# "Neuland Laboratories Q1FY16 Earnings Conference Call"

**Aug 14, 2015**

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**Moderator:** Ladies and gentlemen good day and welcome to the Neuland Laboratories Q1 FY16 Earnings Conference Call. As a remainder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Diwakar Pingle. Thank you and over to you sir.

**Diwakar Pingle:** Welcome everyone and thanks for joining in the Q1FY2016 earnings call for Neuland Laboratories Limited. Please note that the results have been mailed to you and you can also view this on our website at www.neulandlabs.com.

To take us through the results of this quarter and to answer your questions we have today Sucheth Rao – CEO & Director, Saharsh Rao – President & Whole Time Director, and Anil Kumar who is the CFO.

I will be starting this call with a brief overview providing a brief of the company's performance which will then be followed by Q&A session. I would like to remind you that everything said on this call that reflects any outlook for the future or which can be construed as the forward-looking statement must be viewed in conjunction with uncertainties and the risks that they face. These uncertainties and risks are included but not limited to what we have mentioned in a prospectus filed with SEBI and subsequent annual report which you can find on the website. With that said, I now hand the call over to Saharsh Rao. Over to you Saharsh.

**Saharsh Rao:** Thanks Diwakar. Good evening ladies and gentlemen and again warm welcome to our Q1 2016 earnings call. I really thank you for taking the time to joining us. I would like to say that Q1 has been a good quarter for us to begin the fiscal 2016 on a positive note, just very quickly some of the key financial highlights that the total operating income is at 122 crores compared to 102.67 crores which is like a 19% rupee growth. Compared to Q4 of the last financial year which is just the previous quarter then it is slightly lower on a Q-on-Q revenue basis, however you will appreciate that traditional Q4 is a very strong quarters for us. EBITDA had stood at about 21.63 crores compared to 14.34 crores which is about a 51% growth. EBITDA margins are at 17.6% compared to 14% of last year same quarter. PBT is at about 9.2%. Also net profit stood at about 7.3 crores compared to 3.02 crores for the same quarter last year. EPS is at Rs. 8.22 as against 3.65. The other financial if you have any specific questions I think later on in the call I will ask Anil to step in and answer those.

Some of the key highlights of the quarter, we also mentioned in our release today that we have scaled up 2 APIs successfully this quarter, Lurasidone which is an antipsychotic and Rivaroxaban which is an anticoagulant. These would be opportunities for the generic APIs, probably 5-6 years down the road. Also another important update is that one of our CMS customers in the US has filed an NDA for the US market. So this continues to be an interesting opportunity and interesting segment for us. We have also seen in this quarter some growth in

some of our newer APIs such as Levetiracetam, Salmeterol, and Entacapone. The product mix between APIs and the business mix between APIs and CMS itself continues to give us a positive outlook on the business, however we would like to add that while this quarter is good going forward, it is not necessary that every quarter will have similar kind of performance. We have mentioned in the past conference calls as well as various investor interactions that we see our business evolving in a lumpy format. So the transition may not necessarily be very well defined every quarter.

Another important development and I think we mentioned in one of our previous calls that we would be expecting a USFDA inspection at one of our facilities. That has just happened for us. One of our facilities has been recently inspected by the FDA. This is our unit II facility. We have had about 4 observations which were either corrected or are being in the process of being corrected and all in all we believe it was a very good inspection for us. So I will limit my comments to that and request Diwakar to open the floor for Q&A.

**Moderator:** Thank you very much sir. Ladies and gentleman, we will now begin with the question and answer session. Our first question is from the line of Ashish Thavkar from Asian Market Securities. Please go ahead.

**Ashish Thavkar:** Sir on the unit II which had been inspected by the FDA and we have 4 negative observations, could you elaborate the nature of these observations?

**Sucheth Rao:** There is no such thing as negative observations Ashish that these observations which the FDA would like you to correct. So we believe that they are pretty straight forward and we have actually corrected them and discussed with the FDA while on site. So we are pretty comfortable with it.

**Ashish Thavkar:** So would it be safe to assume that they are more like procedural in nature?

**Sucheth Rao:** Procedural in nature?

**Ashish Thavkar:** In the sense that they are not severe in nature.

**Sucheth Rao:** No, they are not, not at all.

**Ashish Thavkar:** Sir any update on the APIC deal like whether we have started the production for those guys and how is it going there?

**Saharsh Rao:** Ashish so the APIC I think we have mentioned in our past updates as well. The facility itself that was constructed is now ready for operations and has been made available for APIC. The production schedules of the facility remain with the APIC, however we would imagine that it would take time for them to place the products there. Currently the update is that, they have

about two products which they intent to manufacture, exhibit, and validation batches this year and as of now those are the two products for which we have clarity over. I think I would also like to add that at this point we have no firm visibility on APIC's production plans for the near term, however given the importance of this collaboration and the investments that APIC has made, we do believe very strongly that they will make good utilization of this facility and over time in the next 2-3 years, we will see a reasonably good utilization coming out of it. For now we really do not have much clarity to provide beyond that. So it just limit the response to that.

**Ashish Thavkar:** In the meanwhile whatever operational expenses that we have, so I understand that all these expenses have been taken care of by the APIC.

**Saharsh Rao:** Yes that is right. So I think our arrangement is from a business point of view the Neuland does not undertake any risk for this collaboration. So the investment as well as the expenses are paid for by APIC. since the facility is operational and the income, the expenses are being incurred, APIC is actually paying for all these expenses.

**Ashish Thavkar:** So this quarter the expenses were paid off?

**Saharsh Rao:** Yes, they have been.

**Ashish Thavkar:** Where have they been booked in other operating income?

**Anil Kumar:** They have been booked in other operating income. It is true even for the last quarter.

**Ashish Thavkar:** The fourth quarter FY2015

**Anil Kumar:** Yes, right.

**Ashish Thavkar:** Quantum would be, are you disclosing the number?

**Saharsh Rao:** No, we are not disclosing any of the details of the transaction Ashish because of the confidentiality agreements we have with them.

**Ashish Thavkar:** Just one more question on the Salmeterol side, so since Mylan had already launched the product in the UK. So are we in process of or are there any chances that you might have known since we have a filing for Salmeterol, so are we supplying to Mylan in the future or?

**Sucheth Rao:** Of course Ashish. We cannot reveal the names of any of our customers either now or in the future but for Salmeterol, there have been several launches because Salmeterol like as I mentioned on previous calls has several products to it. So it is a very complex formulation, there are multiple products, multiple doses, and multiple devices. So Salmeterol in general, it is not one launch, it is a pretty complex launch program.

**Ashish Thavkar:** But we are there in Europe also so?

**Sucheth Rao:** Yes, we are there in Europe as well as we expect a launch in the US for the standalone as well as the combo product. So there will be multiple launches in multiple regions for Salmeterol also. We will not be able to extrapolate any specific customer or any specific region.

**Ashish Thavkar:** Lastly on the NDA that one of our customers had filed with the FDA. So I believe since it could be a 505(b) (2), the approval times should be approximately one year. So have you heard anything from that client on that side?

**Sucheth Rao:** So we have never mentioned any specific API being filed as a 505(b) (2), Ashish. There are several APIs which are and several APIs which are straight forward filings but we have not made any reference to any specific timelines or specific API's being filed as a 505(b) (2) though they are quite a few and just because something is filed is a 505(b) (2), does not mean it is going to get accepted by the FDA with that filing mechanism.

**Ashish Thavkar:** So even for the latest one which had been filed by a client, would you like to provide any color as to whether this could get monetized in FY2017 or not in FY2017?

**Sucheth Rao:** It is not in our hands Ashish because it all depends on the FDA right as to when they will actually approve it. The only thing we can say is that our facilities are being inspected. So there will not be any delays because of Neuland's regulatory status.

**Saharsh Rao:** I think typically it could take 6 months to 1 year but we do not know if the NDA will get approved for sure. So there is also a small chance that it might not get approved. So we cannot explain too much more about the details of the NDA.

**Ashish Thavkar:** Got it sir. Sir finally on the guidance side or just on the number side, this quarter we had paid around 35% tax. So for the full year, we will be paying 35% tax or that is expected to come down?

**Anil Kumar:** We really do not have any big tax breaks and we probably will be ending paying up almost the full tax rate which will be about say 34.6. We may be slightly lower at around say 31 - 32%.

**Ashish Thavkar:** This could be 31-32% you meant to say?

**Anil Kumar:** Yes because we have certain DSIR benefits. So we will be availing that DSIR benefits and paying taxes on the balance profits.

**Ashish Thavkar:** Finally on the inorganic side, since you are looking to expand our facilities. So something was obviously going on that front. So any color you would like to provide?

**Sucheth Rao:** I will quickly answer that Ashish, but I think it is also good to allow the other guys to ask their questions too. So I will try to keep my response brief so that we can move on the other. We are reevaluating all 3 options like I said on our previous calls. We are looking at a combination of outsourcing versus debottlenecking in our existing facilities as well as a potentially new facility that we would like to acquire, however we do not need this facility until the next financial year but we are in the process of evaluating facility so that we can add to our capacities.

**Moderator:** Thank you. Our next question is from the line of Sai Prabhakar from Karvy Stock Broking. Please go ahead.

**Sai Prabhakar:** From this FDA inspection are we expecting any down time or is it done with?

**Sucheth Rao:** Itis already done.

**Sai Prabhakar:** We continue as it is. There is no change in your production side?

**Sucheth Rao:** No, of course not. We are continuing full speed, no issues.

**Sai Prabhakar:** If I look at the revenue, should we expect that they are from comparable segment or some new launches that happened in quarter because I meet the earlier part of the introduction?

**Sucheth Rao:** No, it is business as usual I think as Saharsh was saying in his opening remarks I think the quarter reflects the trend of the overall business in terms of the robustness and the change in product mix like we have also mentioned in the past. This may or may not be demonstrated quarter-on-quarter consistently but it does reflect how the overall business is evolving?

**Sai Prabhakar:** Leaving Salmeterol aside we were looking at other molecules like Propofol and Zyvox?

**Sucheth Rao:** So everything is as per plan. So we have not dropped any product since the last call. We will still continue to develop new customers and new programs.

**Sai Prabhakar:** As I understand one of this two had patent expiring in the quarter so I thought maybe because of that was added to the revenue stream that was a growth in revenue?

**Sucheth Rao:** No, not at all. So none of these products like I said earlier, Salmeterol is a complex launch. We expect it to happen over several quarters in several regions. So they will never be a single quarter where Salmeterol is launched because of the complexity of IP. So I think it is a similar situation for other products as well. Typically launch in a specific quarter happens for the US market but since our programs are in Europe as well as US, we expect the launches to be spread over several quarters.

**Sai Prabhakar:** Is this same with Propofol or Zyvox or Aloxi-R, Tracleer there are many molecules like have, we have not started this as yet.

**Sucheth Rao:** In certain regions, we have started. So Propofol, what is the other molecule that you mentioned?

**Sai Prabhakar:** Zyvox, Aloxi-R, Tracleer.

**Saharsh Rao:** Would you mention the generic name?

**Sai Prabhakar:** Propofol and Linezolid

**Sucheth Rao:** Linezolid is still under patent but in certain regions, we have already started the launches.

**Sai Prabhakar:** The EBITDA margins, can you throw some color on that, base-case scenario that we are looking at or was there some one-off event that drove the EBITDA margins higher?

**Sucheth Rao:** We said earlier we expect to reach EBITDA margins of 20% in a medium to long term. So that is our journey, that is a general direction of the organization, however you will see quarters where we hit close to 18% EBITDA margin like we did in this quarter, it is possible that based on the product mix in a specific quarter or specific half of the year, it could take a dip but in the long run, we will reach 20 or above EBITDA margins.

**Moderator:** Thank you. The next question is in the line of Pritesh Chheda from Emkay Global. Please go ahead.

**Pritesh Chheda:** Just a broader question, it has been quite some time that we are in a certain revenue band and there is this whole transition which is going on especially on the product mix side, just wanted to understand (1) This facility that we have today, what kind of peak revenue potential this facility can have and (2) When do you think you can reach the peak revenue potential as a best guess?

**Sucheth Rao:** So I think it is a good question actually. So I think as you are rightly observed our focus especially over the last 3 years has been more on the EBITDA margins in the bottom-line rather than growing the sale because typically for an "API only" company, too much focus on sales is dangerous because it is a very high capital intensive industry and when you focus too much on sales, it can actually lead to a catastrophe as we have seen in the cases of several companies. So as a result the focus has been on EBITDA margins and bottom-line. We have really not looked at opportunities which add significantly to the top-line but to the bottom-line. Nonetheless I think as the company evolves, you will see a healthy growth both in the top-line as well as the bottom-line because you will see that several of our products that we have developed in the past will continue to get launched. Now with our existing capacity we expect that it should be enough until the next financial year. Based on the product mix, this could be anything between 750 to

about 800 or 850 crores. I do not think we can go much above with the existing infrastructure. That is the reason we are looking at either debottlenecking our existing facilities, outsourcing some of the early stages to reliable contract manufacturers as well as potentially looking at an additional facility or capacity to acquire in the short to medium term.

**Pritesh Chheda:** When do you think, so it is basically let us say 175-200 crores type quarterly business run rate which could be the peak. When do you think that you can achieve that considering this whole product mix transition and in the interim, we have seen some movement in margins? So if you could give some thoughts on the margin side, these 2 questions?

**Sucheth Rao:** So I can make general comments in the sense that when we will reach the numbers that you talked about is hard for us to estimate because I think it all depends on the product launches and which quarters that they actually happen. So since it is difficult to estimate that given the general regulatory and the approval landscape, it is hard for us to put a time line on when that could happen, however you are right in terms of what the maximum run rate could be for the overall manufacturing plants and that is exactly the reason why we have already started to look at capacities and acquiring that capacity, so that by the time we hit that threshold we already have additional capacity built in for any new products that we are going to be developing and scaling up.

**Pritesh Chheda:** So you do not have a timeline and the additional capacity which you are looking out is basically a fire fighting exercise right away not to get into it in the future. That is how one should look at it?

**Sucheth Rao:** So it is not a fire fighting. It would not be in firefighting if we already ran out of capacity.

**Pritesh Chheda:** That is why.

**Sucheth Rao:** So it is not firefighting because we still have adequate capacity. So before we actually have to get into a fire fighting mode, we would already acquire the adequate capacity. That is what we are gunning for.

**Pritesh Chheda:** Based on the product line that we have and that is the last question and the transition mix, what kind of margins is possible?

**Sucheth Rao:** So our goal is to get to a 20% EBITDA margin.

**Pritesh Chheda:** We are about 16%-17% today.

**Saharsh Rao:** Correct. That is just this quarter. So we want to be a little prudent as we said earlier, we are making that journey. So I would not say that we are completely standardized ourselves at the 17%-18%. I think we are still going through that journey. We would be very satisfied if we could

make 17%-18% our baseline going forward but I think we want to state very clearly that we hope to have such quarters going forward but knowing our business, product mix can change a lot of things quarter-to-quarter. So we just want to add a little bit of caution to that.

**Pritesh Chheda:** Sir I am just wondering this 20% assessment is a function of operating leverage or is it a function of product mix ?

**Sucheth Rao:** So it is a combination of both. I think for API companies in general a big part of the margin is in your operational efficiency. That is for sure. You might have a great product mix but if you are not efficient in manufacturing, those margins could easily disappear. So it will be a combination of a change in product mix as well as achieving cost efficiencies both in operations as well as processes.

**Moderator:** Thank you. The next question is in the line of Ranveer Singh from Systematix Shares & Stock Broking. Please go ahead.

**Ranveer Singh:** Sir, because we do not give breakup of the revenue just I wanted to understand because lumpiness inherent in this business. So what proportion of revenue is actually fluctuating? There must be some proportion which is consistent and some proportion may not be very consistent so that I wanted to understand?

**Sucheth Rao:** I think it is a good question. Now for a company such as ours let us assume for now that our breakeven point is about say a 100 crores, right? We have done about 124 crores in sales. So once we hit the 100 crore, every sale after that adds directly to our bottom-line, the contribution, right. That means that our profitability could be significantly impacted between 110 and 115 crores right because assuming that our raw material cost is about 50% just for discussion sake 5 crores means about 2.5 crores of profit. So from a top-line number, it may not look like a big disparity between 110 and 115 crores but from a bottom-line number, it could be like a 10 crores PBT versus a 7.5 crores PBT. So even if we have a 10% fluctuation in revenue, that is a huge impact on the bottom-line because obviously we need a 100 crores of sales to cover all our expenses and that is where the lumpiness comes from.

**Ranveer Singh:** So is there any assured type of revenue up to 100 crores or even in a 100 crores also is not assured in each quarter if I say on quarterly run rate?

**Sucheth Rao:** If you have been tracking our performance for the last 4-8 quarters Ranveer is that, there is a certain part of the revenue which is assured. So we have always been about a 100-105 crores consistently. So that is not a problem.

**Ranveer Singh:** So what I saw that in the past several quarters like 15-20 quarters, the revenue has been between 100-130 crores and on quarterly basis that fluctuates but I find that this revenue bracket we have not been able to materially change this bracket. So that I wanted to understand that going forward

even if the fluctuation or lumpiness is there, whether on annualized basis also we can see some scaling up from existing facility. That is what I am saying.

**Sucheth Rao:** Sure. The only difference Ranveer is that, if you look at our company maybe 12 quarters ago, about 40% of our sales used to come from one product called ciprofloxacin. Now ciprofloxacin is less than 15%-16% of the overall sales. So though the bracket superficially looks like the same it significantly change from a business point of view because all the other products have actually taken the place of ciprofloxacin and that is why you have seen the improvement in the EBITDA margins. From the business point of view, it is significantly evolved and as we go into the future, that will be enhanced even more because more and more products will actually start contributing to the top as well as bottom-line.

**Ranveer Singh:** Fine and can you give break up of India and exports is doing this quarter?

**Sucheth Rao:** We do not have the exact break up yet. We have not done it but approximately is about 80:20.

**Ranveer Singh:** 80 would be export?

**Sucheth Rao:** Yes.

**Ranveer Singh:** Would you give revenue or margin guidance for FY2016-2017?

**Sucheth Rao:** No Ranveer, we are not in a position to do that.

**Ranveer Singh:** Any CAPEX budgeted for the 2016-2017?

**Sucheth Rao:** About 35 crores.

**Ranveer Singh:** What would be the debt position currently?

**Sucheth Rao:** Currently as of June, we were about 25 crores term loans and about 150 crores in working capital.

**Ranveer Singh:** So 175 crores roughly.

**Sucheth Rao:** Yes.

**Moderator:** Thank you. The next question is in the line of Nitin Gosar from Religare Invesco. Please go ahead.

**Nitin Gosar:** This other operating line item if I have to just cumulate for over last 3 quarter that is including the current quarter, it adds up to around 22 crores and now if I were to look at the profitability lastly you did roughly around 60-62 crores on EBITDA out of which if I were to say the 3 quarter, the latest 3, gave around 22 crores. So it is almost like one-third of profitability and in

past I do not see that kind of number or high weightage come again from other operating income. Could you please elaborate this other operating income? What it could be referring to? Is it more to do with the figuring of some kind of income from partners or what is it all about?

**Anil Kumar:** As we said in the earlier discussions that this is also including part of APIC revenue. So the entire reimbursement of cost of APIC would be part of the operating income and we have this export incentives which are like **MEIS Schemes** where in pharma companies get incentives of 3% of exports turnover or 2% based on the countries which you export. So all these export incentives will also go and add to other operating income.

**Nitin Gosar:** **O**n this product Entacapone, have you started the supplies for US market or you are yet to do it for?

**Saharsh Rao:** Entacapone, they are largely in the European market as of now.

**Sucheth Rao:** We have not targeted but we are in a process. We will launch it in the US in the near future but not yet.

**Nitin Gosar:** It could be an FY2016 event?

**Saharsh Rao:** It is possible.

**Nitin Gosar:** So would be Propofol.

**Sucheth Rao:** No, Propofol in the US will not be FY2016 but in other regions globally.

**Nitin Gosar:** Possibly Propofol could be in FY2017 or too early to comment on it?

**Saharsh Rao:** Propofol perhaps is going to be a global product. I think there is a shortfall for it all over the world including in India. So we are actually trying to tie up with companies not just in the US or European market. At the moment, we have visibility for the rest of the world markets as well as some visibility in the European market. I think at this point it will be a little premature to comment whether we will have market in FY2017 or not but we may.

**Nitin Gosar:** I am just trying to just extrapolate your earlier commentary that peak revenue probably be from this particular site could be around 700 crores and you may be in a position to hit that number in FY2017. If that were to happen, what kind of number of product addition you could be looking to add up for US operation in the next upcoming 6 quarters?

**Saharsh Rao:** I think Sucheth had mentioned this earlier. A lot of the products which will have commercial impact in FY2016-2017 have already been developed and we have been already supplying quantities for them. It is right now for us in FY2017 for the US market, they are going to be a

few products. If you look at the patent expiry calendar, I think we mentioned Salmeterol, there could be a few others which could add to that list, but for the US market, I do not think we have anything specific to add.

**Sucheth Rao:** Yes so it is like us saying earlier I think it depends on the specific approvals. I think it is also important to keep in mind that not all products that we launch in the US are products which are going off patent. There are several products where we have already developed in the past where the customer is launched with somebody else and they are in the process of qualifying us as an additional source. So I think typically you can expect that. Today we are developing about 9-14 APIs on an annual basis and all this 9-14 APIs are for the US as well as for the European market. So maybe within next 4-5 years, you can expect these kind of launches as far as the US is concerned.

**Nitin Gosar:** One last clarification from this statement, so FY2015 we ended up with roughly around 450 crores and if we were to achieve say 700 crores by FY2017, so the gap is around 250 crores roughly and this should be broadly come again from US operations or it should be European operations?

**Sucheth Rao:** No it is a combination. I think as foot print of Neuland will grow both in US and Europe as well as rest of the world equally. We are not emphasizing one region versus another.

**Moderator:** Thank you. The next question is from the line of Dhaval Sangoi from Batlivala & Karani Securities. Please go ahead.

**Dhaval Sangoi:** My first question is with reference to the NDA which you have filed? So are you sharing details in terms of addressable market size or which therapy does it belong to?

**Saharsh Rao:** No Dhaval. Actually the thing is we wanted to just give you an update that the NDA was filed because it is a significant milestone. There are elements connected to that. Of course, there is a revenue impact based on when the approval will come, however I think given the confidentiality levels that we have with the customer at this time, we do not want to disclose any details for now.

**Dhaval Sangoi:** On your other operating income, I understand you would be getting some lease income as well from APIC. So does that also gets captured there or is it classified in other income?

**Anil Kumar:** Yes, that is part of other operating income itself.

**Dhaval Sangoi:** Majority since we have significant exposure in Europe as well but majority of our transactions are dollar denominated, right?

**Anil Kumar:** Yes, that is right Dhaval.

**Moderator:** Thank you. The next question is from the line of Pritesh Vora from Incedo. Please go ahead.

**Pritesh Vora:** Are you adding some CAPEX so that revenue can improve from 450-750 crore? Is the new plant is being under construction?

**Sucheth Rao:** Yes so it is a combination. So we are doing CAPEX, one for replacement CAPEX to make sure that we are also incompliant from an environmental safety management systems perspective. Then also from some capacity expansion but our existing facilities are pretty much running at close to capacity. So any significant capacity addition will only have to come from outside.

**Pritesh Vora:** Are you putting up that CAPEX in a Brownfield or Greenfield capacity?

**Sucheth Rao:** We do not know yet. So we are still looking at both the possibilities. We have not decided which way we are going to go yet. It is still too premature to comment on it.

**Pritesh Vora:** Is there any commitment from the formulation player to take up your capacity or how do we understand this scenario?

**Sucheth Rao:** So it is purely based on our expected launches and volumes that we expect from the products. So basically what we have done is we have taken our existing products. We have extrapolated the numbers to the next 3-5 years. We are looking at the volumes. We have tried to calculate our existing capacity, tried to calculate how much more capacity we will be need even in a worst case scenario. So it is basically coming from a scientific extrapolation of where we think our volumes are going to go.

**Pritesh Vora:** Right and how do we suppose the capacity comes and how do you plan to fund this capacity?

**Saharsh Rao:** I think it is dependent really on the nature of the investment because I think it is a little premature to talk about that right now because we still do not know what is the value of these investments? I think a lot of this structure of the deal, usage of debt, or what other possibilities would be determined based on that? So maybe we would like to answer these questions at a later time once we have clarity.

**Sucheth Rao:** But it is definitely something we will update you as and when we have any concrete developments. The only reason we are staying away from commenting on the specifics today is because there has not been a concrete development yet but the minute we have it and it is not speculation anymore, we would be more than happy to share it with you.

**Pritesh Vora:** Sure. So when do we think timeline, when do we think that concrete development will happen, what is the timeline for that?

**Sucheth Rao** In next 6-12 months, which is our expectation

**Pritesh Vora:** So I just want to understand the next orbit on the revenue point of view. So 6-12 month is a concretization plan and 3 years to put a plant, is that a right timeline? Are we looking 3-4 years to ramp up this revenue potential?

**Sucheth Rao:** No, not really because like I said earlier the capacity expansion will happen in all 3 phases. It will be organic, it will be outsourcing as well as acquiring existing capacity. So it could happen pretty quickly. It could happen within in the next 12-18 months if we get some inorganic capacity.

**Saharsh Rao:** Yes we are not really looking at a Greenfield project which as you indicate could take maybe 3-4 years, it will be most likely one of the 3 channels that Sucheth has emphasized.

**Pritesh Vora:** Right and you mentioned about your 20% EBITDA level so is that the current capacity we will achieve it or the new capacity you think that EBITDA level to achieve that?

**Sucheth Rao:** No, the EBITDA level is purely a function of the product mix and efficiencies with the existing capacity. So new capacity has nothing to do with the EBITDA margins. We do not depend on new capacity for our EBITDA margins.

**Moderator:** Thank you. The next question is from the line of Vaibhav Malik who is an individual investor. Please go ahead.

**Vaibhav Malik:** Just wanted to like check with you like with the current capacity what can be the peak revenue potential with the 100% capacity utilization?

**Sucheth Rao:** So about 700-800 crores based on the product mix. Obviously we would like it to be 800 crores but it is very difficult to say exactly what kind of product mix we could end up with in the next financial years. So it could be between these 2 numbers.

**Vaibhav Malik:** Secondly, what is sensitivity to the depreciation of the rupee like for the every like 1% rupee depreciation so does it help in the increasing EBITDA margins or like what kind of sensitivity is there?

**Anil Kumar:** If we look at FY2015 financial, we had an export of almost about $50-52 million and imports of about $19 million. So we were at net surplus of $32 million. So each rupee movement to a $ will give you a 32 million impact.

**Vaibhav Malik:** The debt which is there so it is completely rupee denominated debt or some part of debt is like FX debt also?

**Anil Kumar:** The annual report says very clearly all of them are INR borrowings.

**Moderator:** Thank you very much. The next question is a follow up question from the line of Sai Prabhakar from Karvy Stock Broking. Please go ahead.

**Sai Prabhakar:** Yes sir so you indicate there could be or there we should be expecting some volatility in the revenue or margins, you are telling of revenues or margins or both?

**Sucheth Rao:** They are both connected like I was saying earlier is that specifically for API manufacturing, a 5 crore revenue could be in an impact of 2.5 crores to the bottom-line right. So 10%, that is actually a 15% impact of the bottom-line. So they are both related, very closely related.

**Sai Prabhakar:** With the size of all the portfolio or products that we manufactured and supplied one would understand even with batch production and batch supply, there would be an averaging out effect as far as the top-line is concerned. So the volatility margin is understandable but what about the volatility in revenue? If we have say portfolio of 50 products even if one discontinue, there would be something other which would average out the top-line. So I was trying to understand the reason for volatility in the top-line?

**Sucheth Rao:** that is a good point and I think it is right from a market point of view and from a sale order point of view. Unfortunately that is not true from an operations point of view because at the end of the day even there are 50-60 products which we obviously Neuland has not launched all of its products. We do have about 75 products that we list on a product list but not all of those products are commercial but assuming that even if they do become commercial, there is always 5-10 products which actually contribute to 50%-60% of your revenues, right? It is never the case that 50 products will contribute to 50% of their revenues. So when you have variation even in a single product, it could have as much as 10-15 impact on the quarterly sales numbers.

**Saharsh Rao:** I think that is the precise reason why we want to add that element of caution about our EBITDA margins being at a steady state quarter-to-quarter.

**Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Sucheth Rao for closing comments. Over to you sir.

**Sucheth Rao:** So hopefully I think there were a lot of good questions and it is always our pleasure to take the questions because it is possible that it makes us think about our business in ways we have not probably thought before. So we really appreciate you guys taking the time to understand Neuland and gain further insight. Having said that, we hope that we have answered all your questions to your satisfaction. There are certain things that we cannot be too specific about not because we do not want to but we also want to be honest about the business and what the expectations are and also create the right expectations. So we also appreciate Christensen for doing such a good job of getting all this together and also helping us with our communication. We appreciate it and we look forward to doing this again next quarter. Thanks very much.

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