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Sub: Transcript of Investor Conference Call for Unichem Laboratories Limited for Q4 FY16 Results

Ref: BSE Scrip Code: 506690 : NSE Symbol – UNICHEMLAB

Dear Sir,

Please find attached the transcript of Investor Conference call organized on 23rd May, 2016 on the audited financial results for the quarter and year ended March 31, 2016 for your information and records.

Please take the above on record.

For UNICHEM LABORATORIES LIMITED


SHALINI KAMATH

Sr. Manager – Secretarial & Insurance

Encl. : As above

Unichem Laboratories Limited Q4 & FY16 Earnings Conference Call, May 23, 2016

Moderator: Good day ladies and gentlemen, welcome to the Unichem Laboratories Limited Q4 FY2016 earnings conference call hosted by Systematix Shares and Stocks. 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 would now like to hand the conference over to Mr. Dinesh Bajaj. Thank you and over to you Sir!

Dinesh Bajaj: Welcome all to the Q4 and FY2016 conference call of Unichem Lab. From the management, we have Mr. B.S. Dhingra – Chief Executive Domestic Pharma, Mr. Rakesh Parikh – VP Finance and CFO and Mr. Monish Shah – Manager Investor Relations. I would first like to request the management to take us through the quarterly numbers, post that we can proceed with the question and answer session.

Rakesh Parikh: Thank you Dinesh. Good afternoon ladies and gentlemen and welcome to the conference call. We had our board meeting on Friday to consider the audited consolidated as well as standalone accounts for the quarter ended March 31 as well as for the full year. I am sure you would have received the Investor Release, which was sent, and you would have a chance to go through it. I will quickly take you through some of the highlights of the standalone as well as consolidated numbers for the year and quarter and also on some of our international operations, post that I will hand it over to Mr. Dhingra for the domestic update for this quarter and year.

For the year ended March 31, 2016 total Income from Operations stood at Rs. 1222 Crores, which was up about 12%. EBITDA came in at Rs. 142 Crores, which was up 40%, and the margins also increased to about little more than 11.5% up around 2% from last year in line with what we have been guiding and we hope to continue this trend in the coming years.

As far as the consolidated numbers are concerned for the full year Income from Operations was up by 11% at Rs. 1335 Crores and EBITDA stood at Rs. 164 Crores, higher by around 62%. Net profit before exceptional item was about Rs. 111 Crores. In terms of the quarter the Income from Operations were at Rs. 301.5 Crores growing ~18% on a YoY basis. The net profit was Rs. 28.2 Crores and here I would like to mention one thing on the taxation part, though the company continues to be in MAT, the rate of MAT has increased to more than 21% in the last year's budget and the company has paid the same. The tax was on the negative side for the quarter primarily because of the deferred tax, which was significantly



lower and was also reversed from the earlier quarters, primarily because of the capitalization which was postponed capitalization at Goa. The significant expansion which is coming up at Goa was not capitalized as on March 2016 and will be now capitalized in the first quarter of FY17, as a result of which the deferred tax which was provided earlier had to be reversed. And on the R&D side, capitalization of the Bio pilot plant was deferred. As a result of which the deferred tax for the quarter turned out to be negative. For the year also it was lower, because the earlier provisions were far more in excess of what was required with the revised schedule II depreciation coming in, as a result of which it was negative.

In terms of our international operations and our subsidiaries, US subsidiary continues to show a robust growth. The total number of ANDAs approved now stands at 20 and cumulative DMFs stands at 46. The US subsidiary continued the growth for the year clocking more than 30%, which it has continued for the last few years, and it has reported a profit. It continues to report a profit after tax, which for the year was \$1.2 million. With these highlights, I would now request Mr. Dhingra to brief you on the domestic formulations business.

B.S. Dhingra:

Thank you Mr. Parikh. Good evening ladies and gentlemen. It is indeed a pleasure to interact with you all. In Q4 FY16 domestic business recorded sales of Rs. 171.25 Crores as against Rs. 146.22 crores last year and thus showing growth of around 17%. Even on annualized basis if you see that domestic business has done a sale of Rs. 742.92 Crores as against Rs. 650.95 Crores thus a cumulative growth of around 14%. As you know the domestic business continued to contribute around 61% to the overall Unichem business on standalone basis and going forward we are looking to see that how we continue to do this double-digit growth traction in domestic business.

As I have shared already with you that in last few years we have taken lot of initiatives which have started giving a positive results. The three clusters what we have made CVD, C&D and Acute businesses all have shown a very positive traction last year and the CVD business has started showing real buoyancy for the business.

The other thing was the productivity of the people and you know that we have been struggling; productivity which was less than Rs.2 lakhs we have moved more than Rs.2 lakhs and we have shown a healthy growth of around 15% plus in productivity of people. With this I concluded my opening remarks, I would request the moderator to open the line Q&A. Thank you.

Moderator:

Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund.



Sudarshan P: I would like to understand, going forward the first quarter and second quarter given three things happening in the domestic market the fixed dosage combination coming under scanner and also additional NLEM as well as the negative WPI impacting us. Can you elaborate what are kind of products will additionally under scanner and what is the kind of impact that we expect?

B.S. Dhingra: When it comes to fixed dose combination almost 2% to 2.5% of our products has come under that and when it comes to NLEM currently less than 20% portfolio including the latest NLEM comes into that scanner. So I think that is going to be the reality for the industry not only for Unichem and we need to work out our strategy to see that how we continue to grow better in the marketplace knowing NLEM and FDCs is going to come from regulators. We have plans in mind on how to inject new products because in Unichem we have lot of scope to introduce many new products across verticals. So we are working on that plan so that we are not much impacted and getting diluted through these initiatives.

Sudarshan P: Sir what I want to understand is what is the delta, the additional sales that has come and getting impacted?

B.S. Dhingra: From FDCs

Sudarshan P: Yes, from FDCs vis-à-vis the previous year if you can quantify the sales amount?

B.S. Dhingra: It was around 2.5% on the overall domestic portfolio.

Sudarshan P: That is about Rs. 15 Crores. Sir my second question is on the US business. I guess you had mentioned on the transcript that three of the facilities have received EIR. In terms of can you throw some light on ANDAs and what kind of launches that we can look at and what is the kind of filing rate also one can look at going forward?

Rakesh Parikh: Currently, we have 20 approved products as of March 16 end. Subsequent to that there are couple of filings which will be filed in the Q1 FY17 and we are looking to see whether we can maintain a rate of one or two filings every quarter resulting to 6 to 8 which would be an increase compared to what we did last year. Now out of the 20 products which have been approved out of the 36 ANDAs filings made, we have launched already 14 products and another two products are expected to be launched in the first quarter and may be one or two more in the second quarter.

As far as the filings are concerned, we have explained earlier also that this is out of the old products, and we have launched these products to create a critical mass or a base and having done that there are around 5 to 10 products out of that basket which are still pending to be filed, and we hope to file during the current year. And R&D work has already started on more niche /high value products. Recently, we were successful in getting one Para IV

approval. And that was more to test the water and it is quite likely that based on the feedback what we have and looking at our risk profile and resources availability, if opportunity arises we are seriously evaluating whether we can go for more.

So US is one of our major focus area and the growth rate what we have seen is being maintained. We hope that it will be maintained with another 16 approvals still pending and our Goa expansion plan is also almost through. I think that we are reasonably confident of maintaining this kind of a growth rate as far as the US business is concerned.

Sudarshan P: Any escalation in R&D spend we can expect Sir?

Rakesh Parikh: Right now we have been trying to curtail the R&D spends. I mean though the activities were increased and the number of people have increased If you see in the current year the expenditures have not increased because we have tried to increase the productivity more by the effective use of the R&D chemicals and materials and personnel; it remains between 4% and 5% and if opportunities arise we are willing to go even from 5% to 6% of the total turnover. But yes the plans are there and if anything succeeds then the company will not hesitate to invest in R&D.

Sudarshan P: One final question from my side. Sir can you throw some light on the profitability of niche generics you are not seeing any kind of visible uptick on the profitability yet?

Rakesh Parikh: Last year was disappointing year as far as Niche Generics is concerned. It began with EU commission case and diversion of managerial time and expenses, it also happened because of two other factors; one internal, one external.

External - change of the models in tender business which has now become very prevalent in West Europe, which is the strong market of Niche.

Internal - the products which are approved were US has shown good traction resulting in conflict. So obviously US was given higher focus as against Niche Generics. And in terms of the supply side equation, with the expansion of Goa plant coming through in this month, definitely the company is expected to have significantly higher capacity available, which would enable it to service Niche and along with better scheduling and material planning.

As a result of which in the last quarter Niche has broken even at the operating level. And even at the current month it is very close to breakeven and we are hopeful that once this is maintained then we will look at launching the new products. Which we have launched US and which can be launched for Niche as well, and also participate in the tender businesses, which will help Niche to further gain traction and turn profitable.

Sudarshan P: Thanks for that. I am joining back the queue.



- Moderator:** Thank you. The next question is from the line of Chellappa Sivaguru from Pari Washington. Please go ahead.
- Chellappa Sivaguru:** Could you breakup the domestic revenue in terms of what was due to volume growth, what was due to price and what was due to new products?
- B.S. Dhingra:** It comes to ~7% to 7.5% due to price and similar percentage of volume in which we consider volume through new products.
- Chellappa Sivaguru:** That is fine. Thank you. What is the total number of employees you have and then could you give a breakup of the number of medical representatives and scientists you have?
- B.S. Dhingra:** When it come to medical representatives they are relevant more to domestic business. We have almost 2500 plus people working across 11 verticals and Rakesh will give you the number of scientist.
- Rakesh Parikh:** Scientists are more than 250 and the total staff strength including all plants including the marketing people and the support function comes to something like 5600 plus.
- Chellappa Sivaguru:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Rashmi Sancheti from SBI CAP Securities. Please go ahead.
- Rashmi Sancheti:** This year how much CMO as contract manufacturing business contributed to the export formulation?
- Rakesh Parikh:** Roughly the contractual business is slightly over 10% of the total company standalone turnover.
- Rashmi Sancheti:** So that means that it is still flat right compared to last year.
- Rakesh Parikh:** Yes, in terms of percentages it is flat last time also it was slightly above 10%.
- Rashmi Sancheti:** What about the growth like whether it is growing?
- Rakesh Parikh:** What is happening is there are two issues. One is that we look at it from the profitability side though there are no other expenses definitely the profitability can be limited. The second is the capacity, with the growth coming from US and which is expected to grow more because of the new approvals. We are discussing with the existing companies as well as with the couple of new parties also but till our new capacities come up we are not planning to aggressively increase the contractual business. We will review after the second



quarter or so once the new capacity comes up and how we are able to shape up and then we will take the negotiations further to have growth for the next year if at all.

Rashmi Sancheti: What is the capex guidance for FY2017 and 2018?

Rakesh Parikh: Current year we are looking at around Rs. 150 to 200 Crores of capex which may get spilled over to FY2018 also. Primarily our API unit is coming up, that is one of the major capital expenditure, which is there.

Rashmi Sancheti: Can you just give the breakup like which all facilities spread basically the capex spread across the facilities?

Rakesh Parikh: For 2017?

Rashmi Sancheti: Yes, for 2017 like you said 150 to 200 Crores?

Rakesh Parikh: What happens is that I am not including the capital work-in-progress in the capex expenditure made but i am referring to the funds spent and not on capitalization in books. If you see that then the major capex is going to come from our new API facility. The work out there is going on in full swing. As far as Goa plant is concerned though it will be commissioned in this quarter, significant amount of capital expenditure was incurred last year and the same is the case with our biosciences pilot plant.

The other expenditure is more or less maintenance and debottlenecking happening at out plants other than the new API facility which is coming which will take the bulk of the Rs. 150 Crores for the next year.

Rashmi Sancheti: So API plant which one you are talking about Kolhapur.

Rakesh Parikh: Yes, in Maharashtra near Kolhapur is the facility.

Rashmi Sancheti: Sir this quarter your gross margins have improved but your other operating cost has gone up. So will this increase in the coming quarter or will it get reduced like what is the outlook on your operating margin for FY2017 and FY2018? This year on consolidated basis the operating margins stands at around 12%. So can we expect 100 BPS, 150 BPS expansions in the coming year because of the reduction in the operating cost or it will continue to increase?

Rakesh Parikh: What you are saying is right. That is what we are aiming for, and what we have seen in the current year as I have mentioned that the increase has come and we are hoping to see that improvement continues. Though it may not be due to reduction in the operating expenses but it will more be more out of the much better profitable product mix and increase in sales which will drive the increase in margins. That leverage and delta effect will start showing in



how we have seen in the US business and India formulation has helped in the gross margin level also.

Rashmi Sancheti: So you mean to say that the gross margins will improve but your operating cost will continue to

Rakesh Parikh: The topline itself will improve with a double-digit growth. We expect that to continue with the US business and the India formulation driving it and the delta effect of that will come because the increase in expenditure is expected to be lower than top line.

Rashmi Sancheti: So but with so many challenges in domestic business do you think that domestic business will continue to show 13%, 14% kind of growth for next year because this last two to three quarters the growth was high due to low base in last corresponding year. So like do you think that with these challenges going ahead domestic business will still show more than 12%, 13% kind of growth?

B.S. Dhingra: I am happy that as an investor you understand our challenges. As I have told you that when it comes to FDCs the delta effect is around 2.5% and NLEM less than 20%. So when it comes to price growth which is currently around 7% may not see a gain of the same amount in coming year. But I am looking at how we can work on volume improvement. As I said in beginning remarks also that our per man productivity has crossed Rs. 2 lakhs. So the challenge is that of increasing volumes with the existing and the new product in various verticals and how we can increase the overall per man productivity and I think at this base the way we have restructured the business it is quite possible.

Rashmi Sancheti: Thanks. That is, it from my side.

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

Rahul Sharma: Sir just wanted to know the incremental impact on account of NLEM 2015, which has come for Unichem?

B.S. Dhingra: The impact is not much because when we look at our MRP they were not significantly higher as compare to the NLEM price.

Rahul Sharma: So there is no major impact on account of that. There is no impact.

B.S. Dhingra: Yes.

Rakesh Parikh: Negligible as well and very few products were there.



- Rahul Sharma:** I just wanted to know on the audit notes to accounts which are there, there has been a note which tells there is a diminution in the value of investments in Brazil from 4 Crores to 23 Crores. Now have we provided the same in the books and where it is provided?
- Rakesh Parikh:** Yes, it has been provided in the books and that is why the note is there. As per the new accounting standards and the auditing standards there have been lot of changes which have effected. So auditors are supposed to emphasize on certain key parts which SEBI is also asking us to report. The note has gone along with the SEBI result and the same is included in other expenses. As far as the annual report, it will be reported separately in line with the Company's Act required.
- Rahul Sharma:** Is it provided in consolidated and standalone or it is only in consolidated where it is provided.
- Rakesh Parikh:** It is not in consolidated results, because what happens is that as per the accounting standards the investment on one side and the diminution in provision is asset and a liability which gets knocked off being intracompany adjustments. So in consolidated it does not come and that is why the gap has reversed between the standalone and consolidated.
- Rahul Sharma:** So in other expenses it is basically provided.
- Rakesh Parikh:** In the standalone company yes.
- Rahul Sharma:** In the standalone you are saying?
- Rakesh Parikh:** That is right yes.
- Rahul Sharma:** The amount is to the tune of 17, 18 Crores?
- Rakesh Parikh:** It is ~Rs. 22.7 crores which has been mentioned.
- Rahul Sharma:** 22.78 Crores?
- Rakesh Parikh:** That is right.
- Rahul Sharma:** So the entire amount but it is additional because previous it was 4.34 Crores so it will be additional or it will the entire amount?
- Rakesh Parikh:** It was additional last year it was immediately prior accounting year ended on March 31, 2015 because I think some Rs. 4 odd Crores that has now become some Rs. 22 odd Crores.
- Rahul Sharma:** So you will have Rs. 22 to 23 Crores which is taken in other expenses.



- Rakesh Parikh:** That is right yes.
- Rahul Sharma:** It is an extraordinary event, which has happened?
- Rakesh Parikh:** It is an extraordinary because of the accounting standards norms and as Unichem prefers to follow very conservative accounting policy. So we thought it is best till Brazil really starts showing profits till that extent it is better to be conservative and provide on the lines of what the accounting standards required.
- Rahul Sharma:** It has come in the standalone quarter numbers or for the full year numbers?
- Rakesh Parikh:** In both it would have come.
- Rahul Sharma:** To that extent it is impacting and another thing was on the Euro 13.97 million notes which is there it is basically for perindopril?
- Rakesh Parikh:** That is there for the consolidated accounts matter has been emphasis.
- Rahul Sharma:** What is the status of the same?
- Rakesh Parikh:** The hearing has still not come. Now we have been told that it is likely that it may come up for hearing in October. So right now there is status quo and that note was there even I think last year.
- Rahul Sharma:** Normally at what level is it now?
- Rakesh Parikh:** We have preferred to go through judicial route and as far as that notice is concerned, they keep on asking some questions which we have been answering. But we are all waiting because the matter is now with the court and the hearing is not taken place yet and we were informed that it may come up in October.
- Rahul Sharma:** Any timelines you are looking at?
- Rakesh Parikh:** Normally the lawyer says that it can easily take a few years. Nevertheless, let the hearing start then we will come to know. So firstly we have to see whether in October the hearing comes up or not and after that also they typically it goes on for a couple of years.
- Rahul Sharma:** Thank you Sir. I will join the queue.
- Moderator:** Thank you. The next question is from the line of C Srihari from PCS. Please go ahead.
- C Srihari:** Two questions mainly; number one what are the key products you plan to manufacture at the Kolhapur facility? Secondly we notice that you are pretty aggressive on the DMF filing

front so what is the extent of 4 lakhs which you are end up filing and what is the key opportunities you look forward in the next two years in this space? Thank you.

Rakesh Parikh: Hari, I will answer your second question first. As far as our US strategy is concerned, from the cost competition point of view, we are backward integrated and that's why we are putting up the new plant, which of course will take a couple of years to start and then go for approvals. But it pre supposes is that most of our ANDAs or ~90% of them are backed by our own DMFs. And as a result of this the DMF is the precursor to what the filings are going to happen and we have seen a increase in DMF this year compared to the earlier couple of years and so that is likely to be followed by a higher ANDA filings. In fact in the first quarter the target is to file to is 2-3 ANDAs and see to it that, that kind of a rate is maintained for the rest of the year and DMF will ultimately help us and most of the DMFs are done keeping the ANDA in mind only. So we are not typically planning to be aggressive in selling the DMF for their products.

Coming to the new facility which is coming up, just to recapitulate we have two API capacity one at Roha in Maharashtra and one at Pithampur in Madhya Pradesh both these have US FDA approval and Roha plant was recently recertified the EIR received. The new unit at Kolhapur of course is a long way away, it will take at least a few quarters before the plant commences and again we will be going in phases and then after that we have to see for the USFDA approval. So we are going to make it in such a way that we are able to reschedule and realign our products between the two US FDA approved facilities and the other new facility which is coming up. So that whatever we need to sustain our US growth will be coming in from the US FDA approved plants and wherever required variation will be filed and this will be taken up for the other products and also little bit on the domestic side, or where it is required for the regulated market, where we can get the approval faster.

C Sri Hari: Any new products that you have earmarked for this unit?

Rakesh Parikh: We are looking at new products but we do not give that kind of information but as I said it is still a couple of quarters away before the plant starts.

C Sri Hari: Thank you.

Moderator: Thank you. The next question is from the line of Ashish Rathi from Infina Finance. Please go ahead.

Ashish Rathi: Just wanted to clarity this Rs. 22 Crores again is it sitting in the other expenses for the standalone so it is a Rs. 106 Crores numbers this quarter has to be reduced by Rs. 22 Crores on a recurring basis?



- Rakesh Parikh:** No the annual number you will have to see it; the Rs. 22 Crores is an annual expenses provided.
- Ashish Rathi:** But all the hit has come in this quarter only or was it spread over quarter?
- Rakesh Parikh:** No it was the spread but it is much more skewed towards the current quarter.
- Ashish Rathi:** How much is in the current quarter?
- Rakesh Parikh:** We will take your question offline.
- Ashish Rathi:** More in which quarter, quarter three or quarter four?
- Rakesh Parikh:** The maximum amount has come in the quarter four because we go on evaluating it and then they see the performance and accordingly that has been worked out if you want we can discuss it offline once I have the details then we can go through it.
- Ashish Rathi:** Because the margin reported for the quarter is around 10.4% EBITDA margin if I just take the reported number, what is that the adjusted rating number would be?
- Rakesh Parikh:** Rs. 22 Crores is for the full year and not only for the fourth quarter.
- Ashish Rathi:** If you could explain the tax rate and the negative tax this quarter what is the assumption if you take?
- Rakesh Parikh:** As per the accounting standards the taxation is to be done on a projected basis as to what you expect for the year. Now what has happened is that we were expecting the capitalization of our Goa facility where we have spent more than Rs. 120 Crores, the actual capitalization will happen during the first quarter based on the commercial production. We also have a Bio pilot plant which is coming up, because of which the deferred tax was to come, but, because of the capitalization which was anticipated for the current year got totally reversed and also what happened was that in the new schedule which came last year for the depreciation which has to be provided based on the useful lines where there was an increase in the amount and that is how the depreciation went up for most of the companies including ours. As a result of which once the actual depreciation goes up in the books then there is not much difference between income tax and book depreciation and therefore the deferred tax in the latter periods becomes negative same like the effect which has come in the current year. Going forward the MAT rate, which is more than 21.34%, is expected to remain the same. We expect to remain under MAT because of our facility at Sikkim for India business and R&D. At the same time deferred tax can keep varying and with this year's capitalization of Goa and the Bio plant coming in and if Kohlapur also comes up then it will be significantly higher. But if it does not come up then it will be slightly lower, so it



is expected that another 2%, 3% could be the deferred tax, 2%, 3% as a percentage through profit before tax.

Ashish Rathi: On the US business any update on Abilify? Have you heard anything from the last FDA last?

Rakesh Parikh: Nothing right now.

Ashish Rathi: Any turnover base like have come in from their side for anything?

Rakesh Parikh: They do not give that kind of data.

Ashish Rathi: Anything spending from our side in terms of query or response to the FDA for that for the Abilify?

Rakesh Parikh: No, what had come we had already replied.

Ashish Rathi: When was this last applied?

Rakesh Parikh: Little more than two months ago.

Ashish Rathi: Thank you. I will join back the queue.

Moderator: Thank you. We will take the next question from the line of Charulata Negandhi from Dalal and Broacha. Please go ahead.

Charulata Negandhi: Congrats! on the good set of numbers. My query was relating to debt. There is an increase in debt can you give me the details of what is the cost of debt involved?

Rakesh Parikh: Sorry, when you say debt in which particular debt you are talking about?

Charulata Negandhi: Consolidated debts, long-term borrowings.

Rakesh Parikh: Long-term borrowings?

Charulata Negandhi: Yes.

Rakesh Parikh: See that is basically the borrowing, were there earlier year also. There is some increase because of the working capital lines which are for subsidiaries and these are for little more than a one-year tenure and that is why it has to be classified as a long-term borrowing, it is primarily to meet their working capital requirements.

Charulata Negandhi: What is the cost of debt involved?



- Rakesh Parikh:** It has linked to the Euribor it is a Euro currency so typically around few hundred basis points over the Euribor.
- Charulata Negandhi:** The second question is relating to the capacity utilization. How much is your capacity utilization excluding the new plant at Goa?
- Rakesh Parikh:** Goa's extended capacities are yet to start. You are talking of all the facilities put together?
- Charulata Negandhi:** Yes.
- Rakesh Parikh:** It's around 60% to 70% and it all depends on what is the product mix. The plants in APIs are all multiproducts so depending on which product you manufacturer it becomes very difficult to say exactly in terms of percentages but you can roughly say that it is about 60% to 70%. But if you look at it from the other angle looking at the market demand from the you can say for the products where we have to utilize the kind of plants which we have mentioned in our filings capacity will be almost even 90% plus.
- Charulata Negandhi:** I also wanted to reconfirm the NLEM in December announced certain CNS products coming into price control so do you have any products which are impacted because of that?
- B. S. Dhingra:** As I said Charulata that there are around five to six products, and they were primarily into the CNS basket. Our sales from this are not very high in that vertical and therefore impact is negligible because the total business of that vertical is around Rs. 30 Crores and the impact is around Rs. 2.5Crores.
- Charulata Negandhi:** Thank you.
- Moderator:** Thank you. The next question is from the line of C Sri Hari from PCS Securities. Please go ahead.
- C Sri Hari:** I wanted to know little about the biosimilars pilot plant that you are setting up. Can you please give some details regarding the products that you will take the manufacture in the market, which you are targeting?
- Rakesh Parikh:** We had started the biosciences R&D facility sometime back at Goa and based on certain hopeful leads and as a result of which we have gone for the scale up based on the findings of the research. And hence, it was necessary to put up a pilot plant and typically there are different categories of products on which we are working, singly as well as collaborative projects with some government agencies and these include certain products on the anti-diabetic side and MABs which are of the non-cancer variety. So these products are ultimately targeted for the regulated markets but we have to see how things go forward once the scale up happens then we will be taking a final call as to how we go ahead as far as biosimilars are concerned.



- C Sri Hari:** So to begin with it will targeted to the emerging markets.
- Rakesh Parikh:** Not necessary because depending on how the scale up happens we may even prefer to go to the regulated markets
- C Sri Hari:** So would it be contingent that if a few of the products succeed then your R&D project would shoot up significantly?
- Rakesh Parikh:** Yes, but then how do we plan to go ahead is to be seen. It is not only the R&D budget but it is the manufacturing also, because we do not have any manufacturing facility for Bio. This would be in a next stage so that is why the entire plan has to be worked out in terms of quality in terms of the costing and pricing.
- C Sri Hari:** So is there a possibility of something like a JV down the line, if the costs involved are humongous?
- Rakesh Parikh:** It can be explored, depending on what we have to lay on the table and what we can find across.
- C Sri Hari:** Thank you.
- Moderator:** Thank you. The next question is from the line of Ranveer Singh from Systematic Shares and Stocks. Please go ahead.
- Ranveer Singh:** Thanks for taking my question. Sir on Brazil how many products currently we are commercializing?
- Rakesh Parikh:** Right now we have two products for which the approvals are there and which are marketed are generic products. Our plants are already approved by ANVISA and we have put up a quality center and a lab in Brazil, which is also approved by ANVISA. And that is why there is some expenditure base which has been build up in the subsidiary, but very recently we have received couple of approvals for which we are finalizing the plans and we hope to launch in around the second quarter. The outcome of those would determine the future course.
- Ranveer Singh:** Understood, but I think last quarter you indicated for the two approvals one is currently commercialized so therefore I just wanted to confirm that still we are commercializing one or we have added more product there?
- Rakesh Parikh:** No, we already have two products which are commercialized. The approvals are pending commercialization, which we plan to get in the second quarter.
- Ranveer Singh:** Approvals are pending for commercialization you are saying?



- Rakesh Parikh:** Approvals have already come. There are two more approvals, which we have received which we plan to commercialize now. So, that will take it to four products two old and two current one, which we have got approvals.
- Ranveer Singh:** In US business if we include proportionately the R&D expenditure there then at the bottomline we are breaking even or still we are not breaking even?
- Rakesh Parikh:** On a consolidated level at current revenues around 30 million USD post the entire write off R&D expenditure we are short of breaking even .
- Ranveer Singh:** So going forward any timeframe we have in mind when we will on consolidated basis?
- Rakesh Parikh:** The recent product mix and the profitability and the new launches which we are planning next year itself we aim to breakeven after R&D as against right now recovering part of the R&D cost after absorbing all other costs.
- Ranveer Singh:** In niche generics how many products are currently commercialized?
- Rakesh Parikh:** Niche generics should be having almost around 15 plus products.
- Ranveer Singh:** In last year in Q4 we had certain one-off expenditure so just can you help me recall what was there? EBITDA margin was very low as in other expenditure there from one-off item I believe?
- Rakesh Parikh:** That would be more in the nature of what you are saying that time the inspection noise was very high, people were getting lot of issues with FDA and all our plants were more than three years.. So, we wanted to do lot of changes in the system in terms of the regulatory expenditures and lay down certain new systems. Plus certain consultants were also employed to ensure that we do not suffer because US was going to be one of our major focus area and as a result of which there were lot of expenditure at plant in terms of repairs, maintenance, regulatory, optimal of the system, renewal of the systems etc.
- Ranveer Singh:** Domestic divisions we use to report PREGABA group revenues that is not reflecting now so this has been merged to some other group or this has still there but revenue is not enough to report in our revenue?
- B. S. Dhingra:** You are talking about the covered markets page #8.
- Ranveer Singh:** Yes.
- B. S. Dhingra:** On page #8 the Unichem brand price is Rs. 25 crores, growth is 35% against the market growth of 74%.



- Ranveer Singh:** That is, it from my side Sir. Thank you.
- Moderator:** Thank you. As there are no further questions I would now like to hand the conference over to Mr. Dinesh Bajaj for his closing comments.
- Dinesh Bajaj:** On behalf of Systematix, I would like to thank the management of Unichem Labs for the valuable time. A big thank you to all the participants' as well. Thank you everyone.
- B. S. Dhingra:** Thank you.
- Rakesh Parikh:** Thank you, very much.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Systematix Shares and Stocks that concludes this conference. Thank you for joining us. You may now disconnect your lines.