



“Neuland Laboratories Limited’s Q4 FY15 Earnings Conference Call”

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MANAGEMENT: **MR. SUCHETH RAO – DIRECTOR & CHIEF EXECUTIVE OFFICER**
 MR. SAHARSH RAO – DIRECTOR & PRESIDENT, CONTRACT RESEARCH
 MR. NS VISWANATHAN – OUTGOING CHIEF FINANCIAL OFFICER
 MR. ANIL KUMAR – INCOMING CHIEF FINANCIAL OFFICER
MODERATOR: **MR. DIWAKAR PINGLE – CHRISTENSEN IR**

Moderator: Ladies and Gentleman, Good Day and Welcome to the Neuland Laboratories Q4 FY15 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, 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 Mr. Diwakar Pingle. Thank you, and over to you sir.

Diwakar Pingle: Thanks, Inba. Welcome everyone and thanks for joining this Q4 & Full Year FY15 Earnings Call for Neuland Laboratories. The results have been mailed to you along with the press release and it also will be available at www.neulandlabs.com, in case anyone does not have a copy of the press release, please do write to us, we will be happy to send it over to you.

To take us through the results of this quarter and answer your questions we have today with us Mr. Sucheth Rao — Director and CEO; Mr. Saharsh Rao — Director & President of Contract Research; the outgoing CFO — Mr. NS Viswanathan and the incoming CFO — Mr. Anil Kumar.

We will be starting this call with a brief overview providing a brief the company’s performance, then we follow by Q&A session.

I would like to remind you that everything said on this call that reflects any outlook for the future which can be construed as a forward-looking statement must be viewed in conjunction with the certainties and risks that they face. These uncertainties and risks are included but not limited to what we have mentioned in a 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. Over to you, sir.

Saharsh Rao: Thank you, Diwakar. Good Evening, Ladies and Gentlemen. Again, Welcome to our Q4 2015 Earnings Call.

Before we begin, I would like to bid farewell to NS Viswanathan(“Vishy”) as today is his last day as CFO at Neuland and also like to welcome Mr. Anil Kumar who joins us. Both of them have been working really hard to facilitate a smooth transition for the company, that has been really helpful for us, so I appreciate that.

So with regards to Q4, I would like to say that from a growth perspective, we recovered over the last quarter and registered a 22% year-on-year growth, in absolute terms the EBITDA grew 9% this quarter and this has marked an improvement over the previous quarter where we had the one off issue and where the margins had also gotten affected as a result of that.

I am sure many of you already have chance to see the press release but just kind of highlight some of the points we mentioned in the release: In this quarter we have successfully scaled up four new products in the Antipsychotic and Anticoagulant segments. I can mention two of the names — they are Olanzapine Form -1 and Rivaroxaban. The other two molecules are part of our CMS portfolio so I cannot disclose those names.

We also received our first set of revenues from our Japanese deal with the API Corporation, so we expect this to be a continuous activity or transaction going forward.

Another note from R&D or innovation point of view, the USPTO granted a patent for improved process synthesis of Paliperidone Palmitate, which is a Schizophrenia drug and that creates a unique IP proposition for Neuland, so that is another highlight.

And finally we also received the 2015 CMO leadership Award from Life Science Leader magazine in the Quality category. This again reflects Neuland's leadership in the quality segment, when it comes to API manufacturing.

In 2015 on a standalone basis, we registered a total income Rs.464.7 Crore which is kind of muted over the previous year, but this factors the impact of our Q3 performance which was below par due to the one-off shut down we talked about. The net profit of the year stands at about Rs.15.79 Crore.

We are also happy to communicate that the board has approved a dividend of 15% for the year. I would also like to add that the board has also appointed Mrs. Nirmala Murthy as additional director to the board, subject to shareholders' approval at the Annual Shareholders Meeting.

As far as the future outlook is concerned, we have put our collective efforts into various aspects of the business this year, whether it is production, quality, R&D or business development, we feel confident about the growth trajectory that we have set for the company. The strategy for the organization is to continue to focus on niche API as well as expanding our CMS business, which is the CRAMS business, and I guess the Mantra is really to sustain profitable growth and we would like to do that by optimizing this product mix that we have as well as the business mix we have within the API space, and we will see the reflection of this in the financial performance in the coming quarters and the coming years.

Now I would like to ask Vishy to just step in and add some finer points on the Financials. Vishy?

NS Viswanathan:

Good Evening, all of you. This is Viswanathan and from my side, this is my last Investor Call for Neuland. It has been great interacting with all of you and the opportunity that you gave us to share our results. I think Saharsh has covered all the data points in terms of the results, but if there are any specific points I can address, but just to give one of the perspectives, this year we

had a rights issue, which augmented the equity, so it has brought down our leverage to a respectable level and other financial parameters have all improved during the year. Debt has been flat on year-on-year basis. And we are on the path that we have been discussing over the past two quarters to what we are looking forward to. Thank you.

Moderator: Thank you. Participants, we will now begin with the question-and-answer session. The first question is from the line of Kushal Jogani of IIFL. Please go ahead.

Kushal Jogani: I wanted to understand what was the CAPEX for FY15 and what is the target for FY16-17 for next two-years?

Sucheth Rao: The actual CAPEX last year was about Rs.25 crores for the financial year and this year that is FY16, we are planning CAPEX for about Rs.35 crores.

Kushal Jogani: Second is on debt-equity front. As you did royalty issue, so right now where it stands and what is the target by FY17

NS Viswanathan: The total debt-equity ratio is 1.08:1. So this ,we have been attacking over the last five years to bring it down to this level, it was around 3.12 five years ago exactly, our target is to be around at these level as we grow. The ratio that is important in the business, not quantum of the debt. I think the focus is to not go beyond a number which is around 1.5x but we are much below that number today, of course, business will keep evaluating this as the time progresses and be around these ratios.

Sucheth Rao: So from an overall perspective, our goal is really not to bring that it to zero, but is to maintain it at a healthy level so that irrespective of the volatility in the business, we still continue on a sustainable path. That is from an overall strategic point of view.

Moderator: Thank you. The next question is from Girish Bakhru from HSBC. Please go ahead.

Girish Bakhru: Can you just give a color on how much of the revenues is coming from the export and which are the broader markets? What has been say contribution from Japan specifically this quarter?

Sucheth Rao: From an overall perspective, about 46% of our revenues are coming from Europe, if you take the end market, another 32% comes from North America and rest of it is coming from India and Japan combined. So we still have not carved out exactly how much we got from Japan this year, but that is a rough break-up.

Girish Bakhru: Japan would be say significantly different in FY16 given that the APIC started?

Saharsh Rao: For the Japan market, I think the things are still at a very early stage. One of the significant highlights are the fact that the APIC relationship has started, and I think beyond that there are

several projects which are in the pipeline for Japan market, but it will really be FY17 or later where we will actually see significant contribution to the top line.

Sucheth Rao:

Just to add another couple of comments to that Girish is that, the way Japan and the kind of business that we are focusing now on is that initially we end up supplying some quantities either as qualification quantity or early stage clinical quantity, but once we get approved as a source, we see a sudden jump in business, that means that say if you have supplied 500 kilos of qualification today, the day we get approved our commercial source, the volume to do up to 5 tonnes or 10 tonnes based on the nature of the business and that customer. So on the overall Japanese market I think we have made significant inroads, we have the collaboration with APIC, we have several other customers that we are doing business with us, but as Saharsh mentioned, by the time we actually start seeing significant numbers as part of our P&L it could be FY17, but the current numbers obviously do not reflect the penetration, it looks like where a company that does not make a significant chunk of its revenues from Japan, but that is not the case.

Girish Bakhru:

Similarly, if you could give a broad understanding of how much sales is API versus say Peptides and all, that would be helpful or is it largely all API right now?

Sucheth Rao:

Technically for us, Girish, we make API for the generic space, whether we make it for specialty generic or peptide or EMS, it is all API. We go after opportunities is that even on the generic side we look for products where we believe that we can earn a healthy EBITDA margin when the product gets launched. We do not go necessarily after commodity molecules and if there is a good business case for it in terms of growing our basket with an existing customer or some other strategic imperative behind it. So having said that I think, like we mentioned earlier, our revenues from Contract Manufacturing overall at 15% approximately, by 2018 we expect that they will reach around 30% to 35% of the overall business mix. So, Peptides, CMS, Generic APIs, all those are relevant only from the point of what kind of molecules we choose to develop, but we actually go on a case-by-case basis to see which molecule is going to give us a reasonable amount of profitability.

Girish Bakhru:

On the investment side, you guided for Rs.35 crores CAPEX. This is all largely maintenance or you are adding more lines particularly?

Sucheth Rao:

It is a combination of everything; a lot of it is just maintain and replacement CAPEX, some of it is for debottlenecking, increasing capacities to meet our business plan, the other part is general upgradation of facilities as well, just to keep it up to standard.

Moderator:

Thank you. The next question is from Amish Kanani of JM Financial. Please go ahead.

Amish Kanani:

I want to know a couple of areas in terms of business outlook: One, if you could appraise us of how do you see the Chinese scene in terms of API manufacturing vis-à-vis what the kind of

API that you make, whether that continues to be a competition, given that there are a lot of pollution control related things going on there, there are various chemicals which are seen increase in prices? And two, we have seen a lot of global generic players also wanting to kind of have a control over there in end products, coming and investing in India in terms of one of our large generic company had also announced a large investment in APIC if I am not mistaken. Do you see that as a threat to you in the long-run?

Sucheth Rao:

I do not think I can directly answer your question about China, so I will just kind of put since there are 72 other people on the call, I will just make a couple of broad comments: From an overall strategic point of view, Neuland today has about 75 API, includes API which are already commercial as well as API which are going to be launched and developed over the next several years. Our goal is to add about 10 to 14 APIs every year. The reason for this strategy is that for the APIs that we have already launched, our goal is to continuously focus on lifecycle management, cost reduction, so that we do not either lose an existing leadership position or we continue to establish a leadership position for our existing APIs. Second, if we are not adding 10 to 14-APIs every year, over a period of time, we also start becoming irrelevant because our customers are always looking to do more business with us. Most of the customers that have been with us, started with one molecule, and today they buy about 15 molecules and sometimes 20 molecules from us. These customers would like Neuland to keep investing in new products so that Neuland can stay as a preferred partner and can stay relevant to their supply chain and that is why we need to keep investing in new products as well. On one side we have molecules which have established a leadership position, by investing on niche molecule and not the commodity type or blockbuster molecule so that we do not have to keep investing in heavy CAPEX and most of our sales and profit actually come from a better mix of products rather than just sheer volume of product. And on the third front, we want to also establish ourselves as a large API company in order to stay relevant, that means from a pure customer point of view, they are willing to pay a premium on the API provided that there is no conflict of interest, they know they are doing business with the company that they can trust and that they can keep increasing their business opportunities with this organization. That is exactly what the core of Neuland strategy is, establish itself as an independent premium API company in the long run. Coming back to your question about China, in our business, it is always about product loyalty. There is no macro picture in our business because at the end of the day, I have been hearing about Chinese competition for the last 12-years and I can tell you that out of 75 molecules, it is possible that there may be 1 or 2 molecules where we had to really go head-to head with the Chinese company, we have not had to fight it out with Chinese companies for any of our other molecule. Part of it because they have not made that much progress in the last 10 or 12-years, and part of it is also that we have chosen a strategy which is more focused on technology and IP, rather than simply scaling up a molecule and trying to compete with the market in general. I think Neuland USP is, it is a good size API company which is fairly independent, focus on technology, API for a niche as well as Specialty Formulations and does not lose focus on its older products and continues to maintain its

leadership position. I think as long as we continue doing this I think it will only establish Neuland as a strong sustainable player in the long run and we have to worry less about our competition and more about the leadership of the products that we are developing.

Amish Kanani: My second question was competition from global generic player coming in, establishing the pace in India, your customer coming in putting API side there?

Sucheth Rao: Not really, because Teva is the largest API Company globally and they still buy 50% of that APIs from outside. If the largest API company globally required 50% of the APIs from other API producer, I do not think formulator setting up any other capabilities as a serious threat because not everybody can do everything, there is always going to be a need and independent API company that will meet the requirements.

Amish Kanani: Competition from China perspective, what I was actually wanting to know is whether you look at that as an opportunity because of the increased pollution control equipment norms and a lot of this intermediate also coming from China, I do not know whether we buy from China how much of our sourcing from China, and it happens to be an opportunity as well, because there are some chemicals and specialty chemicals, where they seem to be withdrawing, so whether we also see that as an opportunity in terms of increased outsourcing from India?

Saharsh Rao: I responded to that indirectly, we do not see there is an opportunity, but we see it as an overall dynamic that it will become level playing field, that means that people are not going to think that API as an intermediate in China is going to be much cheaper than India, in the long run, I think all API producers whether it is Europe, India or China will be kind of look through a similar length as far as cost is concerned, but people will eventually start making decisions on, and our customers have already started to realize that is what are the companies that we can trust that we can depend on, which would not get into trouble with the FDA and will continue to focus on providing a good quality comparative product over the long run. Eventually I think these are the things that will influence the decision making rather than cost. In the long run I think it is going to be an equal playing field.

Amish Kanani: On the pricing side, you have seen a lot of generics where there was some situation of shortage happening, the pricing much increased on the formulations side. Now, the question is whether that kind of a situation helps you in terms of you also getting the benefit of pricing going to you also? And second, the question is whether the increased FDA scrutiny on the Indian side, whether that is impacting you in FDA stages on the DMF stage also?

Sucheth Rao: I am not quite sure how would I answer your first question. On the second one, yes, definitely I think when any one of our customers do get into any issues with the FDA or there is interruption of supply, if that effect is directly because we supply the API to them, and we do business with pretty much every generic pharmaceutical company globally, there is definitely an impact, but the fact that we have so many products and our customer base is pretty wide,

one single customer cannot have such a significant impact, they will have an impact but not to the point where we are affected.

Amish Kanani:

What kind of pricing environment do you see now in that context?

Sucheth Rao:

I think it is going to be a pretty stable because our customers have started to realize that you cannot just keep going to companies based on pricing, you have to look at FDA compliance, you have to look at reliability, and you have to look at service. So like I said earlier I think those factors are becoming more important and therefore I do not see that we will face as much pressure on prices as we did in the past.

Saharsh Rao:

Just to add to Sucheth comment, our portfolio of product mix and business mix is also changing dynamically that we actually are lessening to products which are that much under pricing pressure and typically our current products today which we are actively developing, we tend to have a little bit more margins or buffers or factors that differentiate us beyond pricing.

Moderator:

Thank you. The next question is from Saravanan Viswanathan of Unify Capital. Please go ahead.

Saravanan Viswanathan:

First question is on material cost sales; around 54.5% levels. How do you see this progressing in the light of likely change in product mix going forward?

Sucheth Rao:

There are two components to this — we have the raw material cost and the other variable cost. So, we expect that the raw material cost will be around 49 to 50% as we go forward and we do not expect other variable cost to exceed about 5% or so. So, overall we should be about 55% per all the variable cost, raw material hopefully on 50% odd below.

Saravanan Viswanathan:

The second question is on the hedging. At this point in time, bulk of the business is from Europe. So how do you hedge yourself from currency volatility – is there a reset in the contracts with the customers as regards currency volatility?

NS Viswanathan:

While we have a large exposure to Europe, all our exposures are in dollars in the first place, and all our imports are in dollars, and import to export dollar ratio is around 3:1. So we are naturally hedged from a perspective in terms of the imports with regards to how do we track, we are following a very simple hedging policy of tracking ourselves to the budget rather to a market, and as long as you are on the benchmark rates better than the budgeted rates, we continue policy of no hedge or natural hedge and otherwise based on the movement we are taking simple forwards at best wherever needed. Last year, we did not have such a situation because we were above the benchmark rates what we had internally budgeted and even currently we have a little positive bias on that.

- Saharsh Rao:** So, Saravanan when you at the overall exposure we have in terms of exports, imports in terms of PCFC, EPC everything put together, I think our net exposure is 15% or 20%. So it is not an earth shattering number but at the same time I think we have our thoughts on potentially formulating updated and revised hedging policy probably in the next call, we will be in a position to share with you guys.
- Saravanan Viswanathan:** I just wanted to know, is there any flexibility available for us to pass on the currency volatility to our customer?
- Sucheth Rao:** Right now, we can only hope that they do not come back and ask us for a price reduction because it is in our favor, if a dollar level goes down to 50 or 45, we will think about going back to them and asking for a price increase.
- Moderator:** Thank you. The next question is from Surya Patra of PhillipCapital. Please go ahead.
- Surya Patra:** Sir, can you give some sense about your preparedness about the new product launches in over next , let's say 12-18 months period which are those opportunities and how are we prepared for those kind of supplies or what is the kind of challenges that already we have set up, so when should we see kind of implication from the new product opportunities?
- Sucheth Rao:** Surya, I do not have with me the exact product and when we are going to launch because it is so much variability anyway because all of it depends on when our customer actually gets approved, and at the same time typically that is not the information that we also share because sometimes it gives away too much information as far as the API supplier is concerned. I guess that is the best answer I can give you. What I can tell you as far as the preparation is concerned is that for every product launch we have several processes within the organization. We have a rolling plan for launches where we predict when the customers are going to order launch quantities, we always make sure we have either two or three starting material supplies already qualified, one is based out of China, one is definitely based out of India, so that we are geographically insulated from any volatility and we make sure that we maintain enough stocks, we update the specification, we are in compliance, just to make sure that all our decks are lined up for a potential launch. So, I think we have pretty good processes within the company to ensure a successful launch. Obviously, what they are exactly? That is the information that I cannot share with you anyway.
- Surya Patra:** Any key product opportunity that we are targeting in the near future, are we sharing those kind of information?
- Sucheth Rao:** In the past calls we talked about product such as Propofol, which we are very excited about, we feel that we are going to be the only Indian company that will supply this product globally in the long run; we have products such as Entacapone where we have the majority market share in Europe; we have other products such as Paliperidone Palmitate, which as Saharsh was

mentioning earlier for which we have been granted a U.S. process patent; we have product such as Salmeterol; We have product such as Brinzolamide, Dorzolamide. So several products in the pipeline which we are very excited about. And apart from that we also have other molecules which are part of the innovative business where there is a process of being qualified as a secondary source for a molecule which is still under patent as well as waiting for ANDA approvals for products where we have been involved in Phase-2 and Phase-3 clinical trials. So there are plenty opportunities to look forward to.

Surya Patra: Regards to the Propofol, just wanted to have a sense, whether you have tied up with any global player because it is just one or two kind of a player market as of now, though there are a couple other means there are a few players having approvals, so, what is the kind of alliance or arrangement that you have so far done because you sound very optimistic about Propofol?

Sucheth Rao: If I sounded very optimistic I will take that back, I did not mean to sound very optimistic, I thought I was being realistic but anyway, our long term goal for Propofol is to absolutely dominate the market, we want to be able to work with each and every company that is equally passionate about Propofol and wants to maintain its market share. Now which customers we have tied up with that? Obviously I cannot tell you that. It is like giving away my liver or something to you in terms of confidentiality. So, we have already supplied development quantities to at least three customers, our goal will be to supply developmental quantities to the remaining three or four customers who sell this product. So, hopefully we will be the largest supplier of this API.

Surya Patra: On the margin profile front, how do you see the shift happening from the current year to let us say over the next 3-year period and what will drive it?

Sucheth Rao: Our goal is to achieve a 20% EBITDA margin in the short to medium term, Surya. So, what will drive it is our focus on cost reduction to be able to limit our fixed expenses, continue emphasizing our cost reduction programs and also the change in product mix as a result of launching the products that I just mentioned to you earlier.

Saharsh Rao: Maybe could just add a quick comment over there, I think the shift in the EBITDA margin that happens as Sucheth said getting closer towards 20% just wanted to add a level of detail saying that the kind of business mix we have, a lot of our EBITDA margins, whether it is on a quarterly basis or on an annual basis depends on the mix of what products we have shipped in that period, what is the mix between the CMS business, the generic API business, etc., So the color I wanted to add here is that the transition from the current EBITDA margin to the target EBITDA margin would happen in a lumpy sort of manner. So, we do not expect a gradual straight line transition in this EBITDA margin, we would not be totally shocked and surprised if we see a quarter where the EBITDA margins have come down and then a quarter where it bounce back, it only represents the mix of the product that have shipped in a quarter. So I just wanted to sensitize everyone that there is not going to be a straight-line path in this EBITDA

transition, but obviously, if you follow for the next two years and you do not see change then obviously something is not working.

Surya Patra: CRAMS business what we have tied up with the Japanese player, the margin profile would be slightly better than the existing one or what is the nature of the margin profile that would have?

Sucheth Rao: Surya, at the end of the day some products where we have EBITDA margin of 50%, there are some products where our EBITDA margin is 12 or 13%, but at the end of the day, we need both the products, we cannot choose this versus that, but in the long run that is what we need to build a sustainable strategy. So whatever numbers we have thrown at you, we are talking from an average number and as we keep improving the overall product mix, we will just see that the EBITDA margins will climb up, but that is going to be the nature of the business going forward.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak of Goldman Sachs. Please go ahead.

Dheeresh Pathak: You talked about EBITDA margins a little bit in terms of the mix and the cost reduction initiatives and all that what drives it. So at least this year the margin improvement has not been there and you said if we do not see it for 2-years we should be worried. So this year if you can just talk about because you talked about having better products and better focus on cost, but I have not followed the company for the full year, just looking at the yearly numbers; the revenue growth has been flat and margins have been down. So, if you could just briefly talk about why the strategy that you are trying to put in place did not show in numbers for the full year?

Sucheth Rao: For this year, Dheeresh, we had couple of events, which we have mentioned I think I believe even in the previous call and also in a couple of our press releases is that in Q3 of this year we had to take a major shutdown and we did not have full scale production in that quarter. So that significantly contributed to the performance of the last financial year as well. Apart from that we also had a string of audits all concentrated in a very small window of time, typically, audits do not influences too much from an overall productivity point of view, but it so happen that some of these audits they requested a specific product mix to be run in production so that they could actually observe it during the audit. So that impacted our sales for about a month as well. Apart from that I think I did mention one of the earlier calls is that our joint business with APIC got moved out by about six months or so. We expected to see the impact of the APIC for the whole year and we only sought for less than half of the year. So these are the three reasons that contributed or impacted the performance of FY15. In FY16 sitting here we do not expect any such impact at a large scale. So if things go as per plan we should see our results reflecting the change in the product mix, the change in the EBITDA margins and everything else we have been talking about, but I will say that with a caveat that given that we are an API Company and our product mix can fluctuate and it is not easy to transition from a company

that depended on a few products to a company with a high number of products, with a large complexity. It is not easy to make the transition and operations. So we will see that volatility but over the long run as you said yourself we would be very surprised if we do not see the change in the EBITDA margins.

Dheeresh Pathak: Something I want to know was you might have shared earlier in your calls but I do not have it, just about customer concentration and product concentration if you could just walk me through the concentration risk on those two sides?

Sucheth Rao: I would not get into too many details on the call, Dheeresh, but I can share that with you offline, just to give you the broad numbers, about 50% of our revenues come from about top-12 or 13 customers at the same time, it is a same thing on the products also; about 60 to 70% of our revenues come from our top 12 to 15 products which is the case with more or less any business.

Dheeresh Pathak: Top one would be more helpful, if you can share that?

Sucheth Rao: Cipro Levetiracetam, Dorzolamide, and Entacapone these probably are our four top products.

Dheeresh Pathak: Top one customer would be what percentage of the revenue?

Sucheth Rao: Probably about 15%.

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

Ranveer Singh: The number of API we have so far scaled up, the current revenue base is representative of how many products?

Sucheth Rao: Approximately about 40 or 42 commercial products, Ranveer.

Ranveer Singh: 10 to 14 we said that we will be scaling up every year, that is what...?

Saharsh Rao: That is correct.

Ranveer Singh: Secondly, in the results note, we see some exceptional item has not been mentioned in table but some explanation is there, so I was not able to understand actually what some APC contracts related?

NS Viswanathan: We had built the plant for API Corporation with their funds, so we had to do a sale, so, we built them as a contractor and then we sold it to them and took a lease back, it is the income which has come from the sale of the assets, which we constructed as part of the income and the

project cost which we incurred is the expense. So there is no profit or loss in that, it is basically a structuring of the contract for the equipments for the joint business.

Ranveer Singh: Like in last quarter we have some disruptions in production. So this type of mainly due to some debottlenecking of some other restructuring was going on. So that process is over in this quarter or in this quarter also we have some disruption there?

Saharsh Rao: It is completed, it was a one-time activity which was done really to upgrade our facility which is something we had preponed, something that was recently scheduled for FY 2016, but being conservative as we were, we thought it is better to do it early than later. So we consciously took a major shutdown, it was a one-time event, and so whatever issue had happened we had resolved it, and whatever orders were also pending because of that shutdown have been over the year and even as we speak are being fulfilled in this.

Ranveer Singh: So should we take this as a base going forward quarterly base of revenue?

Saharsh Rao: That is your call.

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

Sai Prabhakar: My question is regarding products other than Salmeterol and Propofol. Can I get a comment on products like Bosentan or Linezolid, Ezetimibe, Palonosetron etc? These products have not been mentioned earlier as well responding over the situation as of today?

Sucheth Rao: Usually, we have mentioned the products which are there at the top of our mind. So I think all these products are a good opportunity; however, they are not as exciting as some of the other products I mentioned but I think this quarter we are doing really well on Linezolid even Ezetimibe has been commercially launched in a few markets, we are not too excited about Palonosetron except for a little bit of sales in the Japanese market, Bosentan we are looking at 2018 and 2019 launch, it is not a big product in the U.S., it is actually a major product in Europe, which the regulation is not clear, so the approval pathway for Bosentan is not very clear. That is the reason I did not mention it in the previous call. Pemetrexed nothing happening as of now.

Moderator: Thank you. The next question is from the line of Sahil Shah of Ocean Dial. Please go ahead.

Sahil Shah: I just wanted to check, how is the company doing in terms of capacity utilization?

Sucheth Rao: On an average, we are pretty high for capacity utilization; however, there are several production blocks especially where we make our high value products, where we are only at

about 30%, 40% capacity utilization, but some of the blocks that make the mainstream products the high volume products, we are at close to about 80 to 90% utilization.

Sahil Shah: So going forward, all these opportunities that you are talking about, they start coming up, do you have enough capacity or you will have to go for extension soon?

Sucheth Rao: So for FY 16, we believe that we have mapped the capacity, so we have reasonably adequate capacity as long as our operational planning is equally efficient; however, for next year, we will probably need additional capacity for which we are already starting to identify opportunities in terms of either building it in-house, acquiring it from outside, or even outsourcing some of our existing products.

Sahil Shah: So how will you look to fund, because your accrual will not be enough to fund that?

Saharsh Rao: This time how we do it will actually be based on what decision we make in terms of whether it is going to be in-house or whether it is going to be inorganic. And if it is going to be inorganic, it will be based on the deal structure, the target that we are acquiring. So there are too many variables to really worry about internal accruals versus how we are going to structure it. But I am sure that we will structure it in such a way that it does not really jeopardize our existing operations.

Sahil Shah: Assume this year, you get one of the approvals that you are very excited about, do you think you will be able to deliver it without going for a new capacity or that will sort of mean that you will have to wait till you find some facility or you start building?

Sucheth Rao: No, for sure, if we get some exciting approval, some business gets preponed, then we will be in a position to really go for it, like I was mentioning on the call earlier, our strategy exactly for this reason has been based on improving the product mix and not driving the value or the volume of the products. That means whatever product that we expect to launch we do not expect that it is a huge or it will use a lot of physical capacity. So whatever launches we are expecting is going to be more based on technology rather than capacity. That has been the whole underlying strategy of the organization. That does not mean that we do not see adding capacity anywhere in the near future, of course, we will add it, but it is not going to get in the way of us commercializing any of the products that we want over the next couple of years.

Saharsh Rao: Just to re-clarify also, for FY16, whatever sales projections we have internally, every product and the quantities have been satisfactorily matched to our existing facility. And with whatever CAPEX we have planned for the year we are confident of delivering on that. So the question of whether we will be able to deliver if we get approval, etc., all those have been already factored into our operational plan for the year.

Sahil Shah: This year do you expect any US FDA inspection or you are done with it?

- Sucheth Rao:** We had an inspection in Unit-1 last year, so it is possible that we will have an inspection this year but it is a tough call, it is hard to predict.
- Sahil Shah:** But you are sort of confident it will go through?
- Sucheth Rao:** Yeah, we hope we have the inspection, I wish the inspectors came in today.
- Moderator:** Thank you. The next question is from Deepak Poddar of Sapphire Capital. Please go ahead.
- Deepak Poddar:** My first question is on Propofol. What kind of EBITDA margins that one can see on this particular product?
- Sucheth Rao:** It is too early to comment, Deepak, because Propofol, we are still in the process of launching, we are still making validation lot, and the EBITDA margins will be determined by the final commercial pricing, how much volume we can generate, which customers launch is with the first, because we will have customers playing at different prices based on various factors. So too early to comment.
- Deepak Poddar:** My second question is if I have to look for a next 3-year perspective, what kind of revenue growth that you would be targeting CAGR kind of a thing?
- Sucheth Rao:** In the ranges of about 20 or upwards of 20%.
- Deepak Poddar:** Considering this product mix change and all, what would be the upside potential to the EBITDA margin that one can look at?
- Sucheth Rao:** Our goal is to reach 20%, it is very hard for me to comment on the timing of that but that is our goal.
- Moderator:** Thank you. The next question is from C Srihari of PCS Securities. Please go ahead.
- C Srihari:** In the quarterly numbers, while the sales seem to have gained traction, the raw material cost has spurted significantly, nevertheless your EBITDA margins have been at the highest in Q4 during FY15, how would you explain this?
- NS Viswanathan:** Very simple to explain; actually, our breakeven sales is around Rs.105-107 crores, so when we had Rs.103 crores sales, last quarter we made just Rs.2 crores of profit, so what happens is the fixed costs are taken care by the higher sales and that is why there is a change in the EBITDA margin.
- C Srihari:** Effectively, top line growth is the most critical factor?
- NS Viswanathan:** That is right.

- Moderator:** Thank you. The next question is a follow up from Kushal Jogani of IIFL. Please go ahead.
- Kushal Jogani:** I wanted to understand that what revenue has come from CMS segment for this year?
- Sucheth Rao:** Approximately 15%, we do not report segmental revenues, so I do not have the exact number.
- Kushal Jogani:** From partnership with Mitsubishi by FY17 or FY18, what sort of percent wise or in terms of revenue you can expect?
- Sucheth Rao:** We were expecting in the next 2-3 years it could be upwards of Rs.100 crores or so.
- Saharsh Rao:** Just want to add that there are several factors that determine this also. I think APIC has very clear plans on what they want to do with this facility and this collaboration; however, this is a collaboration where Neuland has limited downside risk. So therefore, we are not 100% privy to their plans and part of the exact business plan that they have, and we also have to be mindful that the dollar, yen dynamics are also having an impact on the pricing that they are having for the products, etc. So, I think considering all these dynamics, we are cautious and we do not want to be very overoptimistic in what we think will come into the facility, but I think one comfort for us is we are fully protected on the downside which means that all our costs and small margins, etc., are assured for us and moreover I think on a long-term basis, as Sucheth said, upwards of Rs.100 crores is what we expect to come in, but how exactly it will come, at what EBITDA margin will it come, etc., are I think questions that we are reluctant to answer.
- Moderator:** Thank you. The next question is from Saravanan Viswanathan of Unify Capital. Please go ahead.
- Saravanan Viswanathan:** In earlier calls, you had shared your mid-term plan of achieving Rs.1,000 crores by FY18 and also the margins. And as regards margins you have clearly explained that at the moment may not be steady and could be lumpy. What about the revenues – can we see a 25% CAGR in a steady manner or even that could be a little lumpy?
- Sucheth Rao:** It could be lumpy, Saravanan, because, obviously, our margins are also directly affected by our revenues, right, as Vishy explained from Q3 to Q4. There may not be a direct correlation but there is a significant correlation between our revenues as well as our margins in terms of lumpiness, it may not be directly in terms of the profit we declare per se as we go forward. That is a reality.
- Saravanan Viswanathan:** Another follow-up question in the same space; are you confident of achieving the breakeven sales in all the ensuing quarters?
- Sucheth Rao:** Yes, I thought we had achieved it for the last 20 quarters, I hope we will achieve it going forward as well.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the floor back to Mr. Diwakar Pingle for closing comments. Over to you, sir.

Diwakar Pingle: Thanks a lot for everyone for joining this call. I know there are a couple of people who still are waiting in the queue. Given that the management has to move for another quick meeting, what I would recommend is in case you have any specific questions, you can either write into me at dpingle@christensenir.com and we will be happy to kind of get back to you with the answer. At this point, I would like to hand it back to Saharsh to make the closing comments.

Saharsh Rao: Thanks, Diwakar and thank you everyone for joining the call this evening. We thought the questions were extremely thought provoking and we hope that as management we have given you fair and transparent picture of the operations of the business. We tend to be slightly conservative as a company. So we do not want to disclose too many details, but at the same time we want to be as consistent as we can be. And maybe, Sucheth, just a quick comment from you?

Sucheth Rao: Just as a continuation to Saharsh comment, I think our goal is to be as transparent as possible not either overplay the expectations or underplay them either, whatever hesitation you might see from us with regard to comments on any specific products it is only to make sure that we protect the interest of the business to avoid any regrets in the future that some information got out, but it is our responsibility to create as much transparency as we can and be fair in our process and that will be our endeavor going forward as well. Thank you.

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