"Vivimed Labs Limited Q1 FY2018 Earnings Conference Call"

August 17, 2017

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Moderator: **Ladies and gentlemen, good day and welcome to Vivimed Labs Limited Q1 FY2018 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. The statements are not the guarantees of future performance and involved 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. In case you need assistance during the conference call, please signal an operator by pressing "*"then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Santosh Varalwar, Vivimed Labs Limited. Thank you and over to you Sir!**

Santosh Varalwar: Thank you very much. Good morning everyone and a very warm welcome to the Q1 FY2018 earnings call of Vivimed Labs Limited. Along with me on this call I have Mr. Saurabh S.G, Executive Director Strategy & Business Development, Mr. Ramesh Challa, Group CFO, Mr. Sunil Arab, Vice President - Corporate Strategy & SGA, our Investor Relations Advisor. The results and investor presentations uploaded on the stock exchange and company website. I hope everybody has a chance to look at it. I will start with discussions from the performance for this quarter. In Q1 FY2018, revenue from operations stood at Rs.318 Crores, which is lower than Q1 FY2017 the revenue is mainly due to divestment of the specialty chemicals business to Clariant and FDA business to Klar Sehen. The rupee appreciation also had an adverse impact on the overall performance. However, EBITDA increased 3% YoY to Rs.67 Crores and margins expanded by 320 bps year-on-year, which is in line a study to move towards high margin business in both our business segments. specialty chemicals EBIT margins expanded from 19% to 23% and pharmaceutical margins expanded from 12.5% to 15.6%. Our formulation business performance was muted this quarter mainly due to GST destocking as well awaiting for Ukraine inspection. I am glad to share with you that the outcome of the Ukraine inspection was positive and we are hoping to have EIR very soon and probably we can commence our revenues, which has been like muted for the last few quarters with Ukraine and other CIS countries.

Our net profit was down by 13% year-on-year, which is Rs.24 Crores due to higher interest cost and also transactional cost to serve an additional debt of US$39 million, which was raised in March 2017. This debt was raised mainly to, buy out PE and subsequent debt at similar or lesser dilution we expect the debt to drastically come down. As discussed in our Q4 FY2017 result update presentation, we had received the sale amount from Clariant and also from Ordain Healthcare towards the sale of specialty chemical and ophthalmic segments respectively and most of the money has been gone down for a reduction of the debt as well as for certain capital expenditure and other things. With this, now I hand over the call to Saurabh, our execute director and he will take you forward from here.

Saurabh S.G: Thank you Mr. Santosh. Good morning everyone and thank you for joining us on the call today. Santosh has already discussed the financial performance for the quarter and I would just like to add some more insights to each of her business divisions before we open up the floor for Q&A. As you would be aware our company has been taking a number of strategic initiatives over the last 18 months in order to shift our portfolio structurally to a higher value added products in the long term across both the specialty chemicals and the pharma businesses. I would like to discuss these with respect to the two divisions.

Our divestment of the personal care portfolio to Clariant is now complete and our existing Spec-Chem business portfolio consists of hair dyes and photochromics, which enjoy a much higher margin and we expect that trend to continue. Within this quarter, our hair dyes and photochromics business has witnessed significant growth in reporting currency in excess of 20% and for the Spec-Chem business we are also focusing continuously on new verticals to add up to our portfolio in the personal care and photochromic segment.

In the pharmaceutical segment, we play across both API and finished dosage. Talking first about the API business. Our focus in the API business is two folds, one is to grow our franchise as a CDMO player in the regulated markets and second is to increase our generic portfolio for which we have been focusing on new product filings and approvals, which have been now coming through to us. Our aspiration is to build our CDMO business to significant size. In terms of numbers the CDMO business today it would be close to $30 million of overall sales for us and we believe that on paces the visibility, which we see from certain key accounts like lifesciences, GSK, etc., this is a vertical, which could easily double within the next 13 months or so for us.

On the generic side of the API business, we have spent the last year filing products we are happy to inform you that during the current quarter, which went by we have filed for three products, one for the US market and two for the European markets and our internal business plan is to complete filings for another four products before March 2018. The investments, which have been made towards the new generic portfolio on the API side will start to bear fruit from 2019 when we see most of our products coming of patent and we are getting market access.

On the formulation side, as Mr. Santosh mentioned we have significant expectations coming through for merging an RoW markets in terms of contribution for the next 12 to 18 months. I should also mention that we have consummated the 50:50 joint ventures with Strides Shasun earlier this year, which we believe will help us focus on our manufacturing strength while leveraging the marketing potential of Strides Shasun to expand into the US market. I should also mention that compliance and the quality environment is key for us in the regulated markets be it the API business or be it the finished dose business and we believe that this is significant differentiator in today's marketplace especially given the issues, which Asian competition have had in the last six to nine quarters, which we have constantly noted. In that backdrop, we are also satisfied with the outcome of the FDA inspection, which happened in one of our API manufacturing sites earlier in this quarter in Spain and we had a reasonable outcome with no observations of 483. At the same time we continued to remain focused on keeping up the levels of compliance across all our sites in API and the finished dose business to take the business forward. Clearly from our perspective I think we have made significant investments both on the API side as well as the finished dose side in the pharma vertical to build a stronger pipeline, which will be able to service greater margin aspirations, which we have across the business.

Lastly to conclude I would like to share that the company has the long term vision to achieve significant market edition in the segments, which we are playing in be it generic API, be it CDMO franchise, which we have been growing very aggressively over the last two years or so and the finished dose segment. As far as the Spec-Chem segment is concerned, we believe that we have a niche positioning in the Spec-Chem business and we will continue to expand this business through opportunistic alliances and JVs, which meet our margin aspirations. With this I would now like to open the floor for Q&A. Thank you again for your patience.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Nandan Kamath from SPA Securities. Please go ahead.

Nandan Kamath: Good morning Sir! I just wanted to know about capacity utilization for your API and formulation facilities like in Spain and Mexico, the three facilities that you have over there, what is the capacity utilization and total capacity that can be reached in those facilities?

Saurabh S.G: On the API side, you are right we have three sites and we believe that we will be doing between 70% to 75% utilization across the three sites. In our business, capacity utilization is difficult to measure because we are constantly striving to reduce cycle times, improve solvent recovery rates, etc., which over a period of time automatically create capacity, but to say that we are between 70%, 75% I think is a fair assumption.

Nandan Kamath: The five facilities that you have two in Hyderabad, two in UK, one Alathur and Kolkata facility, these are the formulation facilities that you have right, so the utilization was there is going at what rate?

Saurabh S.G: The formulation facility, which is at Alathur of course still it is probably below 20% utilization probably I can go a little more detail as to what is the progress that they are making in that site that is a joint venture site now with Strides Shasun So we probably have about five approved products there and then we are waiting for two more approvals in the next few weeks of this year that means we will probably add on 2 Crores to our kitty, with that capacity utilization will grow up. By the same time we are also engaging into some CMO business with some large pharma companies, which we expect those approvals to come by end of this year, so we expect that the capacity utilization by end of this calendar year should be almost 50% based on what we see and I think in the past we also discussed about one product Azithromycin, which we are doing from

Wockhardt, which had to be discontinued owing to alert for the API supply and then now we have changed the source of API for which we filed CBE-30 and now the time is over. We are planning for commercial production over there. So I think at this point we are probably using less than 20% of our rated capacity, but by the end of this financial year I am very hopeful that with all the developments in the pipeline we should go up to 50% or even little more than that.

Nandan Kamath: Lastly I wanted to ask the five products that have received approval from Alathur, Losartan, Donepezil, Amlodipine, Zolpidem and Metronidazole these are the five products right, what is the market share of these products?

Saurabh S.G: Losartan I would say that we have close to about 18% of the market share, but Metronidazole had some great offtake in the first few months of our launch, but again like probably now that there were some good margins over there with more competitions coming in it is kind of diluted and Donepezil of course is a recent launch and even Amlodipine is a recent launch, so I would not really give any numbers in terms of market share. The oldest one is still Losartan.

Nandan Kamath: Thank you Sir!

Moderator: Thank you. We have the next question from the line of Giriraj Daga from KM Vesaria Family Trust. Please go ahead.

Giriraj Daga: Couple of questions. First clarification. The first quarter numbers what you have reported the base case business now from going forward right because this sale had not reflected in the first quarter number?

Saurabh S.G: That is right I think Q1 what you have seen is pretty much how it would be in terms of the portfolio, which we have on products, etc.

Giriraj Daga: Second, what is the growth outlook, you gave about the CMO business about $30 million growing up to $60 million and CDMO, what is the overall growth target for each of the segment?

Santosh Varalwar: If you really see specialty chemicals with divested part of it after divestiture the remaining segment you have seen that hair dyes and photochromics. In hair dyes, we have grown about 37% year-on-year compared to last year and then photochromics close to about 106% growth and thankfully in the specialty chemicals side we have filed some new patents, which are valid up to 2029, so that will help us garner some additional sales particularly from the developed world Japan and USA and Europe. So we will se that at least 15% to 20% growth in specialty chemicals is given. when it comes to pharmaceutical formulation I think it is more of filings that we are doing it and how much we can probably take it, but doubt side I can tell you that where we are today in terms of the domestic pharma business and where we are today in terms of US filings to expect about 15% growth year-on-year should not be a challenge.

Giriraj Daga: Just a followup. Especially in pharma what was the last year like-to-like sales in the sense I am saying one of the residual business what was the total sales last year?

Santosh Varalwar: We did about something like Rs.130 Crores-Rs.140 Crores last year like-to-like as compared to what we have done close to about Rs.54 Crores in the first quarter.

Giriraj Daga: What was the like-to-like pharma revenue for FY2017?

Santosh Varalwar: The only divestment we have done that ophthalmic segment, which had a revenue of about Rs.34 Crores, Rs.35 Crores so that is only thing, which is negative, otherwise our thing is like-to-like probably -35 the same thing.

Giriraj Daga: That remaining portion will be completely from the…

Santosh Varalwar: Existing CMO business and own branded business and domestic and CIS countries and all.

Giriraj Daga: If you also have handy, the EBITDA number of last year like-to-like the residual business if you have?

Santosh Varalwar: We will come back to you. We should calculate and let you know exactly.

Giriraj Daga: My next question is related to this $39 million, can you give some historical background like what is this pertaining to $39 million to exit some PE investor?

Santosh Varalwar: If we recall where we acquired this entity in 2011 we had also had a private equity who participated along with us and their investment in this company is completed five years, so option was to like give them a strap into Indian equity or buy them out overseas. We thought it was prudent for us to negotiate price and then buy them out, so we did that in almost March ending. We agreed on the price and then we leverage the company to that extent and then we bought them out. So today that entity probably and we done a dilution in that point of time the PE would have closed about 40% of the equity in that entity, so that has been bought off now. So the plants for the company obviously is that it is a long term loan no doubt, but ideally is that I think we are exploring the possibilities of trying to at least dilute less than that to garner money to square off the debt that we have created by this buy out.

Giriraj Daga: Can you just throw some idea on the numbers of that unit last year how much of the revenue or EBITDA from that unit?

Santosh Varalwar: Roughly I think in FY2017 closing we did close to about $120 million in sales and we had $21.3 million of EBITDA last year and I think if you see FY2018 first quarter I think the same trend is continuing and we expect that business also to grow at least 10% to 15% year-on-year from where we are last year.

Giriraj Daga: What was our share earlier that point of time like now our share is 100%, right?

Santosh Varalwar: Now it is 100%, so at that time if you really probably interpolate and see because the way it was calculated was different, it is like a preferred capital, and we converted preferred capital into shares probably they have got close to 38% or 39%.

Giriraj Daga: Thanks a lot and all the best.

Moderator: Thank you. The next question is from the line of Suhani Doshi from Edelweiss. Please go ahead.

Suhani Doshi: Good morning everyone. I have a couple of questions. First is the net debt for FY2017 end was Rs.697 Crores, so what do we see this number going to by end of this year and in the next one or two years. What would be your strategy for this net debt?

Santosh Varalwar: If you really see the June ending net debt this Rs.697 probably you are referring to the standalone I guess right?

Suhani Doshi: No, consolidated.

Santosh Varalwar: Consolidated or standalone you are asking?

Suhani Doshi: Consolidated.

Saurabh S.G: Suhani just to answer your question on where do we see the debt number going as you said in March we have closed to Rs.697 Crores by the time we end this financial year, which is March 2018 we believe that given the fact that we have taken the PE out as well we will probably be lower than that number and over a period of I think next two years we have aspiration to cut this debt down further.

Santosh Varalwar: I think just adding to what Saurabh said approximately about Rs.175 Crores to Rs.200 Crores of debt reduction is planned in the next 18 months. This probably will accrue from the famous land sale, which we are continuing to like have a dialogue with prospective investors and there is also that subscription warrants, once I think the warrant subscrition comes in even that money should come into the company so that is one more rate, but clearly you see that in the next about 18 months time the debt should come down from where we are at about Rs.175 Crores to Rs.200 Crores roughly.

Suhani Doshi: Also the second thing is now that this business in Q1 is the base business do we see this levels of margins sustainable in like 28% for Spec-Chem and 15% for your pharma, so that will continue or does it have any one time or any other such income, which will not lead to such high margins going ahead?

Santosh Varalwar: As I said I think Saurabh just mentioned that this margins and this level of performance probably the reflection going forward for the whole year.

Saurabh S.G.: There would be some moment of seasonality because typically in the Q2 is when we have the annual maintenance activities across the plants so accepting that I think on a full year basis where we are in Q1 is probably where we would end up.

Suhani Doshi: Is there any money left from any of the sales or all the money is required or all the money is already come in the company?

Santosh Varalwar: I think all the funds have already been received and most of it as I said in my statement has got adjusted for either for the debt reduction or for the business expenditure or some new capex where we had to do in the northern part of the country where our other two plants are there to ramp up certain capacities, so we used it, so now no more funds to be realized from any of the activities that they have done in the last year.

Suhani Doshi: Just one last question what would be your interest cost currently, the rate of interest?

Santosh Varalwar: If you see we had interest settlement of about Rs.24 Crores in the first quarter this is mainly because again as I said it included a lot of transaction cost owing to various activities like the JV activity was going on and the closure of this PE was going on, so it also included certain transaction cost, but on ongoing basis I think about Rs.20 Crores per quarter is something, which I expect, but of course unless the funds, which we are expecting in the next couple of quarters if they come a little early then that much of advantage that will have in terms of reduction in the finance cost.

Suhani Doshi: So this 24 is the highest going ahead we see it going down at least to 20 if not more?

Santosh Varalwar: Also would like to add up here that the US$39 million that we borrowed was a mezzanine debt, it is a long-term in nature, but it is a mezzanine debt, which is a little high value because no bank normally funds for that kind of a deal, but at the end of the day we will be migrating this debt to a European bank, so I just give an idea. Now today it is about 12% cost of debt and when we migrate to a European bank it goes to something like 3% - 3.5% and under the agreement we cannot do that before March 2018, but surely we can do in March 2018 then obviously you will see a completely one substantial saving coming from the interest cost in the next financial year on account of this correction.

Suhani Doshi: Do we have any more capex plan for the year?

Santosh Varalwar: Basically maintenance capex in nature is roughly is about €3-4 million overseas and about Rs.10-15 Crores in India, but largely I think last year we have done wherever we had to do for example after divestment of chemical plant we had to beef up a bit of capacities in our Speciality Chemical Plant in Bidar, so we have done some bit of capex over there and also in formulation facility in Northern India, so we did some more capacity utilization and even in Alathur we had to like ramp up capacity, so most of the capacity investments have been done in the last financial year, so at India level I would see very minimal capex in the current year and on overseas of course barring some one time opportunity, which would if already come in future, but otherwise I think on a normal basis expecting about €3-4 million of capex is nominal.

Suhani Doshi: That is but the outside India plant, in India?

Santosh Varalwar: Outside India. India of course I think last year we have done enough, so this year I do not see much of capex there, may be maintenance capex of Rs.4 - Rs.5 Crores I guess.

Suhani Doshi: If it is possible can you give me from your total proceeds how much was used for debt reduction, how much was used for capacity expansion and other work, so you said you divided your debt into the couple of reasons, so how can you give me a breakup of that?

Santosh Varalwar: I do not have it right away, but surely I think we will make a note of it Suhani and will send across to you.

Suhani Doshi: That is it from my side. Thank you.

Moderator: Thank you. We have the next question from the line of Viraj Parikh from KRChoksey Shares & Securities. Please go ahead.

Viraj Parikh: Good morning to all and thank you for this opportunity. I would like to ask a question basically referring to the speciality chemicals segment as a part of our vision 2020 stated in the presentation we have stated that we are planning to diversify and look out for new product lines and joint ventures with respect to speciality chemicals business, so what I exactly would like to know is any particular product lines in the personal care segment that we are looking out currently?

Santosh Varalwar: Thank you Parikh. speciality chemicals as I said at this point of time; however, it is just the Jarocol brands, which is like famous hair dye thing and incidentally we had done some interesting broad developments at that side and if you are aware the P&G business is bought by Coty. The Wella business earlier and then P&G, now it is become Coty. Coty has approached towards the global hair colour market, is pretty different time they intend to like invest on new generation hair colours and hair dyes, which are less chemical causing in nature and may be more softer on the hair, so I think we have worked on some of those products and then we have a list of those such molecules right now, which will be launching in the next about year or two and as far as Jarocol brand is concerned. As far as Reversacol our photochromic dyes are concerned as I have just mentioned previously we filed for about three patents for fast trading category, which have life up to 2029, so we have very minimal business at this point of time, but we are actively in touch with large companies, so at this point of time I do not want to disclose any of the companies, but yes I think this could be a joint venture in nature where this company probably would go globally in terms of marketing this whole program because it is something different from what the market offers today, it is a fast trading category and is a photochromic, so we expect if that business ramps up in the next few years it is going to be substantial for the company. Now coming back to the other areas where we are looking at is yes I think there has always been a bit of natural products with alliance from another company where we were selling it, but I think post divestment the focus is definitely on that segment where we are trying to work with in a companies like Unilever and other major companies to supply them some natural actives for the personal care industry, so as you are aware I think we are under non-compete clause post our divestments, so we are definitely not looking at those products in the pipeline, but the company is looking at some interesting anti-hedging molecules again in some collaboration with all the US company and we are working actively on it and hope to like see some light of the day by end of this financial year, so our focus area continues to be the segments where we are working and antimicrobial is again a segment where we are still present with just CycloSam, but then we are now looking at some more like antimicrobials for general personal care segment. So yes I think we have divested few, but I have whole approach towards personal care segment is going to do a relook in a different manner and probably we are going to look at more cost effective, more value added products in the near future.

Viraj Parikh: Just to add on one more aspect, so as I see from the speciality chemicals business the FY2016 and the FY2017 numbers we saw massive growth of 219% in the operating profit, so considering the divestment to Clariant and the plans that you have pertaining to the specialty chemicals what is the expected growth that we can project with respect to the operating profit from the segment going forward FY2018?

Santosh Varalwar: FY2018 again it is a matter of the product basket as I said if we are lucky enough to like find a good market for photochromic dyes in the new fast trading ones then I think the marginal profits will be substantially high because it is a more or less niche area and not anybody including the large companies they are also not present in that area so we expect a very good value addition coming from this, but it is like a regular growth 15%, 20% year-on-year then you will see what you are seeing today now, but yes things might change because we are really seeing a good pillars from all our partners in terms of this new product range.

Viraj Parikh: Thank you so much Sir and all the very best.

Moderator: Thank you. The next question is from the line of Sudhir Beda from Right Time Consultancy. Please go ahead.

Sudhir Beda: Just I want a view on one side we have seen intense competition in generic space and the margins are eroding day-by-day if we look at the other pharma companies results and on the other hand because of the US FDA scanners plants are coming under US FDA scanner we have a opportunity also because our plants are compliant, so how do you see this year is panning out and likely growth in topline as well as EBITDA in the current year in view of all these development?

Santosh Varalwar: Clearly if you see our present portfolio on the US generics is very little based on our revenue of FDF I think the contribution from US portfolio is very little, but going forward as I said the situation is changing, it is a little bit of like mixed bag, some of them are our own products filings, which are there, some of them are of course some kind of a contract manufacturing opportunity with large pharma majors, so what we are going to play is as you are right I think we have a little advantage in terms of regulatory compliance. we have gone to inspection for the sixth time for the same plant, Alathur plant and we had a positive outcome of that, so taking a bit of advantage in that our focus area is some of those molecules, which are coming of patent in 2019, 2020 and 2021 where we have backward integrated and where we feel that we are pretty strong in terms of API costing as well as like going forward filing our ANDAs, so I would say that our strategy would be like very selective strategy in terms of we would not be doing a carpet bombing in terms of filing like 15 or 20 ANDAs here and then spending money, but we are very, very clear that we are selective in our approach because we have a limited capacities and we want to utilize them in a proper way, so we are looking at those products where we are backward integrated, where we have good cost position and where I think based on complex molecules where lot of people have tried, but failed in those kind of products whereas when we launch forward and we get an approval I think we will still probably have a descent margins.

Sudhir Beda: How do you see this year is panning out for topline as well as EBITDA growth?

Santosh Varalwar: As far as the US generics is concerned, which is your question I guess I think that..

Sudhir Beda: Overall company as a whole.

Santosh Varalwar: As a company we should be able to grow 15% at least year-on-year because as I explained to you the various segments earlier the FDF business because of now the approval of Ukranian approval having come from one of our Jeedimetla plant, so which has probably had a muted growth last few years, that will pickup a bit and then of course some capex spend in the North India plant by second half even that should pickup some business and as Saurabh already explained to you in the API side we are seeing some growth, so it is good to expect about 15% growth year-on-year from where we are today.

Sudhir Beda: Thank you.

Moderator: Thank you. We have the next question from the line of Yusuf Inamdar from Fortune Financial Services. Please go ahead.

Yusuf Inamdar: Thank you for taking my question. I have just one question out of the total promoting holding, which is about 36.48%, 84.27% of the total promoter holding is pledged to around 267.72 Crores, so why is the pledging percentage so high and do you have any plans to reduce the pledging?

Santosh Varalwar: I would like to clarify that most of this pledge is to the lending banks, lending institutions like State Bank of India, Axis Bank and all and we do not have a consortium, we have a multiple banking arrangements, so for that we have to give this, but now as we are speaking we are working on a consortium arrangement by which they have no obligation to keep those shares, but to release them. Now to expect that will happen in the next two, three months is very fair to assume I guess. Now we are somewhere in middle of August I guess by end of October or middle of November we should have all of them released and restored back to the promoters.

Yusuf Inamdar: Thanks a lot.

Moderator: Thank you. We have the next question from the line of Ashok Shah from Labdi Finance. Please go ahead.

Ashok Shah: Thanks for taking my question. While comparing YoY and last quarter Q-on-Q last quarter company had bumpy sales and healthy realization from Clariant and ophthalmic brand, so can you quantify and give some details about what was the quantity received and what was the profit on that was given in the last quarter?

Santosh Varalwar: We had received about Rs.321 Crores from Clariant sales and roughly around Rs.70 Crores from your ophthalmic sale to Ordain and out of that around this Rs.200 Crores was realized as part of business income while the remaining Rs.191 Crores was a consideration for asset sale for Bonthapally plant as a current asset transverse, so this amount that we received and the proceeds have been utilized for various activities of the company mainly debt reduction at the India level and funding capital expenditure what I mentioned in the past and also business expenditure, which is made in the form of new filing of new ANDAs and other things., Post divestment or post Strides Shasun this thing we had, the deal was about Rs.75 Crores, which we have got it, so it was Rs.75 Crores and that money has also been received by end of June, so that is also whatever the current debt figures are there it is a reflection of that, so entire standalone now is something in the range of around without considering FCCB it is a range of about Rs.460 Crores from where it was earlier about Rs.582 Crores.

Ashok Shah: Profit wise, what was the profit utilized on Clariant and ophthalmic?

Santosh Varalwar: As I said the backup that the way we have calculated is that about Rs.204 Crores is shown as a business income because of the brands and other things and Rs.191 Crores was considered towards asset sales of Bonthapally because that was the cost of asset of that and also for this, so Rs.191 Crores of asset sale.

Ashok Shah: So that is the last quarter did we reported normal business loss or it was a profit only realized from the other income?

Santosh Varalwar: So last quarter there was nothing, whatever happened was like earlier, last quarter was nothing.

Ashok Shah: No, but in the last quarter there was an operational profit or no profit?

Santosh Varalwar: Operational profit as you can see that.

Ashok Shah: In last quarter no other income or any bifurcation?

Santosh Varalwar: No other income accrued from sales.

Ashok Shah: This current quarter there is increase in interest charges, so you just told that there is some one-off charges, some financial transaction or something else, can you just give some idea that out of Rs.24 Crores what is one-off charges?

Santosh Varalwar: That one-off charges is roughly about Rs.4 Crores, it is a transaction cost and I may also explain to you that the overseas debt has gone up to the extent of 39 million USD from where it was there, so that particularly was because it is a mezzanine debt, which we have bought it for buying the PE, the cost of debt is higher, so that is almost 12% cost, so as I mentioned previously with somebody else I said we have got obligation to keep that debt in 2018 and then post that we can square off most of it and reduce the cost of debt, we will migrate this debt to a European bank, whereby I think our borrowing cost will be much lower compared to what we have borrowed at. Borrowing cost average will be something like 3.5% or may be 4% maximum, as currently 12% that we have that is what I have given you in the explanation.

Ashok Shah: So at the end of after March 2018 the approximate interest cost in this borrowing of Uquifa at present currently we are making a payment of around $2.4 million, so can it go down to $2 million after March 2018?

Santosh Varalwar: Less than 2 million, it should go less than $2 million.

Ashok Shah: So substantial interest cost will be again going down from Rs.24 Crores, so if we remove the Rs.24 Crores, Rs.4 Crores is a one-time charges, from 24 Crores can it come down to again to Rs.15 Crores, which was in the YoY basis interest charges?

Santosh Varalwar: May be less than that, I feel because even if you migrate 50% of that about $39 million if you migrate to a 3% or 3.5% loan. We have a clearcut saving of about 9%, so that itself is close to $1.8 million, which can translate to something close to Rs.10-11 Crores, so, I feel that much of saving will definitely happen.

Ashok Shah: So as per June 16, 2017 interest charges was around that much lesser level, so the same level can be achieved?

Santosh Varalwar: Yes. It will be lower than that that is the target of the company. Again as I explained to you if the money is at India level we receive if the land sale happens directly and happens during the current year and warrant money also, which was expected in the current year, part of it and something next year, with all these money is coming in, even at India level the debt will substantially come down as well as the cost will come down, so I think broadly we will ensure that at least FY2019 we should be able to like slash down our interest cost to half of where we are today.

Ashok Shah: Thank you and thus this exceeded the plan of selling of 300 acres land, so it is under negotiation or still nothing is decided?

Santosh Varalwar: No, I think see there is active interest as we see as I am talking to you there are about two, three buyers, now only thing is that as we always see in the land purchase there are some challenges, so I think hopefully we will overcome all of them in the next three to six months' time and will see some money in the company.

Ashok Shah: And what you visualize from the Shasun deal, is it expected to company will be getting some Rs.50 Crores sell in first year or second year?

Santosh Varalwar: This year we should get more than Rs.50 Crores in terms of revenue, but had been going forward as I explained the pipelines that we have we are at least five products in the pipeline, which will be filing the current year and with the GDUFA fee the way approvals are coming in even if we get approvals in FY2019 and we should see a substantial spike in revenues next year, so I think I can easily say that if we achieve Rs.50 Crores or Rs.60 Crores this year we can double our income next year with all these things happening.

Ashok Shah: And for ownership the allotment plant has been going through the transport is touching by 50% or what will be the valuation in the Alathur plant?

Santosh Varalwar: It is a 50:50 joint venture, so what we have done is that it is a new subsidy, which was formed called Vivimed Life Sciences Private Limited in which we have 50%, they have 50% and there is one more subsidy in the Singapore for Vivimed Global Generics, which is there on Singapore, so that will be the IP holder so all the IP money that is going to be coming it will be coming from that joint venture, and Shasun's size frontline in US will do the sales and marketing, so we will continue to use the leverage on their distribution strength and try to get back some share out of the market.

Ashok Shah: What is the current capacity utilization of this Alathur plant?

Santosh Varalwar: Alathur, I have explained just now, right now it was less than 20%, but we expect by end of this year to at least to have it more than 50%, at least 50% by end of the financial year will have capacity utilization, for which I have already explained you what are in the pipeline.

Ashok Shah: And again you have told some dilution in some strategic investor, so what type of investor are we, are we again going to whatever we bought out the investor, so again we are going to dilute that or to reduce the debt or some projects or you just sold out?

Santosh Varalwar: As you are aware we are exploring that nothing is finalized yet, but as and when it happens will be glad to share with our investors, but whatever our actions are there it is going to be in the interest and larger interest of the investors.

Ashok Shah: Thank you.

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

Keval Shah: Good morning. I just wanted to reiterate that you told that the pledge shareholding would reduce drastically, so this time are we sure whether it go down to 0% or still from pledge shareholding will be there?

Saurabh S.G.: I think as Mr. Santosh mentioned it will go down significantly, so it will be difficult for us to say whether 84% plants will become 0%, but in the next two to three months difficult reduction because most of these units, which have been offered by us are basically as additional security for the multiple banking system, which we have thought of.

Keval Shah: General question I wanted to ask, there is a new trend in US called pharmacy benefit managers, so which has led to lot of difficulties for pharmacy related companies, so will we have an effect because of that going forward?

Saurabh S.G.: No, I think we just touched upon this point earlier our exposure to US generic formulation business is very minimal, if you see whole of last year of the sale, which we had of nearly $215-220 million, our exposure to US generic is less than $10 million, in fact $5.5 million, so that does not really have a big impact for us, yes going forward we believe that the US generic business with this Strides shasun JV will become larger, but it will never have, it does not seem like it is going to have a significant impact. The US market is what we are seeing in terms of pricing trends, distributor and consolidation and especially the older mature generics getting into much more competition, but if you look at our portfolio as well we are trying for a bit more differentiated approach to filing. So I think our US generic business will have a better prospect for the next two years.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Santosh Varalwar for closing comments. Thank you and over to you Sir!

Santosh Varalwar: Thank you ladies and gentlemen. I am very happy the way our company's business segments are shaping up. Our product portfolio is expanding to higher value added products and we will drive the company's projects in the near future. We are trying to optimize margins and we are working with more companies and adding more verticals to expand the business. We are also extending our geographical footprints especially in the CIS and RoW of the countries. I am sure all these efforts will yield dividend soon and I thank all of you for bearing with us and remaining invested in our company. In case you have any further queries, please get in touch with SGA our Investor Relations Advisor. Thank you again.

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