dishman

2nd January, 2020

To,	To,
Department of Corporate Services **BSE Ltd.** Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001.	**The Manager,** **Listing Department,** **National Stock Exchange of India Ltd.** "Exchange Plaza", C-1, Block G, Bandra-Kurla Complex, Bandra (E), Mumbai – 400 051.
Ref.: Scrip Code No. : 540701	**Ref. : (i) Symbol – DCAL** **(ii) Series – EQ**

SUB: TRANSCRIPT OF CONFERENCE CALL - TO DISCUSS BUSINESS UPDATES EARNING CALLS

Dear Sir,

With reference to captioned subject, please find enclosed herewith transcript of conference call arranged by the Company with Investors, on Thursday, 26th December, 2019 to discuss business updates.

Kindly take the same on your record.

Thanking You,

Yours faithfully,
For, Dishman Carbogen Amcis Limited

S. A. Dave

Shrima Dave
Company Secretary

Dishman Carbogen Amcis Ltd. Ahmedabad

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Dishman Carbogen Amcis Limited

Earnings Conference Call Transcript

Event Date/Time: December 26, 2019/16:30 HRS (IST)

Dishman Carbogen Amcis Limited - Conference Call

CORPORATE PARTICIPANTS

MANAGEMENT:

MR. JR VYAS
CHAIRMAN, DISHMAN CARBOGEN AMCIS LIMITED

MR. ARPIT VYAS
GLOBAL MANAGING DIRECTOR, DISHMAN CARBOGEN AMCIS LIMITED

MR. HARSHIL DALAL
GLOBAL CHIEF FINANCIAL OFFICER, DISHMAN CARBOGEN AMCIS LIMITED

MODERATOR:

MR. RAHUL ARORA, NIRMAL BANG EQUITIES PRIVATE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Dishman Carbogen Amcis Limited Conference Call hosted by Nirmal Bang Equities Private Limited. This conference call is only for institutional investors, not for any media or broking firms. 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr Rahul Arora. Thank you and over to you sir.

Rahul Arora: A very warm welcome to all the participants on this call. Special thanks to Mr Arpit Vyas – Global Managing Director at Dishman and Mr. Harshil Dalal – the Global Chief Financial Officer at Dishman for taking this call.

The reason for this call of course is that there has been a lot of focus on the Dishman's stocks and the way the prices move, so we thought it will be better for the management to connect with institutional investors, and to give their perspective on how business is shaping up, and what is their outlook for 2020. I would like to hand over the call to Arpit to make his opening comments and subsequent to that we can open the call for the question and answers. Once again, I would like to reiterate that if there are any people from the broking community or media on, this is restricted call just for the institutional investor, so would kindly request you to log off. I would like to wish all the participants from the call a very Happy New Year in advance and with that Arpit, I hand it over to you.

Arpit Vyas: Thank you Rahul and thank you all for joining this call. We will keep the opening remarks as short as possible so that we can jump directly into the Q&A. To address the current issue, we are not allowed to speak much about it . We have cooperated with the authorities, we have provided all the information that was required by the authorities. It is important for all of you to know that ethics is topmost priority for us. So the current scenario is an opportunity to showcase the kind of transparency that we follow internally. All processes are system driven, most of the documents are online. We have a target of becoming paperless by December 2020. This should allow you to imagine the level of transparency we desire to follow internally and externally as well as and when required.

Regarding the recent events, as mentioned, we are not allowed to say much because it has just been concluded and we must wait for the report. But we can say that no material impact is foreseen by us, so that is good news. All operations are ongoing, every activity is on track as planned & discussed in the previous calls. We still foresee a growth even in this tough market. The molecules that we have been working on are going along smoothly. The speed of the clinical trials has slowed down because of the current scare or fear of recession and uncertainties of US, China and Brexit**.** We are not seeing any impact in the money flow, so new work is also being requested and inquired about and the business outlook is looking robust. As of now, the number of molecules that we have in late Phase-3 are the same amount. We will possibly find out in the next fiscal year of few more getting into Phase-3 and from Phase-3 going into launch. We are all excited about that transition to happen and we hope that it happens successfully. I would like to hand over the call to our CFO, Mr. Harshil Dalal, to say a few words and then we can move on with the Q&A.

Harshil Dalal: Thank you very much Arpit bhai. Thank you everybody for joining on this call at a very short notice. I think this call was important just to make sure that everybody understands that the business of the company remains unaffected. There is no impact on any function of the company and the business is bound to do fantastically well over the next 3 to 4 years' time. As Mr. Arpit has mentioned, we are extremely excited about the molecules that we have in late Phase-3 and because of the new capacity additions that we have done and that we expect to keep on working on the new chemical entities and see more molecules getting into Phase-3 and eventually into commercial manufacturing. So overall as far as our guidance is concerned, nothing changes. We just wanted to addressany kind of fears or concerns that the investors might have. The tax search went on extremely smooth. There was a deep bonding between the tax officials and the team. I can vouch for that. All the information was provided as per the requirements of the income tax officials. The findings were discussed, all supporting documents have also been provided. Hence we believe that there should not be any material impact on the business of the company because of this tax search.

JR Vyas: Good afternoon everybody. I am heading the entire production and R&D in Bavla and Naroda. Since 2015, I have been handling the Research and Production and my team has jointly helped me in developing very interesting range of products. My target is to launch them in 2020. To give you a specific example, we are now the largest producers of vitamin D3 in the world. You can witness the plant at Bavla. In 2020, the market for vitamin D3 products is likely to be at $2.3 billion. I can assure you that the visit of I-T was very cooperative. As Arpit has said, we are becoming paperless and if one asks for 5 years of sales purchased data, can deliver it within 10 minutes. That is where we have reached in terms of openness and the truthfulness. You are most welcome to come and join me in Bavla or on phone call. Thanks and I pass on to Harshil.

Harshil Dalal: Thank you very much Vyas sir.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Rahul Veera. Please go ahead.

Rahul Veera: Sir, just wanted to understand, has there been any opinion taken from our internal auditors?

Arpit Vyas: Regarding what?

Rahul Arora: Regarding these recent events, have the internal auditors or we have taken any opinion from them? What would be the possible outcomes?

Arpit Vyas: I think our team was involved in the search directly, so I think we can give a calculated assumption of how from the chain of events that took place and the question and answers that took place.

Moderator: Thank you. The next question is from the line of Ashish Rathi from Lucky Investment Managers. Please go ahead.

Ashish Rathi: Sir, I want to understand what could have possibly led to this search?

Arpit Vyas: I think that would just be assumption and speculative, but yes it could be anything from a distressed or disgruntled past employees or some service providers who could have made complaints showing association with us and having a credibility of having knowledge of what the company is doing and not doing.

Ashish Rathi: So can you please elaborate on the goodwill accounting?

Arpit Vyas: We are following the procedure as per the law and there is no kind of foul play in that.

Harshil Dalal: On the goodwill part, as we have mentioned earlier, there are decisions in our favour of the goodwill recognition and the write off. We have already consulted our tax experts and we have done our due diligence before recognizing the goodwill and asking for a write off. Next year onwards, because of the new tax regime, tax outflow for us effectively becomes 0 in the current scenario, so we don't see any issues on that front.

Ashish Rathi: So just correct me if I am wrong Harshil, 22 odd crores is the amortization every quarter, so 88 crores per annum. But are we supposed to test for impairment every year instead of the amortization? Is that one of the contentions?

Harshil Dalal: See every year we do an impairment testing of all the investments that we have at a standalone level in our subsidiaries, so that does get tested for impairment. Since all subsidiaries are profit making and paying dividends to the parent, we don't see any issues as far as the impairment testing is concerned. Hence the value of the goodwill should also not get impacted. So since 88 crores of the goodwill is getting amortized each year and 4 years have already passed, we have written off 360 crores. Aprox. 1000 crores of goodwill is currently standing on the book, so that is quite justified with the kind of business growth potential. A proper valuation has been done for this goodwill, not just by our subtraction of the value of the assets minus the purchase consideration but also by valuing the intangible assets in the company.

Arpit Vyas: And also by revaluing the assets of the investments that the company had made substantial time ago, so for example, the acquisition of Carbogen Amcis which was in the books of accounts of the company at 20 million that was revalued at around 250-260 odd million, right Harshil bhai?

Harshil Dalal: Yes, on a conservative basis that is the kind of valuation that has been put in.

Ashish Rathi: And secondly if you could just help us understand on the debt side. CRAM companies in India of larger size, someone like Dishman are generally debt free companies. We have a substantial debt of around 800 odd crores plus, this has been one of the concerns to the investors. What is the approach we are taking towards that going forward? Considering that we are assuming to receive a significant cash flow chunk from the molecule like Niraparib, how do we see the debt level going ahead?

Rahul Arora: Harshil bhai you can mention on the cost of debt. So once you know the cost of debt, the question would be that why you use your own money if the money which is available in the market is cheaper?

Harshil Dalal: If you see on a gross debt basis, our debt numbers seem higher, but then we also have investments on the asset side which makes our net debt number close to about 800 crores. This is not just for the CAPEX , but it also includes the debt for the working capital. Since almost 98% of our revenue comes from export, it makes sense to have the borrowing in foreign currency and almost all of 800 crores borrowing is in foreign currency. Today there is a negative interest rate scenario everywhere in the European market and interest rates falling in the US market, hence the cost of debt is extremely cheap for us. That is one of the reasons why the interest cost is lower and we would still have this amount of debt plus the liquid investments that we have on the asset side. In our industry, there could be other companies calling themselves CRAMS company but our entire business model is based upon the development and manufacturing of new chemical entity, which is definitely CAPEX oriented. We need to keep on investing on new capacities for development of new products. As and when they get into late Phase-3 and commercial, we have to set up the plants for manufacturing them because there is always the lead time from the time you set up a particular plant to getting it validated and then getting it into manufacturing, so the CAPEX more or less has to be fund ended and stands the revenues and profitability would start flowing in.

Harshil Dalal: Our net debt to EBITDA, we would be at not more than 1.5.

Ashish Rathi: We are comfortable with 1.5 ratio or we intend to reduce?

Harshil Dalal: And over the last two years, our dividend payout ratio has not been high because most of the free cash flow generated has actually gone towards the repayment of the debt. Even though debt is not high, as a prudent practice we have been paying off the tax. As of 30th September, our debt number is at about 113 million as compared to about 120 million as of March 2019.

Ashish Rathi: Last question if I may, just if you could give us guidance again and especially on Niraparib?

Arpit Vyas: For Niraparib, we are still awaiting, since post the Tesaro acquisition by GSK, we do not have any information. We have recently got in contact with the new management and we are establishing what is the future of this product. We understand from our own analysis that it seems there is a lot of stock which is going to be used in the current year and the next year for the ongoing clinical trials. This is the gestation period after the approval of a molecule which is always seen. After an approval an uptake in the revenue is not seen immediately. There will be a gestation period because the stock building would have been done tremendously by the company to cater to the phase 4 clinical trials. We do not foresee any order of Niraparib till the time the current stock gets over.

Ashish Rathi: And overall guidance sir for the company?

Arpit Vyas: The overall guidance is what we maintain. We maintain the 8 to 10% growth. Yes, it is conservative, but this is what we like to offer to be on the safer side and the try is always to over achieve it but this 8 to 10% is something that we are confident of achieving as a new business as well rather than the commercialization of the ongoing business because the commercialization will happen as it happens and then the uptake will be seen but that we would not like to put that into our growth guidance.

Moderator: Thank you. Next question is from the line of Ravi Sundaram from Sundaram Family and Investment. Please go ahead.

Ravi Sundaram: This is a follow-up question from what the previous participant asked. I think goodwill of about 1300 crores is what resulted when we merged Carbogen Amcis and we have been amortizing about 88 crores every year. Are we looking at writing it off completely, considering the qualifications or I-T searches?

Harshil Dalal: The I-T search would not impact the treatment of this goodwill because there has been a solid basis for the recognition of the goodwill. The amortization of the goodwill is based upon the taxation loss and the adjustments, so that would remain as it is. As far as accelerated depreciation of the goodwill is concerned, that is something that we would have to think whether the accounting standards would permit us and if required we could do that in the future. But as of now the thumb rule would be about 88 crores of annual depreciation of the goodwill.

Ravi Sundaram: So given the run rate I think this was likely to go until 2030, so we are sticking to that for now unless we have change instance, is that correct?

Harshil Dalal: Yes, that is correct.

Ravi Sundaram: My second question is about the guidance. We have been following this company for a few years now. I think that we have been achieving 8 to 10% growth, so what would take us to probably grow 20-25% in the next 2-3 years?

Arpit Vyas: Technically and ideally, in the ongoing business, the work that we have done thus far should be responsible for achieving that guidance. As mentioned earlier, we don't like to put success of a molecule into the growth guidance because it has a long gestation period and also a possibility of failure even after it has been launched. We have seen two such failures already in the past 5 years. But because we are a service company and we get paid on milestone basis, it is of no financial impact. So even if the molecule does not qualify or fails post the launch in phase 4, we as a company would have generated a lot of revenue for bringing them to up to that level. In fact our largest margin business is when we supply product for Phase-3.

Ravi Sundaram: Couple of more questions, I think even in our Q2 concall, we had mentioned that next year as well we are likely to have a CAPEX of around 35 million, I know there is not much CAPEX lined up for Asia meaning India and China, more for I think France and the Switzerland entities, so we are sticking to that 35 million CAPEX sir?

Harshil Dalal: That is the normal shutdown CAPEX. That has got nothing to do with the capital expense per se as investment for facility expansions or anything like that. This is just incremental CAPEX which the group will have to incur year-on-year basis because as the equipment gets old, maintenance increases and we have to comply for the regulatory authorities. This CAPEX is for a pharmaceutical industry which is to always be compliant and above compliance even, this CAPEX needs to be made on year-on-year basis.

Ravi Sundaram: Last question from my side, usually the second half for us is a bit better than the first half, I think that happened even last year as well, any seasonal reason for?

Harshil Dalal: No seasonal reasons per se, it is all customer driven. When customer wants the product, they would place an order, so sometimes it is in the first half, sometimes it is in the second half, but there is no seasonal trend.

Moderator: Thank you. Next question is from the line of Sudhir Kedia from Principal Mutual Fund. Please go ahead.

Sudhir Kedia: My question is related with I-T raids, can you give us some understanding that did you receive any notices or any demand prior to this raid and was this raid related to any particular year or in general?

Harshil Dalal: We didn't receive any prior notice. As it happens in a normal case, we just received it on the day of the search. Typically during the search, usually they would want to check records for the last 6 to 10 years' time and that is what was discussed and was provided to the I-T officials.

Sudhir Kedia: So they had the doubts for any particular year of accounts or there are some basis to it, right?

Arpit Vyas: No, there was not any kind of doubt for any specific year. As per the new law, they can reopen or look at the data of the last 10 years.

Sudhir Kedia: So, this raid came without any basis for it, right? There is no specific reason to which you can assign this raid?

Arpit Vyas: Yes, as we see it, you are right. There was no notice, there was no demand and just normal ongoing litigations which usually happened, apart from that nothing more, nothing less.

Harshil Dalal: That is absolutely right, as we mentioned earlier, as there was no specific reason. Our duty was to cooperate with whatever information that they required.

Sudhir Kedia: And this lasted for 4 days, right?

Harshil Dalal: No, this lasted for 7 days, so we kept on providing whatever information that they required, they had follow-up questions, we answered those questions and then it got concluded yesterday.

Sudhir Kedia: And you would have no idea about what was their suspicion right, even after 7 days of raid?

Arpit Vyas: There was a question and answer session which was taking place on various points. There was even question and answers taking place on how do we achieve the transfer pricing? There is a transfer pricing litigation which is ongoing. We have one litigation and being put into the TTNM method in transfer pricing. So even looking at the cost price of our products that we manufacture, there are more than 15 million transactions of internal departments on our ERP system which were essentially verified. So you can imagine that it takes time to first understand and evaluate where we run on SAP . But SAP is not something that they can run outside the premises and hence to get information from SAP and to ensure that they had everything that they wish and not have any problems in generating a report later on, they had spent this much time to understand, evaluate the procedure of the business.

Harshil Dalal: Yes, that was exactly what had happened, so all the data, everything was analyzed, questions raised, etc., from all the possible topics that you can think of, and all of the questions were answered satisfactorily with all the requisite evidences and as Arpit has mentioned, they have already taken the backup of all the data that we have provided.

Arpit Vyas: The data backup in itself took almost 6 days, so without the data backup being completed I don't think there was an intention to leave anyways.

Harshil Dalal: Possibly this could have been done faster but because there is a huge repository of the data, it took so long. We as mentioned earlier, everything is online.

Sudhir Kedia: And by when you are expected to get a report from them?

Arpit Vyas: We won't be getting a report from them, it would be just an internal thing, so they won't make a report of all their findings, then submit to the assessing officer who would be doing the assessments for the respective years.

Sudhir Kedia: My question is related to how much time will it take to come out clean from department?

Arpit Vyas: There is nothing specific to come out clean from in this exercise. It is like an exercise which has been done, whatever are their findings they give to the assessing officer and then that becomes thought of our normal assessment. Apart from whatever points that they would have mentioned, there could be points that are existing on our past assessments. This would get added to those assessments or if certain things have been resolved, this would be taken out from the assessment.

Sudhir Kedia: And you also mentioned that there is some litigation on the transfer pricing, can you just elaborate that?

Harshil Dalal: In the normal tax parlance, the assessing officer does the assessment, if the assessing officer does not to agree to certain things, we have a chance to appeal with the commissioner of income tax. In most of the cases we would win at the commissioner of income tax appeals, if not at the tribunal level. Then it becomes the duty of the income tax officer to go to the next level to appeal against the case that we have won. So in the transfer pricing litigation that Arpit bhai mentioned, we have already won at the CIT or at the tribunal level but then it becomes the duty of the income tax officials to appeal in the next level, so that is the normal process.

Sudhir Kedia: And how big is this litigation for?

Harshil Dalal: These are pertaining to the routine matter, so there are like lot of sales purchase transactions between India and Overseas. As India does lot of manufacturing for the Swiss entity, also for the Netherlands entity, there are also goods that are sold by India to Dishman Europe through the subsidiary, etc. So in all of these matters, we have already won in all of the litigations up till now because these are all pertaining to the routine sales and purchase pricing methodology for evaluating the transfer pricing.

Arpit Vyas: If I give you an example, for instance, there is a case where we have provided 1 kg sample for let us say $1000 to the customer, post that there was an approval of the product and hence we got order of a larger quantity, hypothetically of 10 metric tonnes. But of course that 10 metric tonnes would not be at $1000 per tonne, it would be at $100 because that is the commercial price. But the department would not see it that way, the department would say that you have sold it for $1000, but you are claiming only $100. We have won on this argument. For us it is all open, it is all transparent, everything is in the public domain and of public knowledge of what subsidiary, the profit that each subsidiary is making, so it is very clear. The department would see a possible income tax revenue loss where they can go up to the Supreme Court till they are guided by the Supreme Court otherwise.

Harshil Dalal: There is no motivation for us to transfer the profit overseas**.** The jurisdictions in which our subsidiaries and the parent operate, the parent is taxed at 20% in Switzerland, in Netherland at 25%, in UK at 19%. We have explained this to the tax officials and we have made enough representations and won at different level.

Sudhir Kedia: And sir, regarding vitamin D3, you mentioned that you are now the largest producer of D3, could you elaborate how this business can scale up over the next 3-4 years and what would be the margins?

Arpit Vyas: I think we are aware of the ongoing vitamin D crisis , especially in the South East Asia part where we spent most of our times away from sunlight and hence we become vitamin D deficient. So more research is happening on what is the larger impact of vitamin D deficiency, rather than just commonly known facts.

We are focusing on the vitamin D products and its analogues which are highly efficient and high on efficacy better than the current D3. We are doing clinical trials for the same and for different indications as well. The vitamin D business an exciting business for us, it is new and it is a natural transition. Our own product line in formulation is s new for us, so we are constantly strategizing on it. It is difficult for us to make any assumptions in terms of how much market we will capture, but we are above the other manufacturers in terms of quality and capacity, that is for certain.

Sudhir Kedia: No, based on your existing capacity and your plans, what kind of sales will you generate in the next 3-5 years and what kind of margins it can generate, because the opportunity is large so we are not concerned with the opportunity as such, right?

Harshil Dalal: Correct, we are not going to flood the market, it is little bit more complex for vitamin D because if the market is flooded then the price drops or the price variation is massive. So we focus on the niche, so vitamin D analogue combined with vitamin D3 and that on consumption, how better it is in terms of efficacy and availability in the body, etc. We could see a substantial growth but it will take its own course.

Sudhir Kedia: So basically projection of sales is difficult for you to convey right now.

Arpit Vyas: Yes, because it is a new venture for us you can say.

Sudhir Kedia: And how much investment you will be doing in this area?

Arpit Vyas: Not more than 5 million.

Sudhir Kedia: Over what period?

Arpit Vyas: I think 50% of it is already done.

Harshil Dalal: Between this year and Q1 of next year.

Moderator: Thank you. Next question is from the line of Chirag Dagli from HDFC Asset Management. Please go ahead.

Chirag Dagli: Harshil, can you just repeat the taxation numbers, you said India tax is at 20%?

Harshil Dalal: Yes, India right now we are under MAT, so the cash outflow on the tax fund is 20%, Switzerland is again 20%, Netherland 25% and UK is 19%.

Chirag Dagli: Other promoter owned entities, have they also gone through similar I-T search?

Harshil Dalal: No.

Arpit Vyas: No.

Harshil Dalal: We have a robust transfer pricing documentation that has been placed. The goods and services get transferred at Arm's Length as per the OECD BEPS norms.

Chirag Dagli: The sense I am getting sir is that largely the I-T raid was around the transfer pricing question and certainly not around the goodwill amortization?

Arpit Vyas: That is a very clear understanding.

Chirag Dagli: And sir, in FY19, our CAPEX of 300 crores was spent on?

Harshil Dalal: So the 300 crores is the rupee denominated figure but as such we incurred a CAPEX of close to about $ 35 million. The major component of the CAPEX that was incurred on was the new building in Switzerland. There was lot of modification & renovation expenditure that was spent on that building, so the total CAPEX that has been done on that building is about 20 million. We incurred CAPEX in India, on the vitamin D soft gel capsules manufacturing plant.

Chirag Dagli: How much was the CAPEX on the vitamin D formulation?

Harshil Dalal: Till now we have done about 2.5 million and the third would be the maintenance CAPEX which as we have been saying across all the plants put together that comes to about 15 to 17 million.

Chirag Dagli: And sir, in terms of formulations, would we have to go through approvals etc., for these products and which markets? How do we intent to distribute these products?

Harshil Dalal: All the required approvals for pharmaceutical product which need to be taken in India and for outside is an ongoing procedure. By next year we should be done with all the approvals, which the common market first to target would be US, especially for an approval driven purpose and then we are talking about eventually the rest of the globe as well.

Chirag Dagli: How much will we need to spend on the US dossiers etc?

Harshil Dalal: The dossier, the molecule per se is old, this is not a new molecule, this molecule has been launched for different indications as well. So it is not going to be like a clinical trial from scratch or spending millions and millions for getting a dossier. A single filing for US, it would be for the entire country , cost around half a million dollars for filing the product, I assumeI have to check the numbers, but this is the kind of formulation filings.

Chirag Dagli: And just the last bit on this, currently this Vitamin D business is 40% EBITDA margin business for us?

Harshil Dalal: Yes

Chirag Dagli: So are these margins sustainable and what happens when you scale up formulations?

Harshil Dalal: So these margins at the current rate of what we manufacture are seen to be sustainable. It is because we are not spreading the market and we are focusing on contracts done with our clients. So the clients wont falling victim to the fluctuating prices. But eventually in the next 2-3-4-5 years, if we don't forward integrate or do some diversification, the uptick of the Netherlands business and including India for this particular segment is not going to be possible.

Chirag Dagli: We have enough API for our formulation efforts?

Harshil Dalal: Yes. We are manufacturers of the API. We also hold a DMFs.

Chirag Dagli: So we can also sell to third parties as well as do our own formulation may we have enough capacity?

Harshil Dalal: So that is the whole plan. So we do contract manufacturing of the formulations as well as for our product for particular indication that we would have researched in. We would not flood the market that already exist.

Chirag Dagli: Right. And in the past, you shared in your late stage molecules there are 15 to 16 of the Phase-3 molecules. Does this number still hold sir?

Harshil Dalal: Yes. These are some in early Phase-3. Some have jumped from early Phase-3 to late Phase-3. So validation activities are ongoing in Switzerland as well as India. As of now the validation is taking place between India and Switzerland at least for 4 molecules

Chirag Dagli: And all these will be launched or can be scaled up in India or are there some other?

Harshil Dalal: So there is mix and match of both. One of the products is of high volume which post launch if everything goes well, will have to come to India from Switzerland.

Chirag Dagli: Okay. And in the past you mentioned half of this pipeline is Oncology. That also still stays?

Harshil Dalal: Yes.

Moderator: Thank you. The next question is from the line of Nisarg Vekharia from Lucky Investment Managers. Please go ahead.

Nisarg Vekharia: Is the gross block on our books as of now approximately 2000 odd crores?

Harshil Dalal: Yes.

Nisarg Vekharia: And the utilization is about 50%-60%?

Arpit Vyas: No. If you see the fixed asset turnover ratio, that for us right now comes at about 0.9.

Nisarg Vekharia: So gross block turnover ratio you are referring to, right, before Ind-AS adjustment?

Arpit Vyas: Exactly.

Nisarg Vekharia: We are at what level of utilization?

Arpit Vyas: See, utilization differs from plant to plant. For example in Switzerland, as you know and we have been stating earlier, we were at almost 95% capacity utilization and currently we are about 85%-87% utilization already. So after the addition of the new building in Switzerland, Bavla plant would be at a utilization level of about 65% to 70%. China would be close to about 20%-25%. It is because we currently just manufacture the intermediates and as we have more molecules getting into Phase-3 and then into commercial then will improve the utilization levels there. Netherlands is at about 60% utilization and Manchester would be about 75% to 80%.

Nisarg Vekharia: If I heard Arpit correctly, you said that $35 million is the routine CAPEX that we need to do every year to replace the old plant and machinery, is that right?

Arpit Vyas: Not replace old plant and machines, but for maintenance activity. See, it improves the maintenance as well as certain amount of growth CAPEX as well. Like for example in Switzerland the new building that we acquired required modification. So on an annual basis the maintenance CAPEX would be say close to about 17 million to 18 million so to say.

Nisarg Vekharia: Yes, that makes sense because that is about 5% of your gross block. I thought $35 million is very high.

Arpit Vyas: Yes.

Arpit Vyas: Also, just to mention that the 2000 crores is a misleading number to calculate for the gross block because that also includes completely non transactional and notional FOREX impact because of the dollar-rupee of almost 500 crores.

Nisarg Vekharia: Okay, that makes sense. Do you think that at some point of time because we have access to cheap low cost funds, at sometimes it leads to capital misallocation because capital is a very dangerous and seductive animal? Because if you are able to get money at 3%-4%, then you will invest that capital even when you see a 12%-13% ROI business. But if capital is difficult to you, then you will make sure that your ROI is at least 20%-25%. What are your thoughts on this?

Arpit Vyas: So if you take out the amortization impact, and look at few years from the past till what we have achieved today, standalone and consolidated, the CAGR would be around the number that you mentioned.

Harshil Dalal: See, if you calculate our ROE, ROCE, we would be at about 15%-16% on a normalized basis without impact of the goodwill amortization etc. This should keep on improving going forward, because of better utilization of the assets and as we have more share of the niche molecule, making a larger part of the revenue. So with both of these activities coming, we should see a gradual increase in the ROE, ROCE ratios.

Nisarg Vekharia: Harshil, 15% is the ROE that a pure API company does in India. There is no CRAMS company that does 15% ROI. I am just telling you that the minimum ROI, if you look at, let us say even Suven Life Sciences, Suven Life Sciences does a core ROI of 30% to 35%. That is the beauty of CRAMS, right? So 15% is API ROI, it is not CRAMS ROI.

Harshil Dalal: That is on a consolidated basis.

Arpit Vyas: So what you have to also understand is the cost base with which we are operating and the kind of molecules, number of molecules, number of customers that we are working on. If you consider just the India business, we would be also at a much higher level. But then you also have to take into consideration the development facilities that we have in Switzerland and also the employee cost that we incur in Switzerland. So with the kind of niche molecules that we are working on, this kind of ROE is not bad. Having said that, our goal is definitely to improve upon it going forward.

Nisarg Vekharia: So if you look at it as Harshil said of each subsidiaries of the respective countries, we are achieving possibly close to the best margin in the respective countries looking at the cost base. So if India you look at, in India the minimum is 35% and we have gone up to 60% as well. In Netherlands, now since the new strategy we are achieving almost 35% to 40% of margin. In Switzerland, which is the highest cost base, where the majority of the talent is, is we are having almost 22%, anywhere between 19% to 22% which is par beyond any other CRAMS company that would follow the same criteria. So on a consolidated basis the number look subdued because in Switzerland if you see that more than 50% of the cost is on manpower.

Harshil Dalal: Right. You won't find any other CRAMS company with as many as 500 molecules under development with close to about 18 molecules in late Phase-3, I think that is the highest number that you would find across any other CRAMS company and that requires lot of investment on the development capacity.

Arpit Vyas: Essentially it means that of the 18 molecules, of course not all are going to launch, yes, we hope that all launch, but to be practical it is not going to be possible that all launch, but you can say that for the companies who are getting these molecules developed, they are forcing a minimum of a billion dollar revenue post launch out of the product. So of course the API component of it is extremely small. But you are looking at a potential tangible \$18 billion pipeline waiting to see the next phase for the economy. \$18 billion economy of the globe which is right now within this group. So that if you make that collection then it would make more sense of what kind of work is happening.

Moderator: Thank you. The next question is from the line of Chirag Dagli from HDFC Asset Management. Please go ahead.

Chirag Dagli: You said sales guidance of 8%-10%, this is FY20-21 or this is like more near term kind of number?

Harshil Dalal: This is the number we always mention in our communication because that is something that we are confident of.

Arpit Vyas: So this is the number that we mention taking into consideration as already mentioned without any molecules going from development to commercial and whatever the additional offside might be. So taking into consideration even the worst case scenarios, we believe that 8% to 10% is an achievable number.

Chirag Dagli: Okay. And is there a margin guidance that you want to share with us?

Harshil Dalal: So I think currently we are at about 27%. So that is something that we definitely want to achieve and improve up on. So our goal is to move towards the 30% in the next 3 years to 5 years' time. And with the kind of molecules that we have and with higher share of Oncology molecules coming to the fore, we believe that kind of number should get achievable in the next 3 years to 5 years.

Chirag Dagli: Okay sir. And the last question sir, of the 18 molecules that are in Phase-3, how many of these are advanced drug conjugates?

Harshil Dalal: Two.

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

Tushar Bohra: Arpit, just very quickly want to understand, when we say that moving the pipeline from CRAMS business overseas to India, right, that was the philosophy when we acquired Carbogen Amcis, it has seen I think about 10 years now. Where are we in that journey, like when do we start to see the India business become much bigger that say so that it pulls the overall ROE higher. Do you expect that in the next 2-3 years we can see that?

Arpit Vyas: That is already been happening. So the two molecules Tushar that I say that has post launching means as in going into phase-4 and then phase were transferred to India, two other molecules were transferred to India. One molecule which comes in Amcis is doing the hypo steps and India is doing non hypo steps. That was the first successful tech transfer that was done. So that is already ongoing. But not all the molecules from Switzerland will come to India because they have their own assets, they have their own manufacturing capabilities and some customer require European base and for whatever they can manufacture in terms of catering to their quantity, Switzerland would make, India would also be qualified making it eventually even for smaller molecules, making it a risk mitigation exercise of the molecule for the customer. And so, that this an ongoing activity.

Tushar Bohra: Okay, great. Couple of points as a follow up to what was mentioned on the call. One is, you said that your Phase-3 molecules are the most lucrative in terms of the margin and in terms of the opportunity, right?

Arpit Vyas: Correct.

Tushar Bohra: So I would presume for us to track the company, let us say for the next 18 months to 24 months' forward perspective, what would be important would be how many molecules are going from Phase-2 likely into Phase-3 and of course how many would get commercialized which is more from a headline news item perspective that the company is realizing and some molecules have gone into development. So if you can just help us with the number on these two points specifically, how many of your late Phase-2 projects are going to Phase-3, say over the next 12 months to 15 months and how many of the Phase-3 opportunities which are late Phase-3 we expect for them to get into development side over the next 12 months to 15 months?

Harshil Dalal: Phase-2 to Phase-3 calculation is a little difficult to do because that is the highest fallout ratio. But as a thumb rule calculation of not our company per se, but as a general new molecule development thumb rule calculation, out of every 1000 molecules in Phase-1 will have one molecule with a possible launch. This is the ratio that the world follows, that the general trend follows. For our company because we pick and choose, we have that number from every 1000 molecules to I think 4 or 5.

Tushar Bohra: Okay. So let us say the 500 odd projects that we have in development right now, how many of these would be Phase-2 totally, what percentage or what ballpark?

Harshil Dalal: It is a mix. Let us say out of the 500 there would be, majority, the higher number because it is a smaller work, but it needs to be done quickly would be in pre-clinical and Phase-1 which would be around 40% to 50%, at the bear minimum and I think rest 20% to 30% would be for Phase-2 activity and the rest percentage would be just general fact finding activity as that we provide for as a service of let us say impurity, development or regulatory submissions of the molecules etc. Everything is chargeable by us to the customers. But that for us in terms of booking is considered to be relevant to the molecule in its particular phase.

Tushar Bohra: Just trying to understand from valuations and the options available to management's perspective, what are some of the things you guys could be looking at. Are we looking at any kind of strategic investor in the company or any kind of an activity to help benchmark the valuation for Dishman because it is much lower compared let us say the capabilities that we have, which as you said are probably best in class?

Harshil Dalal: That is for you all to realize and then believe and then invest. How is the person coming in the company help do that?

Tushar Bohra: As in, do you have any strategic investment, are you looking at any kind of strategic sale in Dishman or any kind of…?

Arpit Vyas: No. We are looking at probability of, we are evaluating ESOPs and things like that, but apart from that nothing else.

Tushar Bohra: Okay. There is one point that Harshil mentioned that, the tax could become zero, if I am not mistaken from starting next year under the new system. If you could just help explain that little bit more?

Harshil Dalal: So, right now, we have a tax laws as per the tax accounts because of the goodwill amortization which happens as per the tax laws at 25% on written down value basis. So effectively as per the tax laws there is no tax payable by us, however, what the provision has done prior to the announcement in June 2019, the provision was in relation to the minimum alternate tax which was at 20%. So our effective tax outflow up till the last financial year and part of this financial year was the minimum alternate tax at 20% in India. There was the cash outflow. Now if we opt to go under the new tax regime which was announced in June 2019, what it says it that you have an option to opt for a tax rate of 25% as the normal tax rate and you also do away with the max provision. So now since we have tax laws as per the tax accounts, the 25% I don't have to pay because there is the tax laws and the MAT is also not applicable. So I don't pay the 20% as per the MAT provision. So effectively the tax outflow for me would become zero. Having said that, as far as the accounts are concerned, I will have to provide for a deferred tax liability at 25%. So the effective tax rate on the P&L would be 25%. But as far as the cash outflow is concerned, that could become zero.

Tushar Bohra: And what could be total tax still available to us, just from a normalized FY19 basis, how many years of tax shield broadly?

Arpit Vyas: No. So this is the new tax regime. So it remains until it gets changed.

Harshil Dalal: So for us we are zero till we finish the depreciable or amortization of the goodwill.

Tushar Bohra: Which is about 1000 crores spending, as on date?

Arpit Vyas: Exactly, out of 1300, yes.

Tushar Bohra: There is one point mentioned on the tax litigations outstanding. One is that, as you had mentioned was transfer pricing which was explained in more detail, but if you could just help us on a consolidated basis, are there any material tax litigations outstanding?

Arpit Vyas: No, on a consolidated basis at our subsidiary levels there are no such tax litigations. Fortunately, at the locations where we have our subsidiaries, the taxation laws are pretty plain and clear and you just have an option to go to the tax office, get a ruling before you actually do anything on the tax front. So that definitely helps.

Tushar Bohra: So, we don't have any, even at the standalone level, other than this transfer pricing there are no material litigations on taxation, that could have led to…?

Arpit Vyas: No, the transfer pricing thing is not a material litigation because it is already in our favor. So it is not like a huge impact item for us.

Harshil Dalal: But it is in our favor till, but the department will always be going against as a norm and as a law possibly till the Supreme Court is giving the final say. So any litigation which is ongoing related to the revenue when it comes to in this specific income tax, we win at each and every lower court, but the department will keep going till the Supreme Court issues are in order.

Tushar Bohra: Okay, right. Just one last very quickly, I may have missed it, that it may have been explained earlier, just want to know what is the status on Niraparib, some of the ongoing trials and the opportunity for us from that?

Harshil Dalal: We have just recently established contract with the new company and their people. So we have not yet communicated or met with them, but that is in the planning. And once we meet and develop a relationship with them, I think we will have a better clarity on what is the future of this. But as far as we understand from our own analysis from the reported numbers and the material supplied until now, there is a lot of stock building which has happened for catering to multiple indications of the same product. So at least for this year we did not see any orders coming in, maybe even next year. But this is only our analysis that have been done, which could have been completely wrong. We could have miscalculated, but that is just wait and watch now.

Tushar Bohra: But we are working with these guys, I think GSK, right, if I am not mistaken?

Harshil Dalal: Yes.

Tushar Bohra: Are we working with them on any other molecules?

Harshil Dalal: No. So this will be the first one with GSK and this we will make first connect with GSK regarding them being a client. They were our client earlier but not for contract research or manufacturing, mainly to do with generic side of things.

Moderator: Thank you very much. I will now hand the conference over to Mr. Rahul Arora for closing comments.

Rahul Arora: Thanks for that. Thanks a lot to Arpit, to Mr. Harshil Dalal and Mr. Vyas for taking this call and for everyone logging in. I think that was a pretty comprehensive takeaway on the clarification. And once again I would like to wish everyone a very happy new year and thanks for taking time out for this call.

Moderator: Thank you very much. On behalf of Nirmal Bang Equities Pvt. Ltd. that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.