"Vivimed Labs Limited Q2 FY2018 Earnings Conference Call"

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Moderator: Good day ladies and gentlemen and welcome to the Q2 FY2018 Earnings Conference call of Vivimed Labs Limited. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Santosh Varalwar, Managing Director, Vivimed Labs Limited. Thank you and over to you Sir!

Santosh Varalwar: Thank you very much. Good afternoon everyone and a very warm welcome to the Q2 FY2018 earnings call of Vivimed Labs Limited. Along with me on this call today I have Mr. Saurabh, S.G, Executive Director Strategy & Business Development joining us from Barcelona and Mr. Sunil Arab, Vice President - Corporate Strategy based out of his corporate office and SGA our investor relations advisor. The results and investor presentation is already uploaded on the stock exchange and I am sure all of you had a chance to look at it including the results that we posted a couple of days back. I will start with discussions of the performance for this quarter. In half year FY2018, our revenues from operations stood at Rs.600.5 Crores, which is lower than H1 FY2017 revenues mainly due to divestment of the specialty chemicals business to Clariant and also divestment of FDA business to Klar Sehen. So the difference is something like Rs.60 Crores compared to last year, however EBITDA increased 3% year-on-year to Rs.129.1 Crores and margins expanded by 270 bps. So, I just want you to note that in spite of 10% to 11% revenue fall there has been increase in EBITDA margins overall, which is in line with our strategy to go towards higher margin business in both our business segments, specialty chemicals as well as pharma. Specialty chemical EBIT margins expanded considerably high from 22.3% to 35% and pharmaceutical margins expanded from 12.2% to 13.5%. Our formulation business registered a good growth and the momentum sustained post-GST implementation. Company is strong to act with all of regulatory compliance that has provided a competitive edge. It has been differentiator for both CMO and generic business and helped drive the sales in order book.

Our net profit was down by 16.3% year-on-year to Rs.45.8 Crores due to higher interest cost to serve and an additional debt of US$39 million, which was raised in March 2017 primarily to buyback equity of PE at VLL, Vivimed Lab Mauritius. This would also give us opportunity to invite a new investor probably at an evaluation. The interest cost quarter-on-quarter has come down from Rs.24.2 Crores to Rs.21.4 Crores and total debt on a half-yearly basis has come down from Rs.1006 Crores to Rs.926 Crores. In September 2017, I am sure you would have had a chance to loot at it, the company has signed a definitive agreement to facilitate investment of US$42.5 million by OrbiMed Asia into Company's subsidiary Vivimed Mascarene Limited, the holding entity of the company's API's business. The transaction of September end is complete and funds have been received. There will be a further debt reduction to the extent of Rs.150-Rs.200 Crores at the consolidated level, the remaining will be used for the growth purpose and for maintenance capex in the immediate quarters. In formulation our 50:50 joint venture with Strides Shasun has been completed and this will help us to focus on our manufacturing strength while leveraging the marketing potential of Strides Shasun to expand to the US markets. Most importantly this will help us in reducing losses which have been accrued in the last few quarters and will also help us improve the capacity utilization of the above plant. We are quite optimistic on this JV and hope to create significant value for the coming years for the shareholders. Overall, our focus is also to expand into newer geographies, where it has a lot of demand especially CIS Countries and ROW, the new customer and product pipeline updates. With this I now hand over the call to Saurabh. Thank you.

Saurabh S.G: Thank you Mr. Santosh. Good afternoon to everybody who has joined us in the call today Mr. Santosh has already touched upon the financial performance for the quarter and I would now like to quickly give an overview on the different business divisions, which we have within the company and what we have seen from business perspective. Firstly, on the pharmaceutical business, which is significant part of the company's turnover now, the pharma business for the first half in terms of sales has been flat compared to the same period last year though the profitability has gone up in the EBIT level by nearly 120 basis points. Within the pharma business talking first about the API business, which we have. Our API franchise UQUIFA has seen a growth in terms of constant currency of nearly 8% to 10% over growth comparable periods for FY2017 as well as FY2018. we are seeing significant increase in our order books on the generic part of the business as well as the CDMO part of the business. The CDMO part of the business has become close to $35 million business for us within the API division compared to single-digit contribution nearly four years ago and the generic business we are seeing good volume traction in some of our key molecules as well as we are gaining some market shares due to compliant reasons as well as the business environment the way it is shaping up. So I think on the API business for both the CDMO business as well as the generic franchise, we have a good prognosis for what we expect in the next 18-24 months., More importantly I think compliance has become a key differentiator in the business today as we have been seeing our Asian competition having a tough time on this account and we have been able to have a key compliance track record which is translating into better inward sales enquiries both on the generic side as well as CDMO side. As far as new developments on the API front are concerned for the half year, we have filed for new DMF/CEPs across our three sites and these will start to translate into revenues from 2019 onwards. On the CDMO side as well, we have had a couple of new projects starting off and we expect that these will start to convert into revenues in the next 24 months or so.

Coming now to the formulation side of the business I think Mr. Santosh has touched upon the JV and what we are expecting from the JV. In addition to the JV, which is for the US business, we also have a significant non-US business, which is there at Vivimed and we are now looking to expand into newer geographies for the non-US business and targeting ROW markets and the Pharmerging markets aggressively and looking into acquire few MAs I think which we will give us more thrust as well as in the finished those business. Finally, on the specialty chemical business, the segment has seen a decline in revenues on a half year basis as the Clariant acquisition is finally behind us now and our portfolio today consists of largely hair dyes and Photochromics, which enjoy a much higher margin and we expect that trend to continue. Within the hair dye segment, we are seeing a significant traction to some of our products as there have been some dislocations in the China supply chain landscape, which is giving opportunity for quality Asian companies like which we believe our Spec Chem business to take market share especially on the hair dye side. So we expect our specialty chemical business to continue growing at market leading sort of growth rate and enjoy profitability which is pretty decent compared to what we have been posting regularly. So that is a quick comment from my side on the business perspective. I think with this I would like to open up the floor for interactive Q&A. Thank you very much.

Santosh Varalwar: Thank you Saurabh. Thank you ladies and gentlemen, so we can go ahead with question and answer.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Kaustav Bubna from SKS Capital & Research. Please go ahead.

Kaustav Bubna: Last call we were hopeful that we would maintain quarter-on-quarter growth moving forward from the first quarter of FY2018 and I see on the quarter-on-quarter basis our pharma revenues have dipped a bit. I just wanted to understand since you know UQUIFA is present in Spain did we see any impact from whatever is going on Catalonia, like the unrest in Spain. Did we see any impact, is that a risk to our business over there and what was leading to this quarter-on-quarter in segment wise, is it something worth mentioning or is it volatility terms of nature?

Saurabh S.G: Kaustav I will just try to do address that question. I think quarter on quarter the trend in pharma which we are seeing is largely attributable to seasonality as well so please remember that in most parts of Europe and also North America, the month of August is annual maintenance period and annual shutdown period, so typically the Q2 is a bit weaker in terms of revenue billing versus Q1. So I think that is seasonality thing, which is there. I think overall in terms of the order books and in terms of sales outlook, there has been no significant change. I think we are on track with that. Coming to your question of impact of the Catalonia crisis, I think right now it is a fluid situation but we do not see any impact of what is happening today on our business yet. I think there are some activities on and they are trying to bring **consensus** between the separatists and the government but we will see how it goes but as of today I do not see any significant impact on our business from those developments.

Kaustav Bafna: Ok great and with regards to the UQUIFA stake sales just wanted to understand for how much percent… because we were first looking at selling 25% stake in UQUIFA, so better understand the valuation at which you have got for UQUIFA with this deal, so you know for how much percentage of UQUIFA we got this $42 million, some indication on that?

Santosh Varalwar: I think I will pick up this call & say if you see OrbiMed has invested about 42.5 million and the instrument is CCPS that is compulsorily convertible preference shares, so obviously like it gets converted at time of conversion and we have multiple options of giving an exit at the end of the designed 5- 7 years whatever they wish to stay back but if you properly interpolate on the basis of valuation and all so I would guess it is something in the range of about 30% to 40%...something around 35%.

Kaustav Bafna: 35% for the 42.5 million?

Santosh Varalwar: Yes, you are right.

Kaustav Bafna: Okay and also I was looking in your CDMO business I mean related to UQUIFA does this… I do not know what it exactly is but it is the development of solithromycin which could be a key catalyst for this company in terms of because… so what is it likely could you describe the opportunities it provides Vivimed in the future?

Saurabh S.G: This is one of the projects which we have been doing on the CDMO side out of our Mexican facility for innovator company called Cempra which recently got acquired by another biotech called Melinta, so I mean we have been working on this project at least for the US market launch with the possibility the whole API supplier who they are working with. Clearly from the press which probably you have read in the US, there has been delay in the launch of solithromycin because the US FDA has in their complete response letter to the company to Cempra told them that they would have to expand the patient pool size and come up with much more exhaustive clinical trials which we will enable them to get an approval if everything goes well. So I think from our perspective we are still working with Cempra actively but Cempra clearly has resolved their issues with the US FDA in terms of getting in place an optimum patient pool size and providing the relevant safety data which can help the launch of the drug, which is believed to be a new generation antibiotic called macrolide for the indication called CABP, which is community acquired bacterial pneumonia.

Kaustav Bafna: How much impact would it have on our UQUIFA PAT… on a consolidated PAT?

Santosh Varalwar: It is preference share as of today so in preference share normally, you end up giving one share or something and this is kept as a preferred capital. In this like in the previous investor, I think we consolidated fully and will continue to consolidate it fully. Financially we will consolidate 100% of the UQUIFA performance.

Kaustav Bafna: Okay you will show 100% is it. That is right. Great I will get back in the queue.

Moderator: Thank you. The next question is from the line of Ritesh Bafna from Individual Investor. Please go ahead.

Ritesh Bafna: Good afternoon Sir. Thank you very much for the opportunity. I would just like to know about the Strides Shasun projects' I just wanted to know about the products that are there in the market, the dossiers that are expected, the revenue potential that it has and the capacity utilizations of this?

Santosh Varalwar: Thank you I think I was looking for this question. So I am a little more prepared for giving a little deeper insight into what is happening and If you recall I think the deal was consummated on June 2017 and primarily the deal was to leverage the mutual strengths and supporting the product developments by planning while utilizing R&D and manufacturing facilities of Vivimed for USA market and ensure to file at least five NDAs per year. So historically we did have five approvals for ANDA but there were only three products which have gone into the market so losartan, amlodipine, and metronidazole which constituted something close to about 3 million dollars last year and unfortunately due to some competition the metronidazole and losartan volumes dipped in the first half and second half again but we seem to be having enough order book to COPA. We also see the next financial year with similar outlook in terms of off-take of existing ANDAs. So post Shasun Strides deal, I think what clearly happened was leverage in the strength of both these companies and Strides have initiated transfer one of the major products gabapentin into the lateral side and as we speak I think the process is on and we are expecting a full approval of FDA wise effective 2018 February and estimated volume which was given to us as we understand is close to about 350 million solid oral dosage which would mean about $5 million of revenue next year and besides this of course there are some more projects, which we are working with Shasun and there is like US as well as Australian markets, which I guess we will update as we go forward and besides this as we recall as I said last time, all the major projects which had suffered revenue loss in the last two years is Azithromycin which we are doing for Wockhardt and that is of course because of the issues that you already know about in Wockhardt, we had a setback and obviously there was setback of sales for Vivimed, whereas now that is behind us, we got an approval in August 2017 and we just started commercialization and we expect that in the current year at least before March, we will have at least about $2 million sales from this particular product but on an annual basis, again looks like something close to about $5 million revenues for the next year. So besides that I have also updated that there are two more projects with Wockhardt which I think give us the indication about revenues approx. $1 million - $1.5 million and that is one thing and we are also working with the other company in India where as we speak again we are getting approvals and we are expecting tentative approval date to be February 2018. I see the revenue from that coming to close to about $4 million, $5 million so in all I mean whatever actions that company has taken in the last about 12 months and post Strides deal, I think this year we would still probably be around what we projected revenues close to Rs.150

Crores. For next year clearly we see a value at upside coming from all these products going commercial and also some of the projects, which are like setback in terms of off-take in revenues. They are also COPA and we should at least expect about $20 million plus revenue in the next year.

Ritesh Bafna: Okay all these setbacks we shall recover this and we shall have some good inflows in the coming year.

Santosh Varalwar: While we continue to have about five products which are at R&D and which have gone into like filing for R&D and filing dates are anywhere from middle of next year to end of next year. So that is somewhere August 2018 to December 2018 tentatively will end up filing close to about five more ANDAs and most of this ANDAs rather they all backward integrated so which means there is also revenues coming for UQUIFA in the near future.

Ritesh Bafna: Okay and one more last question can you just share some insights on your formulation business performance?

Santosh Varalwar: As such idea is that if you really see other than what I explained about formulation business at the joint ventures slides, Shasun with Vivimed, . we are into a bit of CIS market, branded business as well as contract manufacturing. Now the first half year did not see the desired revenues rather we had revenues close to about Rs.75-80 Crores in the first half year for the rest of the business and that to mainly because in CIS Countries we had to go through the inspection about almost four months back whichdelayed us getting the EIR and finally we got EIR about two weeks back and we are all getting set to take up some volumes from there and we expecting that out of CMO business and other businesses completed in H1. The H2 should have at least 50% upside in revenues.

Ritesh Bafna: Okay that is good. Thank you so much for answering my question Sir.

Moderator: Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

Nikhil Upadhyay: Hi good evening and thanks for the opportunity. As you had shared in your commentary and in the previous participants question also that incrementally over the next one and a half years we will see a lot of utilization of the asset improving for us, so how do you see a debt profile shifting because as of now net of the cash if I look at it close to Rs.700 Crores or Rs. 750 Crores and even on the current basis, we are generating healthy EBITDA of Rs.250 Crores so how do you see the debt profile shifting for us?

Santosh Varalwar: As I said post utilization of funds that are there sitting in cash will be sub Rs.700 Crores in terms of overall debt and my guess is that with increasing EBITDA and we have repayment of long-term debts something to close about Rs.100 Crores per year so that probably will continue to happen so if you really want to like compare so probably end of this financial year, we have further Rs.60 Crores reduction in the debt and the following year again about Rs.66 Crores reduction in debt so the focus is obviously if you are really ask me the given EBITDA level and progress of further growth, we have to keep balance of working capital as well as long-term debts because we also have projects going forward post 2018 at Mexico and also India. So, I would say as the company we will probably focus on retaining a ratio of debt versus EBITDA somewhere in the range of 2.5 to 3 I think that is our internal and we will probably hover around that and try to leverage in trying to put back into the asset to get the increased business opportunity.

Nikhil Upadhyay: Sir where I am coming from is that if I look at it as you said that probably we would be investing for the future in India and Mexico and Spain so and this EBITDA of Rs.250 itself should be growing so rather than having a ratio is a ballpoint number of say around Rs.500 Crores of net debt is what you would be comfortable because amount of cash generation and amount of capex for at least till FY2019 end, I think we have a better position in terms of cash generation that is in the capex, so there could be accelerated debt repayment of bringing it below Rs.500 Crores?

Santosh Varalwar: So I think basically you are right if you really focused on where we are but obviously from whatever you heard so far, there are multiple projects going on. Today, we are struggling to find capacity utilization Alathur, the JV facility but what I see end of next year I guess we will utilize substantial capacities and as I also mentioned a while ago about five ANDAs which are in pipeline and whatever I see out of that we have a capacity of about 2 billion solid oral dosage in Alathur and that may not be sufficient when I look back FY2020 and similarly for the DMFs that we filed which Saurabh has mentioned, four DMFs that we have filed in the first half and then the pipeline of DMFs that we have. So if the revenue ramp up has to happen and obviously you will see a proportionate investment back into fixed assets. Yes, you are right that given Rs.200-250 Crores of EBITDA and the prospects EBITDA moving up, so we have to strike a nice balance and to expect about Rs.500 Crores in next two years or two and a half years is nothing out of the world, it is possible.

Nikhil Upadhyay: Okay and secondly on the JV with Strides, what could be the peak revenue potential this JV can have once say 10 or 15 of the products get launched in US?

Santosh Varalwar: It is probably a bit of shooting in the dark but I would still say that as I just mentioned next financial year I can visibly see revenues upward 20 million and there is as I just mentioned at least about 5-6 ANDAs coming in and some new projects coming in. So if I add to put some number I would say in the next five years this particular JV should at least give us Rs.500 Crores revenue.

Nikhil Upadhyay: Okay and secondly on the product development cost and the product development R&D and everything which goes on for the JV so we would be also carrying out the product development along with Strides or we would be doing the product development and the manufacturing, they would only be doing the marketing Sir what type of arrangement do we have in the JV with them?

Santosh Varalwar: See the way it is the Chennai facility what we have is more of an operating entity that is it will be profit neutral and most of the IPs that is most of the ANDAs that are being sponsored for this JV are being done from our subsidiary Vivimed Global Generics, Singapore. So we intend to of course invest money into that and also see that enough projects are taken. So obviously like there should be no conflict of interest between Strides what they already doing independently as a company and what Vivimed is doing independently as a company. So the kind of products is nonconflicting and definitely there is lot of revenue in that and we will see product developments coming from Strides R&D but as you also aware that Vivimed has a large formulation R&D facility in the name of Finoso Pharma, which has a capacity of almost 20 product developments and today we are right now using most of the facilities from Finoso Pharma and I guess going forward we will not differentiate from wherever the value comes whether it is from Strides table or from Vivimed's table that will go into the joint venture.

Nikhil Upadhyay: Okay Sir we will develop the product and our Stride will parallelly also develop the product and based on mutual consensus we will move those products to the JV and JV would basically then do the marketing and the manufacturing?

Santosh Varalwar: To give a little more clarity here so the JV will decide what products to be developed for the JV, Strides and Vivimed will decide what products to be introduced in JV and those products developments can happen anywhere, it can happen in Finoso Pharma which is owned by us but product selection is combined, together we do the production selection what to file in.

Nikhil Upadhyay: Okay then basically my next question is that if the JV will be doing the ANDAs and the marketing, then Strides also has their own individual finished dosage formulation and marketing which they do in US and probably you were also saying that we would also be filing five or six ANDAs ourselves. So those two programs would not be there and everything would be for the JV?

Santosh Varalwar: See end of the day if you can recall we are trying to leverage the front end of Strides in USA, so the way it will manufacture here and use Strides' marketing arrangements they have in US, but it does not restrict the JV from only selling through them but wherever they have strength they can pick up and sell and add value to it and whatever product category are not competitive and we can find a better distributor who can give us much better visibility in revenues, we would probably use it. So I think judiciously we will take a decision.

Nikhil Upadhyay: Okay, one last thing that our own independent ANDA filings and marketing will not be there. We will only develop and move in to the JV based on the discussion with Strides.

Santosh Varalwar: Absolutely, I think Vivimed will independently have no ANDA filing other than through JV.

Nikhil Upadhyay: Okay, fine Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Dhara Patwa from KR Choksey. Please go ahead.

Dhara Patwa: Thanks for the opportunity. I have one question, in this quarter employee cost is a bit high like 15.7% of the total sales. So just wanted a reason for that?

Santosh Varalwar: I think I will just add up from where Saurabh left., August being a downside month, where almost like three quarter and three weeks you shutdown and we paid for those three weeks also.

Dhara Patwa: And Sir second question was the Strides Shasun has good exposure in oncology so do you wish to extend your therapeutic portfolio in oncology?

Santosh Varalwar: At this point of time, we do not have oncology manufacturing facilities. So we are not exploring that at this time.

Dhara Patwa: In foreseeable future?

Santosh Varalwar: Anything can happen.

Dhara Patwa: Okay that is it from my side. Thanks.

Moderator: Thank you. The next question is from the line of Manan Mehta. He is an individual Investor. Please go ahead.

Manan Mehta: Sir I have two questions, first is regarding our debt reduction. Sir can you help us, actually provide a roadmap of how we go to reduce our debt and by when can we expect the inflow of money through the warrant?

Santosh Varalwar: I mentioned it in my opening comments if you really see the H1 the debt has come down from Rs.1006 Crores to Rs.926 Crores on a consolidated basis and you would also see on September 30^{th} the cash was in Mauritius and of the proceeds overall we expect another Rs.150 to Rs.200 Crores reduction from the cash that is sitting, so that will bring us to sub 700 Crores debt exposure.

Manan Mehta: Could you guide us on any capex plan going ahead?

Santosh Varalwar: In the current year, we do not intend to spend too much of money in terms of may be ongoing about $.2 to $.3 million, but if you really see the nature of business that we are in, in the API business it is a very typical that we are spending $3 to $5 million every year and in India level about $2 million we do spend, so I think as I mentioned Rs.50 to Rs.60 Crores of ongoing capex is given for the kind of a business on a regular basis organic growth if there is a opportunity one time something very long standing then we will take a separate call on that.

Manan Mehta: So nothing on that right now is there?

Santosh Varalwar: Yes, nothing of that sort.

Manan Mehta: Thank you.

Moderator: Thank you. The next question is from the line of C Shrihari from PCS Securities. Please go ahead.

C Shrihari: Thanks for the opportunity. My first question pertains to the FDA emerging market portion, what was the revenue during the first half?

Santosh Varalwar: Revenue from the FDA emerging markets was just about Rs.4 Crores in the first half because Ukraine has GNPA expired last year and we were awaiting for inspection, which was completed, but we just got the EIR about two weeks back, so we expect that the CIS and emerging markets revenue for second half would be something in the range of about Rs.25 to Rs.30 Crores.

C Shrihari: The corresponding figure for FY2017 was Rs.75 to Rs.80 Crores?

Santosh Varalwar: Yes.

C Shrihari: Now I noticed that you have seven plants and all dedicated for this portion of the business is that right?

Santosh Varalwar: Yes absolutely you are right, on seven plants just the idea one of them is Chennai, which is what we talked about. JV and one facility in Haridwar is a dedicated facility for nasal sprays, famous Otrivine and Nasivion which we have been doing for almost more than 10 years now and there is of course parallel to that we created one more facility in Hyderabad, which will address the ophthalmic and again nasal segment I think that we have done the plant to GNP standards and the capacity utilization probably will start coming from H2 and besides that of course there is one facility, which we got recently that picks approval, Ukraine approval and other two plants which are the Kashipur and Hyderabad, and a bit of Kolkata they typically support domestic institution business and domestic branded business which in our representation, which is about Rs.70 to Rs.80 Crores in size.

C Shrihari: So what would be the total outlay on all these plants put together ex-Alathur?

Santosh Varalwar: ex-Alathur outlay could be in the range of about Rs.75 Crores roughly and we generating revenue close to – it is up to Rs.100 Crores at this point of time.

C Shrihari: So you mean to say when I deduct 75 from 200 about Rs.125 Crores came from domestic operations?

Santosh Varalwar: Yes, domestic operation.

C Shrihari: What is the scope, in terms of let us say fixed assets turnover?

Santosh Varalwar: Three to four times of asset turnover we can do. At this point in time we probably doing about two-and-a-half times, so there is still further scope to churn out, particularly the plant in Hyderabad, which is just up and going and after the CIS approval I think the facility out there, so we can do, but definitely I think the ages of the some plants is still very long. It is almost like more than 10, 12 years, so it also needs constant upgradation and as we also speak we have recently enhanced the capacity almost at the fag end of capacity enhancement in Kashipur outside, which will probably help us garner additional Rs.150, Rs.200 Crores revenue in the coming year.

C Shrihari: So this Rs.4 Crores revenue that you give was for CIS operations right?

Santosh Varalwar: Only CIS I told about in the first half.

C Shrihari: How much would have domestic sales fetched?

Santosh Varalwar: In the first half?

C Shrihari: Yes.

Santosh Varalwar: In the first half as I said we had about Rs.75 Crores out of that balance Rs.70 Crores you can say roughly.

C Shrihari: You have mentioned that you plan to leverage the UQUIFA portfolio for some specific launches, can you please throw some light on that, what products have you identified?

Santosh Varalwar: There are three products, which I think are in the pipeline obviously from the Uquifa API those are Ranolazine, which we have, I think filing date is August 18 and I think it will be ready to go generic next year November 2019 and second one is the Esomeprazole, which again Uquifa API manufacture and we are filling date is in the middle of next year and Quetiapine is the third one, which I gave is same timeline. Besides this there are two products, which are the R&D, which are there, which are not from API source.

C Shrihari: No, I meant the product, which you planned to bring to the domestic and emerging market?

Santosh Varalwar: From the Uquifa staple?

C Shrihari: That is right.

Santosh Varalwar: Uquifa staple, we see there is not much in visibility in terms of emerging markets what APIs they want to take it, and these are thoughts which I mentioned for our ANDA fillings in the JV side, so it is a case to case basis, but at this point of time we do not buy any API from UQUIFA for our emerging market and CIS markets.

C Shrihari: In the presentation I got the impression that is fine. When it comes to speciality chemicals your two core segments have done very well, so does that imply that antimicrobial does not fair that well?

Santosh Varalwar: Antimicrobial triclosan was kind of a raining molecule. As you see they had some of the countries like US and few countries restricted, the imposed not using the triclosan and today our triclosan market if you compare few years back has shrunken to almost close to about 15% from a peak of 600 metric tonnes, we are right now doing something like 60 tonnes and this is also to a premier segment that is hard surface segment where you can utilize the triclosan in industrial segment where EPA registration is required, US CPA, which also gives us better margins, but there are in subcontinent, they are still using Triclosan and in Africa and subcontinent they are still using, suddenly I do not know last one quarter we are seeing again some volume build up, but I would not bet on this particular molecule and major revenues that came so far is from photochromic as you are seeing that and hair dyes is again which you have seen it and what I can see definitely is that hair dye at one point of time used to make a loss, but for that we have reduced the number of products. Also, because China competition they have lowered their prices, and the situation seems to be reversing and more and more customers like Henkel and L'Oreal are asking us to manufacture new products, so we feel that in the next three to six months at least we have identified about eight products, which will be launched in the hair dye segment, which will see a revenue growth coming next year probably, so I think both these segments are doing well and as the speciality chemicals concerned we are working on some other areas like chemicals, automotive segment and we are waiting for some approvals to come in and that could be something upside, but this division also last about year or so investing in terms of some pharmaceutical high value intermediates, which has become a little bit of issue in terms of getting them from China and our intention today is to first make Uquifa self dependent in terms of intermediate sourcing. This hasbecome a little bit of challenging situation in the last few quarters, so you want to be independent in terms of GMP Manufacturing Unit, we would undertake those products also in our respective segment and if you are able to even sell those products outside Uquifa that will be added revenue for us, so we have some kind of clear growth path for this division.

C Shrihari: What would be the current share of hair dyes and photochromics in total speciality chemical here?

Santosh Varalwar: Speciality chemical sale is about less than 20% of overall revenue.

C Shrihari: Share of hair dyes and photochromics with speciality chemicals?

Santosh Varalwar: Speciality chemicals I would say it is about 70%.

C Shrihari: Hair dyes and photochromics put together?

Santosh Varalwar: Put together yes.

C Shrihari: Coming to the balance sheet your inventory which are already high have shot up a little more in particular your raw material inventory has been holding steady at around 160 days for the last two fiscals can you please throw some light there, any delinquencies out there?

Santosh Varalwar: Again in terms of inventories yes you are right, what you observed, but going forward I guess that situation will change, in particularly we also had a receivable which were in the higher period and in the last quarter we could manage to like recover a quite a bit and that figure has come down, but yes there are projects in the pipeline, which have of course consumed some inventory levels, which probably can get reversed in the next two quarters.

C Shrihari: So you do not see any scope for write off or anything of that kind?

Santosh Varalwar: No we do not see any scope of right now.

C Shrihari: That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Ashok Shah from LFC Securities. Please go ahead.

Ashok Shah: Thanks for taking my questions. My first question is regarding debt for last two years we are trying to reduce the debt, but after seeing the current quarter results interest rate has also risen, so can you explain what will be the situation in the sale of Clariant Speciality Chemical division to Klar Sehen and then some brands to ophthalmic brands also for Rs.70 Crores approximately thereby it is not reduced, but actually interest cost had jumped in this quarter?

Santosh Varalwar: Interest cost from Rs.24 Crores it came down to Rs.21.2 Crores that is what, you will see that interest cost has come down to Rs.21.2 Crores from Rs.24 Crores compared to last quarter and you are right Ashok Shah as I mentioned in our previous call the debt has reduced post selling Clariant brands and Klar Sehen, but please be aware that at the same time we also bought all shares from the private equity at Mauritius which we had to borrow close to $39 million, but at a higher interest cost because that was a special situation where we had to like fund for buying out the PE, which came at a 12% interest cost and we also mentioned in the past that for one year, we cannot retire the debt; however, we have got cash sitting in, but the March 2018 we can retire half of the debt, which means like that much of close to about $2.4 million is interest cost so that much savings will happen, so in sum if I have to like sum it up I think whatever you are going to see in the next two quarters would be something in the similar to what we are seeing and except that whatever money that is there that will bring down the debt, but if you really on an annualized basis from Rs.80, Rs.85 Crores consolidated debt I think if you really look for next financial year it would be in the range of about Rs.55 to Rs.60 Crores, it will substantially come down.

Ashok Shah: What was the price at which PE investor entered in Uquifa and what was the price we give for the exit to them?

Santosh Varalwar: We had paid $29 million at the time of exit to the earlier PE for a similar dilution we got $42.5 million.

Ashok Shah: So we gave a profit to them around $13 million?

Santosh Varalwar: Yes, we invested $12.5 million in 2011 they got $29 million when they exited in March 2017.

Ashok Shah: So it is a $17 million profit for them PE investor and we also again diluted same, what percentage of dilution to the bid take place by inviting new investor in Uquifa?

Santosh Varalwar: I think to answer your question that $17.5 million is what we got extra, so we got for the same dilution we got $42.5 million.

Ashok Shah: We bought at 29 million and again bought it at 42 million is it true?

Santosh Varalwar: You are right.

Ashok Shah: Going down the line we have done JV for Pharma division for the Alathur Plant, we had the plans to launch every year 5 molecules and we were very gung-ho about our future plans for the Pharma division, what cost us to have a JV with other company and do a business, was it an under utilization sum of Alathur plant or what is the reason?

Santosh Varalwar: The multiple things that happened if you look at last two years. I think we have filed some products through Strides Shasun, we had filed some other products from our side, so most of them for some reason or other got delayed and we could not do it, so we thought the joint venture will help both the companies because Strides Shasun have a very strong front end marketing company and have a good presence so we will now probably recoup in terms of our capacity utilization and I also mentioned that I have already in my commentary earlier exactly told you what products will hit into the market at what time, so you will probably see the traction coming very soon.

Moderator: Thank you. We seem to have lost this line. So we will move to next question, which is from the line of Kaustav Bafna from SKS Capital & Research. Please go ahead.

Kaustav Bafna: On the promoter pledge I think it is 88% or something right now, so what are the plans to reduce it by FY2018?

Santosh Varalwar: I think that is the question, which I was expecting, so easy for me, so I think we had about Rs.245 lakh shares which pledged earlier, so of that close to around Rs.150 lakh shares are just given of the additional security to the existing banks like say State Bank, Axis Bank, Corporation Bank and all of them, so in this quarter starting from October 1 till today we have at least close to Rs.30 lakh shares and we expect that before March 2018 we expect to release all the shares other than institutions and institution shares which are there with institutions, they are mainly because we had a multiple banking arrangements and once the consortium is formed I guess even those shares will get released, but just to give a commitment on it, so Rs.30 lakh shares have already released as of to date from what we have seen on September 30 and we expect to get some release in the coming quarters.

Kaustav Bafna: How much like what is that sum more?

Santosh Varalwar: As I said 50% of shares are out of the 85% pledge that we had last quarter 50% of the shares were in the institutions, so now if I take a breakup it would be Rs.85 lakh shares released from the market, which we will try to do before March 2018.

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

Santosh Varalwar: Thank you ladies and gentlemen. I guess I answered all the questions many of them had just to add to track to optimize our margins and we are working more companies and adding more verticals to expand business. I am sure all the efforts will yield dividend soon and I thank all of you for bearing with us and for remaining invested in our company. In case you have any further questions please get back to SGA, our investor advisors or you can contact Mr. Sunil Arab who is dedicated to this job at Vivimed Labs. Thank you very much.

Moderator: Thank you. On behalf of Vivimed Labs Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.