“Neuland Laboratories Limited Q2 FY20 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY20 Earnings Conference Call of Neuland Laboratories Limited. 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 '*' 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 from Christensen IR. Thank you and over to you, sir.

Diwakar Pingle: Thank you, Margreth. Good evening friends and thank you for joining the Q2 FY20 earnings call of Neuland Labs 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 in this quarter and to address the questions, we have with us the top management from Neuland represented by 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. After this, we will open the floor to Q&A.

The safe harbour clause, 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, my pleasure to invite Amit. Over to you, Amit.

Amit Agarwal: Thanks, Diwakar. Good evening friends, a very warm welcome to all of you for joining this call.

On quarterly financials, the total revenue was Rs. 186.8 crores for Q2 as compared to Rs. 169.4 crores for Q2 FY19, registering a growth of 10%. In Q2 FY20, CMS revenue grew by about 251% over Q2 FY19 while the overall GDS revenue declined by about 13%. Within this, I would say specialty GDS grew by about 20%; however, GDS prime declined by about 26%. EBITDA stood at 25 crores compared to 15.3 crores in the corresponding period last year. This translated to an EBITDA margin of 13.6% versus 9% in Q2 FY19 and also if you look at half year, we are at about 12.1% vis-à-vis about 7.8% last year.

Net profit grew to Rs. 8.57 crores for the quarter as compared to 4.4 crores in same period last year. Our debt levels continued to be at a comfortable position, but as mentioned in the past, we will end the year with more or less similar debt levels as last year. The total debt of the company as on 30th September 2019 was Rs. 216.6 crores.

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

Saharsh Davuluri: Thanks, Amit. Good evening everyone. Our revenues are growing at reasonable levels and we are enthused that most of the revenue growth this quarter is coming from the CMS business. While the GDS revenue declined, the revenue from the specialty products went up. Margins have improved with better product mix and cost structures. We have seen challenges in margins for our prime business and are actively working on improving the cost structures of such products to sustain our margins.

Over the last one year, we initiated a couple of specific and focused efforts to address issues like raw material prices, volatility in CMS business etc., and through the corrective actions that we took, the revenue in the CMS business has witnessed consistent performance and growth for the last 4 sequential quarters. In the CMS business, this quarter in particular we added 4 phase-III projects, two of which are API and two are intermediates. The existing commercial CMS products are showing growth and potential which will continue to aid the margin improvement.

On the GDS front, we are maintaining our focus on strategic products in both the segments, the specialty as well as the prime. In this particular quarter, the specialty business segment growth was driven by good performance of actually 3 products; Dorzolamide, Deferasirox and Ezetimibe. This quarter, we have also filed US DMF for Sugammadex which is an exciting specialty products for us. While the prime business has declined this quarter, we believe that we will continue to see growth in key products even in certain therapeutic areas like fluoroquinolones are subject to decline in the regulated markets over the long term. The core growth strategy for GDS business is through penetrating new markets and new customers with our extensive portfolio of products and we will continue to handle lifecycle management of all our products actively. And on the backward integration front at Unit 3, things are going as plan and also in addition, we will be rolling up 1 to 2 APIs strong Unit 3 in the last quarter of this fiscal.

As I mentioned earlier, we have also provided you with the CMS pipeline in the press release which we have been doing now for couple of years. You can monitor the progress of the projects over the quarters.

So I think with this brief update, we can now move to Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Rajiv Agarwal from Orchid Wealth Advisors. Please go ahead.

Rajiv Agarwal: I have a question regarding the CMS business. It is heartening to note that the basket of molecules both under clinical/development and already commercial is increasing, so the question is around the capacity enhancement that would be necessary to a) support the growing

volumes on the commercial side and b) the growth in the volume and the variety of molecules under development. They would also need extra capacities, so that is one part of this and if I look at the press release, there is a slight confusion in the commercial number, it says 7 as well as 16 in the table, so in the narrative it says 7 for Q2 FY20 and in the table it says 16 as the total, so maybe if you could just clarify that as well, please? Thank you and I have got another question.

Amit Agarwal: So coming to your first question on the capital expenditure required for the growing revenue, see in our kind of business, I think the moderate growth that we are looking at, we are growing at about 100-150 crores every year that is managed within the existing capacities by doing debottlenecking and some small investments. We have also mentioned in the past that our total investment in a year is, for example this year is around 75 to 80 crores which will have about 40-45 crores of these product related investments and about 30-35 crores of normal capital expenditure, so that takes care of capital expenditure required for adding capacities and also you would be aware that in December 2017, we had acquired a manufacturing unit. So, in terms of the large CAPEX where we need to invest in our facility that has already been done, now it is more of making product specific investments.

Rajiv Agarwal: If you could just clarify on that number of commercials, 7 and 16 both are there in the press release?

Amit Agarwal: So 7 is from where we have got the revenue in this quarter and 16 is the total number that we have.

Rajiv Agarwal: And then second question is on the cost of material consumed. So back in 2016, it used to be round about 50% or even lower for some of the quarters in 2016-17, it was less than half and so is it fair to expect that by let us say, FY22 if not next fiscal, we could revert back to around those level of cost of material consumed because everything that we save is kind of trickling straight into the bottomline?

Amit Agarwal: That is true. So if you see there has been an improvement, our gross margins have improved from over if you see the same period last year or even the sequential quarters, gross margins have been improving, but saying that whether we reach a gross margin of 55%, I think it is difficult because the cost structure has changed over the period, right. My sense is we should be closer to around, as we move forward, we should be looking at gross margins of 50% on a more stable basis.

Moderator: Thank you. The next question is from the line of Vikrant Kashyap from Kedia Securities Private Limited. Please go ahead.

Vikrant Kashyap: Sir, with the performance trend, we expect that the worst is behind our company and we can continue on the current path, what is your outlook on that?

Saharsh Davuluri: So Vikrant, I think the current quarter's performance as well as the performance in the last, may be 2 or 3 quarters definitely do indicate that the performance of the organization on a quarter-to-quarter basis has improved especially when you compare it with the performance of FY19. I think what is important is that as an organization we are evolving, I think the CMS business is showing promise and there is a lot of potential in that business to help us to grow the business. The specialty business on the GDS side is also showing a lot of promise. We continue to put in lot of efforts to strengthen the margin profile of the prime products. So all these together give us rather high level of confidence that the outlook will be positive but I would also like to qualify by saying that the nature of our business is such that there could be risks in the form of uncertainties that could come down and at least they could be if not anything very adverse, there could be quarter-to-quarter volatility and that is the nature of our business. While we may not have witnessed something like that in the last 2 to 3 quarters, I would caution people from assuming that it will not come back again. So I think it is slightly broader response but I wanted temporary optimism by adding that there are elements of our business that come with uncertainty and therefore there could always be a quarter-to-quarter volatility.

Vikrant Kashyap: My sense was not on the quarter-on-quarter run rate, I was looking more of Y-o-Y, so if I say from 19 to 20, 20 to 21, the run rate should be steady on a year-on-year basis if not on quarter-on-quarter basis?

Saharsh Davuluri: Yes. I think obviously when you look at it from a year-to-year perspective, the volatility will be a lot more subdued and I think in that regards, we definitely have a much better outlook of FY20, especially in terms of margin profile when we look at FY19 or FY18 and I believe that will continue to hold and I think overtime we would expect the EBITDA margins also to gradually increase and that increase will be supported by the growth in the CMS business as well as improvement in the specialty business performance. I think at an annual basis, it would be reasonable to assume that there will be a steady performance and we should not have like anything really negative impacting us and I think anything that could come as completely surprising to us is something we should be able to handle and I think we have also overtime articulated that things like raw material issues, supply issues out of China and all have impacted us not just for one quarter, but they have impacted us for almost an entire year but today as an organization we have strengthened ourselves that we can handle such volatility. So based on that hindsight experience, I would say that we are in a much better position and at least on an annual basis we should expect steady performance.

Vikrant Kashyap: And in the annual presentation, you have mentioned that you have added two phase-III APIs, so when they will be commercial and when revenue will be kicking up and what is the size of revenue that we can expect from these two APIs?

Saharsh Davuluri: I think the two APIs are kind of in, one is in early phase-III and another one is in the middle of phase-III. Right now, the mandate for Neuland is to scale up these APIs and be ready with the

complete process validation. What is not clear to us is the timelines of when Neuland will be supplying them at a commercial scale because it is also dependent on when the customer will include us as a commercial supplier in that filing and it is also based on when the actual drug will get approved by the regulatory agencies. I think it would be safe to say it will take at least 2 years, may be 3 to 31/2 years on the outer side. The two intermediates actually go into the same API and it is a very similar situation and even the intermediates are GMP intermediates, so they are going to go through a similar kind of development cycle and regulatory filing cycle, so I think in a nutshell may be 2 to 3 years at least for commercialization, but the reason why we are excited is that they are phase-III drugs and the probability of commercial success is statistically speaking much better than if it was a phase-II or phase-I.

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

Durram Shetty Suresh: Sir, is the performance of the CMS business in the recent quarters, is it sustainable from a management point of view, that is the first question. Second question is more of a request on whether tour of the facilities can be organized for investors?

Saharsh Davuluri: So I will answer the first question. I think with regards to the sustainability and the growth of the CMS business, I think this is really dependent on two factors. One is how many new projects we will continue to add on a quarter-to-quarter or a year-to-year business, so as an example we explained that we added 4 phase-III projects this quarter, similarly would we be able to consistently add new projects every quarter to some extent, I think that is one factor that will drive the growth of the CMS business. The second factor that will drive the growth of the CMS business is whatever projects are there currently in our commercial pipeline, how likely will they become commercially successful, so will they become large drugs which will have a stable high demand for API that will be another factor. I think to answer both these questions.

Amit Agarwal: Third point, I would like to add that the current increase in the CMS revenue is not just driven by the new projects which are there in the portfolio and we have delivered on this project. It is also that the current commercial products that we have, they have gained in volumes and I think that is another important factor which will not only reduce the volatility, but also ensure that we sustain these levels and grow from here.

Saharsh Davuluri: So I think the three factors are important for us to understand to see whether the CMS business growth is sustainable or not. I think with regards to the first factor which is continuously getting new projects into the company, I think this is an ongoing business development effort. I think it is very clear from our interactions that the last one year has been extremely positive. We have been adding new projects steadily. I believe that the next 3 to 6 months will also be positive because we have a good visibility of new projects getting added into the system; however, there are external factors that can impact this addition of new projects. For example,

if the US markets have any kind of a setback, then the expenditure of biotech companies could go down and that could have an impact; however, at the moment we have a positive outlook, but it remains to be seen how long it can be sustained. The second part which is the projects that have entered our system over the last 1 to 2 years including the projects that have entered recently, whether and when they will become commercially successful, I think this is largely dependent on the timelines for the drugs to get approved and also on Neuland's ability to successfully scale up the molecules and deliver the API. The third factor which Amit had mentioned which is our existing projects. We have several molecules which are in our commercial pipeline and we have been manufacturing in commercially for some time now. They also have opportunity to grow. They also may have a small risk that they may not grow further. So I think the factors together will tell us whether the CMS business will grow and how it will grow, but I think my goal is to explain the logic of the business rather than explain definitively whether the growth will be sustained or not. We do believe that for the near term, the outlook remains positive, but over the long-term, I think we will have to be cautiously optimistic.

With regards to the second question about the visit to our facilities, I think we would definitely like to organize something that is possible. My request is that if you could kindly get in touch with Ms. Sarada Bhamidipati. She is our Company Secretary and Christensen IR can give you her contact details, it is on our website also, then definitely we will take it forward.

Durram Shetty Suresh: Sir one question sir, one small question. Sir, actually AUSTEDO Teva Pharma drug has potential and Teva Pharma also expanded the AUSTEDO drug in other countries. I saw on the website of Teva Pharma that you are the only supplier to the Teva Pharma for raw material used in AUSTEDO. This drug is huge potential, why you are telling cautiously optimistic in the near future if I can understand sir?

Saharsh Davuluri: I would just like to clarify that with regards to the CMS business, whatever we are doing in CMS business, the name of the molecule and the name of the customer and the relationship that we have is highly confidential. So we cannot comment on any specific molecule. I think my guidance outlook is more on the CMS business as a whole. But I would not be able to talk about any specific molecule or comment on the prospects of any specific molecule. So please understand that I will not be able to provide any further clarity.

Moderator: Thank you. The next question is from the line of Rajiv Agarwal from Orchid Wealth Advisors. Please go ahead.

Rajiv Agarwal: So actually, two questions. One is on China versus India advantage in custom synthesis and the production of innovator molecules, where do you think Neuland is better than the competition?

Saharsh Davuluri: So I think with regards to the custom synthesis business, I think it is a very vast space. The custom synthesis business, I think there are estimates that for up till phase-III, the market is

maybe almost $25 billion and there are several players in this segment. There are CMOs from India, there are CMOs from China, Europe and North America as well. Now when it comes to the comparison between Neuland and Chinese players, I think the answer would vary depending on which particular Chinese CMO that we are comparing with. But generally speaking which I believe is your question, Neuland's customers find Neuland to be very strong in the collaboration and the communication aspect. We tend to typically work a lot with biotech companies, small to mid-sized companies and they are largely virtual organizations and they expect the CMO which is doing the custom synthesis work to have a very strong communication system and to explain things, not just positive things but also challenges and negative things to them on a periodic basis and lot of times problem solving in certain projects is also done collaboratively. The customer feels that this is easier when they working with Neuland because one, we have English is our standard communication methodology as opposed to many Chinese CMO who are not comfortable in English. Second of all, I think Neuland being a pure play API company, we tend to give a lot of focus and priority to our CMS business. And unlike many Chinese companies which have many aspects of their business, they do custom synthesis, they do biology, they do BMTK, they do toxicology and lot of other activities. So the attention or the focus on the custom synthesis projects may not be as high. I think the third factor is at Neuland, we also tend to be very selective on the kind of projects we work on. They are specific areas in chemistry that we believe we are very strong in. We also recognized that there are areas of chemistry where we are not strong in and we also follow a very diligent process of working with the customer before we start the project to even ascertain whether the project is a good fit with us or not. So that kind of selectivity and the inherent skills and the business model of the company helps us to differentiate ourselves from many of the Chinese competitors. Having said that, I think there are also exceptional Chinese CMOs who may not have these kind of typical challenges. So my answer has to be taken with a little bit of a caveat over there.

Rajiv Agarwal: That is very helpful, thank you sir. And one small question regarding the depreciation. So both on a quarter-on-quarter basis and a Y-o-Y basis, the depreciation is going up which I believe is coming from the Unit 3 getting capitalized. If I am not mistaken, I think last fiscal 50% was capitalized and the remaining was still pending, and I also see 64 crores of capital work in progress sitting in the balance sheet. So can you just add some colour to that please?

Amit Agarwal: I think as you rightly pointed out, the primary reason of increase in depreciation is Unit 3; however, there is capital expenditure happening at the other 2 units as well and the WIP which is there which primarily relates to Unit 3 because there are certain blocks which have not been capitalized as yet which should get capitalized over next 2-3 quarters.

Rajiv Agarwal: Right and how many clean rooms have we got in Unit 3 because that was one area of CAPEX that was required, right, when we acquired the facility?

Amit Agarwal: Currently, we have one clean room at Unit 3. And as we get into more products, we will have to build the clean rooms.

Rajiv Agarwal: And what is the sort of typical ballpark estimate for each of these clean room facilities as we build them, just a rough estimate?

Amit Agarwal: It is difficult because it is dependent on what capacity we are looking at, but it can be anywhere between INR 5 to 50 crores depending on what size we are looking at.

Rajiv Agarwal: So you said you also support some small biotechs which are virtual because they do not have their own manufacturing & development setup and most of them maybe supported by private equity, VC Funding, so they rely on outsourcing. So does that alter the capital expenditure requirement, so supporting a small, niche, virtual biotech versus a chemical?

Saharsh Davuluri: I think irrespective of the company whether it is a biotech or a big pharma, the nature of the lifecycle of the API and the systems we would follow to scale it up are essentially the same. We would start a small scale in R&D, we would use our R&D kilo labs or pilot plants for doing small batches and then when the drug is ready for commercial validation, we would take in into our plants where if it is an API, it would have to be done in the clean room as Amit had answered. The equipment, the infrastructure we use is actually identical whether it is a biotech or it is a different kind of a pharma. I would also go as far as to say that whether it is a generics GDS business or the CMS business, broadly speaking the infrastructure we deploy is very similar. In fact, it is the chemistry of the molecule that differentiates the infrastructure we use, not so much the business segment of GDS versus CMS.

Moderator: Thank you. The next question is from the line of Meet Shah, an individual investor. Please go ahead.

Meet Shah: My first question is will H2 be in line with H1 or not? Will it remain same or it can improve?

Amit Agarwal: Our expectation is that we should improve from here and we should be in line with what we have done in H1. So that is what our endeavour is and as we have discussed in our earlier calls also, that all efforts in terms of learning that we had from FY18 and FY19, are yielding results. So whether it is on cost side or on the CMS side, we expect it should continue.

Meet Shah: So near about INR 750-800 crores?

Amit Agarwal: I would not be able to give you a specific number.

Meet Shah: Sir, my another question is can you give us some guidance regarding EBITDA level for the whole year?

Amit Agarwal: As I said, we do not really give any specific guidance. All I can say is that we do expect our EBITDA margins to be around 13% for the year as a whole. So again, it can be a little better, but then I think on a conservative basis, I would take it as 13%.

Meet Shah: And my last question is any further maintenance CAPEX for H2 are you planning?

Amit Agarwal: So as we mentioned at the beginning of the year as well that for the year, our total CAPEX is about INR 75 to 80 crores. So it will remain within that number for the year as a whole, the total CAPEX including maintenance.

Moderator: Thank you. The next question is from the line of C Srihari from PCS Securities. Please go ahead.

C. Srihari: Firstly, I would like to know whether you are sharing the split by the 3 verticals? Is that available?

Amit Agarwal: So that is available in the press release.

C. Srihari: Can you please let us know?

Amit Agarwal: You want it right now? I can share with you. Out of the total turnover of INR186 crores in this quarter, as we mentioned, GDS is around INR 126 crores and CMS is around INR 49 crores and then we have others about INR 12 crores. So within GDS INR 126 crores, the specialty is close to about INR 47-48 crores and rest is prime and CMS is INR 49 crores. So we do not really share the segments within that.

C. Srihari: That is fine, but can you share the half yearly number as well?

Amit Agarwal: So half yearly, if we look at, the specialty was close to about INR 89 crores. Out of the total turnover of INR 358 crores, GDS was INR 259 crores, CMS was about INR 83 crores and others were about INR 26 crores. So out of GDS INR 259 crores, about INR 89 crores is specialty.

C. Srihari: My second question was pertaining to Sugammadex, you have filed a DMF for that, I presume in this quarter, so when is that molecule likely to go off patent?

Saharsh Davuluri: We still have some time for that. It is 2026 and beyond; however, it is a product where we want to capitalize on early developers. So that is why we have developed it early and it is a high value product. So we believe even developmental quantities could have a significant impact on our business, but its commercial launch will be only post 2026.

C. Srihari: That is in the US, you mean to say?

Saharsh Davuluri: It is actually across. In fact, I do not have the exact dates between US and Europe, but I know that it is 2026 and beyond.

C. Srihari: But maybe you can launch in the emerging markets prior to that?

Saharsh Davuluri: There is a possibility and I think that is something that we are exploring even like markets like Southeast Asia and other areas where we are exploring actively.

C. Srihari: What could be the demand like in these countries, emerging markets?

Saharsh Davuluri: It would be significantly lesser and I think the idea is that developmental quantities could be sometimes significant compared to the actual market demand, but it is little difficult for us to give exact numbers, but I think the overall Sugammadex market is very positive and it is something that could become a big product for us in the years to come.

C. Srihari: How many API players would be there for Sugammadex?

Saharsh Davuluri: I think there are quite a few. Right now, there may be at least a dozen or so in terms of people who are actively developing it. But again, this is complex API and the specifications are quite stringent. So it really depends on the quality of the API supplier rather than the number of API suppliers out there.

C. Srihari: So you mean to say that the number of DMF filings would be relatively less?

Saharsh Davuluri: What I am saying is the number of DMFs maybe high, but the number of suitable DMFs maybe smaller subset of that.

C. Srihari: And I think in the write-up you had mentioned about focusing on peptides, research in the peptide area, so can you please throw some more light there?

Saharsh Davuluri: Sure. So I think peptides is an area we have been working on for almost a decade now. We have been initially doing only like peptide building blocks and maybe low value items within peptide. But over the last 5-6 years, we slowly moved forward into peptide APIs and we have been working with a lot of innovators in the CMS space on peptide projects. And now what we have been trying to do in the last year or so is to actually develop peptide even for the generic markets and we are very excited with the market opportunity that generic peptides offer, and we have already done some development work on couple of peptide APIs. We are working on at least 2 more peptide projects right now and the idea is sometime next year we want to actually file DMFs for at least one or two peptide APIs and slowly start offering them to the generics market. What excite us about peptides in the generic GDS space is that the market is not very crowded and there could be certain value addition Neuland could have because of our technology where we would be able to offer peptide API at comparable quality but at a lower

cost. So that is the idea. We do not expect any immediate commercial opportunities on it, but some of the peptides that we are working on, the patterns are also close to expiring. So if we are successful, then in a matter of 2 to 3 years, we could have some successful products in the market on peptides.

C. Srihari: Oncology or depot based peptides, is that on the anvil?

Saharsh Davuluri: Yeah, I understand oncology, I did not understand the second part, something based peptides you are saying?

C. Srihari: Depot.

Saharsh Davuluri: You mean depot formulations?

C. Srihari: Yeah, that is right.

Saharsh Davuluri: So I think the peptides we work on are typically non-oncology products. We are working on peptides which either go into solid oral formulations or peptides which are going into injectables, but in a large volume. I think the important thing I would like to share here is we would like to work on peptides where the API volume is higher and typically depot formulations are going into very niche formulations, even oncology requires us to have dedicated facilities which will be capital intensive and for the moment we want to avoid that. So typically, we will be going after peptides which require liquid phase synthesis and which are larger volume products.

Moderator: Thank you. The next question is from the line of Rachit Jain, an individual investor. Please go ahead.

Rachit Jain: Sir, I am genuinely confused how to interpret the results. Whether it is good in the sense that CMS is growing pretty solid and better than expectation or we should be thinking also about that there is some degrowing happening in the GDS space? Would you help me interpret?

Saharsh Davuluri: Thanks for the question. I think the question is whether the CMS business seems to be growing, but on the other hand, the prime business has degrown and how as management we would interpret this performance? I think the way we would look at this business is, I think the CMS business continues to do well which is definitely a positive as you acknowledged. I think on the prime side, the concern is obvious that the revenue has declined, but I would also like to go back a year and for FY19, if you followed the conversations at that time, the prime business in FY19 had almost grown at (+25%) over FY18 and that growth was driven largely because of certain prime products like Levetiracetam and Levofloxacin and Labetalol etc. but the growth came from multiple products and the growth was profound. It was over 25%. Now in FY20, I guess one thing that as management we have to acknowledge this that the base, the

comparison of FY19 is already quite strong and the performance of the prime products in the current year vis-à-vis the strong performance we had last year, I think it is obviously not at that level and therefore it is showing a degrowth. But having said that, I think our outlook on prime continues to remain positive. I think there are lot of products in our prime. There are 20 plus products in our prime category and many of them have very promising outlook. But we have been always maintaining in our business analysis that the prime as a segment is not something that will grow at like 20%-25% year-on-year. It is something that maybe an average growth and a single digit kind of a form. And last year was exceptional year where we had a very high growth. I think going forward also, the prime will continue to have growth and there will be certain products like Levetiracetam and all which will continue to contribute to the growth. I think I would not really attribute any significant disappointments because it is not like we are losing anything substantial for any of our prime products as we stand today. So definitely, it is a degrowth and I think it has an impact on our overall performance. But I think it is something that we will be able to embrace and work on because we do have lot of opportunities in the prime as well.

Rachit Jain: Certainly. And one more thing, in Q1 also, we had the same view, right, that prime business is not going to be really strong and that is why I wanted to see whether the management is able to get the things in line if they are talking about it in Q1 also, then they gave us a good predictability that okay, prime is not going to grow and CMS is going to pull you up. So we were pretty much there in the Q1 also and there is no change in that commentary.

Saharsh Davuluri: I think the narrative would be almost identical because if you see the performance of Q1 when compared to the performance of Q1 of the previous year of prime, I think obviously because the last year's prime performance was very good. I think in comparison, the prime performance was not that great, but I think having said that, I think over long term, the prime will continue to have a moderate growth and I think CMS will have over long term a much stronger growth and I think our business is a culmination of the two. And I think as management, we are taking specific product related actions to maximize our growth and also maximize our profitability and I think it is a known example. So Levetiracetam is an example where we are gunning for growth and it is in prime category. And like that, there are other products which we are also targeting. So what you are seeing in Q1 and Q2 which is a degrowth may not be necessarily interpreted as a continuous degrowth. I think we are not seeing that kind of a challenge in prime and if we had, we would have shared that. I think the only real concern we have in the long-term with regards to prime is that the fluoroquinolones which is Ciprofloxacin, Levofloxacin etc., I think at global level are degrowing at 6%-7% year-on-year and that would mean that over long-term, these products would reduce in contribution, but then this is something that we are not surprised with. In fact, our business plan factors that there will be degrowth in these products and despite that, we expect the prime business to have a moderate growth. So that is how I would summarize the Q1 and Q2 situation.

Rachit Jain: So I am not really into the EBITDA margin numbers in the sense that I do not really go for those ballpark numbers, but since somebody asked and we mentioned that 13% is EBITDA margin we are looking for FY20 and if that is the case, does it mean that we are going to do somewhere around 14.5%-15% in this H2 because right now we are roughly at 11.5?

Amit Agarwal: So currently, we are at about 12.1%. If you look at half year, we are at 12.1%.

Rachit Jain: So that means the mathematical jugglery comes at, we will do above 13% to just get the average right and will play around 14%-14.5% for H2?

Amit Agarwal: So, as I said and I have made it clear, we can do the mathematics, you are right.

Saharsh Davuluri: I think it would be prudent to also understand that the outcome which is the final EBITDA percentage, the factor of what we actually execute and deliver in the quarter and I think while we have a plan and I think we can talk about that plan what we will actually do, there will be, there could be variations. So I think please take it with that, with that caveat and I think the numbers can work out the way they would.

Moderator: Thank you. We will take one last question from the line of Candice Pereira from Anand Rathi. Please go ahead.

Candice Pereira: So the CMS business has been growing really well in the past 2 quarters. So is this growth being driven by products in particular certain products or is the whole CMS growing?

Saharsh Davuluri: I think it is an overall growth, Candice. Obviously, I think as you can see from the tables that we provide, a lot of new projects are coming into the system, but as Amit alluded to in one of his earlier responses, our existing baseline products also have seen some growth, some of them have seen some growth. So I think it is a combination of both the factors.

Candice Pereira: And on the gross margin front, so we have done really well in this quarter. So is this gross margin sustainable like H1 is around 48%, I think. So, for the full year, would it be in this margin itself?

Amit Agarwal: I think I have stated in terms of the EBITDA margin to be around 13%, right. So it will be a mix of both having a reasonable gross margin and reasonable amount of operating expenses, so that we achieve a number of close to about 13% for the full year as a whole. So I think our gross margin should operate in the range of again 45%-50%.

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

Saharsh Davuluri: Thank you very much. I think in summary, I would like to say that CMS business is witnessing consistent growth and the pipeline is strong and I think that was elaborated in our call today. This is very much in line with our strategy. I think even as the number of projects continue to increase, I would like to emphasize that our focus and our efforts are on ensuring that we meet our customers' expectations on quality and timelines. I want to reiterate that as a company, we want to be very focused and effective in our CMS business and therefore ensuring that we meet all our customers' expectations is important. I would also like to add in conclusion that we are also allocating R&D investments towards the development of additional specialty GDS products like peptides which is something I had elaborated to, in one of the responses to the questions. We also saw the profitability improved on a better business mix and cost optimization. So I think with the impetus from the CMS segment as well as the GDS business, we are confident of finishing the year on a better note. So in summary, I would like to thank everyone for joining the call and for all the questions and if you have any further questions, please do get in touch with Diwakar of Christensen IR and we will do our best to get your response. Thanks so much and have a great day.

Amit Agarwal: Thank you.

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