



## “Neuland Laboratories Q2 FY18 Conference Call”

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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Neuland Laboratories Q2 FY18 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. In case if you require any assistance during the conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I would now hand the conference over to Mr. Binay Sarda from Christensen IR. Thank you and over to you, sir.

**Binay Sarda:** Thank you Stanford. Welcome and thanks for joining into the Q2 FY18 Earnings Call of Neuland Laboratories. Please note that we have emailed out the press release to everyone and you can also see the results on the website as well as the stock exchange.

To take us through the results of the quarter and answer your questions we have with us from the management Mr. Sucheth Rao – Vice Chairman & CEO, Mr. Saharsh Rao – Joint Managing Director, Mr. Amit Agarwal – CFO and Ms. Sarada Bhamidipati who is the Company Secretary.

We will be starting this call with a brief overview by Saharsh on the performance of the company which will then be followed by Q&A session.

I would like to remind you that anything that is said on the call and any outlook for the future which can be construed as a forward-looking statement must be viewed in conjunction and uncertainties we face. These risks are included and not limited to what we mentioned in the prospectus filed with SEBI which you can find on our website.

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

**Saharsh Rao:** Thank Binay and friends in addition to the people that Binay had mentioned on the call, we also have Mr. Kumar Gupta who is the AVP (Finance) joining us today and also Mr. Sajeev Medikonda who is from the Corporate Strategy and Planning group of Neuland. So again, Good Evening to all of you and A Warm Welcome to all of you joining this call. I will first touch upon the standalone numbers for the quarter followed by the business highlights.

For the standalone H1 of FY18 with a year on year comparison, our total operating income was Rs. 246.3 crores for H1 of FY18 as compared to Rs. 303.9 crores in H1 FY17 representing a decrease of 19%. EBITDA stood at Rs. 27.99 crores compared to Rs. 50.19 crores during the same period of the previous year, down by 44%. EBITDA margin was at 11.4% for H1 FY18 as against 16.5% for H1 FY17. Net profit stood at Rs. 4.89 crores for H1 FY18 compared to Rs. 19.74 crores for H1 FY17, a decrease of 75%. Basic EPS stood at Rs. 5.51 as against Rs. 22.22 for H1 FY17, again a decrease of 75%.

For standalone quarterly performance the total operating income was 126.19 crores for Q2 FY18 compared to Rs. 151.91 crores for the same period last year, a decrease of 17%. EBITDA stood

at Rs. 14.7 crores compared to Rs. 25.15 crores, a decrease of 42%. EBITDA margin was at 11.6% for Q2 FY18 as against 16.6% for Q2 FY17. Net profit stood at Rs. 2.59 crores for Q2 FY16 compared to Rs. 10.23 crores for the same quarter of last year, again a 75% decrease. Basic EPF is at Rs. 2.92 as against Rs. 11.52 in the corresponding quarter of the last fiscal.

As you can see the performance this quarter was weak following the quarter that we reported in Q1 and also let me get into some explanation for that:

The performance this quarter was impacted largely due to significantly lower than expected sale in product specifically Ciprofloxacin, Salmeterol and one product in our CMS segment. Also continuing from the previous quarters our orders from unit 1 were more than the available capacity whereas our orders from unit 2 were lower than the available capacity. And this imbalance can be attributed to the order mix of the quarter. We continue to address this imbalance, and this could take until the end of Q4 to be fully in place. Also, I am sure you might have seen the release where we have started the practice of now giving out detailed CMS pipeline flow across both for APIs and intermediates. We believe that this data will provide a fair indication of the health of our CMS pipeline and we will continue to provide this data consistently going forward.

We are also happy to announce that the Board has accorded an in-principle approval to purchase a multi-product facility of Arch Pharmed Labs from JM Financials ARC under the provisions of the SARFAESI Act. Once this deal is closed we expect the capacity from this unit to sufficiently address our growth aspirations.

To summarize, this year continues to be challenging for us from a growth perspective. However, we are taking all necessary actions on the sales as well as operations side to secure our growth. It also gives me great pleasure in this call to welcome onboard Mr. Amit Agarwal who joins us as the CFO. He has about 20 years of experience in various aspects of finance and has been associated with companies like DCM Shriram, Ballarpur Industries and Fortis Healthcare in the past.

I am sure you will meet him in the investor interaction soon. Now given this brief summary of the quarter and the performance I would like to throw open the floor to Q&A. Thank you.

**Moderator:** Ladies & gentlemen, we will now begin the question and answer session. The first question is from the line of Giriraj Daga from K M Visaria Family Trust. Please go ahead.

**Giriraj Daga:** Thanks for giving a detailed pipeline on CMS, it is really helpful. A couple of questions. First like you mentioned about that performance was impacted due to Ciprofloxacin and Salmeterol, impacted in revenue in quarter 2. How do you see that in the remaining part of the year? Like is it a one-off performance or do you expect this to linger on for the rest of the year?

**Saharsh Rao:** I think as of now outlook continues to remain as we have seen in Q1 and Q2. At this point of time the Salmeterol uptake is largely dependent on the approval of the products in the target markets which is largely Europe and North America. So we will really have to wait to see how the approvals and launch has happened. I think that will determine the sales and that is something that may not change in the immediate quarter or next quarter. I think with regards to Ciprofloxacin I think it is a fairly established product and in the past it has gone through various cycles. Sometimes we have seen steady growth, sometimes we have seen one or two sides of quarters where orders have been low and again offtake has started. At this point of time we are not exactly clear whether this is something that is connected with inventory adjustments or whether there is any kind of a dynamic change in the market. So the short answer to the question is for Ciprofloxacin we do not know, what exactly is happening. We are keeping a close eye on the market. With regards to Salmeterol we think the sales will pick up as and when the product approvals kick in.

**Giriraj Daga:** And what about the products in CMS segment?

**Saharsh Rao:** CMS segment products we are referring to have been approved recently by the FDA, However, the sale of the product has only started. What we understand from our customer is that only once the offtake in the market is seen we will see further orders come from here. I think it will probably be another one or two quarters before we get the order flow from that product. But at this time it is only an estimate from the management perspective.

**Giriraj Daga:** Second questions is if I look at the balance sheet, there has been significant increase in inventory and debtors. So would you like to throw some light there?

**Saharsh Rao:** I think with regards to the inventory and debtor I think in summary just a brief response to that is that we have obviously muted sales in Q1 and Q2 whereas our expectation or business planning has been towards our normal business. And in that point, we have gone through this phase with some of the inventories have been accumulated but this is something that we think will get normalized over the coming quarter.

**Kumar Gupta:** The debtor is already reduced. At the time of this result the debtor is more or less back in control and the sales ramps up the inventories will get adjusted as well.

**Giriraj Daga:** But what is your normal debtor cycle if I may ask?

**Kumar Gupta:** Normally if it is exports it is around 70-75 days, domestic it is around 95 days.

**Giriraj Daga:** Okay, because the combined basis it was coming more like 130-140 days as of September.

**Kumar Gupta:** That is actually at the end of every quarter you will some spike, but more sales will happen in the last part of the quarter. However, on an average basis it is around 85 to 90 days.

- Giriraj Daga:** Okay, this is my last thing, if you can just give the like what is the acquisition price of this Arch Pharmalab if you can share?
- Saharsh Rao:** Point is we are not in a position to disclose further details.
- Moderator:** We have the next question from the line of Rashmi Sancheti from Anand Rathi. Please go ahead.
- Rashmi Sancheti:** One question related to your new plant, how is it funded? Is it like most of the funding you have taken from debt or how it would be and when the deal is expected to get closed?
- Kumar Gupta:** For the funding part it is going to be a combination of debt as well as internal accruals. As you might have seen in our notice to the stock exchange, the Board has in principle approved this transaction to move forward but exactly when we will close depends on certain obligations that need to be completed so it could take a couple of weeks or maybe slight more.
- Rashmi Sancheti:** But you expect that it will get closed in FY18 self.
- Sucheth Rao:** That is correct.
- Rashmi Sancheti:** So what is your Capex plan basically? What is the Capex guidance for this particular year because then you will be, what you call, you will be spending some additional Capex on the plant also, right?
- Sucheth Rao:** I think as we have mentioned on the previous calls, notwithstanding the funding for these facilities, our regular Capex is going to be in the tune of about Rs. 40-45 crores.
- Rashmi Sancheti:** That is for FY18 you are saying.
- Kumar Gupta:** That is correct.
- Rashmi Sancheti:** Okay, but nothing on this particular plant?
- Sucheth Rao:** Well, like we said, at this point we are not in a position to reveal any specific details about this plant and the acquisition cost. All we know that it is going to be funded from a combination of debt as well as internal accruals.
- Rashmi Sancheti:** And one more thing related to your comments, which you said that the dynamic for Ciprofloxacin is changing. You are talking about the US market or all the geographies basically?
- Sucheth Rao:** Essentially US and Europe are our biggest market as Harsh was saying earlier. When we look specifically at the IMS data Ciprofloxacin looks like a stable product, it is not significantly growing or degrowing. There is an inventory adjustment from year to year. However, we do believe that some of our customers have some accumulated stocks and that is why the uptake

for Ciprofloxacin has been significantly more muted than what we expected. But as far as our view on Ciprofloxacin and its contribution to our overall sales and growth, we are not adjusting any long-term forecast for this product. We still think that it will continue to be a strong product for us.

**Rashmi Sancheti:** And one last question which I just want to understand is the demand for if you are getting less orders for Ciprofloxacin or Salmeterol, till that time just because your facilities are fungible you cannot push some other orders from those facilities?

**Sucheth Rao:** Yes and no Rashmi. One thing is that our facilities are actually not fungible. They are dedicated to certain products because as you probably know close to a 100% of the sales of Neuland goes to the highly organized or regulated markets. It means it has specific DMS which is referenced to a specific facility. So a product which is manufactured in unit 1 cannot be manufactured in unit 2 unless unit 2 is also qualified as a site for that specific product. Therefore, when we do see some additional load on one specific manufacturing facility it usually takes us about 2 to 3 quarters to realign that load by qualifying the alternate side because we have to take a validation batch, we have to file the data from that batch, we have to wait for the stability data to come and take the customer approval before we start supplying from the other manufacture site. Therefore, since it is not fungible for us the course correction takes a little bit longer than what it would take if we were selling to the unorganized or the less regulated market.

**Moderator:** We have the next question from the line of Abdul Puranwala from B&K Securities India Private Limited. Please go ahead.

**Abdul Puranwala:** If we compare on a sequential basis and we do see an improvement in the CMS as well as the niche side. So is it a fair assumption that few product side transfers have already been done and few more are in pipeline which we would see in the next quarter or so?

**Sucheth Rao:** Abdul we have done that already because I think we have mentioned it. I believe we mentioned it even on the previous call, so we have taken a couple of products from Unit 1, we have filed it in Unit 2. However, to get a site approval we need about 3 to 6 months of stability data, filing of that stability data, review by the regulator to approve that particular site to start commercially supplying material from that site. So we have done those validations, we have made the filings, so we are waiting for those approvals. And once those come through we will see that there will be an increase in sales from Unit 2 and the capacities will be much more balanced.

**Abdul Puranwala:** One more question on the CMS pipeline detail what you have shared with us, so if I see in the current quarter we had 10 products which were in the commercial space. There were only 5 which have yielded us revenues. So sir I wanted to understand at one point of time the other 5 would actually start showing us some revenues to the top line?

**Saharsh Rao:** You are referring to the CMS pipeline that we have provided, and you are referring to the 10 molecules that are listed under commercial. What I would like to do is just take a minute. I think it is an important question you asked, what I would like to do is take a minute to just explain what this table represents so that it will give not only you but the other callers as well some clarity in terms of what this dashboard means. So when you look at this table what you have seen is that under commercial we have 10 molecules listed, 5 are listed under API and 5 are listed under intermediate. What this essentially means that as it spans in end of Q3 in Neuland, as it spans in actually the beginning of Q3 in Neuland we have 5 APIs which are fully commercialized, and we have 5 intermediates which are fully commercialized. What it does not indicate to answer your question directly is that we have had sales of all these 5 in this quarter. And if you actually take a look at the same data for Q3 of FY17, which is data from one year ago, it shows a very similar situation. We had 5 products in the API categories which were commercialized and 5 from the intermediate category. But now I would like to explain the rest of the table also for your benefit and for the other people on the call. There is a column called development and under development we have six projects listed. Now this represents the number of molecules which are actually commercial in nature but have still not become commercial because they are in the scale-up stage at Neuland. And these molecules what we expect over the next maybe 6 or 12 or 18 months will move into the commercial column. And now in addition to that we have several projects in the pre-clinical phase 1, phase 2 and phase 3 stage, many of these as you can see are API, some of them are intermediates. What we intend to do is through today's scorecard as well as going forward give you a sense of how the projects are moving on a quarter to quarter basis, so that you are able to assess whether we are able to add more projects to the pipeline. Sometimes if a molecule fails in the clinic or the customer decides to stop the project or the customer decides to take the project elsewhere then what we do is we would subtract that molecule from the dashboard. And therefore, in some cases you may see that there is reduction in number as well. So just to reiterate this gives you an indication of how many projects are live in Neuland but it is not necessary an indication that all these projects have actually given revenue to Neuland in the quarter.

**Abdul Puranwala:** The pending amalgamation, can you just share the revenue numbers for the first quarter and the second quarter of the two entities which are going to be amalgamated.

**Saharsh Rao:** So I think with regards to the first quarter I think the numbers have been already – do not have the numbers, they have been uploaded them on our website. We have uploaded the first quarter numbers on the website, I think second quarter is ready, we will upload them also on the website.

**Moderator:** We have the next question from the line of Ranvir Singh from Systematic Shares & Stock. Please go ahead.

**Ranvir Singh:** Just on this acquisition which we are going to do, just a little more I wanted to understand from a perspective that after this acquisition how much capacity actually we are going to add or how much of decongestion we will see after this acquisition?

**Sucheth Rao:** We cannot share any specific detail with regard to this acquisition. Whatever we could we have sent it as a notice to the stock exchange which you must have seen. However, I can tell you that it will accommodate our growth plans in the immediate future. So when I say immediate future, probably for the next 2 to 3 years. We do not have an immediate need for it. So there is no current burning need for this facility. For us it is more long term in nature and that is all we can reveal at this point.

**Ranvir Singh:** From our existing capacity it is in that comparison it is a very small capacity or a very big one because I am not getting any clue neither through Capex plan or capacity because these were the key reasons for two reasons we have been suffering. So what I thought that after this acquisition, this acquisition is the one that this acquisition would be the only acquisition in your future or still after this acquisition we will be looking for more capacity addition to decongest the capacity or this will be sufficient for near future, if you can give some more light on it.

**Sucheth Rao:** Ranvir the whole point was actually not to give you any clue but anyway jokes aside, I think this facility is a decent size like I was saying earlier it will accommodate our future growth plans. This is not going to be our only acquisition for sure. I think in the future based on the strategic plans of the company, the technology that we want to invest in there could be more acquisitions. But it does not mean that we do not intend to share the details of the facility. Always saying is that we will do it at an appropriate time in the near future. At this point we have shared whatever we could but in our future interactions we will definitely reveal a lot more details about Neuland's plans, its growth and anything else that are contributing to the growth of the company.

**Ranvir Singh:** Normally it is not as specific to this. When we purchase facility through this asset reconstruction company, so should we assume that this has been available at a lower price which otherwise would have been normally for this capacity?

**Sucheth Rao:** At the end of the day I think every asset or whatever has a fair value the way we see it. I think we believe that we are purchasing this facility at what we believe is a fair value. So I would not say it is either lower or higher. We believe that we are paying a fair value for this facility.

**Ranvir Singh:** Secondly, on Salmeterol, in this quarter whether Salmeterol revenue has gone down from Q1 or has increased or this is stagnant there?

**Saharsh Rao:** I think both Q1 and Q2 our Salmeterol revenues have been significantly lower than what we saw in any of the quarters of the previous year. I think they are comparable in both the quarters but there is not much qualitative difference.

**Ranvir Singh:** No, that is somehow reflected in number. What I wanted to understand sequentially, the niche segment has actually gone up and if Salmeterol has gone down then I think the other products probably should have been sequentially higher.



**Saharsh Rao:** There are some other niche segments like Paliperidone and all where we have done better than expected.

**Ranvir Singh:** And if new approval comes up in Europe and US, that will drive their revenue. So should we assume that current approval or currently wherever we were supplying we will maintain this run rate or there also we have chance to increase volumes?

**Saharsh Rao:** I think there is a chance that they could increase volumes in where we are currently approved also. I think we have to keep in mind that the markets where we have currently approved and we are in a market we have been supplying launch quantities for the last 18 months or so. So there is a possibility that in the next six months or so, we will see orders coming for that but also important point is that our US and Europe market where we still not got approvals are our key big markets. So frankly speaking the markets where we currently have approval for are very small compared to the markets where we are seeking approval. So that situation will only change in the next 2 to 3 quarters.

**Ranvir Singh:** Okay, and due to this capacity constraint only Ciprofloxacin or are there other molecules? Which other molecules got suffered due to this capacity in your sense?

**Saharsh Rao:** No actually Ciprofloxacin has not been affected because of capacity constraint unfortunately but with Ciprofloxacin we have a lot of spare capacity. It is just that we are suffering from the lack of order. Where we are suffering from capacity are other products which are from Unit 1. Ciprofloxacin is actually a Unit 2 product for us and most of the unit 2 products we do not have any capacity constraint today.

**Ranvir Singh:** So which products are there from Unit 1 which have suffered actually?

**Saharsh Rao:** There are quite a few products, so Levofloxacin is a product, then we have Salbutamol Sulfate, we have Donepezil, we have Olanzapine. There are a lot of products which are both in the prime as well as niche category which we produce from unit 1.

**Ranvir Singh:** Okay, so this is in both the segments, in prime and niche as well.

**Saharsh Rao:** Yes, there are some CMS products as well from Unit 1.

**Moderator:** We have the next question from the line of Kumar Saurav from Motilal Oswal. Please go ahead.

**Kumar Saurav:** Just again I know that you are not divulging much details about this acquisition, but generally when you talk about I think in future also you will be looking at more acquisitions. Will those also be of similar nature where we are focusing more on manufacturing plants and with this manufacturing plant are you also getting, is there is any visibility of revenues as well in terms

of products which are linked to this plant which also you have also got the rights? Some visibility would be helpful.

**Sucheth Rao:** Thanks for your question. I think the current acquisition is more being done with capacity in mind, However, we expect that future acquisitions will be more aligned to the overall strategy of the company in terms of technology, products so on and so forth. So as I have mentioned before, I think this would not be the last acquisition we will be doing of a facility but we expect that future acquisitions will be more in line with our strategic plans and not essentially capacity.

**Kumar Saurav:** And that will be mainly focused for US markets?

**Sucheth Rao:** No it will be focused for all the markets because today I think if you look at our overall sales we supply to about 85 different countries. Bulk of our sales may be coming from Europe and US and within Europe itself we supply to about 24-25 countries. So I think our sales today are pretty much global.

**Kumar Saurav:** And when we are looking at any of these acquisitions, our asset turnover is one amongst the best in the industry at close to three times. How should we look at this asset turnover ratio three years down the line when we look at Neuland?

**Sucheth Rao:** See I think just to connect to your previous question to this, apart from pushing volumes a big focus for us is also been focusing on specialty APIs that can improve our margins as well. So apart from just driving sales and our focus on margins, one of the initiatives that we have taken is to closely look at our efficiencies, how our plants are operating, what is our overall occupancy, so on and so forth. So given that strong focus we expect that the asset turnover will continue to be healthy at 3 or higher based on the product mix. So our focus continuously is on how we can make our plans more efficient. So we do not expect it to reduce in the future.

**Kumar Saurav:** Currently we are in investment phase, our debt equity is also close to 1. By when we will reach in that cash flow generation mode and three years down the line where should we look at our leverage?

**Sucheth Rao:** Currently I think in terms of cash we have a pretty healthy leeway. We have about 40-50 crore kind of a headway as far as our cash position is concerned. I think the way we look at it we have one of the lowest interest cost in the industry comparable to our peers. So we do have some head-wave and it comes to our ability to raise funds, to fund our expansion plans. But at the same time we are making sure that whatever funding we are doing we are doing it in a way, taking into consideration what our growth could be based on worst case planning scenarios, what our cashflow position would be, even in a pessimistic scenario so that it does not ever put the company in kind of a precarious situation. So I am pretty sure that our overall objective is to make sure that we fund our growth plans but without significantly increasing the risk or the financial list to the organization in any way.

- Moderator:** We have the next question from the line of Shahil Shah from Ocean Dial. Please go ahead.
- Shahil Shah:** Just wanted to check, I am just comparing your first half last year to first half this year, what would you sort of Ciprofloxacin and Salmeterol be the main reasons of the decline or in terms of contribution which contributed more in the first half last year.
- Saharsh Rao:** I think there are two ways to look at our first half of the year. One is to compare it with the first half of last year, another way is to just look at how we perform with regards to our own budgets for this year. I think when we look at it with regards to the first half of last year I think there is a dip again in Salmeterol, Ciprofloxacin as well as some other niche products where we got some one-time orders or launch quantity orders last year. Those orders were never envisaged for this half and therefore they never came.
- Shahil Shah:** How much was that one-time niche orders?
- Saharsh Rao:** I do not have the exact number with me but it may be of the order of around Rs. 5-6 crores. The significant dip has been largely because of Ciprofloxacin and Salmeterol effect and the reason why I want to emphasize more on Ciprofloxacin and Salmeterol is because if we even analyze our product sales for this half of the year, baring Ciprofloxacin and Salmeterol our progress rate for other products is more or less on course. There are some products which are below par and there are some products which are below par and there are some products which are actually doing better than expected but the dip in performance has been largely driven because of these two products. So I think that is the reason why we want to be very candid in terms of focusing on these two products.
- Shahil Shah:** So basically in this first half, has Ciprofloxacin and Salmeterol contributed at all or they are very low compared to what they were?
- Saharsh Rao:** Yes, they have contributed as Ciprofloxacin is almost 15% to 20% of our revenues on a standstill basis, so it continues to contribute although it has had a significant impact, I think Salmeterol also we have had contributions, but it has again been a significant depression compared to what we have seen over the last year or so.
- Shahil Shah:** These both would be much higher in terms of margins as well compared to the other –
- Saharsh Rao:** The way Ciprofloxacin contributes to our business is that it is high turnover product with a 40% or so gross margin. It helps us manage our site overheads and helps us maintain an overall profitability whereas Salmeterol is a high margin product in terms of its contribution. So it actually has a direct impact on our bottom line but yes because of the significant size of the business both the products have an impact on margins.
- Moderator:** We have the next question from the line of Sriram Rathi from ICICI Securities. Please go ahead.

**Sriram Rathi:** Firstly on Salmeterol because in the last two quarters we have seen dip in terms of revenue. That has been the major reason for decline in niche molecule revenue. So what has been the exact reason for this decline in the first half of this year versus last year?

**Sucheth Rao:** As I think Harsh was clarifying earlier, we always expected Salmeterol to be a complicated launch because it is across multiple indications, multiple devices, multiple markets, pattern landscape as well as companies. So I think overall what we have seen with our customers is that though all our customers, our projections, their filing strategies are intact, lot of the approvals have gotten postponed. That means a lot of our customers did not get the approvals as early as they expected it because of their filing delays, regulatory reviews by the US or European authorities. Therefore, the kind of volumes that we expected in this financial year for Solmeterol has not happened but I think from an overall product point of view the product is still strong, it is still growing. Our customers are very confident about this product but unfortunately from a timing perspective it is off, and I think it will be next year until we see any ramp up in this product.

**Sriram Rathi:** Got it but the thing was that there is a decline in terms of revenue from Salmeterol for us, right?

**Sucheth Rao:** Yes, I mean there is a decline in revenue because our revenue is always a combination of supplying quantities for development as well as commercial sales, right? So that volatility is still there because it is new product. Sometimes what happens is that our customers buy large quantities because they are filing in new markets, so they are taking validation badges and buying material to make those filings and therefore the volumes could be higher in that period. And when all the development work is done, and that volume requirement is not there we would often see a dip in sales. So the decline in revenues is more because of that, not because we have had any commercial disappointment with this product. I hope that clarifies.

**Sriram Rathi:** Okay got it. Secondly, in terms of revenue run-rate on a consolidated basis we are now around Rs. 120-125 crores versus Rs. 150 crores last year. So since Salmeterol is probably getting postponed to next year in terms of ramp up and Ciprofloxacin as of now we do not know how will that pan out in the coming quarters. So how should we look at the coming quarters? I mean of course we are not looking at particular number as such but just to get an idea, are there enough opportunities that can ramp up the revenue to the PBCR levels or we should expect the current run-rate to continue for the time being?

**Sucheth Rao:** See I mean I will just tell you the way we are looking at internally as management is because when we did see the slowdown in orders for Ciprofloxacin Salmeterol obviously we have been monitoring this, we have been having conversations. We have been looking at the IMS data, we have been looking at the end sales data to see what is happening with these products in the end market how are they behaving and the conclusion that we have is that these products still continue to be strong and every product has obviously a different reason. As Harsh was mentioning earlier Salmeterol, the reason the sales were down is because of postponement of

approvals and commercial launch quantities. Therefore, once that happens we will see that this product will meet its expectations. I think as far as Ciprofloxacin is concerned there has been some kind of accumulation of inventories because the market share has moved between customers who buy from us and customers who do not buy from us but I think over the short to medium term that will correct itself too. Therefore, if you look at the overall performance within our organization, the dip in margins has only been on account of sale. There has not been any margin decline because of our cost or because of the inherent health of the products itself. Therefore, once these products come back on line, once we get that we you need to approve for some of the products in unit 1 where the capacity is a little bit choked, I think the company will go back to its expected growth rates as well as performance. So that is the way we feel about it. However, as we know since we supply to the regulated market, if we see a sudden slump in sale fortunately or unfortunately we cannot do a character within one or two quarters because our products are dedicated to certain facilities, our customers sell to the regulated markets, so we have to go through the process of doing a validation, filing the alternate site, filing those variations waiting for the approvals. So the course corrections take about 2-3 quarters and that is what we are seeing now.

**Saharsh Rao:**

Just want to add another point to answer your question, if you see this pipeline that we have shared in the press release, the column that represents the development molecules, there are about six opportunities over there. Now these are the opportunities which are commercial molecules which Neuland is in the process of scaling up. Now the growth issue is addressed by the factors that Sucheth talked about which is resumption of the sales of Ciprofloxacin, Salmeterol once we do the capacity management between unit 1 and unit 2 but also the important growth will come from scale up of new opportunities and I think for the CMS the pipeline indicates what are the opportunities that are there which are the next likely candidates to get into the commercial fair and what we expect in the next 6-12-18 months is that projects which are in the development stage will move into the commercial stage and those will also start contributing to the revenue growth.

**Moderator:**

The next question is from the line of Ayush Surana from Ethos Investments. Please go ahead.

**Ayush Surana:**

Just want to ask you when will this new facility be operational by when we can see it contributing the topline?

**Sucheth Rao:**

It depends on when we complete the transaction. As you have seen in the notice to the stock exchange, our ability to complete this transaction still requires a couple of conditions to be met. So assuming that those will go through and we complete the transaction from that date it would take us about 3 to 4 months to make it operational to the point where it can start contributing to our overall sales.

**Ayush Surana:**

So the results could be shown in Q4 number of this year, right?

- Sucheth Rao:** No, it would not be because we are already towards the end of November, so assuming that the transaction will close immediately. Even if it closes immediately it will be the beginning of the next financial year.
- Ayush Surana:** And just one more question, this API regarding tardive dyskinesia so these are like the two APIs which we have filed and which we are supplying to Teva.
- Sucheth Rao:** We have never really confirmed that so like we said we cannot comment on any specific CMS product that we supply to any customer.
- Moderator:** We have the next question from the line of Cinderella Carvalho from Dolat Capital. Please go ahead.
- Cinderella Carvalho:** Just wanted to understand on the facility that we have acquired, have we disclosed what is the amount that we have paid?
- Saharsh Rao:** We mentioned that those details are not yet disclosed Cinderella and once the transaction is completed then we will share those details.
- Cinderella Carvalho:** And is the facility anywhere closer to the USFDA approval level or you would have to do the work on that?
- Saharsh Rao:** Well the facility has been inspected by the USFDA but further details of that we will share in due course of time.
- Cinderella Carvalho:** So it has been inspected, not yet approved is what I can take?
- Saharsh Rao:** There is no provision within the FDA guidelines of approved. Usually the FDA inspect facilities and based on inspection the issue of EIR which will enable this due to manufacturing products for the US market. There is usually no provision where FDA “approves” the facility.
- Cinderella Carvalho:** So have they received an EIR previously?
- Sucheth Rao:** Yes, this facility has received an EIR but this facility has not supplied any products to the US. So how it will contribute to it, what is the status of approval, all that is something that we need to address once the transaction is complete.
- Cinderella Carvalho:** And just a little more digging on this, so do we see any pipeline which is presently – products which have been filed, I am assuming because it has been inspected so there has to be certain product pipeline, any indication that you would be able to provide on that.
- Sucheth Rao:** At this time we are still in the evaluation stage. Essentially, we are looking at capacity that will augment our future plans, what those will look like and this is something we commented towards

the beginning of the call that we will make those details available at the appropriate timelines. At this point we cannot comment on anything else other than what has been in the notice to the stock exchange.

- Moderator:** A follow up question from the line of Rashmi Sancheti from Anand Rathi. Please go ahead.
- Rashmi Sancheti:** Can you give the number gross total debt on your books on consolidated basis?
- Kumar Gupta:** Total debt is around Rs. 185-190 crores including working capital as well as the term loans.
- Rashmi Sancheti:** Okay, so if I just compare Q2 FY18 versus Q2 FY17 your gross margins have picked up, However, if you see the contribution from the niche segment has gone down and contribution from the prime segment has come up. So is there any other reason for the gross margin improvement?
- Saharsh Rao:** I think the gross margin improvement is reflected because of the product mix and it think as we had indicated in response to the earlier questions I think in the niche segments we have had products like Paliperidone and all which has helped in terms of the overall margin. But I think in terms of the overall profit our PPT margin it is still muted largely because of the suppression in the sales number.
- Rashmi Sancheti:** Last question is on Ciprofloxacin again, just want to understand that you know you said that there is no capacity constrain for that particular product, but due to lack of orders that product got impacted. So is it something that some other API competition has come in and they are getting more orders compared to yours or if you give any specific reason for that.
- Saharsh Rao:** I think at this point of time we are still not very clear in terms of what is happening in the market. What we are doing is that we are in close contact with all our customers. So I think our large two markets that we operate are US and Europe and there are very limited number of players who are having significant market share in these regions and we are actually qualified and are the primary suppliers for most of these customers. So in the general feedback we are getting prima facie from all the customers is that they are already sitting on stocks and that they would not have any immediate requirement but in the future they will continue to buy. So that is the feedback we are getting in general from all the customers. We have not gotten any indications as of now that there is a new trend or that there is a change in the market dynamics per se. But I think it is prudent to not rule out all options and we are continuing to keep a close watch on the market.
- Moderator:** Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Amit Agarwal for closing comments. Thank you and over to you sir.



*Neuland Laboratories Limited  
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**Amit Agarwal:** Thanks Binay. Good evening everyone. I am really excited to join Neuland Labs and also contribute to its growth. I am also excited looking at the results and the performance and I do look forward to interacting with our investors and analysts in the near future. And hope I am able to really contribute to the company and the organization. Thank you.

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