"Neuland Laboratories Limited
Q4 FY2019 Earnings Conference Call"

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Moderator: Good day and welcome to Neuland Laboratories Q4 FY219 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 phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Shivangi Bubna from Christensen IR. Thank you and over to you, Madam!

Shivangi Bubna: Thank you Aman. Good morning and thank you for joining the fourth quarter and full year FY2019 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 on our website as well as 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. Davuluri Sucheth Rao, Vice-Chairman and CEO, Mr. Davuluri Saharsh Rao, 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 on this call, which reflects any outlook for the future, or which can be constitute 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 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: Yes, thanks Shivangi. Good morning friends, very warm welcome to all of you. I will first touch upon the financials followed by Saharsh taking you through the business highlights after which we will have a Q&A session. On the financials for the full year, total income was Rs.670.3 Crores as compared to about Rs.534 Crores, an increase of 26% over last year. EBITDA stood at about Rs.61.4 Crores as compared to Rs.54.6 Crores up by about 12%. The margin was at 9.2% as against 10.2% in the last financial although on sequential quarter basis it has improved. Net profit stood at Rs.16.1 Crores in FY2019 as compared to Rs.11.8 Crores, an increase of 37%. Accordingly, the EPS stood at Rs.12.83 as against Rs.10.59, an increase of 21%. On quarterly numbers, the total revenue for Q4 was Rs.174 Crores as compared to Rs.160.5 Crores respecting an increase of 8%. EBITDA stood at Rs.19.7 Crores as compared to Rs.19.1 Crores in the same period last year. Net profit stood at Rs.6.7 Crores in Q4 as compared to around Rs.8.1 Crores in the same period last year. The total debt of the company as on March 31, 2019 was Rs.231 Crores with a cash balance of Rs.37 Crores. I will now hand over the call to Saharsh for sharing his perspective on the business.

Davuluri Saharsh Rao: Thanks Amit. Good morning everyone. Let me take you through the business highlights for the year and then also try to give you a brief outlook going forward. We witnessed a good growth in revenue, which is fueled by the GDS business, which includes both the prime as well as the

Niche, our Specialty API segment. Going forward we also wanted to refer to the Niche API segment as Specialty APIs because we felt that the Speciality APIs has the name represented the complexity of chemistry underlying this segment more appropriately. The GDS prime segment growth was driven during the year by product such as Levetiracetam, Levofloxacin and Mirtazapine along with other APIs. While the specialty APIs have also seen good growth driven by Dorzolamide, Deferasirox and Donepezil. However, the profitability was suboptimal this year due to a surprise increase in raw material cost that unexpectedly remains firm for most part of the year. Also the CMS business performance was not to our expectations, which also created a pressure on our profitability.

Coming to the CMS business, the performance in H2 improved significantly versus H1, although for the year as a whole the performance was lower. Going forward we do believe that you will see positive traction from the CMS side as well from the specialty side of the business based on our current order book visibility. Which should help also in the margins going forward although there will always be a volatility on a quarter-on-quarter basis. We have been also focusing on optimizing our fixed cost and have been successful in keeping our overhead expenses under control.

The work at Unit III. the newly acquired manufacturing site is also progressing well in line with our expectations as we had mentioned in the previous call. The scale up of key intermediate for backward integration is now complete and it will reflect in our performance from next quarter. We are in the process of identifying an intermediate pipeline to be scaled up at this facility and expect a few APIs to be scaled up in FY2020. In terms of topline, significant contribution from this site will start once these APIs are scaled up.

As per 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 projects over the quarters. The numbers are self explanatory and in case you have any specific questions we are happy to take them during the Q&A. Thanks a lot again for joining this call. I think we can now move to Q&A.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Ishant Desai from HDFC Securities. Please go ahead.

Ishant Desai: Thank you for the opportunity. Sir as you mentioned that for backward integration, you have already completed the scale up this year and it will start to reflect next quarter onwards. So my question is related to your margin outlook - how much do you think it would benefit and where do you think your margins would stand for the full year of FY2020 given the ongoing cost pressures also in raw materials?

Davuluri Saharsh Rao: I think you are right about the backward integration; however, I would like to add a couple of insights, one of the reasons for the backward integration is not just for cost purposes, but it is also for us to derisk the business given what we have gone through with the supply situation from China over the last couple of years. Apart from that since we are a strong technology focused company, we are also using that to develop processes, which are more efficient so that we compete not because of lower labour cost, but on the strength of our technology. However, until we are able to scale up all the products that we need to in Unit III we will really not be in a position to comment on what the exact impact would be, but it will be more from a supply protection point of view with a slight advantage to our margin.

Davuluri Sucheth Rao: Yes, also just to add Ishant, the profit improvement is triggered also largely by the business mix. I think as we had indicated in our press release and opening remarks the business was largely driven by the prime products category in FY2019, which also really prevented us from having higher margins, but going forward we expect higher contribution from both the CMS business as well as from the specialty APIs business, which traditionally have higher contribution margin, and those businesses getting realized in FY2020 will actually elevate the margin profile, so that is our expectation in FY2020, but we are not really in a position to give specific guidance on what the margin will be.

Ishant Desai: Right Sir, that helps and another question I had was related to Teva’s product. Do you see the product ramping up and our supplies ongoing as of now or is it expected to pickup in FY2020?

Davuluri Saharsh Rao: Any product that is part of our CMS portfolio, we are protected by confidentiality agreements, so we cannot disclose, which product is performing how and what we can generally say is that our CMS business has about five molecules, which form a part of our baseline business and amongst these there are some molecules, which are new molecules, which are in their early launch period, they have been launched in the last one or two years and over there we do see supply volatility from some of these products where demand is not stable and continuous, but going forward I think as the product stabilized in the market we expect to see good stable volumes from them. But I cannot comment specifically on the molecule you are talking about because that information is confidential.

Ishant Desai: Okay, Sir. Understood. Thank you so much.

Moderator: Thank you. The next question is from the line of Deepak Jain from Progressive Equities. Please go ahead.

Deepak Jain: Thanks for the opportunity. I just got a couple of questions. First one is on your free cash flow situation - what is the free cash flow that you are reporting in FY2019 and what sort of trajectory do you see going forward?

Amit Agarwal: Our operating cash for FY2019 was close to about Rs.55 Crores and we had overall capex in FY2019 of close to about Rs.70 - 72 Crores and also because we acquired Unit III, and we had to make investments for refurbishment as well as for some product specific investment. Going forward again our expectation is that overall our free cash flow should be positive for FY2020 given that we do see our revenues going up as well as our overall profitability improving and therefore we should be better off; however, it is also important to understand that the Company also did QIP in FY2019 and the objective of the QIP was essentially to invest in capital expenditure, so, free cash flow post capex you have to look it in a different way then purely the free cash flow coming from being positive, our capex coming from internal accruals because the idea is that this QIP money has to be invested in our capital expenditure activities. Also if you look at our overall liquidity, our working capital limits today are close to about Rs.200 - 210 Cores and our utilization is anywhere in the range of Rs.140 - 150 Crores and we are sitting on a cash balance of around Rs.35 Crores, so I think there is enough liquidity in the system. I hope I have answered your question appropriately or you can further clarify.

Deepak Jain: Yes, I was just asking what is your ROCE and cost of capital, those two figures please for FY2019 at least if not going forward, so where is your return on capital employed and what is your weighted average cost of capital?

Amit Agarwal: Return on capital employed gone by profitability is low right now, we have a concept of effective capital employed, which is net of goodwill, it is close to about 6%, so which is suboptimal given that the profitability is low and we also acquired Unit III where the investment till now is close to about Rs.160 - 165 Crores and which will start yielding results only by end of FY2020 or FY2021 where you see the real impact of Unit III coming in, so I think till such the time ROCE will continue to be suboptimal right and what was the second point?

Davuluri Saharsh Rao: Cost of working capital.

Amit Agarwal: So if I look at my debt time in the range of around 9% to 10% as my cost of debt.

Deepak Jain: And cost of equities, can that the number we taken as your weighted average cost of capital or is it higher?

Amit Agarwal: That is up to investors decide about the cost of equity.

Deepak Jain: Generally in their annual reports I find companies disclose their overall cost of capital?

Amit Agarwal: No, I think, we do not do that.

Deepak Jain: That is fine and lastly on your JDA for Nanakramguda, where is that project because it has been two - three years since we announced that JDA, so what is the current situation there, when do we expect that to be live up and running?

Amit Agarwal: Seems progressing well right, so it is going as per the plan and I think we should be getting the possession of the property to commercial completed property in two years from now.

Deepak Jain: Two years from now, so that will be end of FY2021?

Amit Agarwal: Yes, ballpark yes, it can be early as well, yes, in the worse cases, should be about two years from now. Construction is going on.

Deepak Jain: Sure. Thank you so much for the update. I will fall back in the queue. Thank you.

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

Anirudh Shetty: Thank you for taking my question. I just want to understand over long periods of time say three to five years, what kind of revenue growth can be reasonably expected and as our Unit III kicks in and the benefits fully accrue and our CMS and Niche API grow faster what can be our steady state EBITDA margin?

Davuluri Sucheth Rao: Thanks for the question Anirudh. I think over a period of three to four years I think we can say that, targeting revenue growth of in the range of 15% to 20% on average, I think our EBITDA margin have been even typically approximately two years ago at about 16% or so, I think because of the factors that grow down margins in the last two years we have had exceptional years that the margins were lower, but I think going forward with us addressing the issues that troubled us in the last two years and also with the business mix improving we think we can move towards the 18% - 19% EBITDA margin over the next one or two years. We are cautious in terms of giving more specifics only because the business mix and the order mix makes a huge determination on how this EBITDA margin will pan out, but undoubtedly the EBITDA margins we have seen in FY2018-2019 are not really aligned with the fundamental business that we are driving.

Anirudh Shetty: Got it and the working capital days that we see today, are they steady state or there is scope for improvement on that?

Amit Agarwal: If you see over last one year there has been a significant improvement in our working capital cycle both on inventory as well as receivables, so my sense is we still have some scope, but I think majority of it is has been realized, but may be another 5 – 10 days improvement is possible.

Moderator: We can move to the next question that is from the line of Suresh Burramasetty from Cogencis. Please go ahead.

Suresh Burramasetty: Good afternoon Sir. Sir I am the investor Sir. Last time also I participated in conference.

Davuluri Sucheth Rao: Yes we heard your question Suresh, for the benefit of others that are listening, I will just repeat the question. you asked a question about our CMS business and you stated the name of a specific molecule, I think I will just repeat what Saharsh said in the past, given the nature of our business we cannot talk about any specific molecules or who we sell those molecules through and what the customer names are because these are trade secrets and by talking about this information not only will be we violating confidentiality agreements, but we will also be making public what the trade secrets of Neuland as an organization are, so I would request you to refrain from asking information which could compromise the position of the Company, but if you have any general questions about the growth or CMS mix or GDS business or cost or sales growth strategy we are more than happy to answer it.

Suresh Burramasetty: From which quarter we can expect CMS business growth?

Davuluri Sucheth Rao: So the CMS business quarter-on-quarter, year-on-year has been growing, as mentioned in the past there will be quarter-to-quarter volatility because of the order flow because how the market develops in terms of market share, how many prescriptions are customers are able to gain, all the factors impact the growth in the CMS business from quarter-to-quarter, but overall the CMS business has been growing and this year for FY2020 it is as per expectations as of today.

Suresh Burramasetty: How much margin we can expect Sir in CMS?

Davuluri Sucheth Rao: I think we will not disclose segment wise margins Suresh, but I think as we stated in the past we disclose three segments of our business, the prime category, the speciality category as well as the CMS business, amongst these three categories the prime category margins are typically on the lower side. If you look at Neuland business 7-8 years ago where our EBITDA margins used to be in the 12% range that can be assumed to be the EBITDA margin of the prime category. The CMS as well as the speciality business have significantly higher margins, but margins are also determined by the specific mix of projects and products that we have for the quarter, so it is definitely in the higher range, but I cannot give you a specific number on that.

Suresh Burramasetty: As an investor, I am asking, you can arrange the Neuland Lab investors site visit maybe after the AGM?

Davuluri Sucheth Rao: We will definitely work on that plan Suresh. Thanks for the input and we will also inform our IR agency Christensen to coordinate the same and we will reach out to you and let you know when it can be planned for.

Suresh Burramasetty: Okay Sir. I am from Nellore. If you want to inform me, you can inform me Sir?

Davuluri Sucheth Rao: Okay. Thank you.

Suresh Burramasetty: Okay Sir. Thank you.

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

Abdulkader Puranwala: Last quarter, in one of our Niche molecules had generic had entered, so I wanted to understand that if we have started receiving orders on front that or do we have any visibility as of now?

Davuluri Saharsh Rao: Which molecules are you are referring to Abdul?

Abdulkader Puranwala: Salmeterol in US.

Davuluri Saharsh Rao: So I think for us Salmeterol is a very important product in the Niche category Abdul and right now we do have several customers whom we are supplying material to and with regards to the US market also we had several customers who are in plans for commercially supplying the product and in fact there are some customers of ours who have also launched in different formulations, different filings, etc., but to answer your question as of now we are currently seeing only reasonable uptakes of Salmeterol from the market we do not see any kind of a surge, but also given the short cycle to manufacture this product we also think it is possible that the demand could pickup anytime from now, but in terms of our planning we have been very conservative and we have only assumed quantities of Salmeterol that we are seeing concrete orders from customers and also for your information not just US market, but Neuland also is very active in the Europe market and as you know the European launches have happened a few years ago, so we are seeing volume uptake from that as well, but as you rightly said the US is the big market for generic Salmeterol, so we are hoping that we will be part of that generic market as well.

Abdulkader Puranwala: Also wanted to know that are we going to invest anything further in Unit III, so earlier we had a guidance of almost capex of around Rs.200 Crores where Rs.100 towards acquisition and Rs.100 Crores towards the refurbishment of the plant, so are we still going to spend something over there?

Davuluri Saharsh Rao: See Abdul, I think the investment in Unit III that we had talked about previously also was necessary for us to transform that facility from largely an intermediate facility into a full fledged API facility and during the transition period we intend to use it actively as an intermediate manufacturing facility both for backward integration as well as for contract manufacturing, so as Amit had responded in his question to the earlier gentleman we have already made certain investments in that facility in order to make it suitable for backward integration. Notwithstanding that investment, we will continue to make a few more investments in the next 12 months and going forward in the future as well, but the quantum and timing of those investments will also largely be determined by which projects or which molecules we intend to scale up. There are certain generic APIs that we have plans to scale up there for. There are also certain contract manufacturing projects which require large volume manufacturing, which we are looking at that site for, so the exact determination of that capex will probably become clearer as we move forward. I think the outlook given to you was more of a ballpark number just to give investors a broad sense of how much investment is needed for making it a full-fledged API plant.

Abdulkader Puranwala: Okay, thanks and just one more question on the debt, so those acquisition that has now mounted to Rs.231 Crores, so from when would we start seeing a decline in the debt levels, does it take one or two years for that figure to start to come down operating it is a longer time?

Davuluri Sucheth Rao: So Abdul in the sense that we have not made any strategic decision internally to say that we should be a debt free company, I think where we are as an organization is to maintain a healthy level of debt because there are a lot of opportunities in the market for us to grow as an organization. If you can see we have grown about 26% year-on-year compared to last year and as Saharsh was saying earlier our goal, our expectation is that we will grow anything between 15% to 20% year-on-year though it may not be linear in growth, therefore, I think whatever is required for us to invest back in the business we will continue to do. While being extremely frugal in terms of how we spend our money and managing our debt levels in a way which will ensure that we have healthy cash flows without increasing risks for the organization.

Abdulkader Puranwala: Sure. Thank you so much for answering my questions.

Moderator: Thank you. The next question is from the line of Surajit Pal from Prabhudas Lilladher. Please go ahead.

Surajit Pal: Thanks for the opportunity. One thing is not clear from the previous questions about supply of Salmeterol API to US, currently do you supply Salmeterol API in US?

Davuluri Saharsh Rao: So Surajit let me give you just a little bit of background and I will still try to answer that question. Salmeterol as a product is being filed by various customers in the US market as well as European market. We understand that there has been one customer who has received approval and who is currently active in the market. Neuland confirming that we are supplying or not will indirectly confirm whether we work with the customer or not. Answering that question violates whatever confidentiality agreements we have with our customers about specifics. From the GDS molecules perspective, Surajit, we are very happy to talk specifically about which molecule and how it is performing whether it is Levetiracetam or Salmeterol. However, talking about Levetiracetam for a particular customer or Salmeterol for a particular customer violates our confidentiality agreements that we have with them. In the case of the CMS business, it is a lot more difficult because we cannot even reveal the name of the molecule. In the case of the GDS business at least we can reveal the name of the molecule, but we unfortunately cannot talk about whether we work with the customer or not. The reason why it is difficult for us to answer that question is because it confirms or denies whether we work with someone, which is the reason why we cannot answer that question directly and I hope you can understand.

Surajit Pal: Sure because going by the numbers you were showing I am pretty sure that is my understanding is that you do not supply currently over there, though as you said that you have more than one client to supply Salmeterol in US. But currently definitely given the numbers, which you were disclosing it does not look like that we supply Salmeterol in US. My second question is that the increase in API prices, which as per you that has come down from the peak and stable to a certain extent, but still uncertain and has impacted your EBITDA margin quite a lot for the last one year, do you think that has any chance of improvement in next four quarters?

Davuluri Sucheth Rao: Generally what we are seeing Surajit from the market is you might have also read in the news about three or four weeks ago that there was an explosion in China that killed about 62 people; therefore, the situation from China continues to be volatile and as you know we have made a strategic decision to backward integrate to protect our overall business. hTerefore, as Amit was saying in his opening comments and Saharsh was saying as well that the situation is better, but there is no sign to say that things will go back to normal both in terms of pricing as well as supply from China; therefore, we will continue to backward integrate, we will continue to find alternate sources, so that we can protect ourself, but situation is still slightly volatile.

Surajit Pal: Thanks for the opportunity.

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

Anirudh Shetty: What was the peak capacity with our current facilities what kind of revenues can we generate at peak capacities?

Davuluri Saharsh Rao: Anirudh, we have three facilities currently right now, Unit I, Unit II, which are our older facilities and the Unit III, which was recently acquired. Between Unit I and Unit II if we had an optimal product mix where we had good mix of Niche or speciality APIs, CMS as well as prime APIs then we could potentially go as high as Rs.1,000 Crores just from the two facilities. However, that situation is also subject to how business pans out and therefore that number could be lower than Rs.1000 Crores. With the Unit III facility coming in, it is also important to understand, this is a relatively larger site and it has potential for us to add additional production suites or equip additional production suites, so that we can increase our turnover. With regards to this facility there is potential for us to go to a relatively much higher turnover may be even Rs.500 Crores or something like that, but again it depends on what products we decide to add, what kind of volumes to add. If we add certain prime products, which are high in volume, but relatively low in pricing, then the facility might get occupied, but might not be able to add that kind of capacity, so may be a very broad answer would be, may be we can get to about Rs.1,400 – 1,500 Crores of revenues just from these three facilities, but yes as also we had indicated in the past it would require at least Rs.200 Crores plus of capex may be even more depending on the complexity of the molecules.

Anirudh Shetty: To answer my earlier question you had mentioned that the EBITDA on a steady state basis can be somewhere give and take between 18% to 19%, if I go through numbers in FY2017 your EBITDA was about 17% and the product mix could improve going forward plus Unit III can kick in, so it can be the case for the EBITDA to expand far higher than 18% - 19% or is this a conservative realistic estimate?

Davuluri Saharsh Rao: I think 18% - 19% we feel is the conservative estimate Anirudh based on the kind of visibility we are seeing and also trying to factor in surge in expenses, investments, things like that. However, I think as you rightly said we have seen 17% EBITDA in our business even two years ago and that business was at 17% largely because it was a healthy mix of CMS, Niche as well as prime. I think our goal is to really make sure that we bring in that right mix again and as I was also mentioning in my opening remarks, we are very confident that the CMS business will bounce back in FY2020, we have a pretty strong order book even entering the year and if that happens along with the growth in the specialty segment, and we do not see any big surprises on the raw material side like we saw last year then we think getting to 17%, 18% or even 19% is very much possible and in the long-term if we continue our pursuit of complex molecules like peptide and other complex chemistries for which we are actively adding projects in our CMS portfolio as well as in our generics portfolio when the margins climbing even closer to 20 is also possible. However, I think just given the kind of volatility we have seen in the business we prefer to stay a little bit on the conservative side, but our intention is really to take the EBITDA margin even higher than 20% if possible.

Anirudh Shetty: I see there is some export benefits in our P&L of about Rs.15 Crores in FY2018, could you please tell me what is the nature of these export benefits and how sustainable do we think they are?

Amit Agarwal: These export benefits are under various schemes that are there both for some are specific to Pharma companies, some are to exporters and they will continue in the same ballpark depending on how much we export, so currently let us say our direct exports are about 70% of our turnover, so to that extent these benefits will continue.

Anirudh Shetty: Okay, got it. Thank you for answering my questions.

Moderator: Thank you. We will take the last question from the line of Anant Patel, an Individual Investor. Please go ahead.

Anant Patel: My question is related to the raw material price increase. Due to China our raw material price get increased, but do we have the ability to pass on the increase price to the customers over a lag, may be three months or six months?

Davuluri Saharsh Rao: The challenge we face with raw material prices and our ability to transfer them to our customers, given that we operate mostly in the regulated market like Europe, North America, Latin America, etc. The number of active DMFS for a particular product or the number of API supplies that the customer would have qualify for a product and therefore over a period of three to six months or may be nine months, if there is a sustained increase of raw material prices across the industry then it is possible to pass on those price increases to the formulator. However, also important to understand that even in these regulated markets there are always three to four active API players who are our competitors, so while we can pass on the raw material increase to our customer whether we can pass on 100% of the increase or we can only pass on partial increase determines on how our pricing is compared to the other players in the market and that is what determines and whether we have been able to pass on fully or not and that also in some way even if you are able to pass on fully does impact the profitability as a percentage of the product, so that is the general landscape and there have been example of products where we have been able to pass on 100% of the increase, there have been examples where we have not been able to pass on more than 20% or 30% of increase.

Anant Patel: This pass on unable to increase is related to CMS product or it is related to Niche API?

Davuluri Sucheth Rao: Yes it is only mostly related to the GDS prime products Anant, rest of it is unaffected, but as Saharsh said that there will be a time lag and it takes time to pass it on, but in some cases we are successful, some cases we are not.

Moderator: Thank you. Ladies and gentlemen, we will take our next question that will be from the line of Kunal Mehta as a last question for today from Varnium Capital. Please go ahead.

Kunal Mehta: I just wanted to understand a single question that you are operating certain molecules, which we call us non-Niche, volume-based molecules. Wanted to understand because last two years we have seen difficult competitive situation in those molecules like Ciprofloxacin, so is the situation improved now, have we able to secure somewhat more competitive shares from our customers and just wanted to understand the update on that?

Davuluri Saharsh Rao: That is a good question Kunal and we have talked about this in a previous interaction that we do breakup the business into prime, specialty, as well as the CMS business and it is not to say that we want to de-emphasize one category versus the other, so we strategically focus on increasing our volumes as well as market share for our prime APIs, we will continue to do it as part of our strategy in the future and at the same time our focus also is increasing the share of our CMS business as well as our speciality APIs in the overall mix. It also happens that sometimes we take on business in order to grow our market share even though the margins may not be attractive temporarily or in the short-term when we have the confidence that we will be able to take adequate steps to increase the overall margins. As you know, being an API player especially in the generic business it is a market share volume as well as growth with our existing as well as new customers that gives us a competitive advantage in the future and is a very conscious part of our strategy.

Kunal Mehta: Sure, just a followup question on this, would you just guide me on how one should take, how should one assume the trajectory of growth for this segment of the business. Would you just throw some light on that?

Davuluri Saharsh Rao: So we will not give you a specific number within the each category Kunal because that will become too confusing to track and we cannot control that especially when it comes to quarter-to-quarter basis. However, our target is to grow all the segments aggressively because we see a lot of opportunities in prime in the specialty API business, which we have developed a lot of capabilities for as well as the CMS business, so we see the overall pie growing and we also see each of these segments taking a larger share of that pie that is how we position the business Kunal.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Davuluri Sucheth Rao for closing comments. Thank you and over to you Sir.

Davuluri Sucheth Rao: Ladies and gentlemen, once again thank you all for joining this call. I speak on behalf of all of us here that we really enjoyed the interaction, enjoyed the questions that you are asking about the business. I think our responsibility is to create as much transparency about the business as possible so that you will be able to understand Neuland, what is that we are trying to do and how we are expected to grow in the future. We hope that we have answered all the questions to your level of satisfaction and understanding. Having said that, there are a couple of key points that I do want to touch on. Our focus as an organization is to grow within all three segments whether it is the prime APIs, Speciality APIs as well as the CMS business. There will be times where a certain business may not look very attractive from a margin perspective, but we will still go after that business because it is strategic in nature, it is in alignment with our strategic plans and we also believe that we as an organization will be able to take adequate steps to bring the margins to a very healthy level based on cost management initiatives as well as improving the overall process. Having said that we see the China situation improving as well, the supply situation is not as volatile as it was last year, but the cost of raw materials that we are procuring from China still continues to be high. It is hard for us to know whether the situation will stay the same, whether it will improve or get better, nonetheless we are using our Unit III as well as other facilities in Unit I and Unit II to backward integrate so that we are protecting our overall business, so that we can continue to stay in line with our growth plans both on the generic side as well as our CMS side. So we continue to believe in our business, I think it is a great business to be our Neuland is a strategic partner to all the customers in the Pharmaceutical space and we will continue to focus on growing our business. Thank you once again and we look forward to our next interaction.

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