



“Neuland Laboratories Limited Q2 FY16 Earnings
Conference Call”

October 29, 2015



MANAGEMENT: **MR. SUCHETH RAO – CHIEF EXECUTIVE OFFICER AND
DIRECTOR**
**MR. SAHARSH RAO – PRESIDENT AND WHOLE-TIME
DIRECTOR**
MR. ANIL KUMAR – CHIEF FINANCIAL OFFICER

MODERATOR: **MR. DIWAKAR PINGLE – CHRISTENSEN**

Moderator: Ladies and Gentlemen, Good Day, and Welcome to the Neuland Laboratories Limited Q2 FY16 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. 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: Thank you. Welcome everyone and thanks for joining the Q2 FY16 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 you through the results of this quarter and answer your questions, like usual we have with us today Mr. Sucheth Rao – CEO and Director, Mr. Saharsh Rao – President and Whole-time Director and Anil Kumar – CFO.

We will be starting the call with a brief overview, providing a brief of company's performance which will be then 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 constituted as a forward-looking statements must be viewed in conjunction with uncertainties and the risks that we face. These uncertainties and risks are included but not limited to what we have mentioned in our prospectus filed with SEBI and subsequent Annual Report which you can find in our website.

With that said, I would now turn the call over to Saharsh Rao. Over to you, Saharsh.

Saharsh Rao: Thank you Diwakar. Good evening Ladies and Gentlemen, again a welcome to our Q2 FY2016 earnings call. We would like to say that Q2 has been another quarter of steady profitable growth, I think you might be having these numbers but I will just quickly summarize the financial performance.

Total operating income was at about 127.1 crores for Q2 in comparison to 121.3 crores for the same period last year. EBITDA stood at about 19.5 crores compared to 17.7 crores for the same period last year. EBITDA margins were at about 15.3% compared to 14.6% for the same quarter last year and net profit is at 6.2 crores compared to 5.15 crores for the same period last year. Basic EPS is at Rs.6.98 as against Rs.6.21 for the same quarter last fiscal.

Amongst the business highlights, we are happy to share the developments pertaining to Salmeterol, this molecule had higher than expected sales in the quarter, we are positive about this molecule's growth potential and hope to make a significant progress in the future. I am also happy to share that three of our key molecules have been granted process patents by the

US as well as the European authorities, I think these patents will enable us to potentially penetrate both the CMS as well as API opportunities and it also demonstrates our capabilities and research and makes us a much stronger company in terms of IP.

I had also mentioned during our previous call and I just want to make a brief note again that during this quarter we also had our unit II facility inspected by the FDA, we were glad that audit went well and there were no major observations. And I think going forward we will continue to focus on our quality systems and make sure that we are on top of compliance as well as ensuring the quality of our products.

Overall I would like to say that the business momentum is positive, the company's strategy to focus on complex APIs and increasing penetration in the CMS space is definitely gaining momentum and we continue to see this trend in the foreseeable future. Our performance in the second half of the fiscal will continue to build on this traction that we have witnessed in the first half and we remain very confident about the business.

We are happy to answer your queries. Sucheth and Anil are also here with me so they will step in as and when required. So moderator, I request you to open the floor now for Q&A.

Moderator: Sure. Thank you very much. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Viraj Mehta from Value Quest Capital. Please go ahead.

Viraj Mehta: I had question on the stated intentions of the company to probably go for a Brownfield expansion or acquire a facility. Sir we are already at 1:1 debt equity, so going forward if we want to do a 150 crores kind of an acquisition or a Brownfield expansion how do you think is the funding for that going to happen?

Anil Kumar: See, the current long-term funding plan for acquisitions has not been worked out, however we have plans to do it sometime over the next few quarters and I do not think we have indicated any given number for acquisition.

Viraj Mehta: No, no because the number came from because the current facility was told to us that it can do 700 crores to 750 crores kind of a top-line and the guidance for FY18 was close to a 1,000 crores and looking at the current asset turnover that we have that is the kind of facility that we might have to acquire to touch the 1,000 crores revenue that is what the backward calculation to this number was.

Sucheth Rao: Just to add another layer of clarity Viraj, first of all, I do not think we said 700 to 750, I think we said more like 750 crores to 800 crores from the existing facilities. Now the issue is that it is a very subjective number because it all depends on how the product mix pans out right, so the product mix is really favorable, we could end up doing 800 crores, 850 crores, if the

product mix is not favorable then like you said we could end up at around 750 crores or so from the existing facilities. Either way we will not need to add to any capacity for the next 12 to 18 months, any capacity we need will only come after that. Going back to your comment about debt equity ratio and the overall debt, today our overall long-term debt is close to 25 crores on the balance sheet, by the end of the year it will be about 20 crores. Now the working capital debt that we have is directly tied to the overall performance of the company, that means that when the sales go up the working capital is utilized, if the sales do not go up as expected the working capital itself will come down and there are no issues with regard to servicing the working capital debt. As far as the term loans and the long-term funding is concerned, we are in a pretty healthy position, we have a pretty solid process within Neuland where we do a best case, worst case scenario for the business, we estimate what our cash flows are going to be and we have a process by which our borrowings will not be above what we can comfortably service from our cash flows even in a worst case scenario kind of a performance. So you can be rest assured that whether it is an acquisition or a Greenfield project, we will do it based on the needs of the business but it will be done taking into consideration our appetite for long-term funds and our ability to service the debt without any issues.

Viraj Mehta:

Apart from Salmeterol of all the products that we have currently got approvals for right from Aripiprazole, Aricept, Lexapro if let's say as an outsider if I have to be tracking let's say the market share in the US or the total market in US what will be the top three products in your mind that you are very confident about?

Sucheth Rao:

So there is a bunch of products, so basically today our top 10 Viraj would be products like Ciprofloxacin, Levetiracetam, Dorzolamide Entacapone, Sotalol, Mirtazapine, Salmeterol so a bunch of products that you mentioned and a bunch of products that you have not mentioned. So from a market share point of view our strategy is to be in a dominant market share for all our products, so products like Cipro and Ramipril, Sotalol, Levofloxacin, Levetiracetam were already there but that does not mean that we do not keep adding customers and we do not keep gaining market share. Of course the market shares keeps going up and down based on what is happening with our own supply situation as well as our supply situation of our customers too. So eventually as time goes by you will see that barring a few products a majority of our products we would be probably a dominant market share in the US as well as the European markets.

Viraj Mehta:

Sorry, I think I will probably rephrase the question, what I meant was most of the products you have mentioned in your presentation itself are or rather in your commentary itself you had mentioned that those were kind of a commodity product where you have global dominant market share. I was more asking about the products which you were going to launch over next few, once they become generic you were probably going to launch over next few quarters, that is where I wanted slightly more clarity if possible.

Sucheth Rao:

So your question is what Viraj, is that for the products that we are going to launch?

Viraj Mehta: Yes. So Salmeterol you have only launched in UK and Europe if I understand correctly, that's still not launched in the US because that generic version is still not launched in the US.

Sucheth Rao: Correct.

Viraj Mehta: So apart from Salmeterol what are the other couple of products that you think that we should do work on more? That's all, that's all my question is about.

Sucheth Rao: See, in our kind of products Viraj it is a continuum, because see even you are saying that the products that I have mentioned are commodity products, essentially we do not look at them in that way because we are constantly adding customers, so for example we have this product called Levofloxacin and we just launched Levofloxacin with another customer in the US with a very-very lucrative price and it is not commodity at all and it has added significantly to our bottom-line. So within Neuland it is difficult to differentiate kind of a point in time because for us it is more of a continuum, even a product like Salmeterol as you say even as we speak it is going to be launched in several countries in the next few months, so every launch is important to us because every launch is uptake of quantities, actually Salmeterol has come up much better than what we expected this year so compared to our budget we are doing much better in Salmeterol in the current financial year.

Viraj Mehta: And just one last question, would it be possible to give any kind of quantitative guidance both in terms of top-line for the next couple of years? I know you had mentioned closer to 800 crores for FY17 but can we also have some guidance for FY16?

Sucheth Rao: First of all, we never mentioned 800 crores for either FY17 or FY18, we would not also. So if you have that information it is wrong, I am pretty sure that none of us actually gave you that guidance and typically we would never give a guidance either for the current financial year or any of our future years. I think the best thing is we make our bet based on way we expect to launch our products, what the anticipated market share is, number of customers and based on our historical performance we felt that we would grow anything between 20% to 25% CAGR going forward as well. Unfortunately, we do not have a crystal ball, what really is going to happen we do not know but obviously based on the strength of the business this is what we expect.

Moderator: Thank you. Our next question is from the line of Sudharshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudharshan Padmanabhan: Sir what I would like to understand is, as I am looking at your numbers quarter-on-quarter basis for the purpose of comparison, see you had mentioned on your press release that Salmeterol contribution or Salmeterol off take is a positive surprise for you, but if I am looking at your margins on a quarter-on-quarter basis there has been a dip in terms of performance, what one would like to understand is, if one is assuming that the proportion of Salmeterol is

higher than the margins would actually be higher in the quarter, where is the difference if you can just clarify and how do we see things going forward?

Sucheth Rao:

I think we have alluded to this in our previous comments, Sudharshan see today including the products that we are currently in the process scaling up we have about 75 APIs in our overall product portfolio, more than 40, 45 APIs are already commercial globally in various parts of the world. So our overall margins are influenced by the product mix in that specific quarter Sudharshan. So even as I said that the fact that we have sold more Salmeterol than we anticipated is actually a statement of fact, but nonetheless the overall margin is also influenced by all the products that we are selling in different parts of the world and the prices that we are selling at. So coming back to your question, one of the reasons why the margin was lower in this quarter compared to the previous quarter is because we had some significant sale of other products into markets at a significantly lower price than what we would usually and that kind of dragged the overall margin down a little bit. Other than that we still expect that our overall margins will continue to grow, they will continue to become healthier, but from a quarter-to-quarter point of view it is going to be bumpy.

Sudharshan Padmanabhan: But I am not looking at it from a quarter-to-quarter angle but if I am taking probably from a medium to long-term basis, if you can say what one can expect probably in four to six quarters and what one can expect probably in the next couple of years and whether the trajectory in terms of business is as per the direction or whether it is lower or faster in your opinion?

Saharsh Rao:

Sudharshan, I think what we have said in the past and I think it is kind of consistent with what Sucheth said, I think quarter-to-quarter there is going to be some kind of lumpiness and I think you also acknowledge that. We remain positive as well as cautiously optimistic in terms of what the prospects are like and I think what we also stated in our previous conference call is that we are looking at our business inching towards eventually a 20% EBITDA and we have never really given some kind of a timeline in terms of where or when exactly we would get there but we definitely see that visibility in our business mix and nothing has really changed in terms of how our business composition is over the last few quarters to make us change that position. So we continue to remain on that position where our business in terms of growth and most specifically EBITDA margins will be eventually looking at 20%, that journey will be as we mentioned previously bumpy, I think we have had this quarter where we have had certain lesser margin product sales kind of dampen the overall margins but I think on an overall basis we continue to remain optimistic. And I think that results will be evident over the next few quarters as we go down, again, just being cautious about setting any kind of expectations for the immediate future.

Sudharshan Padmanabhan: And if you can also throw some comments on the JV, how that is panning out and what one can expect over the next two to three years if not in the near-term?

Saharsh Rao:

You are talking about the one with API Cooperation?

- Darshan Padmanabhan:** Yes.
- Sucheth Rao:** Yes, so as of now there is no further update on that Darshan, I think we have been in the same situation, I think as we move along we will definitely keep you guys updated.
- Moderator:** Thank you. Our next question is from the line of Ranveer Singh from Systematix. Please go ahead.
- Ranveer Singh:** Sir just if you could give breakup of revenue between API and Custom if possible for this quarter and half year?
- Sucheth Rao:** Typically we do not report any segmental revenues Ranveer, all I can say is that last year our revenues from the contract manufacturing business was about 15%, this year it will probably be closer to 20% but in the long run we expect it to be in between 35% to 40%.
- Ranveer Singh:** So in this quarter also that proportion remains same, like near 15% or 16%?
- Sucheth Rao:** Well, we have not really done that analysis Ranveer because I think I did mention in one of my previous calls is more than just the segments we actually look at our revenue and profitability breakup on a product-to-product basis because there are a lot of products even on a generic side which are significantly profitable.
- Ranveer Singh :** And as far as Salmeterol is concerned, just wanted to know sir Salmeterol we are supplying in Europe so this is related to just Seretide or some other mono therapy products are also there. So if I see the end products, more than one product so how is our supply is to only Seretide or some other products also?
- Sucheth Rao:** It is a combination of all formulations Ranveer, so we have customers which are there for the standalone, we also have customers who are developing the combo products, also customers who have their own unique devices and devices which are copycats as well. So Salmeterol I think is a pretty complex launch for us, so we are there in every possible product. So it is very difficult to say how this product is going to pan out.
- Saharsh Rao:** I think just to add to that Ranveer there are also the combination products where customers buy the other APIs from other API suppliers, so we are not specifically making both the APIs of the combo product but Salmeterol is the product that we supply.
- Ranveer Singh:** And typically not to give guidance but should I expect second half would be better than the first half in terms of margin?
- Sucheth Rao:** We also expect that the second half will be better than the first half Ranveer.

- Ranveer Singh:** And can you give me indication that number of project under CMS right now that custom synthesis business?
- Saharsh Rao:** For the year we are expecting to compete 26 projects and I think depending on the schedule of these projects they get executed over different quarters, but we really do not have the breakup for that, but for the FY16, we have 26 projects.
- Ranveer Singh:** Just one thing I was missing on Salmeterol, in Salmeterol we mentioned that this quarter was better than expectation, so this is better than Q1 also in supply of Salmeterol?
- Sucheth Rao:** Q1 and Q2 were similar Ranveer.
- Moderator:** Thank you. Our next question is from the line of Saravanan Viswanathan from Unifi Capital. Please go ahead.
- Saravanan Viswanathan:** The US FDA inspection, did it do anything to our production facilities, was it a reason for the revenues to be flat this quarter?
- Sucheth Rao:** No, there is no such reason it was a routine inspection from the FDA. So the revenues are reflection of the product mix, they have nothing to do with the inspection as such.
- Saravanan Viswanathan:** I am also able to see that there has been a reduction in your short-term borrowings which I presume the working capital borrowings, so does it mean that our working capital cycle has gotten better?
- Sucheth Rao:** Not yet Saravanan, we do expect that it will get better but what you are seeing is only a temporary reduction in working capital. So I think it will go back to its normal levels.
- Saravanan Viswanathan:** And the client side you had mentioned the number of projects; in terms of clientele how many different clients are we working on or working with?
- Sucheth Rao:** So usually the projects we do Saravanan they are unique projects for unique client, so typically on an overall basis the most important clients are anything between 75 to 100 clients, our total customer base including CMS and generic APIs is about 700 customers globally because we don't only not only focus on the US and European markets, we focus on APAC, the MENA region, Southeast Asia, Latin America, China and Japan all these are focus areas for us
- Saravanan Viswanathan:** So in the CMS you would be working with right from the big innovators to even small and medium size pharma and biotech companies?
- Sucheth Rao:** That's correct, but our more so focus is the mid-sized pharmaceutical companies as well as the small biotech companies.

- Saharsh Rao:** In the US it is typically the biotech companies, in Europe and Japan it is typically mid-size as well as the large innovating companies too.
- Moderator:** Thank you. Our next question is from the line of Darshit Shah from Nirwana Capital. Please go ahead.
- Darshit Shah:** Sir my question pertains to what time do you think our existing capacity to be fully utilized?
- Sucheth Rao:** FY17 we feel that the existing capacity will be adequate Darshit like I said earlier, it depends or it is influenced a lot based on the product mix but we are anticipating that by FY18 we will need to add additional capacity.
- Darshit Shah:** So would it be correct to assume that we are looking for something Greenfield or Brownfield to be coming up with the next couple of quarters?
- Sucheth Rao:** Most likely not a Greenfield Darshit, though it is possible, but probably more of a Brownfield project.
- Darshit Shah:** And that we will be looking some opportunity possibly next six months, because I understand it will take some time to probably commercialize something?
- Sucheth Rao:** Yes, so we already have been evaluating facilities so it will be a continuous process. So we already started about six months ago.
- Darshit Shah:** And on the margins front, we still think probably we will be inching towards probably 18% to 20% or medium to longer-term outlook?
- Sucheth Rao:** Yes.
- Moderator:** Thank you. Our next question is from the line of Sriram Rathi from Anand Rathi. Please go ahead.
- Sriram Rathi:** Only one thing just wanted to check that in the promoter holding that holding companies which the Neuland I think has, there is an external investor who is holding a stake, just wanted to check whether that arrangement will continue as it is or there is going to be any change going forward or some kind of researching we can expect?
- Saharsh Rao:** So as of now there is nothing to announce on that front Sriram, I think as and when there is any kind of an update on that we will definitely keep you guys informed.
- Sreeram Rathi:** So right now it is continuing as it is, there is no change?
- Saharsh Rao:** Yes, as of now it continues to remain in the same state.

- Moderator:** Thank you. Our next question is from the line of Ashish Rathi from Kotak. Please go ahead.
- Ashish Rathi:** Sir just wanted to understand, Salmeterol sales were there for full quarter, I am sorry I joined a little late so if at all I have missed it, Salmeterol sales were there for full quarter or a part of the quarter?
- Saharsh Rao:** It was there throughout this quarter Ashish.
- Ashish Rathi:** And so is it like an upward sloping trajectory in terms of the order book for Salmeterol from the start of the quarter because what I want to get a sense on is, is it fair to assume that margin improvement thanks to Salmeterol should be seen in the near-term if the run rate as on today continues?
- Saharsh Rao:** If we talk about standalone Salmeterol I think maybe your assumption is correct Ashish, but I think the only point to consider is that what Sucheth was mentioning earlier in the part of the call is that we also have a significant contribution from other products and ultimately the margin that is made is determined by the weighted average of all the products put together. So I think yes, generally think this is the beginning of our sales of Salmeterol so I think the slope will continue to look up, we would not elaborate on the details but I think yes we also have to be mindful of the dynamics of the other products and what exactly is shipping out in a specific quarter and that will determine the overall performance.
- Ashish Rathi:** So just to get a sense of how probably the outlook looks for in this particular drug, so do you think say a full year impact for FY17, this would probably be one of our important top five, six products for the company, Salmeterol could become as big.
- Saharsh Rao:** Yes, without getting into any details I could say yes.
- Ashish Rathi:** And definitely the margins would be one of the best compared to other products for this product?
- Saharsh Rao:** See we mentioned in the past that Salmeterol represents that category of products which is high margins for us because of the complexity and obviously as it picks up in volumes its contribution is very obvious.
- Ashish Rathi:** Second part is on custom synthesis, is there any new business or interesting opportunity that has come our way in this quarter which was not there say last quarter?
- Saharsh Rao:** See I think there is a constant pursuit for new projects in the CMS space and I think I have mentioned as part of my initial brief that few patents have been filed and in fact some of these patents could create enough IP for us that we may be able to generate some CMS business from these projects. Now you know the sale cycle of these projects is long enough that it could

take anywhere from one to two years or maybe even longer for us to get commercial revenue from these kind of opportunities.

Sucheth Rao: Just to add to that Ashish, we developed Salmeterol in 2007, 2008 and it is only this year that we are actually starting to see significant revenues from it last year and this year. So you can imagine how long it has actually taken us to commercialize something that we have been working on for almost seven years, so that should give you a sense of how much work and how much time of the sale cycle is for our products right.

Ashish Rathi: So why I ask is because in previous interactions we have discussed that we are working on six big molecules in the custom manufacturing business CMS, is there any change in that is what I want to check or have we got any new molecule because I understand we were doing some contracts with some customers in Japan and there were six molecules we were working on, so is there any change to that number?

Saharsh Rao: See I won't comment specifically on that reference number that you have Ashish but I had mentioned earlier in the call that this year we expect to close 26 projects in the CMS space. Now a large part of these 26 projects are projects that are new projects, now the nature of these projects are that some of them are actually going to be those commercial molecules, some of them are going to be one-offs which will probably drop off at the end of this project. So yes there will be additions overtime and I think the way we are ramping up our business on CMS and the kind of growth that we are expecting we expect to add more molecules.

Ashish Rathi: So has sales contribution been on an upward trajectory for custom synthesis say for the quarter from compared to last quarter?

Saharsh Rao: Yes, so I think in terms of tangible efforts the size of the business development team has increased, I think in terms of the spread, in terms of the access to the customers, in terms of the number of patents that we have last year versus this year, in terms of the discussions we are having there is definitely lot of qualitative parameters, there is a clear improvement and I think these will result in more CMS projects that are getting added to our business and that is definitely giving us that optimism that we maintain in terms of our growth prospects for CMS. So it is definitely looking positive for us.

Ashish Rathi: so when do you think it will lead a scale which is decently ramped up for us to get the desirable peak margins from this business, a year or two years where do you think...?

Saharsh Rao: See again at the expense of sounding redundant Ashish I will just circle back to the point we were making earlier; I think we are looking at potentially the business growing upwards of 25% over a four year period. We are very cautious about talking specifically about the next one year, two years or so, we are also looking at the EBITDA margins going up to 20%, now a big part of that growth in EBITDA margins is going to come from these kind of projects in the

CMS business. So obviously we have factored that and we think it is going to be a big part of our future. So I think it is going to be a combination. I think at this point we are really not in a position to give more specific details.

Ashish Rathi: And this you said about some products which probably saw some lower than expected pricing, just wanted to understand why this happened, I mean why did expectation not meet what actually pricing came at, was there increased competition or what was the reason for that?

Sucheth Rao: Ashish as you know and I might have said this in a comment earlier is that currently the products we sell about 40, 45 products regularly every quarter and of course there are some products which we sell on a campaign basis which may not be sold consistently in every quarter. So usually when we are selling these many products we have sales in Latin America, we have them in India, MENA regions. So based on way the sales are concentrated in that specific quarter it could actually influence the overall margin, so from our point of view it is not unusual for us to see the margins go up and down because they can be significantly influenced by which product we are selling in which market at what volume. So it is not something to be that concerned about, it is not an aberration, you would probably expect something like this in the future quarters as well where the margin or the percentage will keep changing from quarter-to-quarter.

Moderator: Thank you. Our next question is from the line of Saravanan Viswanathan from Unifi Capital. Please go ahead.

Saravanan Viswanathan: Sir in the annual report I had observed that in other income there is something called a job work income, can I understand it better what does that relate to, in other operating income?

Anil Kumar: So this is in the annual report or in this quarter's results?

Saravanan Viswanathan: See, in other operating income I wanted the breakup so I went to the annual report to see what you normally classify under other operating income, so there are export benefits and besides export benefits the significant part was this job work income, so I am not sure whether in this quarter there is something.

Anil Kumar: See, the other operating revenue comprises of largely two elements, one is export incentives and second is income from APIC which we get as reimbursement of cost or maintenance charges or compensation which we get, so those things are classified as other operating income.

Sucheth Rao: And they will change Saravanan based on quarter-to-quarter, based on our exports as well because our export incentives change and so does our call with APIC.

- Saravanan Viswanathan:** So once the block is used for supplies to API it will form part of sales, till then it will be only shown as other operating income?
- Sucheth Rao:** Well it depends, it depends on agreement which we do not have the liberty to discuss at this point.
- Saravanan Viswanathan:** And this block was paid for by APIC or is it paid by you and capitalized in your books?
- Sucheth Rao:** Paid by APIC.
- Saravanan Viswanathan:** So it is not capitalized in your books?
- Sucheth Rao:** No, it is not.
- Anil Kumar:** Yes, it is not part of our capital assets.
- Saravanan Viswanathan:** And my final question is, in terms of EBITDA margins is there a base ban that we can work on or a ban like floor on cap?
- Saharsh Rao:** See I think Saravanan we had talked about is potentially inching towards 20%, I think in our last conference call also we said what we had seen as the EBITDA margin of the previous quarter which I believe is 17% could be expected to be a part EBITDA margin for us. Now as you also mention that it is not going to be possible to have a uniform EBITDA margin every quarter, there will always be variation and I think that is really part of our business but I think the moving average will take us to 17% and upwards and maybe towards 20% overtime.
- Saravanan Viswanathan:** So 15 to 20 is a reasonable band?
- Saharsh Rao:** Yes, I would think so.
- Moderator:** Thank you. Our next question is from the line of Ranveer Singh from Systematix. Please go ahead.
- Ranveer Singh:** Just on margin front itself, when we talk about the lumpiness, so I wanted to understand which part of business actually lumpiness was due to lower in custom synthesis segment or it was in API side? Secondly, when we talk lumpiness actually we have a very well widely distributed products and a large base of clients also, so how come this slippage comes on quarter-on-quarter?
- Sucheth Rao:** So Ranveer it is not necessarily a slippage, I would still categorize it as lumpiness because the lumpiness does not come so much so from the business point of view but it comes from the operations and deliveries point of view. So usually what happens is that since we have products which have a very wide range of margins that we supply to the market it is very

possible that within a quarter and within a year the products mix will be such that in a quarter we are dispatching products which are lower margins, in a certain quarter we could end up dispatching products which are of higher margins. It is just a timing perspective because as you know these are complex chemical processes, typically it takes anything between 12 to 16 weeks to manufacture some of these products. So the lead time of a certain campaign can be as long or more than a quarter and that's what leads to lumpiness, it is not essentially from a business point of view, it is more of a operations ratio.

Ranveer Singh: So is it do anything with custom synthesis business as well because I believe this business has a better margin profile so is there something missing there?

Sucheth Rao: No, it happens in both, so for example even on the generic side we have this product called Paricalcitol, it is a vitamin D2 analog, it is a 14 step process and it takes us almost four months to manufacture that product, so it can happen on both sides Ranveer.

Ranveer Singh: So when we talk off going towards 18%, 20% kind of margin which we believe even if that custom synthesis business is 20% of our sale still 80% would be from API and so where the difference will come exactly because in your commentary you said that CMS business is actually we are more waiting on in terms of margin and in API also we have some complex products there. So just I wanted to understand, just from 15% to 20% CMS business is moving will give that push of margin or we have some API as well which will give more than 15%, 16% kind of margin that's all?

Sucheth Rao: So for example if you followed our results the last couple of years Ranveer our margins have inched up from I think in a worst case kind of a scenario our margins were around 12% to 13%, EBITDA margins and if you follow the company over the quarter we have inched up from 11%, 12% to 13%, 14%, we went up to 16%, dipped back to 14% last year, came back upto 17% this year. So if we actually follow that we can see that the company is evolving in such a way that over a period of time the overall EBITDA margin actually has a consistent trend upwards, though the trend has not been like a linear trend it is a consistent trend nonetheless. So obviously in the long run as the business mix continues to evolve we expect that we will consistently hit above 18% to 20% EBITDA margins.

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

Chirag Shah: Sir just a question I had is, if I look at our last three four years our revenue run rate per quarter is in the range of 100 crores to 120 crores now, what I would like to understand is, is our business such that old products see really tough competition in pricing pressure and hence unless we have a significant share of new products our revenue trajectory and hence margin trajectory is not likely to inch up and hence your guidance is extremely hinging on the new products that you are focusing on, is this the right way of looking at your business?

Sucheth Rao: It is a good question Chirag, but I will clarify it. When you look purely at the financial numbers it looks like the revenues have been more or less flat, but what has also happened in the last few years is that there have been a couple of products that we had actually discontinued so there was this product called Ranitidine where we used to manufacture close to about 300 tons in a year which contributed about 60 crores, 70 crores of revenues, we have had to discontinue that product because of restrictions from the government because of other government permission related issues. So though the overall growth in the top-line seems modest, it does not really reflect the products that we had to discontinue. Going forward we do not expect to discontinue any more products, so if you take away the affect that these one or two products have had on the top-line all the other products have grown by about 20% year-on-year, that means that the overall business has been growing at a healthy rate and that is the basis for us saying that we expect the same kind of growth going into the future as well.

Chirag Shah: And how does your profitability for a product behaves over the lifecycle?

Sucheth Rao: So for example there is a product called Ciprofloxacin which was highly profitable when we first launched it, it became significantly unprofitable in between and is back to being reasonably profitable again. So it all depends on product to product basis, usually when we launch it we tend to make more profit, it goes to a point where it maybe not be as profitable but as long as you continue to stick with the product you continue to invest in cost reduction it will continue to be profitable.

Chirag Shah: So as a request, is it possible for you to share some data points on if we have to look at last two years or last three years new products contribution versus old products how it has been moving, maybe if you can share some thoughts or later on in annual report if you can put it across how the trajectory has been behaving for you, because it appears that large part of our margin trajectory and the revenue growth trajectory hinges on new products and unless the new products are getting well accepted it may not really turn out to be the way you are looking at.

Saharsh Rao: So I think there is limited information that we can provide Chirag but I am not sure if you have actually gone through our presentation that we have put on our website but there is a fairly good amount of detail revenue split that we have actually posted that maybe I would request you to take a look at, I think that to a large extent would address some of the questions of the segregation between some of the older products as well as the new products.

Moderator: Thank you. Our next question is from the line of Ashish Rathi from Kotak. Please go ahead.

Ashish Rathi: Just wanted to check any new products launched in this quarter or got approved?

Sucheth Rao: Nothing of significance Ashish.

- Ashish Rathi:** And what is your filing, so did we file for new products or what is the filing plan for balance part of the year and maybe FY17?
- Saharsh Rao:** We have plan of filing DMF and CEP for about 10 products.
- Sucheth Rao:** So Ashish there are about 9 APIs for which we will be filing DMF.
- Ashish Rathi:** And any product which we did not have any revenue income which was approved earlier and got a revenue income this quarter, I mean basically a new contract for any product which was there approved?
- Saharsh Rao:** We have already talked about these products already in our presentation, so I think there is nothing new that has come out.
- Sucheth Rao:** Yes, so no such thing Ashish, as we said in earlier to one of the questions is that it is almost a continuous process, there is no one particular period there will be a huge launch, not any more at least because the landscape will become so complex.
- Saharsh Rao:** Something new we will definitely keep you guys informed.
- Moderator:** Thank you. As there are no further questions I would now like to hand the floor over to Mr. Diwakar Pingle for closing comments.
- Diwakar Pingle:** Thanks. I will just hand it over to Sucheth for closing comments and in case any of you have any follow-on queries can either write to me or Ankit in my team, you have our email ids. Sucheth, over to you.
- Sucheth Rao:** So gentlemen I just wanted to thank you for all your questions, I think there were some very good questions today. I will keep encouraging you to ask us as many questions as you can and a many tough questions as you can because it also pushes us to think very hard about our business. So I just wanted to say once again that we really appreciate all the questions and thought that you have put in the current and ongoing performance of Neuland. With that I will hand it back to Diwakar and hope to speak with all of you again soon.
- Diwakar Pingle:** Thanks. I think we can disconnect right now. Thanks and have a good evening everyone.
- Moderator:** Thank you. On behalf of Neuland Laboratories Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.