“Indoco Remedies Limited
Q1 FY2019 Results Earnings Conference”

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Moderator: Ladies and gentlemen, good day and welcome to the Indoco Remedies Limited Q1 FY2019 Results Earnings Conference Call hosted by Nirmal Bang Equities Private 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 this conference call, you may 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. Vishal Manchanda from Nirmal Bang Equities. Thank you and over to you Sir!

Vishal Manchanda: Good afternoon every one. Welcome to the Indoco Remedies first quarter FY2019 earnings call. We thank the Indoco management for giving us an opportunity to host this call. From Indoco we have the senior management with us represented Ms. Aditi Panandikar - Managing Director, Mr. Sundeep V. Bambolkar – Joint Managing Director, Mr. Vilas V. Nagare – President - Corporate Affairs AND M&A, and Mr. Mandar Borkar – Chief Financial Officer. Over to you Sir!

Sundeep V. Bambolkar: Good evening all the participants. First of all let me being with Independence Day greeting from Indoco Remedies.

Now let me brief you on the business highlights. Net revenues for the quarter where at Rs.212 Crores against Rs.204 Crores. EBITDA for the quarter is 5.4% at Rs.11.6 Crores compared to 0.6% at Rs.1.3 Crores. During the quarter, the domestic business registered good growth due to low base effect. However, the revenues from international business suffered on an account of regulatory issues. This setback had a significant impact on the topline as well as bottomline. The management is confident is that headwinds on an account of regulatory issue are transitory and the company will tie over the same soon.

Revenues from domestic formulation business for the quarter grew at 50% at Rs.150 Crores as against Rs.100 Crores. In 2017, industry had witnessed disruption in supply chain due to GST implementation. Consequently, the inventory holding by the trade plummeted to 17 days as against 40 days. The low base due to this disruption resulted in a good growth of 50% this quarter. Top therapies, which have contributed during the quarter are stomatologicals 31 Crores, gastrointestinal 24 Crores, respiratory and anti-infective is 19 Crores each, vitamins and minerals 12 Crores. Top brands, which have contributed during the quarter are Cyclopam 18 Crores, Febrex Plus 13 Crores, Sensodent K 10 Crores, Cital 9 Crores, ATM, Oxypod, Sensoform 6 Crores, Cloben-G and Sensodyne KF 5 Crores each and Methycal 4 Crores.

During the quarter, the company has launched two new products, one in acute and one in chronic segment. As per the SMSRC, the company SMSRC the company ranks at 23rd position with

prescription share of 0.84% as on June 2018 MAT basis and as per AWACs the corporate rank is at 30th in IPM with market share of 0.66% as on June 2018 MAT.

Now on the international formulation business for the quarter the revenues from international formulation business where at Rs.41 Crores as against Rs.86 Crores. On the US business front the revenues were Rs.6 Crores against Rs.19 Crores. On the US regulatory front Indoco management has a face-to-face meeting with US FDA on June 13, 2018 at which a technical presentation was made by us on their remediation progress of Indoco. The meeting was also attended by Indoco's US based quality consultants and legal counsel.

US FDA was receptive to Indoco's remediation efforts and indicated that depending on scheduling issues that could re-audit both Goa plant 2 and Goa plant 1 before end of this year. Europe revenues where at Rs.20 Crores compared to Rs.40 Crores.

On the regulatory front as committed to MHRA the company has extended appointment of the US cGMP consultant to advice on remediation effort at Goa plant 1. The cGMP consultants completed the assignment in plant 2 and have begun work at Goa plant 1 from May 2018. As recommended by MHRA audit by an independent qualified person QP has been completed. The QP audit will now be followed by MHRA's re-audit of Goa plant 1, which is scheduled in September 2018.

South Africa, Australia and New Zealand revenues for the quarter where at Rs.3 Crores compared to 15 Crores. The company had successful audits of Goa plant 2 and 3 by MCC South Africa in June 2018 and by TG Australia of Goa plant 2 in May 2018. Emerging market revenues for the quarter whereat Rs.12 Crores same as quarter last year. Kenya as well as FWA markets have contributed good volumes in this quarter.

On the API business front the revenues whereat Rs.16 Crores compared to Rs.15 Crores. The company has received establishment inspection report, EIR August 8, 2018 for both the API manufacturing sites at Patalganga and Rabale. The US FDA inspected these facilities in May 2018 and the inspection now stands closed.

We wish to inform that the construction work of the new API facility at Patalganga is progressing well and commissioning of the plant is expected to take place at the end of second quarter FY2019.

Kilo Lab, Rabale was audited by the Ministry of Foods and Drug Safety, Korea during May 2018. The audit was satisfactorily completed and the company expects the audit clearance before end of the second quarter FY2019.

That is all about the business highlights for the quarter and I now request you to put up your question. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Aditya Khemka from DSP Blackrock. Please go ahead.

Aditya Khemka: Sir, thanks for the opportunity. Sir, given the situation where we are facing multiple regulatory headwinds on the MHRA and US FDA obviously our consolidated profitability seems to be suppressed, how has our India business EBITDA margin moved over the last two, three years since we had hired any comment on that really very helpful?

Aditi Panandikar: You are asking the shift of EBITDA margin towards the part two, three years?

Aditya Khemka: I just want a ballpark understanding of what you are?

Aditi Panandikar: Actually what has happened is if you look at the business for the whole last year because of the GST issue in the first quarter and even otherwise because of say around 6% impact coming in the topline because of the correction in pricing it becomes a difficult year to compare with, we can come back to you on this, but I do not know whether it would be a fair comparison, so I think as our EBITDA margins of the domestic business, they are inching up gradually because of every things we have done. I think you are aware that we faced out year-and-a-half ago Iterna and hived off around 200 plus field representative, so as such profitability of that business is inching up surely.

Aditya Khemka: But as you stand today would the profitability of the India business be around 20% plus that is fair assumption?

Aditi Panandikar: No, I would not say at 20%, closer to 16% to 18%.

Aditya Khemka: 16% to 18% and this EBITDA margin you are accounting for the entire corporate head under the India business or this is excluding the corporate overhead?

Aditi Panandikar: No, including corporate.

Aditya Khemka: This is including the entire corporate overhead, so is my understanding is correct, as we move forward and your export problems gets solved, the export gross margin, I am just guessing a number that your export gross margin is 50%, would it be a fair statement to say that the entire 50% gross margin should go to EBITDA?

Aditi Panandikar: Yes, to a great extent.

Aditya Khemka: Secondly on the plant one situation with US FDA where you still have an open form 483 and if I am not wrong it is classified as OIA, what has been the discussion with FDA on that front, are they just going to audit and then re-evaluate the classification or is there any chances of them getting one to a warning letter?

Aditi Panandikar: Let me just be very clear about this. As you have already said got this OIA notification on plant one and the inspection is still not closed and post that we were invited to meet US FDA, in fact we were called to meet US FDA. That meeting happened on June 13, 2018 and actually that meeting was to discuss for them to look at the remediation actions we have done to look at how far we have got a grip on the issues they perceive as problematic out of our site and to understand what kind of progress we have made on those, so post that there is always an opportunity that the outcome would that you either move towards WL of something more or you stay at where you are or even make things better, so as we understand now we are at status quo post that meeting and things have not worsen towards the WL what in fact we got out of the meeting is a confidence from their side that they would like to revisit as soon as possible to re-audit the site and that would pave the way for us to clear and close our inspection.

Aditya Khemka: Sorry, just a couple of questions on the same topic. When you discuss the remediation measures with the US FDA in the meeting did you also discuss your remediation at plant one?

Aditi Panandikar: Yes, I am talking about plant one here. The meeting was for plant one largely.

Aditya Khemka: But plant one and three were not discussed?

Aditi Panandikar: Regulatory bodies all over the world are now in sync and integrated although we had an inspection from US FDA it was followed by MHRA inspection, which did not go very favorably, so when we met with FDA it was discussed in all the entirety.

Aditya Khemka: So the meeting was primarily for plant one?

Aditi Panandikar: This is based on a couple of issues of plant two also and for both plant this is the same situation, they would be re-auditing to clear.

Aditya Khemka: Understood and this plant one, two and three, all three will get audited by FDA is it when they come down?

Aditi Panandikar: Yes.

Aditya Khemka: That is fair and secondly with the issues regarding TEVA, so even though we are under warning letter we are not currently exporting the products, which are already approved example Trusopt, Cosopt you feel there is any progress made on the TEVA front and you will be soon able to re-launch those products, which are already approved?

Sundeep V. Bambolkar: Senior team from TEVA has visited us and we had a good meeting with them, so they are convinced that all these issues of leakage are behind us now, at par we have managed to convince them because that was the major issue why the things were not moving.

Aditi Panandikar: So few formalities still left with us after which we should be able to start.

Aditya Khemka: Any timelines would have attached to that, Aditi?

Aditi Panandikar: I think a couple of months at least. We would be able to update you in the next NDA.

Aditya Khemka: Alright and also with taking note of the UK MHRA observations in plant one would you feel that they are holding approvals still you get the plant one out of the FDA sort of get it inspected?

Aditi Panandikar: I think OAI means that basically and classification means break on anything happening with your files inside the FDA.

Aditya Khemka: Right and on the Chinese API inflation side, are you feeling any pressure on the cost because of inflation of API or intermediate is coming from China, if yes what is our risk mitigation strategy?

Aditi Panandikar: For us there is a small increase in cost because of the import from China from APIs and also for some static material for the API business, but it is not when significant at this stage and the risk mitigation strategy at this stage is of course we do not think these issues may last for too longer period A, B we are looking at some amount of backward integration ourselves, so work has started on that front, third the processes are being used at further for efficiency and optimization.

Sundeep V. Bambolkar: To add to that Aditya, even the sales price that we get from customer more than compensate for the extra cost that we have incurred from China.

Aditi Panandikar: That is for API as a business for sales.

Sundeep V. Bambolkar: Yes.

Aditya Khemka: No, I did not get comment could you repeat that?

Aditi Panandikar: What we are saying that when it comes to the API sales business which we have when we are getting requisite increase from Buyers to compensate for the increased prices and largely we are getting for the API manufacture so we are hit more than the starting material to API done on the API per se.

Aditya Khemka: Thanks a lot for answering my queries. I will get back in the queue.

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

Nisar Vakharia: Good evening everyone. Madam, I wanted to first ask you that the gross margins in the UK business are lower than our India gross margin?

Aditi Panandikar: Yes.

Nisar Vakharia: So then considering that we have got our entire more or less topline in this quarter from domestic formulations why have not the gross margin increased quarter-on-quarter?

Aditi Panandikar: We have not got the entire topline from domestic formulation. I will just correct this. We have got a 50% growth on the base of domestic from last year same quarter and we have got a 50% degrowth from Europe.

Nisar Vakharia: But then regardless of that our gross margin should have gone up right because if Europe goes from 90 Crores to 40 Crores, 50 Crores and the India business sustains the same quarter-on-quarter trend which is at a higher gross margin, so our gross margins ideally should have gone up in this quarter?

Sundeep V. Bambolkar: No that would have happened if exports would not have dipped, you are right. Exports should have remained at the figure of last year then domestic margins would have gone up. Now what happen was domestic sort of subsidized for the international business and the international business comes out of our own plants, which had heavy expenditure most of it has fixed and that is the reason you are seeing the bulk of the losses.

Nisar Vakharia: Secondly, if I was to standardize the GST disruption in the same quarter last year, is there a rough indicator Sundeep Sir, you would give us on the like-to-like growth, so are grown at 10%, 15% adjusted for that low base?

Aditi Panandikar: Yes, I think around 15%.

Nisar Vakharia: 15% we have grown adjusted for that low base?

Sundeep V. Bambolkar: Yes.

Nisar Vakharia: Thirdly I wanted to ask you that you have mentioned and you have give lot of clarification on the US FDA remediation that will happen soon, what about the UK MHRA resolution, is that expected in the next one month or so?

Aditi Panandikar: UK MHRA has actually been writing to us, asking dates to audit the sites in Goa. There is one audit expected in our plant two for which we have date sometime in September. MHRA is scheduled to come to plant two sometime in September and have expressed their wish to come in to plant one even earlier than that, but I think it might be in September since we are in mid August. Their way forward really was for us to get audited by an independent QP whose report they will look at to decide what kind of audits are liking to have from their side or when they will come, so the QP audit is now done. We believe this week we will be filing with MHRA.

Nisar Vakharia: Madam, I wanted to ask you just for my understanding now we had only two observations in the warning letter related to one product for unit 2 and now we have withdrawn that product from the market.

Aditi Panandikar: That is true.

Nisar Vakharia: So, how does this essentially work, does the US FDA want us to solve the problems on that product or we can remove.

Aditi Panandikar: Yes, we have removed. They say the problems are related to that product, but your quality system was managing that product, so they want to come down and look at what we have done and that is what the entire presentation in June was one of the issue apart from the plant one issues, they also had a look at what we have done to resolve the product issues on that product we are carrying samples there. There were experts who had come in from FDA side to look at the samples and understand our issues and they carry that.

Nisar Vakharia: So, have you sent large commercial batches of existing products and place those samples with the US FDA for them to see there are leakages or no after 15 to 20 days?

Aditi Panandikar: No, they do not need to do that. What we have shared with them as part of our regular base or whatever shipment studies, etc., we have done and the need is for us to share this information with our respective customers, which we have been doing, so they have not expressed any lead for that, we also make this product from our side right now.

Nisar Vakharia: And how many products will be filing this year for US?

Aditi Panandikar: Around five to six.

Nisar Vakharia: Five to six products and what would be the R&D spend roughly this year?

Aditi Panandikar: We would try to maintain the same around 5% of sales.

Nisar Vakharia: 5% of sales. Thank you so much and all the best everyone.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Lucky Investments Managers. Please go ahead.

Sachin Kasera: Good afternoon Madam. Question is regarding the raw material cost, if I compare your June quarter numbers vis-à-vis March quarter, the contribution of India business has moved up from 65% to almost 80%, your raw material cost are even the same at 33%, so pursuing that the domestic business is profitable soon the raw material cost have gone down and the contribution margin improved of June quarter vis-à-vis March quarter?

Aditi Panandikar: To some extent we have got impacted with the China price increases, to some extent and otherwise it could also be the product mix, which has moved in that period if look at it, later we can come back to you?

Sachin Kasera: So, how much would be this impact that you mentioned?

Aditi Panandikar: You are taking of June over March?

Sachin Kasera: Yes, Madam, June over March if I see our domestic sales are more or less the same at 165 Crores?

Aditi Panandikar: Yes, so there is the impact of around 4% on GC this quarter over same period last year and that would be because of the China effect.

Sachin Kasera: Over March because my main query is regarding vis-à-vis March quarter because March over June the domestic sales are more or less same at 165, exports reduced significantly so I think this should have improved over March because the domestic is far better than the exports?

Aditi Panandikar: Improved by a couple percentage points actually, it has not calculated in the EBITDA. The discussion earlier we had was on EBITDA front.

Sachin Kasera: I am talking about GC.

Aditi Panandikar: GC has shown improvement.

Sundeep V. Bambolkar: See other impact is like when GC has improved, but large plant fixed cost remains practically at the same level because in the short-term reducing that in the vigilance so that is why when it comes to EBITDA you might not have been a significant change.

Sachin Kasera: Thank you.

Moderato: Thank you. The next question is from the line of Aditya Khemka from DSP Blackrock. Please go ahead.

Aditya Khemka: Thanks for the followup. How much is the ANDAs pending approval with US FDA and out of these how many are on our own label?

Aditi Panandikar: We have around 38 ANDA pending approval with the US FDA and of those around 14 are on our own label.

Aditya Khemka: So given that we have 14 ANDAs in our own label and we might get audited by the FDA before December would you feel this is the right time now to establish a front end in the US market, so that you are able to market your own production on your own label?

Aditi Panandikar: Not yet, you need a basket of at least 25 products with the reasonable size and margin and **(audio break) 24.35** backend I think there is still time to wait to create a content in here.

Aditya Khemka: Understood and just to understand this better how would this work, so let us say by December one letter is resolved that is hypothetically let us say it is resolved and then you start getting approvals for the 38 products that are pending for approval including the products with your own label, but you would not have established your front end so how would you market those products?

Aditi Panandikar: As I said 14 are on our own label and two would be about marketing goals, and not all 14 of them could get approved immediately there are timelines involved when they would get approved, so there are various phase a) even if we get approval it would be possibly some of them tentative, some of them would be para (3)s, so we have to wait for the patent to get over, so we are looking at the over thing and from a macro perspective we feel we need to wait.

Aditya Khemka: Understood Madam also on Brinzolamide where you are the only ANDA filer as far as our last conversation was there are you are aware of any additional competitor filing Brinzolamide as at this moment?

Aditi Panandikar: I believe there is one competitor now. One person has filed. This is what I feel, but I am just confirm and come back.

Aditya Khemka: Sure so your meeting with the FDA did this product come up that is on the FDA expedited list and your ANDA is stuck for the warning letter if I am not wrong, but do we have a CRL on the product?

Aditi Panandikar: When this FDA various issues were discussed; couple of products like Brinzolamide which are products for which they should rush that was discussed. The other aspect that was discussed is how small we are as a company and how many years we have been investing for US as a market that was also discussed and the situation with a number filings we have FDA and the timing of us getting these regulatory issues were also discussed. I think FDA looked at the whole thing when they told us that we will come quickly. They have asked for probably when they can come down and we believe looking at their scheduling they will come down before the end of the year.

Aditya Khemka: Got it. Any data or any further data you have to submit to the FDA before they come down?

Aditi Panandikar: No. Our updates to US FDA per se is over now and some updates were pending when we met them in June from plant one, but now they are all over.

Aditya Khemka: Plant one, plant two, and plant three there is nothing left for the data to be submitted to the FDA?

Aditi Panandikar: No.

Aditya Khemka: That is right. Thanks a lot.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Lucky Investments Managers. Please go ahead.

Sachin Kasera: Just one question Madam. Other than R&D what would be the other fixed overhead that we are incurring for the developed markets and absolute amount for the full year if you would just give that?

Aditi Panandikar: Could you repeat that?

Sachin Kasera: Madam what is the total cost of overheads that we incurring other than R&D for the developed markets on a yearly basis?

Aditi Panandikar: Most of our facilities whether it is the three facilities in Goa and the two facilities in Baddi, in fact even one in Waluj, Aurangabad I would say that 80% capacity out of the size is for the regulated market, so if you look at all six investment there whether is the people, whether it is whatever

remediation is costing us and the cost of running those sites I would had to say that we would have to look at the fixed cost towards international regulatory business. It is a different matter that when the regulatory market sales are dipped we will be able to bring in domestic manufacturing, so we have dropped some of these costs.

Sachin Kasera: Would it be fair to assume that cost would be at least 50 to 60 Crores a year on a ballpark basis?

Sundeep V. Bambolkar: It will be more significant.

Aditi Panandikar: It will be more.

Sachin Kasera: So, in a way today because of the issues that we are having in the regulated markets our EBITDA is getting compressed in excess of 100 Crores because 40 to 50 Crores we are spending on R&D, 50 Crores plus for this overhead?

Aditi Panandikar: Yes, that is good enough.

Sachin Kasera: Thank you.

Moderator: Thank you. The next question is from the line of Jigar Walia from OHM Group. Please go ahead.

Jigar Walia: Thanks for the opportunity. Madam I just have a few clarification questions, one is the MD states that US FDA could re-audit plant two and plant one before the end of this year, so this year is calendar year or financial year?

Aditi Panandikar: Calendar year.

Jigar Walia: There is no specific reference for unit three though I think you mentioned that?

Aditi Panandikar: There is part of two, it is a same, two and three inside one and it is the same EIR number.

Jigar Walia: So two and three will go together?

Aditi Panandikar: Yes.

Jigar Walia: Got it. That was it. Thank you.

Moderator: Thank you. The next question is from the line of Rashmi Sancheti from Anand Rathi. Please go ahead.

Rashmi Sancheti: Thanks for the opportunity. Just again on regulatory issues from the UK MHRA, I just want to know that basically how much is the loss sales during the quarter and basically what is the update on the remediation activity whether we have completed or we are still incurring any remediation cost, then how much is the remediation cost this quarter?

Sundeep K. Bambolkar: The sales loss is to the tune of 50 Crores.

Rashmi Sancheti: 50 Crores in which is included in which line item?

Sundeep K. Bambolkar: No, 50 Crores we have lost sales.

Rashmi Sancheti: 50 Crores is the lost sales during the quarter?

Sundeep K. Bambolkar: For the regulated market.

Aditi Panandikar: Regarding remediation was your question right?

Rashmi Sancheti: Yes and remediation cost also I want to know?

Aditi Panandikar: Remediation cost as I said I believe most of the updates for MHRA are now over, but some remediation actions probably are of a longer duration we would be involving an external agency for monitoring controls like etc., so they would continue.

Rashmi Sancheti: But can you quantity how much is that which is included in the quarter?

Aditi Panandikar: This quarter we have around 1.5 Crores.

Rashmi Sancheti: And that 1.5 Crores is for US FDA and UK MHRA both or only UK MHRA?

Aditi Panandikar: Mainly MHRA because FDA work was over.

Rashmi Sancheti: And any guidance on this remediation cost for the entire year?

Aditi Panandikar: Around 4 Crores, it think would be a right estimate.

Rashmi Sancheti: In the last quarter you mentioned that that we are going to do some site transfer for some of the product from this facility to Baddi facility, so are we on track and how many products we have already transferred?

Aditi Panandikar: We are on track for that. The only thing is Baddi one is the more smaller facility, so a few products are already approved there I believe three to four others have been shifted and the other facility in Baddi is much larger, one we have acquired from micro a year-and-a-half ago and we expect MHRA to come down and audit that one too, so I think by end of the financial year for sure we would have two sites in Baddi with capacity to supply to MHRA

Rashmi Sancheti: Then what is the guidance currently we have already lost 50 Crores of sales, so post site transfer for the entire year, how much loss sales are we expecting from the EU business?

Aditi Panandikar: We will have to come back to you because what is happened in the loss sale as you know we have mix of medicines for which we could supply out of plant one and the delays that are happening are largely associated with clients also wanted to do further checks before they take product from the site, so in a manner these are not directly in our control for how much we can escalate at plant one itself. Regarding shifting to Baddi one in the second quarter there would be more products moving to Baddi one and sales would come up from there, but we will send you an analysis and may be at the MV of the second quarter we can give you a much clearer picture.

Rashmi Sancheti: And on US front earlier in your comment in last few quarters you mentioned that once the remediation activity is done and once your re-inspection ready we will be starting up the production soon, so is it something that once the US FDA inspection is over and after you get the clearance only then the production would start or you are planning to start at anytime soon?

Aditi Panandikar: As of now we will start earlier irrespective of FDA coming in, we would only supply those products, which are approved and the clients will take, so I think if you heard one of the earlier discussion on a couple of products which are bigger products from that site, we were only waiting for TEVA's order and that is in the final stages of coming.

Rashmi Sancheti: But are we going to start in this particular year itself?

Aditi Panandikar: Yes, of course.

Rashmi Sancheti: Fine, thanks. That is it from my side.

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

Aditya Khemka: Madam, on the cross back that you are currently sitting on, so we have the micro labs and EU plant, we have the US FDA plant two, plant three and plant one, if you look at three, four year, three years

at this point would you feel that there is need for capex for the next three years assuming everything goes right in the next year or so and we get out off all the regulator troubles?

Aditi Panandikar: No Aditya, as I just said earlier we brought in a lot of domestic manufacturing in, which also we could get it done onsite, so I do not see any need for additional capex.

Aditya Khemka: For the next three years or five years I mean how long would you think?

Aditi Panandikar: Three year for sure.

Sundeep K. Bambolkar: May be even more.

Aditya Khemka: May be even more?

Aditi Panandikar: Looking at business mix Aditya going ahead and we would think that some element of our contract manufacturing business if we would not want to fill the capacity with that.

Aditya Khemka: Fair enough and would you say that your capital allocation from this point onwards so whatever money make what would that directed, so you had no capex needs per se so would you utilize the additional cash that we generate to acquire things or what would you do with the cash?

Aditi Panandikar: We should not a little bit run ahead of ourselves, let us get out of this mess, but for sure it is not going into capex, one area we always wanted to acquire something in India and that continues and acquire anything in Europe so we would look at that direction.

Aditya Khemka: So, you would want to invest more for Europe?

Aditi Panandikar: India largely and the rest is Europe.

Aditya Khemka: So, in India what kind of investments should we need because our understanding at least from an analyst is that it is not a very R&D intense geography?

Aditi Panandikar: No, not from the investment angle it is more from the acquisition perspective of brands.

Aditya Khemka: Lastly on the products that we have not been able to switch from plant one to the other plants supplying to Europe in you sense would you feel that would be able to regain market share once we re-launch this products or we will have to start from scratch and start building market share once we are able to bring this products back to the market?

Sundeep K. Bambolkar: No, customers have been very supportive, so the moment we start they are waiting for the product in fact.

Aditya Khemka: So, the customer is holding on to the market share or is he also losing market share?

Sundeep K. Bambolkar: Currently, of course there is no product in the market whatever inventory they had they have been selling it, but we are able to supply then definitely they are with us.

Aditi Panandikar: We believe whatever indications we are like getting for MHRA for audit of the Baddi pre-site, which was the micro acquisition is prompted by our customers filings product out of that site to urgently take products from there itself.

Aditya Khemka: Right, and sorry for asking a very product question, but I have two products questions firstly on Latanoprost, so obviously Akorn once the product I think we have discussed that earlier would there be any chance of TEVA wanting to take that product and supplying it to US?

Aditi Panandikar: We have not explored that yet.

Aditya Khemka: Second product specific question was on Allopurinol if I am not wrong there is some sort of a shortage situation and there are some price increases do you guys have A&D approval on Allopurinol?

Aditi Panandikar: Yes, we have an A&D approval.

Aditya Khemka: But you are not supplying it as we speak?

Aditi Panandikar: Yes.

Aditya Khemka: But give that there is shorter situation would not you feel that this is the right time to supply it?

Sundeep K. Bambolkar: Yes, we were waiting for the prices to bound pack because the prices had gone very bad in the US market.

Aditi Panandikar: And that coupled with the China starting material price hike on the Allopurinol API sell, there are two factors that did not make sense to sell in US without making any money.

Aditya Khemka: So that situation is true for now also or it has improved dramatically?

Aditi Panandikar: We are waiting, but I believe it will come, based on that the expansion that has been done at the UPI site we are expecting to double up at least that site for Allopurinol all of this will help us?

Aditya Khemka: This product is partnered with TEVA or someone else?

Aditi Panandikar: TEVA only.

Aditya Khemka: But you have a partner for that product so commercialization?

Sundeep K. Bambolkar: Yes, distribution partner.

Aditya Khemka: Thanks and all the best.

Moderator: Thank you. The next question is from the line of Dipan Shankar from Trustline Portfolio Management. Please go ahead.

Dipan Shankar: Good evening everyone. Thanks a lot for the opportunity. Just want to understand the Europe impact of overall 20 to 30 Crores in this Q1, so will it be continuing for Q2 and Q3 as well and if possible of shifting to other plant, so what kind of impact we are expecting Q-on-Q?

Aditi Panandikar: It would come down the impact. We would not be able to put forth, but maybe around 20 to 25 Crores impact will stay until quarter two.

Dipan Shankar: So, that much it will reduce from the Q2 onwards?

Aditi Panandikar: Yes, in Q1 as I mentioned earlier even the products, which were in approved list of MHRA because of our commitment to MHRA and because of certain client expectation every time we rollout a product and we can do an excessive amount of standardization whatever data generation and that is our plant one all been about that, so we have been able to do very little sort of take very little goods out the plant one in this quarter, but by Q2 that will increase so all the UPI you see in this quarter largely that which could be made at Baddi one or in plant three in one of the areas that is it, whereas in the second quarter we will have something rolling out of plant one as well and we will have some amount of higher goods uptake from Baddi one, so both of this should help us.

Dipan Shankar: In case if US FDA approve our plant is December the product approve what is our expectation for the next two-year what kind of product approvals we are expecting?

Aditi Panandikar: As I said, we should wait at least for the inspection to happen before we start discussing this, but our files are stuck at various stages inside the FDA and some products we have tentative approvals as well, so various products would move at various period actually and before probably in that one financial year because we would have this one quarter left. I think we could just expect a couple to be very safe.

Dipan Shankar: So, is it possible irrespective of the plant approval can we shift to other plants for our new products, not positive?

Aditi Panandikar: No.

Dipan Shankar: Even if we do not get plant approval from US FDA is it possible and we will get the products approval?

Aditi Panandikar: No, see basically the product has stuck inside US FDA for the issues at our plant, so if the plant is would not get resolved the products will not move even to take them out.

Dipan Shankar: Thank you and all the best.

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

Aditya Khemka: I just had one last one, on the India business you have done 50% growth Y-o-Y obviously on a GST base would you say that 15% to 20% growth in the balance nine months Y-o-Y is what looks practical or given the restocking last year post GST it can be in high single digits as well?

Aditi Panandikar: No, it would be minimum 15%.

Aditya Khemka: Despite the restocking that happened in the previous year, post year destocking?

Aditi Panandikar: Yes.

Aditya Khemka: And the same question for the year of FY2020 over the base of FY2019, would you feel 15% growth?

Aditi Panandikar: Yes, it would go little more aggressive close to 18%.

Aditya Khemka: I wish you all the best. Thanks.

Moderator: Thank you. The next question is from the line of Cinderella Carvalho from Kotak Securities. Please go ahead.

Cinderella Carvalho: Thanks for taking my question. Aditi Madam, if you could help us to understand how was TEVA's reaction after the US FDA and what about the products which are pending, which we could supply, what is the status with that and when we would see Trusopt, Cosopt in the market?

Aditi Panandikar: I will answer the first question first. TEVA was pleased to what will have say happened at US FDA meeting, as you know it is all about the impression we carried when we walk out of the meeting and we would now also discuss some kind of outcome of that meeting. The first outcome would be when FDA comes down to audit us, so is TEVA coming to that as well. Regarding Trusopt, Cosopt their technical teams got involved into certain issues related to getting the product restarted at our site and because of those acquisition that are happening at TEVA, things are very slow let me say that so the project team they have taken to the site, they have done their own shifting, now they are convinced and after all these supplementation now is getting completed I believe we should be able to start soon.

Cinderella Carvalho: Would that happen by end of this quarter?

Aditi Panandikar: I think it is safer to say that in a quarter after that.

Cinderella Carvalho: You are guiding that with the European issue we are expected to do this second half would be better, but what is the fixation in this current quarter like you know the supply disruption at plant one how is it right now like almost we are half of this second quarter so it is the status right now?

Aditi Panandikar: I think we just answered that when you said in the Q2, the loss should come down significantly. In the first quarter we lost for around 50 Crores and expecting that to come down to 25 to 30 Crores and we should be able to makeup around 20 Crores of sale that of which would from plant one and apart from that.

Cinderella Carvalho: So, when do we expect Baddi micro plant inspection by UK MHRA?

Aditi Panandikar: We will have wait, they said sometime later this one, so we are trying to analyze when is over I think October, November would be safe.

Cinderella Carvalho: But that would again leave us with more of like FY2020 only in terms of supplying meaningful quantity from that plant is that was correct?

Aditi Panandikar: No, in order to get faster product we are looking at plant one and Baddi one to full capacity.

Cinderella Carvalho: And overall if we look at the present situation we are saying that by December hopefully before that US FDA should come for an audit and we expect a positive scenario, so more of everything would be shifting to FY2020 is that a good reading?

Aditi Panandikar: Not everything, domestic will grow in the time specifically for US FDA and UK MHRA related supply issues I agree.

Cinderella Carvalho: Can you help us understand some colour at least how FY2020 where we have some understanding in terms of, please help us to understand because it is too much for us to build in terms of model, so if you could help us with some clarity?

Aditi Panandikar: Yes, we can do that later, that is a lot of integrate working many ifs buts conditions, timeline we will do it separately.

Cinderella Carvalho: Correct, and one more thing in terms of the margin aspect you think the second half would be better?

Aditi Panandikar: We should be able to do a little better in the second half because the only impact on margin now is going to come from higher growth in domestic and any amount of regulated market business incremental coming.

Cinderella Carvalho: What is the number that we have said for full year remediation cost?

Aditi Panandikar: Remediation cost for the full year we are looking at 4 Crores to 5 Crores.

Cinderella Carvalho: More or less the result what sent lasting?

Aditi Panandikar: Yes.

Cinderella Carvalho: Thank you so much. All the best.

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

Rahul Sharma: Just wanted some clarification on the Europe sales, we are down to almost 30 Crores if I am not wrong and big sales were almost 55 Crores to 60 Crores for quarter, so are you looking at adding quarter-on-quarter, what type of growth are you looking at incrementally going ahead?

Aditi Panandikar: Rahul, we just answered that, we said the gap would come down to around 25 to 30 Crores at least 25 Crores more I am expecting in the next quarter.

Rahul Sharma: And full recovery when would you anticipate in sense?

Aditi Panandikar: Plant one is such a large manufacturing base for me that I have to wait for the MHRA to allow us to make the goal list from plant one in order to get that full recovery.

Rahul Sharma: Thank you.

Moderator: Thank you. As there are no questions from the participant, I now hand the conference over to the management for their closing comments.

Sundeep V. Bambolkar: Thank you everybody. Thank you for your active participation and happy Independence Day to you all.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of Nirmal Bang Equities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.