“Laurus Labs Limited
Q1 FY2019 Earnings Conference Call”

August 04, 2018

Moderator: Good day, ladies and gentlemen and welcome to the Laurus Labs Q1 FY2019 Earnings Conference Call hosted by Kotak Securities Limited. 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. Chirag Talati from Kotak Securities Limited. Thank you and over to you Sir!

Chirag Talati: Good morning everyone. On behalf of Kotak Securities, I thank the Laurus Management team for giving us the opportunity to host this call. From Laurus we have with us today Dr. Dr. Satyanarayana Chava– CEO, Ravi Kumar – CFO and Monish Shah from the Investor Relations Team. I hand over the call to the management now for their opening remarks. Thank you.

Dr. Satyanarayana Chava: Good morning And thank you everyone for joining today's call on Q1 FY2019 results. I would like to take you all through the key highlights of our various business divisions and also on the FY2019 Q1.

Our revenues stood at INR 539 Crores for the quarter showing a growth of 13% on year-on-year basis. Revenues from major business segments remained on track except Hep-C. The Synthesis business was a star performer growing by INR 21 Crores to INR 54 Crores in total. As I mentioned our Hep-C business continues to be muted.

The main reason for the overall low profitability in the quarter is price increase of raw materials from China and also lower sales of CMO, API and also the product mix. Another reason is exchange rate fluctuation.

We expect CMO, API segment to generate normal revenue from Q2 FY19 onwards as we have orders on hand. We are also in the process of developing in-house intermediates where we have seen challenges in Q1FY19 and also in the process of identifying alternative sources where we will not have these fluctuations of prices.

I am pleased to inform you that we have received tentative approval from Global Fund for Tenofovir, Lamivudine and Dolutegravir combination, which will allow us to participate in tenders by WHO and Global Fund and also In-Country tenders in various African Countries.

We also successfully cleared the FDF regulatory audits from various African Countries paving way for our participation in tenders. As we mentioned, in the last quarter investor call, Q4 FY2018 we generated revenues from all units and we expect contributions from these units will be much higher in coming quarters.

Moving to the business segments, I would like to give you the brief. The ARV segment grew significantly when we compare the corresponding quarter FY2018, it grew over INR 100 Crores

and sequentially about INR 6 Crores. Whereas Hep-C showed a de-growth of INR 53 Crores compared to the corresponding quarter and a de-growth of INR 14 Crores sequentially.

In oncology we did INR 7 Crores more sales compared to the sequential quarter. In Other APIs we had over INR 20 Crores less sales compared to the corresponding quarter whereas sequential quarter we had INR 24 Crores less sales. The generic APIs in total showed a growth by INR 28 Crores of sales as against corresponding quarter Q1 FY2018 and as against sequential quarter we had seen a drop of INR 26 Crores. In synthesis business we grew by 65% as against corresponding quarter whereas sequentially we grew by 14%. In the ingredients we grew by INR 7 Crores compared to the corresponding quarter whereas it showed a de-growth of INR 6 Crores compared to the sequential.

In the generic FDF we have increased our sales by INR 3.7 Crores in the sequential quarter. In total we have generated ~INR 5 Crores more sales corresponding to the Q1 FY2018.

In ARV we are on track to achieve year-on-year growth because of our increase in off-take of existing products and also our focus on completing the basket of second-line APIs. However there were some challenges on the pricing front of Key raw materials especially from China. We converted these challenges to opportunities. We were able to develop and improve processes and we are doing scale ups of the plant. By Q3 we expect we will not significantly depend on any imports of any intermediates from China; however, we will continue to buy raw materials, but imports will be significantly lower than what we did in Q1.

By end of this Q2 we will complete validations of all second-line ARV APIs thus completing the basket of our offering. We are also on track to ramp up our API supplies to European regions. Our partners had significant market share and we are happy that our supplies are on track.

We are also very optimistic about the future of our ARV business as we had committed earlier, now we are close to 10% growth on ARV API. The Hep-C business we had significant lower revenues, but interestingly our profitability share from Q4 last year to Q1 this year remained similar, although, we had less sales of APIs in Q1 FY2019.

We are expecting our partner to get few more approvals in other markets, which will reasonably offset with decline and we expect revenues and profit share from our partner will remain similar to Q4 FY2019.

Oncology has a robust growth. We are looking to increase new products validation and we expect to complete two new validations in this year and we also completed expansion of our oncology-manufacturing base successfully.

In the other APIs in the generic CMO segment orders were moved from Q1 to Q2 FY19 and we expect to do supply these delayed orders from Q2FY19 onwards and want to let you know that we started commercial sales of Metformin API from Q2FY19 from unit 2 from this quarter.

Synthesis business is one of our major growth driver and we had a significant growth, 65% year-on-year and 14% of sequential basis. Our technology transfer to Unit 5 from Aspen is nearing completion and we have seen some uptake of intermediates from our partner as well. We are also very optimistic about clinical based supplies. We expect two new APIs will be launched by one of our partner next year.

Ingredients business is also doing very well and the revenue growth is about 30% compared to year-on-year and improved supplies to existing customers. We started natural extraction and purification of Digoxin to our partner C2 Pharma and we are also target even on adding the products in this coming financial year. We also added external capabilities for natural extraction of unit 4.

For FDF, we mentioned that we have received Global Fund ERP approval, tentative approval for Tenofovir Lamivudine, Dolutegravir, which will avail us to participate in tenders by WHO as well as Global Fund and also we can participate in In-Country tenders. We are happy to inform you that so far we have filed 13 ANDAs with US FDA, two with Canadian Authorities, two in South Africa and five in WHO, four in Europe and about 26 dossiers filed in various African Countries and we have also filed 2 dossiers with DCGI for the approval. We have completed validation of five more products which are under stability and once we complete stability we will file those with various regulatory authorities.

We have subsequently launched Tenofovir in various markets including US, Canada and this quarter we are also starting them shipping to Europe also.

Our Metformin commercialization was delayed by three months because of label change and we have got a new target date in October. We expect two more approvals in this financial year from FDA, which will be launched as and when we will get the approval.

We are also in the process of filing several ARV fixed dose combinations with WHO and PEPFAR. All our formulation dossiers are fully backward integrated with our own APIs. And we also started working with few new partners for doing CMO for units and markets of formulation.

With that I would like to hand over to Ravi to share financial highlights.

V.V. Ravi Kumar: Thank you Dr. Satya and a very warm welcome for everyone for this Q1 FY2019 call. We want to say special thanks to everyone for attending this call on a holiday. I would like to bring to your notice that small typo on the slide #12 where our EBITDA for Q1 FY2018 is incorrectly shown as 1,250 million, whereas it is about INR 1,045 million and the margin percentage is 21.6% instead of 26.1%.

Moving on, we have done INR 539 Crores revenue in the current quarter versus the INR 478 Crores in the last quarter with a growth of 13% year-on-year. The main growth driver is the ARV, Oncology and Synthesis business. As Dr. Satya explained, the CMO API sales were down mainly because of reasons at the customer end, but our supplies have already begun for Q2FY19.

Another challenge this quarter was from China, as you all aware China is getting more stricter into the environmental issues and they have started closing down the factories on a short notice and because of that the material availability is not a question, but the prices have shot up and since we cannot lose the production, we procured the materials at an higher price. However, we have started working on this issue and we have identified some of the key materials, key intermediates, those key intermediates either we are making in-house or we are buying from an alternate to sources from India.

So with that we expect this issue will be mitigated in the coming quarters; however, we expect China will also soften the prices in coming quarters. Some of the materials which we procure, the indications are that the prices will be lower than what we paid in the first quarter. So probably those supplies issues will be restricted to the first quarter only. So the price increase will be lower from the next quarter as such.

The rupee depreciated by ~5% and which affected us by INR 5.4 Crores loss in the first quarter of current fiscal against the profit of gain of INR 19 million and INR 37 million in the first quarter last year and fourth quarter last year. So this has also accelerated increases in other expenses. As you all aware we have taken a $25 million ECB loan in the month of April and that has been the key reason for the forex exposure and loss in this quarter.

This quarter we also saw additional depreciation on account of the FDF expansion, we capitalized in the fag end of the March and then we have 90 days of the first quarter has been charged depreciation that is an another reason for the additional depreciation. Our diluted EPS is Rs.1.6 vis-à-vis Rs.3.7.

Our capex we will be in tune of INR 250 to INR 300 Crores in the current fiscal. So I would also like to reiterate the significant amount of gross block is not yielding revenue. For example, Unit 2, Unit 4, Unit 6 and Unit 5 are not making any profits. This is causing some stop gap issues in the profitability and we have seen that Unit 5 has started commercial supplies, Unit 6 started manufacturing in intermediate, Unit 4 we are expecting some inspections. So everything is moving and we are directionally on track. There is no deviation in our longer term vision, this quarter was low on profitability mainly because of the rupee depreciation, the China raw material price increase, additional depreciation and lower sales from the Hep-C and the other contract manufacturing in the generic API side and these are all one time issues and we expect the second quarter will be in a much better shape.

Thank you and now I ask the moderator to open the lines for the Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ashish Rathi from Lucky Investment Managers. Please go ahead.

Ashish Rathi: Thank you for the opportunity. This backward integration thing as to what as a company in terms of raw material sourcing what percentage of dependency we have on outside China and also if you could tell about Efavirenz raw material in particular, do we have the sourcing in-house, if not

then we not be able to pass on the price increases in the intermediates to the customers considering we have such a large market share in the product?

Dr. Satyanarayana Chava: Well you are asking why we were not able to pass on the price increase to the customers. That is what I understood. Is that correct?

Ashish Rathi: Basically is to understand what is the dependency and are we not being able to pass on?

Dr. Satyanarayana Chava: Our significant raw material price increase did not happen in our key product Efavirenz. It happened for Emtricitabine where we sell significant volumes to our partner Aspen where we had a three-year price agreement for all three APIs we sell, Efavirenz, Tenofovir and Emtricitabine. We are still talking to them for the price increase so far we are not successful, but one thing we did was aggressive backward integration using our existing capacities. We are very successful right now and the commercial scale up will start. Well from Q3FY19 onwards we expect, it will come back to normal cost of Emtricitabine so that is the one good thing. We were very dependent on intermediates in Q1, we will be partially dependent on imports in Q2 and not at all depend on intermediates imports in Q3.

Ashish Rathi: Sir I have a question more on a broader level for the company's future in the ARV business. We understand that the gap between the addressable patient market and the catered pool, which say tis he 37 million versus the 19 million that gap is reducing very sharply. So like of course it is good for us in the near-term as we can see sharper increase in growth for us in that business, but from a longer-term perspective Sir when this gap closes, would it not be worrisome for us as a company on the whole, because 70% of our business is coming from this particular ARV side.

Dr. Satyanarayana Chava: Based on the current reports from WHO and PEPFAR the patient uptake will happen until 2023 so currently there are about 18 million patients on treatment which will go to 24 million by 2023 and then onwards the growth is not very significant, so almost every year they are adding more than a million new patients into the treatment network.

Ashish Rathi: So after certain point in time, the dependency of the ARV business has been very high the growth for the company can significantly come down that is what the kind of inference I am growing from this?

Dr. Satyanarayana Chava: See here as you see our growth we have grown significantly in non-ARV businesses as well. So initially we used to depend on ARVs for 80% of revenue now two-thirds of revenue comes from ARV despite of the growth from INR 400 Crores to more little about INR 2000 Crores for the Company. Going forward, we expect our growth will be across all therapy areas and not focused on any ARV alone. In our Synthesis business we are not doing any work related to ARV, and our API CMO business is non-ARV so everything is non-ARV business. Our Hep-C business, our oncology businesses are also non ARV. See in ARV for the next five years ARV APIs will grow by single digit maybe closer to 10% whereas other segments are growing much faster than that. So our dependency will come down, but we have no problem in accepting we are also generating healthy revenues in some of the product of ARVs.

Ashish Rathi: Sir lastly with your permission if I can. Sir in your understanding has a dip in Hep-C business done with largely or there is still further downside coming in the quarters for this. So what should we basically assume as a stable run rate for this business going ahead.

Dr. Satyanarayana Chava: We expect it is almost very close to the bottom. We do not expect further dip in the revenues.

Ashish Rathi: Thank you so much.

Moderator: Thank you. The next question is from the line of D.V. Bajaj from Bajaj Shares & Securities. Please go ahead.

D.V. Bajaj: Thank you for taking my call. Sir I have two questions. One is about the raw material problem from China increase in the price and solution. Some of the companies have started their molecule research so that they cannot depend on Chinese market one thing. Second thing is because Q1 increased in the 21% it will increase in the raw material as cost us and our profits have fallen almost 60% revenue. So what are the steps we are taking to have the solution for this raw material within India or other countries Sir? Second question is on the liabilities. Our total liabilities are more than 1300 Crores and if you see the profit is almost 167 Crores in a year. So how you come out with your profitability on all the plant manufacturing ANDAs and all because some places the CMO business, the customers have deferred the supplies. So how you are tackling this problem, so that our liabilities also over a period of two years, or three years has to be reduced based on our internal accrual. Please Sir.

Dr. Satyanarayana Chava: I will take on the first question, what steps you are taking on mitigating price increases of the key intermediates from China? We are able to backward integrate. Our dependency on two key intermediates, where we were 100% dependent on Chinese imports in Q4 FY18, and in Q1 FY19. We are reducing it to almost 50% in Q2 and almost close to 0% in Q3 onwards. So that was the problem and we are converting it into opportunity. Now we are very confident to get back to gross margins closer to the Q4FY18 from Q3FY19 onwards, so once we convert the problem into the opportunity we will be able to dedicate capacities, improve processes, develop cost effective starting materials in intermediates though we have to mitigate that risk significantly and it will show the results in partially in Q2 and fully in Q3. And going back to your CMO supplies question, we had orders from the customers, they had only requested us to not to make shipments in Q1. But they will continue to take products from us from Q2 onwards. On your question on liabilities, I will ask our CFO, Ravi to respond on that.

V.V. Ravi Kumar: For the liabilities if we are seeing on a debt side here we are not in amber side we have got the debt of about INR 1000 Crores and there is no repayment issue and I do not see any increase in debt, but however we have a plan to reduce the debt and we are not taking any additional loans.

D.V. Bajaj: Yes in that connection just I will highlight Ravi Kumar sir that liabilities you have to reduce based on our profitability based on internal accrual. So is there any plan for like other pharma companies they have gone for QIP or preferential issues so that liability will reduce and our plan become as just now plant 5, Unit 5 is just added value it is coming to us and other Unit 2, Unit 3.

So any plan on this side to reduce the liabilities over a period of two years or three years the scenario, please?

V.V. Ravi Kumar: Right now we do not have any plans for a QIP or any additional dilution.

D.V. Bajaj: Sir about backward integration have we started internally any molecule generation for our raw material so that we will self-sufficient as well as we may supply over a period of time to Indian company?

Dr. Satyanarayana Chava: We have many products where we are working internally and we have successfully done in the laboratory stage and scale ups will happen during this quarter. So with that not only we become self-reliant as we mentioned there is an opportunity for us to supply these two other manufactures within India.

D.V. Bajaj: Yes because some labs, I have seen they are working on the molecules on gram level also so it will be opportunity as you said. Thanks Sir this will be useful.

Moderator: Thank you. The next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: Sir I am still not able to fully able to understand and pardon me for that, you mentioned that the dependence on these two key materials, which is currently 100% on the outsourcing part, we will go down to testing that point in Q2 in line for completely nullified Q3, how it is going to happen are we manufacturing now we are going to manufactured at internally?

Dr. Satyanarayana Chava: Manufacturing is happening internally.

Nimish Mehta: So have we put up new facilities for that or just that from the existing facility we are trying to manage it?

Dr. Satyanarayana Chava: So we have not put up any further new capacity. We are using our existing capacities, modified debottlenecking for few equipments and now good thing is to do backward integration for these three intermediates, and we have not been hosting any new capex.

Nimish Mehta: So one is the Emtricitabine API where we do the backward integration, which is the other one if I may know.

Dr. Satyanarayana Chava: One is Emtricitabine and other one is Lamivudine.

Nimish Mehta: Overall what I am also trying to understand is the overall what are you seeing the situation would be, because tomorrow there might be price increase in some other intermediates also and that might also, I mean it may not be as impactful as it is for our key products I can understand that, but it is a dynamic situation so do you really feel that 1) that kind of possibility is there and 2) is

yes then what should be your overall plan how much time will it take for us to be fully backward integrated.

Dr. Satyanarayana Chava: In Short-term these are challenges, but here In the long run it is a great opportunity for Indian chemical manufacturers, so it is not that we were inefficient earlier, we never had focus, what I mean by Indian companies. So it is a great opportunity for APIs, intermediates and starting as the manufacturers and we are trying to capture that opportunity by doing aggressive process development by converting existing capacity to meet our existing demand. So in the long run it is a great opportunity.

Nimish Mehta: That I understand so I mean the question is how and what is the terms on the long run as in how much time does it take because till that time I assume that the prices will not come down and till we are able to replace it with our own materials. So that is what I am trying to understand is that a pain that will continue for a while till the time the industry or lot of being a leader in the industry take some time in kind of getting themselves backward integrated. So what is the timeframe generally?

Dr. Satyanarayana Chava: The prices from China are not going to come down to the original level, so we have taken several steps and for two intermediates, which we are going to be self-reliant from Q3 onwards. So that gap is not that big, so we took these initiatives three months back and in Q2 we are already producing some quantity, in Q3 we will produce that intermediate not only producing it that intermediate will be produced very cost effectively so our gross margin will go back to normal by Q3.

Nimish Mehta: Sir on that also because I am generally under the impression that previous prices led by Chinese manufacturers were way to below than our own cost prices. So certainly the cost price of our own manufacturing will be lower than the current prices, prevailing prices, but it will still not be back to that level where the earlier prices there were in Chinese facilities are fully functional. So when that not be or it is a complete rollback to margins may not happen is that not a right assumption?

Dr. Satyanarayana Chava: See you are absolutely right. Our target is to not to beat the current pricing and our target is to meet our original prices before the cycle of price increase started by Chinese manufacturers.

Nimish Mehta: But is it possible, because China usually dumps things so for us to really match their pricing at even with our cost it usually found difficult so is it possible to match the previous price with our own manufacturing?

Dr. Satyanarayana Chava: It is not possible to make every starting material to the every intermediate, but majority is possible, we need to have focus and scale and we have demonstrated in many cases where we are and it is not a new phenomenon we are talking.

Nimish Mehta: Thank you very much.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from Unifi Capital. Please go ahead.

Anand Bhavnani: Thank you for the opportunity. Sir you mentioned that for Aspen we manufacture three APIs and we have a lock in for three years. So how much of our total revenue comes from such contracts where we have fixed price agreement.

Dr. Satyanarayana Chava: We have a contract with Aspen. We have generated 20% of our ARV revenues coming from Aspen so that is the pricing and it is fixed for three years.

Anand Bhavnani: Sir any other revenue out of the remaining 80% where we have fixed priced quotation?

Dr. Satyanarayana Chava: No.

Anand Bhavnani: With respect to our capacity expansion you mentioned that you might undertake 250 to 300 Crores of capex am I correct?

Dr. Satyanarayana Chava: Yes that the current capex plan is INR 250 and INR 300 Crores.

Anand Bhavnani: But Sir you also mentioned that Unit 2, 4 and 6, 4 is not functioning because we are expanding and 6 we are manufacturing to it. So since we have capacities in 2, 4 and also 5 and 6 so this new capex will be in some newer areas or in existing areas and how do we reconcile the fact that we have excess capacity on one hand at the moment and we will be doing new capex on the other hand?

Dr. Satyanarayana Chava: This new capex what we are doing this year is to increase capacities of 2 products and we are building a dedicated block for our CMO partner.

Anand Bhavnani: So this will be altogether the new capacity for CMO would be altogether a new product is it?

Dr. Satyanarayana Chava: That is a new product and is also an existing customer so we have designed block and equipment's finalization is yet to happen to suite the products and frankly it is not our partner requires.

Anand Bhavnani: Sir what will be the split of this between the expansion for two products and for the new product that 300 Crores capex rough split?

Dr. Satyanarayana Chava: Two products are for ARV and rest is CMO block is for multiple products.

Anand Bhavnani: Okay and this ARV and CMO how would be the split of the 300 Crores unlike to be for ARV.

Dr. Satyanarayana Chava: Maybe in 60% to the ARV, non-ARV 40%.

Anand Bhavnani: Thanks. I will come back in the queue for additional questions.

Moderator: Thank you. The next question is from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.

Aditya Khemka: Thanks for the opportunity. On this price increase of the KSM from China, if I understand correctly any manufacturer in the world globally would source the KSM in basic materials from China and if there are price increases there ultimately all the manufacturers of API or intermediates would face this the cost inflation so when it comes to their customers, do you think it is just a matter of time before the customer gives you a price increase or do you think that because you are bound in long-term contracts, these long-term contracts hope to effective from taking such price increases or would these long-term contracts has some escalation clauses, which you can to be increased prices due to the cost pressure?

Dr. Satyanarayana Chava: We have targets to increase that we are negotiating with our partner and second, parallely what we have also done is backward integration as we are talking from the beginning of this call significant efforts and capacities were allocated to do those backward integration and mitigate both supply and price increase risks.

Aditya Khemka: Yes but pardon me for asking this but I think even though we integrate the cost of our manufacturing this would be higher than the cost of our procurement from the Chinese companies and therefore eventually you will experience cost increase whether you procure it from China or you manufacture it yourself. Is that a correct assumption?

Dr. Satyanarayana Chava: No.

Aditya Khemka: So your cost will be lower than your procurement cost of it from the Chinese companies?

Dr. Satyanarayana Chava: Absolutely yes.

Aditya Khemka: Do you think other players globally are also doing a similar strategy where they are looking to backward integrating manufacturing the key starting material or do you think they would at least ask their partners to allow price increases so that they can become viable?

Dr. Satyanarayana Chava: It is a combination of both wherever it is possible price increases are happening, it is not easy to backward integrate everything what we procure. We are doing depending on what is most important for us, which is very important for sourcing as well as for our gross margin. So we are successful in few but we are not successful in everything I can tell you.

Aditya Khemka: Fair point. Sir since our IPO we have seen a bunch of disappointments for various reasons increase in operating expenditure on the formulation side, increase in cost pressures, I think this year at least this quarter also your employee cost and SG&A cost was higher than expected. So in terms of margins then I know FY2019 will now probably be difficult, during the first half you will have cost pressures from China, but in FY2020 can you guide me to any EBITDA margin which you think you will most definitely do and you will not miss come what may?

Dr. Satyanarayana Chava: Aditya, I want to reiterate, fundamentally we have done great things in the last 18 months. We have gone through multiple regulatory inspections without any challenge. We have installed and operated the new capacities without any challenges. We have filed 13 ANDAs with FDA or we have filed same products in multiple regions. All our ANDAs are backward integrated and we have not lost any market share in our ARV APIs. We continue to increase our market share and we have invested almost INR 800 Crores into our capex and opex in the new initiatives. See our long-term plan wise, if you ask we are very happy and we are on track with our long-term planning. As we mentioned we were unable to demonstrate the growth in profitability quarter-on-quarter because we have our own strict fundamental things, we do not want to capitalize preoperative expenses. We do not want to capitalize our R&D expenditure on formulations. So we have spent INR 200 Crores of opex on our formulations business in the last 36 months. We did not capitalize in the API also. So these are the some fundamental basic commitments we have and our financial discipline was yielding these kinds of results. Otherwise we are on track to demonstrate much stronger growth in future.

Aditya Khemka: I appreciate that Sir all I am asking is that for FY2020 given that FY2019 will be a challenging year given the first half that we are expecting it to be bad, for FY2020 in your estimates if I were to sort of put an EBITDA margin for your company is there an EBITDA margin number that you have in mind which you will most definitely be able to do?

V.V. Ravi Kumar: See for FY2020 at the EBITDA margin I cannot tell the number but qualitatively again you know that for formulation earlier we were only focusing primarily on the US market but we have moved to the African market and the tender market so now we got the DLT approval and in other products also we are going to file well within FY2019 probably we will generate a more revenue in FY2020 from the formulations of this all tender business. So you will get a spurt, unlike in the developed market where you may not see a substantially in the initial years. So FY2020 in all means it will be much better and you will see the improvement in coming quarters as well.

Aditya Khemka: Actually again my question was more for to get a quantitative sense but that is okay. Lastly on the promoter family buying shares from the open market for the past couple of months, Dr. Chava was there a thought there, I mean, why are we increasing stake when we have just done an IPO and we have just diluted the stake why are we buying shares from local market to increase promoter stake in the company?

V.V. Ravi Kumar: Aditya, if you look at in the IPO side, none of the promoter group off loaded any share and Dr. Satya want to increase his stake that is the reason he acquired from the market to that extent of 1.5% in the month of I think in the last quarter April and May.

Aditya Khemka: Right, I am just asking for the reason. I understand he may not have diluted it in the IPO. My question is what is the reason for increasing stake at this point in time?

Dr. Satyanarayana Chava: I believe this is a very great price to buy so that is the reason we invested into our own stock.

Aditya Khemka: Right, Dr. Chava on the US and on the ARV formulation revenue side what visibility do you have today so what has been happening again since the last two years while we have been saying that the formulation revenues will come, it will help offset the operating deleverage that we are currently experiencing now what visibility do you have that it will materialize in the next six months or 12 months as we speak because these segments have got in stress since we initially started speaking?

Dr. Satyanarayana Chava: One thing I can tell you, our formulation business growth is not entirely dependent on US. As we mentioned our product development is global. We will continue to file more products in ARV for tender market, we continue to expand the products in Europe, we will continue expand products in Canada, we expand products in US and our market as well. So going back to your question when we will have operational leverage coming out of Unit 2 we expect definitely will be in FY20 and beyond.

Aditya Khemka: All the best Sir.

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

Prashant Nair: Most of my questions have been answered. Just I wanted to get a sense from you. Apart from integrating backward or controlling cost do you feel there is a possibility of passing on some of the raw material price increases at some point or is the competitive intensity too high to in our own products to be able to get a meaningful price adjustment?

Dr. Satyanarayana Chava: We are ready to pass on partially to some customers and our efforts to pass on more to more customers in on going, but we cannot pass on 100% that much we are very clear. We are putting our best efforts to partially pass on this to customers.

Prashant Nair: Got it that is it from my side. Thank you.

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

Ranvir Singh: Thanks for taking my question. Sir one thing on formulation side, over there we are on target actually so throughout FY2019 we are getting some three to four approvals so have you got any TAD or something for this ANDA?

Dr. Satyanarayana Chava: See we have got the target action date for the three products and two of them are already generic and one more product although we have got the target action date we are still waiting for other pediatric exclusivity to end.

Ranvir Singh: So directionally can you indicate some sort of kind of revenue hit we can expect in FY2019 from formulation?

Dr. Satyanarayana Chava: FY2019 we will get three approvals; two final approvals and one tentative approval whether the tentative approval will be converted into final or not depends on pediatric exclusivity of the product. If there is no pediatric exclusivity we will get three final approvals.

Ranvir Singh: Secondly on this Hep-C business I think last call, which was in mid-May somewhere as you said that this run rate will continue again we see that this is going down and now you say this is bottomed. So just wanted to understand that in Natco they had a plan to ramp up it in emerging markets also and of course in India we see the competition. So nothing significant is happening from Natco side in emerging market?

Dr. Satyanarayana Chava: Actually they have not released results and it is not fair on our part to talk much on the Hep-C.

Ranvir Singh: Okay fine. This other API, which you said CMO business, this API has this order has been deferred or this has been cancelled so can we expect the remaining inventories coming up in the next subsequent quarter or how they will be?

Dr. Satyanarayana Chava: We have orders, but shipments were deferred.

Ranvir Singh: So on an annualized basis our run rate should be intact?

Dr. Satyanarayana Chava: It will be intact you are right.

Ranvir Singh: If you could give some guidance on EBITDA margin for the full year?

Dr. Satyanarayana Chava: Full year, if we have next quarters which go as per plans we will be back to the normal EBITDA margins.

Ranvir Singh: So you said on Q3 you will see it normalization that is why I was a little worried, that Q2 also we will see some pressure there?

Dr. Satyanarayana Chava: No although there is some pressure but we expect to ramp up our sales as well, Q2 will also be a good quarter we expect.

Moderator: Thank you. Next question is from the line of Pranav Bhavsar from ASA Capital. Please go ahead.

Pranav Bhavsar: Good afternoon Sir. I wanted to understand a bit more on the FDF business only this run rate that we have around 5 Crores is it possible to maintain for the whole year?

Dr. Satyanarayana Chava: Yes we will be doing more than that.

Pranav Bhavsar: That is all from my side Sir. Thank you so much.

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

C. Srihari: Thanks for the opportunity. On the raw material front, I did not get the key products, which were impacted, if you could please repeat that? Secondly what was the extent if you could please quantify that I mean for instance what are the block of the raw material cost for these products in Q4 and what has been the kind of incremental cost that is on the RM side? On the ARV side, which is a critical segment for you, I think you have guided for a low double-digit kind of a growth, do you have any plans of trying to increase this by notch or two? Thank you.

Dr. Satyanarayana Chava: Yes our efforts are to improve gross margins, will certainly yield good results, partially from Q2 and fully in the Q3 and our growth in ARV will be close to 10%. I do not think we would grow beyond 10% in ARV.

C. Srihari: On the raw material front, I wanted to know were the key products which were impacted and are they penultimate stage product?

Dr. Satyanarayana Chava: We are buying an intermediate product called Emtricitabine so that is one of the products where we have challenges. We procure to meet our commitments at much higher prices because our partner needs 3 APIs for a fixed dose combination. Of the three APIs we cannot supply one and supply two, so to meet our obligations we had to procure at higher prices and that was mitigated successfully as I mentioned many times during this call.

C. Srihari: Yes and to quantify the impact would it be possible to do that let us say what was the total block in terms of cost for these intermediates in Q4?

Dr. Satyanarayana Chava: We are paying roughly 15, 16 Crores etc., for procuring raw materials in Q1. I cannot give exact number but that is the number that is the extra paid to procure raw materials.

C. Srihari: Okay fine that is helpful. Thank you.

Moderator: Thank you. The next question is from the line of Tushar M from Motilal Oswal Securities. Please go ahead.

Tushar M: Sir given the kind of lower profitability in first half of FY2019 and still if you would want to continue with the capex of 250 Crores so will the debt level remains at these level or will it increase and by how much?

V.V. Ravi Kumar: We are expecting the debt level to be in the same level and you are aware that we have taken $25 million in the month of April with that we are not increasing any debt.

Tushar M: And with this participation in the tenders for the formulation side on the ARV so will there be some amount of reduction in the API business or would it be remaining more or less same and this would be the incremental business coming from the formulations?

Dr. Satyanarayana Chava: This will be an incremental. We did not expect any cannibalization of the rates.

Tushar M: Lastly this Metformin API which geography have we started?

Dr. Satyanarayana Chava: For both Europe, US and also the Rest of the World we are providing up to 50% of our capacities from this quarter onwards.

Tushar M: Sorry I missed capacity how much?

Dr. Satyanarayana Chava: 50% of our capacity.

Tushar M: So is there any meaningful contribution in this quarter?

Dr. Satyanarayana Chava: Probably next quarter.

Tushar M: Understood. Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.

Anubhav Aggarwal: Thanks. Sir one question. I just wanted to check about fixed price contracts that you were mentioning. Why do we have existence of fixed price contract in the industry, is that the customers like that you are selling to they also have a fixed price contract when they do the ARV sales?

Dr. Satyanarayana Chava: Yes they also had a fixed priced contract for three years from the government.

Anubhav Aggarwal: Okay so unlikely this fixed price things will go away therefore.

Dr. Satyanarayana Chava: Yes.

Anubhav Aggarwal: And on the TLD opportunity when do you see revenue starting for it?

Dr. Satyanarayana Chava: On the second half of this financial year.

Anubhav Aggarwal: You already got some orders and you will get some orders now and you are talking about starting from?

Dr. Satyanarayana Chava: Yes we will get orders. We do not have orders on hand, but we are confident that we will get orders in the second half of this year.

Anubhav Aggarwal: But then it will more like quarter four like because you will get orders will take time to manufacture as well right.

Dr. Satyanarayana Chava: Yes that is the reason we are saying second half of this financial year. We are not saying a quarter.

Anubhav Aggarwal: Thank you very much.

Moderator: Thank you. The next question is from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

Nitin Gosar: I just want clarity on raw material inflation, there are two function to it one is your fixed price contract and other one is competition. The current quarter the situation you are facing it is largely pertaining to the fixed price contracts?

Dr. Satyanarayana Chava: It is mainly to the fixed price contract so we were able to pass on some of our increase is to our customers.

Nitin Gosar: Okay so apart from this fixed price contract rest of the scenario you have been able to ask for the price hikes to a certain extent?

Dr. Satyanarayana Chava: Yes you are right.

Nitin Gosar: Thank you.

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

Nitin Agarwal: Good morning Sir. Sir on the ARV business you talked about a 10% growth in this current year this is on the API side I presume, but now you believe this kind of a run rate is sustainable for the business even going forward or this is means how should we look at the ARV, API part of it going forward given the fact that we have not clear plans to scale up the formulation part of the business going forward?

Dr. Satyanarayana Chava: We are scaling up our ARV API business. As we mentioned we expect to grow closer to 10% in the ARV API and our ARV formulation sale is maybe less than half a million as of now, but that will get significantly ramped up in the second half of this year and hopefully FY2020 will be a good year for our formulations and ARVs in general.

Nitin Agarwal: And Sir this especially the growth that you will get on both API as well as the formulation side the ARV business so this is more of a market share gain that you will get or is it just a participation so I mean this is basically largely market share gain that you are talking about from existing players or you are talking about a material growth in the business opportunity the market is growing or expanding which is allowing to probably participate to get much higher share of the pie of overall?

Dr. Satyanarayana Chava: Thanks for asking that question. See our ARV API growth will be a growth where we are not snatching markets within somebody else as of now. We will continue to maintain our market share and participate in the growth of the ARV API itself and in the formulations also we expect

all these multilateral agencies which are adding more than a million new patients under treatment, there we expect to take significant share of growth.

Nitin Agarwal: So you are not necessarily sort of trying to grab market share in the current customers?

Dr. Satyanarayana Chava: Yes.

Nitin Agarwal: Sir lastly this whole chain that you talked about in terms of shift how do you have focus of formulation towards US and Europe now you are talking about the developing markets as well as tender business so what has changed in the landscape for you to change the strategy versus the focus on developed market earlier?

Dr. Satyanarayana Chava: We never said our focus is only in US market. If we look at our API business, our product development is global. We have one quality standard for all markets and that has continued to our formulation also. We develop the product and try to file across the globe when we have taken the products dossiers depending on the patent to expiry were filed in Canada, filed in Europe, filed in US, filed in Africa, filed in India and other markets as well. So our developments approach both API and formulation is global.

Nitin Agarwal: Thank you.

Moderator: Thank you. The next question is from the line of Kunal Randeria from Antique Stock Broking. Please go ahead.

Kunal Randeria: Thank you for taking my question. Just a small clarification on this China procurement so it is a cost of manufacturing in-house lower than the cost of procurement before the price increases to place?

Dr. Satyanarayana Chava: It will be closer to the price before the price increases yes but it will be cheaper to the current prices absolutely.

Kunal Randeria: Just a small one on the Hep-C business I did not quite understand you said the revenues are lower quarter-on-quarter but the profit shares are same so can you elaborate on that?

Dr. Satyanarayana Chava: Our revenue actually comes from two streams one is supply of APIs and second one is profit share. In the Q1FY19 we have supplied less APIs but we have got profits similar to Q4 FY2018.

Kunal Randeria: Thank you.

Moderator: Thank you. The next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: Most of the questions have been answered. I just missed what is the price increase that you have seen in this two products, Emtricitabine and Lamivudine, if you can just percentage price increase that would be helpful?

Dr. Satyanarayana Chava: For the intermediate the price is for as high as 80%.

Nimish Mehta: 80% between the two products.

Dr. Satyanarayana Chava: 80%.

Nimish Mehta: And this is between two quarters Q4 and Q1.

Dr. Satyanarayana Chava: Yes.

Nimish Mehta: Thank you.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from Unifi Capital. Please go ahead.

Anand Bhavnani: Thank you again. Sir with respect to capex you mentioned you did around INR800 Crores of capex in last three four years how much of this capex in the potential revenue at full capacity utilization can be generated and what is the revenue currently that we are generating?

Dr. Satyanarayana Chava: It is a difficult question to answer, but if you look at you have a gross block of INR 2000 we are generating INR 2000 of revenue gross block of asset turnover is 1:1 but more than 40% of our assets are not being yielding any revenue. So that is you can extrapolate if all assets are fully sweating then the revenue possibility is much higher.

Anand Bhavnani: Okay but across segments you would have different asset turns so what is the general ATP asset turns you expect for the business as a whole?

Dr. Satyanarayana Chava: We expect definitely around 1.5.

Anand Bhavnani: Sir this 40% capacity that is currently not being utilized how much time do you think it will take for us to utilize its business?

Dr. Satyanarayana Chava: Right now the assets, which are not yielding revenue their revenue asset turnover ratio is negligible.

Anand Bhavnani: For this 40% excess capacity that we have would it be absorbed in next two years, three years, four years what is your estimated time it will take for it?

Dr. Satyanarayana Chava: Maybe the next two financial years it will be fully utilized.

Anand Bhavnani: Sir for the fresh capex that we have are planning for FY2019, how much time would that say 300 Crores capex what is the timeline that you are expecting to get commercialized and then for capacity absorption?

Dr. Satyanarayana Chava: Part of this I would say maybe one-third of the capacity what we are putting will be fully utilized in the next financial year itself because we are doing capacity expansion of an existing product where we have customers we have our regulatory approvals so that will be fully utilized in next financial year then other maybe 40% of capacity expansion what is happening will take two years to get reasonable revenues coming out of that.

Anand Bhavnani: Okay so 70% capacity utilization by FY2021, 30% in FY2020 and 40% in FY2021 for the fresh capex?

Dr. Satyanarayana Chava: Yes.

Anand Bhavnani: Thank you.

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

Ranvir Singh: Thanks for taking my question. The internal manufacturing facility for intermediates what we are making how much capex you said would require?

Dr. Satyanarayana Chava: We have not invested any new capex to do backward integration. Debottlenecking was done for the existing capacities to meet out internal requirement. If we want to sell these intermediates to our manufacturers in India then we need to do capex that we do not want to do right now, first of all we want to mitigate our internal challenges before we embark on supplying this to other customers.

Ranvir Singh: And how long it will take actually to get into revenue stream or for internal consumption?

Dr. Satyanarayana Chava: Q3 next quarter itself.

Ranvir Singh: Okay so in Q3 that is the time, you are looking. And for FY2020 perspective where the debt level should we see?

V.V. Ravi Kumar: Similar current level only.

Ranvir Singh: Okay fine, that is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: So Sir on this three-year contracts to Aspen, where prices are locked in so Aspen has mitigated his cost push by entering into fixed price contracts with you for a long duration, so why are we bearing the risk? Why did we not lock in the key supply materials prices for three years, so in this entire tender business it seems the value chain we as API manufacturers are carrying bulk of the risk?

V.V. Ravi Kumar: Risk and reward, right. For example when we have a fixed contract there are lot of occasions where the prices have come down which we have not passed on. And I never experienced manufacturers from China have been consistent in honoring the contract, they can say that due to the regulatory constraints or environmental constraints we cannot reduce prices or supply at current prices.

Dheeresh Pathak: Okay. Sir in Emtricitabine after we take the key starting material how many stages of value ad do we do?

Dr. Satyanarayana Chava: We do two steps.

Dheeresh Pathak: That does not look like lot. Is it technologically very I mean I might be naïve in that but these two steps are very value ad?

Dr. Satyanarayana Chava: There is valuation. There is complexity in those two-steps probably. Before that there are only three steps, so total Emtricitabine is basically five steps earlier we used to buy intermediate and then do two more steps but now we are doing everything all five steps we are doing in-house.

Dheeresh Pathak: Okay. Lamivudine after taking the KSM how many steps do we do?

Dr. Satyanarayana Chava: Same similar. These are just similar compounds. Three steps we will buy intermediate and we will do two steps in-house. So that are also we are backward integrating, so these two very similar chemistries so these two will do fully backward integrated from Q3 onwards.

Dheeresh Pathak: Sir globally like in EFV we have 60% world market share and in Emtricitabine and Lamivudine what market share do we have?

Dr. Satyanarayana Chava: Currently Lamivudine is zero and Emtricitabine may be over 30%.

Dheeresh Pathak: 30% global market share.

Dr. Satyanarayana Chava: Yes.

Dheeresh Pathak: Okay and the key starting material for Emtricitabine is not unique to Emtricitabine. It is a common building block that goes into various APIs right?

Dr. Satyanarayana Chava: One is somewhat unique. It goes into three API, on starting material but that also where, that will not be done in Q3 but over a period of next nine to twelve months we will not be depending on any imports.

Dheeresh Pathak: Sir you said 2000 Crore gross block, 40% not generating revenues so 800 Crores last call I remember you had said 600 Crores assets not generating so what is the 200 Crore extra that we have added?

V.V. Ravi Kumar: It is same. There is nothing being added.

Dheeresh Pathak: So what is the number? Is it 600-800 what assets are not generating any revenue right now?

V.V. Ravi Kumar: If you calculate, Lamivudine and unit V then the number of INR 800 crore is correct.

Dr. Satyanarayana Chava: So Lamivudine also we have invested significant amount but is not yielding any revenue which is in Unit I which is fully operational.

Dheeresh Pathak: Can you just give me a summary of this 800 Crores like which units how much is where and what are the used?

V.V. Ravi Kumar: Unit 2, Unit 4, Unit 6 and Unit V. In Unit V we are generating to the extent of our fixed cost so the profit is not being earned there.

Dheeresh Pathak: What does Unit V make?

V.V. Ravi Kumar: Unit V is a dedicated block for Aspen, Netherlands.

Dheeresh Pathak: But earlier at the time of IPO you had said that Aspen deals is very profitable you get depreciation plus 25% mark up why are we not getting profits?

V.V. Ravi Kumar: Absolutely right, we are doing validations only. It was inaugurated about a year back.

Dheeresh Pathak: What does Unit 2 make or is supposed to make?

Dr. Satyanarayana Chava: Unit 2 makes Metformin API and formulations.

Dheeresh Pathak: So you are already supplying Metformin, you said 50% utilization why are you saying not generating revenues?

V.V. Ravi Kumar: We will. Metformin APIs will be manufacturing this quarter.

Dr. Satyanarayana Chava: Starting this quarter. We have not done anything last quarter.

Dheeresh Pathak: Okay. What does Unit 4 make?

Dr. Satyanarayana Chava: Unit 4 was inaugurated in November last year and it is for natural extraction as well as a high potent API, which we are actually been manufacturing to one customer.

Dheeresh Pathak: High potent API and that you will start supplying now?

Dr. Satyanarayana Chava: Means we want further DMFs, still validations are completed we are yet to file DMF.

Dheeresh Pathak: Okay. What does Unit 6 make?

Dr. Satyanarayana Chava: Just backward integration for our APIs in-house.

Dheeresh Pathak: So that anyway will not generate revenues that will add to cost reduction right?

Dr. Satyanarayana Chava: Yes.

Dheeresh Pathak: Thank you.

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

Charulata Gaidhani: Yes, my question pertains to the FDA approvals that you expect by when do you expect to start supplies?

Dr. Satyanarayana Chava: We expect 2 approvals in the Q3 and we expect to start supplying for one product in Q3 for another one in Q4.

Charulata Gaidhani: So you expect approvals in Q3?

Dr. Satyanarayana Chava: Yes.

Charulata Gaidhani: And supplies to start in Q4?

Dr. Satyanarayana Chava: Q3 and Q4, yes.

Charulata Gaidhani: Okay. The increase in other expenses it is mainly because of the fixed cost of the assets or what are the main components?

V.V. Ravi Kumar: Yes, power, fuel, maintenance etc.

Charulata Gaidhani: Okay so how much as power and fuel gone up by?

V.V. Ravi Kumar: Not very significant.

Charulata Gaidhani: Okay, but other expenses have gone up 23% right Y-o-Y?

V.V. Ravi Kumar: We will share the details offline with you.

Charulata Gaidhani: Okay. My second question pertains to the oncology APIs. It seems to be stable around INR 440 million is there a possibility of scaling up beyond that?

Dr. Satyanarayana Chava: Our assets are capable of producing more so our new assets of oncology were inaugurated only in February this year, so once the production ramps up we have a much bigger potential to increase sales in oncology APIs.

Charulata Gaidhani: Okay. And what are the marketing efforts that we are taking?

Dr. Satyanarayana Chava: We are not adding any new customers, I can tell you. In oncology we were producing new products to the existing customers and increasing the sales of our existing products.

Charulata Gaidhani: Thank you.

Moderator: Thank you. Due to time constraints we will take one last question from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Thanks for taking the question again. Sir on capex, I mean, how are you thinking about incremental capacity investments over the next say two years barring beyond FY2019 because we have been in a phase of constantly doing something or the other by way of backward integration on your product lines so how are we looking at our sort of investments on a capex investments on two years from here on?

Dr. Satyanarayana Chava: We expect it to be closer to INR 200 to 250 Crores per year.

Nitin Agarwal: Sir what would this be towards, maintenance or you would be looking to add some new blocks or something else?

Dr. Satyanarayana Chava: We are taking the capex to increase capacities.

Nitin Agarwal: Okay and what will drive these Sir incremental capacity additions? What is your thought process is that going to still because I think the amount of capex that we doing for the business the cash of business throwing up I think there is some sort of mismatch will be there right or you expect to get even out by next year?

Dr. Satyanarayana Chava: I did not get the question, what term you are using mismatch you mean revenue generation versus capex?

Nitin Agarwal: No Sir the free cash flow in terms of you are ready to invest that INR 250 Crore from accruals you think you will be able to get that level by next year?

V.V. Ravi Kumar: On cash flow front we are not expecting any additional cash to be taken from the loans, so with internal accruals if you look it our depreciation is also high we can manage with our cash profits.

Nitin Agarwal: Okay Sir, this 250-300 Crores essentially is like an incremental capacity expansion sort of a capex, which we should pencil it annually going forward?

Dr. Satyanarayana Chava: We will continue to do capex because see our capex to ARVs, I do not think we do a significant in FY2020 onwards but we have to increase our product basket in non-ARV that will definitely need more capex so our majority capex from FY2020 onwards will be for other than ARVs.

Nitin Agarwal: Okay Sir got it. Sir lastly on the ARV business per se over the year Sir on a gross margin basis how have you seen trends in terms of profitability of the business? Have you seen the profitability of the business coming up bit under pressure or it has been sort of where it was over the last three to five years?

Dr. Satyanarayana Chava: If you look at our gross margin actually went up except to Q1 this year. We will get back to good gross margins in Q3 onwards. As and when we start increasing our revenue share from synthesis and our sales ramp up in formulation happens our gross margins will definitely improve because our formulation business gives us out of our internal API so gross margins definitely more than API gross margins.

Nitin Agarwal: So Sir what I mean is on the ARV API side what has been your experience with the trends in the gross margin of the business?

Dr. Satyanarayana Chava: Still steady.

Nitin Agarwal: Okay, you have not seen any barring this quarter in the past seen any sort of drift down of profitability in this segment?

Dr. Satyanarayana Chava: No.

Nitin Agarwal: Thank you.

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

Dr. Satyanarayana Chava: Thanks everyone for participating on this call despite this call being on the weekend. We would like to reiterate that this was one-off the quarter where we had challenges on multiple fronts and we hope to bounce back from Q2 onwards and the Q3 onwards we expect to be on track with our gross margins and profitability's. Thank you.

Moderator: Thank you. On behalf of Kotak Securities, that concludes this conference. Thank you all for joining us. You may now disconnect your lines. Thank you.