Laurus Labs
Q4 &FY17 Conference Call Transcript
May 19, 2017

Karl Kolah: Thank you, Margaret. Good Morning, everybody. I welcome all of you to Laurus Labs Q4 & FY'17 Call for Investors and Analysts. The call has been hosted to discuss the Financial Performance and Share Operating Highlights of the Company with you. Today, we have with us, Dr. Satyanarayana Chava – CEO and V.V. Ravi Kumar – Executive Director and CFO.

We will commence the call with comments from the management team, post that we shall open the call for a Q&A Session where the management will be glad to respond to any queries that you may have.

At this point, I would like to highlight that some statements that could be made or discussed on today's con-call maybe forward-looking. The actual results may vary significantly from the forward-looking statements made. A detail statement in this regard is available in Laurus Q4 & FY'17 Results Presentation which has been shared with you earlier.

I would now like to invite Dr. Satya to commence the call by sharing his thoughts on the Company and the strategic progress made so far. Over to you, sir.

Dr. Chava: Thank you. Good Morning. We did very well in Q4 as well as FY'17. Significant things happened during the last quarter was we did supplymomentous volumes of ARV APIs to European launch. That was the key driver for the margin expansion in our Q4. We also repaid the significant portion of our long-term debt. That helped us in decreasing the quantum of interest burden of the company. The third one was we also had a partnership with Natcoand they did very well in Hep Cfranchisee. These three helped us to significantly improve our gross margins as well as the PAT numbers. We also started validations of steroidal intermediates and hormonal products at Unit-V. Hyderabad R&D expansion completed on time.

One other good piece of information is we have received Establishment Inspection Report from FDA for our Finished Dosage Form facility yesterday and API facility is being inspected and we expect FDA will conclude their inspection by end of today. We also received National Safety Award from Safety Council of India. We have received Best Management Award from Government of Andhra Pradesh. Also received Business Excellence Award from HMTV from Hyderabad.

The other significant corporate events were yesterday, we inducted Dr. MVG Rao into the board. We also inducted Dr. Ravindranath, a well-known surgeon into the board. Dr. MVG Rao was also appointed as a non-executive chairman of the board.

Coming to the Financial Highlights:

We did achieve close to 7% growth in revenues from FY'16 to FY'17, whereas our EBITDA grew almost 19% from Rs.374 crore to Rs.446 crore. What is also very important, PAT increased by almost 40% from Rs.144 crore to Rs.202 crore. This was primarily because of our less burdened by interest and also the excellent work done by finance team to reduce the interest of the working capital itself. We also announced dividend of 15% on each share, that is Rs.1.5 per share and our EPS diluted, stood at Rs.20 per share for the year and about Rs.7 for the Q4 FY'17.

When comes to the financial highlights further, the EBITDA for the entire year stood at 23.6% whereas for the Q4 FY'17 it was at 27.3%. The PAT was 10.7% for the entire year and almost 16% for the Q4FY'17. As I explained Q4FY'17, we had significant margin expansion because of supplies of APIs to Europe not only ARVs, some contract manufacturing products also helped us significantly.

The one very interesting fact to be noted, in previous years three-fourths of our revenue used to come from ARVs whereas right now the revenue contribution on ARVs is only two-thirds. That was also very interesting for us to expand our margin profile. Hepatitis C contributed almost little over 13% FY'17 and otherAPIs contributed almost close to 8% of our revenues. In the Q4, otherAPIs contributed 13% whereas ARVs contributed only 61.6%, Hep C was close to 11% of our revenues.

V.V. Ravi Kumar: Maybe one important point is in the last call we were talking about Oncology decline, there was a decline in Oncology in the whole year, but the positive sign is we have received a good number of orders at the fag end of the March 2017; those were executed in the month of April. So we have restored back as we said the Oncology was readjusted the inventories by one of our key customers, now it is in the normal mode, we expect we will be doing an Oncology similar to the previous years. So that is another important point.

Coming to the debt is concerned, after repayment; our long-term debt is only Rs.166 crore and short-term debt including the buyers credit is about Rs.615 crore.

So coming to the expansion, we are on track on the expansion Unit-IV, which is under construction now, and is in schedule, we are not expecting a delay there. But the Formulations expansion is going on, we expect to do validations in July

Dr.Chava: Yes, we will do validation batches in July the expanded capacity. Further updates on our Finished Dosage Forms initiatives. We did file three ANDAs during FY'17; we did six validations in FY'17. Those products will be filed during FY'18 and we are also doing further validations, we expect about ten new ANDAs will be filed during FY'18. That is the update on the Finished Dosage Forms. We expect at least two approvals during the FY'18.

V.V. Ravi Kumar: We have also spent about Rs.982 million in Formulations so far for the full year. Maybe in the Formulations side, I want to reiterate we have an EIR now. Whatever the first two ANDAs we file, we got a targetapproval date. So everything is set in for the Formulations business. So I think we are on track as we were talking on the Formulations business.

Moderator: Thank you, sir. We will now begin with the Question-and-Answer Session. The first question is from the line of SudarshanPadmanabhan from Sundaram Asset Management Co. Ltd. Please go ahead.

S Padmanabhan: Sir, my question is around the ARV business. While you had explained that Oncology is seeing a decline because of some postponement of orders due to inventory, I am actually looking at your presentation numbers, it looks like the ARV business that is primarily Efavirenz, DDF, etc., but have been either flat or marginally down. How do we see the trajectory of this business – is it a conscious decision on our part not to focus on this, can you throw a bit more color on this sir?

Dr. Chava: ARV business overall is growing, whereas in our case, we did not add any extra capacity during the last financial year in ARVs, that is one. Second, it is a little cyclical business. The orders flow depends on the tender structures of our partners. That was the main reason for the flat revenues in ARV. We have added capacities and we are expecting to add more capacities by end of this year. We certainly expect ARV revenues will go up in FY'18.

S Padmanabhan: So we should get back to probably the sales trajectory which we have seen in the past, that is 15-17%, because the last two quarters were very flat, I agree that margins were good, but on the sales side?

Dr. Chava: You are right. The reason for our growth steady state for one year and growing, that is because we are adding new capacities, validations in the new capacities and customer approval is taking some time. We definitely expect as you are mentioning growth opportunities better than last year in FY'18 now.

S Padmanabhan: Sir, my second question is around in margin side. I think fourth quarter we did see a pretty good improvement in margin. So if you can throw a bit more color on how much of this margin expansion is because of the product mix which would kind of remain sticky as we move to probably FY'18 and '19 and how much of it would be kind of one-off because of the supplies that we had done in this quarter, so broadly on that would be quite helpful sir?

Dr Chava: 50% of that expansion happened because of our interest reduction, so that will continue to be there and remaining 50% came from expansion of gross margins. We have improved our processes in our key products, so those will continue. The large quantities we supplied for ARV API we expect to give any additional quantities during Q3, Q4 of this financial year. So overall the gross margin expansion will definitely be there to a greater extent.

S Padmanabhan: On the Hepatitis-C Franchisee, I believe Natcowould have launched the other combination products last year. Any view on how one can expect, #1, the new combination kicking in and probably what one can expect with the expansion and launches happening in the emerging markets?

Dr. Chava: Our partner, Natco launched new combination using Velpatasvir actually last week and we have supplied good quantities for launch and we are also planning to supply additional quantities for the further orders, whereas they are also expanding the markets from India to other countries like Vietnam, Indonesia and CIS countries. Hepatitis Cfranchisee is doing very good; you will also notice from Natco's numbers, they are doing very well.

V.V. Ravi Kumar: But frankly this new Velpatasvirwhich is not at all sold to Natco in the previous year, that will be reflected only in the current year. Second is on the ARV side. You are aware that we are also starting another existing product but is a new to the Laurus,

actually Lamivudine also we are starting and as soon as we receive in customer approvals, that is going to add to the top line in the ARV business.

Moderator: Thank you. The next question is from the line of Bino Pathiparambil from SBICAP Securities Ltd. Please go ahead.

Bino Pathiparambil: A couple of questions: EIR that you have or received, is it for the same facility for which you had 483s earlier?

Dr. Chava: You are right, we had one 483 for formulations inspection which we announced a day before IPO, but for the same facility we received EIR yesterday.

Bino Pathiparambil: That means those issues are resolved?

Dr. Chava: Yes, you are right.

Bino Pathiparambil: Second, generally I am thinking forward about growth. This year we probably benefited a bit from the full year benefit of Hepatitis C with the sales to Natco, etc., despite that our overall top line growth is around 7-8% and EBITDA growth also in the low double-digit. Is there anything that can take this rates up in FY'18 and FY'19?

Dr. Chava: If you look at our financial principles, we are expensing all pre-operative expenses and the R&D expenses related to FDF, that is almost Rs.100 crore. Actually, our numbers, if you look at removing non-revenue yielding assets, it could have been higher by another Rs.100 crore. As and when we get to FDF ANDA approvals, then our margins will continue to expand from the current numbers.

V.V. Ravi Kumar: Bino, to add , for example, this Hepatitis C new combination we did not have any profits from that in the last year. So that should be the another additional point in the year to come.

Bino Pathiparambil: How significant would that be compared to existing Sovaldi or Sofosbuvir sales and profit share?

Dr. Chava: We expect the overall sales may increase by about 20%.

Bino Pathiparambil: But there is nothing like any specific issue that impacted the growth in ARVs or any other API this year that will get rectified next year?

V.V. Ravi Kumar: There is no specific issue, Bino.

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

Kunal Mehta: Sir, I just wanted to understand that since the last 8-10 quarters, we have been seeing channel consolidation in the US. That is affecting the prices of Formulations. So from a perspective of API supplier to those companies, how do the price decreases affect the API suppliers, if you can just throw some light on that?

Dr.Chava: Earlier, there were a few API suppliers, many ANDAs. The situation now is different – there are more API suppliers and few ANDAs. Our every ANDA is supported by at least one or more API DMFs. The price pressure is putting more concerted approach. That is the reason APIs are becoming very important. The companies with integration will be more successful. The price pressure in US definitely put

some stress on the APIs. They are buying from a third party. If they are vertically integrated, they can withstand pressure much better than the non-integrated companies. That was one of the reasons for us to foray into Finished Dosage Forms.

Kunal Mehta: Sir, my second question is that, especially in the Hepatitis C API market along with Hetero drugs are the key suppliers.Now Gilead has entered into a contract with lot of companies. So do you see competition rising up in the segment for the supply of Hepatitis C drugs, how difficult is it in terms of the complexity of the chemistry for the competition to come up in these APIs?

Dr. Chava: If you look at eight licensees of Hepatitis C drugs from Gilead and almost six companies from BMS for Daclatasvir there are only two active API companies in those licensees – one was Hetero Drugs and the second one was Laurus Labs. Most of the companies either they do buy formulations made out of these companies or they buy API either from Laurus or from Hetero. So the competition to supply APIs to the Gilead or BMS licenses is only from these two companies. There are no other companies who got licensees and who are having significant API capabilities.

Kunal Mehta: In your perspective, sir, you mentioned that Capecitabine will give way to biologics. So as far as the industry is concerned, since it is being a key Oncology product, so how do you see that going forward?

Dr. Chava: Actually, we are not selling any of Capecitabine volumes, would not have DMF for Capecitabine.

Moderator: Thank you. The next question is from the line of CharulataGaidhani from Dalal&Broacha. Please go ahead.

CharulataGaidhani: I wanted to know what would be the R&D spend expected in FY'18 since you said there will be ten ANDA filings?

Dr. Chava: We have spent about 7% of our revenue in the current year, that includes OPEX as well as the CAPEX. We expect it will be between 6% and 7% in FY'18 as well. Even we file 10 ANDAs; our expenditure will be in that range between 6% and 7% of our revenue.

CharulataGaidhani: Also, can you give me some details on what is this customer approval pending for ARV?

Dr. Chava: We did validations for Lamivudine. We also supplied few of the APIs to customers like Cipla, Emcure, Macleods and all. So we are expecting additional approvals for our existing APIs and new approvals for Lamivudine.

CharulataGaidhani: By when do you expect these to come?

Dr. Chava: By end of FY'18.

CharulataGaidhani: This would be for which markets?

Dr. Chava: This is for access to medicine markets, tender-driven markets.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs (India) Securities Pvt. Ltd. Please go ahead.

Dheeresh Pathak: I just want a clarification that total R&D was Rs.124 crore for the year, of which Rs.33 was Finished Dosage and balance was the API business. Is that right?

Dr. Chava: Also, capital expenditure we did into R&D.

Dheeresh Pathak: So what was the total R&D amount that went through the P&L if it was not Rs.124 crore?

V.V. Ravi Kumar: That is about Rs.112 crore.

Dheeresh Pathak: Of which how much was that went through the P&L for finished dosage forms…entire Rs.33 crore through P&L?

V.V. Ravi Kumar: Yes.

Dheeresh Pathak: You mentioned the amount on the 'Presentation Slide #8' FDF OPEX investments Rs.98 crore, the balance Rs.33 crore is about R&D and the balance Rs.64 crore is about running the plant and other fixed overheads, is that correct?

V.V. Ravi Kumar: Correct.

Dheeresh Pathak: Second question is on Synthesis business. So there are three parts to the business as per my current understanding – the Aspen business, and then early stage and commercial state supplies. At the time of IPO, you had guided to some targets if I remember correctly it is $50 million from Aspen and let us say 50 together from the commercial and early stage clinical supplies. Are we on track to achieve those targets?

Dr.Chava: Those were the long-term goals, Dheeresh. We are doing very well in the division.

Dheeresh Pathak: So can you just provide a breakup of the Synthesis business of Rs.100 crore into how much was Aspen, how much of commercial stage and how much was early stage?

V.V. Ravi Kumar: We are not providing the breakdown, Dheeresh. Actually the overall it is about Rs.102 crore we have done in the current year. If you look even we have 1% share increase from the Synthesis business compared to the last year; it was 4% before and now from FY'17 it is 5% share from the Synthesis business. It is on track.

Dr. Satyanarayana Chava: We are on track of achieving those long-term goals for sure.

Dheeresh Pathak: For the Generic, the other thing that we have talked about earlier was the Formulations business in the ARV side where instead of just supplying API, we would supply the final formulated product and the WHO inspection was supposed to happen in March this year and then approval sometime later this year. So can you just provide an update to that?

Dr. Chava: We had inspection in the month of March and I have responded to few queries last week. We also got queries on our dossier filed with WHO, we also responded to those. We are also about to file the dossier in few African countries. We are on track of getting approval from WHO and one African nation during FY'18. We are going to file maybe three dossiers and ANDAs for the ARVs into the African market during FY'18.

Dheeresh Pathak: So the commercial impact of this to show up as revenues in the P&L would be FY'19 then?

Dr.Chava: ARV FDFs to access markets will be FY'19 whereas small revenues may come in FDF based out of our two approvals expected by end of FY'18.

Dheeresh Pathak: Maybe my understanding wrong, but I think this was one part of the business where we had good expectations in terms of growth going forward, right, because incrementally you were mentioning that 1 million patients are getting added to the pool every year and then per patient cost is $100 per year and if we can just get the incremental addition to the patient pool rather than competing with our own customers for their business it would be a reasonably large revenue opportunity, that was my understanding?

Dr. Chava: You are right. Actually the new patient addition is more than a million per year. What is also interesting is that the number of people moving from the second line therapy is also more than expected. So the second line therapy is almost twice expensed than first line therapy. So we are also developing dossiers for second line therapy as well.

Dheeresh Pathak: So would it be fair to understand that in FY'19 when we have the approvals from WHO and we participate in these tenders, like what should be a fair expectation like how many patients you can supply to in the first year of operations because you have vertically integrated, you have good cost structure but obviously you do not want to compete with your clients. So can you just give us some understanding so that we have the right expectation?

Dr. Chava: It is too early to gauge how many million patients we supply. All depends on the tenders and all depends on our approvals in each of those countries. I think we can update maybe closer to end of this financial year when we file in each of those territories. It is too early to comment on that.

Dheeresh Pathak: So the ARV business you had explained that the volumes grow in low to mid-teens but this year the revenue for us is flat. So is the volume growth also flat for us for the year?

Dr. Chava: Volume and ARVs was flat because we did not have additional capacities came into operations last year, but which we have added capacities and expecting good approvals for new APIs as well as existing APIs with some new customers. Our ARV revenues will go up significantly in FY'18.

Dheeresh Pathak: So would it be fair to say that in FY'17 the market for the products that we are in, market volume growth would have been as per the earlier trends which was double digit but our volume growth was flat because we had capacity issues, is that the right statement?

Dr. Chava: We do not have capacity issue, we did add additional capacities. We did not get additional approvals from the customers. That was the main reason.

V.V. Ravi Kumar: One of our key products which are even by volume it is growing.

Dheeresh Pathak: I just want to understand what is the market growth rate and what was that in FY'17 and do we see that double digit volume growth in FY'18-19 as well or is there some structural change because at the time of IPO we were pretty excited that the ARV business is not slow growth business but it is a double digit growth business in volume terms because lot of patient access and funding, that is not an issue and

that was the way it was explained, so I just want to know that if the industry did not grow in FY'17 why it did not grew?

Dr. Chava: If you look at ARVs in FY16 and FY'17 we did more or less same revenues, but there is a change in the product mix.

V.V. Ravi Kumar: Our Efavirenz just gone by the lower double digit but the other products actually that we expected and few customer approvals that did not take place.

Dr. Chava: Key product Efavirenz we sold almost 100 tonnes more than what we did previous year, we did almost Rs.60 crore extra sale on Efavirenz. So a key product grew very well but otherproducts did not. The main reason was in South Africa, the Emtricitabine is one used whereas our customer with whom we have approval, only a quarter of the tender quantities, with other customers, we do not have approval. So that is the one reason where we did not grow very well in the other ARVs in FY'17, but that will be reversed in FY'18, Dheeresh.

Dheeresh Pathak: So South African tenders are annual tenders or three year tenders?

Dr. Chava: Three year tenders but we got approval with only one customer there. Other customers are about to get approval using our two more APIs.

Moderator: Thank you. The next question is from the line of Krishna Prasad from Franklin Templeton Investments. Please go ahead.

Krishna Prasad: In the current quarter if I look at your API split, you have something called others where you have done about Rs.62 crore of sales which seems to be significantly higher than your previous quarters. Is there anything one-off or anything specifics which happened to increase the sales here?

Dr. Chava: It is not a one-off; it is based out of a contract manufacturing we are doing for European customer that will continue. We do not have the therapy to compare in the previous years, so it went into others.

Krishna Prasad: So it is just starting this year, is it?

Dr. Chava: We supply the significant volumes based on the DMF source change, that willcontinue.

Krishna Prasad: If I look at your balance sheet, there is a sharp increase in the receivable days for the current year consol basis and particularly your fourth quarter sales anywhere were weak. So just wondering anything which is increasing the receivable days, what is your sustainable number going forward?

V.V. Ravi Kumar: Some of the customers we have 120-days credit period. That is the reason receivables are at that level, but it is nothing is alarming actually, we have not made any provision for the doubtful, there are good but the cycle has slightly increased.

Krishna Prasad: Because if I look at your past, it seems to be in that 80-90-days kind of a number. So should one take 110 to be the normalized receivable days for you?

V.V. Ravi Kumar: Actually, what happened, in the balance sheet time, sometimes if you discount the bills from end customers also the receivables will be netted off

Krishna Prasad: So you mean you discounted with the banks is that what you are saying?

V.V. Ravi Kumar: Discount with the banks, yes.

Krishna Prasad: How much you have discounted at the end of year?

V.V. Ravi Kumar: Not very significant this year.

Krishna Prasad: Previously you used to discount, is it?

V.V. Ravi Kumar: Previously we used to discount and again it was restored but with some of the customers we could not able to discount, that arrangement will be there in the current year now.

Krishna Prasad: So you are saying if you discount, you will be at 90-days?

V.V. Ravi Kumar: Yes.

Krishna Prasad: These discounts or with recourse or?

V.V. Ravi Kumar: There are some with recourse, some without recourse.

Moderator: Thank you. The next question is from the line of Prashant Nair from Citigroup Global Markets. Please go ahead.

Prashant Nair: Just needed a clarification; earlier when you mentioned that revenue growth will be 20%. For the next year was that just for the Hepatitis C part or the overall company revenue growth to an earlier question in that context you had mentioned?

Dr. Chava: Hepatitis C, the new launches will contribute how much growth in Hepatitis C branches. That is only for Hepatitis C branches.

Prashant Nair: Do you have any kind of guidance that you can share on the overall revenues front?

Dr. Chava: We are not giving any guidance, Prashant. But what we are saying is our growth in FY'18 will be better than what we did in FY'16-17.

Moderator: Thank you. The next question is from the line of Chirag Talati from Kotak Securities Limited. Please go ahead.

Chirag Talati: I am just trying to figure out the ARV volumes because on one hand it seems that Efavirenz grew by 100 MT but overall volumes were flat. Now, when I look at the split, it seems that a) either Emtricitabine has collapsed like almost zero in terms of production or you have to see a sharp cut in Tenofovir as well, that should have also gone down by 40-50%. So can you help us understand what is happening in the ex Efavirenz portfolio?

Dr. Chava: There were reduction in offtake of Emtricitabineas well as Tenofovir. That was the main reason for our flat growth in ARV although we did sell our flagship product more than FY'16. As I explained, approvals from other customers for Tenofovir and Emtricitabine is expected during this financial year. That is the reason we are confident that ARVs revenue will grow up in FY'18 when compared to FY'17 from the existing product and we are also creating capacity and also expecting approvals for Lamivudine by end of this year.

Chirag Talati: But the capacities have really moved so much because you were talking about net-net being flat, right, so would not this is something that should have been anticipated at the beginning of the year? Also when I look at Emtricitabine, it is not a very large product in terms of volumes as far as Laurus is concerned. Efavirenz and Tenofovir seem to be much more sensitive. Hence my question around is it really Tenofovir has gone down substantially in market share or is there also some pricing element involved which is bringing down overall?

Dr. Chava: One of our partners in South Africa, hasdiverted his capacities to some non-ARV. That was the reason there is not much offtake in South Africa. South Africa is the key country where they use Emtricitabine. That was the reason; our offtake of Tenofovir and Emtricitabinecame down.

Chirag Talati: But then if Efavirenz goes up, if my understanding is correct that if Efavirenz is mostly used in combination and Emtricitabine goes down, it does not kind of add to the fact, the client has diverted his capacities away from ARVs and even Efavirenz should have gone down for that client?

Dr. Chava: Efavirenz, we have approvals from almost every customer whereas Tenofovir we have approvals from half of the customers whereas Emtricitabine we have approval from one customer.

Moderator: Thank you. The next question is from the line of Ranvir Singh from Systematix Shares & Stocks (I) Ltd. Please go ahead.

Ranvir Singh: Just if you could give the timeline for that expenses currently we are doing for facilities, like for Unit-IV when actually it will start contributing to our revenues?

Dr. Chava: Validations will be completed in this current financial year and some revenue will come in this financial year but significant revenue will come only next year FY'19. Unit-5 we commissioned FY'17 and we are doing validation batches, revenue will come in FY'18 itself. Unit-2 our FDF we are expecting two approvals during this year, some revenue will come in FY'18, but significant revenues will come in FY'19.

Ranvir Singh: The target action date which has been given for two ANDAs, so when is the date?

Dr. Chava: One is Q3 of FY'18, one is Q4 of FY'18.

Ranvir Singh: If I heard correctly that you said Velpa would be adding 20% growth to overall franchisee of HepC?

Dr. Chava: Yes.

Moderator: Thank you. The next question is from the line of Amish Kanani from JM Financial Institutional Securities Pvt. Ltd. Please go ahead.

Amish Kanani: Sir, we were actually developing some 30 ANDA six months back when we were doing an IPO and you said you will file about 10 this year. So if you can just give us some medium term outlook in terms of filing run rate because I remember you said generally you believe you will be doing 10 per annum and which area are we doing this?

Dr. Chava: As I explained, we did file 3 ANDAs last year and we expect to file about 10 and FY'19 also, we expect we will file the additional 10. There is no change in our approach of filing selective ANDAs and expanding market for each of the product

we develop at Formulations. Areas, we are working on Cardio Vascular, we are working on Diabetic, we are working on Anti-Retroviral, we are working on some Proton Pump Inhibitors. We are not doing any Oncology, that much we can tell you.

Amish Kanani: Sir, we were planning our own front end desk. So is there an update in terms of what is happening there – will all these filings are our own or the partners or something like that?

Dr. Chava: As we mentioned in our prospectus, we have two partnerships in place – one with DRL for anti-retroviral, another with Citron for few ANDAs and we also have our own ANDAs which we did not partner with either of these. So those ANDAs we will do front-ending ourselves.

Moderator: Thank you. The next question is from the line of Karan Doshi from Subhkam Capital Ventures Pvt. Ltd. Please go ahead.

Karan Doshi: Just one question on Oncology. Sir, we said that in Q4 end we have got a few orders. How the orders would shape up going forward?

Dr. Chava: We cannot forecast from one of our key customers and we are back on track with the quantities like in FY'16. So Oncology we will go back to normal like in FY'16 and FY'18. There is a dip in FY'17 because they used to keep six months inventory earlier, now they changed the inventory policy to three months, so they did not take enough quantities in FY'17.

Karan Doshi: It would be somewhere backing to FY'16 level?

Dr. Chava: You are right.

Karan Doshi: Going forward what would be our CAPEX plans?

Dr. Chava: We did about little over Rs.300 crore CAPEX in FY'17 and maybe to similar amount in FY'18, maybe more or less same in FY'19 as well.

Karan Doshi: This funding of the CAPEX, would our internal accruals be sufficient for it or we have to take incremental debt?

V.V. Ravi Kumar: Broadly, we feel in internal accruals but if at all we raise a debt actually we will raise a debt is only to the extent of up to Rs.100 crore, not more than that.

Moderator: Thank you. The next question is from the line of C Srihari from PCS Securities. Please go ahead.

C Srihari: I mainly wanted a little more clarity on the FDF business. Firstly, when is the enhanced capacity coming on stream? Secondly, if you could please provide some kind of guidance either in revenues or volume terms for fiscal '19, fiscal '18 anyway you said you do not expect much revenues from this division?

Dr. Chava: Our current capacity is little over a billion units. We are doing an expansion which will come online and the first to exhibit batches will be done in July now. With that our capacity will go from 1 billion to 5 billion units per year. FY'18 we will get two approvals. Some sales will come from that. We are not giving any guidance, but we expect more approvals, some day one launches will happen in FY'19.

C Srihari: What is the kind of addressable market size for these two TDs that you have on hand…between the two should it be 500 million plus?

Dr. Chava: It is very large, maybe more. One is already genericized, one is not yet genericized. The product which is not genericized has much larger market. So it is not easy to predict how many players will be there, which one got market share, but we expect we will do very well because of our integrated nature of ANDA filing.

C Srihari: How long will it take to get to maybe 50-60% of utilization?

Dr. Chava: That will be done in FY'19; about half of our capacity will be utilized.

Moderator: Thank you. The next question is a follow up from the line of Ranvir Singh from Systematix Shares & Stocks (I) Ltd. Please go ahead.

Ranvir Singh: Sir, this is regarding other API business which you said that this is for Contract Manufacturing of European customer. So we should assume this level going forward or this business is kind of lumpy, so how is the outlook on this?

Dr. Chava: The Contract Manufacturing, we are doing four products right now with that customer and we are adding more products. Current four products already genericized. We know what volumes they need and all. It is a very steady business; it is not a bumpy business.

Ranvir Singh: So this is same Montelukast and Atorvastatin that you had mentioned earlier in presentation I believe, this is the same molecule or the new molecule has been added there?

V.V. Ravi Kumar: Same.

Ranvir Singh: Margin wise this is in line with our average Company's EBITDA margin? I believe this is a generic product, because now their contribution is significantly increased to our overall mix. So how is the scenario there on margin front?

Dr. Chava: These are very good margins even though we are doing Contract Manufacturing. Contract manufacturing also we are not doing unless it is as profitable if not more.

Ranvir Singh: Under this new GST rate, because we have been supplying bulk drugs to Indian customers as well, so how do you see this…is positive for the bulk drug manufacturer basically?

V.V. Ravi Kumar: We need to make a further study, we have engaged an expert and then we are working on it.

Moderator: Thank you. The next question is a follow up from the line of CharulataGaidhani from Dalal&Broacha. Please go ahead.

CharulataGaidhani: FDF your current capacity is 1 billion tablets, right?

Dr. Chava: Yes.

CharulataGaidhani: That will go up to 5 billion by end of FY'18?

Dr. Chava: Actually it will go up to 5 billion by July itself.

CharulataGaidhani: So the revenues from FDF would go up significantly by FY'18?

Dr. Chava: FY'19.

CharulataGaidhani: What is the kind of peak sales that you expect from FDF and by when do you expect to achieve it?

Dr. Chava: We are not giving any guidance, so we will not be able to answer your question on numbers, but as we mentioned, some sales will start in FY'18 and the significant ramp up will be there in FY'19.

CharulataGaidhani: What is the CAPEX that has been spent only for the FDF?

Dr. Chava: Little over Rs.300 crore of CAPEX.

Moderator: Thank you. The next question is from the line of Karan Doshi from Subhkam Capital Ventures Pvt. Ltd. Please go ahead.

Karan Doshi: Sir, on the Formulations part of the business that the two approvals that we are expecting, so this marketing would be through Citron, right?

Dr.Chava: Two products what we are expecting approval – one will be marketed by Citron, one will be done by ourselves.

Karan Doshi: So with Citron would be profit sharing or cost plus, so how is those…?

Dr. Chava: Cost as well as profit sharing 50:50 with Citron.

Karan Doshi: Can you just provide a competitive landscape of these products, some color?

Dr. Chava: One is already genericized, there are multiple plates, and the other one will be day one launch, that is what we are doing on front-ending, beyond that we are not in a position to give any guidance right now.

Karan Doshi: Sir, have we invested in a front end or is it still in the process?

Dr. Chava: We have our President, North America is on board. We will start getting state licenses in the next few months.

Karan Doshi: When we go front end would it not be helpful since we do not have a basket of products or something to go through the marketing partner rather than our own?

Dr. Chava: It is true but for everything there should be good beginning.

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

Dr. Chava: It is very insightful questions you have asked. Our commitment is to grow the business. As we are not giving any forecast, but what we are giving information to all of you that we will do very well in FY'18, our new facilities coming on stream and new approval coming on stream. Thank you for your active participation.

V.V. Ravi Kumar: Thank you.

Moderator: Thank you. On behalf of Laurus Labs Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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