"Neuland Laboratories Q3FY15 Earnings Conference Call"

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MODERATOR: MR. DIWAKAR PINGLE – CHRISTENSEN IR

Moderator: Ladies and gentlemen, good day and welcome to the Neuland Laboratories Q3FY15 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 entering '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Diwakar Pingle. Thank you and over to you, Mr. Pingle.

Diwakar Pingle: Thank you. Welcome everyone and thanks for joining this Q3FY15 ended December 31st 2014 Earnings Call for Neuland Laboratories Limited. Please note that the results have been mailed to you and you can also view this on our website at www.neulandlabs.com. To take us through the results of this quarter and to answer your questions, we have with us today Mr. Sucheth Rao – Director & CEO, Mr. Saharsh Rao – Director & President of Contract Research and Mr. N. S. Viswanathan who is the CFO.

We will be starting this call with a brief overview providing a brief of the company's performance which will then be followed by a Q&A session. I would like to remind you that everything said on this call that reflects any outlook for the future or which can be construed as a forward looking statement viewed in conjunction with uncertainties and the risks that they face. These uncertainties and risks are included but not limited to what we have mentioned in our prospectus filed with SEBI and subsequent annual report which you can find on our website. With that said, I now turn the call over to Mr. Saharsh Rao. Over to you, Saharsh.

Saharsh Rao: Thank you, Diwakar. Good evening, ladies and gentlemen, again warm welcome to our Q3 2015 earnings call. Like to say overall the performance of this quarter has been below par from the management's perspective. I will try to explain in brief the issues behind the marginal dip in the quarter and the reasons behind it as well as brief outlook forward. Vishy (CFO) will talk a little bit of the specifics on the numbers and Sucheth is also here and he may step in as well to add a few comments or thoughts.

Overall, there was a 17% sales dip quarter-on-quarter compared to the previous year and there also has been a significant decline in EBITDA and PAT as well. One of the key reasons for this decline is that during this quarter one of our manufacturing facilities had to undergo renovation and capacity augmentation based on some detailed internal assessments that we had done during the year. This work was actually scheduled for the next financial year but given the Neuland management's conservative outlook on managing our facilities, we decided that it would be best to advance the work. This resulted in a brief interruption of production and that had actually caused a dip in the output which is reflected in the dip in the sales as well as the earnings, but given the momentum that we had developed in our performance over the last several quarters, this is definitely a blip of sorts, something that we would call as a one-off event. The management does not really foresee other such one-off events in the following quarters but I think given the industry that we operate in, we should never say never, but we definitely feel very strongly that we are on the growth trajectory that we had set for ourselves.

On another note, I am happy to share that the company this quarter has been in receipt of the CMO leadership award in the quality segment. Now we are actually complete with the CMO accolades both in quality as well as in the regulatory space. This award actually was awarded on the basis of votes polled by some of the key management personnel of pharma industry, pharma companies worldwide and it actually directly reflects the high regard that a lot of the management of the pharmaceutical companies holds Neuland in. So it also kind of reflects the high regard they hold for Neuland as a high quality API supplier.

Another quick update, many of you might have already read about this is that Neuland had cleared its 9th successful FDA audit without any major observations and so that kind of gives us the comfort of being a manufacturing company that operates in a highly regulated environment. So all in all, FY15 until now has been operationally good, although a little bit of slowdown has happened in this quarter. I believe with all the drivers in place, we are poised to take the company to the next level. Maybe I will ask Vishy to step in and add some points on the financials.

N. S. Viswanathan: Thank you, Saharsh and good afternoon to all of you on the call. I think all of the analysts on the call have definitely gone through the numbers. Just to take some salient things about the call. The revenues were at 102 crores and our focus on RM mix continues and this was the first quarter where we actually had RM consumption cost less than 50%. So it shows that the journey what we started in improving on margins, EBITDA continues and there is no change in that.

With respect to other expenses, these are a few crores higher on a quarter-on-quarter basis, mainly because we have this transfer arrangements and we had to do some CMO projects for associate companies. It is a cost sharing, because of that these costs are looking higher. But if we look on a 9-month basis, we are much lower than what we did last year. In terms of tax, we are at a full rate of tax while there is some deferred tax adjustment to be done. It looks very subdued at 1.92 crores of PAT and 14 crores EBITDA this quarter, but if the turnover was higher by Rs. 15 – Rs. 16 crores that could not happen due to maintenance shutdown which we took, we would have improved the profit by close to Rs. 4 crores. That is all I have to share; anything else if you have in specific, I would like to answer.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Ranveer Singh from Sharekhan. Please go ahead.

Ranveer Singh: I just wanted to understand if I heard correctly, 4 crores net profit loss is due to maintenance work you said right?

Sucheth Rao: Yes, I would not say it is a 4 crores net profit loss, it is actually a postponement of those revenues because of the maintenance led upgradation and capacity increase.

Ranveer Singh: So going forward, we should take a base revenue of INR 10 or 12 crores higher than what we have achieved currently in this quarter?

Sucheth Rao: We definitely intend to make it up Ranveer. Now how that will work out from an exact timing perspective, whether we will be able to recover completely in Q4 or whether it will get spilt between Q4 and Q1 is something that we have to see. But you are absolutely right, it is not a loss for us, it will get added back to the business.

Ranveer Singh: So this maintenance work would be continuing in subsequent quarters also?

Sucheth Rao: No, it would not, it is a one-time thing. So it is already done closed. The facilities are completely up and running. So you would not have this kind of a shutdown in subsequent quarters in unit 2.

Ranveer Singh: Can you give geography wise breakup if possible for quarterly results?

Sucheth Rao: We do not have the exact numbers Ranveer, but roughly about 30% finds its way into the US market, about 40% is into Europe and the rest of it is into India as well as Japan. These are the four primary markets.

Ranveer Singh: And any new products filed during this quarter, DMF filed only?

Sucheth Rao: No, not during this quarter.

Ranveer Singh: So what would be the tally right now? How many DMF have been filed in US market and other market?

Sucheth Rao: Totally for the current financial year, every unique DMF, we are expecting to file about 14.

Ranveer Singh: 14 DMF?

Sucheth Rao: Correct.

Ranveer Singh: And for other markets also like Europe if you can give some product wise information?

Sucheth Rao: Sure Ranveer, we can compile this information and send it to you. Currently, I do not have this information right at the top of my head.

Ranveer Singh: And of this revenue, how much is contributed by contract manufacturing or contract manufacturing substantially contribute to our topline or how is this breakup?

Sucheth Rao: So on an annualized basis Ranveer, contract manufacturing is roughly about 15%, we are expecting to take it up to about 35% in the next couple of years.

Moderator: Thank you. We have the next question from the line of Ashish Thavkar from Asian Markets. Please go ahead.

Ashish Thavkar: So on the growth guidance like we have been saying that we will be doing around 1,000 crores of revenues in the next 2-3 years and subsequently we are also saying that contract manufacturing contribution will go up from 15% to 35%. So could you give a more color on the same as to how the transition in the contract manufacturing business will actually happen?

Sucheth Rao: So just to give you an overall perspective Ashish, the core focus of this organization has been to move the product mix as well as the business mix from kind of average value added mix to a high value product mix. That has been the core strategy of the organization. So if you look how the company has transitioned, at one point our EBITDA margins were in the low teens were about 11% to 12%. Last year, we went to about 17% and on an annualized basis, which is kind of where we want to be in the short to medium term. Over the longer run, we hope to reach an EBITDA margin in the proximity of about 20% based on an increased contribution from the contract manufacturing and more niche products contributing to the overall revenue mix of the organization. Obviously making a transition from an organization that was historically dependent on lower margin products to an organization that has made the transition into a higher value-added products is challenging. Unfortunately, I could say that we had a magic-wand which we could wave it and we would make the transition but it is not that way and it is pretty challenging from an operational point of view because it requires a completely different mindset from the manufacturing point of view, working capital management, customer management, market penetration, everything is different and has its own challenges when we are making this transition. So what you are seeing in Neuland is obviously an evidence of a successful transition because we are definitely seeing the change in the raw material mix as Vishy (CFO) was mentioning earlier as well as the evolution of the EBITDA margins and you will continue to see the transition in the medium to long run. I think the comments that you are seeing from the organization in terms of the kind of launches that we expect, obviously we cannot make any specific comments on specific products and pricing and volumes and customers because those are kind of trade secrets of the organization, but in terms of the overall mix expected from contract manufacturing, more revenues from our Japanese joint business, more revenues from products such as Salmeterol and Entacapone, all of those are happening within the organization and you will see the company make that transition over the next 2-3 years which is where our indications on the revenue and the EBITDA margins and the PAT margins are coming from.

Ashish Thavkar: That is great. And are we factoring any sort of inorganic growth in our guidance?

Sucheth Rao: Yes, the assumption is that we definitely need to add a capacity in the next 6-12 months, Ashish that will happen in a combination of an inorganic acquisition of capacity as well as finding good contract manufacturing partners as well as debottlenecking some of the facilities. So part of that maintenance shutdown that we did in Q3 which impacted our results in Q3 was actually some capacity enhancement actions that we have taken in our unit 2 facility to make sure that we are geared up for the increase in volume of our products.

Ashish Thavkar: So whatever inorganic activities that we will be doing, so are we looking at facilities which are currently under utilized or to that extent EBITDA negative and then we are expecting it to turn it over or is it that from day one itself we will be PAT positive?

Sucheth Rao: So whatever inorganic opportunities that we look at Ashish, though it is a little bit too premature to comment about any specifics. We will ensure that right from the beginning, we will be PAT positive. It would not drain any of our cash flow because today one of the largest strengths of Neuland is that we have adequate orders and products that means we actually have a large backlog of orders. So the issue is not to find more customers and products, but to find a better way of manufacturing our existing products, that is why I do not expect that any acquisition that we do will be draining on our cash flow. In fact it will add to our cash flows.

Ashish Thavkar: So for this acquisition, how are we placed on the cash side like how the funding will be?

Sucheth Rao: See, any kind of funding will be a very long-term funding, Ashish. So it is not going to impact any of our short-term cash flows. Now given that it is still a little bit too premature, I cannot make any further specific comments on this.

Ashish Thavkar: No issues Sir. On the future growth drivers that you had said, APIC Corporation Japan and obviously we have contract in place for Salmeterol, you also named Entacapone. So about Salmeterol, so which markets are you primarily betting on? So is it the European markets or the US ones.

Sucheth Rao: Both US and Europe.

Ashish Thavkar: But I believe in US obviously, it is 2017 or 2018 beyond opportunity. So is it fair to assume that in the financial year 2016, at least we will start supplying in the European markets.

Sucheth Rao: Yes. So there are different kinds of products, Ashish at the risk of sounding or being repetitive, Salmeterol has standalone product and it has a combination product as well. Within the standalone product, there are different kinds of devices that Salmeterol uses and within the combination product also, there are different kind of devices both metered dose as well as dye powder inhalers. Now different devices, the standalone as well as the combination are expiring in different markets at different times. So there is no uniform or a trigger launch date for Salmeterol as a product as such. So what we see is a gradual offtake of revenues from Salmeterol, but the majority of the offtake will happen as you said around 2017 and 2018, not before that. But we will see an offtake in commercial quantities prior to that based on which device in which combination in expiring in what market.

Moderator: Thank you. We have the next question from the line of Sai Prabhakar from Karvy Stock Broking. Please go ahead.

Sai Prabhakar: Regarding the guidance that you had given, I was just wondering if you could give milestone kind of a breakup regarding the revenues or the EBITDA margins that you are targeting for the next one year or two years?

Sucheth Rao: So Prabhakar that is why as an organization we are shy about giving any specific guidance as far as the organization is concerned. Given the nature of the business and given the fact that I strongly believe that Neuland is going through a transition as I just explained earlier, so in that kind of environment trying to give any specific guidance would only be misleading or presuming to know more than what we actually know as management. Nonetheless, so far whatever guidance that we have given, I do not see any reasons for not being able to achieve it because our strategy of changing our product mix whatever projections that we have made on our products from a sales offtake market penetration, customer conversion, the APIC joint business that we have, everything is on track. So nothing has really happened fundamentally in the business for us to sit back and think to say that do we need to change our guidance? It will change based on the market reality from a timing perspective, but nothing has really changed from a fundamental impact on the business. So the APIC joint business is going well. The facility is commercial, though it was commissioned much later than what we originally anticipated. As Saharsh was mentioning earlier, we did not expect to take an interruption in production in Q3, but based on our own assessment, we felt that this is what was right to do from the long-term perspective of the organization. From a short-term perspective, it is actually a disastrous timing because Q3, we had a very strong quarter, we were full of orders, we were trying to catch up on the backlog, we need to make up some of the loss performance in the previous quarters. So if you look at it purely from a financial markets point of view, it was a very lousy timing, but we did it because that was the right thing to do from a long-term view of the business and as management, we would never do anything that will compromise long-term of this organization and we did it. So coming back to your question from a guidance perspective, nothing earthshattering has happened for us to question that. However, I think because we are making this transition, I think I would be very nervous about giving any specific guidance, though I think I have to still feel comfortable that the overall strategy and guidance of the organization is still protective.

Sai Prabhakar: Yes sir. Regarding the EBITDA margins, they have been quite volatile. So if one were to look at a very stable kind of EBITDA margin, what would that be for the company in the very short term like 1-2 quarters. What could be the normal EBITDA margin the company can look forward to?

Sucheth Rao: It is a good question, Prabhakar. In the very short term if you are expecting, it would be similar to the current levels of 16%-17% EBITDA is what we have demonstrated. In the medium to long-term, however, we are looking to reach about 20% EBITDA margins.

Sai Prabhakar: So I pose this question only because if we look at the current DMF reports which say that the company has allowed or targeted around '16 and '17 and little bit into '18. So would that be the timeline the company is looking to expand the entire margin of the company?

Sucheth Rao: That is true, Prabhakar. The timeline still holds good.

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

Saravanan Vishwanathan: As regards, our DMF strategy for the US markets, are we open-ended or we have tied up with certain specific generic formulators whose ANDA success will be in turn depend on how much we are able to ship to them?

Sucheth Rao: So Saravanan, typically the way we do it is that we do not usually go and file a DMF unless we have multiple customers for a product. However, how successful we are in the immediate at the time of launch of the product depends on how much market penetration each of our customers was able to achieve. We have cases where on the first day of launch, we have achieved almost a 40% of the market share in the US. There have been cases such as Levetiracetam where we had 5% market share or 3% market share on the date of launch, but we gradually over the period of 2-3 years ploughed our way to about 20% market share. So these are things which are purely dependent on the market at the time of launch. Unless of course when you are launching a product which is contract manufacturing, it is much more predictable whereas on a generic side, it is highly volatile and can change. So typically what we do is unlike earlier until a few years ago, our success depended on one or two or three products. Today, we have close to about 60 DMFs in the US, we have filed more than 400 DMFs worldwide and our goal is to file about 14 DMFs annually. So our product base is fairly large compared to what it used to be. Thereby the risk of a product not going well is significantly lower compared to what it used to be like it was in 2009 or 2010.

Saravanan Vishwanathan: And could you give us proposed organic capital expenditure you have planned for the next year and also if you have to look at an acquisition, what will be the maximum size in terms of the funds that we have to allocate for an acquisition?

Sucheth Rao: So I can answer the first question comfortably, Saravanan is that typically we will invest anything between 50-60 crores on an annualized basis for ongoing CAPEX. This is for basic expansion, upgradation, debottlenecking, replacement CAPEX so on and so forth. To comment specifically on an acquisition is very difficult. I could throw a range at you to make you happy but it would not really make any sense because every target based on what we have seen, we have evaluated a number of targets in the last several months, and every company is different from kind of an outflow that it requires. It is very specific based on the deal structure, a combination of equity, debt, so on and so forth. So it is very hard for me to comment on what that size is going to be at this point.

Saravanan Vishwanathan: Can we assume it will be a domestic acquisition if at all it is going to be?

Sucheth Rao: Yes, I think it is a safe assumption.

Saravanan Vishwanathan: And last question like I do not know if you had shared this information earlier in the call. What was the maintenance shutdown period, how long we were not able to use that?

Sucheth Rao: Approximately 20 days.

Moderator: Thank you. The next question is from the line of Abhishek Sharma from India Infoline. Please go ahead.

Abhishek Sharma: I just had one question which is around Salmeterol and I am presuming that since we spoke about the combination inhalers, since the fluticasone part is not in-house, do you need to do additional compatibility studies before Salmeterol can be commercialized and have those studies already been carried out? Thanks.

Sucheth Rao: So obviously we are the API supplier right, Abhishek. So we do not do any studies internally per se, though at one point we used to manufacture fluticasone, we do not do it anymore. But all our customers have actually done those studies and we have not received any adverse report for our Salmeterol.

Abhishek Sharma: So basically there is a go ahead from your customers regarding the Salmeterol?

Sucheth Rao: Yes and if you have been following the reports on Salmeterol, Abhishek, it is a very tricky filing as you know several customers filed, they withdrew their applications, they refiled it. The regulatory authorities have come with several questions. They actually just came up with a specific guidance on inhalers only a few weeks ago if you have been following, until then they actually did not have a guidance for filing inhaler products, for generics 505 (b)(2). So the specific guidance only came out in the last few weeks. So it is a very volatile landscape. So the strategy we are using for Salmeterol is to try and get as many customers as possible because it is going to be very difficult to predict what market share we can. So what we are trying to do is big, small, very big, we are trying to get every customer possible to use our Salmeterol and we will see how the market plays out.

Abhishek Sharma: And if you could just help us, the tricky part I believe is a) the compatibility as I said and b) is the particle size. So is your Salmeterol guideline compliant on those two issues?

Sucheth Rao: Yes, absolutely. So our strength of course is 1) the quality of our Salmeterol and 2) the fact that we actually have certificate of suitability or certificate of the European Pharmacopoeia already granted for Salmeterol which makes it acceptable in all other EU without any major regulatory hurdles. And obviously since our first product for the company has been this product called

Salbutamol which is also an inhaler product with a very tight particle size distribution. It gives us about 30 years of experience on micronization and meeting particle size requirements of customers. So it kinds of put us stronger position compared to any of the other suppliers.

Moderator: Thank you. The next question is from the line of Manoj Garg from Bank of America Merrill Lynch. Please go ahead.

Manoj Garg: Just to take forward the previous question. As we understand that one of your partner had just indicated that they are going to start the phase 3 clinical trial on this combo product for the US market. Are we supplying this initial quantity to them?

Sucheth Rao: Manoj, first of all we have not given out any names of our customers and we are not in a position also. So even if you ask me the name of a specific company whether they are partner or not, I will deny it. So having said that, every company is in a different stage of filing like I was mentioning earlier Manoj, some of them have filed for their standalone products, some of them have actually got commercial approvals for standalone products. So we have sold commercial quantity of Salmeterol in the current financial year and some of them are just finalizing their package to file it with the regulators and some like you said are still in their clinical trial to prove the equivalence of their products with the innovators. So it is hard for us to comment on any specific partner or who that partner is and that is why I said that we will see an offtake of Salmeterol continuously but the major offtake will only happen around 2017-2018 timeframe.

Manoj Garg: That is very helpful. And the second question like if I look at from a 3-5 years perspective like obviously you have clearly indicated that the focus going forward would be to improve the mix of the business both in terms of contract research side as well as in terms of from the API side also, but at any given point of time, are we also looking for a forward integration. What I meant to understand probably maybe getting into the formulations or something like that kind of things.

Sucheth Rao: No Manoj because that is a deliberate strategy of the company is if you followed the pharma space for a long time and so you are aware that there is not too many independent pure play API companies that are in existence today. Most of the API companies either have a strategic partners or a strategic investment for another formulator or they themselves have invested in formulations which brings them to direct conflict of interest with their customers. So Neuland's core strategy is that for whatever old commodity products we have, we do not want to lose leadership in those commodity products. We want to continue investing in them, we want to continue growing them so that we consolidate our position and at least pay the overheads of the organization. The second leg of the strategy is to keep introducing higher value products, so that a larger percentage of the revenue comes from the higher value products and not essentially from the lower margin products. So our deliberate strategy is to really continue building this pure play API company, keep adding a good number of APIs every year and evolve the product mix so that more value-added products keep contributing to the EBITDA, profit margins and revenue mix of the organization. So our strategy is to continue doing that rather than investing in formulations because we think that there is enough money to be made and it is a sound strategy to continue focusing on APIs to build yourself as a very dominant pure play API player.

Manoj Garg: Another question like if I recall properly maybe around a year back, we have indicated the custom research business particularly in the Japanese market, is still shaping up very well and even today also you have indicated that you have an aspiration to achieve around 35% kind of contribution coming from this business. But if you see over the past few quarters, we have not seen the kind of traction probably which we were anticipating. So just want to understand like is it a slow moving kind of a process or what is taking that kind of time, if you can just give some color on this?

Sucheth Rao: You are right, Manoj. Obviously, it is not happening as fast as we wanted it to happen and as I was making the comment earlier, the transition is actually proving to be a lot more challenging and time consuming than what we originally expected it to be, but nothing has changed in the fundamental business for us to really sit and rethink our numbers or the overall strategy of the organization. Like I was saying earlier the APIC JV block has just become commercial in the last quarter. It will probably be still another couple of quarters before we actually start to see significant revenues from it and the Japanese market itself is very slow, but we are confident that once we achieve the penetration, it will stick with us for a long time and contribute a very healthy margin in the long run.

Manoj Garg: And the last question sir from my side like since you have outlined maybe near-term aspirations and the long-term aspirations in terms of your EBITDA margins of 16%, 17% and 20%. Would be very helpful if you can give us some kind of a guidance in terms of topline growth, maybe our aspiration is not probably putting it as a guidance.

Sucheth Rao: So we have always shared Manoj that from a topline growth, we would want our business to demonstrate at least a 20%-25% growth year-on-year but that also goes hand in hand with the transition that we are making from a product point of view. So until a couple of years ago if you look at our topline growth, it has been very conservative, right almost flat. Now, however, that is not reflective of the inherent business because until 3 years ago there was a product called ciprofloxacin which was contributing to 40% of our revenues, the single product. If you look at the same product today, it contributes only to 16% of our overall revenues roughly. It means that from being a company that was kind of largely dependent on one product, several other products have actually taken up the sales and the volume of this one product and we are not dependent on anymore. So fundamentally the business has grown very well but it is not reflected in the topline growth. It is still looks conservative though the business has grown. So with a caveat of such a thing happening in the overall evolution of the company, we do expect that the topline will grow about 20%-25%.

Manoj Bhagadia: You have been talking about this transition process so where we are right now in the transition, is it few quarters, maybe 3-4 quarters away or is it just 1 or 2 quarters away in terms of transition of the whole?

Sucheth Rao: It is continuous Manoj. If you look until 2 years ago, we were about 12% EBITDA margin. Then last year, we were about 16% EBITDA margin. So you are not going to see that all of a sudden you go from 12%-20% right but, however, you will see this evolution but it will have its ups and downs from a Q-to-Q point of view but we have seen that consistent change in the EBITDA margin right? So you will that evolution until we hit 20% or even higher.

Moderator: Thank you. The next question is from the line of Bhagwan Chaudhary from Sunidhi Securities. Please go ahead.

Bhagwan Chaudhary: Sir once again, one question on the Salmeterol, do you think that the complexity which is there into the final product, the same kind of complexity exist in the API manufacturing as well?

Sucheth Rao: Yes, to a large extent.

Bhagwan Chaudhary: Secondly, in earlier comment you said that we are looking kind of the filings where we have 4-5 final customers. So in Salmeterol cases, particularly how many customers you are targeting to have?

Sucheth Rao: At least a dozen customers, Bhagwan altogether but it is one comment I want to make Bhagwan because we have a much larger audience listening also, is that, see as much as we want to get excited about Salmeterol and we have so many questions about Salmeterol, you also have to realize that we, including the products in R&D and our feasibility pipeline, we have 75 APIs as an organization. Out of that 75 APIs, 60 APIs are at fully commercial scale and 40 APIs we have achieved successful commercialization. So I think one comment I would like to make is we would love to bet on Salmeterol but at the same time we do not want to make the same mistake as we did in the past of betting on one product and then seen our fortunes being affected because something went wrong at the last moment. So internally when we discuss our focus is to develop as many products as possible, say for example like Salmeterol, like Paliperidone, like Sugammadex, like Brinzolamide, and many other products so that at the end of the day, we achieve a balanced portfolio. At the end of the day, we are excited about not just one product but actually a portfolio of products and that is what Neuland is striving to achieve so as much as I would like to answer questions about Salmeterol, I would also like to caution that we are not depending on Salmeterol to make fortunes for us. As an organization, we would like to develop many more such products so that at the end of the day all the products contribute to the growth of the organization.

Bhagwan Chaudhary: That is helpful sir. I understand that. But once again when you said that 15 customers you are saying for all over world or in US only?

Sucheth Rao: Yes, all over the world because Salmeterol is a very specific kind of a product, not every Tom, Dick and Harry can develop it because you need to have a device, you need to have a device that can circumvent GSK's patent on the devices and we have very few companies that actually make product on dry powder and metered-dose inhalers, not everybody can make it.

Bhagwan Chaudhary: Understand sir and how many in US and Europe, if you specify out of this?

Sucheth Rao: Most of them are actually US and Europe, majority of them.

Bhagwan Chaudhary: So you feel that there will be 14-15 customer in due time?

Sucheth Rao: Yes over a period of time, yes.

Bhagwan Chaudhary: One more question on the sale that do you think that before the product is launched, the exhibit batches whatever you are supplying to your customer there may be significant contribution from?

Sucheth Rao: Yes, so the last few years, Salmeterol we have been selling decent quantities and all those are attributable to the exhibit batches, so we have already been selling some exhibit batches.

Bhagwan Chaudhary: And that supply may increase going forward?

Sucheth Rao: Yes absolutely.

Bhagwan Chaudhary: Understand and secondly sir on this custom sites, the CRAM site you said that you want to achieve 35% contribution from there. So in what time and are you considering any time period that by this time you will be at 35% contribution?

Sucheth Rao: Yes, so we are targeting a timeline in the next 3 years, so probably around 2018.

Saharsh Rao: From topline point of view, the contribution may not be as substantial but I think from bottomline it will be substantial compared to the rest of the business but yes, I think 2018 would be a good time to see this mix change to that level.

Moderator: Thank you. The next question is from the line of Ranveer Singh from Sharekhan. Please go ahead.

Ranveer Singh: This is on balance sheet side, what would be the current debt right now?

NS Vishwanathan: Current debt is, total debt is close to 185 crores out of which 35 crores is term loan and 150 crores is working capital.

Ranveer Singh: What CAPEX you have done so far in this year?

NS Vishwanathan: 20 crores.

Ranveer Singh: Next year we are planning that 50-60 crores that would be through, again we are planning some raising debts or any equity expansion we can think of?

NS Vishwanathan: We are very clear about one thing that currently our overall leverage debt-to-equity is around 1.19, total debt-to-equity. I think this has been our focus to bring the overall total debts to level down. I think we will be around the same debt level, so it will be through internal accruals, through possibly some loans.

Sucheth Rao: So Ranveer, we paid down about 26-27 crores of principal every year. So we probably keep it consistent.

Ranveer Singh: So every year we have 26 crores of debt recovery?

NS Vishwanathan: Actually now Ranveer, this year we have the commitments are more or less 16 crores and the next year commitments is close to 8-9 crores because we have already paid down the long-term debts significantly now. So it is only 20 crores of debt and of the 20 crores, it will paid over next 4 years. So there is hardly any debt level in the books from a long-term perspective.

Sucheth Rao: And our goal is Ranveer based on the timing of the accruals is to use our internal accruals to fund the CAPEX as well as long as it is reasonable. So we will take on more debt only for maintenance CAPEX provided we are off on the timing, otherwise we do not intend to borrow more money to use for our expansion activities unless it is inorganic of course, for which it will be based on the structure that we evolves at that time.

Ranveer Singh: What is the current contribution from the Japanese JV, whether it is contributing something or it is very insignificant?

Sucheth Rao: No, it is not big enough for us to comment on it Ranveer. Once it gets big enough, we will definitely share those numbers, not those numbers but we will share what the percentage is.

Ranveer Singh: And as I said on the product size, how is concentration of product currently, the largest product would be contributing how much of our topline?

Sucheth Rao: About 15%-16%.

Ranveer Singh: So this has significantly changed from historical that 40%-50% from one product…

Sucheth Rao: Correct and it is going to change further, but more so from a topline point of view but from a bottomline point of view, I think we are much more diversified from a product mix point of view. So the 15%-16% is only from a topline perspective. So if you look at the overall contribution of profitability, it is much more fragmented.

Ranveer Singh: Just the last question that how is the client concentration, based client how much contribution is from?

Sucheth Rao: About the top 15 customers are contributing to about 60% of the revenues, Ranveer.

Moderator: Thank you. The next question is from the line of Manoj Garg from Bank of America, Merrill Lynch. Please go ahead.

Manoj Garg: Just would like to have your comments on the observation which has been made by the auditors, any comment on that?

Sucheth Rao: We have already shared our comments in the copy of the results, Manoj. So other than what we have already responded as management, there is no additional comments on that.

Manoj Garg: Is it our routine practice like which we used to do in the past or is it like the first time probably these auditors have commented because they have changed I suppose.

Sucheth Rao: No, it is a practice which has always been there in the company, Manoj but what was the happening is that the regulations are large, the accounting principles are also constantly evolving right. So the auditors also have to take what they feel is a reasonable view which is also constantly evolving. Other than that, the fundamental way of doing business has not changed and that is why the company has kind of taken the view it has.

Moderator: Thank you. The next question is from the line of Kush Joshi from Kitara Capital. Please go ahead.

Kush Joshi: I just want to understand that what is the total amount incurred in this maintenance shutdown?

Sucheth Rao: We have totally spent about 20 crores of CAPEX, Kush. So I think 8-10 crores is what we have spent in this maintenance this time.

Kush Joshi: And balance is for CAPEX?

Sucheth Rao: CAPEX, that is right.

Moderator: Thank you. The next question is from the line of Manav Vijay from Peerless Mutual Fund. Please go ahead.

Manav Vijay: I just have one very small question. Now considering that quarter 1 and quarter 3 of this year what happened, can we match what we did in FY14 in terms of sales and bottomline or would that be a tall order?

Sucheth Rao: See from an open order perspective Manav, it would have been possible but from an operational point of view seeing that we actually had to do maintenance and upgradation, the challenge will be to have that much spare capacity to try and deliver all the orders. So from an order perspective or business perspective, your question is very valid but I do not think we will be able to make enough from an operation perspective.

Manav Vijay: Sir one small question that would it be possible to share what kind of an order book we have as of now in our hand let us say for next 12 or 18 months?

Sucheth Rao: 12 to 18 months is hard to comment typically at the beginning of the year. See the way our budgeting process is that before we make our budget, we sent confirmations to all our customers on their forecasting and what they expect to buy from us and they send us an e-mail confirmation with what we have projected. So typically we put only in our budget what the customers have already confirmed to us. So from that point of view, we have a pretty good visibility of what next year is going to be. However from an actual PO which has entered into the system, we only have visibility for the next 3 months because the typical behavior of our customers is only to place a PO 8 to 10 weeks before they actually needed. Some customers do it 4 to 6 weeks before they need it because their own internal ERP systems do not allow them to order before that because of their own inventory management principles.

Manav Vijay: So what kind of a visibility we have for this quarter?

Sucheth Rao: For this quarter, the order book is full.

Manav Vijay: So what kind of a growth can we see in this quarter, first of all on a Y-o-Y basis and secondly the margins would be what we have done in 9 months let us say around 12% or we will be closed to 16%-17% that yes, we have been talking about?

Sucheth Rao: So I cannot, I think I have already answered that question twice in my earlier responses, so other than that I cannot share more specifics at this point.

Moderator: Thank you. Ladies and gentlemen due to time constraints, we will now close the question queue and take one last question from the line of Tushar Manudhane from IndiaNivesh. Please go ahead.

Tushar Manudhane: As you mentioned that you have been working on a lot many other products other than Salmeterol but would you like to highlight any other key potential products?

Sucheth Rao: Yes, so there are several products Tushar, you can also find these products on our website so that products such as Paliperidone palmitate, there is a product called Sugammadex, there is a product called Propofol, there is a product called Entacapone that we recently launched last year and we are seeing a lot of success in that product. Apart from that, there is a product called Dorzolamide, so there are several products actually I can say. I can keep going and it really mean that I am reading my product list but these are the top products which we feel very good about going forward.

Tushar Manudhane: Within the visibility of 2-3 years kind of?

Sucheth Rao: Correct. All the products that I mentioned are within the visibility of 2-3 years.

Tushar Manudhane: When was the last US FDA inspection done at the site?

Sucheth Rao: So our unit I, I think we put it in our press release as well recently is that we just got the notification of inspection in December. So we received the EIR of a successful inspection. That was our ninth successful FDA inspection.

Moderator: Thank you. I would now like to hand the floor back to Mr. Diwakar Pingle for closing comments. Please go ahead sir.

Diwakar Pingle: Thanks everyone for joining in this call. I would like actually to make closing comments, I would like the management, Sucheth and Saharsh just to step in and just address the audience please.

Sucheth Rao: So ladies and gentlemen, thanks for listening to us patiently and I think there were a lot of good questions which hopefully provided you with a lot of insight into the overall strategy and what this company is trying to achieve. I think the only thing I would like to reiterate is that though the results of Q3 had been disappointing to the management as well, they are not reflection of any long-term impact on the strategy or the goals that the company is trying to achieve. I think the strategy of the organization to focus on niche APIs, focus on growing its contract manufacturing business, they are all intact, and the plans are in intact. Of course whatever results you seeing have been largely related to operational issues rather than any fundamental change in the business. The only other comment I would like to add is that I think as loyal as we are to our customers and focused on our customers, we also want to create the same level of transparency about the business and what is going on to our investors as well to everyone who is on the line and everyone who is not on the line, so we will always be available to you guys if you want to reach us and would like to understand the company better. So we would like to calendarize this call and make it regular consistent irrespective of whether things are good, bad or ugly so that we can continue to provide insight about this organization.

Saharsh Rao: In fact we have also appointed Christensen IR for that purposes to kind of help us maintain like kind of consistent outreach with all our investors, so we continue to look forward to maintaining this kind of a connection.

Sucheth Rao: So please reach out to us anytime you feel. Of course we cannot promise that we will get back to you every time you reach out to us because of our own travel and other constraints we may have but we really appreciate you listening to the organization, trying to gain more insight and we are here for you whenever you need us. Thank you so much.

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