



“Neuland Laboratories Limited Q3 FY16 Earnings Conference Call”

February 03, 2016



MANAGEMENT: MR. SUCHETH RAO – DIRECTOR & CEO
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MODERATOR: MR. ANKIT GUPTA – CHRISTENSEN IR



Neuland Laboratories Limited
February 03, 2016

Moderator: Ladies and gentlemen, good day and welcome to the Neuland Laboratories Q3 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankit Gupta from Christensen IR. Thank you and over to you Mr. Gupta.

Ankit Gupta Thank you. A very good evening everyone and thanks for joining this Q3 FY16 Earnings Call for Neuland Laboratories Limited. Please note that the results have been mailed to you and you can also view the results the press release on our website www.neulandlabs.com.

To take us through the results and to answer your queries we have with us today Mr. Sucheth Rao – Director and CEO, Mr. Saharsh Rao – Director and President and Mr. Anil Kumar who is the CFO.

Please note we will be starting this call providing a brief on the company's performance followed by a Q&A session.

I would like to remind you that everything said on this call that reflects on any outlook for the future or which can be construed as a forward-looking statement be viewed in conjunction with uncertainties and risks that they face. These uncertainties in risks are included but not limited to what we have mentioned on our prospectus and subsequent annual reports, which can also be found on the website. With that said, I now turn the call over to Mr. Saharsh Rao. Over to you Saharsh.

Saharsh Rao Thank you Ankit. Good evening ladies & gentlemen. Again warm welcome to our Q3 FY2016 Earnings Call. We would like to say that Q3 has been another quarter of consistent results and the strategic direction of becoming a highly profitable API company. While we had very significant improvements on a year-on-year basis we have also maintained steady performance quarter on quarter. We registered a total operating income of Rs. 121.9 crores for the quarter as compared to Rs. 107.8 crores in the corresponding period of the previous year. This reflects an increase of 13% in terms of income and actually our EBITDA stood at Rs. 19.4 crores compared to Rs. 14.3 crores for the same period of the previous year which is about a 36% increase. The EBITDA margins have shown improvement of 267 basis points at 15.9% for the current quarter against 13.3% of the same quarter in the last year. Net profit stood at Rs. 6.3 crores compared to Rs. 1.9 crores in the corresponding period of the previous year, which is a significant increase of 226%.

Coming to the key business updates, we are happy to share that we have added another API to our product basket. This is Labetalol. It is a generic API. The molecule is anticipated to generate revenues in the short to medium term as well as in the long term. In our current products we

have achieved higher than anticipated sales for Levetiracetam as well as Salmeterol. The market looks very interesting for Salmeterol and we believe that we are on the right track towards it to commercialization. On the CMS front we are pleased to inform you that we received a large value CMS order from one of our existing customers. We have been working with these customers since the drug was in phase 2 and now the customer is anticipating to file a new drug approval sometime next year. This certainly gives us confidence about the business numbers we have been looking to hit in the CMS space.

Besides these updates we would also like to share a strategic update and Neuland is in the process of entering into a modified agreement with API Corporation, Japan. On the basis of this pre-negotiation the assets that we created for APIC will be transferred to Neuland for our use. And this capacity will be immediately available for Neuland and this would also offset Neuland short term capacity needs along with the benefits that we envisage from the long-term business that we foresee with APIC. Overall the business sentiment looks positive. We believe that we are moving in the right direction and our strategic efforts over the years are reaping the benefits we anticipated. Along with the existing API business our CMS and complex molecule space is gaining traction and we see the strength to stay positive in the periods to come. We are happy to answer your queries and wherever required Sucheth or Anil will also step in.

Moderator

Thank you very much. We will now begin with the question and answer session. The first question is from the line of Hareesha Kakkera from Bank of Baroda. Please go ahead.

Hareesha Kakkera

It can be seen here that Neuland Laboratories is into the peptide business. I am interested to know what part is it contributing to the API business like when it comes to the segment breakup within APIs what is the contribution of peptide APIs and where do you see the growth of this in the next 3 years?

Sucheth Rao

First of all I would just like to clarify that Neuland Laboratories as such is not present in the peptide space, however we have talked about it in the past because our entire overall strategy for the group companies when it comes to peptides was based on a fact that these are kind of niche molecules and they could significantly add to the overall bottom-line of the organization. So we never really built up a strategy as a group to become a leading player in the peptide space itself but we looked at more specific peptide molecules that could augment our overall strategy of becoming a niche API pharmaceutical player. So that is where the whole story comes from. So as far as our peptides is concerned and for Neuland Laboratories they are not factored into our projections or we have not assumed that they will significantly contribute to our top or bottom-lines going forward.

Hareesha Kakkera

When you say complex molecules what are the complex molecules that you are aiming at as of now?

Sucheth Rao If you look at our product list you will see several on there, so there are products like Salmeterol, Paliperidone Palmitate, Propofol, there are certain APIs that we make for the injectable space. We make molecules such as Brinzolamide. We are the first API globally to offer a sterile micronized Brinzolamide which is used for intraocular pressure. We supply the API for that obviously but it is a very niche molecule and we are the first API company to introduce this product. So there are several such products which are pretty evident on our product list.

Hareesha Kakker Okay, so are you looking into products that match up to the drug delivery systems of today?

Sucheth Rao Depends on which specific drug delivery system. We obviously do not offer our drugs to a very wide range of drug delivery system. We offer several APIs which are used in metered dose inhalers, dry powder inhalers. We use APIs for injectable, oral suspensions, ophthalmic solutions. So several such formulations which are different drug delivery systems but it depends on which drug delivery system you are talking about.

Hareesha Kakker Well, you are not into the formulations, so there is no point about talking about the surface layer tablets and all.

Moderator The next question is from the line of Ranveer Singh from Systematix Shares. Please go ahead.

Ranveer Singh This is about our revenue, we see continuously revenue has been declining even QoQ on a sequential basis and the way I understand QoQ performance may not be similar but at least in 2-3 quarters some traction should reflect. So just I wanted to understand of that two mega segments, API and CMS where we are missing actually?

Sucheth Rao I personally do not think we are really missing anything. If we look at the last year's numbers and if we compare the quarter on quarter, so what we did year to date, last financial year and what we did year to date this financial year, our sales have grown by about 12% and our profitability has grown significantly more. So for the whole year last year we declared a PBT of about Rs. 24 crores for all four quarters. For this year, year to date PAT has grown by 96% and our overall strategy as an organization of the last several quarters has been our focus on our bottom-line and not so much so on pushing the sales on the top-line. And you have seen this obviously in the results compared to last year as well. So as far as the CMS business is concerned that is growing healthy as well. This year it has contributed to almost 20% of our overall sales as we have been saying in calls earlier. In the next 2 to 3 years we see that this will contribute to 35% to 40% of our overall sales. Obviously the EBITDA margins are higher in that business but so are the EBITDA margins for specific APIs given on the generic space. So obviously going forward we expect that the revenue also will grow significantly but so far our focus has been to build a stable profit base which you have seen in the last three quarters and we expect that to continue. And post that we also expect the revenue to grow significantly higher and I do not know if I have mentioned this in the previous calls but we used to have a product called Ranitidine which used to significantly contribute to the top-line as well. We have completely

discontinued that API. So unfortunately in the financial result though the top-line kind of looks flat it does not reflect the fact that we have discontinued one of our largest products. So if you remove the effect of discontinuing that product then over the last four years we have actually grown at close to 20% CAGR.

Ranveer Singh

Okay, so that two APIs which we scaled up in Q2 itself that anti-psychotic, anticoagulant, so whether these two new APIs not contributing right now materially to our top-line?

Sucheth Rao

No, they do not because these are early stage APIs. The reason we have mentioned them is because it gives you an idea of the strength of our portfolio going forward. The mention of these products is not to give you a sense that they are contributing to our current quarter results. It is more to reflect that we are building a robust pipeline of APIs which will contribute to our result 2, 3 or may be even 5 years down the line. It has nothing to do with that current or the next few quarters' performance.

Ranveer Singh

Okay. And what has been the revenue from Salmeterol for this quarter?

Sucheth Rao

We cannot disclose any number specific to API.

Ranveer Singh

No, but on QoQ this has been better?

Sucheth Rao

It has been better. That I can tell you that it has been significantly better.

Ranveer Singh

Secondly about API Corporation (APIC) facilities which we have modified the agreement, so I wanted to understand what cost it would involve in case we agree to take this facility back? Then we have to revert the cost they have reimbursed us?

Saharsh Rao

Not really. I think we have always maintained that we have a very optimistic view on the collaboration with the APIC because they have a very long term outlook in terms of the manufacturing collaboration we have and in terms of the needs of catering to the Japanese market. However, there has always been a limited knowledge of their short term capacity requirements and we have been maintaining that in the past as well. What is also interesting development is that Neuland's own capacity utilization needs have been quite strong especially given the improving product mix, the CMS business also ramping up, we have had a very significant need for manufacturing capacity. And as a result of that we had discussions with APIC to try to find a win-win situation wherein we could actually utilize the capacity that is currently available in APIC rather than go outside and look for additional manufacturing capacities. That has been the fundamental reason why we have pushed for the change in arrangement. With regards to the cost fiscal we really have not commented on the specifics of the transaction in the past and for the same reason we will not really disclose the specifics of the transaction that we are trying to complete.

- Sucheth Rao** All I can say in addition to what Saharsh has said is that this was a good collaboration, it continues to be a good collaboration. They still want us to give proposals on several other APIs that they would like us to develop for them, so the relationship does not change. What changes is the financial arrangement because of market realities. Obviously since APIC is also a party to this agreement we cannot disclose any specifics with regard to the agreement but all I can say is that they have been very fair to us and we are being very to them. And that is why the strength of the relationship actually continues to grow. And this is only a reflection of the financial arrangement and not the business arrangement. I hope that makes sense.
- Ranveer Singh** So what I understand that earlier the path of setup cost was reimbursed by APIC, right?
- Sucheth Rao** Correct.
- Ranveer Singh** So this cost would be reverted in case the company takes it back or this financial arrangement is changed in such a way that the facility is completely owned by us then obviously in past whatever cost has been reimbursed either we have to refund it back or how this will work? That is what I wanted to know.
- Sucheth Rao** We do not have to reimburse them for any cost.
- Saharsh Rao** It is a change going forward. It is a prospective change which is going to happen.
- Ranveer Singh** Currently we are manufacturing two products from this facility or API had ?
- Saharsh Rao** Currently one product has been scaled up and once the transaction that we are in the process of renegotiation concludes we will be able to use it for other products as well, which will be Neuland's products (CMS products as well as generic APIs)
- Ranveer Singh** So what type of contribution should we expect from this vertical going forward?
- Saharsh Rao** We will not be in a position to disclose the exact specific but it will be, as we have described in the past an intermediate manufacturing facility and we have already identified products which are of that nature which we will be mapping to this facility. And it is also we have disclosed in the past the 65 kiloliter(KL) which is 65,000-liter reactor volume intermediate facility. So beyond that we are not really going to disclose specifics of what will be the revenue generation from the facility.
- Sucheth Rao** I mean you can use broad benchmarks which are available in the industry Ranveer. It could be a range, which I am sure we can do the calculation. For us it will depend on the kind of the products and the volume of products that we actually scale up going forward and that is why we comment on.

- Ranveer Singh** Can you give the number of DMF filing currently?
- Sucheth Rao** So totally for US DMF we have north of 50. I think globally file more than 600 filings have happened. DMF and close to have about 75 products totally.
- Moderator** The next question is from the line of Sarvanan Vishwanathan from Unifi Capital. Please go ahead.
- Sarvanan Vishwanathan** This is relating to the media reports that the US government has made it mandatory for APIs to be manufactured locally. Since Neuland is predominantly an API company, how do you see this development? Is this development true and if so how do you see it affecting your prospects?
- Saharsh Rao** So where did you get this information Sarvanan that US government has mandated that the APIs be manufactured locally?
- Sarvanan Vishwanathan** It has got reported in today's Hindu Paper.
- Saharsh Rao** We have heard no such thing of US Government mandating that APIs to be manufactured locally, so it is something that we have to – I do not know how that is logistically possible because the US buys almost every API from outside.
- Sarvanan Vishwanathan** We were surprised as well.
- Sucheth Rao** The APIs actually do not get manufactured in the US.
- Saharsh Rao** 90% of the APIs are actually coming from outside the US but it is something that we have to examine. So it is not something which we have been made aware or are in a position to comment about it.
- Sarvanan Vishwanathan** So the second question is about the arrangement with APIC, so does that mean the Brownfield acquisition that you were considering now you will shift to few years later? And also a follow-up question is that would you capitalize that 65,000 liter facility now?
- Sucheth Rao** It is a yes to both the questions, you are absolutely right.
- Moderator** The next question is from the line of Neeraj Bukalsaria. Please go ahead.
- Neeraj Bukalsaria** My question was actually around our existing capacity and the sales which we can generate from our existing capacity. So if I am not wrong, in the previous call Mr. Sucheth mentioned that from our existing capacity we can generate sales of around Rs. 750 crores to may be somewhere around Rs. 850 crores. And given that now we have modified the agreement with API Corporation and so then do we have the visibility or the order book to capitalize on our existing

capacity and may be reach a regular figure of somewhere around Rs. 750 crores to Rs. 800 crores next year given that we are changing the agreement. So is it correct? Is the assumption true?

Sucheth Rao

Yeah, so I think the assumption about being able to capitalize this capacity for our own products is absolutely true. What I cannot comment on is the timeline because obviously the sales cycle since we sell our APIs into US for the US market into Europe as well as for Japan, the sales cycle tends to be long. We do not sell too much into the less regulated markets. So the downside of that is that when capacity becomes available it is not something that we can exploit within one of two quarters. It still has a long sales cycle. So as to the timing of when that will happen it will be hard for me to comment, but you are absolutely right of being able to exploit the capacity to our use. So I think it is a favorable outcome for us.

Neeraj Bukasalria

Okay, so then assuming the API capacity comes – I mean it will come may be within one or two quarters within Neuland umbrella. So we will have the visibility of may be Rs. 1000 crores of revenue in next 2 to 3 years. Is it correct to assume?

Saharsh Rao

See I think the capacity of APIC will be available right away as you have mentioned. The capacity to reach Rs. 1000 crores it is again I think what Sucheth has maintained in the previous investor calls of being able to reach Rs. 750 crores to may be Rs. 800 crores is still possible within our two facilities. Even if we bring in the APIC facility into our infrastructure it will further build on the Rs. 750 crores but it is very hard to comment whether it will be enough for Rs. 1000 crores. I think at least at a preliminary level of understanding not be adequate. It will perhaps differ our timelines to do any Brownfield work. So we do not have any burning need for doing any kind of a facility acquisition right away but we will have to still nevertheless do it in order to do Rs. 1000 crores.

Neeraj Bukasalria

I was hearing some other pharma company's conference call as well and they said that falling crude prices have brought APIs prices down as well. So are we experiencing the same?

Saharsh Rao

See it is hard to comment but I think generally speaking if you try to understand the portfolio of APIs that we have today majority of them are in the niche complex space. We really are not so actively playing in the "commodity API space" where there is a lot of transparency in the pricing of the API and the direct impact on the pricing of the raw material. So given that I would say that it does not have such a strong impact on us. There will always be a few APIs which are high volume APIs for us which may have some sensitization to the falling crude oil prices. But on an overall basis for the company we really do not see any kind of a significant impact.

Moderator

The next question is from the line of Viraj Mehta from Value Quest. Please go ahead.

Viraj Mehta

What I wanted to understand Sucheth is in these last few conference calls we have always mentioned that we should be growing at 20-25%, but if I compare this quarter or these 9 months with 2 years back, basically FY14 because 2015 was a washout year for us because one quarter

was completely out. So we have essentially not grown. I mean if I take two years, both operating profit as well as top-line, both have grown 4-5% CAGR 9-month to 9-month 2014 to 2016. All I am trying to understand is that if we are growing more complex molecules than earlier either our margins should have been lot higher than what they were 2 years back or our revenue – I mean what am I missing? I am not able to understand the strategy and the numbers. They both together somehow do not make sense to me.

Sucheth Rao

So I will just clarify that Viraj. I think I eluded to the same response I am going to give now in one of the earlier questions is earlier there was a point where 50% to 60% of our revenues, this was as early as 3 years ago or so which was coming only from Ciprofloxacin and Ranitidine. So part of the Ciprofloxacin revenues was coming from this large government contract that we had and of course we were selling about 250 tons of Ranitidine as well which is contributing to another 60-70 crores of sales. In the last 3 to 4 years Ciprofloxacin has come down to less than 17-18% of our overall sales and Ranitidine this year has literally become zero, right. That means almost 100 to 150 crores of top-line has been wiped out just by these two products. So one was the government contract obviously which is not sustainable business over a long run and there is another product which is completely discontinued. That means if a top-line has been more or less flat or if it has grown by 12% since last year, it means that all the other products that we have been talking about have actually taken up the vacuum caused by the two largest products which have contributed more than 50% of our overall revenues. Unfortunately, the financial numbers do not reflect this because we do not report revenues by segment or by product, but if you actually take away the effect of these two unsustainable businesses which we do not expect will happen in the future, that means there is no product that we intend to discontinue in the future and none of the current businesses actually coming from a short term government contract, the overall business has actually grown by more than 20% year-on-year. That is the response to the top-line.

Now coming to your question about the bottom-line if you look at our numbers. I probably would not have the exact numbers but I remember that our EBITDA margins used to be in the range of 11% to 12%. In FY12 we made a profit of Rs. 2 crores. FY11 we made a profit of Rs. 5 crores. We had a bad year last year because of our inspections in Q1 and our major shutdown in Q3 but we had a good year before that. So if we actually look at the overall performance of the company from making 11% to 12% EBITDA margin and a PAT of 1% to 3% we have got into a point where our EBITDA margins are 16% - 17% which we expect to improve quarter on quarter. And our PBT percentage is up to about 8%.

Now I have mentioned in my previous calls that given a strategy we do not expect it to be consistent that means please do not expect to see that our EBITDA margins will improve quarter on quarter because it is not going to happen. It is subject to our product campaigns, our product mix and when you are manufacturing about 50 to 60 APIs consistently there is a lot of product mix issues and lumpiness that comes on a quarter to quarter and sometimes even year to year numbers. However, in the long run we definitely expect to achieve consistently 20% or more

often EBITDA margin and also this 20% CAGR to grow in terms of top-line as well which we have seen in the past. Unfortunately, it is not reflecting the previous numbers because of these two products that we have actually discontinued.

Viraj Mehta

I understand that. My reflection was only on 9 months FY14 compared to 9 months FY16 because as you yourself said that 2015 was basically a washout, so I am not even considering that. And even considering both these two years, even the EBITDA for 9 months for the company has grown from Rs. 52 crores to Rs. 55 crores. That was my only question. Thanks for your answer and thanks for your time.

Moderator

The next question is from the line of Prateek Singhanian from Param Capital. Please go ahead.

Prateek Singhanian

First of all can you tell me that you said that your Brownfield expansion will get delayed, so how much would be the quantum of Capex that would be saved because of this agreement?

Saharsh Rao

I think the facility that we are talking about, this APIC facility we have mentioned it is a 65 KL intermediate production facility. If this was an acquisition which I am assuming is what we are calling a Brownfield, you can probably try to understand what could be the market price for acquiring such assets. I think we do not want to speculate but I think there is definitely a market price for intermediate facility based on a per kiloliter basis.

Sucheth Rao

That typical benchmark is that if you want to acquire a capacity in a regulated company which is being inspected by the FDA or by authorities, the typical benchmark is based between 50 and 75 lakhs per kiloliter if you want to acquire it. If you want to acquire a general intermediate facility which is not approved, it is usually around 30-35 lakhs per kiloliter. So based on that we can make a quick calculation as to how much we are impacted by it.

Saharsh Rao

And you have to note that this is even FDA approved facility, so it is a fully GMP compliance, state-of-the-art, brand new, intermediate manufacturing facility. So I think using Sucheth's benchmark it will probably be on the higher side. So that is the kind of Capex we would have incurred if we did this as a Brownfield.

Sucheth Rao

And the second thing is it just moves out of Brownfield acquisition by another 12 to 18 months, nothing more than that.

Prateek Singhanian

Okay, so then the second question is since we are operating at around 65 to 70% utilization and you said that excluding the two products, most of the products are growing by 20% on an average. Coupling this with the benefit that we will be getting from the APIC manufacturing facility, can we assume that you can reach a top-line of Rs. 1000 crores in 3 years?

Saharsh Rao

See the thing is we have never really in the past also tried to give very specific numbers on our outlook but I think the things we are comfortably talking about is what is the growth rate that

we are aspiring for an annualized average basis which is 20-25% and an eventual EBITDA margin of 20% of our top-line. If you actually do the math in your spreadsheet may be it is hard for me to say when exactly we will hit 1000 but I think given the kind of business outlook we have, the growth in CMS, the growth in our API. I think 20-25% growth rate is something that we feel comfortable talking about. And we do not want to commit to anything more specific.

Moderator The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani Thank you for taking my question. I wanted to know what percentage of the API portfolio is pertaining to complex generics.

Sucheth Rao About 1/3rd approximately 35% to 40% is complex generics.

Charulata Gaidhani Can you give me the geographic mix of the revenues?

Sucheth Rao Okay, in terms of where we sell our APIs – so there are two different ways to look at it, right? One is where we actually ship our APIs and where the end market where they are consumed, where our customer is actually shipping the tablets to. From where we actually ship out APIs about 12% or so is the US, about 50% or so is Europe and remaining between India and Japan. In terms of the end-market it is more of an approximation because it is hard for us to segregate or know exactly how much our customer is selling in terms of the end markets but we suspect that 30% would be US, about 50% Europe and rest of it is India and Japan.

Saharsh Rao The end-market India is quite significantly low.

Charulata Gaidhani Can you give me the contribution of the top-10 products and the growth in them?

Sucheth Rao About 50% of our revenues come from about top-10 products, between 50% and 60%, that changes from quarter to quarter.

Charulata Gaidhani How much would they grow by?

Sucheth Rao Well it is a combination, so I cannot give you a specific number. The products in there which we do not expect any significant growth, they are some of our older products like Ciprofloxacin, Sotalol where the growth will be nominal and stable. However, there are several products in there which we have seen that they have grown by 100% year-on-year, so unless I have to go down product by product and give you the growth rate.

Saharsh Rao I mean just for your benefit what we have stated in the last few quarters that Salmeterol, Levettiracetam, and the component has grown in the recent times. This is what we have said in the past and I think there could be others as well.

- Moderator** The next question is from the line of Darshit Shah from Nirvana Capital. Please go ahead.
- Darshit Shah** My question pertains to the previous quarterly call, we said that probably we will be attaining full capacity of our existing facility by next year. So do we stand by that as of now?
- Sucheth Rao** So you said that the existing capacity would be adequate for FY17, is that what you are saying?
- Darshit Shah** Yeah, so I understand that you said that probably we will be utilizing almost full capacity by next year FY17.
- Sucheth Rao** Yes, but the whole development with the APIC changes that a little bit that is the reason we have moved out our timelines for capacity acquisition out by a few more months or a year. But generally that statement that we made in the past is accurate.
- Darshit Shah** And sir this APIC transfer of assets, so what I ideally understand is we are not going to pay anything additional to them for this?
- Sucheth Rao** What we have said is that we will not have to reimburse them for any fee or anything they would have paid us in the past.
- Darshit Shah** Okay, so whatever transaction probably would occur within the next 2-3 months down the line. So how are you going to fund this thing?
- Sucheth Rao** We have not concluded any specific terms and conditions yet. I think once we do we will be in a position to comment.
- Saharsh Rao** I think next quarter call we will give you an update.
- Sucheth Rao** Yeah, next quarter call we should have an update. Right now there is a lot of discussion going on. I think we are comfortable with the fact that the discussions are very cordial. I think both sides are being very fair to each other and that I think we will reach a pretty good solution which will be a win-win for both sides. So we are pretty comfortable about that. That is the main message we want to convey as well.
- Darshit Shah** And sir my last question pertains with what earlier participant was asking about an article which in the today's newspaper he mentioned about US government probably planning to kind of make all APIs locally manufactured and that was specifically to supply probably US government orders from those companies. So any idea you have like how much of contribution probably would go to US government order from local US companies?
- Sucheth Rao** Right now in the pipeline we do not have any US government orders that we are supplying for. We supply to the open market. After it was mentioned over the call, we actually looked at the

article online because obviously you can imagine that we have been in a board meeting since yesterday but after looking at it the article also is very vague. It does not provide specifics as to what the regulation is. None of the US websites have any information published yet. So we will see, I think it is a very interesting development. We are not too nervous about it because I am not sure that this time it will impact us but you rightly said that it is probably for direct US government business that we are not involved with at this point. But other than that we cannot make any additional comments without getting to the bottom of the whole story.

Saharsh Rao Add to that, I think if we look through to all our products (CMS as well as API), we are not really aware of any products where we have a US manufacturer as a competitor.

Moderator We will move to the next question which is from the line of Sai Prabhakar from Karvy Stock Broking. Please go ahead.

Sai Prabhakar We seem to have moved to a quarterly run-rate of around Rs. 120 crores from earlier, which was around 100-crores odd. So If were to say is this because of products like Salmeterol and Propofol etc? And I think Salmeterol is still in a sample shipment kind of a phase.

Saharsh Rao I think the run-rate that you talk about I think the way we look at our business; I think Sucheth had described it very aptly. There is a transformation in the business because of the change in the product mix as well, also change in the business mix, the CMS coming in, the API coming in. I think the way we look at our business in the long term we see potential growth of 20-25%. I am speaking very conservatively and I think as we go through that journey they are also as he mentioned quarters where there will be stagnation, there may be even evidence of change or a negative change in margins. I think that is really the DNA of a API business where we have varying product mix. With regards to the question about the run-rate of 120 or 100, it is really difficult for us to comment on it. I think this is a journey that we are going through. If we probably had the same call may be 4 quarters later, we may be looking at a very different dynamic altogether. I think being a conservative company we do not want to comment too much in terms of what that outlook will be. I would have to just reiterate what Sucheth said, we are going through a journey of change in business mix which is reflected in the improved margins and we will continue to build on this which will demonstrate growth in top-line and both will go hand in hand going forward. But we will not really ascertain any timelines or milestones as part of our outlook.

Sai Prabhakar I was just inquiring what will be the next set of products because other than Salmeterol the other seems to have commercialized, am I right?

Saharsh Rao No, I think as a company our ambition is to scale up at least 10 to 15 products every year which would mean commercially launching at least 2 or 3 products generics besides may be several CMS products. So all these together would contribute to the growth of API.

- Sai Prabhakar** So you have put a good set of API products?
- Saharsh Rao** Yes, and in fact we make it a point to include these products in our annual report and every quarterly update also we are mentioning what products are being scaled up, what products have been commercialized. I think Salmeterol is definitely talked about a lot because it was the launch year, I think there is a lot of interest about the product.
- Sai Prabhakar** And to replace from sample supplies?
- Saharsh Rao** It is actually just to clarify it is in the commercialization phase so we are actually supplying commercial quantities, launch quantities this year.
- Sucheth Rao** Just to clarify Salmeterol is a very complex product. It is there in multiple devices. There is a standalone device. There is a combo device. There is a metered dose inhaler, there is a dry powder inhaler. So Salmeterol is not like other APIs where we can either say that we have commercialized it or not. So we might have commercialized it in some markets for the standalone device whereas the combination still needs to be launched. So I think any discussion about Salmeterol has to be much more detailed and not over investor call.
- Moderator** Thank you. Ladies & gentlemen, due to time constraint that was the last question. Participants who have questions which is not being answered we would request you to send those questions to the investor relations team. Thank you and over to the management for any concluding remarks.
- Saharsh Rao** No, thank you very much ladies & gentlemen for joining us for the call. We really appreciate it. Sucheth, you want to add a vote of thanks?
- Sucheth Rao** I am sure lot of had probably other questions which may have been answered and probably some questions that might have not been answered. Please feel free to reach out to Ankit or Diwakar and we will be more than happy to clarify anything that you have up to your satisfaction. So we really appreciate all your questions and your interest in Neuland and we look forward to the next call.
- 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.