“Neuland Laboratories Q1 FY20 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Neuland Laboratories Q1 FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Diwakar Pingle. Thank you and over to you, sir.

Diwakar Pingle: Thank you Zaid. Good morning and thank you for joining the Q1 FY20 earnings call of Neuland Laboratories Limited. Please note that we have mailed out the press release to all of you and you can also view the results in our 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 Stock Manager from Neuland represented by Mr. Sucheth Davuluri – Vice Chairman and CEO; Mr. Saharsh 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 open the floor for Q&A.

I would like to remind you that everything that is said in this call which reflects any outlook for the future or which can be construed as a 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 the subsequent annual report which you can view on the website. With 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 quarterly financials, the total revenue was at Rs. 1815.3 million for Q1 FY20 as compared to Rs. 1550.7 million for Q1 FY19, an increase of approximately 17%. GDS business revenue grew by about 6% and CMS revenue grew by about 81%.

EBITDA stood at Rs. 190 million compared to Rs. 100.9 million in the corresponding period last year. This translated to an EBITDA margin of 10.5% which is about 400 bps improvement over 6.5% in Q1 FY19. Net profit stood at Rs. 56 million as compared to Rs. 4.1 million in the same period last year. On the balance sheet side, we have improved our working capital efficiency over the last few quarters that have helped release funds into the system. Our debt continues to be at comfortable levels. The total debt of the company as on 30th June 2019 was Rs. 202 crores and the cash balance was Rs. 16.5 crores. I will now hand over the call to Saharsh for giving the highlights on the business.

Saharsh Davuluri: Thanks, Amit. Good morning everyone and welcome again to this call. We are seeing an all round improvement in our business. We initiated a couple of specific and focused efforts last

year to address issues like raw material prices, volatility in the CMS business, etc. The result has started coming in, although they are still at an initial stage. Full impact will be visible as the year progresses. While the revenue is witnessing a consistent growth, notable highlight for this quarter is that the CMS business is the largest contributor for revenue growth. Further, it has witnessed consistent revenue growth for the last 3 sequential quarters. The pipeline of opportunities in CMS looks good and also as usual, our press release has all the data on the CMS projects which should give you a fair idea of what the pipeline looks like.

The GDS segment also has registered a good performance and like last quarter, it was a combination of both prime and niche, our speciality APIs as we have recently started calling this category. GDS prime segment revenues were driven by growth from products like Levetiracetam and Labetalol. Dorzolamide continued to be a key driver of growth amongst the specialty APIs along with products like Ezetimibe and Salmeterol. Our focus on the GDS business is resulting in Neuland penetrating new markets with our extensive portfolio of products. We also saw the profitability improve on the back of better revenue mix and cost optimization.

With the impetus from the CMS segment as well as specialty APIs, we are confident of continuing the momentum into the financial year and going forward. Unit 1 manufacturing facility underwent a US FDA inspection and found five observations. We have initiated corrective and preventive actions for the observations. No data related issues were observed during the inspection. The backward integration at unit 3 is going on as planned and we expect to roll out one or two APIs by the last quarter of this fiscal year. As I mentioned earlier, 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 as always are self explanatory and in case if you have any specific questions, we are happy to take them up during Q&A. Thanks a lot again for joining this call and I think we can now move to Q&A.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Candice Pereira from Anand Rathi. Please go ahead.

Candice Pereira: Sir, I wanted to know what was the reason for the degrowth in the prime segment this quarter and what is the outlook for the entire year and my second question is on the gross margin, it has dropped sequentially and we were expecting an improvement because of the stabilization of the API prices?

Amit Agarwal: Let me first take the second question. I think in terms of the margins, one the decline has been very marginal from about 11.25 to around 10.5, now this can always happen in terms of the product mix and things like that and as such, the Q1 if you see historically is a little dry quarter for us and I don't think it is a worrisome thing for us, it is more of a product mix issue, but the way we look at going forward, I think we should be better on margins vis-a-vis what we had last year for the entire fiscal. Quarter-on-quarter, they can vary and coming to your next question where again, I think you mentioned the prime has seen a bit of a decline, I think if you look at

in terms of the absolute numbers, there is no decline. In terms of percentage what you are saying is right because the total volume has gone up and the value has gone up but I think in terms of absolute number, there is no decline.

Moderator: Thank you. The next question is from the line of Rishabh Ghia, an Individual Investor. Please go ahead.

Rishabh Ghia: Can you provide some more colour around the US FDA inspection and the possible outcome there?

Sucheth Davuluri: Rishabh, as we had mentioned in our press release and a couple of other releases, we received about 5 observations at the end of inspection. As we clarified none of these observations were related to any data related integrity issue or quality of the product which was being shifted to any of the markets, they were related to improving our GMPs and procedural related issues. Therefore, we have answered them which we believe to the satisfaction of the FDA, but we have not received any further communication from the US FDA.

Rishabh Ghia: But do you see any risk of any regulatory action?

Sucheth Davuluri: Given our track record with US FDA so far, I think this was our 13th or 14th inspection and given the nature of the observations and also the responses that we have provided, we are not seeing any risk with respect to the inspection because we don't believe that any of the observations that we were given are observations that cannot be corrected and we have already given our corrective and preventive actions to the FDA.

Rishabh Ghia: And the outcome to this would be an EIR which they would issue and is there any expected timeline on when we might receive that?

Saharsh Davuluri: No such timeline Rishabh, there have been cases where we have had an inspection, it just depends on the load at the FDA. Sometimes we have received the EIR in about 4 to 6 months, sometimes it has taken us longer. It is the amount of paper work and load in the FDA itself, there is no predictable timeline for receiving the EIR.

Rishabh Ghia: May be couple of more follow-ups in the same topic, so this was for plant one, correct? This observation pertains to plant one, correct?

Sucheth Davuluri: That is correct.

Rishabh Ghia: Is that CMS heavy or it is fairly distributed?

Sucheth Davuluri: It is distributed Rishabh because we don't have any specific strategy of having CMS towards specific plant, it is more on the equipment with the nature of the process that is available.

Rishabh Ghia: And finally, I have been following the company for some time now, is there a sense that we are falling back on our investments because I think through this US FDA communications that you have released to the market, it seemed there were corrective actions which we could have taken and now we are taking it, is it that we are following behind on the CAPEX and the MRO stuff with these plants?

Sucheth Davuluri: Sorry Rishabh, we are falling back on the MRO.

Rishabh Ghia: May be I can just refine that question, was that an opportunity to invest in these plants earlier which we slept upon and now we are having to do it?

Sucheth Davuluri: No such thing Rishabh, because just to give you a sense, we would have had our selling, we had about 13 or 14 inspections so far and for majority of those observations, we have had Form 483 which was given to us at the end of the inspection. We have given our responses and we have got in an EIR, in fact we had an inspection in Unit 2 back in December of 2018 which is less than a year ago and that inspection had no observations and we got that EIR as well which we announced to the market. So the point being is that getting Form 483 is not necessarily a good thing or a bad thing. It just means that there are observations that the FDA has found during the inspection which they would like you to correct which is put on a Form 483. So it is not necessarily a good thing or a bad thing as long as you understand your system and you are prepared to correct those observation and the observations as such had nothing to do with whether we made any direct investments to the facility or not, like we said earlier, observations are related more to making procedural improvements which would make our GMP stronger and has nothing to do with any investments in infrastructure as you have alluded in your question. I hope that clarified.

Rishabh Ghia: May be one last question, could you provide 2 to 3 years view on the CMS pipeline as to how this business would scale up in the next 2 to 3 years?

Saharsh Davuluri: Sure, I think maybe I can give you a broad picture Rishabh, I think as you know our CMS business is mostly consisting of us making APIs intermediates for either chemical candidate or commercial molecule, so they are either in the clinical phase or they are in the commercial phase and as molecules go through the clinical pipeline and they get commercialized, they become recurring business for Neuland and the goal for Neuland in the CMS business is to partner in as many opportunities as possible in a way that at least some of them become recurring commercial business for us in the future and today we have may be about 4 or 5 molecules which are commercialized and they are part of our recurring business. There is an enclosure that was shared in the press release which has our CMS projects and if you look at that it says that there are approximately 63 projects as of current quarter which are the projects considered live from Neuland and the customer's perspective. Now, those 63 are spread across preclinical phase 1, phase 2, phase 3 and commercial. Now, what we would visualize over the next 2 to 3 years is molecules which are either in that phase 3 are commercial column, some of them would move

and become commercial molecules for Neuland, so the 4 or 5 we already have as commercial, they will get added by possibly may be 2, 3, or 4 depending on the success rate, they could get added and depending on the revenue and the business potential of these individual molecules, they could expand the base of the CMS business. So it is difficult for us to give you an outlook of what exactly that revenue growth will pan out to be but as you can sense from our conversations, the pipeline has become very robust and I think over the last 2 years, our net CMS projects has gone from like 30 to 35, all the way to 63, so it is showing a steady increase in the number of projects and therefore the possibility of commercializing more molecules is higher but at this point we wouldn't really go as far out to give revenue guidance or projections of what this could translate to.

Rishabh Ghia: And you are seeing newer projects come at a faster pace than in the past?

Saharsh Davuluri: We are and I think where we are seeing faster pace is more late stage projects are coming to us with second source opportunity which is an encouraging observation and I think definitely over the last 1 year and a few months, we have seen a lot of interesting projects enter the system and our expectation is to be able to commercialize a few of them in the next 2 to 3 years.

Moderator: Thank you very much. Next question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga: Just speaking up from what you were discussing on the commercial and clinical point, you mentioned that the traction looks good and we should be able to sustain the performance in CMS business, but when I look at the data like clinical heads in very sharp jump and as your understanding also suggest that commercial which is a more recurring nature and clinical might even like was a onetime pickup, are you seeing anything more like that okay, this quarter we had some of the lumpy revenue on the clinical side which might taper off in the next quarter?

Saharsh Davuluri: I think the kind of lumpiness that comes with the CMS business because they are more clinical type of projects versus commercial type of project, I think that is very much part of the CMS business. We do have observations that we make as we look at every quarter both forward as well as retrospectively and I think as a growing business, we think that is the characteristics of the CMS business where we will have certain quarters where we will have more projects like clinical stage projects. It is some quarters where the clinical stage projects may be lesser in number and we may have more commercial revenue. I think at this point we choose not to get into that level of detail only because it is very difficult to provide continuity for that kind of information flow, but the short answer to your question is, yes, we do have the sense of where the contributions came from and how the contributions are likely to flow in the future also, we have a good understanding of that.

Giriraj Daga: Like when you are saying that you expect the momentum to continue, so should we expect that at least this 35 crores kind of run rate to sustain?

Saharsh Davuluri: Yes, I think we would expect that kind of a run rate to sustain and also as I was explaining to the previous gentleman what we mean by saying that we expect the momentum to continue is that today we have close to about 6 APIs which are commercial for Neuland in the CMS and we have about 10 intermediates which are commercials, so totally about 16 molecules are commercial for Neuland. What we are saying is that we expect that number to go up because some of these clinical candidates, we expect them to become commercial over the next 1- 3 years, so you should expect that number of 16 to gradually go up over the next 2 to 3 years, so that will be the pace of the business.

Giriraj Daga: My second question is on the, like in the first question you mentioned about the gross margin part, so what we look at is that the product mix was better this quarter, but we still didn't get the gross margin improvement, so has it something to do with the raw material inflation which would taper off in the next quarter or this is a new normal kind of gross margin, so even with this kind of product mix where prime is 50%, we should be about like 45% kind of gross margin?

Sucheth Davuluri: Giriraj, in terms of the overall gross margin if you remember in couple of calls earlier, we had mentioned that there is an aggressive demand for certain products from the market and we have made a couple of strategic decisions to be able to grow our sales, footprint, increase our market share and as you probably know one of our key strategies of Neuland is not to deemphasize any of our older products as part of our life cycle management, whose margins are less than new products such as our specialty API, CMS business which have become a larger share of the overall business, therefore one of the reasons why you are not seeing a proportional increase in the gross margin which we expect will improve over a period of time is because we have taken a couple of calls to increase the overall market share of some of our prime products and that is why you are seeing a growth in sale, but not a proportional increase in our gross margin, but as you probably know and we know from experience that the increase in gross margin will happen, but it happens subsequent to a growth in sale and that is a very conscious strategy of the organization.

Giriraj Daga: Just to clarify, you mentioned debt number is 202 and cash is 16 crores?

Amit Agarwal: Yes.

Giriraj Daga: And what is our CAPEX for this year guidance and first quarter how much we did on CAPEX side?

Amit Agarwal: The guidance of CAPEX as we have mentioned in the previous call as well is in the range of 70 to 80 crores for this year and the CAPEX for first quarter was around 15 crores.

Giriraj Daga: And what is the debt repayment schedule in this year?

Amit Agarwal: This year, we will be repaying close to about 25 crores.

Giriraj Daga: Like this is the repayment we are looking at, not refinancing?

Amit Agarwal: We will be raising close to about 30 to 35 crores this year, so our debt will remain more or less at the same level as we ended in March 2019.

Moderator: Thank you. Next question is from the line of Amey Chalke from HDFC Securities. Please go ahead.

Amey Chalke: Most of my questions have been answered, just few followups on the earlier discussion we had. First is on gross margin front we have launched or there is a ramp up in the Salmeterol what we have commented, so has the pricing in the Salmeterol come down from what it was 2 to 3 years back and is this ramp up led by the Europe supplies or any other customer which we have done business with? Then the second question is on the CMS front, when we say there are 5 molecules in the development stage, is it under the validation and have we signed the commercial agreement with those customers or you think those validation also has a risk of customer going back and saying that we don't want to do the business with you or there is an agreement with you that validation molecule can go to the commercial stage, what is the surety that those 5 development molecules will go to commercial stage?

Amit Agarwal: I think Amey, Amit this side, the way you need to look at the margins, the volume increase when we are talking about, yes there has been volume increase in Salmeterol and we are seeing it improving further as we go forward, but then the reason why our margin went up from 6.5% to 10% or 10.5% in this quarter vis-a-vis the corresponding quarter last year, I think those are some of the factors which have contributed, right, now that is one comparison. The other comparison you are looking at is between Q4 to Q1, right. Now Q4 to Q1, yes there is a margin decline by about 0.75%, but then here whether we are comparing the volumes of Salmeterol between Q4 to Q1 or we are comparing between Q1 to Q1 and the way we are looking at the Salmeterol volumes going forward, I think there were couple of questions, I have to answer separately, but essentially the volumes have gone up which has helped the margin. There is no decline in prices of Salmeterol, but then as I said, product mix can always play a role.

Amey Chalke: So the price is stable what you say in the Salmeterol?

Amit Agarwal: Yes.

Amey Chalke: And is there any competitive landscape which had changed on Salmeterol in the API side or you think the similar number of players are there?

Saharsh Davuluri: I think it has not changed dramatically Amey because being a complex inhalation product, we are not seeing too much flurry of activity on the second sourcing.

Amey Chalke: And my second question was on CMS side, the clarity on the development?

Saharsh Davuluri: I think Amey, you wanted to know what are the likelihood that those five projects will become commercial, what could be the uncertainty?

Amey Chalke: Yes.

Saharsh Davuluri: Yes, I think if we just stay focussed on those five projects without revealing what those projects are. They are in different phases of validation. So for example is, one project in where we finished validation. We are waiting for the customer's filing to happen, so that commercial supply can begin and they will begin in the next 3 months or 6 months or 9 months, we don't know for sure**.** There are two projects over there which are going through different phases of validation which means one project we are just starting validation, one project we started validation 2 months ago and the processes you would know is once the validation is complete, we would go for the filing and then once the filing is approved, then the commercial supplies would start, so one of them is kind upon hold out of these five, but it is still active, we believe that the customer will reinitiate the commercialization process. One of them is still in its early stage and we don't know exactly what will happen for that project, so I think in a nutshell out of the five, three are definitely going to finish their validation and we believe that they will get commercialized. To answer the other second question you asked, the projects that are in this stage are unlikely to get dropped out unless there is some major issue and these molecules are mostly commercialized already, they are just kind of getting first ANDA, so it is unlikely that they will get dropped in the clinic, but having said that I think for us, only once the commercial starts, we count it as commercial, so depending on these individual projects, it could take may be 6 months to maybe even 2 years for getting some of these as stable commercial molecules for us.

Amey Chalke: And then there is a third question related to the peptide projects which we had, any colour on that like any timelines where the projects are, in what stages and how you expect to ramp up that peptide portfolio?

Saharsh Davuluri: Definitely, I think over the last 12 to 15 months, the number of peptide projects has actively increased. So even now although we don't disclose it, I can share that about out of the 63 projects that we are talking about, 9 are peptides and we are having projects in peptides which are through the clinic. There are one or two, I don't want to be too specific which are also fairly advanced in terms of our ability to commercialize them but we still think that we are may be at least 1-1/2 years away from commercializing any peptide API, but the process of validation and commercialization is also very important and it is quite an intensive process, so we are likely to go through that phase for a couple of peptide projects and also we are working on a couple of complex generic peptide APIs for the GDS business and we are in active development in our R&D for those molecules as well, so hopefully by February or March of 2020, we should reach certain milestones for those peptides where we will be able to start promoting them for the generic market as well, so I think there are at least 3 to 4 peptides which are kind of at a

commercializable stage but a lot more in the pipeline and we believe that Neuland's recognition as a peptide player is increasing and that is also helping us in building this momentum.

Amey Chalke: Just had one followup, so I believe right now we don't have any commercial peptide project, right?

Saharsh Davuluri: We are not selling commercial peptide API, you are right.

Amey Chalke: So you may need to do some CAPEX in building a peptide block, right or you think it could be manufactured at the existing capacities as well?

Saharsh Davuluri: Amey, in our unit one facility, we have a peptide plant which has all the downstream equipment like lyophilisation column, chromatography for the commercialized peptide. So depending on the scale of the peptide, we can make commercial peptide and release it from unit one; however, some of the projects that we are contemplating, visualizing right now may require high skills and for which we will have to undergo CAPEX and for some of these complex projects, we are planning CAPEX hand in hand with the project itself, so that we are not exposing ourselves to undue CAPEX without the project itself being realized.

Moderator: Thank you very much. Next question is from the line of Kunal Mashruwala from Mash Capital. Please go ahead.

Kunal Mashruwala: My questions are little bit more macro in nature, I may come across a little bit more ignorant than the other members asking, but I just wanted to get a sense on your CMS business, at least the NCEs that I understood are these sort of sourced actively using pipelines from biotech firms at all or how does this process work? Can you just help me understand that? How is the pipeline filled for these NCEs, like is it in active effort on our end or do innovators or biotech firm sort of reach out to us or how does it work?

Saharsh Davuluri: It is a good question Kunal, I do keep the response brief, but we can obviously connect offline to have a more elaborate discussion on this. Most of our relationships on CMS front are initiated by Neuland, so we have business development teams based out of Hyderabad as well as the US in Princeton, New Jersey as well as Tokyo, Japan and big part of the responsibility is to build relationships with innovators who are developing these new chemical entity and try to establish a bridge or a connection with Neuland's core capability vis-a-vis their own requirements and a lot of the work that our business development team does is more on the techno-commercial side because CMS is a very vast space and there are certain capabilities that we strong in, for example, peptides, deuterated molecules, carbohydrates, etc., so it is very important to build relationships with clients who have need for your technology, so for example, we don't make Cephalosporin, so we don't want to be going and trying to get business with Cephalosporin company, so I think there is a lot of thought and proactiveness that goes into the BD efforts and also another point I would like to add is our focus tends to be more on mid-sized companies where there is openness

to working with niche technological players like Neuland and we found more success over there and in areas where we are technically strong like peptides, some of the other class of chemistry, we found it easier to build connect with customers and also there is a snowball effect as well, so once we start working with the customer on one molecule, we inevitably end up adding more projects as well, so there is also that network effect and snowball effect in the CMS business that helps keep the pipeline busy, so that is kind of broadly how I would respond to your question.

Kunal Mashruwala: Can I have a followup as well, so in the biotech space, broadly if you see, the recent merger being AbbVie and Allergan and so on and so for and obviously there is some consolidation happening globally, does that based on what I understood from your response, I presume that we are sort of targeting the next level below in terms of size, so we are looking at the mid-sized innovator companies for sourcing most of our business. Does that consolidation up top in the biotech chain affect any of the industry structure in the mid-sized sphere I guess which is our core, how do you view that going forward? Sorry, I am a little higher level than the typical tactical question?

Saharsh Davuluri: Yes, you are right that some of the big pharma deals don't really affect us directly but where it could affect us is that a company that we are working with get acquired by a big pharma. To be honest we have not seen any significant impact from CMO relationship so far because today, the industry is becoming more and more virtual, so big pharma or small companies are actually quite keen on acquiring a molecule from a company and they are also keen on acquiring the CMO relationship along with that, so even if the company that we are not familiar working that acquires one of our customers, they are perfectly happy to keep us as the CMO and we have seen many examples of such relationship changes in the last 2 to 3 years and we have not had any negative experience so far, so we feel it is kind of agnostic to our business at least as of now.

Kunal Mashruwala: You guys have been around for a while based on whatever last, let us say from a broader economic perspective, let us say, we are going through the typical business cycles, businesses expand and then contract which some sort of recessionary condition happened globally, obviously this business is less impacted in terms of economic cyclicality in the world but broadly have you seen any trends of when recession occurs in the US or Europe or any of those places, is there any change in the frequency with which there is R&D expense spend or any of these things, do you see more CMO kind of work coming into your CMS business?

Sucheth Davuluri: Kunal, like you rightly said pharmaceutical industry is the most insulated, I won't say completely, but the most insulated from any macroeconomic trends that happen globally, we have seen that both in terms of economic indicators as well as the general behaviour of patients who consume these medicines, but having said that we do get impacted by some factors such as the exchange rates and government policies, price restrictions, reimbursements to patients. Those are the things that actually impact us. Having said that Neuland's overall goal over the last several years has been to continue to be a very focused speciality API player with a good set of molecules focussed on building the contract manufacturing business, creating the right quality

assets and those are the steps that we have taken in the last few quarters with the acquisition of unit 3 with our increasing presence in the contract manufacturing market, so our goal is though we are not able to control these macroeconomic factors we believe that we had positioned well as standalone pure API player with the strong focus not only in well established molecules with the stable growth, but also good presence in speciality APIs as well as a very credible player in the contract manufacturing business, so our focus going for will be to continue increasing our margins, keep consolidating, penetrating the markets further and establishing ourselves as a leader for the APIs that we were in. I think as long as we continue to do that well which you see being demonstrated in our sales growth over the last couple of years as well as our future increase in margins, I think we will create a sustainable business.

Kunal Mashruwala: No, fair enough, I was just curious to understand broadly how the global industry structure and macro impacts us as a business and I am okay with that. I will follow up more I think offline will be easier for us to have a chat.

Moderator: Thank you. Next question is from the line of Anirudh Shetty from Solidarity Investment Managers. Please go ahead.

Anirudh Shetty: In the past, we have aspired to grow at 15 to 20%, but I don't understand is there anything happening on the global environment front wherein China the environmental issues and all, are we seeing the supply slowdown actually benefiting as Indian players and in terms of more enquiries on the customer etc., and how much of this do you think is actually structural vis-a-vis something that could be there for the next couple of years?

Sucheth Davuluri: Anirudh, it cuts both ways, so because the China situation, we have had issues with the supply market, consistent supply of raw material at a comparative cost that has definitely been impacted. At the same time, what has happened in China has also made some of the markets nervous in terms of China's reliability of supply, therefore we have seen opportunities come our way because we are always seen as a reliable supplier of pharmaceuticals to the markets, so it had its benefits, which we have tried our best to capitalize on but it has also had its impact on the overall reliability of the supply chain. Now, I think what is important is that we also have to think from an end consumer point of view, we can't be too short-sighted or myopic in our thought process, at the end of the day, we all exist to make sure that we are meeting the needs of the end consumers for supplying these medicines, therefore whether it happens in China or India, problem is a problem, so what we try to do is see what we can do better, what we can do differently, so that we continue to increase our reliability to the pharmaceutical industry. From a Chinese perspective like you said, I think the changes are structural in nature, I think they are going to do with government policies which are evolving in China and how the government wants to structure a Chinese economy, part of it is also happening because of this random accidents in China.

Anirudh Shetty: You had mentioned also that Salmeterol you are not seeing significantly higher competition of any sort and what about our other prime products and speciality products, any of our key products where do you see competition significantly increasing?

Saharsh Davuluri: I think broadly speaking, the prime category is an area where we are more sensitive to our competitors because these are higher volume products where there is even 10 to 15% pricing difference can trigger a change in market share. When it comes to the speciality segment where we have products like Salmeterol, Dorzolamide, etc., there we see that our ability to stand out from competition is better and also because the speciality segment APIs are more complex to develop, they go into more complex formulations, we typically see fewer competitors, I mean just to give an illustration may be for a prime product like Levetiracetam if you have like 7 or 8 active competitors, may be in a specialty product like Donepezil or Dorzolamide or Salmeterol, you might have a fewer, but each product is very different and please keep in mind that this classification is more for investors and management convenience but every product is very different and we do have products with varying level of competitiveness.

Anirudh Shetty: Just to get a sense, in our prime category**,** what would our average market share be across product basis, may be on a blended basis?

Saharsh Davuluri: I don't have the data right now Anirudh, but I think it can vary from as low as 7-8% to as high as 90-95% as I think we keep saying a lot of time, Ciprofloxacin is where we have a very large market share with almost 90% for US and upper 60s or 70s for Europe but then again our Cipro market share in India is 0 because we don't sell any Cipro for the Indian market, so we do have the data but I think that blended data we are talking about is something which we never found it useful to compute but we can always look it up.

Anirudh Shetty: Just one final question from my side, in our CMS space we are doing business with biotech firms today and always this opportunity of them getting acquired by big pharma, is that something that you think it is a very high probability or given that this is too many biotech firms these days that it is very hard to say going in whether this is something that is a high probability event or it is just something that if it happens then it is great.

Saharsh Davuluri: We believe it is reasonably high probability movement of big pharma or large pharma licensing or acquiring a product from our customer. What we have seen in our experience is that it has not had any real impact on the project itself. We have seen several projects which got transitioned from one company to another company, but the project goes on smoothly. We have also seen situations where the company might have stopped the program, so for Neuland's point of view that program is dead but then 6 months later, they sell it to another company and then that company acquires it and restarts it, so I think all sorts of permutations combinations are possible but M&A and licensing is very much a part of our customer's universe and most often we don't see any impact on the CMC activity, so I think our relationship as a CMO always continues to hold front because of our good track record and our competitive advantages.

Anirudh Shetty: And will it be possibly to quantify the order book that we have, I mean the table that we have with number of molecules is very useful, but will it be possible to quantify the order book?

Sucheth Davuluri: I think we generally don't give a specific number to the order book as we have mentioned that the order book is strong. It is much better than what we had last year for the CMS business, so that is where we are.

Saharsh Davuluri: And our order book for the entire FY20 is visible for us, right now, so it all depends on how much we can execute and deliver in the year, it also depends on the customer call offs and things like that because sometimes they have their trials planned and they want us to make material during a particular period of time, but we do have that information but at this point of time, we don't intent to reveal those numbers.

Anirudh Shetty: And we have the capacities, for the next couple of years, there should not be a capacity constraint issue, am I right?

Amit Agarwal: For this year, we don't see any capacity constraint.

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

Sucheth Davuluri: Once again, thank you for all the questions. As expected, I think this was another good call. Hope as the management of the organization, we have answered your question to your satisfaction, if there are other things that you would like clarification on, please feel free to reach out to us and we will be more than happy to provide for the clarifications and transparency about the business that Neuland is in. I believe that lot of your questions were very pertinent to the business and as mentioned in several calls in the past, I think we are very optimistic about the business, we believe that there are lot of opportunities in this space and Neuland with its focus on APIs and both in specialty contract manufacturing as some of the older APIs were the market leaders and it is continuing focus, I think we are well positioned to create a sustainable business with consistent growth and we look forward to having these calls in the future. Thanks again.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of Neuland Laboratories, that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.