



“Neuland Laboratories Limited Q4 FY18 Earnings Conference Call”

May 11, 2018



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*Neuland Laboratories Limited
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Moderator: Ladies and gentlemen, good day and welcome to Neuland Laboratories Limited Q4 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. 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. Diwakar Pingle. Thank you and over to you, sir.

Diwakar Pingle: Thanks, Aman. Welcome friends and thanks for joining the Q4 and full year FY18 earnings call for Neuland Laboratories. Please note that we have mailed out the press release to all of you and you can also see the results on the website as well as the stock exchanges. To take us through the results of this quarter and the full year and answer your questions, we have with us the top management from Neuland represented by Mr. Sucheth Davuluri - Vice Chairman and CEO, Mr. Saharsh Davuluri - Joint Managing Director and the CFO - Mr. Amit Agarwal. Starting the call with brief overview of the quarter and the full year by Saharsh followed by the financials given by Amit, after that we will throw the floor open to Q&A.

I would like to remind you that everything that is said on this call, which reflects any outlook for the future or which can be construed as forward-looking statement, must be viewed in conjunction with the uncertainties and risks that we face. These uncertainties and risks are included but not limited to what we have mentioned in the prospectus filed with SEBI and subsequent annual report which you can find on the website. That said, I will now transfer over the call to Saharsh. Over to you, Saharsh.

Saharsh Davuluri: Thank you, Diwakar. Good evening, friends. A warm welcome to all of you joining this call. I will first touch upon the business highlights which will be followed by the financials, which will be given by Amit after which we will throw it open to Q&A. After 3 quarters of muted performance, I am glad to announce that Neuland has performed as per our expectations in the fourth



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quarter. The growth in the quarter was driven by good performance across the three business segments of the Company. First, the GDS business and within that the prime APIs. We continue to see growth in products like Levetiracetam and Levofloxacin. The Ciprofloxacin volumes have also bounced back to normalcy as previously indicated. For the niche APIs within the generic drug substances business - In this niche segment, we note that the performance from Donepezil, Paliperidone Palmitate as well as ophthalmic products like Brinzolamide were significant. In the CMS business, we saw revenues come this quarter from some of our oldest stable products as well as from some newer projects including a few in peptides. As we step into this new fiscal we are extremely pleased with the visibility for GDS and CMS business, which we see as one of the key growth drivers for the Company.

There are industry pressures on raw material costs that could put some strain on the margins for prime APIs. The backward integration of some of these products in Unit 3 is therefore an important step in that direction to partially mitigate costs and shore up margins. The integration of the Unit 3 facility is ongoing, and we have already started manufacturing trials for some of the intermediates from this facility as a backward integration process for some of our products. In this quarter, we achieved our goal of starting trial production in 100 days from acquiring this facility. Selection of new products and qualifying them for the facility is currently underway and we believe that this acquisition will add value to the Company in the forthcoming quarters. As was the practice from the last two quarters, we have also provided you with the CMS pipeline and we can monitor the progress of the number of projects over the quarters. The numbers are self-explanatory and in case you have any specific questions, we are happy to take them up during Q&A.

I will now request Amit to run through the financials.

Amit Agarwal:

Thanks, Saharsh. I will first focus on Q4 standalone and then look at the full year highlights. I would also like to mention that the numbers being presented

are the merged financials post the merger order that we got sometime in March. So, the total revenue for Q4 stood at Rs. 160 crores as compared to Rs. 141 crores in the corresponding period of the previous year, implying an increase of about 13.3%. EBITDA stood at 19 crores as compared to about 28.6 crores during the same period last year. EBITDA margin was at 12% in Q4 FY18 as against about 20% in Q4 FY17. Net profit stood at Rs. 8.05 crores for Q4 FY18 as compared to Rs. 14.7 crores in the corresponding period of the previous year. Basic EPS stood at Rs. 7.22 as against Rs. 13.17 in the corresponding quarter of the last fiscal.

For the financial year, total revenue was at 533.7 crores as compared to 588.9 crores in FY17, a decline of 9.4%. EBITDA stood at Rs. 54.6 crores as compared to Rs. 106.7 crores during the previous financial year. EBITDA margin stood at 10.2% for FY18 as against 18% in FY17. Net profit stood at Rs. 11.8 crores for FY18 as compared to Rs. 46.4 crores in FY17.

Let us move now to the Q&A session.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Amey Chalke from HDFC Securities. Please go ahead.

Amey Chalke: I have first question or rather query related to the full year numbers for CMS, prime and niche. Considering we have merged this entity, it would be better if you give it separately for the full year.

Amit Agarwal: So we have given the numbers in the press release.

Amey Chalke: Yes, that is for the quarter. And the reason I cannot add last four quarters because I have only one quarter with full.

Saharsh Davuluri: The annualized broken up. So Amey, we will send it across to you

Amey Chalke: And is it possible ...

- Saharsh Davuluri:** We will put it up on our website as well.
- Amey Chalke:** And second question, is it possible to just give the broad numbers for the standalone entity or the only the Neuland Labs for this quarter that is revenue, EBITDA and PAT?
- Amit Agarwal:** See Amey, that might be little difficult because the way the numbers were looked at post the order came in the entire audit and everything has happened as a merged entity. So probably, we will have to redo the things because as soon as the order came in March, everything was actually uploaded as under one company code. So, that might be little difficult.
- Amey Chalke:** So the next question is related to the prime numbers. So, the prime revenues which we have reported, it comes around 98 crores for this quarter I guess, around similar. So, it is very substantially higher compared to any quarter which we have reported for the prime segment. So, do you expect this to remain at this level or you expect to correct or you think that there were some lag in the orders that is why this quarter has seen substantially higher revenues for this segment?
- Sucheth Davuluri:** So Amey, like we have said in the past calls as well, I think the reason we are giving the differentiation between the prime, the niche APIs as well as the CMS is to kind of give you a flavor of the business, how it is evolving, what the profile of the margins could be so on and so forth. But as an organization, we are not de-emphasizing the prime segment at all. So for us, all three areas of the business are important and we continue to increase our customers for products such as the Ciprofloxacin, Levetiracetam, Sotalol, and Mirtazapine, all of these product which are considered as our prime APIs. At the same time based on the evolution of our R&D pipeline, we also expect that the specialty or the niche APIs will continue to grow. A lot of those APIs are still early in their lifecycle and those volumes will continue to grow as well. So, I think given that our strategy is to strengthen all three segments, there will be a variation from quarter-to-quarter because that is the change in the product

mix. We see volatility in our customer market shares, so some customers who have a very strong market share in Q1 sometimes lose it to somebody else in Q2 comes back up in Q3. So, given the market dynamics, FDA related issues, general shortages, we will see that kind of a change in these segments. But I think the takeaway is that we will continue to report it. But for us, all three segments are equally important. We are not de-emphasizing one versus the other.

Amey Chalke: And any change in the pricing environment in the Ciprofloxacin?

Sucheth Davuluri: Not specifically Amey, like we have said earlier in FY18, we did see for the first three quarters that Cipro volumes were significantly down. We expected that they will come back up in Q4 and they have. And going back to your earlier question and of course Amit can have a more detailed conversation with you later, prime for the entire year of FY18 was about 62% of our sale, niche was about 17% and our CMS was about 21%. So, it is kind of evolved from a 13% in FY15 to 21% in FY18 which is a pretty good indication. Other segments have been kind of stable, no significant trend. But we do expect that all of these three will grow from an absolute number point of view though the percentages may vary based on the product mix.

Amey Chalke: And another question is related to on niche API, there we have Salmeterol. So, I understand that launch has not happened in the US market yet but for FY19 what kind of outlook you can give for ex-US for the Salmeterol ramp up?

Sucheth Davuluri: So, as we have mentioned before Amey, Salmeterol is an extremely complex landscape. I believe I mentioned this even in the last call that the regulatory guidelines for approval of a metered dose inhaler or a dry powder inhaler or general inhalation devices in the US only became official couple of years ago. And given that the guidelines themselves for the approval of a follow-on generic became official only couple of years ago, you can imagine how complex the landscape is in terms of approvals. Given that and then multiple devices and multiple dosage forms for this product it will be very hard to

predict in which quarter the approvals will come through, even our customer estimates have not been accurate and we depend on our customer estimates, right because we supply the API not the finished dosage. So, I think it will be hard for us to say with certainty when the approvals will come. What we are clear about is that the approvals will come for sure and when it does, I am sure it will be reflected. But having said that if you look at the Q4 numbers, a lot of other products have performed well and there has not been any significant improve in Salmeterol as a product. So, it is very indicative of our broad product portfolio, how the volumes of all the other products have grown and when Salmeterol happens it will continue to contribute but obviously, our goal is to focus on all our products across all segments. And going forward, we do not see any specific product playing a more significant growth than the others we expect all products to contribute to our growth.

Amey Chalke: And then just last question on the QIP basically, so which we have released a note on the exchange basically that we may go for the fund raise in the near future. So, can you explain more on that front? What is the rationale behind it and how much dilution you would expect?

Amit Agarwal: See, the rationale essentially is that we are looking forward to strengthening our balance sheet to be able to fund our growth over the medium-term, the growth plans that we have. It can also repay in part of the acquisition cost. Further, I think we also need to invest in the infrastructure of our existing facility and the new facility that we acquired to capitalize on the opportunities. And also, whatever growth plans are over the medium term. So, this approval that we have taken from our Board and from our shareholders essentially is valid for a period of 12 months and I think based on whatever advice we receive from our Board and depending on the market conditions, we would like to go in for the QIP at the appropriate time.

Amey Chalke: And any guidance on how much fund raise we may require for this?

Amit Agarwal: See, the guidance that we have given essentially is that we are looking at what the Board has approved is about 16.75 lakh shares. Right, so again we would want to maximize, so we will see what the right time is.

Amey Chalke: But we are comfortable with the dilution?

Sucheth Davuluri: So essentially Amey, like Amit was saying I think we have taken the advice of the Board. I think what is important is it is become pretty obvious to us now that Unit 3 is a great acquisition for us because now it is been about four months, right since we have acquired it. As Harsh was saying, we actually charged or we started production, trial production on day 100, so we are super excited about Unit 3. Now, that we have a much deeper understanding of the facility and what it can do for us. So obviously, we will take all this into consideration and do what is right for obviously our shareholders and the organization.

Moderator: Thank you. We have the next question from the line of Cynderella Carvalho from Dolat Capital. Please go ahead.

Cynderella Carvalho: Saharsh, I would just like to understand, if you would be able to help us with over a two or three years outlook in terms of topline at least because you understand that there has been a disruption and disruption has been significant in FY18. And we understand the nature of the business being lumpy and depends a lot on the off-take of the products. So, if you could combine and give us and with the merger also, now merger is also in place, so if you would be able to help us with some topline guidance over two to three years may not be like just for a year or so, that would be helpful?

Saharsh Davuluri: I think in terms of giving topline guidance next two to three years, I think it will be difficult for us to provide anything specific or of anything of significant value. I think what I could say maybe just two things. One is, if you refer back to what we had indicated in our previous investor calls in February and I think one in December as well. What we have said is that just given the situation

we have in FY18, we believe FY18 is a down year for us. We expect that it does not necessarily represent the long-term growth that the organization is charting out. And to that extent, FY17 was perhaps a better representative of where we were and how we would like to move forward. So, I think in that regards I think one point I could say is that FY18 is definitely a year that actually disregarded from a growth perspective, I think progress on top of FY17 is what we expect. I think in terms of your second question, which is how would the combined entity look, going forward? I think one thing I would only say and maybe Amit can elaborate on this a little bit is that the topline of the merged entity or I think the businesses as such, we do not expect significant differences even going forward because essentially the way the three businesses, NPRPL, NHSPL and NLL have functioned related to each other, I think the topline, there was never significant topline that was at the private company levels. And therefore the amalgamation itself would not necessarily change that. However, given the fact that the CMS business used to be part of the NPRPL business, the amalgamation would ensure that the margins and revenues would not get shared going forward and they would all be part of the merged entity. So, I think just very qualitatively speaking as a result of mergers, we expect I think compared to a standalone NLL the margins should be better. But having said that I think it would be difficult and I think as the policy we have not given guidance. So that is kind of what I would share at this point.

Cynderella Carvalho: From that we would like to say in terms of how we would look at this quarter's revenue numbers, I mean how much is the merged entity sales at least at the topline, if you could give?

Amit Agarwal: Q4 is 160 crores.

Saharsh Davuluri: For Q4, Cynderella.

Cynderella Carvalho: And what is the new change in the Cipro's volume, you highlighted that there has been some change as per our expectation it has come back, so what is the outlook over there?

Saharsh Davuluri: I think what we had mentioned in the opening remarks and if you go back to what we had mentioned in the previous earnings call Cynderella, is that for the first three quarters we had acknowledged that Cipro volumes especially were down for multiple reasons. And we had also indicated in our last earnings call, which happened to be in February that in Q4 we expect normalcy to return and the Cipro volumes will be back to where they used to be in the previous financial years. And so at the moment, what I can share is that the Cipro volumes in Q4 have returned back to the normal levels. I think going forward it is difficult, in our business to predict exactly what will happen but at least we feel reasonably confident that the Cipro business has come back to normal.

Cynderella Carvalho: And just tax rate guidance for this year?

Amit Agarwal: Tax rate, so we will be under MAT this year, Cynderella.

Cynderella Carvalho: And the CAPEX value?

Amit Agarwal: So, CAPEX should be anywhere between 50 crores to 100 crores.

Moderator: Thank you. The next question is from the line of Abdul Puranwala from B&K Securities. Please go ahead.

Abdul Puranwala: So for the nine month numbers of NPRPL and NHSPL, I think we have reported a loss of around 3 crores.

Amit Agarwal: Right.

Abdul Puranwala: So, I mean on the full year basis, did we still report a loss or I mean, if you could share the numbers that would be great?

Sucheth Davuluri: Yes, as I was mentioning to Amey that since the order came in March itself and we had to integrate everything for the annual reporting. So, for March quarter we really did not do a separate working. It was a merged entity for us. Everything was transferred to one company code and that is how the results are. But I think there will not be anything any major significant change that will happen over one quarter.

Abdul Puranwala: And yes, also we have seen quite NPRPL level revenue front it is quite volatile. I mean, so at what level we expect revenues to stable for this business?

Saharsh Davuluri: I think what we have mentioned in the past Abdul is that I think because the CMS business which is essentially what drives the NPRPL business is itself in a nascent and growth phase. We expect to see volatility not just on a quarter-to-quarter basis but even on a year-to-year basis. And the various projects that make up for the CMS business also drive the profitability of the CMS business and also indirectly drive the profitability of NPRPL. So, I think while it is difficult to give a very specific answer. For us we have seen that in FY18 overall, if you look at the salient numbers that we have shown the CMS business itself has not grown the way it has grown over the previous years. And that has obviously had an impact in terms of, not just in terms of the contribution level but also in terms of the profitability level. And intuitively speaking, if you look at the nine-month NPRPL number also which you have asked is impacted because of the low CMS revenue. But again, as I have said in the past, being a growing business and also having a certain element of volatility because it has only four or five commercial products making up for it but this kind of volatility is part of the business but we expect that over time it will reduce as the business grows.

Abdul Puranwala: So my question is on the prime segment. Would we have still reported a growth, if we just remove Cipro and Sotalol from it?

Saharsh Davuluri: So as I mentioned in the opening remarks, Abdul, Levofloxacin, Levetiracetam have actually shown growth besides Ciprofloxacin as well. And in addition to

that there is also another product in the prime category called Labetalol which we had scaled up earlier which has also contributed. So, yes I think they have been products other than Ciprofloxacin also which have contributed to the growth of the prime category.

Sucheth Davuluri: So you are right, Abdul. If we remove Cipro and a couple of other products, there are several APIs which have grown.

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

Ranveer Singh: My question is that after merger, we have adjusted number for each quarter during the year?

Sucheth Davuluri: Yes, the number which have been reported are adjusted for merger for each quarter.

Ranveer Singh: That is why the ratio of that business alliance you have given have changed. So, we can just add up to get an annual number because earlier participant asked this, whether the annual number after this merger. So, I think simply we should add the four quarters number that would be fine or some more adjustment is required?

Sucheth Davuluri: Yes. If you add up ...

Saharsh Davuluri: Booked as a quarter, no adjustment is required, Ranvir.

Ranveer Singh: So, I see after this adjustment because you have said that maybe the separate number analysis is not possible at this point of time. But yet I see because nine-month, the entities which has been merged were showing loss at the bottom-line and maybe this quarter also has not been or maybe a similar. So, in this quarter after this merger just on tentative basis, if we exclude this month entity then figures would have been 5 crores or 6 crores higher that is what my understanding is.

Sucheth Davuluri: See, as I said I will not be able to give you an answer. So I do not know what to answer on this, Ranvir.

Saharsh Davuluri: So Ranvir, at this point the reason is that we do not want to speculate only because we have not actually looked at the numbers since the merger order came only towards the end of March. We want to make sure that we go ahead and do the accounts to the audit everything done in time, so that we could actually be on time to release the results. So, since we have not done it, it would be unfair to speculate on it but it is something that we can do and we can have a follow up discussion. But from a business point of view, obviously all the businesses are extremely synergetic. So, when the overall business is down it reflection all the entities. When the overall business improves, it will be reflected in all the business segments as well. So, I think from our point of view whatever we see in terms of the growth the various segments that still continue. Any fundamental assumptions have not changed at all.

Ranveer Singh: So, earlier our equity capital was 8.95 crores and we have added 2.2 crores after merger, 2.27 crores. So, ideally the equity capital should have been shown that 11.23 crores. So, I see the EPS which has been calculated on the basis of expanded capital, but your balance sheet is showing only that equity capital. So, is there any regulatory thing pending before we adjust this number?

Amit Agarwal: Yes, I will tell you because these numbers are as on March 31, 2018 and the allotment of shares happened post that. So, that is why that is lying under your equity suspense account.

Saharsh Davuluri: So, what will happen is in the next set of accounts you will see it added as part of the equity.

Ranveer Singh: So right now this is under suspense account?

Sucheth Davuluri: Yes.

Ranveer Singh: And after this merger, in this quarter particular is there anything non-recurring either in income side or expense side related to merger?

Saharsh Davuluri: Is there anything ...?

Ranveer Singh: Non-recurring or one-time adjustment.

Saharsh Davuluri: No.

Ranveer Singh: One more if I could, that in CMS, I see that number of project contributing to the revenue has increased but not the revenue. So, how should I look at this number because the 13 projects now contributing, yet our run rate in revenue front has not significantly improved?

Sucheth Davuluri: So Ranveer, the way I would look at it is one of the reasons that we provided that number is to show how the CMS pipeline is growing and how much these projects can contribute to the future. Because as rightly pointed out there were several questions when we were actually talking about our CMS business. Earlier, we were not able to provide a clarity on what the CMS business meant, how many projects were being done, how could it contribute to the future. So, in order to add color to it as to how that business is growing, which should be reflected in the number of projects being executed, we have added that number. As you rightly said and Saharsh was commenting earlier, this is where we have a lot of solid potential because the business is not mature. It is also volatile because it is growing but it is exciting at the same time. So, I think the important takeaway that I would see is that whether the number of projects are growing or not, how many projects Neuland is executing, what is the quarterly trend, what is the movement, is it going up, are the overall number of cumulative projects increasing or not because that will give us a reflection of how many molecules will be commercialized in the future and how they will start contributing to the top and bottom-line. That is how I would look at those numbers that is how we look at those numbers internally.

Ranveer Singh: So, can we expect at least in FY19, a stronger growth or this run rate will continue?

Saharsh Davuluri: Yes Ranveer, we can expect that the number of projects that will be added in CMS will grow in FY19. I think that will get reflected every time we publish those numbers prior to this call.

Moderator: Thank you. The next question is from the line of Kunal Mehta from Vallum Capital. Please go ahead.

Kunal Mehta: So, I was just trying to look at the CMS piece of the business and if you can, I do appreciate the lumpy nature of the business because of the relationship with your clients but can you just throw some light on what is the potential you see for the five molecules which have been commercialized going forward in next two years, would they mature? And how much revenue are we expecting from those molecules?

Saharsh Davuluri: I think the five molecules that are part of the commercial are in various phases of evolution, Kunal. Some of them have been commercial for like three or four years. I think couple of them just got commercial recently and it is difficult for us to predict how they will evolve but I think the expectation is that the older ones will probably have a more stable annual consumption. Whereas, the ones which are newer may have a certain degree of volatility, where they could either depending on the success of the drug the volumes could go up significantly or the volumes may not move up significantly. And in an adverse situation if the drug is actually not doing well at all then the volumes could actually remain quite down. The strategy of the CMS business is actually through that scorecard we have shown you actually increase these five, keep increasing this number hopefully as we move along every year and also expect that on an average these five molecules will also post growth. The question you ask is what kind of growth they will post is difficult for us to answer because it depends on how each of these molecules play out.

Kunal Mehta: If you can just give me a broad, I am not asking about a specific set of details but I am just asking a broad range. Can we expect at least in terms of volumes over a three-year period, can we expect if the product does succeed with the customers and we see good demand for the volumes in some of those mature ones which you highlighted to at least double in the next three years? Is it a fair possibility?

Saharsh Davuluri: It is difficult to say, Kunal. In terms of the potential of these molecules they have the potential to grow to your point. How that will happen is largely dependent on how the drug actually does in the market and I think that is something that we do not have that visibility as we stand today. But the market potential of these drugs are such that they can grow significantly over the years but it is very difficult for us to put any kind of a quantification on it.

Kunal Mehta: Just last question on my side. I think all of us have been tracking the approvals for generic Advair and for this time I think, I believe Mylan seems to be very close to having an approval and in the conference call earnings also management has elected a launch for June 2018. So, presuming Mylan does launch the product. I just wanted to understand how would it benefit us in terms of the key supplier of API, of this particular API to Mylan?

Saharsh Davuluri: I think we have talked about Salmeterol in the past as well, Kunal. I think while we have talked about the molecule itself, but we have kept the names of the customers we work with very confidential. And therefore, we are not at liberty to share whom we work with and whom we do not work with. So, to that extent whether a specific customer's drug gets approved and launched how that will impact our product is again difficult for us to answer, given the restrictions that we operate in.

Moderator: Thank you. The next question is from the line of Anirudh Shetty from Solidarity Investment Advisors. Please go ahead.

Anirudh Shetty: I am not sure this has already been answered yet. I just wanted to understand what is happened to the gross margin level for Q4 FY18 vis-à-vis Q4 FY17 it seems you have dropped?

Saharsh Davuluri: I think Anirudh, as I had mentioned in the opening remarks we are facing a situation where in for the prime products the raw material costs are under pressure, especially the ones where we are importing them from China. And there are at least about four molecules, which are part of our prime category where we have seeing a significant increase in raw material pricing when we compare the prices of what we have consumed in Q4 of FY18 versus what we have consumed in Q4 of FY17. That has had a significant impact, although we have not shared the quantification of it in our statement that has had a significant impact on the gross margin and that is probably is what is given that difference in your question to us.

Anirudh Shetty: So do we believe that this gross, let us say the raw material prices stay elevated at this level? Will the gross margins continue to be at say at 50% gross margin level or will be they passed it on and we will see our margins expand after a couple of quarters maybe?

Saharsh Davuluri: So, there are actually I think three things that I can share in this context. One is that the raw material prices, which we are seeing on the higher side significantly for these three or four products, we anticipate that that may remain the case for some time. It is hard for us at this point to estimate by when it will come down to normalcy because those are factors beyond our control. That is one factor that I think you should be aware of. In addition to that the other important thing is the strategy that Neuland is taking on backward integration. We are actively looking at not just for these three or four impacted products, but I think we are looking at our entire portfolio of APIs to see where it makes sense for us to strategically backward integrate, so that we are able to make these important raw materials or starting materials, in Unit 3 because Unit 3 has a lot of capacity, especially for

intermediate manufacturing and that strategy if you are able to execute successfully.

Saharsh Davuluri:

I think I was responding to Anirudh's question about the expectation going forward given the slight increase in gross margins because of the raw material price increases. What I was saying is that one we expect the raw material price increases at least as of now to be there, we are taking several steps in terms of our negotiations with suppliers to bring them into control. But in the meantime, we also are using our backward integration strategy in Unit 3 to mitigate some of these price escalations, so that we are able to produce some of these complex starting materials in-house. Other than that, another important part of our strategy is also to bring our customers, make our customer sensitive to the situation with regards to the specific product and try to pass on some of these price increases from the raw materials on to the API itself. And I think a combination of all these three steps, which is negotiating carefully with our suppliers also backward integrating for these specific intermediates and then also discussing and engaging with our customers to negotiate price increases. These three together we believe will confidently bring our margins back into control. They may be certain time period, where there may be a pressure but nonetheless I think in the long term, we believe we will be sustainable. So that is my response to Anirudh's question.

Anirudh Shetty:

So, my second question was pertaining to the debt situation right now, given that the debt for the Company has increased and FY18 being a bad year, the EBITDA has correctly going sharply. Is debt to EBITDA a metric that the company tracks? And what level will do you all feel comfortable that this is the balance sheet is in a healthy position? And do we believe that the operating cash flows of next year FY19 could come back to FY17 levels that gives that does not put the company in any near-term pressure kind of situation?

- Amit Agarwal:** See Anirudh, we are not under any near-term pressure. We have sufficient working capital lines and enough margins on that to be able to manage our cash flows as well as the CAPEX. And as I talk, I have actually received a sanction from a bank for funding the CAPEX as well. So, I do not think on this front we are very challenge as far as FY19 is concerned to manage our working capital or the CAPEX as I was stating earlier in the call.
- Moderator:** Thank you. The next question is from the line of Ayush Khuranna from Borgia Capital. Please go ahead.
- Ayush Khuranna:** Sir, I was saying by when are we, what is the timeframe till which we are looking to backward integrate the molecules from Unit 3 facility? When the Unit 3 facility would be fully operational?
- Saharsh Davuluri:** It is an ongoing process Ayush, as I had indicated in the opening remarks we have already started the process of backward integration. We have started our first project and we have a pipeline of projects which we are planning to scale up for the rest of the year as well. So, it is an ongoing process and I think by this fiscal year as I mentioned, we should have been able to do a significant number of backward integration scale ups.
- Ayush Khuranna:** So by FY19, would be able to backward integrate for what we are sourcing from China now, right?
- Saharsh Davuluri:** It is a slightly complicated question and difficult to answer because backward integration again consists of two steps, right. One is to actually successfully scale up these intermediates which we are currently buying from China. Second is to be able to produce it at the scale and volume that we actually need to satisfy our demand and for both to happen for all the products which we are under challenge, it may not happen in FY19 but it will happen at least to the significant extent.
- Ayush Khuranna:** There is a recent collaboration with a Japanese firm can you just throw some light on what is it and how it will be going forward?

Saharsh Davuluri: So, this collaboration we have is with a company called Jitsubo Technologies, which is a start-up company that has a technology of making peptides at large scale in a cost-effective manner. It is a fairly early stage technology that has come out of Tokyo Agricultural University and Neuland has collaboration with them to try to scale this up. And right now, we are in a very early stage of the collaboration where we are trying to explore projects together which could benefit from Neuland's strengths which are purification technologies of peptides and GMP manufacturing along with the strength of Jitsubo which is what they call as Molecular Hiving technology. As a combination of these two strengths our goal is to find a few molecules which we can commercialize and that will benefit from the combined strength. At this point of time it is a collaboration which does not have any financial, tangible financial goals but the objective is to find a molecule first but if you are able to ...

Moderator: Thank you. The next question is from the line of Prem Thakkar from Unilazer Ventures. Please go ahead.

Prem Thakkar: I joined a little late. I just had one accounting question. Since we have consolidated now all the three entities, so I was just comparing standalone revenue with consolidated revenue and also the PAT and they are looking very similar. So, I am not sure what I was missing there?

Amit Agarwal: Yes, Prem this is essentially the standalone now includes NPRPL and NHSPL

Prem Thakkar: They are merged.

Amit Agarwal: Yes, consolidated is only the difference there is only with respect to our subsidiaries in Japan and US. So, where there is nothing much.

Prem Thakkar: And on the balance sheet side we had this equity suspense account I understood that this is for the number of shares that we have issued. So, this is going to stay this way or how will ...

- Amit Agarwal:** No, by now we have actually credited to the equity share capital. So, this will go, it will get distributed between equity share capital and other equity.
- Moderator:** Thank you. There is a follow up question from the line of Cynderella Carvalho from Dolat Capital. Please go ahead.
- Cynderella Carvalho:** So Saharsh, I just wanted to understand in on terms of our margins, we have said that we are using a strategy of convincing our customers doing the backward integration and the higher raw material prices are expected to stay for a while. You answered the earlier participant saying that it is a process of backward integration it will take some amount of time. So, if I understand this and correctly, so would like, achieving EBITDA margin of 18% of FY17 again in FY19 should be a difficult task?
- Saharsh Davuluri:** Cynderella, I think it is again, I would not try to respond directly to the EBITDA margin because again, I am being careful not to give any kind of guidance for ...
- Cynderella Carvalho:** Just a color, achievable or better or whatever you can add given the entire scenario that you have provided?
- Saharsh Davuluri:** I think the gross margin for the business I think and it was challenged in Q4 of FY18 as well which is what we had indicated in our earlier comments. I think that challenge comes because of increase in raw materials for certain API. That challenge will probably remain hopefully not for too long but at least as it stands today it seems to remain for some time. And the strategy of negotiating price increases with customers or even backward integration will to some extent address the situation. If it was completely to be addressed, then perhaps what your expectation on margins may be true. But until that time we will probably have certain challenges but it is not possible for us to give a direct answer because it also depends on the business mix. If we have certain businesses from certain products where the margins are higher, it may even compensate for a situation where we are stressed on gross margins for

the prime products. So, I think it is difficult for us to answer and I think I would just like to leave it at that.

Cynderella Carvalho: And you said that we have seen some improvements in Donepezil and Brinzolamide, so is there anything that you want to add some more color on that?

Saharsh Davuluri: No, I think that is about it, I think we just wanted to at least for the sake of consistent disclosure, mention which are the products in that category which have done well and I think both Brinzolamide and Donepezil have done well this quarter. Donepezil is a CNS drug, it is a generic product. I think the only other color I can add is that it is been generic for some time. The reason why we are seeing traction is that as a second source we are seeing a lot of traction in the market and that is the reason why we are seeing growth now for the product, although it has been generic for several years. And Brinzolamide is still a new generic. I think it is just been generic for some time now. So, it is still a part of the product expanding itself.

Moderator: Thank you. We have the next question from the line of B. V. Bajaj from Bajaj Shares and Securities. Please go ahead.

B. V. Bajaj: Can you throw some light on CMS range in the range of oncology products, oncology range, which is more revenue earning? Can you throw some light on that?

Saharsh Davuluri: So, our CMS business actually comprises of several therapeutic areas and oncology obviously, is one of the therapeutic areas where there is a lot of potential from a CMS point of view. However, within oncology it is also there are several categorizations a products within oncology. There are certain molecules which are cytotoxic in nature and there are certain molecules which are not cytotoxic in nature. Neuland does not have the facilities to produce cytotoxic APIs which are used in oncology. However, as part of our CMS business, we have a few projects which are for oncology but which are

non-cytotoxic in nature. It is an interesting space in our business development and technology teams are looking at finding opportunities in this space. But there is nothing significant to share or report to you at this point of time in terms of the potential of that business for Neuland.

B. V. Bajaj:

Sir, next question is regarding your Nanakramguda project along with the development of the land can you highlight how the space is acquired and how you are using that space available to you? Revenue generation and the part of that.

Saharsh Davuluri:

So, the only thing I can share with regards to this project is that this land has been, we have entered to a joint development agreement with a real estate developer called Phoenix to create certain amount of corporate office space and that office space that will be made, will be shared between Neuland as well as Phoenix and this project that is currently underway, we expect will take about two years to complete. Upon the completion of which, we expect to receive a certain share of the space that has been created. And upon which, it will be the company's decision on whether to lease that space or sell it. But at this point of time, there is not too much information beyond this that I have.

Moderator:

Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments. Thank you and over to you.

Saharsh Davuluri:

Thank you very much for all the participants to have patiently dialed in and asked your questions. As I had mentioned in my opening remarks, we are pleased with this quarter's performance because I think it is up to our expectations. We expect that we will continue our efforts to grow the business going forward in all the three segments that we are in. We also believe that the business is continuing to evolve and has a great potential going forward. Thank you very much for all your questions. In case, anyone has any questions outstanding, please feel free to reach out to Mr. Diwakar



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Pingle at Christensen and we will be sure to circle back to you. Thanks very much and have a good evening.

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.