17 has of the total of 200 or more than 200 products?

Arun Kumar: About 15 million.

Chirag Dagli: Is there more to go, what is if you can just give us the sense of what is the potential opportunity of what you can do out of India?

Arun Kumar: Annualized basis, next year, we think we can take this up to $40 million.

Chirag Dagli: US $40?

Arun Kumar: Because 15 million is absolute even if you annualize the 15, it would be about 20, 25 and then there will be more products coming through, so it will be about $40 million.

Chirag Dagli: US dollars?

Arun Kumar: Australian.

Chirag Dagli: And on the merger, once the merger is consummated will you consolidate this or will this become like a joint venture where there only profit will come in the?

Arun Kumar: So, if you recall the transaction phase we had mentioned we would have a controlling interest in the transaction, so we will consolidate.

Chirag Dagli: And post merger sir, is there opportunity to bring more products out of the joint entities to India, is there something that you are preparing for?

Arun Kumar: Yes, preparing for that.

Chirag Dagli: Can this potentially, what I am trying to think about sir is that post the merger, can the Australia business for Strides as a whole be higher than the current 20% EBITDA margins that we are making?

Arun Kumar: Not in the near term, but yes eventually.

Chirag Dagli: And sir, last question was on the gross margins, on a quarterly basis, they are very volatile. If you can just spend some time on what are the moving parts as in our margins dramatically different between the Australia business, US business and the other piece?

Arun Kumar: I think our regulated market is in the mid-50s and quite stable. The problem really is when the emerging markets in the Africa business if they underperform, then it drags down the overall gross margin, but the reg markets generally perform well and the more and more business we do in the reg markets you see more stability around the gross margin. In terms of your specific question, obviously the US business has got the highest gross margin followed by Australia and followed by other regulated markets.

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

Anmol: This is Anmol. My first question is on the US market cost structure. So, we have done around 12% R&D here and also achieved an EBITDA breakeven. Do you have any specific R&D run rate in mind for the full year? Just to understand that the incremental sales net of because will it fall to EBITDA or how does it work?

Arun Kumar: Q2 is the reflection of kind of a peak quarter run rate. We had a lot of filings and when you do filings, your R&D cost goes up because that is a very significant part of the program. So, as we increase the filings and with the constant increase of rates by FDA, there is this factor which keeps moving quarter on quarter but I think it will be safe to say that 135 to 140 crores would be the annualized R&D run rate. Bulk of it is for the US as you know because for the other reg markets, we just use the same filings to just do some marginal work

Anmol: My second question is on Australia. Australia, we obviously resolve certain product shortages and see a healthy 12% growth, but how much of this would be attributable to this product shortage is getting resolved and therefore not be strictly repeatable?

Arun Kumar: So, product shortages are there in the Australian market, so we actually are benefiting by not having shortages ourselves, but also, we were able to get increased market share, so it is not a one-off. What you need to understand is that the market shortages were not a consequence of Strides not delivering, it was these IPs who are managed and delivered by some other third party players and we have now taken the products inhouse where we have better control on the supply chain, the cost and the margins. So, we are meaning more about that.

Anmol: So, the 12% number is quite sure and it kind of stays, give or take the seasonal variations, is that the fair way to look at it?

Arun Kumar: The variations when you see in our uptake in flu and cold, otherwise we have guided for a 10% growth but we are slightly ahead of that.

Anmol: And my last question is on the institutional business. You made a comment in the future perspective of your presentation that you continued to stay invested, just trying to understand from a fixed cost perspective, a) how much is the quantum of that which continues to be a drag on the business? Second from a turnaround timeline where you kind of introduce a lot of these recombinant next gen ARV, how far are we from an eventual turnaround in this business? I know you are not giving a guidance which is in terms of an assessment of how long the turnaround in these take?

Arun Kumar: There are two things there. One is that our model has always been to build out capacity ahead of the demand and that has always resulted in a certain under recovery in our model and it also helps us with a compliant strategy that the more you run plants over time and late shifts, it lands companies and products into trouble. So, we have been as a policy always investing ahead of time and these results like for example Singapore or in India. We always have an under recovery of $15 to $20 million a year and this is a stated policy of the company that we are better off having this under recovery rather than having to produce under stress. The institutional business plays a big role in reducing this under recovery. So, if you don't do institutional business, then the $20 million gets impacted in all our other businesses, so that is why we continue to keep the institutional business more from that perspective, but as we build volumes in the US and in Australia which is what we are doing, we will moderate the institutional business and only focus on products which are profitable in the first regimen that is currently in play. Answering your next question, we have now successfully completed clinical studies around the key products in the new regimen. These do not require the same volumes as the older regimens require and we believe that because we are integrated with Solara of the API, we have some advantages with regards to our most preferred status and all of that. So, this is the situation that we will watch carefully and we will moderate the business depending upon how we increase the capacity build outs and so it is more tactical than strategic for us.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: On the Australian business, have there been since the time we had the session a few months back, has there been any more changes in the Australian business environment and which sort of place us for better, which improves our competitiveness in that market once we proposed merger with Apotex business is going to be through or rather given where we are, how do we see this Australian business now shaping up over the next 2 to 3 years in terms of strategic priorities?

Arun Kumar: Like we mentioned in the Australia day when we met in Melbourne, we said that this market can only grow so much. With the merger, we will have got to very significant size with good synergy

opportunities. However, growth from there on is going to be very difficult because the combination has almost every single product in the market and will only products going off patent which are not so many in Australia. We will have incremental opportunities as a dominating player in that market, but what is important is that Arrow is a profitable business from where we stand now but there is much work to be done on the Apotex side in products considering they had some supply chain issues and compliance issues and other matters. So, to get all those products in and get all the synergies may take us sometime, but I think that once this is done, it may be very hard to grow the business at 10% growth that we have currently used. So, if you have standalone to get to a number one position, it looks like more like 2 to 3-year play for us, but on the combination, it is all about synergies and less about growth from that combined $500 million size.

Nitin Agarwal: And what is the peak profitability you can do in the $500 million size in that business over a period of time?

Arun Kumar: Ideally we should get to the 20% that we have or slightly more than the 20% that we enjoy today at Arrow, but this is a function of timing because we are yet to get into more details on how many products Apotex has given there, i.e. to third party manufacturers on longer term, manufacturing agreements and all of that. That is the work that we are doing now to see what time it takes for us to actually also get the Apotex business of the same margin points. So, it is little more time we need and that is why we have guided that by 15th December, we will give a final update on this transaction and where we are with it.

Nitin Agarwal: And lastly you mentioned in the part that you can use Australian IP for growing your other regulated market business and if you can probably help us understand that the opportunity of the other regulated market part of the business, it has grown well over the last few quarters, I mean where does the business really end up over the next few years?

Arun Kumar: Last year, we had a run rate of around $50 million. I strongly believe we should be very close to doubling that Nitin and I don't see any reason why we would not be able to have a CAGR of at least 25% for the next 2 years. So, this is going to be the most important market growth that you will be actually surprised that the supply shortages are now becoming big challenges even in markets like Germany and UK and everywhere with all these price drops and other things, many people have exited the market and if you look at the UK, you can see several products under what is called the UK shortage list. So, we are very excited about the other regulated markets and we can mirror the Australian portfolio to develop these markets including Canada which we are progressing and we will continue to look at opportunities to build this market which we are all very excited because we think that Australia has settled and US will get settled before the end of this year and then our focus will be on building on the other regulated markets.

Nitin Agarwal: And if you can just tell us how is the profitability in this segment versus when you say comparing the US, European or Australian business for you?

Arun Kumar: Comparable to Australia.

Moderator: Thank you. The next question is from the line of Prakash Agawal from Axis Capital. Please go ahead.

Prakash Agarwal: Looking at the presentation, you talked about that Oseltamivir which is Tamiflu has already launched in Q3, so is the season in US already bigger and how has been the response so far?

Arun Kumar: We are already selling the product as of October.

Prakash Agarwal: Because last year was a bumper winter and I think many companies had, it was a great product for many, so you think the start of the year has been good?

Arun Kumar: We don't want anybody in America to be sick, but the point is that yes, the early trends are that we have been quite successful with what we have done in the first month. It is too early to predict how this product would pan out, but it has been a good first month. That is all I can say for now.

Prakash Agarwal: And you also mentioned in the past about Lovaza that you were tied up and now you want to bring it on your own end, the couple of quarters which was Q1, Q2, you would not book much sales, but you intent to come back by Q3, Q4, so what is the status there sir?

Arun Kumar: So, our partner Par now sells almost double of the quantity that they were selling in Q1, so if you look at Symphony, they are now at almost 80- 90,000 packs and it had dipped a lot to under 30,000 packs in Q1 and Q2, so again inventory will get exhausted. We were thinking we may have some inventory risk, but this is no more the case. Our inventory will exhaust by March and we will take a decision because it is doing quite well under the Par label. We have already signed up a deal to bring it back, but conversation are underway on should we keep it on or should we bring it back. I will let you know in the next quarter results, but either way, it is now coming back to be an important product.

Prakash Agarwal: And lastly, just to understand P&L better, may be Badree can answer this, like we are reaching almost around Rs. 100 crores for the EBITDA; however, we have an increasing trend in terms of depreciation and interest expense and at the same time lower other income. So, at PBT level we are seeing a smaller number, may be negative at times. So, going forward, the only way is to expand EBITDA and that we are looking but other income has also come down. So, a) the debt has increased, I agree but what were the 2 to 3 big elements on other income that has led to lower other income?

Badree Komundur: We have put money in mutual funds which due to lower yield did not have a normal flow into the P&L and this had impacted the other income and the second thing that is important is that the interest and depreciation is very consistent in the last 4 quarters because it has been in the

range between 40 to 42 and the depreciation has been between 44 to 46. So, the operating leverage will definitely come into the P&L in the coming quarters.

Prakash Agarwal: And there was some rental income in other income also?

Badree Komundur: It is a very small amount, it is not a big amount. It is a normal, very immaterial amount.

Prakash Agarwal: And lastly on the Mylan, we have some off-balance sheet liabilities on the Mylan, the Agila deal that we have done, what is the status there. We were supposed to get some cash?

Arun Kumar: We will have a final, so there was one third party arbitration that was going on. We will have a final answer of that during this quarter, so for the next quarter update or prior to that we will let you know.

Prakash Agarwal: That was about $40 million if I am not wrong.

Arun Kumar: That is right.

Moderator: Thank you. The next question is from the line of Chirag Dagli from HDFC Asset Management. Please go ahead.

Chirag Dagli: Sir just on these two CGT products, I mean $400 million and $50 million, these are fairly large numbers, why is it that there were no generics. What is that Strides is doing to make sure that a) you get approval on time and post the 180-day exclusivity, what is the sustainable tale of profitability on these products?

Arun Kumar: We don't know for that. One is that your question on why it is because we tend to focus on products which are hard to make. To be fair to the CGT process, we already had this product in portfolio. We did some early work, our first clinicals did not pass as it is a very difficult clinical program. It is a very special clinical program and it had to be done several times and we got the last clinical past making standards and the agency also came up with some kind of guidance which means that several companies will take at least 2 to 3 years to be in the market place unless they are ahead of us which we don't know. It is a hard clinical program which we successfully completed and that is why our file was accepted. So, we have been at this product for the last 3 years and we were lucky that it was nominated in the CGT. We got a CGT nomination classification and we believe that it is a complex product, it is modified release, it is pelletisation technology. So, there is a lot of things happening here, so we think that all of this combinations make it hard for several players to be in the place and we believe a) we will be successful with the approval and we will also have residual tail on this product which would be quite substantial. So, we will see how it goes. It is too early to pass judgement on the product. We are halfway through the review program, so let us see how it goes. So, far it is going well.

Chirag Dagli: This comment on sustainability is also valid for the second product sir, the $150 million product?

Arun Kumar: Not really. That is lot more easier. It is just that I think it is more to do with price increases a company has taken on that one product. They are the sole players and I think that may not be a sustainable as the 400 plus product.

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

Kunal Randeria: My first question is on the institutional business. So, in the last call you had mentioned that you are renegotiating some ARV contracts with the focus on improving business margins and in the presentation I see today you said that you have more for guarded approach, so should we read something like it is difficult to pass on the cost to your customer or it is deliberately going slow on this part of your business?

Arun Kumar: It is a combination, so one is that it is not that we are not trying to improve our pricing but you see the thing is that donors expect you to respect contracts for 2 to 3 years because when the price come down for any reason, they don't come and renegotiate pricing the due, so they expect you to do the same, but you have a choice to accept a range of volume. So, our guarded approach is to take the lower end of the range of the volume so that we don't lose too much money or we just about breakeven with what we are trying to do.

Kunal Randeria: Sir my second question on the US business, maybe it is a repeat one, but your execution has been fairly good in your existing products plus you have 2 CGT products and you are keeping on maintaining a filing tempo. So, I am just wondering where do you see pockets of opportunity for the company of our size and capability?

Arun Kumar: If you look at most of our products, there is some element of scarcity, I am not using the word niche, everybody uses that these days, scarcity is either in an API or a manufacturing. So, bulk of our products that are doing very well are soft gelatins, if you will notice and there are not many players in that space. So, the niche is to identify commodity event and say that this commodity is with the particular API supplier and it has a poor chemistry it was developed 15 years ago, 20 years ago and you can find a new API vendor who has got a transformational chemistry or continuous manufacturing or a catalyst that they use. They are interested in our volumes that we can bring on the table and get delivered at a very solid price point. So, these combinations add incremental value for us and after a certain point, gross margin is equal to EBITDA right in this business after your distribution cost. So, I think the combination of product selection continues to be a big winner here. By default, we end up getting the larger market share when we see the bigger market share incumbent falling with supplies and shortage of supplies and that is when we take larger market share. A good example these days is buspirone which is like there were some 15 players in the market. It is in the shortage list in the US and we may be the only company which has inventories, but yet we will not go and take 75% of the market

which is available to us because we know it is temporary. So, we rather keep solid relationship with our customers and that allows us to get more and more products because although we do $32 million, we are still a small player in the overall scheme of things. So, we need to engage with our buyers with superior service customer advocacy and service which is what we are focussing on.

Kunal Randeria: But I was wondering since the execution has been good so far and you have identified a lot of good products, we are filing 20 products a year, so do you see enough ammunition for the next 2 years with our capability?

Arun Kumar: I think the model kind of plateaus at a certain level and that is what we want. We don't want to be the biggest player in the US, so we are not aspiring to do anything like 400 filing momentum and all of that. We believe that at some point in time, next year we would be generating significant free cash in our US operations to fund more programs around the US business which will be more complicated products which are technology led. We are working on the early stages, but sometime next year we would be in a stronger position to say that we had some very solid products that we are ether in-licensed or partnered where we do not have the capabilities, but we have the ability to go to market with those products.

Moderator: Thank you. Ladies and gentlemen, we will take the last question from the line of Shreehari from PCS Securities. Please go ahead.

Shreehari: Two questions basically. Firstly, can you please tell us the competitive scenario for Cinacalcet for which you have a tentative approval and secondly as proposed ARVs you have mentioned new generation combination, so can you please throw some more light on that?

Arun Kumar: Cinacalcet is currently a tentative approval and there are several litigations that are happening around it. At this time, we believe that a launch could happen anytime or as late as 2021, so we have to keep an watch. We are not in the forefront of the litigation process because we are not willing to launch the product at risk. So, it is too early to call. If the opportunity arises for a generic company to launch, we will be in the first way of market formation. On the ARVs, it is not that new generation ARVs is unique to Strides, several of our competitors are ahead of us in terms of filings and approvals, so mainly these are the newer ARV molecules . We are a little late in the development, but we think that by the time the market forms in the tendering market and donor markets, we will be ready like the large players with a much stronger proposition, fully integrated and good cost point on all of these ARVs. So, there are just new APIs that are used in the cocktail therapy.

Shreehari: So, is it presumably TAF?

Arun Kumar: Yes, that is right, TAF and DTG (Dolutegravir).

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

Arun Kumar: Thank you everybody. Thank you for joining us today and please feel free to write to us if you have any questions. Thank you, bye.

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

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