"Alkem Laboratories Q3 FY2018 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Alkem Laboratories Q3 FY 2018 earnings conference call hosted by Motilal Oswal Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Kumar Saurabh from Motilal Oswal Securities. Thank you, and over to you, Sir!

Kumar Saurabh: Thanks Stanford. Good evening everyone. Thanks for joining this call. From Alkem Senior Management Team, we have with us Mr. Sandeep Singh, Managing Director; Mr. Rajesh Dubey, Chief Financial Officer; Mr. Nitin Agrawal, VP Finance; Mr. Amit Ghare, President, International Business; Mr. Satyen Manikani, VP, Business Development and Strategy; Mr. Gagan Borana, DGM, Investor Relations. Over to you, Gagan!

Gagan Borana: Thank you, Kumar. Good afternoon everybody and thank you for taking out time and joining us for the Alkem Laboratories Q3 FY2018 earnings call. I am Gagan Borana from the Alkem IR Team. Earlier during the day, we have released our financial results and the same are also posted on our website. Today in this call, we have the senior management team of Alkem to discuss the business performance and outlook going forward.

Before I proceed with this call, I would like to remind everybody that this call is being recorded, and the call transcript would be made available on our website as well. I would also like to add that today's discussion may include forward-looking statements and the same must be viewed in conjunction with the risks that our business faces.

After the end of this call, if any of the queries remain unanswered, please feel free to get in touch with me. With this, I would like to hand over the call to Mr. Sandeep Singh to present the key highlights of the quarter and the strategy going forward. Over to you, Sir!

Sandeep Singh: Thank you Gagan. Good afternoon everyone. Early in the afternoon, we have just declared our Q3 results and nine monthly financial results. We have also put out a detailed press release and presentation to showcase our key highlights of the quarter. I would briefly touch upon some of these key highlights and then we would leave the floor open for questions and answer.

So for this quarter it has yet been another strong number for us, we have more than 17% year-on-year revenue growth accompanied by some improvement in gross margins and EBITDA margins as well. I am pleased that this improvement in profitability has been achieved amidst challenging regulatory and competitive environment in our key markets of India and US. During the quarter while our India business reported a year-on-year growth of 22% adjusting for GST impact, the growth was even better. The growth was brought based with the all key therapeutic areas of companies reporting robust growth. This performance was largely led by strong volume growth and was also aided by new product launches.

There was also some help from post GST channel inventory normalization. We continue to maintain our leading position in our established therapy areas like anti-infective, gastrointestinal, pain management and vitamins. Our chronic segment, which also performed very well with the market share gains and improvement. As per IMS data for the quarter, we are improving our ranking in CNS and neuro segment and now we rank as the 8th largest company in India in terms of market share in CNS. Over the last 12 to 18 months, we have invested significantly to increase our manufacturing capacities. We have ventured into new therapy segments added medical representatives to further improve our reach and have been continuously working on various marketing and in licensing deals to augment our portfolio. I am happy to share that these initiatives are contributing and will further contribute to our growth in the domestic market as well as international markets.

Moving to our international business which contributed 27% to our total revenues grew by 7.8% during the quarter. The growth was higher in local currency terms. Our US business even in the challenging back drop of vendor consolidation, pricing pressure has performed relatively well with about 10% Y-o-Y growth in dollar terms. During the quarter not only did we file three ANDAs with the US FDA but we also received seven approvals in the quarter, keep in mind that this included one tentative approval.

As on date, all our six US FDA approved plants have an EIR there is no outstanding observation in any of them. We are also investing in R&D capabilities and manufacturing infrastructure to support our growth going forward. We have filed eight ANDAs already in the first nine month of this financial year. We are on track to meet our guidance of about 12 to 15 ANDAs filing this year. On cumulative basis we have filed a total of 97 ANDAs out of which 41 are Para IV opportunities.

Apart from US our key focus international markets like Australia, Chile, Kazakhstan and Philippines have also recorded healthy growth. The growth would have been better had it not been for adversely impacted currency movement. So summing up the performance for this quarter, I would like to say that it has been a robust quarter with strong all round performance. India business delivered 20% plus growth complemented by double digit growth in the international business. Better product mix and operating leverage helped us deliver margin improvements despite the difficult environment in our key markets.

We look forward to invest in new areas of growth and identify new evolving opportunities. We will continue to optimize our cost by driving operational efficiencies and improving the productivity of our field cost. We also continuously on a look out for very strategic alliances and collaboration to enhance our capabilities and strengthen our product portfolio for our key markets.

With all these initiatives we back ourselves to deliver a sustainable and profitable growth going forward. With this I would like to open the floor for question and answers. Thank you.

Moderator: Thank you very much. Ladies and gentlemen we will now begin with the question and answer session. We will take the first question from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Thanks for the opportunity and congratulations on good numbers. Sir just trying to understand the tax fees, I mean even if I know exclude the one-off deferred tax impact, the tax is really high I mean versus what we have spoken earlier 18%, so could you explain that and what is the outlook going ahead?

Rajesh Dubey: Hi Prakash, Rajesh Dubey here. We have reported 45.6% tax for this quarter but as you know there is one-off element also, if we take out then it is 32% in this quarter. In Q2 our tax rate was around 24.5% kind off. We revisited our annual tax working and annual effective tax rate. We noticed we might be having 2% more tax and when it is factored on nine months it has resulted in increased effective tax rate in this quarter but on overall basis on annual basis we are going to remain somewhere close to 27% kind of tax rate for this year.

Prakash Agarwal: And going forward Sir 2019 and 2020?

Rajesh Dubey: 2019-2020 our expectation in revised scenario is around 18% kind off.

Prakash Agarwal: And what would drive this Sir?

Rajesh Dubey: Sorry?

Prakash Agarwal: How would be achieve that I mean I understand there is a Sikkim facility which would have tax…?

Rajesh Dubey: Yes, absolutely you recollected very well. This year we had some limitation taking production from our new facility. Next year we are not having any constraint of this nature and earlier if you recollect last investor call our guidelines it was 15%-16% but still we feel we will be somewhere close to 18% kind of effective tax for next year.

Prakash Agarwal: Thanks and second question is on the US, so we have seen very good approvals I just wanted to understand how should we think about I mean most of these have been launched during the quarter and the full impact would be seen Q4-Q1 going forward or a large part of impact is already felt here that is one and secondly what is the outlook for next year in US where there is a lot of headwinds coming up? Thanks.

Amit Ghare: So in terms of number of launches for the year now I am talking for the year, we are pretty strong and clear on our guideline of higher single digit so during the year we will end up launching higher single digit number of product, obviously part of it had already come in the nine months and part of the impact will come in the next three months because some of the approvals in this particular quarter were tail-ended so that is the answer to the first question. Going forward obviously you know there are strong headwinds but in terms of our number of launches at least from a number perspective it is the same that we think with the higher single digit launches we will do.

Prakash Agarwal: Which are the key launches Sir, during the quarter?

Amit Ghare: We do not disclose product level Prakash as you know.

Prakash Agarwal: Okay. And lastly on the financials just trying to understand the capex cycle which had increased a bit last year and this year so what is the capex this year and how do we see this next couple of years and what is the debt and cash position? Thank you.

Rajesh Dubey: Prakash as you know we expected to have higher capex for last year as well as this year and exactly this same thing. This year we expect our capex to be somewhere close to Rs.600 Crores by year end and for next year we expect our capex to be around Rs.500 and I think that is some or more closer to normalized kind of capex.

Prakash Agarwal: Okay. Sir debt and cash position?

Rajesh Dubey: Right now we do not have any significant debt even though borrowings are there but on net-net level still it is neutral position of cash I think going forward our business is going to generate cash, we have to see that.

Prakash Agarwal: So we have net cash if you could just quantify Sir?

Rajesh Dubey: There is no significant cash available as such on consolidated level. I am talking here liquid cash actually, I am not considering any illiquid or semi-liquid cash position, on net-net level, we do not have any cash or debt it is neutral kind of position right now.

Gagan Borana: Prakash just one clarification on the previous question This is Gagan here, so when we are guiding for 27% tax rate for this year, it is adjusted for the one-time US tax I mean the US adjustment.

Prakash Agarwal: Yes, obviously. Okay, thanks. I will join back the queue.

Moderator: Thank you. We will take the next question from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: Thank you for taking my question. Sandeep in your opening comment you mentioned that the growth in the quarter was partly also benefited from the fact that channel inventory levels normalized post GST, is that fair to assume that therefore this is some amount of lumping up of sales in this quarter which should normalize as we go into Q4?

Sandeep Singh: No, I just said they got normalized there was no lumping so in fact if the pre-GST inventory that is for the industry was around 39 and for Alkem also it was around about the same, it has gone back to 34 days so I do not think there was any lumping over, in fact it goes back to the real number of say 39-40 days then we might see a further increase in sale but leaving that aside I do not think there was any lumping of sales.

Neha Manpuria: Okay so there is no one off element in the numbers that we have seen?

Sandeep Singh: Yes.

Neha Manpuria: Okay. Sir how should we look at the India growth because this year has been very volatile and what is your view on the regulatory environment in terms of pricing control etc., as you go into FY2019?

Sandeep Singh: Right so anything to predict about the government is kind of not very intelligent thing to do but what I feel that the pharma policy as we all know is kind of little slowed down and price control also there has been lot of hue and cry because of the standard control, so I think the phase of control would be slow I do not expect anything dramatic to happen next year and coming back on the growth question we have always maintained that we will grow at mid teens level and that is the same guidance we have going forward.

Neha Manpuria: Okay. And my second question is on the other expenses, if I look at other expenses in the quarter the first two quarters if I exclude R&D from my other expenses were about Rs.290 Crores, Rs.300 Crores this quarter excluding R&D that number has jump to Rs.350 Crores is there anything one off in the other expenses line in this quarter?

Sandeep Singh: Right, so there is couple of things and more detail thing if you want somebody from finance will take it, OTC marketing expenditure was you could say a kind of one-off for this quarter and also because of this FDA guidelines since we filed more than 20 products in the calendar last year, we were subject to that around 1.5 million dollar of fees which we paid so if you take these two, some amount of other expenses could make sense over here.

Neha Manpuria: So then if the OTC expenditure obviously will start tapering off from the next quarter?

Sandeep Singh: It might not be lumpsum so I will not say on an annualized basis it might not taper off but yes, do not expect the same number to be there in next quarter in OTC marketing expenditure.

Neha Manpuria: Roughly if you were to give me a broad sense on what these two would account out of these so is it fair to assume the quarter on quarter improvement is essentially because of these two factors, would that be a fair assumption?

Sandeep Singh: No so what you mean improvement these are expenditure in this quarter?

Neha Manpuria: Sorry quarter on quarter increase I mean, sorry.

Saneep Singh: Yes, fairly a large part of it. More than half of increase or in fact more is because of these two things.

Neha Manpuria: Okay. Thank you so much.

Sandeep Singh: Thank you.

Moderator: We will take the next question from the line of Chunky Shah from Credit Suisse. Please go ahead.

Chunky Shah: I had a question on gross margin improvement quarter on quarter so basically there is an improvement of 200 bps and if you look at a product mix in India as a percentage of sales is down versus the September quarter so what could explain the improvement in gross margins?

Nitin Agrawal: So it is mainly because of our product mix improvement in domestic market. so I agree that our mix of domestic business is lower as compared to Q2 but within the current mix also we have done well in terms of our chronic and our high margin product in domestic so that has resulted into improvement but if you ask about say coming quarters so definitely we will range in the 62% to 63% range only. So this may be a one-off quarter where there was a very good mix in domestic.

Chunky Shah: Sir when you say that high margin products, are those the mega brands like **Clavam, Pan, etc** in addition to chronic or can you just explain a bit more on that?

Nitin Agrawal: Yes, so mostly those brands you can say.

Chunky Shah: Sir then those would also be growing faster and going ahead as well or even in chronic for example would be growing faster for us versus acute piece?

Nitin Agrawal: Yes, so within chronic and within acute the product mix has been better like I told you that as compared to Q2 our product mix in Q3 was better in domestic.

Chunky Shah: Okay. On the US side, so I understand that Q3 for us is seasonally strong as given some products like Benzonate and others which benefits on the flu season but if you exclude that benefit and then on a Q-o-Q basis is the run rate stable?

Nitin Agrawal: The answer is yes, so the growth will obviously get led by new launches and when I was answering the previous question I said we are on target to do what we had forecasted at the beginning of year in terms of new launches.

Chunky Shah: Sure, thanks.

Nitin Agrawal: Also in domestic in Q2 there was no major impact of price hikes because the Q1 sales was very lo,w so what we sold in Q2 was old MRP products and in Q3 we actually realized a good price hike in our products so that also impacted our gross market positively.

Chunky Shah: So if you want to split the growth for India of 22% with GST say 24%-25% without GST how much of that would be price increases versus say volume increase?

Nitin Agrawal: So GST adjusted price growth will be around say one percent so if you say adjust GST I say the growth from pricing was around 7% in Q3

Chunky Shah: So 7% is a price increase you are saying.

Nitin Agrawal: Yes, but if I adjust the GST net impact was just 1%. So whatever growth we have achieving domestic is mainly from volume after adjusting GST.

Chunky Shah: Okay so because of the GST the prices went down by 5% and then the price increase that we took and overall it becomes 1%.

Nitin Agrawal: Yes, so there was a negative price impact in Q2 of 5% to 6% because of the GST which got nullified in Q3 because of price hikes.

Chunky Shah: So on an average we have taken a close to 5%-10% price hikes?

Nitin Agrawal: Right.

Chunky Shah: Okay thank you Sir.

Moderator: Thank you. We will take the next question from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Yes, thanks for the opportunity again. Just trying to understand the margin trajectory going forward, so I mean this year if we see the nine months for domestic is still lower so the domestic growing in mid teens given the strong brand that we have and US outlook improving with the new launches that you have done now, how do we feel about the margin expansion given the fact that you mentioned that there are cost saving initiatives also been taken?

Sandeep Singh: Prakash as you know that our business is just getting ramped up, generally stepping back when two years back when we did the IPO, we said that we will get the EBTIDA margin to close to say 20% and that time we were around close to 15-16 if I recollect so obviously we have kind of taken it up but going ahead to kind of give any concrete guidance of how far it would go when it would go will be slightly pre-mature because the nature of our business is also changing with more complex generics and those kind of things which companies would want to do now, so I think what is stabilized margin EBITDA margin as of now I think anything to do much more than that or in a short-time frame or in the medium term may or may not be possible.

Prakash Agarwal: But I mean given the fact that you had a low base this year and US launches are picking up, is it not fair to assume some improvement in EBITDA margin?

Sandeep Singh: We cannot say whether it is fair or not but as you also know Prakash there is lot of R&D, a lot of investments which needs to be done, so I would caution you against assuming some significant margin improvement.

Prakash Agarwal: Understood and what is the R&D we are looking for next year?

Sandeep Singh: Around the same on 5% to 6% every of the revenue, we would like to maintain that.

Prakash Agarwal: Okay. And secondly on the domestic business so apart from you know good season we had and our chronic doing very well, just wanted to understand the new initiatives that we have taken in the domestic side, there was a press article on the MNC tie-up and what are the other initiatives we are taking if you could just highlight that?

Sandeep Singh: So to be honest I mean something should be very operational which I do not think merits some comment from my side in a analyst call, so what I can just tell you Prakash what you read yesterday on the in-licensing agreement product by Alkem we did this couple of years back, so it is already public information and we have always maintain that we are trying to in-license products in the chronic segment particularly because when you see some of our peers they get much more turnover in the chronic segment from in-license product than what we are getting so we are still trying to in-license some products, we in the new financial year we might put a SBU in some chronic segment other than that it is nothing more, other things are pretty operational so nothing worth commenting right now but we understand that we need to focus on chromic and chronic outgrew our acute business in terms of percentage growth this quarter, we will continue to do that.

Prakash Agarwal: Okay. And lastly from a product differentiating perspective so we have seen derms, nasals coming through this year so would it be fair that different dosage form approvals and filings are there in place and the quality of approval will improve like we saw this year?

Sandeep Singh: By and large, yes one-offs we could have some other dosage forms but nothing too dramatic, it will not change the portfolio of our product in the next couple of years. One-offs yes we could do some other dosage forms.

Prakash Agarwal: Okay. Thanks.

Moderator: Thank you. We take the next question from the line of Ashish Thavkar from Motilal Oswal Asset Management. Please go ahead.

Ashish Thavkar: Thanks for the opportunity. Sir my question is on the OTC business, so what is your strategy there and have you budgeted anything for this over the next two three years and what kind of basket are we looking to develop here?

Sandeep Singh: Hi, so you know on OTC as we spoke last time also on the con call that the OTC is a new business for us it is more a wait and watch, we also want to calibrate a business depending on what response we get because keep in mind this is new segment for everybody at Alkem so obviously we have some budgets allocated but it is not something very significant and for the next year or year and a half, we will see how this product does, in terms of what kind of products we have lined up, two products we already know what is there and because we are spending, so we must be knowing what we are selling other than that next year we could look at some kind of OTX kind of scenario but it would be really premature to really comment on that as of now as I said we would need to evaluate our OTC foray.

Ashish Thavkar: Okay. And any plans on how much you are willing to spend per product or is there a holistic figure for it?

Sandeep Singh: Yes, so last time also Sir we would not like to disclose any amount because we avoid that but you know you can make out from my cautious commentary that it is not something substantial in terms of marketing expenditure or any expenditure for that matter.

Ashish Thavkar: Right. Sir the India business growth guidance of mid teens that would be excluding the OTC business, is that a right assumption?

Sandeep Singh: No, we guide for all but OTC business is small that if you want you can exclude and we will still deliver those numbers.

Ashish Thavkar: Okay. Sir just a followup question to the earlier participant like on the EBTIDA margin on expansion so assuming that you know FY2018 would end somewhere at around 17.5% EBTIDA margins from those levels would there be a some come out of leverage available with us, given that FY 2018 had first quarter like there was a GST impact and all those things?

Sandeep Singh: No I think we already answered that Prakash was asking exactly the same thing so I said we cannot expect something significant different from what we have done this year, a few basis points here and there obviously but nothing major.

Ashish Thavkar: Okay and any colour on the Sikkim facility how is it ramping up and …?

Sandeep Singh: Yes, I think it is ramping up well you know Mr. Dubey I think in his tax question he answered that there is some production we could not shift to the new plant because of which tax outgo was good but in the next few months we expect that our new Sikkim facility would start manufacturing on a good capacity basis.

Ashish Thavkar: Typically that would be a gross margin accretive do you believe so?

Rajesh Dubey: Yes, actually we get our major brands from Sikkim facility because that is for domestic so, yes definitely we are having better margin for these products.

Ashish Thavkar: Okay understood. Got it. Thanks and all the best for our future.

Moderator: Thank you. We take the next question from the line of Abhishek Sharma from India Infoline. Please go ahead.

Abhishek Sharma: Thanks for taking my question. Sandeep more of a strategic question in the past few years we have seen in the India market that some of your peers have used leverage to acquire brand portfolios to grow in India, so just wanted to understand from your perspective given the fact that there are gaps in your portfolio as well that you are trying to fill what stops Alkem from taking that same strategy?

Sandeep Singh: Good question Abhishek. What stops Alkem is basically rationale that the things are pretty expensive and obviously there are some good deals done in the past, but we evaluate businesses and we have a strict criteria of payback because we have reached where we have reached without any acquisition, so we are still very confident that we could build a good business without significantly spending money on filling portfolio gaps, which does not have a payback period in a particular time, which we have in our mind.

Abhishek Sharma: Right, but just on the same point some of at least the highlight it will be in the mixed bag, so some of the deals have been pretty good as you yourself said and they have actually done better than what we as analyst community could have expected for them to do in terms of improving margins, improving sales productivity, etc., the other thing is that there is an acknowledgment that if Indian companies are buying the portfolios that it is actually somewhat difficult to build brands done in house, so just your thoughts on that?

Sandeep Singh: So you are totally right, it will take a lot more time to do it on your own, but as I said obviously there are some good deals, but by and large we have a philosophy that we do not want to buy things just for turnover because if you just even see what acquisition we have done if you step back even in US we never acquired something for turnover or size, so even if it is a small brand niche we could go for it if it makes sense, but we are not in a situation where we want to acquire brands theoretically just to tick the box and say now we are present in that segment and we have let us say 5% market share of total segment because we still feel by and large what is available is pretty expensive.

Abhishek Sharma: Alright. Thank you.

Moderator: Thank you. Next question is from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Thanks for taking my question. Firstly on the US I think you mentioned whatever you planned you are on track to achieve for this year, which I think is a very good achievement and given what all is happening in the market place. Now going forward you have a low base, so that is a good thing, but your expectation from new launches that would have come down I guess right, is there anything that you are thinking differently for the US market given the changing dynamics if you can sure something on that?

Amit Ghare: Very strategic broad level questions I mean its difficult to answer on the call, but certainly everyone is evaluating the way forward in terms of either the complexity of the products or different dosage forms or anything else that we can do and we are no different in that sense. Having said that obviously the business still comes from a set of product, lot of set of product and even the earlier product as well, so we continue to grow not just through new product launches, but through key market share acquisition in existing products as well and that will continue for us going forward.

Saion Mukherjee: No, you have made some Derm filings, Derm is also quite competitive, you have some capabilities controlled substances that is also so I think the competition is rising everywhere so I am just wondering are you thinking anything differently or as of now you are just continue to do what you were doing earlier in terms of your product categories?

Sandeep Singh: As you rightly said a low base would kind of help us to have a percentage growth, but we want to also tell you that that we have some different dosage form like Derm and things like that, so please understand that Derm is competitive today, but some few years back it was not so competitive, so obviously try to kind of stay ahead of the curve, so you must have seen we got a onco product approved sometime back. So we are thinking of some different dosage forms. The so called complex generics or tough to do products, we have them in a portfolio if you are allocating let us say X amount of money on it last year we are doing X plus something on those complex products, but as you know they take their own time its R&D happen in the right timeframe it would not happen in the right time frame, so we cannot tell you when exactly a product portfolio start changing, but we understand what you mean and we are doing some in the medium to long term getting into products, which could be complex to do.

Saion Mukherjee: You had mention like historically you have done almost six-seven million dollars per product I am just wondering going forward is that something, which we can continue or you have your expectation lower on that?

Amit Ghare: So Saion if you remember historically we have said that the industry average and our target is about 5 million we have outscored it so far, but the long term we maintain the 5 million per ANDA average.

Saion Mukherjee: Thanks a lot.

Moderator: Thank you. We take the next question from the line of Aditya Khemka from DSP BlackRock. Please go ahead.

Aditya Khemka: Thanks for the opportunity. Sandeep I was just listening to your previous commentary on the margin side. So basically in terms of EBITDA margins the point I think most participants are trying to make that given that you had a poor GST quarter where your margins really were dismal and most probably such a quarter will not be repeated in FY2019 ideally even on the run rate, which is the past three quarters or two quarters the margin that we have done in 2Q and 3Q even if you were to sustain that in FY2019 you would do better than FY2018 total margins and your response to that is that R&D cost and all, but your R&D cost you are guiding to be stable right at 6% of sale, so where is that extra sort of cost being incurred in your budget that you feel that the margin expansion for full year FY2018 versus full year FY2019 may not be there I am just trying to get a better sense on that?

Sandeep Singh: You have rightly said that if R&D is the same then operating leverage would kick in and might have better EBITDA margin, but keep in mind that we have done some capex this year and the operating cost could also kind of go up slightly and also please keep in mind that yes we have a guidance of 5% to 6%, but as I just mentioned that we are looking at doing some complex generics and with those kind of stuff some time in complex generics failure could happen in a much more than what you anticipate, so I think I would caution that we should have something in our hand in terms of we want to pursue some growth, so some R&D expenditure could go up, OTC again we are evaluating, so I think it is good in not factor in a very high EBITDA margin.

Aditya Khemka: Exactly what I think is trying to get a sense on Sandeep that given that in the past two quarters you have been closer to 18%-19% EBITDA margin and full year you might actually end up doing 17-17.5 in that range, so it is just very reasonable on our side just mathematically it is very reasonable that you do 18.5% next year and which you look like a 100 basis point expansion of a current year, but that is just optical because for the past seven quarters you would have actually done 18.5% EBITDA margin, so my question is that the risk to that you are saying is and if I understand you correctly to that assumption is that your R&D might go above 6% to 7% is that the correct?

Sandeep Singh: Yes, that could be better articulated that could be there.

Aditya Khemka: Also your operating cost because you have new capacity so your other expansions might also be higher than what we are sort of estimating at this point?

Sandeep Singh: True and also we want to under promise and over deliver honestly.

Aditya Khemka: I get that. At the same time also on the US business and I want to prick Amit's brain on this. Amit, on the current revenue base I think of our FY2018 is my numbers are broadly okay you might end up saying like let us say $170 million sort of a business in the US side and your guidance of 8 to 10 sort of launches in the US market is that your guidance?

Amit Ghare: So again we do not split, but our number will be closer to 200 million Aditya.

Aditya Khemka: In FY2019?

Amit Ghare: No, current year.

Aditya Khemka: So current year FY2018 200 million is US plus?

Amit Ghare: Only US.

Aditya Khemka: That is good and in the next year then how many launches are you anticipating in FY2019?

Amit Ghare: Same I would guide at 8 to 10

Aditya Khemka: And how many ANDAs are we trying to file in FY 2018?

Amit Ghare: That also remains the same 12 to 15.

Aditya Khemka: So with the 12th month or nine month actually approval window from the US FDA why should you not be able to launch 12 to 15 products you are filing 12 to 15 products?

Amit Ghare: The answer to that obviously is with the 12 month approval timeline there would be some tentative approval as well, which because of patent situation settlements or even 30 month stays, the litigations you will not be able to commercialize them.

Aditya Khemka: Perfect. Now so whatever ANDAs are outstanding before you started filing in FY2018 would none of them get approved in FY 2019 and get launched?

Amit Ghare: So Aditya the answer is that they would get launch pre-GDUFA there is still a chunk that we have, both GDUFA obviously is reducing. By having said that you have to always factor in mind that you know 15% to 20% of the portfolio sometimes becomes commercially unviable by the time you want to launch it either commercially unviable or unattractive. Taking all that into account, taking tentative into account, taking litigations into account, taking commercial situations into account 12 to 15 filings should result into 8 to 10 launches in a year.

Aditya Khemka: Fair point. I see where do you coming from. Another question from you only Amit on this mycophenolate suspension do we have any visibility of any incremental competitor coming to the market yet?

Amit Ghare: I think we have said that last time as well, unfortunately FDA does not show us who has filed and when, so we do not have any information.

Aditya Khemka: Not yet, right. I am asking from the sense that you are a person who is in the market hands on so if competitor was about to launch who had already been talking to the distributors for market share and we would get about it, is the perspective I want to trying to get from you?

Amit Ghare: Honestly I cannot answer the question at this moment.

Aditya Khemka: That is perfect. That answers that actually. Thanks a lot. All the best.

Moderator: Thank you. We take the followup question from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Thanks for the opportunity again. Sandeep Sir you had spoke about the R&D initiatives that you are taking, so if you could just talk very broadly what are the new initiatives that we are taking on the R&D side?

Sandeep Singh: Prakash honestly I am unable to talk much about it, but you can make out from the change of some of the approvals you have seen like some ointments, onco products, so we do sometime try to think of products, which are non-oral solids, which we think will attract lesser competition. We also think of how we could backward integrate like have some amount of ANDAs, which will have our own API, so those initiatives are on, but would be slightly premature for me to put any number or give you a very strong indicator of what different dosage forms will have in the next couple of years Prakash.

Prakash Agarwal: Which segment if you could just?

Sandeep Singh: Segments honestly your usual suspect, cardiovascular, CNS. Generic you know we are not really caring, which therapy area it is, but by and large it is falling in the same place where the market is lying, though it could be a different dosage form of more complex product that is something different.

Prakash Agarwal: And if you could just speak some broad colour on the St Louis expansion what are the things that you are taking given the capex that we made last year and this year?

Sandeep Singh: We have already filed three products from there, two we have commercialized and going forward in the next couple of years we will see a far more approvals from there.

Prakash Agarwal: If I remember right, we had some real estate investments sitting under investments noncurrent investments, so what is the status there, when do you plan to monetize that because that is the extra cash we can monetize?

Sandeep Singh: Right. So I think on the books we have around 260 Crores I think in the next 12 months we should be out of it if we get some support from macroeconomic factors we should be out of it in the next 12 months.

Prakash Agarwal: Perfect. Thank you.

Gagan Borana: Thank you everyone for attending this call. If any of your queries have been unanswered please feel free to get in touch with me. Thank you.

Moderator: Thank you. Ladies and gentlemen as there are no further questions from the participants on behalf of Motilal Oswal Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.