“Laurus LabsQ1 FY2020 Earnings Conference Call”

August 05, 2019

Moderator: Ladies and gentlemen, good day and welcome to the Laurus Labs Q1 FY2020 Earnings Conference Call hosted by Kotak Securities Limited. 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chirag Talati from Kotak Securities. Thank you and over to you!

Chirag Talati: Good morning everyone. On behalf of Kotak Securities, I thank the Laurus Management team for giving us opportunity to host this call. From Laurus, we have with us today Dr. Satyanarayana Chava, CEO, Ravi Kumar, CFO and Monish Shah from the Investor Relations Team. I hand over the call to the management for their opening remarks. Over to you Sir!

Dr. Satyanarayana Chava: Thank you Chirag for hosting this call. Thank you everyone and a very warm welcome to our results conference and the business highlights of Q1 FY20.

I would like to share some very positive updates on our formulation business. As you are aware, we have entered into strategic partnership with Global Fund. This partnership is extended to all our LMIC filings of ARV Products. Over and above this partnership we will continue to participate in various In-Country tenders as well in Africa. I am pleased to share that overall formulation revenue stood at Rs.106 Crores for the quarter. During this quarter we completed major orders worth Rs.80 Crores for the ARV business, which was ramped up in a short period of time from the approvals to the commercial launches. We have the visibility for the next few quarters based on the commitments and orders received from various agencies. The execution of the large orders on time is a reflection of our abilities to file, get approval and commercialize formulation ARV business. We are very confident of this business achieving major milestones in FY2020 and beyond.

During the quarter we also received Tentative Approval for Dolutegravir Sodium under PEPFAR program. This will help us to launch Dolutegravir along with DLT in these markets. We also successfully filed Tenofovir, Efavirenz, and Emtricitabine with US FDA and also we are going to file this in other markets as well. As you are aware we also filed Tenofovir, Lamivudine, Efavirenz 600 as well as Tenofovir, Lamivudine, Efavirenz 400 mg with US FDA and also in other markets. Once we get approval, which we probably expect in Q3FY20 for Tenofovir, Lamivudine, Emtricitabine regimens we will start commercializing these in Q4FY20.

Moving to the US market our partner Rising launched Pregabalin during Q1 FY20. We were one of the first companies to move product into the market although there were several people who obtained the approvals from FDA. We are in the high single digit market share for Metformin, which was very established in the market and in the Pregabalin's case we believe we have high teens market share, at least. As of today, we have received 5 final approvals and 3 tentative approvals. 1 tentative approval, which is notable to mention is Abacavir, Lamivudine, Dolutegravir, we got tentative approvals and we expect another two to three approvals in

Abacavir. As you are aware, we also entered a long term contract with a European partner for non-ARV finished dosage forms. We started commercial supply for one product and for 2 products commercial supplies will begin from Q3 onwards. In both the cases we also make API, so that is reflection of our hypothesis we will get more benefit if we extend into formulations as against we sell directly or we do contract manufacturing.

On the R&D front we continue to invest significantly in process improvements, derisking, as well as the FDF business, but we also aim to file about 8 to 10 ANDAs. We have never changed this number since we started our efforts into finish dosage segment. I would like to share the status of the filings. We have filed 20 ANDAs in US, 6 dossiers in Europe, 6 in Canada. Out of 6 we have already launched 2 products and we expect to launch 2 more in this financial year. We also filed 8 dossiers with WHO for various ARV products, 2 dossiers in South Africa and we expect to file more dossiers in South Africa soon and more than 100 dossiers filed in various African markets. Interestingly we also filed 2 dossiers in India for which we got approvals as well. Out of the 20 ANDAs filed in US we believe 2 are Para IV and 7 FDF opportunities worth more than $10 Billion based on the current market share, so our approach remain product specific rather than market specific. Fundamental to our DNA we maintain One Quality Standard for all Markets.

Moving into the other business segments, ARV degrew in the quarter under discussions by ~Rs. 100 crores and Hep C degrew by Rs.13 Crores. The de-growth in ARV was primarily because of inventory exhaustion by various customers in South Africa because of confusion on which regimen will be used widely. Initial tender was announced for the Dolutegravir, Lamivudine, Tenofovir, but switch did not happen as expected, so everybody stopped buying Tenofovir, and Efavirenz. Now there is a supplementary tender floated, which is expected to close today. Everybody started piling up inventory for TEE versus TLD as expected, so we see a ramp of ARV supplies in Q2 onwards and we also expect to cover up the Q1 shortfall of ARV in the coming quarters.

Oncology we were able to maintain as we did in Q1 last year whereas Other APIs we did Rs.20 Crores more than in the corresponding quarter last year. In Synthesis business we did roughly 10% more than the corresponding quarter. In the generic FDF we did almost Rs.100 Crores more than the corresponding quarter, so if we look at as we were speaking earlier our major drivers are our finished dosage (formulations) as well as Custom Synthesis division. While we grew in other APIs in generic segment as well as oncology we expect to do reasonably well in ARVs in the coming quarters. The fall in ARV business was primarily as I explained shift in the South African tender, which we expect to make up in the coming quarters.

In the other API segment, we did Rs.42 Crores primarily because of contract manufacturing APIs to various other customers and also we will see a significant growth in oncology APIs. One of our European partner launched Bortezomib in Europe. We are the only supplier to that partner and they are doing very well and we have very good visibility for the entire year from that customer.

The backward integration plan for ARV intermediates to derisk supply chain challenges coming from China were completed successfully and that was the reason our gross margins improved in Q1 when compared to Q1 FY2019.

In the Synthesis business, we did almost Rs.60 Crores sales primarily because of ASPEN as well as our CDMO customers. For the ingredients we de-grew 16%. We have got a good opportunity to supply an ingredient exclusively through US partner, which we expect to start supply from Q2 onwards. The extraction facilities we are expanding to our portfolio of complex natural products where you could file DMF and get benefit out of our regulatory track record. With that I will pass it on to Ravi to give financial highlights.

V.V. Ravikumar: Thank you Dr. Satya. Very good morning and warm welcome to all. The total income is at Rs.551 Crores against Rs.539 Crores in the corresponding quarter. Our gross margin have improved because of the better product mix and higher other operating income related development activities. Our EBITDA Margin was lower at 16% because of the lower sales value and some of the higher expenditure we incurred. In Q1 FY20 we had higher inventory and lower sales, which was the key reason for higher expenditure so we expect the additional sales in the Q2 onwards. We are seeing a softening of raw material cost from China. In fact all ARVs saw a favorable RMC movement, However, on the oncology side one particular intermediate still expensive, and we are working on the backward integration. Our diluted EPS stood at Rs.1.4. Our capex is about Rs.45 Crores in this quarter. Going forward we expect CAPEX to be in the range of Rs.150 Crores to Rs.200 Crores. We have seen improved contribution our high margin business of FDF in this quarter. This is the first time we have done Rs.100 Crores plus in the formulations business, majority of which came from LMIC, but it is very important to note that we also generated a sizeable revenue from US, Canada and Europe and we are optimistic in improving our return ratios in FY20, as we have enough order book for Q2 to Q3. In fact first time we have seen such a sizeable order book in the recent past and we continue to expect to have a free cash flow from FY21 onwards. With this I would request the moderator to open the lines for the Q&A.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Gagan Thareja from Kotak Investment. Please go ahead.

Gagan Thareja: Good morning Sir. The first question pertains to Efavirenz and also to Emtricitabine. You indicated that going into 2Q and 3Q in Efavirenz volumes will recover I would request you to elaborate a little further on this specially in the light of the fact that now the WHO first line treatment is also the Dolutegravir combination and the alternative fist line treatment is TLE 400 rather than TLE 600 so presuming that is the case and also the fact that in the South African tenders Dolutegravir took away a very significant volume share if I understand probably close to 75% to 80%, since South Africa uses Emtricitabine based combination with Efavirenz and if Efavirenz volumes are coming down is it also therefore logical to infer that Emtricitabine volumes will also come down, so this is my first question if you could elaborate on this please?

Dr. Satyanarayana Chava: Thank you. If we look at the overall HIV treatment, South Africa constitutes 25% of the ARV treatments, and India, Thailand, and Brazil are the other three significant regions still uses Efavirenz based regimens as the major treatment. In the last tender as I mentioned South Africa wanted to move significantly into the Dolutegravir based regimen whereas the current treatment not even 20% transition has happened towards Dolutegravir. Still majority of people are using Efavirenz based regimen, so we do not expect the shift towards Efavirenz regimen in the markets that I mentioned of South Africa, India, Thailand, and Brazil. These countries still continue to use Efavirenz based regimen. In the other markets where WHO guidelines published last month and people are free to use Dolutegravir as first line and where ever they want to continue with Efavirenz the preference is given to TLE 400 versus 600 so there will be a short fall in the Efavirenz sale, but it will not be that significant. In Q1, we were also concerned because of the South African tender in which direction it moves. Surprisingly the offtake is not as high as we expect it, so Efavirenz started picking up so that was the reason we expect to do reasonably well in Efavirenz in Q2 onwards. In fact our order book was very high because we got significant orders for Efavirenz as well as for its intermediates.

Gagan Thareja: Could you just give us an idea of what was the South African tender, how much went to Dolutegravir and how much went to Efavirenz?

Dr. Satyanarayana Chava: Right now based on our understanding the switch is less than 10% towards Dolutegravir. I would say it is a single digit right now.

Gagan Thareja: Because I was under the impression that it is just the reverse that Dolutegravir took a lot of market share in South Africa?

Dr. Satyanarayana Chava: No, the Dolutegravir failed to take market share in South Africa. It is expected by end of the tender that is 2022. At the best case it will be 50:50 between Efavirenz and Dolutegravir at the best case.

Gagan Thareja: So Efavirenz 1Q if I were to compare year-on-year what was your volume loss since you are fairly confident that there is a recovery here by the end of this full year what should be roughly sort of building up to understand the loss in Efavirenz volumes for you and second on the Emtricitabine being also if you could sort of give some idea?

Dr. Satyanarayana Chava: Emtricitabine we continue to do very well. Actually we will do better than last year in Emtricitabine and do very close to Efavirenz number what we did last year.

Gagan Thareja: So you will maintain Efavirenz volumes for FY2020 and you will do better in Emtricitabine?

Dr. Satyanarayana Chava: Yes, but we may not do very well in Lamivudine because that shift never happened so you have to look at we are in two part, one is sale of Dolutegravir and Efavirenz that is one part and the second part is Lamivudine and Emtricitabine. These are the two where people can switch, so if you look at that way our Efavirenz versus Dolutegravir sales will remain constant. Lamivudine and Emtricitabine sales will remain constant. We will lose one and gain on other thing.

Gagan Thareja: Lamivudine you are saying it will not ramp up, it will not grow from last year's numbers is that how?

Dr. Satyanarayana Chava: Last year we have sold very, very low, so it will grow significantly, but not as we expected earlier. We will continue to sell significant volumes of Emtricitabine. The Lamivudine pickup will not be as big as we thought.

Gagan Thareja: If you give us some idea is it going to be half of what you are budgeting for or 60% to 70% what order of magnitude do you think this has come off by?

Dr. Satyanarayana Chava: I can say one thing our sale of Lamivudine and Emtricitabine as a combination FY2020 what we budgeted would be achieved.

Gagan Thareja: Also if I look at the WHO guidelines Nevirapine now does not figure in the first line of treatment if I understand it correctly Nevirapine based combinations and I presume they made up for around 10% to 15% of the first line treatment if I have my numbers correct, if you could give some idea of what this could sort of lead to in the future and what is your exposure to Nevirapine?

Dr. Satyanarayana Chava: We do not have the API and we do not expect that will be the preferred regimen. Everybody is phasing out. That is not going to take off.

Gagan Thareja: Also there is supposed to be a shift from Tenofovir in TDF format to TAF format and TAF is going to have one tenth the volume of Tenofovir versus TDF, I presume this is not yet under the WHO regime, but there are studies where the efficacy of TAF and TDF outcomes are equivalent, what is your understanding of this shift, the switch is going to happen by FY2020-2021 in your understanding?

Dr. Satyanarayana Chava: No this shift will happen probably beyond 2020-2022.

Gagan Thareja: Beyond 2020-2022 and also Sir if you could give some idea of the China disruption on the API side last year your margins took a hit because of the disruption, you have indicated that the product mix has improved and gross margins are up, in terms of API cost for you or key starting material cost for you has the situation improved and secondly also if you could give us some idea of the API supplies coming from China in the ARVs have they dropped off or do you therefore stand to gain market share because of that?

Dr. Satyanarayana Chava: I will address in two parts. One is our derisking of intermediates and starting material, so starting material prices softened whereas for intermediates we completed our backward integration, so there is a benefit from both accounts because of raw material prices are softening as well as successful companies for backward integration. That was the one reason our API gross margins went up and we have no concerns currently except one oncology intermediate, which we expect backward integration will be completed in a month or two. When it comes to API we are

not seeing any disruption especially in antiretroviral APIs, Chinese API companies taking market share in this segment we have not seen that.

Gagan Thareja: You also indicated that production was in excess of the sales in the quarter and therefore the cost loaded up was higher, which impacted EBITDA margins although gross margins improved, therefore, going into the second quarter the reverse should possibly hold to because you have enough finished goods inventory and therefore your EBITDA margin should see a good improvement, also your formulation is ramping up 100 Crores sales in a quarter 80 quarters coming from LMIC formulation tenders and you say you can maintain these levels and therefore your fixed cost absorption should be better. I think you have indicated in the past that fixed cost and absorbed fixed cost is on the order of Rs.90 to Rs.120 Crores, given this situation ideally logically there should be a very good margin improvement should we therefore infer that there will be a continuous margin improvement going into the future three quarters in this year?

Dr. Satyanarayana Chava: We definitely expect so. This year we are very confident that our FDF business will cover all its cost very, very comfortably and also as Mr. Ravikumar mentioned our opex is higher because of ramp up in production to meet our large order book what we received, so definitely we expect good improvement in EBITDA margins in Q2 and thereafter.

Gagan Thareja: Final question. The other two formulations that you have filed, in fact, three that you have filed for TEE and TLE 600, TLE 400, these are expected to be approved in 3Q and 4Q if I have it correctly, what could be the magnitude of formulation sales vis-à-vis TLD for you in these three TLD are doing 80 Crores a quarter right now, which is annualized Rs.300 Crores, Rs.320 Crores, would the other three when they approve also have a similar order of magnitude or would it be very different from the TLD formulation?

Dr. Satyanarayana Chava: It is difficult to predict right now, but it will be less than the TLD opportunity. TLD still there are limited players whereas in the TLE there are good number of players and it will be less, but despite of that we have a very good order book for formulations both in LMIC as well as from Europe and North America, so situation is very, very encouraging for us in the formulation front.

Gagan Thareja: TLD if you could give us some idea of what is your market share in the formulation side Dolutegravir combination formulation?

Dr. Satyanarayana Chava: It is too early to tell, may be by end of this financial year we can give the numbers, but we are gaining good market share. I can give you that indication.

Gagan Thareja: Okay, lastly Sir, if you could give the total debt number and split it into short and long-term debt?

V.V. Ravikumar: It is around 1,100 Crores, short-term is 700 and long-term is 400 crores?

Gagan Thareja: Is this expected to come down this year or you will be able to maintain it at current level?

V.V. Ravikumar: It may come down marginally this year, but next year onwards there is a possibility of a reduction.

Gagan Thareja: Thank you Sir. I will get back in the queue.

Moderator: Thank you. The next question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

S Padmanabhan: Thank you for taking my question. You had earlier mentioned that there has been some shipment delay and there has been higher production, can you give some colour on what is the kind of quantum that would have been missed because of this, what could have been the kind of sales that we would have achieved if not for the shipment delay?

Dr. Satyanarayana Chava: Around 75 to 100 Crores.

S Padmanabhan: Okay, so this basically will be bunched up in the second quarter, so the 2Q number should be pretty strong right that should be the right assumption?

Dr. Satyanarayana Chava: Yes.

S Padmanabhan: And Sir coming to the other businesses apart from the ARV part of it, one is also on the Hep C and oncology side, one is we have been expecting a revival on the Hepatitis C, which does not seem to be happening and as far as this quarter numbers go and second is we have also been expecting some kind of a sharp ramp up happening on the oncology space, can you give some colour on these two businesses, what is your outlook of this going forward as well?

V.V. Ravikumar: Oncology we are on track, but for the one of our key oncology product Gemcitabine had an issue because of the supply chain issues from China. We have initiated an in-house manufacturing of that intermediate and probably from September onwards we are geared up to produce and that is a reason the numbers didn't grow. Other than that in oncology we expect better numbers as Dr. Satya mentioned one product called Bortezomib it is going to have a good traction. And coming to Hep C, we thought it wouldnt drop much and at the same time we never anticipated growth, we are also trying to understand from Natco on the outlook, we need sometime to, so probably we will cover up in the next quarter call.

S Padmanabhan: On Hep C side, do you think that probably the combinations are picking up and therefore there is a market share loss or it is something that you believe can be, just to get a sense on what is your initial assumption of what is happening here?

Dr. Satyanarayana Chava: Here in the Hep C front, there are multiple reasons, one is this market is not regulated in a sense, so the product competition is very high because everybody is launching. When it comes to ARV there is a limited competition because products are to be approved by various regulatory agencies, WHO prequalification is required. Whereas in Hep C people can till launch in India by buying API from China from non-approved sources as well, so the competition is very high and

second is as you see in the major Hep C companies globally like Gilead and all, their revenues in Hep C are also going down because patient pool is coming down. It is not like ARV a patient is on and he will be on for life whereas Hep C the patient moves out of the treatment within 90 days, so the patient pool is coming down in Hep C. These are the two reasons market is going down.

S Padmanabhan: Sir on the formulations and also on the CRAMS part of the business compared to even our initial expectations we are seeing the numbers to be higher, you also mentioned that this LMIC contract to be there going forward as well, some colour on where do you think we should end this year and if that happens versus your own expectations on the full year given that there is a latent demand that is going to be there for the second quarter as well, do you see that on the gross margin side as well as on the fixed cost absorption side you see a surprise happening there and specifically for CRAMS since we have been working for a while over here do we see any kind of molecule moving up in the commercial stage, any kind of milestone payment that we can expect probably in this year in this side?

V.V. Ravikumar: For a formulation we will be definitely doing much more than our annualized Q1 number for the year. Coming to the Synthesis business we are supplying one of the intermediates for the commercial launch and that material goes only in the last quarter of the fiscal. If you noticed, in the Q4FY19 there was a major jump reported and Again in Q4FY20 there will be ramp up in the Synthesis business.

S Padmanabhan: Margins and fixed cost absorption Sir, any colour on that?

V.V. Ravikumar: Margins are good in contract manufacturing or Synthesis business no doubt on that, we are not seeing any pressure in the margins there.

S Padmanabhan: This year do we think that given this Rs.100 Crores run rate that this should be able to absorb all the fixed and variable cost on the formulation side and probably end this year with profits?

Dr. Satyanarayana Chava: In the formulation front absolutely. All the formulation if you do standalone also this will be a profitable one as such. It will give some money back to the corporate for sure.

S Padmanabhan: Sure Sir. I will join back in the queue. Thanks a lot.

Moderator: Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: Yes, my question pertains to the others part of the API how many molecules are involved in that?

Dr. Satyanarayana Chava: In other APIs, the one predominant molecule where we have significant sales is Montelukast for Europe and US and other than that it is a contract manufacturing now for APIs for key European customers, so combination of both two, so the other API sales increased from Q1 FY2019 to Q1 FY2020, but you will also see significant ramp up will come from Q1 to Q2 as

well, that is where we had a good order book and then we continue to produce in Q1 where most of the sales will happen in Q2.

Charulata Gaidhani: How big is the order book?

Dr. Satyanarayana Chava: The current order book is very big. This is the biggest order book we have in the last eight, nine quarters.

Charulata Gaidhani: If you could split within the ARV and other APIs, oncology and formulation?

Dr. Satyanarayana Chava: We have good order book in all fronts, it is not the only ARV the order book revenue split is very, very evenly divided.

Charulata Gaidhani: Amongst APIs what type of growth would you expect for the full year?

Dr. Satyanarayana Chava: Overall we expect around 10% growth compared to last year although we did 100 Crores less than Q1 when compared to the corresponding year, but we accept to recoup that from Q2 onwards.

Charulata Gaidhani: Then my second question was about the long-term contract from the European partner, what would be the value of?

Dr. Satyanarayana Chava: The current order book for contract manufacturing of FDF is close to the tune of about $20 million.

Charulata Gaidhani: In case of US sales you are selling through Rising Pharma right?

Dr. Satyanarayana Chava: One we are doing on our own right now Metformin, the Pregabalin launched through Rising Pharma and at least three more launches expected, we will launch on our own, so there is no partnership involved in that?

Charulata Gaidhani: How will you sell that?

Dr. Satyanarayana Chava: We have front ending there.

Charulata Gaidhani: How many people?

Dr. Satyanarayana Chava: Currently we have only two people there. We would not expect given a front ending in big scale, we will not go beyond five people, five-member team.

Charulata Gaidhani: How do you stand in case of Metformin in terms of competitor's edge?

Dr. Satyanarayana Chava: In case of Metformin we are fully backward integrated and we have a high single digit market share right now, which we are slowly ramping up and in the case of Pregabalin, which was launched by our partner Rising, we have a high teen market share as of now.

Charulata Gaidhani: Okay, you expect that to continue?

Dr. Satyanarayana Chava: We hope.

Charulata Gaidhani: Fine. All the best.

Moderator: Thank you. The next question is from the line of Srihari from PCS. Please go ahead.

Srihari: Thanks for opportunity. Firstly thanks for giving the guidance for the API business, which you said would be 10% for the current fiscal. If you could share a similar guidance for FY2021 that would be great and secondly on the FDF side could you please tell us about the price erosion scenario on the Pregabalin side and you have some seven FDFs pending filing, can you please give some timelines for approvals for these products? Thank you.

Dr. Satyanarayana Chava: In the case of Pregabalin it is too early to give the pricing indication because of charge reduction will happen, may be by end of Q2 we able to give you exact market share and realizations and when it comes to P4 and FDFs, we got one tentative approval, which is Abacavir, Dolutegravir and Lamivudine. Expected launch is 2027 that is one and the other tentative approach we have not got, so to tell you the timings, so once either we get tentative approval or we do settle then we will give you the guidance.

Srihari: But very roughly, let us say would anyone of them fructify over the next by FY2021?

Dr. Satyanarayana Chava: No, nothing, we don't expect to launch before 2025.

Srihari: Okay and guidance for API business FY2021?

Dr. Satyanarayana Chava: Right now it is difficult to predict at this time.

Srihari: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Apurva Mehta from AM Investment. Please go ahead.

Apurva Mehta: Sir just wanted to know the Synthesis business that you had mentioned sizable revenue expected from Aspen from commencement of commercial supplies, so today I think 50% of our business come from Aspen, so what is your outlook on that, what kind of run rate we can see going forward?

Dr. Satyanarayana Chava: In the Custom Synthesis as of now half of the business comes from Aspen where margins are very good. Please note the Aspen revenue does not include cost of key raw materials, so the gross margins are very interesting and the rest of the business CDMO will continue to grow beyond what growth we expect from Aspen.

Apurva Mehta: So the overall growth, what would be you are expecting from this Custom Synthesis?

Dr. Satyanarayana Chava: Custom synthesis, if you look at our past financials it is to be 3%, 4%, 5%, of the total revenue and now it is more than 10%. This year we expect it will be 12%, 13% of our overall revenue and formations will continue to grow, last year formulation revenue was 2.5%, this year we expect at least 20%, 25%, so this year API versus non-API business we expect two-third, one-third kind of split.

Apurva Mehta: So on the overall ARV side last year we were at 1800 Crores, so can we expect to maintain this 1400 Crores or can we grow here from 1400 Crores?

Dr. Satyanarayana Chava: We will grow beyond that, but very confident we will be anywhere between 1300 to 1400 revenue in this year for ARV APIs, we cannot give the exact number, but it will be 1300 to 1400 Crores.

Apurva Mehta: Okay and on the oncology side what kind of growth towards September when we have backward integrated, what kind of overall growth we can see in oncology Sir?

Dr. Satyanarayana Chava: We have grown when compared to FY2018 to 2019 and we will continue to grow 2019 to 2020, but the base is small. The oncology is about Rs.250 Crores revenues for us, even we grow 10% we will grow by Rs.25 Crores, so that is not going to significantly enhance any of our numbers, but major growth will come from formulations and then Custom Synthesis where the base is much bigger.

Apurva Mehta: Okay. Thank you and wish you all the best Sir.

Moderator: Thank you. The next question is from the line of Saravanan Viswanathan from Unifi Capital. Please go ahead.

Saravanan Viswanathan: Could you talk about the capex that is required for FY2020 as well as FY2021, I think you had covered something in the opening remarks, could you please update?

Dr. Satyanarayana Chava: Our capex in FY2020 will be somewhere between Rs.150 to Rs.200 Crores that includes maintenance capex of more than Rs.50 Crores. In FY2021 we do not expect to grow beyond that, definitely between Rs.150 to Rs.200 Crores including maintenance, so the capex from previous year to this year is certainly done and we would not see major capex requirements in any of our existing units.

Saravanan Viswanathan: Okay, second question is the Rising Pharma partnership that we have is the same Rising Pharma where Suven has taken a stake?

Dr. Satyanarayana Chava: You are right.

Saravanan Viswanathan: Would it mean any other sort of integration plan with Suven in terms of like either contract manufacturing type of opportunity?

Dr. Satyanarayana Chava: Unless we make API we are not doing any contract manufacturing formulations, so if somebody gives API we do contract manufacturing, but situation is very rare, we do not have an example right now, although we are working at one that has not materialized, so our contract manufacturing formulations is based out of our inhouse API.

Saravanan Viswanathan: Okay, so there are no common products?

Dr. Satyanarayana Chava: There are no common products.

Saravanan Viswanathan: Okay Sir, fine. Thank you.

Moderator: Thank you. The next question is from the line of Gagan Thareja from Kotak Investment. Please go ahead.

Gagan Thareja: Thank you for the opportunity. First question with ramp up in LMIC ARV formulations, does that change the nature of your working capital, is the working capital days for formulations in ARV is similar to your existing business or different?

Dr. Satyanarayana Chava: We are expecting receivables to improve and then probably inventory will increase since you need build it for orders. We do not expect a big change at this moment.

Gagan Thareja: Second question, you indicated that you had a good visibility and a good order win in ARV formulation then I think this is only for Dolutegravir. Yet on the other hand you are also indicating that Dolutegravir has really not taken off too well and Efavirenz will maintain, so one comes at the expense of the other, so either going into the future the Efavirenz combination holds out simply because Efavirenz maintains as you have indicated or Dolutegravir, in which case do we therefore presume that in the coming quarters if Efavirenz grows for you then Dolutegravir drops off or how is it?

Dr. Satyanarayana Chava: The Dolutegravir we are selling formulations, but we are not selling APIs, whereas if you look at Efavirenz we are selling APIs not formulations, so we have to see these two independently and right now where we sell majority of our Efavirenz there is no Dolutegravir offtake ramp up.

Gagan Thareja: So if you could give me some idea of the Dolutegravir order that you have got, have you got them in South Africa or in other countries?

Dr. Satyanarayana Chava: In other countries, not in South Africa.

Gagan Thareja: Okay, so in South Africa what is the situation has Dolutegravir taken off well in the tender?

Dr. Satyanarayana Chava: Dolutegravir does not hold even single digit market share right now.

Gagan Thareja: In South Africa?

Dr. Satyanarayana Chava: Yes, it is less than 10%.

Gagan Thareja: Yes, I agree to that, but I am talking specifically about the tender, which happened in February.

Dr. Satyanarayana Chava: February tender, they gave 70:30 split.

Gagan Thareja: 70 for Dolutegravir?

Dr. Satyanarayana Chava: Although they have awarded tenders hoping that Dolutegravir switch will be faster, it is not happening, so Dolutegravir has not captured even 10% of market share in South Africa.

Gagan Thareja: In the countries where you are selling Dolutegravir, has Dolutegravir ramped up well, which are these countries if you could give some light here?

Dr. Satyanarayana Chava: Dolutegravir ramp up happened outside South Africa, India, Brazil, Thailand and some other South East Asian countries, so there Efavirenz still dominates. In other African countries Dolutegravir is picking up that is where we are selling right now.

Gagan Thareja: Okay, so what you are saying is that this is a new three year rolling tender is it not that you have won or is it the visibilities for certain two, three quarters in the future or is it higher than that in these instant commitments?

Dr. Satyanarayana Chava: We have visibility for two- three quarters.

Gagan Thareja: So thereafter it will be fresh bids is that how one should think?

Dr. Satyanarayana Chava: They award tenders broadly once in a year and then supplementary awards will happen every quarter, so we have visibility for this financial year I would say.

Gagan Thareja: And how many players are there in the Dolutegravir formulation as of now?

Dr. Satyanarayana Chava: As of now there are three players.

Gagan Thareja: Okay, just three?

Dr. Satyanarayana Chava: And including us it is four.

Gagan Thareja: Okay so four players including you, okay. Fine Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Srihari from PCS. Please go ahead.

Srihari: Yes. Thanks for the followup. Firstly a clarification, did I get it right that you have inventories of close to Rs.75 Crores to Rs.100 Crores in this quarter?

Dr. Satyanarayana Chava: Yes.

Srihari: Okay fine and secondly I wanted to know a little about the pipeline in the ARV and onco front, medium-term pipeline?

Dr. Satyanarayana Chava: In the ARV API we have completed all backward integration as well as the second line APIs validation were also completed. On the formulation front we still have to do a couple of more validations to complete the basket for second line. In onco, APIs, we have few DMF filings this year. We are not into onco formulation, so we have no pipeline there right now.

Srihari: No I meant on the API front, products you are likely to launch over the next 12 to 18 months?

Dr. Satyanarayana Chava: We helped our partner to launch Bortezomib this year in oncology and Imatinib launches in US for a few and there is no major launch this year in oncology other than above.

Srihari: And as far as ARV is concerned?

Dr. Satyanarayana Chava: Yes ARV, Lopinavir, Ritonavir were ramping up our sales, but no new launches.

Srihari: Because you mentioned I think in the presentation that you plan to introduce new second line product?

Dr. Satyanarayana Chava: Yes, Lopinavir and Ritonavir both into second line, so we have completed validation and we have started servicing some customer orders now.

Srihari: Okay, so basically these two are let us say likely to be launched in the near-term?

Dr. Satyanarayana Chava: Yes.

Srihari: Lopinavir and Ritonavir are likely to be launched in the near future?

Dr. Satyanarayana Chava: Yes.

Srihari: Okay. Thank you.

Moderator: Thank you. We take the last question, which is from the line of Apurva Mehta from AM Investment. Please go ahead.

Apurva Mehta: Sir one question in the increase in insurance expense, so can you throw some light how much it was?

V.V. Ravikumar: For insurance, GIC is a reinsurer and for all our API plants they have increased the insurance by five times across India, so in fact we made a lot of representations and then there are some cases filed in the various high courts, we are also initiated in Hyderabad High Court, but there is no positive result yet, the impact is going to be Rs.8 to Rs.9 Crores a year for us.

Apurva Mehta: Are we provided for this year?

V.V. Ravikumar: We already provided for this quarter.

Apurva Mehta: When are we going to participate in the African tender business?

Dr. Satyanarayana Chava: We did participate in the tender business and in the Q1 three fourth of our revenue came from ARV tender market related business.

Apurva Mehta: But on the formulation side, when can we see that?

Dr. Satyanarayana Chava: It is on the formulation side.

Apurva Mehta: Okay. Thanks a lot Sir.

Moderator: Thank you. I would now like to hand the conference over to the management for closing comments.

Dr. Satyanarayana Chava: Thank you Chirag for organizing the call and thank you all investors who have put very thought provoking questions and also for supporting us. Thank you.

V.V. Ravikumar: Thank you everyone.

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