dishman

13th November, 2019

| To,<br>**Department of Corporate Services**<br>**BSE Ltd.**<br>Phiroze Jeejeebhoy Towers,<br>Dalal Street,<br>Mumbai – 400 001.<br><br>**Ref.: Scrip Code No. : 540701** | To,<br>**The Manager,**<br>**Listing Department,**<br>**National Stock Exchange of India Ltd.**<br>"Exchange Plaza", C-1, Block G,<br>Bandra-Kurla Complex,<br>Bandra (E), Mumbai – 400 051.<br><br>**Ref. : (i) Symbol – DCAL**<br>**(ii) Series – EQ** |
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**SUB: TRANSCRIPT OF CONFERENCE CALL - QUARTER AND HALF YEAR ENDED ON 30TH SEPTEMBER 2019 EARNING CALLS**

Dear Sir,

With reference to captioned subject, please find enclosed herewith transcript of conference call arranged by the Company with Analyst & Investors, on Thursday, 24th October, 2019 to discuss the financial result and performance of the Company for the quarter and half year ended on 30th September, 2019.

Kindly take the same on your record.

Thanking You,

Yours faithfully,
**For, Dishman Carbogen Amcis Limited**

S.G.Dave

**Shrima Dave**
**Company Secretary**

Carbogen Amcis Ltd. Dishman Ahmedabad

Encl.: As above

**Dishman Carbogen Amcis Limited**
**(Formerly Carbogen Amcis (I) Ltd)**

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CIN No. : L74900GJ2007PLC051338

Dishman Carbogen Amcis Limited

Earnings Conference Call Transcript

Event: Dishman Carbogen Amcis Limited - Second Quarter and Half Year Ending September 30, 2019 Earnings Call

Event Date/Time: October 24, 2019/1700 HRS

## CORPORATE PARTICIPANTS

**Arpit Vyas**
Global Managing Director - Dishman Carbogen Amcis Limited

**Harshil Dalal**
Global CFO - Dishman Carbogen Amcis Limited

**Mark Griffiths**
Director – Global Marketing and Strategy - Dishman Carbogen Amcis Limited

**Moderator:** Ladies and gentlemen, good day and welcome to the Dishman Carbogen Amcis Limited Investor 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. Mark Griffiths – Global CEO, Dishman Carbogen. Thank you, and over to you, sir.

**Mark Griffiths:** Thank you very much, moderator. Good afternoon, ladies and gentlemen. Thank you for joining us for our quarterly concall.

I am going to be relatively brief so that we can get into questions and move along the discussion. We believe we have had a very strong quarter from the consolidated level. The market continues to bear an appetite through the services and capabilities we provide. There are a number of highlights, which I am happy to discuss including increased penetration into the Japanese market through our Swiss assets, which is a major breakthrough and our increasing success in anti-body drug conjugate at the small scale level.

What I would like to do to get our conference moving quickly is to hand over to Mr. Harshil Dalal and Harshil will take you through the numbers as published and then we can open up the call for question-and-answer session. So, thank you very much indeed. Looking forward to some exciting questions and I am going to hand over to Harshil now. Thank you.

**Harshil Dalal:** Thank you very much, Mark. Hello everybody! Hopefully everybody is having very good evening.

For the quarter ending September 30, 2019, our margins were extremely impressive, as per our guidance in the conference call of the first quarter.

We will see an improvement in the margins going forward in the remainder part of the year. As far as the revenues for the quarter are concerned, we did revenue of about Rs.467 crores as compared to Rs.447 crores in the comparable quarter last year, which is a growth of about 4% and for the first half it was about 6%. The EBITDA for the quarter was about Rs.146 crores, which represents about 31% as a percentage of the total revenues, which last year in the comparable quarter was about Rs.129 crores, which was about 29%, so there is a year-over-year growth in the EBITDA by about 13%. The profit before tax was about Rs.65 crores for the quarter as compared to Rs.70 crores in the comparable quarter last year. The major reason for the difference of the Rs.5 crores was largely on account of the increased amount of depreciation and impact on the finance cost, not because of the increase in the borrowings or increase of the assets but just because of the new IndAs 116 accounting standard, which is applicable from the 1st of April 2019. So, if you see our depreciation in the same quarter last year was about Rs.57 crores as compared to that we had a depreciation accounted for about Rs.70 crores in the quarter ending September. The finance cost, which was about Rs.15 crores in the quarter ending September 2018 was about Rs.17 crores in the same quarter this year, the increase of Rs.2 crores was solely on account of the leased asset and the lease liability that we had booked on account of the adoption of the IndAs 116.

As far as the reported PAT is concerned, that was Rs.41 crores for the quarter as compared to Rs.44 crores in the comparable quarter last year. On normalised basis if we exclude the increase in the depreciation and finance cost on account of the adoption of IndAs 116, the reported PAT would have been higher by about Rs.10 crores.

The cash profit, which is obviously an important metric that we track internally for the quarter ending September 30, 2019 was Rs.109 crores as compared to Rs.100 crores in the comparable quarter last year. For the first half ending September 30, 2019, the cash profit was Rs.230 crores as compared to Rs.216 crores. So, the cash EPS increased to 29.2 as compared to 24.8 in the comparable quarter last year.

For the first half, the revenues as I mentioned did show an increase to Rs.989 crores. So, we are close to Rs.1,000 crores in the first half as compared to Rs.930 crores in the first half ending September 30, 2018. The EBITDA for the first half was Rs.266 crores as compared to Rs.250 crores in the first half of last year, which represents about 27% on a margin basis. The profit before tax was about Rs.112 crores as compared to Rs.129 crores because of the significant impact of depreciation and interest cost due to interim accounting standard adoption that I explained for the two quarters and reported profit after tax was Rs.75 crores as compared to Rs.84 crores in the comparable first half last year.

As far as the performance on a segmental basis is concerned, we would like to highlight that the CRAMS business in India has showed a substantial improvement in the revenue. The revenue in the comparable quarter last year was about Rs.74 crores as compared to that in the quarter ending September 30, 2019 we did a revenue of Rs.112.5 crores, which is an increase of about 52%.

The CRAMS revenue at Carbogen Amcis and our French facility cumulative was about Rs.209 crores as compared to Rs.225 crores. The reason for the decrease was largely on account of the commercial orders at Carbogen Amcis AG, which are expected to be supplied during the third quarter of this financial year as compared to last year when it was supplied during the second quarter. This time the commercial orders are more back-ended in terms of those going out in the third quarter as compared to the second quarter. And that is one of the reasons why the inventory is showing increase on a consolidated basis from what it was as of March 31, 2019. Lot of stock building has been done for the commercial orders as of 30th September, which would be supplied in the quarter ending December 31, 2019.

Carbogen Amcis B.V., which is our Netherlands subsidiary, did a revenue of about Rs.55 crores, which was a similar kind of number, which we did in the comparable quarter last year.

As far as margins are concerned, obviously, India CRAMS, the margins were substantially high; so, India CRAMS reported a margin of about 60%, Carbogen Amcis and RIOM combined was about 21% while Netherlands reported an EBITDA margin of 40%. So, overall for the first half our consolidated EBITDA margin was about 27%.

As far as our net debt is concerned, we would like to highlight that overall our net debt as compared to March 31, 2019 has decreased by about 7 million. Since most of our debt is in foreign currency, the right way to look at our debt number would be in US dollar terms if we convert everything to the same currency. So, debt was about 120 million as of March 31, 2019 which has come down to 113.5 million as of September 30, 2019.

These were some of the key highlights for the quarter on a financial basis and I think with that we can open the floor for Q&A.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Vaibhav Gogate from Ashmore. Please go ahead.

**Ashwini:** This is Ashwini here. At Slide 7 of the consolidated P&L statement and the PAT margin, which is down by about 100 basis points Q2 over the same quarter last year and first half is down by 136 basis points, some of these obviously is coming from the FX gains, which were quite substantial last year and probably not there in the first half of this year and some of these could be because of the deferment of the commercial supplies. Could you help me understand what these two quantums would be?

**Harshil Dalal**: There were two or three reasons: The first and the foremost reason was an adoption of the IndAs 116. There is a new lease accounting standard, which was made mandatory for us. And if you see our balance sheet, there is an asset, which has been booked of Rs.166 crores and there is a corresponding liability of about Rs.166 crores. So, what this new accounting standard says is that all of the operating leases need to be accounted by looking at an asset and liability of the same amount at a discounted value. And because of that there is an impact of depreciation as well as interest cost. If you see the depreciation for the quarter end for that matter even the first half has gone up substantially as compared to the quarter and the first half of last year. So, just to give you the numbers; FY'19 the depreciation amount was Rs.111 crores as compared to Rs.137 crores in the same first half of this year, that is an increase of about Rs.20 crores. Obviously, on the flip side, there would be a decrease in the rental expense that we would be booking as part of our other expenses. But the rental expense that is reduced is about Rs.11 crores. Because what would happen is that in the initial years the depreciation and the interest impact would be higher, while in the later years the interest and depreciation impact would be lower, overall, over the entire lease life of that particular asset, the amount would equate to the total rentals, which is going to be paid. So, that is one of the major impact on the PAT and that is obviously impacting the margins as well.

**Ashwini:** So, that is roughly about Rs.6 crores of delta, the difference between the depreciation and the rental.

**Arpit Vyas:** That would be about Rs.9 crores on the depreciation and about Rs.3 crores on the interest, overall delta would be roughly about Rs.12 crores.

**Ashwini:** But then you have to offset the lease rental payments from that, so net impact would be about Rs.6 crores?

**Harshil Dalal:** No, I am talking about the first half. So, in the first half the depreciation has increased by Rs.20 crores, the Rs.30 crores include an interest impact of Rs.4 crores on account of the lease impact. The total impact of the new accounting standard is Rs.24 crores on a gross basis on interest and depreciation, against that the rental expense, which has not been booked, so which is out of the other expense is to the tune of Rs.12 crores. So, the net impact on the P&L for the first half is about Rs.12 crores.

**Ashwini:** Is there an FX element as well?

**Harshil Dalal:** FX element is in the other operating income. So, the other operating income for the first half is about Rs.49 crores last year while for the first half this year it is about Rs.38 crores. So, the FX income has been booked as operating income for the first half this year is about Rs.22 crores, while in the corresponding first half of last year that was about Rs.42 crores, so that is an impact of about Rs.20 crores.

**Management**: In the first quarter the dollar and the CHF value was around Rs.70 or even lower and this quarter it has shot up again. So, major difference is outside of India, which are in CHF and Europe, which was also lower and has gone up to whatever it is. So, the impact in this quarter is for just the conversion, there is no impact per se but just because we are converting into rupees you would see that employee expense, everything will reflect much higher than what it actually is.

**Moderator:** Thank you. The next question is from the line of Rohit Oja, an individual investor. Please go ahead.

**Rohit Oja**: My question is to Mark and I want to know what are the capacity utilisation levels for our API facilities in India and China? And when can we see a meaningful pick up for the Shanghai facility?

**Mark Griffiths:** Fantastic question. So, we have had some very good news as I mentioned in our introduction with the Japanese customer. This is the customer who has been working with us in Switzerland at a relatively low volume but complex level via moving forward into producing larger quantities of this particular API having towards validation. So, as a result of that, Shanghai has just got a fairly substantially, roughly one of the intermediates, which is going to be a really exciting project on both levels: One, it is another API coming through. It utilises our facilities in the UK and Italy and now Shanghai but also Switzerland and it is also a fairly large Japanese multinational pharmaceutical company. It has taken a long time to build this relationship and they are starting to bear fruit. So, we are excited about that. Already that has generated more interest from that of Japanese customers. So, we are hoping that Shanghai by the end of this financial year, so April-May-June till the time is going to be busy. That is recent news in the last week or two.

**Rohit Oja**: Could you just quantify the utilisation levels as we stand off?

**Mark Griffiths:** By the end of the fourth quarter or sometime during the first quarter next year we could expect to see shanghai running at round about 70%, which is good for multi-purpose facility, thus provide us with a bit more headroom that was still. So, we are not going to be completely full. As Harshil mentioned, we are seeing an increase over the last quarter. In India we are seeing the benefits of the push into higher value products, moving away from the lower value products in France, and as a result of that, projects predominantly coming from European customers, but also one notable US customer has started to increase and the work levels on that basis have gone up quite considerably in the Bavla site where we manufacture most of our pharmaceutical APIs. But I would suggest that the plants, which are now under maintenance at the moment in Bavla are probably approaching 60%, 65%, which again is also good news for us. And we continue to manufacture part of APIs and full APIs, which have been sold also through Carbogen Amcis subsidiary as well out of Bavla. So, corporately we recognise the revenue in certain areas and recognise the profits in certain areas. But the work level is sustainable, that is a good news about this. These are one-off sustainable long-term projects, which is where we wanted to be to provide a stable pattern to the business. So, we are actually quite excited at the moment. It started to bear fruit.

**Rohit Oja**: Earlier you mentioned that there will be no CAPEX for a few years but then why sudden plan for fund raising in SWISS unit?

**Mark Griffiths:** It might be worth going back and looking at the times what we said is that in Asia for India and China, there is going to be little in terms of new fixed investment, it is going to be most in maintenance capital and one or two smaller projects that essentially based on client requirements. Switzerland and France are different stories. So, we are working at the moment to finalise our plans to look at and reasonably meaningful capacity increase in Switzerland and France.

**Rohit Oja**: What is the reason behind the elevated maintenance CAPEX on a consolidated level?

**Arpit Vyas:** It is mainly because of the FOREX impact; the Euro and the CHF, which has moved from what it was in a negative way for the rupee is about 2% - 3% within from last quarter to this quarter that is the main increase that you are seeing.

**Rohit Oja**: But in general, maintenance CAPEX as a percentage of sales is about 7% odd and if I compare with peers like in the same areas, it seems a bit high. So, any explanation?

**Arpit Vyas:** Who are you comparing with?

**Rohit Oja**: Players like Syngene, PI Industries in CRAMS.

**Arpit Vyas:** We must be doing it better than the others.

**Harshil Dalal:** One of the things that you have to understand is that most of our assets are outside of India. The maintenance CAPEX in India versus what we will be doing outside India, obviously, is also going to be higher. So, whatever is reported in the balance sheet is all denominated in rupee. All of those costs also then getting converted into INR. So, if I incur say a million of Swiss Franc that will be converted at an average Swiss Franc rate into the reporting when I do in INR. So, since most of our assets are outside of India, obviously, the maintenance cost would also be higher and we have multiple FDA approved sites, which compels us to incur this kind of maintenance CAPEX in order to ensure that we are always compliant with all the regulations. It is not a real cash outflow.

**Moderator:** Thank you. The next question is from the line of Manoj Garg from White Oak Capital. Please go ahead.

**Manoj Garg**: In India CRAMS business, we have seen a very good traction in the first half as well as in Q2. Could you just take us through the overall pipeline out here and what could be the growth potential over the next two, three years on the India CRAMS side?

**Arpit Vyas:** At India CRAMS, the market is looking good overall as of now. From here we have reported almost 15 new enquiries, which have a long-term potential from what we are seeing an uptick in the order that we get from the customers. The uptick for is different for every customer. For some it is for catering to clinical trial at the last phase and increase in the clinics possibly and in some cases it is that the process has been validated and approved for which the higher quantity has gone. So, it is too soon to see the potential because the customer would say whatever they want, but that is not something that we believe. So, by the end of the year we will get a clear picture to make assumption on the basis of what we think rather than what the customer is saying.

**Manoj Garg**: When you look at your pipeline, in terms of the engagement with your customers, are you getting that kind of sense, the swing out here or the growth out here in India business seems to be robust at least over the next two, three years because you must have some kind of visibility right now depending upon the customer engagement and the pipeline you have?

**Mark Griffiths:** We are comfortable enough with the visibility. I have generated some data, which I have not shared with my colleagues in India because we have another chance to see, but interestingly if you look at CRAMS, chemical entity, over the last two years, Dishman has moved from outside the top-10 in India to well inside the top-10 in terms of numbers of new chemical entities working on with contracts from the innovators. Our strategy of going to higher added value, selling our capability rather than our capacity is starting to pay off and is paying off both in terms of utilisation of the US assets we got, but also in terms of the margins that we generate. I will be able to share that information with Harshil. In the next concall, I am hoping that we will be able to give you quite a bit more color about how that data is and how we see Dishman being positioned and there are really no pure peer organisations, but with the number of selected peers we can show that strategy is starting to work where we are focusing on selling high quality services rather than the large capacity.

**Arpit Vyas:** To add to that, Manoj, what you expect and desire is similar to what we expect and desire. We are just of the opinion that till it happens we will not mention because it is not in our control. It is same as what happened to YES Bank and the Indiabulls in the recent past. If we were not able to envisage that to happen, then till it happens, we cannot envisage this as well. So, till it happens, we are not comfortable in mentioning what is the potential or what is in our mind, but as a general principle, what you wish for is what we wish for as well. It cannot be the opposite direction.

**Manoj Garg**: All our interests are aligned. Coming to the Netherlands business on Vitamin-D and Analog, if you look at last two, three quarters, we have more or less kind of static number out here and while obviously we have been working on a couple of analogs and we have indicated that probably some of the launches in the emerging markets starting from the next year, so how should we look at this business with over the next two, three years, would you like to provide any color on that?

**Arpit Vyas:** So, now we are in a fact-finding mode. As mentioned in the last concall, we are doing the clinical trials and everything, which we believe could work somehow and we are getting positive result as well. But the process of that post the result that we achieve for getting approvals, filings, amongst others. So, we would say that in the next couple of years we would be ready to go in the market with our product and then we can see an increase of how the acceptance of the product is because it is a completely new field for us and it is different from what the general concept. It is very exciting for us. That is why we are doing this. But to put numbers on it is something that is difficult right now.

**Manoj Garg**: Historically given the high goodwill and reported ROCEs have been obviously lower. But when we think about the capital allocation going forward, how are we looking at all those metrics?

**Harshil Dalal:** One of the key criteria for working capital allocation would be obviously going to the molecule level and trying to see what are those molecules, that we wish to manufacturer, what is the demand out there, whether there is going to be a sustainable unmet need for those molecules for those therapeutic areas in the future or not. So, that is going to be the number 1 criteria. And then to come some of the investments that is required for manufacturing that particular molecule or for that matter adding additional capacity on the development side. So, as you already know that we acquired a building in Switzerland to add more development capacity and that was very much required to debottleneck the capacity constraint. And it is not that we are fully out of the capacity constraint as of now and would require to invest in a defined manner on the development side and if required on small scale manufacturing in the future as well. So, that is what we look out for. Then comes the financial ratios, whether return on whatever capital that is employed or the return on equity, and whatever the potential of those molecules in the future as far as the revenues and the profitability is concerned. But one of the important things to remember is that more molecules that we have in the development that gives us the right to earn the kind of margins that we book as and when those molecules get into Phase-3 and then eventually into some of the manufacturing. So, that is how our entire thinking process work across the book.

**Manoj Garg**: Is there a minimum IRR we look at in terms of making any investments?

**Harshil Dalal:** So, those kind of IRRs we would look at on a very long-term basis, we would be say, over a period of 7-8-years at least.

**Moderator:** Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

**Nitin Agarwal**: Mark, over the first half of the year, how many new molecules have got commercialised for us and how should we look at this for the next six months or so?

**Mark Griffiths:** we are manufacturing product for trials and we are manufacturing certain intermediates to stock on the basis of the customer We know we are going to be validating but we do not know when we are going to launch.

**Arpit Vyas:** Nitin, it is also important to know that right now till we increase the capacity ingredients in Carbogen Amcis for the API and the development if too much of it come through, then it will be a tricky scenario. That is why we need to increase the capacity as quickly as possible.

**Nitin Agarwal**: What is your status on the unit-IX expansions, have you started fitting those two other units and what is the status of order booking on those two additions itself?

**Arpit Vyas:** We have placed the order of the two new cells. Before that we are building a smaller plant at Kilo-Lab, which is going to allow the future pipeline to get secured as well. And after that completion, so in the meantime the vessel have been built, the operational activities after anywhere between 6-to-12-months it should be completed.

**Nitin Agarwal**: Do we have any sense of the potential order booking for the additional capacity in Unit-IX?

**Arpit Vyas:** Potential is always there. It is time for all the cells to complete and then mould then the qualification and then the validation for the new cell, that as a general principle the whole of the Unit-IX has a potential of doing anywhere between 35 to 50 million out of that, but it is all after the completion, that is the general number. Right now we would envisage about 10-20 million in two, three years as a potential.

**Nitin Agarwal**: Secondly, there was this news flow regarding the pressure on Johnson & Johnson to increase the supplies of anti-TB product. Are we seeing any reflection on that on our supply situation with Johnson & Johnson?

**Mark Griffiths:** I have got a meeting on Monday in New Jersey at their headquarters to discuss that. So, at the moment we have no news, but in the next concall we would be able to give you a brief.

**Arpit Vyas:** One of the components is the revenue of CRAMS in that as well.

**Nitin Agarwal**: Lastly, typically we have a situation where H2 is normally a significantly stronger than H1 for us, should we assume that it is going to be the same situation even this year for us at consol level?

**Arpit Vyas:** For Carbogen Amcis, it depends if the commercial work is front-ended or back-ended. So, this time it is a completely different scenario where the first quarter was having some commercial and now will go into last quarter. This time they have changed the trend completely.

**Mark Griffiths:** To be consistent on this, probably 50% of the turnover on production out of Carbogen Amcis is commercial and we are completely in hands of our clients as to when they take material and it is done on an annualised basis. So, we knew it at the start of the year that our numbers would be back-ended this year. So, we are not concerned. From that perspective, at operational level, each of these business units is performing in line with the expectations we see internally.

**Nitin Agarwal**: Harshil what is our CAPEX outlook for FY'21?

**Harshil Dalal:** As of now I can see the CAPEX should be in line with what we have been doing every year; so, on an average it should be around anywhere between 30 to 35 million.

**Nitin Agarwal**: But it is not the CAPEX for growth?

**Harshil Dalal:** It is for growth CAPEX and the maintenance CAPEX.

**Moderator:** Thank you. The next question is from the line of Cyndrella Carvalho from Centrum. Please go ahead.

**Cyndrella Carvalho**: A couple of questions here: Mark, if you would be able to refer back to your starting comment, you refer to ADC. Would you like to elaborate on that and if you hint something related to the Swiss piece, it is smaller one?

**Mark Griffiths:** With ADC, we are working with one customer on linked to a payload. The good news is that customer granted a license to an American organisation to utilise that payload and we are the only people who can make the payload and link up. So, last week that customer was doing audit in Switzerland and that audit was successful. And this is an interesting model. This is what is happening with ADCs, because the cost of developing these molecules is very high. The innovators are looking to partner. So, our proposition, which was the ability to manufacture this and the customers would be diversifying, even big customers would be divesting licenses, not the entire product, seems to be coming to fruition. So, that is going to be an interesting molecule potentially.

**Cyndrella Carvalho**: Mark, in your last concall, you did refer that there was an audit of the ADC, right. Is this the same one?

**Mark Griffiths:** No, different one.

**Cyndrella Carvalho**: So, one more is getting added?

**Mark Griffiths:** Yes, basically what is happening is this customer is already licensed and they come to do a final quality audit. The other audit from the last quarter was due diligence audit by another potential licensee.

**Cyndrella Carvalho**: Any opportunity size that you have internally in mind because we are the only one who have the capability of doing such things?

**Mark Griffiths:** We are one of the four or five companies that have the capability to do this type of work. Again, our concern is very difficult. Every customer that we see has dreams about how big their launches going to be. And what we have done over the past 10-years is we kind of trusted the customers including their numbers and that is going to sense a trouble. So, our view is a little more conservative and a little bit more cautious because we do not want to do the same capital into the ground if there is not going to be good utilisation of capital based on promises from customers. So, we kind of turn the table a little bit by forcing customers to make more concrete financial commitments to see how serious they are about their own numbers, which is why this team is always little cautious about giving projections because frankly we do not know how quickly these molecules are going to be launched, we do not know what are the competition is out there. AstraZeneca is developing, for example, our competitors in this molecule. If they are, we just do not know. It is very secretive business. So, what we have to do is to keep our heads down to leave it to our customers on the timelines and try to support them and getting to market as quickly as possible. Once we get to market and we have passed the first two or three years of commercial supply, then we have a good indication of what the volumes might be. But up until then, you are going to struggle to get commitment from us about projected volumes.

**Arpit Vyas:** What is important at the same time is that the ideology that we have adapted is allowing us to not be dependent on them, which we made a mistake previously to be. So, if it comes, great. If it does not come, then we have something else to do.

**Cyndrella Carvalho**: As a financial analyst, we want to know if there is some number, which we can look forward to? You also understand from our perspective. But coming to the Carbogen Amcis number if I look for this quarter also from the top line, we see some of the decline, even in the first half there is a slight decline, we can understand, you already explained that is a back-ended year for us. But on the bottom line I can see that Carbogen Amcis margins for this quarter are holding 21.1%. What is driving this growth and even your press release mentions specifically that there is a Phase-3 development revenue. So, any comments over there, any more explanation that we can have?

**Mark Griffiths:** .Once you are in Phase-3 and you start to think we need to do another study, obviously, we need to do another test on this. The regulators were asking us to do more. So, the customers who are in Phase-3, they always need more than they planned and contracted for, and they are captive customers and there is no selling cost to side. It is kind of a symptom but I could say in short-term it is good, but in the long-term five, ten years down the line we need to make sure that we keep a slow, early phase work coming through because that is a lifeline. Somebody is early phased projects in five, ten years' time, then that being commercials. If you are not doing that work, you are going to see the impact at the back-end. It is you need to develop capacity and capability; you need to translate projects into commercial. Once you have done commercial, and your development capacity is full, you need to add more development capacity. As that starts to develop, you need to add more manufacturing capacity. That is the way it works.

**Arpit Vyas:** There is a confusion I would like to clear that is that what Carbogen Amcis says that development and commercial is that up to phase, so anything after validation is after Phase-3 they would consider commercial and up till that everything is development. So, the validation of Phase-3 will be considered in development whereas in India it is the other way round; our Phase-3 validation we would consider as commercial.

**Cyndrella Carvalho**: I was trying to understand whether there are any Phase 3 molecules that we have got.

**Arpit Vyas:** All the molecules, which have gone into Phase-3, now will be going into validation. This quarter Carbogen Amcis is higher in developmental revenue but the normative lab development has less margin and the Phase-3 validation has higher margins.

**Harshil Dalal:** In this quarter almost 75% of the revenue was from development. Usually it is somewhere 55%-45% or 50:50.

**Cyndrella Carvalho**: For this fiscal year, in terms of free cash flow, if you look at the operational cash flow and the CAPEX, what is the internal number that you are looking at if you could take us through that?

**Harshil Dalal:** In terms of the free cash flow, we would be looking at anywhere between Rs.100 crores to Rs.150 crores, that is after the capital expenditure that we would have done, so that would be our target for the year.

**Moderator:** Thank you. The next question is from the line of Ashish Thavkar from Motilal Oswal. Please go ahead.

**Ashish Thavkar**: On the CAPEX side, what is our target for the FY'20 because first half we did CAPEX of Rs.220 crores? Earlier you gave a guidance for the same number for the full year. Where major of the CAPEX has gone and are we planning for major CAPEX in second half as well?

**Harshil Dalal:** First of all, as far as the CAPEX for the year is concerned, it would be somewhere around 35 million, that is the kind of CAPEX that we would be doing, the maintenance as well as growth CAPEX. The figure that you see for the first half in the presentation, so that includes one of the assets in Switzerland where we have entered into a contract with the owner of that particular asset wherein there is an obligation on both the parties to purchase that asset at the end of the 10th-year. So, right now that asset is on lease and we are planning to acquire that asset at the end of the $10^{th}$-year. What we have done is that entire cost at the discounted present value has been captured as part of the fixed assets and there is a corresponding accounting, which has been done and the borrowings as well. So, overall, actual cash outflow, which has gone over the CAPEX is for more growth and maintenance put together for the first half was roughly about Rs.155 crores in rupee terms and the borrowings that you see on the balance sheet that is lower by about 10.5 million, the amount, which has been capitalised as part of the fixed assets to derive at the current borrowings as of $30^{th}$ September, 2018.

**Ashish Thavkar**: This asset would be used for developmental work?

**Harshil Dalal:** No, it is already for our existing plant, which is in Naroda.

**Ashish Thavkar**: Next year that also stays at $35 million?

**Harshil Dalal:** That is a broad number, which we are going to see historically. That has been the kind of CAPEX that we have been incurring.

**Ashish Thavkar**: Harshil, on PAT side, with the change in the tax regime in India, would anything change for us?

**Harshil Dalal:** Obviously, we are yet to decide whether to go under the new tax regime or the earlier one. So, right now what are the provisions for tax, which has been done is as per the previous regime. First, we are evaluating both the options.

**Ashish Thavkar:** Any guidance for FY'20 would be helpful on the tax side?

**Arpit Vyas:** There is additional charge for the depreciation in account, obviously, a non-cash item, but with the additional impact we should be closer to the number that we did last year because one of the things to remember that in the last financial year we had a substantial operating income in terms of foreign exchange gain on the hedges that we had undertaken, right now we do not know how the foreign exchange rates would move for the next six months and hence we are unable to gauge what would that number be as far as other operating income is concerned. But we foresee a good amount of growth as far as profit is concerned, obviously taking into account the additional depreciation impact that we have today.

**Ashish Thavkar:** Mark, last question for you. Given an opportunity, would you like to do away with the marketable molecule business?

**Mark Griffiths**: For us to be a strong, sustainable business going forward, we need to have good, strong product lines, which provide the base load and predictability for a large proportion of the business, which earns us the right to play in the higher added value, longer-term, technologically cutting edge working CRAMS. And Harshil and I both believe very strongly it is absolutely clear we have a good, strong, stable product portfolio, which enables us to work in the CRAMS area. So, to that end, certainly, we moved a long way for the Vitamin-D, the cholesterol, the analogs and we have a proven track record now in how we are marketing those products and how we are manufacturing them. We are now starting to put an emphasis on our existing portfolio and also to start to look other ways of being able to grow that portfolio, getting information from the market about what the need is in the market for new innovative products.

Dishman has a wonderful track record of bringing new innovative products to the market and we want to start the pipeline again of pushing those things into R&D in Bavla and in Naroda so that we can start to grow that business as well there.

**Ashish Thavkar**: In terms of management bandwidth and managing the working capital, which side of the business is more leaner – CRAMS or the marketable molecules?

**Arpit Vyas:** One is niche, and one is important.

**Harshil Dalal:** As far as development work is concerned, it is not like working capital-intensive because we would get like advances from our customers to perform the development work. Most of the working capital on the CRAMS side would be blocked into the inventory of the API that we would have to keep for our customers, because the customer might tell us to keep an inventory of say five to six months as per the contractual terms as far as the NCEs are concerned. When they launch this product into the market, they do not want to end up in a situation where because of the want of API, they are unable to market the final product. So, it is manufacturing piece on the CRAMS side, which will be more working capital intensive. And as far as the marketable molecules part is concerned, we do not see lot of working capital getting blocked over there.

**Arpit Vyas:** For example, for Eprosartan that we were making when it was not a generic and it was an NCE, it was mandatory for us to store almost 20 tons at any given point in time, and with the FIFO rule that was replenished first and then again stored. What we did manage to do was to reduce the 20 tons burden to 9 tons, which helped in a way. Otherwise, the cycle will keep on going.

**Moderator:** Thank you. The next is from the line of Rahul Sharma from Karvy Stock Broking. Please go ahead.

**Rahul Sharma:** Just wanted updates on your bacterial pneumonia product. Any update on the supplies and any ramp up happening in that and even on the anti-TB product, which is there and the hormone product?

**Mark Griffiths:** We mentioned that about two questions ago. Some of the contributing factor to the CRAMS uptick in India is a result of increasing volumes there, but we will have a much better view on what that is after next week, I am in New York next week with that customer at their headquarters to review and discuss the future volumes that they are looking at.

**Rahul Sharma:** What about the pneumonia product and the hormone product?.

**Management**: It is not a hormone product for us, it is for the customer, but it is an intermediate that is one of the upticks that is included in the CRAMS as well at India level.

**Mark Griffiths:** The bacterial pneumonia, as I said on the last concall, that one died in the clinic in late Phase-3 trials, did not show a significant enough improvement over current existing drugs and therefore the client as advised by the FDA that it was unlikely to be approved.

**Rahul Sharma:** How is Eprosartan doing ?

**Mark Griffiths:** It is Stable.

**Rahul Sharma**: Run rate, which was Rs.12 crores in the quarter, are we doing better or how is it ?

**Arpit Vyas:** We are expecting around Rs.70-75, which has always been the guideline on a yearly basis.

**Rahul Sharma**: Another one was on the oncology product, which was in Phase-3. Any update on that?

**Mark Griffiths:** Nothing in Phase-3.

**Rahul Sharma**: And on Niraparib, after GSK has taken up, any positive development?

**Mark Griffiths:** We have our biggest trade show for CRAMS coming up in the next three or four weeks and we are anticipating getting some information from GSK at that point but that is it so far. We finished the batch and this quarter we had the shipment.

**Arpit Vyas:** That also they have built a lot of stock.

**Rahul Sharma**: Yes, that is what you all also communicated in last quarter?

**Arpit Vyas:** Yes, this is the last of the shipments, so now we will have to see how they are using the stock that they have built.

**Rahul Sharma**: On the fund raising which you have mentioned, what is the plan, basically mainly for what -- your Carbogen facility in Switzerland?

**Mark Griffiths:** Predominantly in Switzerland and France, and France is where we do our parental sterile formulations.

**Rahul Sharma**: What type of fund you are planning to raise and when will it pan out ?

**Harshil Dalal:** We are still evaluating because debt part is extremely cheap, you are already seeing the numbers. So, that is definitely one of the options and we might also look at other options whether it makes sense to raise funds through like it could be by way of bonds or equity, amongst others.

**Arpit Vyas:** That is still under evaluation after we finish the planning of what we are going to do and what that is required, will give us the further data points of how we are going to raise the funds and how much.

**Rahul Sharma**: Any update with quarterly numbers, are we still maintaining the 8%, 10% growth in revenues and EBITDA margins of 26%?

**Harshil Dalal:** In the first half, the revenue has grown by about 8%. So, we do expect that in the remainder half of the year we will be able to achieve this kind of a growth, but obviously as I mentioned earlier, there is a FOREX component as well, which was in the last year, which is part of the revenue that we do not know as of now how much of that would be accounted in the current financial year.

**Rahul Sharma**: Last year how much was FOREX component?

**Harshil Dalal:** Rs.120 crores.

**Moderator:** Thank you. The next question is from the line of Tushar Bohra from MK Ventures. Please go ahead.

**Tushar Bohra**: Just wanted to understand, what would be the total approvals commercialisations that would have happened for say 2015-2017 vintage over that period?

**Mark Griffiths:** On average it is two to three years' timeline.

**Tushar Bohra**: 2015-2017 we would have had about seven or eight commercial approvals?

**Mark Griffiths:** I would say something like that. We plan on two to three years.

**Tushar Bohra**: For these six to seven commercialisation that are '15-17 vintage, which would have now been there second or third year on an average post commercialisation. What would be the base revenue accruing from these products vis-à-vis the overall, so let us say these products when they were giving you validation revenues or developmental revenues, what would be the scale of revenue accruing from these products today?

**Mark Griffiths:** I will have to dig into the data and look at every individual.

**Arpit Vyas:** Calculations is difficult.

**Mark Griffiths:** But just to make this absolutely clear, we got products, which are actually over a year and we got products that are 1.7-tons a year and we got Eprosartan, which is 90-tons a year. So, there is such a huge spread. I will have to dig into the data, we have to back into the data and specifically look at each individual product.

**Arpit Vyas:** If we start work from preclinical level and if we are able to take it up to Phase-3, you can assume that we have done revenue on the time period of about 20-30 million on that product if it goes from preclinical to validation, so if we finish validation, we would have done about 20-30 million of total revenue of that phase.

**Mark Griffiths:** Over five to six years.

**Arpit Vyas:** Phase-3 validation.

**Tushar Bohra**: So, let us say these six to seven products that we are seeing, we would have probably adding a lower number, let us say total $100 million we would have built between these products. We have a large pipeline of products that are in late Phase-3 and early Phase-3 and some even in Phase-2. I am just trying to understand at an aggregate level, how does the volume rather the revenue shift for us once these products get commercialised and how sustainable is that pipeline, so let us say these six to seven molecules, they would have added say about $100, $120 million over a five - six year period for you?

**Arpit Vyas:** This is a wrong calculation that has been done, Tushar. So, the market trend is 1,000 pre-clinical molecule versus to one launch, our ratio is 400 to 3.

**Harshil Dalal:** It would be not right to generalise that if the revenue affects.

**Mark Griffiths:** Maybe I can help here. We work on projects and they die. But after five years, products die, we still generate a 20 million of revenue out of that product. So, when a product dies, it does not mean we made no money, we made money from the minute we start working on the project, and if it dies, there is another one in the pipeline, and that is the key to the pipeline, the pipeline has exceedingly well done.

**Arpit Vyas:** We are not doing calculation on the basis of what the potential is because we want that dependency, we are just working on the molecule and focusing in the therapeutic areas that we wish to be. If that turn into commercial, great, bonus. If not we do something else.

**Mark Griffiths:** Of course, I wish to make money.

**Tushar Bohra**: I had something else when I asked the question. I will take it offline. Just a couple of other questions very quickly: The CRAMS business in India, we have got 60% margin this quarter in that, we have had good growth in the revenue front. As we see this moving towards the utilisation levels that you mentioned as target, you see these kinds of margins being maintained or maybe even better, should we be able to budget for say high-50s, early-60s kind of margins being maintained in this business on a higher growth level?

**Arpit Vyas:** Can you name one company that is doing that in the whole world who is achieving 50%, 60% margin?

**Tushar Bohra**: I cannot name anything.

**Arpit Vyas:** Then do not ask such questions.

**Tushar Bohra**: Are you doing any work on gene therapy area?

**Mark Griffiths:** We are not doing any direct work at the moment. It is an area we are looking at.

**Moderator:** Thank you. The next question is from the line of Mahindra Jain from Way2Wealth. Please go ahead.

**Mahendra Jain**: In the Economic Times, income tax department has given notices to 200 companies regarding the merger and acquisition and after that what the goodwill have been created. So, they specially mention there is a Gujarat conglomerate. So, is there any notices issued to us for anything and what is the solution for that or what will be the future outlook?

**Arpit Vyas:** They have not issued any notices, but we are fairly confident of the activity that we have done and we are fairly positive. Unfortunately, the law suggests that the department will always go further till the Supreme Court. So, it is a battle and you will fight.

**Harshil Dalal:** That article talks about companies who have created goodwill for the tax cycle. While in our case it is completely different ideology with the niche the goodwill was created. It was not created, it existed within the company, and it was just brought on the book. So, the actual intangibles that lie within the company in the absence of customer contract, the work that we do, what is the new molecules, whether evaluation extremely high, which is obviously not captured right now in the company's evaluation, but there are a lot of inherent strengths within the company, which are to the product in terms of value on the books of the company. Obviously we do understand that we might have to go up to the Supreme Court level possibly to get this into our favor, but we are well-prepared for the same.

**Arpit Vyas:** This was envisaged before we did it**.**

**Mahendra Jain**: Second question is regarding Niraparib. How does that molecule is working right now? What is the response?

**Arpit Vyas:** Production is stopped and now they are going to establish in the market and how the market is accepting the product is what we all have to see. Now the validation is being considered they have built a stock and the stock is tremendous. So, it is just how the acceptance happens in the whole operations.

**Mahendra Jain**: How do you see the future of allergen drugs as they are very expensive compared to the normal chemotherapy and generally it comes after the chemotherapy or surgery, so how do you expect the price and volume outlook for oncology?

**Mark Griffiths:** These drugs are more effective, and they are more expensive. So, basically the reality in the world is if you got good insurance, you can afford these really is as brutal as that. And if you cannot afford the drugs, and basically you are on the old products with all of the attendant side-effects and lack of efficacy in some cases.

**Arpit Vyas:** Exactly. And before 2013, there were no insurance companies, which included cancer as a treatment, it is only after 2013 that cancer got included in the insurance cover.

**Moderator:** Thank you. The next question is from the line of Ritesh Rathod from Alchemy Capital. Please go ahead.

**Ritesh Rathod**: In the first half we have done revenue growth of 8% and in the last quarter we guided for an annual growth rate of 10%. So, for second half we need to do 12%. Are you confident of achieving that number?

**Arpit Vyas:** We do not need to do 12% but yes, it will happen. As of now, the run rate is looking good. What happens in the second half is yet to be foreseen.

**Harshil Dalal:** Ritesh, the guidance that we had given was kind of a range where we believe that 8-10% is achievable at the beginning of the year and as of now we are on track to achieve at least 8%. If there is additional growth that is achieved in the remainder half of the year, obviously, closer to about 10%.

**Ritesh Rathod**: The CRAMS India business first half growth rate is 42% in rupee terms. So, are there something one-off which will go and coming second half we can sustain this run rate which we have done in first half?

**Harshil Dalal:** If you see, it is largely driven by the growth that we have done in this particular quarter, it was largely driven by the commercial molecules. So, as Mr. Arpit Vyas explained the commercial molecules like Eprosartan and the anti-TB as well as the hormone therapy replacement molecules. So, all of those show significant amount of growth in this particular quarter and based upon the current orders that we have for the next six months, we do believe that there could be a good amount of growth in the remainder half of the year as well.

**Ritesh Rathod**: One more question on the 10-year lease asset in Swiss, which we have purchased. So, have we paid the seller, since we have borrowed the money, so we have?

**Harshil Dalal:** No, we have not borrowed the money. It is just an accounting that we have done where there is an obligation and right to acquire that particular asset at the end of the $10^{th}$ year. It has been accounted and brought down to the net present value and that is what is showing up in the base effect and we are saying that will be showing up as borrowing. So, it is similar to any other leased asset except for there is a right and obligations to purchase that asset at the end of the $10^{th}$ year. So, it has been shown separately from the lease asset that you are seeing on the balance sheet.

**Ritesh Rathod**: So, how will this move at the end of $10^{th}$ year? The owner of the asset has not yet received the money. So, at the end of the $10^{th}$ year he will receive the money.

**Harshil Dalal:** So, basically the owner is already receiving the money in the form of the lease rentals that have been paid every year. So, that arrangement continues till the 10th year. And at the end of the $10^{th}$ year, the total amount that would have been paid would be the amount that we see today on the balance sheet at a discounted rate. So, we do not pay the entire amount in one-go. It would be in the form of lease rental that we are already paying right now but then there is communication at the end of the $10^{th}$ year for the owner to give the asset to us.

**Ritesh Rathod**: In cash flow that should have got split between the cash flow from financing activities and the other activities?

**Harshil Dalal:** The borrowing has gone under the financing activities and asset has gone under the investing activities.

**Ritesh Rathod**: Are there any similar assets where we plan to do this thing, like where we are running the asset on a lease basis and we want to do something on that side?

**Harshil Dalal:** As of now, no provision. All of these assets that we have in Switzerland that is obviously in auction to extend that lease for the future but not a purchase right or obligation. So, this is the first contract that we have entered into where the right and obligation has been established.

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

**Mark Griffiths:** Thank you very much for your continued interest and support to the business. Hope you get a picture that is over the last three or four years our strategy. When we defined them, we stuck to, is starting to bear fruit . This management team is absolutely committed to saving lives, bringing new drugs to the market. That is our entire goal and our entirely structure. We will continue to do that whilst making sure that the investments we make bear fruit. So, thank you again. We look forward to speaking to you in another three months.

**Harshil Dalal:** Thank you very much.

**Arpit Vyas:** Thank you.

**Moderator:** Thank you. On behalf of Dishman Carbogen Amcis Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.