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Tuesday December 19, 2017

To, Corporate Services Department BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001. BSE CODE -540702	To, Corporate Services Department National Stock Exchange of India Limited "Exchange Plaza", Plot No. C/1, G Block Bandra-Kurla Complex, Bandra (E), Mumbai - 400 051. NSE CODE: LASA
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Ref.: Transcript of Conference Call - Reg. 30

Dear Sir / Madam,

In furtherance of our letter dated December 11, 2017, Ref.: No.: LASA/SE/17-18/022 we are enclosing Transcript of Company's' Q2 and H1 FY18 Maiden Earnings Conference Call held on December 13,2017

This is for your record and reference.

Thanking You
Yours Sincerely,

For Lasa Supergenerics Limited


HITESH WADHWANI
COMPANY SECRETARY
M NO.: A43914



“Lasa Supergenerics Limited Q2 and H1 FY18 Maiden Earnings Conference Call”

December 13, 2017

MANAGEMENT: DR. OMKAR HERLEKAR – CHAIRMAN AND MANAGING DIRECTOR, LASA SUPERGENERICS LTD.
MR. HIREN MAJETHIA – GM (FINANCE), LASA SUPERGENERICS LTD.
MR. RAMESH SINGH – CHIEF ACCOUNTANT, LASA SUPERGENERICS LTD.
MR. HITESH WADHWANI – COMPANY SECRETARY, LASA SUPERGENERICS LTD.

Moderator: Ladies and gentlemen, good day and welcome to the Lasa Supergenerics Limited Q2 and H1 FY18 Maiden Earnings Conference Call. This conference call may contain forward looking statements about the Company which are based on beliefs, opinions and expectations of the Company as on the date of this call. These statements are not the guarantee of future performance and involve risk and uncertainties that are difficult to predict. 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 the operator by pressing ‘*’ then ‘0’ on the touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Dr. Omkar Herlekar – Chairman and Managing Director, Lasa Supergenerics Limited. Thank you and over to you, sir.

Omkar Herlekar: Hello everybody. Extending a warm welcome to everyone for our maiden earnings conference call for the second quarter and half year ended September 30th, 2017. I have with me Mr. Hiren Majethia, GM Finance; Mr. Ramesh Singh, our Chief Accountant and Mr. Hitesh Wadhvani, our Company Secretary and our investor relation partner, Bridge Investor Relations.

We have shared our results update presentation which has been uploaded on the exchanges already. Since this is the first interaction of Lasa Supergenerics, I would like to take you all through the Company in a detail. You must be aware that Lasa Supergenerics Limited is a demerged entity of Omkar Specialty Chemicals Limited. Lasa was acquired by Omkar Specialty Chemicals in 2011 and it was doing a turnover of Rs. 1 crore at that point of time and was into a manufacturing sector of veterinary API business, with state-of-the-art plant and having the FDA and other necessary approvals. We saw a lot of value in it hidden and could foresee an immediate and immensely scalable business proposition in it. Lasa’s turnover gradually with a lot of value additions and efforts has already been taken to Rs. 200 crores in FY17 as you know. Lasa got demerged from Omkar in 2017, typically in the month of June 2017 and got listed in September 2017. We originally started with just one product when we acquired Lasa. Today, we are manufacturing 15 different products in the veterinary API segment. The product segment that we cater to is anthelmintic within the veterinary pharma space. We manufacture benzimidazole class of APIs and this is a very old and necessary part of the veterinary health system and one of the most difficult to manufacture API models.

In addition to this, we also manufacture other basket of products like Amides, imidazothiazoles, piperazine, etc. This together forms almost 70% of the anthelmintic market. Some of our products we manufacture are like albendazole, fenbendazole, ricobendazole, oxfendazole, galfenol and many more. I myself have done Ph.D. from UDCT, Mumbai which is one of the best engineering institutes. My expertise lies in catalyst development in the organic synthesis. We have made tremendous use of the skill and have developed different class of catalyst. This has resulted in creating a great economic model for our operations. The catalyst hassles the rate of chemical reaction and increases the yield of the reaction. This results into lower cost as well as lower emission and increased output. The basic raw material for us is actually organic derivatives which are derived either from crude molasses or

petrochemicals. Over a period of time, we realized that raw material price fluctuations were resulting in a lot of margin fluctuations. At the same time, dependence on the suppliers for the raw materials was also putting a lot of pressure. Hence we decided to move into a backward integration space and today we are fully backward integrated to a large extent for most of our products. We have four state-of-the-art approved manufacturing facilities situated in Mahad and Chiplun which are in the Konkan belt, these are vertically integrated units and we also have our small in-house R&D lab where we develop our all catalyst in-house.

We have a strong pipeline of process patents which we have filed. Developing catalyst based processes will continue to be one of the focus areas in future also, which will enable us to create entry barriers and help maintain our competitive age. All above steps taken by us have enabled us to penetrate the market. We command a decent market share and will keep on trying to build this share more.

On the client front, we are not dependent on any big customer. We see that all the products that we manufacture have multiple buyers. In fact most of our products, we have approximately 200 or more than that buyers local and global customers. No customer is bigger than 5% of the product. At the same time, we are not dependent on the single product for our turnover. From overall product portfolio, our top selling products contribute to 80% of our topline. As our other products increased their contribution, their independence will still increase further. Going forward, we plan to develop and add more products to our portfolio. This will be achieved using catalyst chemistry only which is although is going to remain our core expertise and at the same time we will also remain focused on making backward integration simultaneously. Another core part of the manufacturing processes. All of these strategies will enable us to earn a decent margin across the product basket.

The biggest risk for any chemical company or pharma company is the dynamism of the regulatory norms. These norms keep on changing. Lasa is aware of all these facts and we are committed towards adopting environment friendly and sustainable process technologies, so that we can control the discharges from our units. We are aware of our responsibility in building a sustainable ecosystem.

Now having said this, I would now like to move on to our quarterly and half yearly financial results. The financial result for the current and the past quarter is having restated as per the IndAS accounting standards. Since we have got demerged in the current financial year, so the previous year's number we have not been mentioned here. For the quarter, the net revenue from operations Q2 FY18 was at Rs. 65.88 crores. EBITDA stood to Rs. 14.9 crores. The net profit was Rs. 8.66 crores, EPS for this quarter was Rs. 3.79. Coming to the half yearly numbers, H1 FY18, the sales stood at Rs. 125.88 crores. EBITDA for half year went to Rs. 30.99 crores. EBITDA margin Rs. 24.69%. Net profit for half year Rs. 15.7 crores. EPS stood at Rs. 6.87 crores. As any company is good as the team which it leads, I would like to state here that Lasa has an excellent team of professionals who have been working tirelessly to bring this company to where it is today. I thank each member of Lasa team for their commitment and

contribution. I would also thank everyone on the concall for your time and attention. We can now take the questions. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Avinash Goraksakar from Joindre Capital. Please go ahead.

Avinash Goraksakar: Mr. Omkar, I want to ask you a question that we saw the June quarter topline at around Rs. 62 crores and this quarter is roughly about Rs. 66 crores. But if one were to see on a sequential basis, the operating profit for the quarter ended June, if I am not wrong was slightly higher than the second quarter, that is September quarter. So any specific reason why, because I was seeing your raw material cost. In fact compared to the raw material cost in Q1, the Q2 raw material cost in absolute terms has increased. If you look at the increase, it is significant compared to the topline increase. Can you share some light that why this happened and going forward how do you see the second half will be?

Omkar Herlekar: I got your question. See in the global scenario, the petrochemical prices have gone up drastically. If you see other companies also who are into API space, the basic raw materials starting like solvents like methanol, acetone and the basic things have gone up very drastically. And as the drastic moving petrochemical happens, we cannot immediately force our customers to buy at a higher price. So this is a transition state. Maybe in the quarters to come, this will again come back to whatever you know, it will attend its own equilibrium. So need not worry. This is a transitional phase. This happens. Every year it happens that you know petrochemicals go up and down. So this is the effect of petrochemical. You can check with other from the market sources also like what is the petrochemical prices like?

Avinash Goraksakar: Yeah. In fact Mr. Omkar just a follow up question that we want to know that now normally is this a kind of a seasonal business, the first half is always better than the second half or the second half is much better. If you can share some light because we are seeing the first quarter from Lasa now since it is a demerged entity. So if you can tell us, is there any seasonality in your business?

Omkar Herlekar: Usually all the quarters are almost more or less the same. This is all the tender business you know. So usually monsoons are little good because monsoon these deworming programs are, the campaigns are rendered very rigorously in order to prevent the parasitic diseases and all. So monsoon quarter is always good. And other quarters are moderate like you know, we usually see that, that is the reason why last quarter was good. But almost we will try to maintain the same run rate which is going.

Moderator: Thank you. We will take the next question from the line of Aniket Hite, an Individual Investor. Please go ahead.

Aniket Hite: I had a couple of questions. The first one is the trade receivables at around Rs. 65.4 crores. It seems to indicate a working capital from whatever 98 days. So will this be the expected?

- Omkar Herlekar:** No, working capital days is 55 days. I have the calculation with me. Total working capital days is 55.78 days. So like if you want in detail, Mr. Hiren will explain you. He is with me here.
- Hiren Majethia:** Yeah, that is based on data, inventory and creditors net of days. So that is net coming to 55.78 capital cycle days.
- Aniket Hite:** One more question, the non current borrowings have gone down from Rs. 83 crores to Rs. 46 crores.
- Omkar Herlekar:** As you know, I have pumped in my own money and closed the most long term debts which were there in the company. So debt has come down drastically.
- Aniket Hite:** The interest free loans have been extended to the company, is that what it is?
- Omkar Herlekar:** Of course sir.
- Moderator:** Thank you. The next question is from the line of Sudhir Bheda from Right Time Consultancy Services Pvt. Ltd. Please go ahead.
- Sudhir Bheda:** Sir, the company, you are doing wonderful job, but the concerns in the shareholder's mind are you know even before the demerger, promoters were selling the shares. And now even after the demerger, I don't know what is happening because Lasa shares are sold by Pravinji and Omkar shares are sold by yourself. So how long that will continue, because shareholders are skeptical why this is happening and then if this continues, then shareholders will not find the value. So this is a major concern among the minority shareholders. And sir, second question is the financial side. How do you see your company in the next 2-3 years? Whether you are targeting Rs. 500 crores of turnover by 2020, is it a possibility?
- Omkar Herlekar:** See, first of all I will answer your share selling query. So let me clarify this first. I am not selling anything of Omkar. Whatever I had to sell of Omkar, I have already sold. There was a written understanding how much shares I will hold, how much shares my father will hold and then how much swapping will happen? So both swapping wise stake in the company will be 36 percent. So that is I would like to take on record. Secondly, the shares which our Omkar Specialty Chemicals got in the demerger, they are bound to sell it because there was an ICD of Omkar Specialty Chemicals to the extent of Rs. 30 crores in Lasa, for which we have given 22 lakhs shares of Lasa in the composite scheme of demerger to Omkar Specialty Chemicals, though to recover the debt, the ICD which was given by Omkar Specialty to replenish it, they will definitely sell 22 lakhs shares. Out of which according to me, I don't have the exact number but most of the shares are being sold. So there isn't any additional selling pressure in Lasa as well as in the case of Omkar, I am not selling anything in Omkar right now. So therefore whatever was to sell is already being sold. So I am not selling any Omkar shares as on the date. There will be a swap happening which I have already clarified. So inter promoter swap will happen and post swap, my resulting holding in the company will be 36.5%.

- Sudhir Bheda:** So there will not be any further dilution of your holding?
- Omkar Herlekar:** Not at all sir. In my own interest, it won't happen.
- Sudhir Bheda:** Now, this overhang of selling is over, according to you?
- Omkar Herlekar:** Omkar selling is over. Lasa selling, I don't know. I cannot comment because that is in their hands. So we had issued 22 lakhs shares to Omkar Specialty. I won't be selling anything in Lasa. So that is one thing. Your second question was regarding that growth, growth of Lasa was bit studious, right?
- Sudhir Bheda:** Yeah.
- Omkar Herlekar:** See, we foresee to grow by 22% to 25% year-on-year. So this is the modest thing I can promise. That much of growth will certainly happen. Anything beyond that might also happen, might not also happen. It will all depend on what you know some acquisitions might happen, some good businesses if at all we are able to identify or else maybe our some anything happens which will immediately shoot up. I cannot say anything. I cannot predict anything at this point, I think I see. But we are in a group trajectory. Certainly we will try our best to grow to the best extent.
- Sudhir Bheda:** And maintaining the margin you are growing?
- Omkar Herlekar:** Again, I will tell you. Margins, anything can happen. In the last quarter, the petrochemical prices shot up like anything. Our raw material cost went by, usually it is unforeseen things. So margins we will try to, on merits the margin will remain the same. But any which ways, if at all anything, we will communicate with the investors.
- Sudhir Bheda:** But I think the profit was affected mainly because of write-off I think. Depreciation of write-off has gone up?
- Omkar Herlekar:** So, it is the method of calculation of depreciation but depreciation never impacts the EBITDA. I mean like the PBT has got impacted because of that.
- Sudhir Bheda:** But from quarter one and quarter two, there is a huge difference in the write-off.
- Omkar Herlekar:** I will explain you why that was there basically. So after demerger, we got all the assets from Omkar Specialty Chemicals. So some part of it was written off because some of the machineries were not useful to us. On the same hand, we also had to do some CAPEX to modify the machineries as per our requirement. So that kind of additional CAPEX which was done, that was attributing to the depreciation which got hit in this quarter. My Finance Head, Mr. Hiren Majethia will explain you in detail about how the depreciation was calculated. Mr. Hiren, please explain it.

- Hiren Majethia:** During the quarter, the plant and machinery was added sir. So because of that addition, the depreciation hit come into this second quarter which you can see from this quarter.
- Sudhir Bheda:** So this will continue I think, that kind of depreciation?
- Hiren Majethia:** This one will be continued because this will be carry forward, This plant and machinery is carry forward.
- Omkar Herlekar:** It won't be continued. This will be carry forwarded.
- Sudhir Bheda:** Yeah. So every quarter, the depreciation and write off would be like that of second quarter?
- Omkar Herlekar:** There is no write off, sir. There is additional depreciation see. Maybe now you will see in the next quarter we have already commissioned our Unit IV which was earlier Unit V in Omkar Specialty. That you know also production has started. So you know, I will be adding on some additional blocks, some more reactors and some machineries. So maybe a token of depreciation is bound to come sir.
- Moderator:** Thank you. The next question is from the line of Rohit Bhatt from Airavat Capital. Please go ahead.
- Rohit Bhatt:** Just want to understand, going back a couple of quarters when the demerger has happened. About 200 crores of CAPEX was transferred to Lasa and 90 crores of that was one-time write-off split across the two companies as the demerger had happened. So just trying to understand, what was that? I know you referred to it as well. But 90 crores out of 200 crores is slightly large amount and kind of wiped out roughly 3-4 years of profit. So just want to understand why such a large write-off was taken?
- Omkar Herlekar:** See, whatever basically the useful machineries which were, see this veterinary API is a very specialized field, it is a very specialized field and it demands some different kind of infrastructure. Now after this in the process of demerger, so lot of equipments which were there in Lasa they are useless, basically they are not useful for our kind of manufacturing capabilities. So we had to write them off. I have already cleared it in our earlier interaction with the investors. Already it has been cleared. So that much portion of un-useful assets were written off. So that was the only rational for it.
- Rohit Bhatt:** Understood. And was that new equipment or it was there at that point of time?
- Omkar Herlekar:** As you know this Unit V, this story is pending since very long time now. For at least last 4 to 4.5 years we weren't able to start it because of various hassles. So most of the equipment were in a very rustic state, so like we direct to refurbish them or in some cases we also direct to scrap them.

- Rohit Bhatt:** Got it, fine. And just one last thing on Unit-IV, the path that has started now you said was Unit-V in Omkar, so the Unit-IV itself that those plants have been shelved or the machinery has been moved around?
- Omkar Herlekar:** No. Not at all sir. We are in fact putting on new machinery in Unit V, that is Unit IV now because already the production has started. We have already intimated people over this.
- Rohit Bhatt:** And the erstwhile Unit-IV?
- Omkar Herlekar:** Sorry sir?
- Rohit Bhatt:** The previous Unit-IV, meaning the Omkar Unit-IV?
- Omkar Herlekar:** Omkar Unit-IV is in Badlapur, it has not come to me.
- Moderator:** Thank you. We will take the next question from the line of Bhavya Gandhi from iWealth Management. Please go ahead.
- Bhavya Gandhi:** Sir, basically is it possible for you to give a sales breakup product wise?
- Omkar Herlekar:** I think so we cannot give it right now, because it is a very exhaustive breakup. You can write to us for that. We will give it.
- Bhavya Gandhi:** Okay. And second thing just again on clarification on depreciation. This quarter the depreciation sequentially increased. But your CAPEX have not increased to that extent. So you have incurred a CAPEX of 27-30 crores, but your depreciation has increased by around 2.5 crores. So what is the sustainable depreciation we can assume?
- Hiren Majethia:** Sir, our CAPEX has increased by 17 crores quarter-to-quarter. Although capitalization part already depreciated on quarterly basis. Further addition, the depreciation may come larger from this current quarter but this depreciation will carry forward. It is a carrying amount which we have increased 17 crores during the quarter.
- Bhavya Gandhi:** No, my point is that, the 6 crores run rate of depreciation will remain now every quarter?
- Hiren Majethia:** It should be, Because it is a depreciation on carry forward amount of fixed asset, It will be definitely carry forward.
- Bhavya Gandhi:** And one more thing, there is a tax write back to us, so is it pertaining to?
- Hiren Majethia:** Pardon please?
- Omkar Herlekar:** Tax write back, deferred tax asset.

- Hiren Majethia:** Yes, that is as per IndAS computation. We have recomputed that deferred tax liability and assets, both of them.
- Moderator:** Thank you. The next question is from the line of Khusbhoo Gandhi from Moneybee Capital. Please go ahead.
- Khusbhoo Gandhi:** I had two questions. So first is continuing to the last one, so you had a CAPEX of 17-18 crores. But sir depreciation is above 6 crores. So it doesn't match with the ratio of the percentage the depreciations will come.
- Hiren Majethia:** The average depreciation rate if you will divide 17 crores into 24%, average depreciation rate, if you will divide by that 4 quarter it will be coming to 1.02 crores, which is the additional impact of depreciation during the quarter.
- Khusbhoo Gandhi:** Yeah, so from 24 it has gone to 60. It is approx 50 crores. So that much is not an increase in our CAPEX. So what is the difference, means how is it coming?
- Hiren Majethia:** This 17 crores has been increased, that is Fixed Assets capitalized during the quarter.
- Khusbhoo Gandhi:** And you said that Mr. Omkar had invested in the company. So the investments by the Omkar and what you haven't repaid as a noncurrent borrowings, so the amount is not matching like you have repaid approximately 3,000 lakhs and at the same time Mr. Omkar had not invested so much because it cannot be seen in current borrowings a difference of so much.
- Hiren Majethia:** See, Omkar has invested for long term borrowing only.
- Omkar Herlekar:** It is a loan, it is not an investment.
- Hiren Majethia:** It is a loan, yeah. For the long term borrowings, you can see the difference you know which has been reduced.
- Khusbhoo Gandhi:** Sir, the long-term borrowings have reduced by 300 lakhs, approximately 300 right? So Mr. Omkar has invested how many then? Means, what is the difference of repayment of ICDS then?
- Omkar Herlekar:** Yeah. Up till September quarter it is 14 crores ma'am.
- Khusbhoo Gandhi:** 14 crores you have invested?
- Omkar Herlekar:** Yes. I have lent to the company.
- Khusbhoo Gandhi:** Yeah, you have lent to the company. And you have repaid how much?
- Omkar Herlekar:** What repaid?

- Khusbhoo Gandhi:** You have repaid the noncurrent borrowings?
- Omkar Herlekar:** Today, total repayment of loans is 36 crores. It is out of our internal accruals also, right, not only what I have lent.
- Khusbhoo Gandhi:** Yeah. That is okay.
- Omkar Herlekar:** To the internal accruals we have repaid most of the long term loans. So going ahead also, reducing debt will be the forte of the company.
- Khusbhoo Gandhi:** And sir you have done a CAPEX. So are you planning for any more CAPEX in the next year something?
- Omkar Herlekar:** Ma'am here CAPEX is bound to happen. Without CAPEX company can't run. In our case, you know for greenfield CAPEX, the CAPEX turnover ratio is around 1:1 and for brownfield CAPEX, that is you know additional equipment, it is 3.5 times of CAPEX.
- Khusbhoo Gandhi:** And sir your receivable days is a quarter, like 90 days. So is it going to improve over the time because as per my knowledge, API products have receivable days of lesser period.
- Omkar Herlekar:** See ma'am as we want to grow the business, if you want to grow the business very dynamically, then receivable days are about to increase and right now our net working capital days are 55, which are really good if you want to see the API space and receivable days if you want to expand then giving credits in foreign countries, I mean the covered credits, not open credit but on the LC or something like that, you know. So that is bound to happen. So I don't foresee any decline in the receivable days. In fact, my working capital net days is 55 which also I don't see that it may come down more. I don't see really. This is the best I can, I think the business can sustain.
- Moderator:** Thank you. We will take the next question from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.
- Sarvesh Gupta:** So just on the shareholding part, I wanted to clarify one thing. So OSCL had given an ICD of around 29-30 crores as per the FY17 balance sheet. So now that has got converted into equity.
- Omkar Herlekar:** 22 lakhs shares.
- Sarvesh Gupta:** So now OSCL is holding in Lasa is currently at 18%-19%.
- Omkar Herlekar:** How 18% sir, no sir 10%.
- Sarvesh Gupta:** We already had 10% of Lasa, right?
- Omkar Herlekar:** Yes sir. 10% only. The total number of shares is 2.28 crores.

- Sarvesh Gupta:** Yeah, but this 22 lakhs share is not additional. Is it the same as pervious?
- Omkar Herlekar:** No, 22 lakhs shares is in the scheme of demergers this 22 lakhs shares were allotted to Omkar and that is all what Omkar has. Omkar doesn't have anything more than that. I am talking about Omkar Specialty Chemicals, okay?
- Sarvesh Gupta:** Yes. So currently OSCL has got 10% stake and now you are saying that they might want to sell these shares.
- Omkar Herlekar:** They must have sold also to some extent, I really don't know. We don't want to comment it at over it.
- Sarvesh Gupta:** Okay, because sir if any shareholder having greater than 5% exchanges need to be disclosed on the exchanges.
- Omkar Herlekar:** They are giving very much disclosures sir.
- Sarvesh Gupta:** Understood sir. So sir that was point number one. Second, you said that after this share swap which happened, you will have 36% additionally.
- Omkar Herlekar:** Yes sir. Very true.
- Sarvesh Gupta:** So you will have 36%, OSCL will have 10% minus what they had sold.
- Omkar Herlekar:** No, minus what they have sold, right? After the share swap, this 22 lakhs shares are not going to give it to me, that is their shares, right? Now after there is sell and after there is swap. My holding in the company will be 36%.
- Moderator:** Thank you. The next question is from the line of Avinash Goraksakar from Joindre Capital. Please go ahead.
- Avinash Goraksakar:** Mr. Omkar, I would like to know what is the overall size of the domestic API market, if I were to talk in value terms and globally, animal health care is a very large business. So is Lasa looking at these sort of opportunities in the medium term?
- Omkar Herlekar:** Like you know the Indian Veterinary space is around say 600-650 crores, for the API front and not for the formulations and all, and the global is around 6,500 crores. This figure is 2 years back figure because there was a report published by Religare. After two years I don't know what is the current this thing. We need to take the IMS data for that. And as you said, the second thing for in international space, are you planning? Right now there is nothing on the plate, but certainly if opportunities come and things will continue for us, we may definitely think at the appropriate moment for expansion.
- Avinash Goraksakar:** Mr. Omkar just one more thing that you mentioned something about the formulations market within the Veterinary API market, so since Lasa has got a very strong foothold in the API

space, just like other players like you know Hester Bio which is also in this space, so is there any plan maybe not immediately but say over the next say couple of years, would you be planning to get into the formulations space?

Omkar Herlekar: Yes, certainly. That is a forward integration and certainly we would love to go in the forward integrated way. So as you said, we cannot really quantify the timelines because you know reducing the debt is the first priority in the company. So subsequently things will happen and whenever it will happen, we will communicate.

Avinash Goraksakar: Okay. Just one small question. You mentioned something about the debt. That is the first priority. So could we get some idea that you know looking at say FY20, probably what is the kind of internal management targeted? What kind of debt will be comfortable at which you may say that the company is properly leveraged?

Omkar Herlekar: No, we think that the current debt which is there in the company is really good debt, in the half yearly 120 crores, that is what we have posted against that the debt stands to only 68 crores. So that is that 68 crores is including short term, long term both. So I think that right now it is really a good situation, but yet every improvement is always taken positive. So we will try to reduce debt to a reasonable extent and the upcoming quarters will speak about it.

Avinash Goraksakar: Sir, total debt is 70 crores, both long term and short term, right?

Omkar Herlekar: Yes, 68 crores. Both debts put together.

Moderator: Thank you. The next question is from the line of Nitin Gandhi from KIFS Trade Capital. Please go ahead.

Nitin Gandhi: Can I have the breakup of fixed assets, 146 crores, how is it divided and secondly CWIP 17 crores, what is the likely movement?

Omkar Herlekar: A little detailed question. So you have to write us for this. We are not having right now in front of us the breakup. You write it to us on investor@lasalabs.com. We will give you a detailed breakup of plant, building, machinery, everything.

Nitin Gandhi: Okay. And CWIP?

Omkar Herlekar: CWIP also, everything. All the fixed assets related anything you write it to us. We will immediately forward you, immediately, it won't be delayed.

Nitin Gandhi: Sir my question is, I don't need breakup for CWIP. I am asking when is it likely to get operational?

Omkar Herlekar: CWIP?

Nitin Gandhi: Yeah.

- Omkar Herlekar:** CWIP we are capitalizing year on year, right? Just now also we have capitalized some, that is the reason where the depreciation came up. So every quarter we will be capitalizing. Even this Unit V, the major of the CWIP was lying in Unit-V, that is Unit-IV now, sorry. So this Unit-IV as we go on capitalizing, our trial runs are about to finish. So we will be starting production. We will intimate you after starting the commercial production and then step by step we will convert this CWIP into capital.
- Nitin Gandhi:** Okay. Though the impression which it gives is, it is a same figure. So I thought it is static asset which is still remaining.
- Omkar Herlekar:** No, not at all.
- Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.
- Pritesh Chheda:** In the quarter there is 6 crores, depreciation, right?
- Hiren Majethia:** Yes.
- Pritesh Chheda:** So is this the number which will be incremental for your assets on the similar assets or there is some one-off in this 6 crores number?
- Hiren Majethia:** No, this will be on existing fixed asset, So this existing fixed asset will definitely carry forward from next quarters. So the depreciation number will be accordingly quite computed on that.
- Pritesh Chheda:** Is there any one-off in this or there is no one-off in this 6 crores?
- Hiren Majethia:** One-off? What is the meaning of that one-off sir?
- Pritesh Chheda:** Means, last quarter the number was 2.4 crores, right? Quarter one the depreciation was 2.4, quarter two the depreciation is 6. There is a jump, right? So is there any one-off in this or this is a number which you will be incrementally reporting?
- Hiren Majethia:** No, this is one of the quarter of this kind. No more addition has been happened to this depreciation amount will be carried forward as per computation. The addition will happen, then the number maybe increased in future.
- Pritesh Chheda:** Sir, if I keep the addition aside, then it is 6 crores per quarter as of depreciation.
- Hiren Majethia:** Yes, as per closing fixed asset of September.
- Pritesh Chheda:** What is the rate of depreciation you are using?
- Hiren Majethia:** So many assets, plant and machinery will line up and so many things are there. So as per depend of the life, the depreciation is computed.

- Pritesh Chheda:** Which means that when this business was under Omkar, the depreciation number was much lower?
- Hiren Majethia:** That is of another company, which we cannot comment as of now. We are talking about Lasa, right?
- Moderator:** Thank you. The next question is from the line of Amit Bhatia from IIFL. Please go ahead.
- Amit Bhatia:** Sir, I wanted to understand, your shareholders fund has jumped from 81 crores to 117 crores during the quarter without any increase in the share capital. What is the reason?
- Omkar Herlekar:** You know, it was allotted at the current market price at Rs. 132. So that is how the shareholders fund which is getting reflected that is nothing but the reserves only.
- Amit Bhatia:** No. But the share capital has not increased?
- Hiren Majethia:** You can see, that has not increased.
- Amit Bhatia:** Sorry, how does that happen?
- Hiren Majethia:** See, the reserve has been increased by the premium amount which we have allotted, and the current quarter profit has been increased, so these reserve and surplus increased during the quarter to quarter because of that the shareholding bid is increased.
- Amit Bhatia:** Okay. And this deferred tax asset, what is the normal tax rate expected?
- Hiren Majethia:** No sir, there is no tax rate. Now as per IndAS, the whole deferred tax asset liability computation is changed. So this is the impact of that particular transition period. The rate is same but the computation method has been changed in this IndAS.
- Moderator:** Thank you. The next question is from the line of Sudhir Bheda from Right Time Consultancy Services Pvt. Ltd. Please go ahead.
- Sudhir Bheda:** Just a question on the governance part. Is there any lacking from our side because shares are continued to trade in equity, generally when shares is listed.
- Omkar Herlekar:** No, there is nothing pending sir. Everything is up to the mark, in fact our company secretary is with me right now. He will explain you.
- Hitesh Wadhvani:** Sir, this is no delays from our part. We are complying properly, it is just we have got a communication from exchanges that they will review it quarterly. So they will review it in December quarter and accordingly they will decide to move in or not.
- Sudhir Bheda:** Generally if new company is listed, then they put it for 10 days into equity.

- Hitesh Wadhvani:** But sir it is up to the Discretion of exchanges only.
- Sudhir Bheda:** It is not from anything pending from our part?
- Hitesh Wadhvani:** Nothing yet.
- Sudhir Bheda:** So Omkarji, for you the question is, when you have started Unit-IV now and the products are already trial runs have happened, so do you foresee the second half would be much better than first half?
- Omkar Herlekar:** Second or third?
- Sudhir Bheda:** Second half.
- Omkar Herlekar:** Okay. Very difficult to say sir. First of all, this Unit-IV which has been commissioned, that is the production which has immediately started is the backward integration products. So it would not impact the revenues, but it will impact the profits. So at least in the second half, you may see that the profits are much better, we hope so and maybe in the next year that is in financial year FY19, these other products will also start from Unit V which will impact the sale also in a positive way.
- Sudhir Bheda:** So what you are saying is, second half the margin could be better?
- Omkar Herlekar:** Margins would be better because we are doing backward integration products over there.
- Sudhir Bheda:** Okay. And the incremental turnover will come in the next year?
- Omkar Herlekar:** Incremental turnover will come in the next year, very true sir.
- Moderator:** Thank you. The next question is from the line of Aniket Hite, an Individual Investor. Please go ahead.
- Aniket Hite:** Sir, can I go of the export as a percentage of total sales currently?
- Omkar Herlekar:** Currently you know at least 40%.
- Aniket Hite:** And also in a sense, Lasa has backward integrated to the petrochemical stage which gives us the cost and the efficiency advantage. I was just wondering if none of the biggies, like Novartis, others cannot do the same. Is there a barrier for them or is it just a big hassle that is why they cannot get into. I just want to assess the competitive advantage and the position?
- Omkar Herlekar:** Backward integration is hassle. It is not a barrier. Anybody can do backward integration. It is just a hassle. Your barrier is your intellectual property, that is the catalyst which we have propriety that is the barrier. So backward integration is really a hassle and nobody in the

biggies would prefer to do it because they have their own brands and they are very comfortable with it but this business model is different.

Aniket Hite: Sure sir. Quick last question and initially we had thought that say in a Veterinary API, then could come formulations and then perhaps human APIs. Would we be thinking in that direction or veterinary can formulations could be better because human API has their own challenges, right?

Omkar Herlekar: That is totally different thing. Like in human API also, there are formulations, here in Veterinary API, also there are formulations. So our core immediate this thing would be expansion in API's backward integration and maybe if possible, then only formulations. So like you know formulation business sounds good but you know the profits are very less over there unless otherwise you have some brands or something which are very established brands.

Moderator: Thank you. The next question is from the line of R. Narayan from NS Advisors. Please go ahead.

R. Narayan: Just couple of quick questions. One is we just mentioned that the margins in formulation business is actually less than the APIs which we are currently into. Just wanted to understand what kind of margins do we envisage in the near medium term and secondly if I compare the margins of peers like Zoetis, IDEXX etc. which are more into formulations, the formulation side is actually quite lucrative. So just wanted to understand where would we end up the kind of margins? That is my first question. I will take it up based on your response the next one.

Omkar Herlekar: Margins in formulations are not lucrative. Formulation business is more scalable than the API business. In a very small infrastructure, you can do much amount of revenue, so that is it. As far as lucrativity of formulations are concerned, branded formulations which are there with companies like though it is Glaxo and all, they demand a very good profitability. But usually in a smaller segment like that of us or may be some of the competitors which just you named, in that space as long and unless otherwise there is a good brand, a very established brand, I think so for a general P2P business margins are not, if you talk about absolute numbers on EBITDA level, 10%-12% would be the margins.

R. Narayan: Given the kind of revenue run rate we are looking at, is it possible to kind of look into some of the brand building exercise under the company?

Omkar Herlekar: Brand building is a very slow and gradual process. So we really don't know whether, I mean in formulations, first of all we have not entered into formulations as on the date. So we may go into formulations, if at all we go into formulations it will start with the P2P kind of a business only. The bigger that, you know wholesale business is formulation kind of a thing, where there is a good export potential and then subsequently one can think about diversification and brand building. But as on now, at least we don't have any idea for brand building as such for formulations.

- Moderator:** Thank you. We will take the next question from the line of Dhruvesh Sanghvi from Prospero Capital. Please go ahead.
- Dhruvesh Sanghvi:** Actually you were speaking something about the Lasa Shareholding. You said 22 lakhs shares are held by Omkar Specialty and 36.5 will be held by you and the rest by public, am I right?
- Omkar Herlekar:** 36.5%, not number. 22 lakhs shares, 10% is currently with Omkar Specialty and remaining is whatever shares are there are to be swapped. Yet, to be swapped. After the swap happens, that will come to me. So total 30 lakhs shares are with my father right now to be more precise. So we can take it on record. 22 lakhs are with Omkar Specialty. 30 lakhs are with my dad. Same 30 lakhs shares of Omkar Specialty are with me. So this 30 lakhs shares between me and dad will get swapped. So after my complete swap happens, 82 lakh shares will be with me of Lasa and 22 lakhs shares will stand to remain with Omkar Specialty only which they can sell or do anything with that. So total after the swap happens, 82 lakhs will be with me. 82 lakhs comes to around 36% of the total capital.
- Dhruvesh Sanghvi:** Okay, fine. And 22 will be with them and they can sell that if they wish to?
- Omkar Herlekar:** Yeah, already sold part of them. I don't know the exact figure how much they have sold. So whatever they have placed or sold, whatever that is yet to their discretion. I don't have any control over that.
- Dhruvesh Sanghvi:** Absolutely. Just one part on the depreciation. 6 crores will be per quarter depreciation assuming, no increase in the plant and machinery.
- Hiren Majethia:** Yeah. That is true what you are talking about 6 crores depreciation per quarter you are talking about.
- Dhruvesh Sanghvi:** And the deferred tax that we encountered this quarter will not come in the next quarter, that adjustment is over?
- Hiren Majethia:** Yes. That is also true.
- Moderator:** Thank you. We will take the next question from the line of Puneet Mittal from Global Core Capital. Please go ahead.
- Puneet Mittal:** Sir, I would like to know in the API business, you said the market size is about 4,500 crores. Who are the top 3 players and what is the revenue of the top players, second player and the third player?
- Omkar Herlekar:** Very difficult to comment over these questions. I cannot talk over my peers. I can talk over Lasa only. If you ask me the peer group companies, I can address them. Sequent and Hester and NGL Fine are the three peers in the listed space who are doing veterinary API jobs. So these are the three things. Their revenues definitely you can get from the public domain also.

- Puneet Mittal:** Yeah. I was trying to understand, what is the revenue gap between you and the top 3 players and to understand how long if we would take to really reach or close the gap between the top three players and Lasa?
- Omkar Herlekar:** Again, I am saying the same thing. I would not be able to comment anything over my peers. I will be growing at 22%-25% maybe depending on, maybe or even more, it will all depend on the happenings and the opportunities which come. So like in routine course, our growth will be 22%-25% and you can extrapolate the figures and see, I mean like how much time it would be required to grow. So currently we are doing a half yearly revenue of 120 crores and you many assume the same to be the run rate. So that would be the answer for this.
- Puneet Mittal:** Okay. And just one more question. What is the total capacity utilization at this stage? I understand the Unit-IV is new, so you have not really started consuming any capacity there, but otherwise in the remaining units.
- Omkar Herlekar:** Unit-IV is 3,400 metric tonnes and the existing capacity is 4,300 metric tonnes. So Unit IV plus existing capacity is 7,700 metric tonnes. So this is the total capacity and the Unit IV, the capacity will get commissioned and capitalized step by step only, so we feel that at least the entire capacity to get capitalized, it will take at least a years' time from today. So this is what we are foreseeing. And always our capacity utilization is always 70%-75% only of the total capacity, so we cannot utilize full capacity also. So this is the realistic figures.
- Moderator:** Thank you. The next question is from the line of R. Narayan from NS Advisors. Please go ahead.
- R. Narayan:** Just to comment on the trial production of Unit-IV, could you just give us a light of what is the revenue potential for this unit and how much you would be actually end up in terms of the capacity utilization from the Unit-IV alone over the next 2 to 3 years?
- Omkar Herlekar:** Right. See, currently whatever half yearly numbers we have done, it is in the absence of Unit-IV, since Unit-IV got commissioned just now, very recently and the expected revenue from Unit-IV is really very difficult to say because most of the part of the Unit-IV will be used for backward integration. Certainly yes, I mean in the next year, the remaining part will be used for the revenue also, that is the real sales actually. So like contribution from Unit-IV, the current capacity of 4,300 metric tonnes from the existing capacity, the current revenue you are seeing, so 3,400 is the Unit-IV capacity, so you can calculate it that how much would be the tentative revenue expectations from that.
- R. Narayan:** So out of this 3,400, what is the run rate that we can expect over the next 2 years. That is you mentioned that the mainstream revenue generation will happen from FY19, so just to understand the kind of revenue run rate.

- Omkar Herlekar:** I will tell you. The statement which we gave, that is our growth will be 22% to 25% is factoring the Unit IV only. So you know because every year on absolute basis, the 22% on absolute basis becomes increasing every year-on-year.
- R. Narayan:** So if I have to understand, major portion of this run rate what come from Unit-IV, because your existing capacity would be utilized at the optimum levels, right?
- Omkar Herlekar:** Honestly, you know giving a specific figure for Unit-IV is very difficult because all my plans are fungible. Now, what we do is that we will do some steps in Unit-IV, then we will do some steps in unit III and then the final is made in unit number I, so such kind of operations happen. We don't have unit wise production output. I mean like because there is a multistep synthesis involved in this. So we bifurcate the synthesis as per unit wise. So it is usually the way in which we work product-wise output it is difficult to say.
- R. Narayan:** Sure. Final question just on the balance sheet side. In the annual report, I can see that there is some planned R&D which has been capitalized as part of the fixed assets. So just wanted to understand is this the standard practice or usually the R&D should have been expensed out through the P&L. So if you can just throw some light on that?
- Hiren Majethia:** Sir, during the quarter-to-quarter, we have capitalized the plant machine to the extent of 17 crores, So you mean to say that should get repeated or not, that is your query, right?
- R. Narayan:** No, in your annual report, for the full year in your balance sheet, the breakup of fixed assets, shows some plant and machinery R&D, right, of about 17 crores or 18 crores, I don't have that figures with me, but just wanted to understand since you are capitalizing this entry, is that the standard industry practice of capitalizing the R&D and not expensing it out?
- Hiren Majethia:** We are taking a benefit of income tax, right, R&D, 100% benefit.
- Moderator:** Thank you. The next question is from the line of Dhruvesh Sanghvi from Prospero Tree. Please go ahead.
- Dhruvesh Sanghvi:** Actually I will just take the follow-up of the R&D. So are we capitalizing R&D cost or are we expensing R&D cost?
- Omkar Herlekar:** We are capitalizing the R&D cost sir.
- Dhruvesh Sanghvi:** Okay. And that number today must be anywhere between 15 crores to 20 crores?
- Hiren Majethia:** Yeah, it is between 15 crores to 20 crores.
- Moderator:** Thank you. The next question is from the line of Naveen Kumar Tekumani from Equity Fanatics. Please go ahead.

Naveen Kumar Tekumani: Sir, can you throw some light on our company's growth aspect? What kind of growth we can achieve in next two years?

Omkar Herlekar: I have just elaborated it. We will grow at 22% to 25%. That is the growth we can go year-on-year. With the current available facilities and current capital work in progress, we can do 22% growth year on year.

Naveen Kumar Tekumani: Sir I observed that our company's return on equity has come down, what is the reason behind that?

Omkar Herlekar: It is fairly good sir. It has gone up in fact.

Naveen Kumar Tekumani: No, 2017 I checked it. It came down sir. Let me check it once.

Omkar Herlekar: ROE is 13.33% for half year sir, which is with the industry standards.

Naveen Kumar Tekumani: Sir, previously it was much higher, right, that is why.

Omkar Herlekar: Not at all sir. For FY17-18 Q1 it was 8.59% and for Q2, it is 7.36%. So if you blend it, it is 13.33% which is really excellent, I must say.

Moderator: Thank you. Ladies and gentlemen, due to time constraint we will be taking the last question that is from the line of Avinash Goraksakar from Joindre Capital Service Limited. Please go ahead.

Avinash Goraksakar: Mr. Omkar, just one final question. Just wanted to know that in terms of the CAPEX, which is on an ongoing basis you mentioned that the veterinary API business requires a regular dose of capital spending?

Omkar Herlekar: Any kind of API business.

Avinash Goraksakar: Exactly. But then can we get some number as to what could be the number for say FY18 and FY19 for the next say year and for the current year what could be the CAPEX?

Omkar Herlekar: For every unit this thing, rise in the revenue, for every rupee it will be a rupee or CAPEX for greenfield and every Rs. 3.5, it will be Rs. 1 of CAPEX for brownfield. So any expansion going on, it will be contributing, the revenue will be 3.5 times of the CAPEX and for greenfield, it will be 1:1 of the CAPEX.

Avinash Goraksakar: No, exactly this is the asset turn, but in terms of the CAPEX if your finance GM can tell us what is the amount which you are planning like for FY19 can we assume that about 15-20 crores will be spent as CAPEX like?

Omkar Herlekar: We really can't give you any guidance as such because it will all, as the business demands, CAPEX has to be done. There are many sort of CAPEX like maintenance CAPEX, preventive

CAPEX, predictive CAPEX, R&D CAPEX, then so you know there are trial runs also. This also we have to account into CAPEX only, right, because these are the waste, in fact we don't get any cash out of that. So out of the CAPEX schedule we can give you what is the current CAPEX schedule we are following because there was a question from somebody else also. So CAPEX schedule if you can write to us, we can give you illustration of the CAPEX schedule as on the date. In the future, it will all depend on the opportunities and the kind of the business which are you are envisaging, so CAPEX will go that way only.

Moderator: Thank you. We will take the next question from the line of Preet Nagarsheth from Wealth Finvisor. Please go ahead.

Preet Nagarsheth: One question was on the statutory status wherein I think the exchange has said that some shares had to be dematerialized, promoter shares for them to award the statutory status which would be reviewed.

Hitesh Wadhwani: Since that has been already dematerialized and also informed to the exchanges.

Preet Nagarsheth: Understood. So you do not see any issue in getting the...

Hitesh Wadhwani: No. 100% promoters holding as on date are in dematerialized form and next quarter review we may expect it.

Preet Nagarsheth: Okay. The other question was, when do we anticipate to close out all the interstate transfers, what are your timelines?

Hitesh Wadhwani: I would not comment, actually we are waiting for some regulatory approvals and it may take some time.

Preet Nagarsheth: Okay. And the last question was on the inventory. Could you shed some light on, because we are seeing a change in the inventory?

Omkar Herlekar: The inventory has jumped up, but also the revenue also jumped up drastically you know? So if you want to maintain and see, as you know in the last quarter there was a huge shortage of petrochemicals, basic petrochemical derivatives because of which the gross profit has come down and not only shortage because of the shortage, the prices have gone up and because of shortage, you need to pile up also or else maybe at times we won't get the raw material in time which will hamper our production also. So that is the reason why inventory has gone up a bit but maybe I mean it will get corrected in the upcoming quarters to come.

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

Omkar Herlekar: I thank everyone to have taken in their time out and join us on this concall. In case of any other query, I request you to personally write to us or get in touch with us or with our IR partners. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, with that we conclude today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.