dishman

8th March, 2017

To, **The Manager,** **Listing Department,** **National Stock Exchange of India Ltd.** "Exchange Plaza", C-1, Block G, Bandra-Kurla Complex, Bandra (E), Mumbai – 400 051. **Ref. : (i) Symbol – DISHMAN** **(ii) Series – EQ**	**To,** **Department of Corporate Services** **Bombay Stock Exchange Ltd.** Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001. **Ref.: Scrip Code No. : 532526**

SUB: TRANSCRIPT OF CONFERENCE CALL - QUARTER AND NINE MONTHS ENDED 31ST DECEMBER, 2016

Dear Sir,

With reference to captioned subject, please find enclosed herewith transcript of conference call arranged by the Company with Analyst & Investors, on Tuesday, 14th February, 2017 to discuss the financial result and performance of the Company for the quarter and nine months ended 31st December, 2016.

Kindly take the same on your record.

Thanking You,

Yours faithfully,
For Dishman Pharmaceuticals and Chemicals Ltd.

Shrima Dave
Company Secretary

Encl. : As Above

Earnings Conference Call Transcript

Event: Dishman Pharmaceuticals and Chemicals Limited - Third Quarter Ending December 31, 2016 Earnings Call

Event Date/Time: 14th February, 2017 at 4.30 p.m.

CORPORATE PARTICIPANTS

Arpit Vyas
Managing Director & CFO - Dishman Pharmaceuticals and Chemicals Limited

Sanjay S. Majmudar
Director - Dishman Pharmaceuticals and Chemicals Limited

Mark Griffiths
Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

Harshil Dalal
Vice President (Finance) - Dishman Pharmaceuticals and Chemicals Limited

CONFERENCE CALL PARTICIPANTS

Ranjit Kapadia
Centrum Broking - Mumbai

Ranveer Singh
Systematic – Mumbai

Ankit Gupta
Ahmedabad

Chirag Dagli
HDFC Mutual Fund – Mumbai

Nitin Agarwal
IDFC Securities - Mumbai

Cindrella
Dolat Capital - Mumbai

Tushar Vora
Reliance Capital - Mumbai

Karthikeyan V.K.
Suyas Advisors - Mumbai

Dhruvesh Sanghvi
Mumbai

PRESENTATION

Urvashi - Moderator

Good evening ladies and gentlemen I am Urvashi, the moderator for this conference. Welcome to the conference call of Dishman Pharmaceuticals and Chemicals Limited. Mr. Arpit will be your call leader today. For the duration of the presentation all participant lines will be in the listen-only mode. After the presentation, the question and answer interactive session will be conducted for all the participants in the conference. I now hand over the floor to Mr. Vyas. Thank you and over to you Sir!

Arpit Vyas - Managing Director & CFO - Dishman Pharmaceuticals and Chemicals Limited

Thank you. Good evening to all of you. It is a great pleasure to meet and greet all of you on behalf of the Board of Directors and Senior Management of Dishman Pharmaceuticals and Chemicals Limited to discuss the Q3 results of the current year. Everything is in line with the business. We have continued our strategic drive with a strong emphasis on operating margins and profitable growth.

Our revenues for Q3 has decreased by 7% primarily because of the products going into validation and as you all know that these products require regulatory approval from many aspects and once those approvals are in place the validation batches have been completed, which takes time. The shipments will happen as and when the customer's desire so there is not a loss of business that has been faced for the decrease in revenue but it is just a deferral of shipments that can easily be quantified by the inventory buildup mainly in WIP and finished goods aspects.

The main thing to see here is that the EBITDA margins including other income have increased to 30% from 28% backed by operational efficiencies and gain from foreign currency derivative contracts. With that we have been able to decrease the cost of finance substantially from the previous quarters and the previous years and the derivative contracts have actually helped us decrease the finance cost even further. The movement in the foreign currency we are very nicely hedged with the dollars and the Euros as well at a very high rate, which is helping us give this other operating income, so that has been a tremendous achievement apart from that operationally we have been able to reduce our raw material cost considerably from the previous year in line with this year.

In this quarter you see marginal increase due to the stock building for the validation processes and stock building for raw material for the future consumption as well because we were getting a better rate for the raw materials right now and looking at the current dip in the foreign currency for dollars and Euros it was better for us to stock the raw material at this time, so that you see a slight marginal 1% or 1.5% increase for the raw material consumption but otherwise operationally we are in line or may be even below 32%.

Commenting on the operating performance and India operating margins remain in line with our track record, our Carbogen AMCIS operating margins were also in line on year-on-year basis. For Dishman Netherlands we continue to focus on high value vitamin D analogues and that is going on quite well. More details will be given by our Global CEO, Mark Griffiths after I finish my speech, but that business is doing fairly well with a very good EBITDA margin, very high EBITDA which could or could not be sustainable but we see it consolidate around 22% to 25% of EBITDA margins growing in the future.

Currently both the Hypo cells in the facility are occupied and the expansion plan for the third and the fourth cells are ongoing mainly for accommodating the products they go commercial in the future. Going forward we shall emphasize always on increasing and sustaining the operational profitably while maintaining a steady growth in the revenues; however, it is important to mention that this year we might not see massive growth in the topline maybe even a flat topline but as we have mentioned earlier, we are in line with the growth in the profitability. Last year we were at 170 Crores and this year our target is close to 185 to 195 Crores at the end of the year. We will have to see where we finish and again it is nothing to do with loss of orders. It is only to do with the deferrals of not even the deferrals, but that delivery expected by that customer at the beginning of the year might have deferred to after March 31, for which we might see a built up in inventory but it might not get converted into revenues. Not to mention that in the inventory we do not put in the margins. It is going to be the overheads, so whatever the inventory built up is the sale of that inventory is going to be at higher revenue.

So strong pipeline Oncology drugs we have our two expertises and will be the key driver. We also foresee good numbers driven across therapeutic segments entering the commercial stage in the near term leading to a healthy commercial production from Dishman India.

To conclude we wish to continue our endeavors of innovating and achieving leadership position in our business. We continue to display satisfactory growth in our global operations with a clear focus on profitability which is reflecting our bottomline growth apart from the topline if not bottomline is increasing with our revenues not increasing substantially keeping in mind that the revenue growth that we predict is not taking into account any of the products going commercial. It is only taking into account what confirmed orders we have in hand because that is an important point to mention. Also it is important to mention that please do not look at this company as a quarter-on-quarter growth factor. We are a CRAMs organization we have small and mid sized biotech and large formulation companies for new chemical entities, we cannot be compared with any other pharmaceutical companies in India who are into product driven as well. For us the gestation period is quite long and we need to be taken a call on at least two years or two and a half year basis because unfortunately that is how the regulatory market works.

Our IP belongs to the customer and it is not our IP and hence we are at the customers mercy and the customer is at the mercy of the regulatory bodies as and when the clinical trials are approved by the FDA authorities of each and every country and post that we are dependent on the customer of when they file the products in different countries and then hence the volume of that certain API would increase. So the gestation period in our business is long. Please keep that in mind do not consider as a quarter-on-quarter company and surety from our side that we are extremely passionate about what we do. We have a philosophy of saving lives and are bio-product of that passion and we will always keep reinvesting and keep growing and we will try and not to let any investors down on the expectations that we have from us.

Thank you. I would like to pass on the call to our Global CEO, Mr. Mark Griffiths.

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

Thanks Arpit. Good afternoon, good evening everybody. It is a pleasure to speak to you again. I will walk through a general summary of where we are picking up on some of the points in a bit more detail, but Mr. Arpit Vyas raised just a few moments ago. So coming to Carbogen AMCIS first, what we can say is that our life blood of that particular part of the business which is the early size and small to mid sized biotech seen not to be affected by any of the market turmoil. We keep a very close eye on investment money going in both PE and other investments into small, medium sized biotech. We see no slowdown. That is confirmed by the number of requests for enquiries that we get from our clients. We are still at a very high rate, so at the moment we are confident that the market is still strong and the market is still valuing what we are providing out of the Carbogen AMACIS portfolio.

A little bit more detail, we now have somewhere between 8 and 9 new commercial projects sitting in Carbogen AMCIS, Switzerland. A number of them already in validation and a number of due to start the validation process within the next six to nine months. So our pipeline for near commercials remains exceedingly strong. These projects sit mostly with small to medium biotech, not large pharma and again as we have been consistent about that is a very happy hunting ground for our business. These clients really appreciate what we provide, the consulting, the support, the breadth of our capabilities and that is where we can drive additional value. So we are very satisfied with the performance of Carbogen AMCIS, Switzerland. We continue to work on our modest expansion plans, project 2020, which we have introduced to you a number of times that continues to move forward. But I say again we are very confident in the portfolio capabilities of Carbogen AMCIS to continue to grow.

Moving on to Dishman Netherlands as Mr. Vyas said that business continues to show very strong penetration in the market. Our Vitamin D analogs, which are a real focus for that business is starting to going real traction in the market. We will continue to innovate to the point where we have an innovation team led by Mr. Vyas Senior looking at new applications and new opportunities to deploy those projects and those compounds in the market and there is some very interesting future possibilities there. That will continue to be the cornerstone of our innovation for the Dishman Netherlands business. However, the

business is riding very well contributing significantly to the success of the group and we are very satisfied with the efforts and the hard work with the team up in Holland is performing for us.

Moving on to Shanghai, the Shanghai facility, which is now under the Carbogen AMCIS banner had a pretty solid year this year. It continues to capture opportunities for clients. We are very close to GMP now being able to offer full GMP services. We continue to manufacture a couple of products and also a couple of early phased projects where we are manufacturing highly complex intermediates for US customer out of that site.

Moving on to our Manchester site, which again is under the Carbogen AMCIS banner, we have seen a slight dip in the Manchester revenues but it is entirely related to the phase in which certain projects are sitting at the moment. Probably 80% of what Manchester does supports Carbogen AMCIS Switzerland with intermediates and raw materials. As Mr. Vyas said, we are preparing for validations with building stock of raw materials in intermediates for enable us to react quickly when customers get the go ahead to move into validation from the life of the investors or from the regulatory authorities. So that is entirely predictable, entirely understandable and entirely expected we still maintain that the Manchester site will hits its budget numbers this year and we are very satisfied that that will happen.

Moving on to our small parental unit formulations unit in France, we have seen extraordinary growth in the desire for customers to have access to that facility and the skill sets of the people down there. So that business was acquired about four and a half years ago and it was a loss making business. We are now substantially into profit and able to reinvest in the facility to continue to grow its capabilities. We have one very important project with a customer working on brand new drug delivery technology cutting edge technology and that has been one of the key drivers in the profitability of that business.

I hope that has been of a useful summary and I hand over to Mr. Harshil Dalal now. Thank you very much indeed and we look forward to your questions.

Harshil Dalal - Vice President (Finance) - Dishman Pharmaceuticals and Chemicals Limited

Thanks Mark. Hello everybody. I will just run you through the numbers, which obviously you would have an opportunity to go through. For the quarter ending December 31, 2016 we did a revenue of 362 Crores as compared to 391 Crores in the corresponding quarter, and this dip in the revenue is explained on account of the stock build up that we had to do for the quantities which would be supplied in Q4 and eventually in Q1.

The EBITDA for the period was 111 Crores including the other income of about 15 Crores and this also includes the foreign exchange gains on account of the forex contracts that Arpit Bhai explained as against this for the corresponding quarter last year we did an EBITDA of 110 Crores. So it is 28% last year versus 31% this year.

The profit before tax was 69 Crores which was 62 Crores in the corresponding quarter last year so this represents a 19% over sales versus 16% last year. The increase in the profit before tax is largely on account of the reduction in interest cost as compared to the corresponding quarter last year.

The profit after tax was 51 Crores as compared to 44 Crores as per the Ind-AS accounts that we drew up starting this financial year. This represents 14% over the sales versus 11% last year.

For the nine months the turnover is more or less in line with what we did in the same period last financial year. So we did about 1174 Crores this year versus 1176 Crores in the corresponding period. The EBITDA was 344 Crores versus 322 Crores including the other income. This represents 29% versus 27% in the corresponding quarter. The profit before tax was 200 Crores versus 156 Crores in the corresponding period. The profit after tax is 151 Crores versus 112 Crores in the corresponding period.

All the subsidiaries have done exceedingly well in terms of the profitability. The margins have improved over the corresponding quarter as well as the first nine months. The only dips in the profitability which you can see in the presentation which was uploaded was at Carbogen AMCIS UK, but as Mark explained this depends upon the projects which Carbogen AMCIS UK handled during the quarter as most of that production goes into Carbogen AMCIS Switzerland for the products for which the inventory has been built up for supplying in this quarter as well as in the next quarter.

Netherlands continues to report healthy margins and we see that 25-odd percent is something which should be sustainable going forward. China for the quarter did about 35% EBITDA and revenue of about 7.5 Crores. We expect close to 35 Crores of revenue for the full financial year at China.

Carbogen AMCIS continued reporting good EBITDA margins of 19%. This is in line with what we have been stating in each of the concalls and that has been maintained. France did an EBITDA of roughly about 27% and Dishman India on the CRAMs side did an EBITDA of roughly about 56%. The marketable molecules segment in India, which represents our quads, intermediates, disinfectant business, which is more of a low margin business as compared to the CRAM, did an EBITDA of about 225. So these are the financial highlights for the quarter and the nine months.

I think we can open the floor for Q&A.

Urvashi - Moderator

We will now begin the question and answer interactive session for all the participants who are connected to the audio conference services from Airtel. Participants who wish to ask questions, may please press "*" "1" on their touchtone enabled telephone keypad. Participants who wish to ask questions, may please press"*" "1" now. First question comes from Mr. Ranjit Kapadia from Mumbai. Mr. Kapadia your line is open. You may please ask your question now.

Ranjit Kapadia – Centrum Broking - Mumbai

Sir, my first question refers to SIRTURO, the Johnson & Johnson now supplies. How we are placed that and is there a possibility of getting a reorder in the next quarter or a quarter after that? Second question refers to Oncology products. How many products are there in the pipeline and in what stage they are?

Arpit Vyas - Managing Director & CFO - Dishman Pharmaceuticals and Chemicals Limited

For SIRTURO we have been having periodic orders, the demand we might foresee increasing as and when Johnson and Johnson is getting registered in more and more countries. So, I think in this year we might not see a growth in SIRTURO, but from next year we should see a little bit of growth in the same product and in the year after we think from our internal analysis nothing from our customer we might see not an exponential growth but we double the quantities from what is being bought at the moment.

For oncology at the India level we have around four products in the pipeline which are close or which are in validation or close to validation for Carbogen AMCIS. As Mark said around eight to 10 products, which are in the near phase or late phase, which are near or going into validations they all belong to oncology products in total it would be around 14 which are in late phase, in early phase III there should be close to around 15 to 20 and in earlier phases there will be numerous. Am I right Mark?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

Yes. I think if you look at the general turnover of Carbogen AMCIS Switzerland. You can assume that somewhere between 40% and 50% of that turnover is in Oncology and one way it shall perform but also remember that a number of those probably 30% are oncology focus but not highly potent. So around 60% of the oncology activity we do is potent and needs a special facilities and the remainder are not classified as potent projects or toxic but are for oncology.

Ranjit Kapadia – Centrum Broking - Mumbai

How much was the forex gain in the quarter?

Harshil Dalal - Vice President (Finance) - Dishman Pharmaceuticals and Chemicals Limited

For the quarter it is 11 Crores. So out of the 15 Crores of other income 11 Crores are on account of the foreign exchange gains.

Ranjit Kapadia – Centrum Broking - Mumbai

Sir that is put in the other income?

Harshil Dalal - Vice President (Finance) - Dishman Pharmaceuticals and Chemicals Limited

That is in other income. That is correct.

Ranjit Kapadia – Centrum Broking - Mumbai

Thank you very much. Wish you all the best.

Urvashi - Moderator

Next question comes from Mr. Ranveer Singh from Systematic, Mumbai. Mr. Singh your line is open. You may please ask your question now.

Ranveer Singh – Systematic- Mumbai

Thanks for taking my question. Related to the inventory built up, can you quantify how much inventory has been shifted or deferred for Q4?

Arpit Vyas - Managing Director & CFO - Dishman Pharmaceuticals and Chemicals Limited

You mean out of the 75 Crores of the inventories built up how much has been deferred for Q4?

Ranveer Singh – Systematic- Mumbai

Yes, I believe that there are two elements. One is regular business and one is related to inventory you have built up for that oncology supply. So I wanted that how much has been from regular business and what quantities is from exhibit batches?

Arpit Vyas - Managing Director & CFO - Dishman Pharmaceuticals and Chemicals Limited

Ranvir, the way our business model is that it depends upon when the validation process gets over and when the necessary regulatory approvals are received, so from a timing perspective it would all just depend how much would go in Q4 and Q1 when the approvals are received, but may be we can take a rough ballpark figure of about 50%.

Ranveer Singh – Systematic- Mumbai

50% to 50% so of 74 Crores inventory built up you see that 50% of this would be from the regular business that is what you are saying?

Harshil Dalal - Vice President (Finance) - Dishman Pharmaceuticals and Chemicals Limited

Right and the inventory are recorded at cost, so obviously the sales realization could have the profit margin as well.

Ranveer Singh – Systematic- Mumbai

So your annual guidance changes now for revenue part?

Harshil Dalal - Vice President (Finance) - Dishman Pharmaceuticals and Chemicals Limited

For the revenue part, as Arpit Bhai mentioned that for the year we should more or less see the revenue in line with what we did last year, but profitability is something that we have been concentrating with the reduction of the low margin products and that continues in Q4 as well. Next year onwards we should see at least 8% growth in the revenue.

Ranveer Singh – Systematic- Mumbai

Next year you mean FY2018?

Harshil Dalal - Vice President (Finance) - Dishman Pharmaceuticals and Chemicals Limited

FY2018 that is correct not considering any molecules going commercial.

Ranveer Singh – Systematic- Mumbai

From base business you are saying?

Harshil Dalal - Vice President (Finance) - Dishman Pharmaceuticals and Chemicals Limited

Yes.

Ranveer Singh – Systematic- Mumbai

So for FY2017 the revenue is likely to be flat?

Harshil Dalal - Vice President (Finance) - Dishman Pharmaceuticals and Chemicals Limited

Yes more or less.

Ranveer Singh – Systematic- Mumbai

Sir even in a flat revenue that does not explain actually when we add this 75 Crores or is it I am not sure whether it is the right way, but if I add the 64 Crores inventory to Q4 revenue and normalize revenue because normalized revenue has been around 290 Crores per quarter if I go by the first half number, so ideally that will be 290 Crores plus 75 Crores so that is what revenue we can expect in Q4?

Arpit Vyas - Managing Director & CFO - Dishman Pharmaceuticals and Chemicals Limited

There is no straight maths because as Harshil explained a part of that could go to Q4, a part of it could go to Q1 FY2018 and there are lots of other projects that are under validation or development, lot of projects on which the company is working, those inventories could be liquidated over a period of time, over the next fiscal year, but that does not mean that everything will be arithmetically comfortable. What we meant was that there was a deferment of revenues in terms of the natural lifecycle of those projects so that you have to bill and you have to ship as per the customers requirement and that is what is the main reason for that inventory built up.

Ranveer Singh – Systematic- Mumbai

Sir whatever inventory we had will apply end of December, I think we are already in mid of February, so is there any indication of how much this has been built now?

Arpit Vyas - Managing Director & CFO - Dishman Pharmaceuticals and Chemicals Limited

You should be able to see a good Q4. I mean that is all I can clearly say if you compare with Q3. Exact arithmetic would be very difficult for us to give. So there is no loss of business that is what I mentioned earlier as well. There is no loss of business. It is just a normal course of the business that we are in because we are heavily dependent on customers and the customers are dependent on the regulatory and the filings and the clinical trials the result of the clinical trials and the clinical trial that are being conducted right now. These are all time consuming processes.

Ranveer Singh – Systematic- Mumbai

One more clarity related to Carbogen AMCIS that US FDA inspection is required for hypo so we have already started making exhibit batches without having inspection, so how is the connection. Is it that after inspection exhibit batches has to be built or this is something different?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

It really depends. It really depends. Carbogen AMCIS was last inspected by the FDA only at sort of middle of last year. We are inspected every two years by Swiss Medic and those are going to happen this year and the FDA has an alliance with Swiss Medics who is the Switzerland authorities for quality and we are heavily notified as a low risk supplier. So a preapproval inspection, we expect some time in the next 12 months but really if it does not happen in the next 12 months it is only because the FDA has bigger fish to fry.

Ranveer Singh – Systematic- Mumbai

Sir my question is that once that product goes commercial, I believe that being an API supplier, our facility has to be approved by US FDA. So if one year timeframe means the commercial supplies is at least one year away from now?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

The facilities are FDA inspected. They are FDA compliant. It is up to the FDA to decide whether they want to reinspect the facility or not. That will become clear when the customer files his NDA and then lodges the results of any great phase for the clinical trials. The FDA will then decide whether they want to award it or not but they will not hold up the commercial launch of the product from a site like Carbogen AMCIS because the site has been heavily inspected and has a fantastic track record in regulatory audits and Swiss Medics are going in to Carbogen AMCIS this year and that information or parts of that information goes to the US FDA as part of the FDA has with Swiss Medics. So the fact that we will be audited or not is entirely up to the FDA but it will not hold up a commercial launch.

Ranveer Singh – Systematic- Mumbai

Fine when the innovator is likely to file NDA. NDA has already been filed?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

Filings have been done for a number of these and then they submit the final dossiers with the results out of the validation, the equivalent studies, the stability studies and the rest of it for the API. The reminder that we are also filing and the biggest element of what most of our customers is doing is on the formulations side of course on the drug product side rather than the drug substance and all of that filing goes into their final submission to the granted a license to go commercial and launch the product. So all those processes are going on. We as through the validations we are providing data, so the clients and that is all being consolidated up into their CMC sections and then they are filing that along with the drug products data.

Ranveer Singh – Systematic- Mumbai

Fine Sir, any indication when we can expect the US FDA to give approval at least a broad timeline?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

It is so difficult to say. I think from the unit 9 facility, in Bavla we are expecting well one customer is already filed and we have not had any feedback on how that filings has gone with the FDA yet. They filed in I think, Arpit, they filed in December, the UK customer?

Arpit Vyas - Managing Director & CFO - Dishman Pharmaceuticals and Chemicals Limited

Yes.

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

Yes they filed in December and the other one that is due to complete validation in late April they will be filing as soon as the validation is complete. So we are filing a lot of information into them at the moment. We expect with their filing will be around about end of May or early June but they have fast track status. So I fully expect the FDA to be in Unit-9 and bear in mind the FDA have not seen unit-9 yet. They have seen all the rest of Bavla and it is approved but they have not seen unit-9. We fully expect a preapproval inspection somewhere around the July to September time for that particular product. For the other ones we have no idea. We just do not know and the problem is that the customers are not telling us when they are filing because that is the main information to the US Securities and Exchange Committee. So that information is kept very close to their chests.

Ranveer Singh – Systematic- Mumbai

My question was more related to the oncology product for which we have started doing exhibit batches?

Arpit Vyas - Managing Director & CFO - Dishman Pharmaceuticals and Chemicals Limited

Unless FDA coming in or not there is going to be a massive observations from the regulatory and there is nothing that can be done to stop the supply of the product.

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

I think the other process we are on is a lot of these drugs are being fast tracked. A lot of these drugs have multiple licensees from the innovator, and what we are doing even when we completed validation, there are already orders coming in for further clinical batches post validation to support further clinical trials for other indications in the oncology arena. So it is a really dynamic, very, very dynamic market oncology. The biggest single clinical and that needs a lot of our customers at fast track status and they are scrabbling to provide materials to the formulators to produce clinical trials supplies. So even once we complete the validation we are continuing manufacturing under the guys of clinical to support other indications in oncology. So really dynamic environment at the moment.

Ranveer Singh – Systematic- Mumbai

That is fine. Sir some bookkeeping question; for hypo because we are operating now two additional product lines so how much capex we are going to do there?

Harshil Dalal - Vice President (Finance) - Dishman Pharmaceuticals and Chemicals Limited

That will be close to 30 Crores.

Ranveer Singh – Systematic- Mumbai

And that would be expensed in this year only for FY2018?

Harshil Dalal - Vice President (Finance) - Dishman Pharmaceuticals and Chemicals Limited

Next year. It will be capitalized next year.

Ranveer Singh – Systematic- Mumbai

Fine. There was a positive surprise in this Vitamin D business actually, so in Vitamin D business because last quarter what I heard was there was a lot of Chinese competition and what I assume that now this was sort of may not fetch the kind of margins historically they have been doing, but to my surprise this is a good margin, so how is it sustainable? What has changed now?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

Well not much has changed I think in the market per se. I think our approach to the market has been gradually changing. If you remember we had been fairly consistent on this over the last 18 months. Since restructuring the Dishman Netherlands business and changing the way we sell and our relationships with customers that has given us a much closer link with our customers which is enabled us first of all to drive better margin, but also to understand what sort of innovation customers are looking for going forward which is starting to restart our research and development capabilities at Dishman Netherlands which has enabled us to continue to start to think about introducing new analogs on to the market. The cholesterol business, which is the traditional business, can be considered as a base load. The Vitamin D business is the future. The Vitamin D analog business is the future for that, and we know if you watch the medical press we know that there is a big push at the moment to understand vitamin D deficiency and the current medications that are on the markets have somewhat patchy response rates whereas some of the vitamin D analogs that we are producing seems to show much better response rates at lower concentration, so that is also where we are seeing potential for uplift but for us cholesterol business is the base load and we are driving Vitamin D analogs because they are complicated to make, they are small volume and they are very high value.

Ranveer Singh – Systematic- Mumbai

Fine and we saw mention of formulation facility in France so can you give some more light on that?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

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I am going to have to speak in general terms because you understand we are under a very tight and very strict confidentiality agreements with our customers, but the work there is for an international company who are developing micro encapsulation techniques rather than putting drug and recipient into a tablet or into a capsule this is direct micro encapsulation under sterile condition for encapsulating drug directly. So it is very interesting, very novel technique. We have proven it for one particular indication and a clinical scale and we are also now in discussions with that customer about looking at two further indications where they could deploy a very different drug delivery system using micro encapsulation. That is pretty much all I can say.

Ranveer Singh – Systematic- Mumbai

So we have already started getting revenue out of it?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

Yes. That of course has driven the significant growth along with a small increase in our base load business there.

Ranveer Singh – Systematic- Mumbai

Can you quantify how the revenue we have got from this facility was?

Harshil Dalal - Vice President (Finance) - Dishman Pharmaceuticals and Chemicals Limited

Ranvir for this quarter we did about 1.5 million.

Ranveer Singh – Systematic- Mumbai

US Dollars?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

Yes these are Euros.

Ranveer Singh – Systematic- Mumbai

What is the potential? What may be the peak revenue from this facility?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

The top revenue given the capacity we have today is somewhere between €3 and €4 million. We have a relatively modest spend which we are considering for towards the end of next year. That would give us a further less complex production line. We could theoretically take that business in the next two to three years to 5 million but beware the facility is only for clinical trial supply. It is a small facility and it is a technology driven business and the reason why we acquired it was to understand as a chemistry

company for the Dishman Group to understand formulation. So it was really in that jump to a longer-term strategy, which will come to fruition at some point, but it was a small low risk acquisition to enable our chemistry people which is all of us to understand formulations business.

Ranveer Singh – Systematic- Mumbai

So €3 to €5 million quarterly or annual run rate?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

Annually. It is only a very small facility. There are only 21 people there. It is the clinical trial supply up to low volume phase II only. So it is not commercial site.

Ranveer Singh – Systematic- Mumbai

Thanks. Harshil last one, what would be the gross debt right now because we see a reduction in you mentioned reduction in debt so….?

Harshil Dalal - Vice President (Finance) - Dishman Pharmaceuticals and Chemicals Limited

The gross debt for the December 36, 2016, year-end was 880 Crores. The net debt was about 850 Crores. The interest reduction is not just because of the reduction in the debt because that is not significant. The interest reduction is largely on account of the conversion of lot of the rupee loans that we had on the balance sheet into foreign currency loans. So that has actually helped us obviously taking into account that we do not run the risk of foreign currency fluctuation that has actually helped us in reducing the interest rate.

Ranveer Singh – Systematic- Mumbai

What are your effective interest rates right now, cost of debt?

Harshil Dalal - Vice President (Finance) - Dishman Pharmaceuticals and Chemicals Limited

Now starting this quarter it would be less than 4%.

Ranveer Singh – Systematic- Mumbai

That is all from my side. Thanks a lot.

Urvashi - Moderator

The next question comes from Mr. Ankit Gupta, individual investor from Ahmedabad. Mr. Gupta your line is open. You may ask your question now.

Ankit Gupta – Ahmedabad

Good evening. My question was more to do that over the past few years how many of our late phase III or molecules have been commercialized or how many of this commercialized molecules had sales of more than a 100 million USD?

Arpit Vyas - Managing Director & CFO - Dishman Pharmaceuticals and Chemicals Limited
Sorry what is the question again Mr. Gupta.

Ankit Gupta – Ahmedabad

My question was how many our late phase III molecules were commercialized in the past three years?

Arpit Vyas - Managing Director & CFO - Dishman Pharmaceuticals and Chemicals Limited

In the past three years we did not have many late phase III molecules. We are working on the molecules to get into late phase III, which is where we are right now. Across the group we have almost 14 to 15 products in late phase III and around 20 products in the early phase III and many products in the phase II and phase I levels, which we hope that will come to phase III and late phase III in the future. So this is the five years of hard work that we have done which is brought in this company to this level, which will be the highest number of phase III molecules in the history of any organization.

Ankit Gupta – Ahmedabad

Okay and also like if you look at our like in the past few years is there has been any molecule where we were involved in the development phase but we are not able to back the contract for the commercial supply once that was by US FDA or any other regulatory authority?

Arpit Vyas - Managing Director & CFO - Dishman Pharmaceuticals and Chemicals Limited

No.

Ankit Gupta – Ahmedabad

Okay. My second question was more from capital allocation perspective and in the management philosophy, if you go back into the history of the company let us say 2007-2008, 2008-2009 we were almost of the same size the largest transplayer in India and like we have spent like over that in 2008-2009, 2009-2010 to currently we have spent over 1500 Crores of capex towards expansion like in China to get lands, disinfectant unit, hypo unit and do you think currently we have reached a phase where all this capex, which is not resulting to much of increase in our sale and profitability will now the gestation period is above till now?

Arpit Vyas - Managing Director & CFO - Dishman Pharmaceuticals and Chemicals Limited

Earlier in 2007, Mr. Gupta we had a huge pipeline for which we did large investments around 500 Crores in Bavla itself which includes unit 9. At that point of time we were not realizing the kind of pipeline that we

had because we were not analyzing what kind of products are coming through in the pipeline and what is the end use of those products which we have started doing now but when we did the analysis of those products those were nothing but ever greening of the molecules which were the innovator had developed the molecule may be 40-50 years ago and they were just being minor tweaks to extend the patent line, and that was the basket pool post entry 2007, which died down entirely in 2010 even US FDA came with the ruling that unless your molecule is vastly different from what is available in the market we will not be given a priority to launch so that the entire pipeline died down. China has its own challenges but with the strategy that we have implemented with our customers for a risk mitigation point has become fruitful for us. It has also had Carbogen AMCIS and India debottleneck the non-GMP work and use the current facilities for the GMP work because both of the sites are completely GMP approved sites and learning from the past errors I will not say mistake but the errors in judgement we have developed the strategy across the globe that we want to do meaningful work we want to be present in the certain therapeutic areas which are oncology, ophthalmic, CNS, cardiovascular and all the orphan which are available and that philosophy was implemented in early 2010-2011 late 2010 early 2011 and for that we have done a lot of hard work for which we have almost 15 products in the late phase III as we stand right now.

Ankit Gupta – Ahmedabad

Okay. So like how are the allocations strategy for a new capex, like how do we look at evaluate the new expansion projects from capital allocation process now, what was it earlier and how has that evolved over the years, as you are saying that you have learnt from your past mistakes or error whatever you call them?

Harshil Dalal - Vice President (Finance) - Dishman Pharmaceuticals and Chemicals Limited

See as of now it is very clear that the capex is on ground has to be optimally utilized so if you see over the last two years there is no major capex and now the focus on the bottomline has also helped significantly improving the profitability and utilizing the facilities on an average at a level of say around 60% to 70% some facilities running at 80%-90%. Today the philosophy of the new capex is that unless there is a substantial commitment on a long-term basis of a significant volume no dedicated capex will be put in place so all the blocks that we are currently having except for the Mylan part which is a erstwhile solvent, there is no dedicated facility as such of course hypo is a functionally dedicated facility we only take hypo products in hypo facility, because it is a seven star facility where you cannot afford to take low value products that is one. So we have been very careful in committing any further capex, what has Arpit and Mark explained is out of this late phase III and at least eight nine products that are likely to do commercial over next few years if and when and when there is a significant revenue ramp up visible from a particular contract then only a dedicated facility can be considered otherwise they will try to optimize the utilization and minimize the capex this is the philosophy.

Ankit Gupta – Ahmedabad

Okay. That very well explains Sir. And Sir my last question was from you know we have been trying to get into manufacturing of generic APIs over the past two three years and I was just going through the DMF list for the quarter for the December quarter and I saw that after long gap of two years we had filed a DMF for our isosulfan blue, so what is our current strategy for manufacturing of generic APIs?

Arpit Vyas - Managing Director & CFO - Dishman Pharmaceuticals and Chemicals Limited

So for generics it is very simple Mr. Gupta that we are developing and filing of the products, which are of the absolute need, which are the niche products, isosulfan blue is one of them. We are not going to be

that one of the mains in generic company where there are 20-30 DMFs available and we cannot add any value to it. If we think that the product is important and if the price is very high and we can use our expertise to rejig from the price to expand on the patient pool then we will get into certain generics and isosulfan blue is one of them. It is turning out to be very important product for us. The strategy for such generic is as good as the CRAMs because we already have customers for that who are build in the contract and is going to take a constant supply from us also there is no exclusivity because we have developed it and we are free to sell to anyone else as well.

Ankit Gupta – Ahmedabad

Okay. So what will be the contribution of generic in a total sales currently?

Arpit Vyas - Managing Director & CFO - Dishman Pharmaceuticals and Chemicals Limited

They are not much.

Ankit Gupta – Ahmedabad

Thank you.

Urvashi - Moderator

The next question comes from Mr. Chiraj Dagli from HDFC Mutual Fund, Mumbai. Mr. Dagli you may ask your question now.

Chirag Dagli – HDFC Mutual Fund - Mumbai

Thank you for the opportunity. Sir did you mention that in phase III you have four oncology products in pipeline in India and about eight to ten in phase III in oncology at Carbogen AMCIS is that understanding correct?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

That is correct.

Chirag Dagli – HDFC Mutual Fund – Mumbai

So in total we have about 12 oncology products plus very few non-oncology phase III products that understanding is correct Sir?

Arpit Vyas - Managing Director & CFO - Dishman Pharmaceuticals and Chemicals Limited

Correct.

Chirag Dagli – HDFC Mutual Fund – Mumbai

Okay. And you also mentioned early stage 15 to 20 this is phase II or this is what?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

It is the transition to phase III, so it is early phase III limited number of trials and it is if it is oncology drug it in patients. If it is a non-oncology drug, it is moving out of healthy volunteers into small sets of patients.

Chirag Dagli – HDFC Mutual Fund – Mumbai

Okay that is what to me, fair point. And Sir on the vitamin D business so how should we think about sales growth you of course you alluded to margins of sustainable margins of 25% so how should we think about sales growth from hereon? Last three years we have seen you restructured the business profits are now back from hereon on this base how should we think about sales growth?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

I think its reasonably one would expect, as I said the cholesterol business is base load. It is not really growing. It is not really dropping a way too much but that is where we welcome to a little bit of competition. On the Vitamin D analogs we have less competition. The critical issue will be for our ability to get closer to customers to understand what new products they need and then introducing the new products. So if you said one new project for a year for next two or three years in vitamin D analogs that would be not an reasonable assumption. It is sitting where we are talking the revenue contribution in early years is going to be relative for now but its building the pipeline of high value, low volume, difficult to do products. So we are in the phase we are looking at we stabilize the business, we are very happy with the contribution of business is making now we are looking at where we start to want to grow and that is the project I mentioned right at the start which is being headed by Senior Mr. Vyas in his role as head of R&D for the group with a number of our team members from Holland and Switzerland where we are working with our customers to put together a new and exciting set of potential opportunities. So we have closing the phase of stabilization of the business and now we are looking it growing and it is all related to introducing new products to customers.

Chirag Dagli – HDFC Mutual Fund – Mumbai

There is not the base growth in the analog business either it is dependent on new product launches is the

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Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

There is a base load. There are relatively low volume products so the market volumes are well relatively low. We are talking about even for the biggest product very low kilo amounts. We are not talking about traditional API volumes in multiple tonnes. So the market is very limited but that is where our opportunity is because a lot of the bigger guys just are not set up to deal with the small volume very complex work and that is where we see the opportunity so volumes are low the margins are very high, so the key is introducing new products now.

Chirag Dagli – HDFC Mutual Fund – Mumbai

Sir a couple of financial questions, what is the foreign exchange loan mark to market in the P&L today for the Q3?

Harshil Dalal - Vice President (Finance) - Dishman Pharmaceuticals and Chemicals Limited

So out of the total forex gain of 11 Crores 7 Crores is the realized foreign exchange gain and 4 Crore is the notional.

Chirag Dagli – HDFC Mutual Fund – Mumbai

Notional is on the debt?

Harshil Dalal - Vice President (Finance) - Dishman Pharmaceuticals and Chemicals Limited

Yes that is on the debt. So it is the combination of the debt as well as the of the other foreign currency conversions that were happened in the P&L so the combination of everything. Specifically for the debt it would be about 10-odd Crores.

Chirag Dagli – HDFC Mutual Fund – Mumbai

Ten Crore gain Sir?

Harshil Dalal - Vice President (Finance) - Dishman Pharmaceuticals and Chemicals Limited

The ten Crores would be the loss. Because the foreign currency had been moved that the rupee has depreciated against the dollar as of December 31, 2016.

Chirag Dagli – HDFC Mutual Fund – Mumbai

So for the quarter there is 10 Crores loss of debt mark-to-market, okay fair point. Sir what will be your guidance for capex in FY2018 and 2019?

Harshil Dalal - Vice President (Finance) - Dishman Pharmaceuticals and Chemicals Limited

So capex as you would have seen historically and what we have been saying is that we would need to incur a maintenance capex of our 125 Crores apart from that the planned capex which was there for this financial year was the acquisition of a building in Switzerland which the process have completed so that building has been acquired for about five million and we would have to do some additional capex on that particular building, so that we can start utilizing it in the next one and one and half a years. Apart from this there would be a capex in the hypo plant for the two cells, which we plan on activating soon. So these are the planned capex that we are already have right now, apart from that you can take a ball-park figure of roughly about 25-odd Crores in addition to the 125 Crores of maintenance capex.

Arpit Vyas - Managing Director & CFO - Dishman Pharmaceuticals and Chemicals Limited

Also for the building acquisition in the next 18 months to equip the facility with the labs and the people and qualifying the facilities for operations it could take anywhere between 12 and 15 million but that would be over a period of 18 months.

Chirag Dagli – HDFC Mutual Fund – Mumbai

Fair point Sir. And Sir my last question is at what point in our journey with clients do we get into a take over pay kind of a contract for our facilities?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

It really depends on the pipelines, but you can pretty much guarantee to minimum eight years from the first time we within the Dishman group see a molecule. These days it is around seven to eight years.

Chirag Dagli – HDFC Mutual Fund – Mumbai

So Sir for these phase III molecules that we have in pipeline for India and about eight to ten in Carbogen when is it that at what point do we get into a take or pay for some of these products?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

Essentially what happens is once we complete validation and the customer then files his documentation, gets approvals to launch whilst we are finishing off validation when negotiating, supply agreements so these are manufacturing supply agreements where the customer is committing to take a minimum volume per annum and those contracts are normally three to five years and renegotiate after three to five years. So essentially for one of the products that I mentioned earlier where we are completing validation in sort of end of April, early May, we are already in discussions with the client about the supply agreement for commercial quantities. So it is normally three to six months before the validation is complete you start contemplating pulling together supply agreements or manufacturing contract.

Chirag Dagli – HDFC Mutual Fund – Mumbai

Thank you so much. Best of luck.

Urvashi - Moderator

The next question comes from Mr. Nitin Agarwal from IDFC Securities, Mumbai. Mr. Agarwal, your line is open you may ask your question now.

Nitin Agarwal - IDFC Securities - Mumbai

Mark when I look through next 12 to 18 months I mean what are the operational milestones, key operational milestones that you guys are targeting to hit, what are that you would be probably tracking for yourself for the business?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

We were targeting for Carbogen AMCIS round about 19% EBITDA we have got there. Realistically somewhere between 19.5% and over the next 18 months 19.5% to 20% is pretty much best in class. There may be one or two companies that are able to do that and we hope to be one of them and we think there is enough headroom in the business to continue to do that. As I said the market is strong at the moment so we continue to look at that but one of the bottlenecks, which we are removing with the acquisition of the buildings in Switzerland, is from more development capacity for phase II in oncology. It is still an extremely strong franchise for us we continue to put a lot of emphasis on that. We are trying to continue to keep our key metrics like number of staff at that minimum level so we are still controlling all of that and those are key milestones for us. We are continuing from make Shanghai a long-term success. We work very hard. We brought Shanghai from a loss making position and a big drag on the entire group, to above a loss making position. We continue to make want to make Shanghai a success and enable us to continue to grow the Carbogen AMCIS franchise and also support Bavla and Naroda, so beyond those we are putting our budgets together. They are aggressive budgets. We are very pleased with the operational efficiencies and the hard work that we have been able to do to increase the profit margins now we got to topline to maintain those margins.

Nitin Agarwal - IDFC Securities - Mumbai

Got it. And from my India business perspective India part of the manufacturing business perspective what are the things to watch out for or what are the milestone that we looking for?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

Well I think probably we have a few of those and Arpit can give you a bit more colour on that as well. We set ourselves a target for the Mylan contract. We exceeded our target in fact and what we wanted to achieve that with negotiation of the contract, so we are very pleased about that. We have other projects, which were key milestone for us, I cannot really talk about it, I am afraid, but Mr. Vyas Senior has been instrumentally optimizing the chemistry there to enable us to capture orders there. Unit 9 is starting to see some real uptake and as I said we are very close to complete validation on a breaking molecule. So our milestone there is getting that purchase order for the follow-on clinical supplies as I mentioned earlier whilst still finalizing the manufacturing supply agreement, so that customer wants us to finish validation immediately to supply more material for the clinic and also wants to negotiate the supply agreement for long term commercial so those projects are key milestones for us. We have already hit two of them successfully and the third one is in the process of being finished off now hopefully. That is where we are.

Arpit Vyas - Managing Director & CFO - Dishman Pharmaceuticals and Chemicals Limited

Yes and also to reduce on the raw material cost considerably which was grappling around 40%-47% in the previous years which right now is down to 33% and it is commendable to mention that it is not because of the increase in the price or the fluctuation in the forex, it is only and only the operational efficiencies that we have been able to achieve in the reduction of time for manufacturing and shortening of the processes, that is very clean milestone for the people as well to getting into mindset of what is possible and what is not possible and what from here are now leads to be followed basically.

Nitin Agarwal - IDFC Securities - Mumbai
Thanks Arpit. Thank you very much.

Urvashi – Moderator

The next question comes from Ms. Cindrella from Dolat Capital, Mumbai. Ms. Cindrella you may ask your question now.

Cindrella - Dolat Capital - Mumbai

Thanks for taking my question. Sir just wanted a little more detailed update on Switzerland building that we have acquired what would be the timelines and how we would be going about it and what is the expectations in terms of revenues going ahead from there in terms of timeline?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

Okay, in a nutshell the facility is both short-term and long term land banking, if you want to use that phrase, so essentially it gives us an opportunity to rapidly and by rapidly I mean 12 to 18 months enable us to probably add at least a third additional capacity for the development of oncology products where we see a lot of growth and long term provides us with a space to rapidly expand in the future for things like antibody drug conjugates but those are the long-term less defined plans. Short-term plans are to increase our high potency development capacity, which are essentially laboratories.

Cindrella - Dolat Capital - Mumbai

Okay. So like how many products are we aiming at shifting over there?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

We would not be shifting. This is incremental additional capacity. We know from the market that there is a market need and we know that by the addition of those additional laboratories we would be able to capture additional revenue.

Cindrella - Dolat Capital - Mumbai

Okay. So in terms of adding these products the incremental ones what would be the addition in terms of people how we would go about it?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

Well we probably looking this year an increase in Carbogen AMCIS of around about 20 people in total, some of those will be brought on early to support squeezing in so at the moment I am doing some reorganization of space which is very low capex for enabling us to further optimize to get more technical people in that is the first part of project 2020 and we are substantially underway with that. Towards the end of the year we will be bringing in probably half of those people for the new capability we are creating in the new building. So that is about the rough split.

Cindrella - Dolat Capital - Mumbai

Okay. Sir just a clarification you early have said around 12 to 15 million was that Euro or dollar?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

All Swiss Franks and unfortunately you can consider the Swiss Frank is the Dollar at the moment.

Cindrella - Dolat Capital - Mumbai

Sir a little more guidance in terms of you earlier said that Babla unit hyper unit would you see most likely inspection in June-July right?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

July – August.

Arpit Vyas - Managing Director & CFO - Dishman Pharmaceuticals and Chemicals Limited

Anywhere between July to September actually, it depends on when the customers file and when the US DA gives the approval but US DA has given a break through as Mark has said so the moment the customer files they will be coming in as quickly as possible.

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

Yes, basically what happened is that they got accelerated review so when you have accelerated review once you file the FDA you are going to look at that as a priority, not go into the waiting list. So if I look at that we are talking about a huge amounts of data, so it is going to take the FDA even if they file in say June it is going to take the FDA at least six to eight weeks to go through all the documentation, so somewhere between July and as Arpit said August-September we expect a pre-approval inspection we do not know but we expect.

Cindrella - Dolat Capital - Mumbai

Understood Sir. Sir in terms of the overall research pipeline what is the number of increase in terms of projects that you have seen apart from the oncology enquiries?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

Well as Arpit said earlier we have certain skill sets and specialty across the group, in certain therapeutic areas so CNS, central nervous system, eye care, ophthalmology, and those are the areas that continue to be very strong for us and bare in mind as I mentioned earlier, not all oncology drugs are highly potent. So they do not need the special facilities that exists in Switzerland in part of the Bubendorf site and also the Unit 9 facility. So a proportion of those are oncology but they do not need the special facilities. But as I said before oncology is a massive franchise for us, everything we do is in response to customer need.

Cindrella - Dolat Capital - Mumbai

And Sir any update on the hypo API that we wanted to go ahead with?

Arpit Vyas - Managing Director & CFO - Dishman Pharmaceuticals and Chemicals Limited

All is good.

Cindrella - Dolat Capital - Mumbai

Okay. Thank you so much Sir.

Urvashi - Moderator

The next question comes from Mr. Tushar Vora from Reliance Capital, Mumbai. Mr. Vora you may ask your question now.

Tushar Vora - Reliance Capital - Mumbai

Thanks for the opportunity. I will try to wrap it quickly. Sir first and foremost this quickly getting a confirmation on the number of ANDAs you mentioned so I understand the one NDA filed in India and one close to filing for unit 9 both, in Switzerland also have a few ANDAs actually been filed by customers?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

Yes, many.

Tushar Vora - Reliance Capital - Mumbai

Any color on the number Sir?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

Generally speaking every year our customers are probably on average for last five years three to five ANDAs a year.

Tushar Vora - Reliance Capital - Mumbai

Okay. But these are much smaller for us in terms of size of project because the Indian ANDAs we are referring to file through the Indian unit supposedly, I have much higher revenue potential?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

No, not necessarily. I mean just because there is some volume, I mean, this is where we play especially Switzerland these niche products difficult to do very hard chemistry and that attracts significantly better margins than in some of the larger volume projects. So that is really the focus. Switzerland has the capacity to manufacture around about a tonne of an individual API, so the focus is really on niche, complicated, difficult to do chemistry, highly potent, CNS, eye care, high purity, those are the projects. They are not big volume projects but they are for clinical and med need, and therefore play very nicely to the philosophy for the Swiss sites. Also bear in mind that a proportion of what we are doing in Switzerland is performing the front end development and research capabilities for the entire Dishman Group and we have seen a lot of success over the last four to five years since we restructured the Carbogen AMCIS in pulling projects forward from the Swiss site into the Indian sites for validation and foreign market supply and that continues to be key cornerstone of our strategy. The oncology project, we have just been talking about which is complete, the validation is complete in April 9, was first worked on in Switzerland and transferred with the blessing of the customer to unit 9 with the larger volumes.

Arpit Vyas - Managing Director & CFO - Dishman Pharmaceuticals and Chemicals Limited

So what happens Tushar is that, when the customer comes to us they look at the capability of the entire group which was being looked at typically earlier before the consolidation of Carbogen AMCIS and Dishman India where India it is next to impossible to get any product in earlier phases than phase III because phase III is the time when all the patents are being filed. In earlier phases it is only of whether the product is working in the body and whether the toxins are comfortable or not it to go to phase III all that analysis happened earlier but no patents have been filed that point of time. So India being at the risk of people are seeing India as a risk for their IT protection where in earlier phases it is not possible to do the development work in India and in Carbogen AMCIS as Mark mentioned that they do not have the capacities to produce beyond 1.5 metric tons where it was difficult for them to hold down the development projects which was expected by the customer the volume was expected to go beyond 1.5 metric ton so the consolidation of the two entities has given a new light to all the customers where the developmental of our larger volumes can also go into Carbogen AMCIS where all the facilities are being tied in. Am I right Mark?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

Yes absolutely, you are and that philosophy holds true. I mean Mr. Vyas Senior acquired the business over 10 years ago that was the main philosophy that philosophy is continuing to be driven.

Tushar Vora - Reliance Capital - Mumbai

So the one molecule that we have said that will get completed sometime in April the validation, other than that do we expect may be another couple of molecules to get transferred say the next 12 months?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

We do, definitely we do. There are two potential targets right now, both US customers, both small biotech and one is Thai basis and one is CNS.

Tushar Vora - Reliance Capital - Mumbai

Sir secondly just want to quickly check on the vitamins business couple of years back I think when the strategies were outlined shifting from volume base to more value base product when we done the analog we had said that the facility has a limit in terms of the revenue potential and the margins also we had outlined and said around 30% in light of whatever new areas of application we are finding for Vitamin D analog do you think that both these numbers may be upside surprise say over a three year period?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

I think given Arpit and my philosophy of rather than over promising over delivering, I think we are always cautious. This is a pharmaceutical industry. It is not a straight line. What we can say is there is an opportunity for these products we push them more in a B2B sense rather than working through agents, which is part of the restructuring. We have seen a significant amount of interest in our capabilities going forward. So what we can say is there is justification for us to invest internal time and effort to continue to work with our customers develop new products which have the basis of vitamin D but our complex analogs. So I think given where we are today that is what we are prepared to say, I think, Arpit.

Arpit Vyas - Managing Director & CFO - Dishman Pharmaceuticals and Chemicals Limited

Yes that is absolutely right and Tushar the other thing is that we are if you can say DNL we are the second largest producer of vitamin D if you consider the capacities. Now if we go towards utilizing those capacities for the cholesterol and vitamin D business then that will overflood the market because the demand in the market is not there which will drive the price down. So this strategy that we have obtained is that critical for the higher EBITDA margins that we have right now. The moment we go for higher revenue we will see a massive dip and that is what was happening in the past and that is what we do not want to see again.

Tushar Vora - Reliance Capital - Mumbai

Fair enough. Arpit quickly one the ANDA that we have already filed rather the innovator has filed for the ANDA what is the expected timeline is it also in the first track later?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

No they have not got preferred status but nevertheless the drug has good efficacy so they filed back in December we were running ourselves to death, supplying information's to them to enable them to get their filing done, which they have done. The review period is somewhere between six to twelve weeks. That is what the customer has told us.

Tushar Vora - Reliance Capital – Mumbai

Six to twelve weeks from now you mean?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

Six to twelve weeks from Christmas that is all we can say because that is all of our customers told us they do not know either.

Tushar Vora - Reliance Capital – Mumbai

No but then we would expect a facility inspection for the hypo plants for that drug also?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

Likelihood is if they get approved the FDA will come once and they will probably come for the later indication because that has breakthrough status, so they would not send inspectors from the US for two audits within three months.

Tushar Vora - Reliance Capital – Mumbai

Okay got it and Sir slightly more qualitative comments from you in terms of we do a lot of cutting edge work and some of these drugs are the number of years ahead to be launched on the market what are the areas where we are seeing real interest developing not only onco, but across the board whether in terms of drug delivery systems or unique drugs. What are the areas of interest that you are seeing from your development pipeline?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

Well there is one or two interesting things, without divulging too many secrets to people, we look are areas like ophthalmology. There have not been too many innovative products in ophthalmology over the last 25 years. Alzheimer's is a significant area very early phased development that we seeing in the market. So that is something senile dementia or Alzheimer's is something that is starting to afflict a large number of people as the population is ageing and is becoming a challenge for the healthcare systems of the countries. So we are seeing quite a bit of interest in that areas and people starting to do early phased development work, pre-clinical tox work in those areas. CNS will always be an issue, heart disease, as we grow older, basically we are living longer and as a result of that we are picking up chronic disease as the factor of age and the environment we live in so we do not particularly target areas. What we target is our skills and specialties and we try and employ those across the widest possible areas of interest, but it is all driven by customers. A good example would be there has not been a brand new product on the market for eczema for 47 years, the newest product for eczema is 47 years old so we have a couple of customers who are looking into those sorts of areas.

Tushar Vora - Reliance Capital - Mumbai

Even if we open the market that we have here, CNS…?

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

Some of those are rather old but they are refocused or finding new life in smaller populations so I mean I think there are only a two things you can say is that people will need pharmaceuticals. There is still a lot of money going into R&D and one thing that is absolutely true is that we as a population of this planet are getting older and we are living longer. So age-related disease, IMD, age related macular degeneration for eye care, Alzheimer's, skin disease, minor skin cancers, prostate cancer, all sorts of things are of interest, heart disease, a big issue in the Middle East and in Europe.

Tushar Vora - Reliance Capital - Mumbai

Fair enough Sir. Absolutely the last question on the revenue guidance that you have given for the next year I believe 8% that is before any of the work being done on let us say these two molecules that I expected to be approved in the next financial year?

Arpit Vyas - Managing Director & CFO - Dishman Pharmaceuticals and Chemicals Limited

Yes, this is just considering the base business, Tushar so not considering any molecules going commercial or any of the other offset that Mark talk about.

Tushar Vora - Reliance Capital - Mumbai

Any color if these molecules do more commercial what kind of upside we could have, just the commercial initial quantities?

Arpit Vyas - Managing Director & CFO - Dishman Pharmaceuticals and Chemicals Limited

Our sales would depend upon what the customer requires so that is something that we would not be able to tell you right now.

Mark Griffiths - Global Chief Executive Officer – Dishman Pharmaceuticals and Chemicals Limited

Honestly, I think it is important for us it is important that we are in the hands of the customer, any number we give you today will invariably be wrong unless we are very, very fortunate. So we rather not give the numbers until we know where the customer is and in that way we do not set the wrong expectation with our value supporters.

Arpit Vyas - Managing Director & CFO - Dishman Pharmaceuticals and Chemicals Limited

Tushar it is important to know that even after the product being commercial you cannot expect the volume to increase in the first year itself it will happen in may be the second or the third year. It depends on where the customers and how quick they are filing in different countries and how what is the response of those products. Basically the launch is a clinical trial on a larger pool of people and if there is even a possibility that only a few territories are giving them a good response and they do not file a world over, not in all, because some diseases are not available everywhere so hence the filing may take longer so you cannot mention of what can be the upside of that product once it is going commercial because by that time many more things would have happened in case of development, new products going into phase III from phase II, new products coming in phase II and the majority of the margin that we get is from phase II to phase III are going into validations.

Tushar Vora - Reliance Capital - Mumbai

Fair enough. Thank you so much Sir.

Arpit Vyas- Dishman Pharmaceuticals Limited

I think Urvashi, I think we would have probably answered most of the questions so may be we can take one last question and we can close the call.

Urvashi - Moderator

The next question comes from Mr. Karthikeyan V.K. from Suyas Advisors, Mumbai. Mr. Karthikeyan your line is open you may ask your question now.

Karthikeyan V.K. - Suyas Advisors – Mumbai

Harshil, a quick question you said the interest cost is sub 4% did you mention this on the entire 880 Crore rupees of outstanding debt?

Harshil Dalal - Vice President (Finance) - Dishman Pharmaceuticals and Chemicals Limited

Yes it would be about 4%.

Karthikeyan V.K. - Suyas Advisors – Mumbai

Any debt repayment target for next year?

Harshil Dalal - Vice President (Finance) - Dishman Pharmaceuticals and Chemicals Limited

That will happen according to the repayment schedule. We will not pick any debts because why would we when the debt is so cheap.

Karthikeyan V.K. - Suyas Advisors – Mumbai

Sure. Thanks very much for the classification best wishes.

Urvashi – Moderator

The next question comes from Mr. Ayush Ahitan from Mumbai. Mr. Ahitan your line is open you may ask your question now.

Dhruvesh Sanghvi - Mumbai

This is Dhruvesh Sanghvi instead of Ayush. Sir just wanted to understand on the base business even when we have these supply constraints and higher the new facility you have acquired even then why are we not seeing any kind of topline growth or when will we start seeing that because I think we guided even for this year around 5% to 10% out of topline growth without any molecule going commercial?

Arpit Vyas - Managing Director & CFO - Dishman Pharmaceuticals and Chemicals Limited

I think one to mention here which we have been mentioning from I mean in the past two years is that we have been trying to replace the low cost products with high cost products bringing in operational efficiency and concentrating on the profits, even for us money in the pocket is more important than the revenue increase where the kind of profitability that you see which is right now was not achieved even on the higher revenue so I think the thing to consider here is the hard work which has been put in by all the departments including sales, finance, R&D and operations to bring down the cost to get better products according to the philosophy of the company which has been able to give us this kind of profitability this kind of margins across the group. So the progress if you consider has been substantial and not at all what you mentioned unfortunately. We are talking about getting 150 Crores of PAT in nine months, which has not been, achieved even year performance. So you know what is more important the money in the pocket or the revenue or the topline.

Dhruvesh Sanghvi - Mumbai

So let me first congratulate on that, and there is no denying that we have done a phenomenal here. Where I was coming from is probably after the Q2 results, I think there was a TV interview where you yourself has said but I do not remember yourself but somebody from the company said about a 5% to 10% of our topline growth or the commercialization of any molecules so I was just coming across the thought processes of where we are coming while we were guiding on those things?

Arpit Vyas - Managing Director & CFO - Dishman Pharmaceuticals and Chemicals Limited

No initially also I said that it is there is no problem with the business. It is only the inventory has been built up because the customer according to the regulatory approvals and everything has deferred on the deliveries, which is not in our hands actually. So that is not a lot of business that we are seeing but yes of course the low value the low cost products which we were manufacturing for covering the fixed cost we have reduced so that dip in the revenue is certainly seen.

Harshil Dalal - Vice President (Finance) - Dishman Pharmaceuticals and Chemicals Limited

No referring to your specific question about that statement which earlier the management had made, it is very important to understand that is in our business there is always some element of a possibility of one or two projects not coming up the way we thought they should come up, but very classic case in point one very big project I am not able to give you any specific names which gave us significant contribution to topline last year has just not happened this year, it has gone, so what is the crux? The crux here to develop a very comprehensive niche and sustainable pipeline that is what the company has done; the implication of 13-14 late phase products and its potential revenue generation on a sustained basis over next five seven years is what should and as Arpit and Mark has very clearly they verbosed about it is the bottomline which is now significantly driving the whole strategy and that is why all the low value added or less profitable businesses has been consciously done away with, replaced and substituted by much more profitable businesses and I would believe that from next year onwards you should be able to see some reasonable topline growth which starting with around 8%-9% as the management has given will also pick up as more and more projects go commercialize and more and more portfolio products are developed by us.

Dhruvesh Sanghvi - Mumbai

Thank you Sir.

Harshil Dalal - Vice President (Finance) - Dishman Pharmaceuticals and Chemicals Limited

Can you please close the call, I will request Arpit to give the concluding remarks.

Urvashi – Moderator

At this moment there are no further questions from participants I now hand over the floor back to Mr. Arpit Vyas for the final remarks.

Arpit Vyas - Managing Director & CFO - Dishman Pharmaceuticals and Chemicals Limited

Thank you everyone for attending the conference call. I hope it was to your satisfaction. We are very proud of the people that are working for the company and servicing our clients who are in turn servicing the people in need. We are very passionate and we continue to do so and we will continue to do so and we will continue to try and bring efficiencies across all the groups, which will serve the people, serve our clients and in turn serve our investors as well. Thank you for believing in us and staying invested in us. As I mentioned earlier as well please consider us as a long-term investment company because quarter-on-quarter growth for this company is very difficult and it is unreasonable to expect and not comparable to any other companies and once you understand that you will be far much happy investors than any. Thank you again and see you next time.

Urvashi – Moderator

Ladies and gentlemen this concludes the conference call. You may now disconnect your lines. Thank you for connecting to audio conference service from Airtel and have a pleasant evening.