# "Neuland Laboratories Limited Q3 FY19 Earnings Conference Call"

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**Moderator:** Ladies and gentlemen, good day and welcome to the Neuland Laboratories Limited Q3 FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Shivangi Bubna from Christensen IR. Thank you and over to you ma'am.

**Shivangi Bubna**: Good morning and thank you for joining the Third Quarter and Nine Months FY19 Earnings Call of Neuland Laboratories. Please note that we have mailed out the press release to all of you and you can also see the results from the website as well as the stock exchanges. To take us through the financial performance of this quarter and to address the questions, we have with us the top management from Neuland represented by Mr. Sucheth Rao Davuluri – Vice Chairman and CEO; Mr. Saharsh Rao Davuluri -- Joint Managing Director and the CFO -- Mr. Amit Agarwal. We will start the call with Amit taking us through the financials followed by a brief overview of the quarter by Saharsh, post which we will throw the floor open for Q&A.

I would like to remind you that everything that is said on this call which reflects any outlook for the future or which can be construed as forward-looking statement must be viewed in conjunction with the uncertainties and risks that we face. These uncertainties and risks are included, but not limited to what we have mentioned in the prospectus filed with SEBI and subsequent annual report which you can find on the website. That said, I will now hand over the call to Amit. Over to you Amit.

**Amit Agarwal:** Good morning, friends. Very warm welcome to all of you joining this call. I will first touch upon the "Financials" followed by Saharsh taking you through the "Business Highlights", after which we will open the call for "Q&A Session."

On the financials, on quarterly numbers, the total revenue was Rs.1,718 million as compared to Rs.1,231 million, reflecting an increase of about 40% in revenue. EBITDA stood at Rs.162.5 million as compared to Rs.104 million in the same period last year. EBITDA margin was higher by about 1% at 9.5% as against 8.5% in the same period last year. Net profit stood at Rs.46 million in Q3 FY19 as compared to Rs.7.4 million same period last year and the basic EPS stood at Rs.3.59 as against Rs.0.66.

On a nine months basis, total income was Rs.4,963 million as compared to Rs.3,731 million, an increase of 33%. EBITDA stood at Rs.416 million as compared to Rs.354 million, up by about 17%. EBITDA margin was however lower on overall basis for nine months at 8.4% as against 9.5% last year. Net profit stood at Rs.94 million for nine months FY19 as compared to Rs.37.6 million, an increase of 150%. Basic EPS therefore stood at 7.53 as against 3.37, an increase of 123%. The total debt of the Company as on 31st December 2018 was Rs.236 crores and the cash balance was Rs.33 crores.

I will now hand over the call to Saharsh for giving the highlights on the business.

**Saharsh Rao D.:** Thanks, Amit. Good morning, everyone. The Company has registered strong growth this quarter. The revenue momentum which we started in Q4 of the last fiscal continues to be on a steady trajectory. The growth has been largely driven by the Prime and Niche segments of the GDS business as well as CMS business. In the Prime segment, the growth has been driven by almost all the products which actually saw good volume growth. The Niche segment has been aided by a strong show from two specific APIs – Dorzolamide and Donepezil across multiple markets. The CMS revenue also has improved sequentially as well as compared to the same quarter of last year which was led by higher volumes of a specific product but also because of certain additional new projects entering the system more from an R&D space, but of potentially large CMS projects going forward. So, there is some potential momentum over there. The numbers are still not close to our expectations, at least in terms of bottom line and going forward we do believe that you will see positive traction from the CMS side as well as from the Niche side and that we will see a positive impact on the margins going forward. From sales perspective, we would consider this quarter as the baseline for future performance as we start seeing increasing traction in the CMS business. This quarter we have added nine new projects in CMS, out of which four are fairly late stage commercial intermediates. Much like the last quarter, despite a good quarter in terms of revenue growth, the margins were up only marginally and this was largely due to the business mix which was skewed more towards the GDS and the GDS Prime and the raw material prices which continue to have an impact on profitability. We had gross margins going down on two high volume products of us in the Prime category and there was some pricing pressure on some of the key products in the GDS side. We do believe that we have seen the worst in terms of the RM prices and the Company is working towards optimizing our product cost structures as well as our operating expenses which should be reflected in the quarters going forward. With the CMS business also showing increased traction, we do hope that the margins will look healthier than what we have seen in this year.

Other updates you may have seen in the press release. We have also had successful FDA inspection this quarter in our Unit-II facility. We have already received EIR and there have been no observations in the audit. Other than that the work at Unit-III which is the new manufacturing site we acquired from Arch Pharma Labs over a year ago, is also progressing in line with the expectations as we had mentioned in the last quarter. We are in the process of scaling up an intermediate for backward integration at this new site for one of our key APIs which will be complete by Q4 of FY19.

In terms of top line, significant contribution from this site will start taking place from the second half of FY20. As was the practice in the previous quarters, we have also provided you with the CMS pipeline in the press release so that we can monitor the progress of the projects over the quarters. The numbers are self-explanatory and in case you have any specific questions we are happy to take them up during Q&A.

Thanks a lot again for joining this call and we could now move to Q&A.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Amey Chalke from HDFC Securities. Please go ahead.

**Amey Chalke:** I have two questions related to margin. If you look at the gross margins, we were at around 55-57% in FY18 and these margins had dropped to 43-44% in first quarter of FY19. From that quarter we have showed only 200 basis points improvement till 3Q FY19. How this gross margin trajectory would be in FY20 and driven by either with the price hikes in key APIs or will there be a significant ramp up in the profitable segments like CMS or Niche API, if you can give some clarity by what time we should be able to reach our normal margins?

**Amit Agarwal:** This is a three-pronged strategy that we are taking -- One is on the cost side as you mentioned where we are trying to optimize our cost both in terms of process as well as in terms of the expenses. Second is on the Niche segment within GDS, where we are scaling up, that is increasing volumes of some of the products which have good margins. I think that is the other strategy that we are looking at which will again help push the margins. Unit-III we have already discussed is part of the cost optimization where we are doing backward integration. So, as you know two products – Levetiracetam and Cipro -- which took the maximum beating in terms of margin, else our margins would have been higher at least by 2-3%. Third point would be that even the CMS business where we have better visibility both in terms of our basic business in CMS which is expected to increase volumes as well as the new projects which are entering the system which is also visible from our pipeline. But the visibility on CMS is better for FY20 and that is why we feel that we will have a better control on the margins in the coming financial year.

**Amey Chalke:** But in the Cipro and Levetiracetam, is there any further price increase in the raw material side because our contribution from Prime has reduced in first quarter FY19 from 67% to 49%. Still we have not seen that much improvement in the gross margins.

**Amit Agarwal:** In Q3, there was further worsening of the raw material prices, both for Levetiracetam as well as for Cipro. These things come with a caveat but whatever we understand from the market, that has bottomed out and we are actually seeing some softening. So just to give you an example, one of the raw materials for Levi went to as high as $42 and now is trading at around $33-34. which is showing signs of softening. So therefore I am saying that worst is over asSaharsh mentioned in his message in the beginning. So, I do not think there will be any significant impact on account of raw material and that is what we are taking should improve our cost.

**Sucheth Rao D.:** Just to add another sentence to that, irrespective of what happens to the situation, our strategy right now is to be able to backward integrate our key intermediates in the new facility that we acquired but also keep procurement from China as an ongoing activity. Therefore, on one side, we are preparing for it. So that in the future, if things go south again, we are better prepared.

Obviously, we cannot definitely say that we will be able to mitigate all of the impact but it will not catch us off-guard. So we will continue this risk mitigation strategy as well.

**Amey Chalke:** My second question on the employee cost side because that is also hurting our margins. If you see any other API company, typically employee cost to sales ratio would be 9-12% in that range, but for ours it has been in the range of 15% to 18%-19%, still after showing (+25%) kind of year-on-year growth over last nine months, cost to sales ratio still remains at around 16%, so what are we missing over there, how that will move going ahead?

**Sucheth Rao D.:** Just a couple of things to keep in mind, this is not as black and white as a situation can be because I think lot of times we have seen in the balance sheet of other companies where employees cost are also transpired differently, so for example, some companies put the contract workmen cost as part of their manufacturing expenses, some companies decide to put it as part of the employee cost. I think the one, the classification is important to be able to compare apples-to-apples. Second, as you know, we have put a lot of emphasis on our Contract Manufacturing business, our GDS product development. We are close to about 272 people in R&D. Just in the Contract Manufacturing space, you would have seen the table that we shared with all of you on a quarterly basis about the number of programs that we are executing on the CMS side. One of our goals has been to keep increasing the number of molecules that we work on. And as you can imagine, lot of this cost is with respect to our investment in the future which is typically in a year, we will execute anything between 35-45 projects on the CMS side as well as on the Generic side. Therefore, part of it is influenced by our investment in the future of the business, but you can be rest assured that these are issues that we constantly benchmark. I think we were aware that the external benchmark for API companies is actually between 9% - 13% and we are constantly comparing that to our own employee cost where we could do better, where we actually need to add people so that we have the right set of people in the organization.

**Amit Agarwal:** Just to add a very small point, Amey, we are also at the inflection point where we really want our CMS business to grow. We understand its a little disproportionate right now but then it is also part of the strategy where we need to recruit higher people to be able to grow our CMS business and once that CMS business picks up, maybe in a year or so, where we have decent numbers, then probably you will find that we will be in line with the benchmarks.

**Sucheth Rao D.:** And as you can imagine, we have always maintained that our CMS business is growing, it is in the early stage, and it will form a very significant part of our revenues and growth going forward. All the efforts, lot of investments being made in that and therefore since it is a growing business, it also tends to be extremely volatile from quarter-to-quarter.

**Amey Chalke:** Should we expect our CMS business quarterly run rate at least to be maintained at around Rs.25 crores per quarter? I am not expecting every quarter to be repeated but on annualized basis that's where the number should be.

**Amit Agarwal:** Even in FY18, we were at Rs.96-97 crores. Yes, you can assume Rs 25 crores is the base very comfortably.

**Amey Chalke:** Growth should be in the strong double-digit over that base, right?

**Amit Agarwal:** As you said, Rs.25 a quarter which would mean Rs.100 crores a year can comfortably be taken as a minimum that we should clock in a year, and on that base we should grow.

**Amey Chalke:** Just traction in the Niche segment side, is it likely to continue in the coming quarters?

**Saharsh Rao D.:** On that segment, I think there are several products in this category.There are over 20 right now. I think we have talked a lot about Salmeterol in the past and we have newer products that are getting added, Dorzolamide, Donepezil are two products that contributed strong in this quarter. We have completed the validation of another exciting molecule called Sugammadex We are expecting a lot of growth even in the near future to be driven by the niche products. They also come at relatively higher gross margin and profitability. So I think there is something that has been the focus and you will see results of that in the coming times.

**Moderator:** Thank you. The next question is from the line of Abdul Puranwala from B&K Securities. Please go ahead.

**Abdul Puranwala:** Sir coming back to the raw material costs, you had mentioned that there are certain products which have come down from $42 to $32-33, as a part of the risk mitigation strategy, where do we see these RM prices getting stabilized? In the last nine months we have seen raw materials going up significantly and now we see that has slowed down. So going forward, do we expect that to remain at the same level or is there any scope for the raw materials to further correct and go down from the current levels?

**Amit Agarwal:** From whatever we understand from our procurement team, one, raw materials definitely have bottomed out but also what we understand is that there is a new normal. So as of now we do not expect it to go down to the similar levels what was there in let us say Q2 of FY18 or first half of FY18, we do not see those kind of levels because there definitely a new normal which is coming from the fact that even oil if you see around first half of FY18 used to be around $40-45, today the new normal for oil is $60-65. Similarly, even in China, there are far more stringent conditions, which would be additional expenditure for those companies. I think we are definitely seeing bottoming out but going back to those numbers, it is not pretty evident right now.

**Sucheth Rao D.:** Going back to your question, Abdul, one thing we know for sure is that we do not believe that China is going to go back towards historical pricing the way it used to be because there is a lot of emphasis on automation, there is a lot of emphasis on completely consolidating the industry, lot of the smaller manufacturers are being asked to shutdown or being asked to be acquired by the larger players. So in light of the consolidation, in light of increased punitive measures on

EHS related issue, we do expect that the Chinese supply situation will stabilize, I do not think we will ever get to the point where the raw material prices will go back to where they were a couple of years ago, buthaving a two-pronged strategy of manufacturing intermediates in-house, as well as sourcing from India, China, Europe and other parts of the world which are equally viable is a good place for Neuland to be in.

**Abdul Puranwala:** My next question would be on the Niche segment side. Recently we have seen that a couple of our molecules in the US especially have gone generic. Have we seen some traction in that portfolio? Have we started receiving queries from customers or some orders which they would have placed?

**Saharsh Rao D.:** I think broadly speaking in the Niche segment, there are a lot of products that have recently become generic or we are expecting them to be generic in the next 6-to 12-months, for example, I think Ezetimibe is the product just gone generic and we have seen good traction in that product, it is a cardiovascular drug and the volumes are actually going to increase going into FY20. I think we have talked about Salmeterol in the past. That is the product where we expect traction to increase further. Posaconazole is another product where we see patent expiry and commercial launches happening in 2019. All these products are in the niche category, they are at reasonably high margin and we have developed them anywhere between 5-7-years ago. In general, we are in a pretty good place. We have multiple customers qualified for each of these products in the key markets, could be Europe or North America and we have the capacities to deliver. So we are ready to grow.

**Abdul Puranwala:** Just last question on the CMS. Would it be possible to give a breakup of the CMS sales in terms of what were derived from the clinical molecules and from the commercial ones?

**Saharsh Rao D.:** Right now we have not been providing such kind of breakup, Abdul. Broadly we have indicated in our previous calls also that about 60-70% of our revenues come from commercial molecules in the CMS at any point of time but Quarter to Quarter there could be variance, but Amit was referring to the approximate $100 crores number which we had done last year. On that basis, we had mentioned earlier also about 70% of that number comes from commercial molecules, 30% of that number approximately comes from development work so to speak. There could be reasonable variance but the point which Amit also was making, and I want to reemphasize that is as more molecules get into commercial stage, the base will start becoming bigger. And I think that is where the excitement is and I think that is where in the coming periods in the next 1-1.5-years and further, you should start seeing a bigger base from the CMS business and I think that is what will improve the profitability of the Csompany as well.

**Moderator:** Thank you. The next question is from the line of Anniruddha Shetty from Solidarity Investment Managers. Please go ahead.

**Anniruddha Shetty**: I understand that mix is moving towards more and more CMS and Niche which is higher gross profit. Could you give us a sense of what is the gross profit product-wise between GDS, Niche and CMS?

**Sucheth Rao D.:** We have not given out this kind of ingormation so far, and also for us it would be competitor sensitive information so it's something that we have not shared.

**Amit Agarwal:** On a more general basis, CMS and Niche willlargely be in line their gross margins that they would definitely be ballpark of about 10% higher than the Prime category products.

**Anniruddha Shetty**: Another question regarding what would be the pricing power in this business because we are seeing raw material prices go up and margins are taking a bit of a hit but is this a temporary issue wherein assuming the raw material prices do not go up further, can you raise the prices in the next quarter and margins back with the steady state or the margins today are reflecting the steady state margins that you can make and you benefit only if raw material prices soften going forward, so, how should I think about this?

**Saharsh Rao D.:** Aniruddha, I think it is a pertinent question. It is a challenge particularly on the GDS side, so I will talk about it from that context. In the GDS business, we are positioned competitively differently for different products. There may be certain products where we maybe the absolute cost leader, there may be some products where we maybe in the middle of the pack and there maybe some products where we are not very competitive. So, when uncertainty such as raw material prices, volatility happens, obviously it gets factored into our revised product costing and it starts reflecting either positively or negatively on the profitability of the Company. So, for example, if raw material prices were to go down, then it starts enhancing our profit and if it goes the other way, then it starts impacting our profit negatively. But what determines our ability to pass on the price to the customer and how quickly can we do that is largely dependent on how are we competitively positioned for that particular product. In reality, our competitive position is varying product to product and there will be certain products where we maybe the undisputed cost leader and, in such products, should there be a raw material price hike, then we are probably with the one quarter or two quarters lag able to pass on most of these increases provided they are justified. If we are not competitive for a particular product, then it becomes that much more difficult for us or it takes that much more time to fully pass on the impact of the raw material prices, in which case we either have to focus on our cost optimization program to improve our efficiency or even try to do a partial pass on to the customer and it all depends on product-by-product.

**Sucheth Rao D.:** Just coming back specifically to your question, Aniruddha is that typically there will always be a lag period from when we get impacted by cost vis-à-vis when we can pass it on to our customers. So the question that you are asking whether we enjoy that kind of leverage, we definitely do because for most of the products that we supply, we are the primary source or one of the two sources or are in a competitive advantage. Of course, there are always cases where we are competing significantly with another supplier, but I would say that is in a minority. But having said that, we do have annual contract, the markets that we sell in are obviously the premium markets, so we cannot go back every month, every quarter and start opening up the price discussion. From that point given the overall sanctity of the business there is always a lag period. So if we are hit by a raw material cost, we have to go back to our customers, we have to renegotiate contracts and that can take anything between three to six months and that is one of the things that impacted our margins this year but notwithstanding what Saharsh said and lot of those points were pretty valid, you will always see a time lag between when we get legitimately impacted by something to when we can actually pass it on to our customers though we enjoy the leverage, also keeping in mind the long-term interest of the business.

**Anniruddha Shetty**: Is there a management strategy wherein you are looking to grow in certain molecules where you are all very dominant and will have more pricing power?

**Sucheth Rao D.**: Yes, we might have mentioned this in our previous calls or in larger meetings but one of our core strategy is that once we are in a product, we seldom discontinue or drop a product. Our goal is to continue to invest in lifecycle management, keep growing those products and establish ourselves as market leaders globally for all our APIs, whether it is on the generic side or in contract manufacturing we have that leverage by nature of the business in any case. That is part of the reason why we have invested in buying a facility not only for manufacturing high volume APIs but also to backward integrate and manufacture our key intermediates so we can keep a tab the pricing, driving supply chain of our key molecules so that we can continue to grow the market share and leverage the customer there.

**Moderator:** Thank you. The next follow up question is from the line of Amey Chalke from HDFC Securities. Please go ahead.

**Amey Chalke**: I have a first question regarding Salmeterol. Is it possible to tell us how much is the volume jump in Salmeterol supply over last one year and how the traction would be going ahead in FY20?

**Saharsh Rao D.:** Our Salmeterol volumes as you would have sensed from our quarterly updates, etc., for the last one year has been steady. There was a period about a year and a half or two years ago where we had disclosed that we had significant jump in volumes. At this moment, we see a steady movement of Salmeterol, but we have also mentioned with the caveat that we see significant volumes coming from the North America market. At this point, while we see our product is commercially consumed in multiple markets, there is still a lot of potential for this product. I think if you were to try to draw a correlation between the volume uptick at Neuland versus what is happening in the finished dosage market, I think it would be hard to correlate only because our customer ordering patterns versus what they do with their finished product may be very difficult for us to correlate. Beyond this, I do not have a specific answer except to say that it has been more or less steady, and it has been in expected lines but also we expect significant improvement in the volumes of Salmeterol especially with the potential North American market opening for the generic Advair. Beyond that we cannot comment on anything specific with regards to timing of when our volumes will grow or certainty of whether our volumes will go up or not or who we will specifically work with or we do not.

**Sucheth Rao D.:** Amey, just to add to what Saharsh has just said, I think we have always maintained that we obviously cannot disclose the names of our customers because of NDA and also making sure that we protect information which is key to our success. The other part we also maintain Salmeterol is a complex launch, there is a standalone product, there is a combo product, different devices, whether a dry powder inhaler or meter dose inhaler. The regulation for inhalation products is extremely complex in terms of being able to establish the bio-availability and bio-equivalence of a generic device and therefore because of that we do expect that the approvals will be fragmented, the timing will be extremely difficult to predict as to when the approvals are going to happen and how that is going to impact the volume. So even as we maintain that it is a good product for us, we cannot correlate what is happening with the volumes or what will happen to the volumes.

**Amey Chalke**: My question is not particularly like quarterly jump. I am just saying over last two years from FY'18 to FY'20, there should be some market share gain for us in global markets. I am not asking particularly for the US or any particular client.

**Saharsh Rao D.:** Just to try to give you a little bit more specific answer, FY'17 we had good volumes of Salmeterol, Amey and compared to FY'17 volumes, the FY'18 and FY'19 have been relatively low and they have been relatively equal to each other, there hasn't been any spike or there hasn't been any volatility per se. But to answer your question, FY'17 was where we had good volumes of Salmeterol.

**Sucheth Rao D.:** Also because we were supplying a lot of the developmental quantities in FY'17 as well. So one way it is a good thing or a bad thing because once we obviously had a good volume, but that was also reflective of the future of this product and what it is capable of.

**Amey Chalke**: The second question is related to these four commercial molecules which we have added in this quarter. Should we see revenue coming in from FY'20 from these four products, and are we the sole supplier for these intermediates?

**Saharsh Rao D.:** For two of these intermediates we will be the second supplier and I think for two intermediates we would be the primary supplier. It remains a little unclear for us with regards to the timing of these molecules but largely I would expect at least one or two of them to get scaled up to commercial in FY'20. Beyond that, since the projects have just going through the initiation phase in Neuland, I think we will know more information only over the next two to three months.

**Amey Chalke**: Is it fair to assume that when you say commercial molecule, that means the front-end molecule is already there in the market or it is yet to be launched?

**Saharsh Rao D.:** Whatever we are categorizing as commercial, Amey, we are very conscious that these molecules are already in the market.

**Amey Chalke**: Third question is related to the Peptides. Since our merger, is there any movement in the peptide category- are we developing any peptides or how things are moving over there?

**Saharsh Rao D.:** Broadly speaking, Amey, we have been making reasonable progress in Peptides. It is at least going as per the plan that we had visualized. We had talked about focus on custom manufacturing of peptides for new chemical entities and I think that is the activity that is going on reasonably well. We have a few projects in our pipeline right now. We are working on at least two molecules which are reasonably advanced – one is actually a commercial molecule and another one is in a clinical phase, I cannot reveal too much more information but these are projects that have entered the system about a year, year and a half ago and they have been progressing reasonably well. We still do not have specific clarity on when the commercial revenues from these peptides will start coming in but with regards to progress, we are reasonably pleased, in fact, one of the expectations that Management has also is in the coming months we also want to add a couple of generic peptide APIs to the development pipeline.

**Moderator:** Thank you. The next question is from the line of Suresh Bhuraram Shetty, an individual investor. Please go ahead.

**Saharsh Rao D.:** I think the question that is being asked is about specific customer for generic Salmeterol and is being asked whether Neuland has been qualified as an API supplier for Mylan. I think this is answered by Sucheth earlier in the call as well, but I will just reiterate the response. As principle and as we are bound by the confidentiality agreements, we are not allowed to disclose who we work with on these products. Therefore, we cannot comment in any way about what is happening on the developments on the generic Salmeterol. II am sorry, we will not be able to respond further to your question.

**Sucheth Rao D.:** We want to clarify is that we cannot comment on which company that we supply our Salmeterol for. What we can comment is we sold a lot of Salmeterol in the past for developmental quantities for our customers who are developing the commercial products for it. Our Salmeterol is already commercial in some parts of the world and in some parts of the world it is not commercial yet. Now to be able to comment specifically which country it is or not, we will end up violating our confidentiality agreements with our customers and that is why we are extremely careful and as a long-term shareholder I think it is also in our best interest as shareholders to protect the interest of the organization. And that is the reason why we hesitate to divulge any information.

**Suresh B Shetty**: Asking about Austedo, has the commercial production started? Is it launched commercially?

**Sucheth Rao D.:** Sorry, we cannot comment on that as clarified before.

**Saharsh Rao D.:** Because we never shared or publicly acknowledge that we work on that molecule. So, therefore we cannot comment.

**Suresh B Shetty**: How is the future sir?

**Sucheth Rao D.:** I think the future is good.

**Suresh B Shetty**: How long will it take to reach the previous margins are around 20 to 25%? How much time would the Company take to reach those margins?

**Sucheth Rao D.:** Suresh, it is a good question. What I will do is during the closing of the call I will summarize a lot of what initiatives we have taken, and what you can expect from the overall performance from the organization.

**Moderator**: Thank you. The next question is a follow up from the line of Abdul Puranwala from B&K Securities. Please go ahead.

**Abdul Puranwala:** Just one follow up on the Unit-3. Have we fully consolidated that into our balance sheet? And for the next couple of years, what percentage of our raw materials could be sourced from this facility?

**Amit Agarwal:** Abdul, Unit-3 has been consolidated, even the numbers which we declared as on 31st of March 2018 that had Unit-3 as a part of Neuland.

**Abdul Puranwala:** The reason why I am asking is the depreciation cost has increased significantly in this quarter?

**Amit Agarwal:** That is because we have capitalized almost 50% of the unit and that is the reason why you are seeing higher depreciation in this quarter. On the sourcing part, as we have mentioned, this unit will largely be an API manufacturing facility. For our strategic intermediates, which also will be driven by how the market is panning out, we will decide on which intermediate to come out of this unit. Currently for Levetiracetam, as we mentioned earlier, is one of the key intermediates, is being planned from this unit. I think to give you an answer right now is very early, but that is the plan for Unit-3.

**Moderator:** Thank you. Ladies and gentlemen, this was the last question for today, I now hand the conference over to the management for their closing comments. Over to you, sir.

**Sucheth Rao D.:** Once again wish you all a good morning and I wanted to thank you for all the questions. I thought the questions were very specific and pertinent not only to the overall business but also the quarterly results that we have declared. Having said that, I do want to summarize a couple of things. For those of you who followed this Company over a reasonable amount of time, you would have seen that we have had years of performance which was good and we have had years of performance that have not been so good. We had some issues in the past where we had some line balancing issues, capacity balancing issues; we were hit with the raw material situation in China as well as the escalation in prices. We have also seen where our prime products exhibited very strong growth, but some quarters where the contract manufacturing business or the specialty API or the Niche segment as we call it, did not contribute significantly to the quarterly performance.I feel very confident about where the organization is today. As we have mentioned in calls in the past, we have been able to balance our capacity by moving certain products to other facilities, we have been able to not only create a lot of buffer capacity on an ongoing basis so that we do not get into this issue of capacity balancing, but we are also ensuring that we are creating enough capacity for future growth in any unexpected business that comes our way, that is reflected in the strong sales growth that we have shown this year. I think apart from that the acquisition of Unit-3 not only for creating the buffer capacity, but also making high value APIs in the future as well as creating capacity for growing APIs. We are also using that facility to backward integrate for some of our key intermediates that Amit was mentioning. As you can imagine not only just at a PBT level, but we are also seeing the impact of Unit-3 at an EBITDA level as well which is good. So that going forward you will be able to see the impact of Unit-3 in a positive way in our overall performance as well. Today we are in a position with the strong focus on costs, both the raw material cost as well as our operating expenses coupled with having created enough capacity for our growth and strong numbers coming in from the Specialty business, the prime molecules as well as our CMS business. I think we are in a good place and we expect to see the Company demonstrate strong performance in the medium as well as the long term. We still do maintain that we will see a quarter-to-quarter variability in performance. That is just the nature of the business and there is no way or nothing we can do to overcome that kind of a volatility other than keeping our head down and being focused on making sure the long-term interests of the organization as well as our shareholders are protected. So having said that, thanks again for joining the call. Thank you for all your questions. It also helps us reflect on our own performance and take those corrective and preventative actions in time to ensure the sustainable performance of the organization. Thank you very much.

**Moderator**: Thank you very much, members of the management. 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.