



**“Aarti Drugs Limited
Q2 FY2019 Earnings Conference Call”**

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- Moderator:** Ladies and gentlemen, good day and welcome to the Aarti Drugs Limited Q2 FY2019 earnings conference call hosted by Centrum Broking 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 “*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ranjit Kapadia of Centrum Broking. Thank you and over to you Sir!
- Ranjit Kapadia:** Thank you Inba. Ladies and gentlemen, good afternoon to all of you and welcome to Aarti Drugs Q2 FY2019 results conference call hosted by Centrum Broking. We have with us Mr. Harshit M. Savla, who is the Joint Managing Director, Aarti Drugs Limited, Harit P. Shah, Whole-Time Director, Aarti Drugs Limited, and Adhish Patil, Chief Financial Officer, Aarti Drugs Limited. I now request the management to take you through the results, which will be followed by Q&A session. Over to you Sir!
- Adhish Patil:** Good evening all. This is Adhish Patil, CFO of Aarti Drugs. We welcome you all for the conference call of Aarti Drugs Limited. Main purpose of the call is to brief you all about the quarterly performance of the company and the current market conditions for the business. Aarti Drugs is traditionally an active pharmaceutical ingredient manufacturing company with 10% to 12% of its revenues coming formulation segment. Now within API segment for the current quarter, antibiotic therapeutic category contributed to around 35%, antiprotozoal around 20% and anti-inflammatory around 12%, antidiabetic around 10%, antifungal 8% and other categories in that order for the September quarter.
- Broadly the segmentation has been similar in the last financial year as well. In September 2018 quarter, Company recorded consolidated quarterly revenues of 347.51 Crores with year-on-year growth of 8.82%. Exports of the API segment grew approximately by around 20% and domestic sales by around 7.5%. However the formulation segment revenues declined by 13%. Consolidated EBITDA for the quarter ended September 2018 is 47.09 Crores down by 10.5% and consolidated profit after tax for the quarter ended September 2018 is around 18.05 Crores down by 23.52%. Formulation segment profit was lower this quarter due to lower capacity utilization and lack of execution of export orders as compared to last year September 2017 quarter.
- Disruptions in supply of few key raw materials and change of processes for existing products have led to production shortages in API segment as well. This resulted in under absorption of overheads thus increasing manufacturing expenses for this quarter. Company was able to pass on the increased raw material prices to each customer in absolute terms; however, it resulted in decreased gross margins temporarily due to base effect. Once the price is stabilized, we expect the operating margins to restore to original levels. Company was able to maintain its debt to equity ratio to 1.11 as on September 2018 despite of increased working capital requirement.

Company has recently submitted the voluntary response for the EIR Establishment Inspection Report pertaining to December 2017 FDA audit, which was recently received. Company would be contacting US FDA for further course of action. Company continues to focus on different therapeutic categories related to lifestyle-related diseases for diversification and currently antibiotic contributes around 35% of its total API segment revenue. Company has recently completed the expansion of one of its key antifungal molecule recently. So that is all from the management side. Now I would like to open up the concall for Q&A session.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: Adhish and team, first of all thanks for organizing the call. It will be very useful to get an update on the business. I have three questions, so the first question is in terms of the raw material environment I think it has been 17 for some time and that is somehow reflected in our gross margins, but if you look at some of the peers on the API space their gross margins have remained more or less same or improved also, so can you help us understand as to how the gross margins likely to be once price environment stabilizes over a period of time?

Adhish Patil: So, what we have seen since October 2017 that is last year, the prices of raw material slowly and steadily started going up, now there are many reasons to it and till recently, till September month of 2018 the prices are going up, now they are more or less stable. What we have seen is that the main reason for these are one is recently the one is exchange rate, the crude price is going up and secondly, which is more on haphazard side is related to Chinese supply disruptions. Now, since the prices are going up now we are increasing the raw material cost for quarter was around 14.5 Crores, but then around 15 Crores we are able to pass on to customer in terms of increasing selling prices, but still the thing is if we compare to the base because the base goes up it led to 1.5% reduction in the gross margin even though we were able to pass on the entire increase in raw material prices on absolute terms, but there was a base effect and the margins were slightly pressurized and as you correctly pointed out in some of the API the margins are showing really well good and whereas in some other we are seeing that there is squeezing margins also, so it all depends on product-to-product frankly speaking, so even in our portfolio we have seen lot of cases right from one who has higher margins to a few where the margins have suffered.

Dhwanil Desai: So, how do you see this trajectory once the prices stabilize in terms of percentage terms are we going to claw back to our earlier margins or do you think that will become a challenge going forward?

Adhish Patil: So, what our feeling is that once the price is stabilized then slowly and steadily the margins will go up because ultimately it is all about competition, if we are the most efficient in the competitions the margin should restore and typically historically we have seen that around 15.5% to 16% of EBITDA margins we are able to achieve, hopefully we will be able to recover.

- Dhwanil Desai:** Second question relating to one of our key products on the Ofloxacin there is an antidumping duty around end of March, so have we seen any benefit to us because of that or hence kind of improved margins or we have not been able to get the full benefit of it yet?
- Adhish Patil:** We have been able to pass on the benefit after price increase actually in Ofloxacin due to antidumping duty and our margins have improved considerably and we expect the volume to go up from beginning of next year because this quarter we will have little healthy season, so from January quarter we will be able to get good volumes and price benefit on this product due to antidumping duty.
- Dhwanil Desai:** And my last question is on any new product launches that you have in pipeline apart from couple of products that you launched last year, anything on the cards?
- Adhish Patil:** As far as new products are concerned, we have one more antifungal products where we have basic raw material advantage, which will be launched by first quarter next year, that is last quarter of this year rather and we also currently expanding our Metformin capacity, which will be on board by last quarter, so that will be two additions.
- Dhwanil Desai:** Thanks.
- Moderator:** Thank you. Next question is from the line of Ankit Gupta of Bamboo Capital. Please go ahead.
- Ankit Gupta:** Good evening Sir. First of all I would like to thank you for conducting the conference call and giving us an update about the company. Sir, just wanted to understand in terms of backward integration for the past 4 to 5 years we have done lot of capex and some of it has gone into backward integration as well, so currently for our key products, how much backward integrated, how much is our dependence on China in terms of raw materials?
- Adhish Patil:** Many of our products we have got backward integration, but we are not able to fully utilize our plant capacities for one or two products. We have also launched recently Cyclopropylamine, which is used for antibiotics and also we have gone backward for antifungal intermediate called CBB CIS Bromo Benzoate and alcohol, so we are going backward and that production has started already for these two products and we are going further in one or two more products so that benefit will start coming in from now onwards.
- Ankit Gupta:** But currently out of our product portfolio for antibiotics and Morphine and other products, can we say that we are largely backward integrated?
- Adhish Patil:** Most of the products we are largely backward integrated. Out of top 10 products our target is to have more or less all products backwardly integrated in the next one or two years, some products where we still imports about in antibiotic segment we import basic raw material, we will like to do that also.

- Ankit Gupta:** Can we assume that the gross margin decline that we had seen, so primarily on account of increase in prices of some of the basic raw materials that we are not currently manufacturing inhouse?
- Adhish Patil:** Yes, there are two, three factors for lower margin this quarter, so the reason for gross margin going down apart from the raw material problems one was also because of loss in yields, we face some problems in last quarter exceptional problems and what we have seen about above 0.5% of the margin was affected due to lower yields, which we believe to be because of few operational problems and also because of few quality issues in terms of raw materials, so those are like temporary problems, so once they are resolved, which you already seen right now that now the yields are decent and are improving further, so that will be recovered and secondly apart from raw material problems in this particular quarter because of the disruption in supply of a few key raw materials there were production shortages especially in Diclofenac derivatives and few Fluoroquinolones because of which there was under absorption of overheads and we believe that around 0.5% of the EBITDA margin was affected because of that too, so that also we can recover with better production.
- Ankit Gupta:** My second question was on, in terms of growth in volume terms, I joined five minutes late, so can you provide us how much is the volume growth in this quarter and in the first half of FY2019?
- Adhish Patil:** Unfortunately for September quarter because of this production disruption, we had a lesser production, we had a production shortfall because of which we were not able to cater to some of the demand in antibiotic segment and instead of that the volume growth was quite flattish for September quarter mainly on the account of production shortfall.
- Ankit Gupta:** For H1 how is the volume growth or Q1 if you can provide us?
- Adhish Patil:** For Q1 the volume growth was quite significant, in domestic market it was around 50% volume growth, but that was mainly because of GST impact was there in the last year in June 2017 quarter, so in Q1 the volume growth was very, very high, but that is little skewed because of the GST.
- Ankit Gupta:** I wanted to understand about our asset turns have continuously declined and we have done a lot of capex, but benefit of that has not come through, we understand the reasons like decline in prices of crude then currency and other things, so do you think with crude stabilizes around \$70, \$75 and do you expect the asset terms to go back to three, four year back levels and compared to what we have currently because this has shown a decline over the past two, three, four years?
- Adhish Patil:** Yes, so what we have seen is already the asset turn has gone up slightly in September quarter and as you correctly pointed out one of the main reason was also the crude, if the crude stabilizes between 60 to 70 and given the fact that also the currency has depreciated, which is very beneficial for export markets, so given that fact our asset turn should definitely improve in future.

- Ankit Gupta:** And my last question was on the China issue, so the kind of supply descriptions, which are happening in API and intermediate side as well, so can you give us an update on how are things in China and in terms of customer enquiry for export market as well or even in domestic market are we seeing an uptake in enquiries or customers wanting to enter into long-term contracts with us?
- Adhish Patil:** Yes, more and more countries customers all around the world are earlier, those were only dependent on China they are now at least sending us enquiry and checking the rates and partly they are diversifying rather 25% to 50% of the requirement they are proposing to buy from India as an alternate source, so that advantage will come to India and particularly to us also.
- Ankit Gupta:** And Sir we are having a lot of increases in prices of some of the antibiotics that we manufacture because of shortages, but the prices have shot up by 30%, 40%, can you update on that how are the prices and have the prices come off now or they remain at elevated levels currently?
- Adhish Patil:** What has happened in about two years back prices went down by 25%, 30% due to crude coming down to 30, 40 levels and due to heavy competition, but now the prices reached at three, four years back levels, so price will stabilize at this level that is what we feel unless something, again crude goes down or demand supply mismatches there, but according to us our estimate is that price will remain stable for at least next two quarters.
- Ankit Gupta:** How is the situation in China for APIs currently?
- Adhish Patil:** There are still problems in China, but more or less like last quarter we had a disruption of raw materials in intermediates, things are improving now, but overall situation is bad in China still.
- Ankit Gupta:** Thank you Sir.
- Moderator:** Thank you. Our next question is from the line of Rahul Jain of Credent Wealth. Please go ahead.
- Rahul Jain:** Thanks a lot for organizing this call and we appreciate this and hope that we continue this on a regular basis firstly, secondly Sir of course my previous colleague also asked questions about raw material, so I just wanted to extend that question in terms of like you mentioned we have problems on the raw material side and the problem started somewhere around October last year and they started going up and they have been going up, so if the prices have been going up for more than 8 to 12 months we are not able to pass on that, it is visible from the results given, but you said the prices have now stabilized, so on a steady state basis where do we see our gross margins because some quarters back we were around 37%, 38%, which has now come down to almost 30% to 23% and secondly in terms of our final product prices are we seeing now a change in the prices or are the prices at a level, which can give us a steady state projects on the gross side, I want to understand both from the raw material perspective as well as the product price perspective, the final product price?
- Adhish Patil:** To answer the initial part of the question that raw material started going up since October 2017, so what we observed was, October 2017, November 2017, December 2017, the prices were going

up very steadily and slowly, but then in March quarter we saw that sudden stoppages of few production facilities in China and there were sudden disruptions in the supply also and because of that the hike in the prices was even sharper, the percentage wise the hike was even more and even the raw materials supply disruption started taking place I think after March, April onwards, so it continuously went on happening till September, had there been increase since October and stopped by March 2018 then by now it would have been stabilized, but then till September month it was continuously going up further, further, further up, so that was one of the reasons why we were not able to completely pass on. Now as I answered previously in absolute terms we were able to pass on, but because of the base effect the margins got squeezed by 1.5% and also by around 0.5% we lost in yield in last quarter because of various quality issues.

Rahul Jain: That yield part is now recovered?

Adhish Patil: Yes, the quality issues already we have recovered because we have changed few processes also to avoid these disruptions in future and this was mainly related to our Fluoroquinolones and that is around 35% of our revenues.

Rahul Jain: So what was the impact on the topline in terms of numbers?

Adhish Patil: Those products contribute to around 35% of our revenues, antibiotics.

Rahul Jain: How much could be the impact on the topline basically because of this production disruption?

Adhish Patil: So the prices did go up on the selling prices, we were able to pass on the entire increase in raw material prices in absolute terms as far as selling prices are concerned, but then there is always a resistance when the prices start going up so rapidly, we have to convince the purchase people of our clients, our customers also that this is almost like a permanent increase and not a temporary hike, so people always try to resist purchase initially, but when the stock level goes down then suddenly again they come and purchase at those levels. So it takes time for the prices to stabilize at a higher level, but they will. As previously also indicated by our director that Ciprofloxacin one such big molecule for us. The selling prices were as high as 1700 to 1800 per kg five years back and they went as low as around 1250 to 1300 per kg and now again they have gone up till 1700 odd levels, so the thing is, this is just a temporary setback as in by the prices are rising so rapidly that backlash we are seeing, but slowly and steadily the margins will restore and around 15.5% to 16% of EBITDA margins is somewhere it should stabilize for us.

Rahul Jain: This we expect from another quarter or for next year?

Adhish Patil: Possibly we can try for fourth quarter of this year itself.

Rahul Jain: Sir on the formulation side you mentioned again on that side also there were some lower capacity addition and exports have got delayed, so could you share where we stand today in terms of that part of the business?

Adhish Patil: So on the formulation front our model is in the domestic market, we are working as a contract manufacturer and in exports we have our own marketing, so what has happened is in the domestic front we are underutilizing our capacity from the last couple of quarters mainly because of shifting of some of our high volume products by our customers and which they have taken in their inhouse manufacturing, so that we are taking care of and which would be resolved, those volumes would be replaced by the fourth quarter of this financial year in which we are adding newer clients and more products from our existing clients and as far as the exports goes, so this year we would be doing almost the same level of exports as the previous year at about Rs.18 Crores to Rs.19 Crores, which there were some delays in our exports, which were meant to happen in the previous quarter, but due to some delays in our raw materials and in our production issues those are getting pushed to the third and the fourth quarter. In terms of our export strategy, so we have a lot of products under registrations at the moment, which we are filing in many rest of the world countries in Africa and Asia and Latin America, so many of those products are under registration and under filing, so which the revenues would start kicking off from the next financial year.

Rahul Jain: Sure. So on overall basis since our Ciprofloxacin capacity has gone up and we are also enhancing that capacity further if I am right to almost 21 and Adhish you mentioned about even Morphine capacity being increased, so what kind of topline growth do we see for next two, three years, also taken into consideration that we have spend a good amount of money in last three, four years, we have spent almost Rs.650 Crores to Rs.700 Crores in the last five years, a part of it has been on backward integration and a part of it has been on the capacity expansions, so are we through with all capacity expansions point number one and that could result into what kind of topline for FY2020 and 2021 and what kind of further capex is being planned in this year and next year?

Adhish Patil: Now I answer the first question. The thing is our capacity enhancement those programs are like almost continues, so whenever we put up the capacities usually they are not picking or catering to the entire market volume, but as and when we start getting more and more orders and enquiries and start getting more market share, so we feel the need of capacity enhancement that is when we go and expanding the capacities of our existing products in phase wise manner, so this will be a continuous process. I would say that as of today whatever capacities we had or we have say by the end of September quarter those should give a substantial volume growth means almost to the extent of about 40% to 45% when used till 90% or 95% of the utilization, so there is a lot of scope of that, so based on the exercise, which we did around 1700 to 1800 potential is there from these existing capacities, so which we will achieve gradually in a couple of years, in few of the products it might take three years, but mostly in couple of years to three years time and as we keep on filling these capacities we are also introducing newer lines for newer products basket and plus we will be also facing out few old products, which are declining in volume and introducing new products in the existing capacities also. So we have to plan very dynamically all the capacity enhancements, but there is a potential of around Rs.1800 Crores from this existing capacity.

Rahul Jain: What is the absolute amount of capex being done this year and next year?

- Adhish Patil:** So this year we had a cash outflow on a consolidated basis of only of around Rs.38 Crores for the half year, typically our plan is not to exceed above Rs.100 Crores. This year we might close little short of Rs.100 Crores and next year also it would not be beyond Rs.100 Crores of capex, which includes the maintenance capex as well.
- Rahul Jain:** Thanks a lot. This is quite useful. Thanks.
- Moderator:** Thank you. Our next question is from the line of Sarvanan Viswanathan from Unify Capital. Please go ahead.
- Sarvanan Viswanathan:** Thanks for taking my question. In current formulations revenues, what is the extent of tender business and going forward how do you expect to fill up the capacities?
- Adhish Patil:** Right now, our domestic contract manufacturing revenue contributes to almost 85% to 90% of our turnover and similarly almost 85% of capacity utilization as well. With our registrations that we have underway, we have about 129 registrations across 10 countries, which we have already applied first, which approvals were taken typically between 12 to 18 months, so we expect in the next year and year after that the export business would contribute to about 50% of our total turnovers and utilization and as far as the tender business goes something that is very dynamic so we are working on tender businesses in a couple of countries where some products where we have strong backward integration, we quote there very aggressively for the tenders, but that is something where it is very difficult to predict the revenue because it can either be zero or it can be the full amount, so we do not take that into our budgeting, but we are targeting some molecules where we have backward integration for the tender business as well.
- Sarvanan Viswanathan:** You have mentioned that like peak utilization can get you Rs.1850 Crores revenues, you are just not very far from what we will close in the current year, so given that when do you see the next stage of big capex for future growth?
- Adhish Patil:** In this year also we have been doing capex for expanding one of our leading antifungal product and also one of the specialty chemicals, now that projects are almost completed, so in November we will be going commercial on those two products, so that will enhance the potential further plus we have another plan, second phase expansion in one of our existing facilities for a regulated market that will also add to further topline and we are also awaiting the FDA clearance so once that gets resolved we have other plans of expanding on those lines as well and plus as Mr. Harit Shah told that we are also expanding on the antidiabetic side, so that will also give a good bump in our revenues once we go full scale on it. So the earlier projection, which I gave, was without considering all these new capex.
- Sarvanan Viswanathan:** Without considering the new capex that is useful. I will come back in the queue for more questions.
- Moderator:** Thank you. Our next question is from the line of Dhwanil Desai of Turtle Capital. Please go ahead.

- Dhwanil Desai:** Thanks for the opportunity again. A couple of questions, if I look at last three, four years of your margin trajectory in terms of gross margins and EBITDA margins we used to make around 35% to 37% gross margin with 15.5%, 16% EBITDA margins and you are saying that we have owned to increase the volume by 40% to 45% without doing any additional capex, so there has to be an operating leverage, which has to play out because when we do not have to incur a lot of fixed costs, which are associated with existing capacity, so I am not able to kind of get to the picture of why our margin should remain at 15.5%, 16%, am I missing something in this whole context?
- Adhish Patil:** One thing is that our capacity enhancement program is on the continuous basis so we do not do like very huge investment at a go that is mainly to avoid debt, we do not want to over leverage our debt to create a riskier situation wherein if you are not able to sell the product then what, so what we do we take all the projects in a phase wise manner, so as you said correctly that the existing capex will be able to take us to the revenues of around Rs.1800 Crores, but then as that is getting utilized more and more, we are also putting up additional capex for the future planning say three, four, five years down the line, so those also keeps on adding the overheads and we keep on expensing out the interest cost and the rest of the overhead cost from the newer units also in fact which has happened in this year also since we have launched recently intermediate facility for backward integration, so the production came in late, but we are expensing out every cost from that particular unit. So there will be phases, so whenever there is a phase of Brownfield expansion like the second phase expansion whenever it takes place at that time definitely as you correctly said the margins move up, it might tend to go up beyond 16% also, but when we put some greenfield projects then the margin slightly come down especially during the first phase of expansion.
- Dhwanil Desai:** My understanding is that most of your expansion currently are Brownfield in nature right, you are doing any same field like expansion as of now?
- Adhish Patil:** Which we put up in a couple of years back the plot, which has started developing couple of years back and we also put up two products in that facility. So Brownfield essentially means it has to be in the existing locations not necessarily in the same product, so sometimes even for the same product if you are adding another facility means at another location it still qualifies as greenfield project for us.
- Dhwanil Desai:** Sir what you are suggesting is that your current capex has an element of greenfield capex?
- Adhish Patil:** It is a mix of both actually.
- Dhwanil Desai:** Thanks. That was helpful.
- Moderator:** Thank you. The next question is from the line of Ankit Gupta of Bamboo Capital. Please go ahead.

- Ankit Gupta:** Thanks for the opportunity. I just wanted to understand there is a new specialty chemical product that the expansion that we talked about can you throw some light on that and apart from that product any other specialty chemical product that we are looking to add?
- Adhish Patil:** You are talking of specialty chemicals right intermediates?
- Ankit Gupta:** Yes intermediates.
- Adhish Patil:** The one product, which we are just commercialized is totally import substitute product and used for making intermediates and another class of antibiotics, so this item is totally no one is producing in India and the raw material for the same product is being made by our specialty chemical division so we are backwardly integrated and would be able to compete China and we are already tied up with customer on this product and more or less we will be able to achieve sales immediately. We are also doing another two products in the intermediate scale, one is intermediate from antibiotics, which is almost ready to quality, etc., is stabilized and we are just trying to upgrade to the optimum level basically capacity utilization wise.
- Ankit Gupta:** How much revenue can we expect from these three products the one for which you have done the capex and the other two that we are planning to add?
- Adhish Patil:** Percentage wise it will not be much initially because it will take some time to use at 80% capacity, but we will be saving lot of, imports will come down because one intermediate we are going to use inhouse more or less, so that sales will not go up, but other intermediate we expect about Rs.30 Crores, Rs.40 Crores sales in next year.
- Ankit Gupta:** So out of this three, two will be sold for other customers and one will be using inhouse?
- Adhish Patil:** Correct.
- Ankit Gupta:** That will help us in improving our margin as well.
- Adhish Patil:** There will be good decent margin in this intermediate business.
- Ankit Gupta:** On export front, I wanted to understand given the recent depreciation in currency and especially in some of our Euro and European markets they are saying almost 15% depreciation of INR, so any benefit of that we are getting from exports, do you see part of our total revenue profile so I just wanted to understand how will the rupee depreciation in exports?
- Adhish Patil:** As far as API business is concerned, it is almost 40% of our revenues and on the consolidated level around 36.5% of the revenues. Now already in exports for September quarter we have also seen a volume growth of around 5%, apart from that the exchange growth has been around 9% and the rest of the growth because of the increase in the dollar rate of the product. So the increase in exchange rate definitely helps us. As far as the imports are concerned, we are almost naturally hedged, there is almost one to one correlation between imports and exports, so that way we are not directly help in terms of bottomline, but what it helps means being more competitive in the

export markets, so it helps us to compete with countries like China and rest of the world. This is a big benefit.

Ankit Gupta: Do you think in the current something around 36% of our sales are still exports do we have any plan to see this number moving up to 50% over the next two years?

Adhish Patil: 50% would be little out of task, but historically we always had around 60:40 split, so at least somewhere above 40 should be very beneficial for us because it also helps us to keep our working capital interest cost lower because of the trade finance, which we can avail because of exports.

Ankit Gupta: My last question was on the US front, we have submitted the response and any timelines that you can get from USFDA do you come back to us?

Adhish Patil: Timeline is little difficult for us also to predict, but I can tell you what we feel about it. By June end we gave our last response, which was based on the observations in form 483, which we got in December 2017. Just after that we received EIR from the USFDA of the same establishment in special report based on the December 2017 audit, so in which they have given even the further detail of each form 483 observation, which they had mentioned earlier. So that gives us a better perspective of what they actually meant when they wrote something on form 483, so based on the more clarification, which we got we submitted a voluntary response in the beginning of October. In the beginning of October, we sent a voluntary response in response to that EIR. Now we are waiting for the review to get completed because our June response and this EIR response went closely we can say within the duration of one-and-a-half to two months period, so now we are trying to get hold of FDA for a concall so that we will know what is the future course of action. There are not much infrastructural investments to be made as far as USFDA is concerned, because most of the points, which we had, was retrospective more of the earlier review. So even we are not clear whether they will come back for the inspection, but we expect that they will come back and we will be ready for that.

Ankit Gupta: Observations were not related to data integrative issues where more procedural in nature?

Adhish Patil: The thing is the earlier audit took place in August 2014, so they had asked us to do a review of reintegration of our chromatography test of last five years, so two of the points in this audit also were related to the data of 2012 and 2013, so that part means still that way you can classify as data integrity, but they just say that what review we have done you have to summarize all the inspection and just give the reconciliation, so that we have already done and submitted to them. As far as the newer systems are concerned, in fact in EIR they have also mentioned that right as of today in our unit, real time recording all those chemical tests is taking place even the chromatography servers are in place that all they have mentioned, in fact they have also mentioned that we have reviewed all the audit trail since the last 2010 everything is found to be adequate such kind of remarks also given in EIR. So the past review that has to be cleared first so I think then things will be much easier for us.

Ankit Gupta: Thanks.

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

Sarvanan Viswanathan: Thanks for the followup opportunity. If you assume that USFDA issues are resolved by the end of this financial year, the next financial year what kind of revenues we can expect from the US business?

Adhish Patil: As of today still few of our customers are active in spite of long gestation period for this our import alert, still few of the customers are still with us and few of the deals are still actively referred by (inaudible) 46:00 so we expect that business will might kick of much sooner, also there are few other products in pipelines even the intermediate projects for regulated markets, which requires USFDA certifications. So even those projects are there in pipeline, so more than the revenues it will definitely add to the bottomline because in 2015-2016 when we lost that 1% of our total sales because of import alert at that time we lost around 4% to 4.5% of our profit before tax, so the integration will be more towards bottomline than the topline, so it is difficult for me to give an estimate as of now how much it will be, but in long term basis from the existing front I think 8% to 10% is possible of the revenues in long term.

Sarvanan Viswanathan: If we were to talk in terms of capacity available about Rs.100 Crores to Rs.150 Crores worth of capacity is available?

Adhish Patil: But we are not totally underutilizing the plant, we are using that plant for European exports, so may be 50% of that could be underutilized, so that we can start getting revenue basically.

Sarvanan Viswanathan: Will it take a year or more than a year to get to that Rs.75 Crores mark?

Adhish Patil: It will take more than a year approximately, a couple of years.

Sarvanan Viswanathan: But the factor that you are highlighting is at the PBT level the impact will be better?

Adhish Patil: Better.

Sarvanan Viswanathan: Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the floor back to Mr. Ranjit Kapadia for closing comments. Over to you Sir.

Ranjit Kapadia: Thank you very much all of you and on behalf of Centrum Broking I sincerely thank all of you for a detailed participation and we hope that it will continue over the next few quarters.

Adhish Patil: Thanks all of you for attending the call and asking the questions. It helps us and we appreciate the feedback, which we get from you on a continuous basis. Thank you very much.

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