Unichem Laboratories Ltd. Q3 & 9M FY15 Results Conference Call, January 19, 2015

Moderator: Ladies and gentlemen, good day and welcome to the Unichem Laboratories Limited, Q3 & 9M FY 2015 results conference call, hosted by Systematix Shares and Stocks. As a reminder, all participants' 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, please signal an operator by pressing "*" followed by "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Dinesh Bajaj from Systematix Shares and Stocks. Thank you and over to Mr. Bajaj!

Dinesh Bajaj: Thanks Margreth. I welcome the management of Unichem Laboratories for Q3 & 9M FY15 earnings conference call. From the management, we have Mr. B.S. Dhingra-Chief Executive of the Domestic Pharma Business, Mr. Rakesh Parikh - Vice President, Finance and CFO, Mr. Subharaman-Vice President, Legal and Company Secretary and Mr. Monish Shah-Manager, Investor Relations. I would first like to request the management to take us through the quarterly numbers post which we can proceed to the question and answer session.

Rakesh Parikh: Good morning everyone, and welcome to the conference call. This quarter has been a challenging one for the Company. The sales compared to the last year's quarter were flattish at around Rs. 265.85 Crores against Rs. 264.9 Crores. However, the expenses have been on the higher side and that trend has been continuing resulting in a profit before tax coming to slightly less than 3 Crores and profit after tax coming to about Rs. 2.06 Crores.

Amongst the different SBUs, India Formulation has clocked Rs. 158 Crores against Rs. 166 Crores for the same period last year. International Formulation has continued its growth trajectory mainly driven by the US business as well as the emerging markets clocking more than 25% growth at 76.4 Crores as against 61 Crores.

On the API side, as we have been informing you it is mainly nearly driven by the captive consumption and with the tremendous growth coming in the US business, the requirements for our own API has significantly increased and hence we have not been able service the outside requirements except for few of our existing clients.

In addition to that Unichem has received the recertification from EU GMP along with the Polish authorities for the largest formulation facility, which is in Goa.

Also during the quarter, one DMF has been filed taking the total filings to 37. The filings of ANDA continue to stand at 33, of which 17 are approved and which includes two tentative approvals and now we have already launched 12 products as of date.

As we have been saying that compared to the corresponding quarter last year there has been addition of about more than 500 people, and as a result of that the payroll cost has jumped. Roughly about 300 people were hired in India Formulation and the balance were hired at the manufacturing, plants meeting the international requirements for APIs as well as the formulation.

The gross margins also has taken a beating though they are more or less in line with the Q2 of this year, but compared to the corresponding quarter last year they have significantly gone down since the India Formulation proportion which is having a much higher gross margin has come down to very close to 60% against about 64% or 65% which we were having, the gap is being filled by our international businesses so the International Formulations proportion has increased significantly.

The other expenses have gone up because there has been tremendous increase in the selling, general and administrative distribution expenses predominantly the freight and all for the international business mainly from the US markets and also in terms of the plants we are gearing up in anticipation of the strictness which we have seen in the regulatory environment all across, certain expenditures have been carried out and which we did not want to stop and as a result of which the overall expenditure has significantly gone up.

Coming to the subsidiaries, US subsidiary continues to show a robust sales growth and if you take the entire nine-month period also there is more than a 100% growth over the corresponding period last year and the profit is also on an uptrend and the subsidiary has now reported a profit of very close to $1 million almost $0.98 million for the nine months.

Similarly if you talk in terms of the India Formulation, the growth for the domestic portfolio for nine-month period stood at about 6.7% as per the AWACS that is the secondary sales compared to the 11% growth of IPM. I will now hand it over now to Mr. Dhingra to brief you on the India business before we go onto the question-and-answers. Thank you, over to Mr. Dhingra.

Bhagwat S Dhingra: Very good morning to all, and first and foremost a very Happy and Prosperous New Year to you all. As Mr. Rakesh has briefed you about the overall company perspective for the quarter as well as for nine-months. When it comes to domestic business, we have clocked sales of Rs. 158 Crores vis-à-vis Rs. 166 Crores compared to the corresponding period last year, and Rs. 505 Crores vis-à-vis Rs. 516 Crores compared to the corresponding period of last year.

As I have been sharing with you that in domestic business we are in process of restructuring and as you all know that in last year, we have taken a step of restructuring our acute business, which has started paying dividends in terms of value and volume growth internally and externally. When it comes to the other businesses like Neuropsychiatry, Derma and Gynec have also been restructured almost a year back, which have started giving a positive internal growth as along with external reflections also showing buoyancy in Neuropsychiatry as well as into Derma business.

The other challenge, which we are facing, is restructuring the Cardio-Diabeto business and that is the business where we have got the beating. As you all know that in nine-months we have an impact of NLEM also to the tune of almost Rs. 10.5 Crores and then the other impact was the internal plough back and which together impacted the overall revenues by around Rs. 30 Crores in nine months.

We want to have a structured business keeping in mind the competition and challenges prevailing in the domestic market.

So with this I conclude my opening remarks and request the moderator to open the lines for Q&A.

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Sudarsan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarsan P: Good morning Sir. What I want to understand is, I understand the company is going through restructuring both in the domestic business as well as you have been investing in the plant for the US business, but if you can give us some sense as to how much of the cost across both the businesses has been taking a toll on your numbers and by when do we start seeing the benefits of pure escalated cost start coming in into the topline, so that they can actually kind of identify probably from when we start seeing the business starting to regain the lost grounds?

Bhagwat S Dhingra: Like as Mr. Parikh had mentioned before that in domestic business, we have taken a step to restructure our business and as we have been telling you that we have created 11 verticals for promoting different formulation between acute chronic business of Unichem and especially when it comes to chronic which was contributing heavily to the company but post NLEM which was impacted mainly by Losar and Trika which not only brought down the revenues but also impacted us heavily into our bottomline. On the one hand, we have been impacted by NELM. On the other hand, because we have started a plan for restructuring and creating vertical that has also added to a manpower cost. If you look into our manpower cost compared to the last six months it has gone up by around Rs.8.5 Crores in these nine-months. So that is one which has impacted us. On the other hand, we have been impacted negatively by NLEM. So net-net if you see the loss is around Rs.18 Crores, approx Rs. 8 Crores comes from the manpower increase and Rs. 10 Crores come down because of NLEM in chronic business. Having said that, we are now having four strong vertical in Cardio-Diabeto and those four strong vertical are now being managed by the senior leadership. We have also taken a challenge of changing leadership at middle management and top management so that we can push the business towards growth trajectory. So now we have very competent people across the board and we have setup the total manpower into Cardio-Diabeto which is a forte of Unichem. I am hopeful that in coming quarters you will find that we are not adding additional cost but we will start adding additional business in Cardio-Diabeto and also we will maintain the growth trajectory of Acute and Neuropsychiatry business.

Rakesh Parikh: Coming to the expenses in addition to what you mentioned about the plans for the regulatory reasons what has happened is that there could have been certain one-off kind of expenses, which have come in this quarter along with that there has been a tremendous increase in the freight particularly for the US business which has got added to our total expenses. So with the oil prices and all coming down and the negotiations which we are doing, there is a chance that freight per unit will come down with the growth expected to continue to increase. But as far as the planned expenses are concerned there also we have already incurred sufficient expenses and we do not feel this kind of an excessive or an increase in expense will come. In fact, in this quarter itself there is a quite likelihood that will come down. It just so happened that there was a bunching of certain expenses at all our plants of the last particular quarter, which we have seen. The approvals of course still remain pending but even notwithstanding the approvals we are still showing a growth trajectory both in the emerging market as well as in the US business and talking slightly medium to long-term as you are aware we are in the process of completing the acquisition of an API plant, a new plant when it comes up it will further strengthen our product portfolio and we should be able to grow much more, of course subject to the approvals.

Sudarsan P: You just mentioned that there is some one-off expense if you can quantify how much would that one-off expense be?

Rakesh Parikh: What I meant is it is something like a discretionary expenses. If you exclude freight and you have things like certain repairs and maintenance, certain modifications which are of revenue nature we are carrying on, certain regulatory expenses etc. and hence, there is increase compared to the second quarter which is roughly to the tune of Rs. 14 Crores. All these expenses excluding freight are one of the major reasons and because of these we are seeing what best can be done and how much of it may not be recurring.

Sudarsan P: If you are looking at your portfolio for the domestic business we have been a leader in probably Ampoxin and Losar but if you are looking at the second generation of product as well we have been having products like Olmesartan and Telmisartan, what has really kind of hampered us as far as because that has been the strategy for Unichem as well to start pushing these smaller products which can actually drive growth?

Bhagwat S Dhingra: You are right, and your observations are absolutely right. I appreciate that and that is what I mentioned that we have restructured the Cardio-Diabeto business. As you know that Losar is into a degrowing trajectory it is a mature product, which is a face of Unichem. On the other hand the products which are in growth trajectories are Telmisartan, Olmesartan and even the statins like maybe TG-Tor or Unistar. Keeping this in mind we are trying to see that how we can push further the growth of the growing basket. We have restructured Cardio-Diabeto business and I am sure that coming quarters we will find a very good pull into Telmisartan, Olmesartan as well as into our statin business as compared to Losar and Trika because as you know very well Losar and Trika are into mature basket therefore we as a company have taken a decision to put a dedicated vertical, which is promoting Losar and Trika and trying to take Losar and Trika to the lower end of pyramid like that is especially to family physicians and low end of consulting physician because product is already moving from specialist to low end of pyramid. From April 2014 we have created a dedicated field force for Losar and Trika. The results of that have started showing positive signs. If you look at degrowth of Losar and Trika compared to the market is less now and gaining some ground. We are bouncing back in terms of growth but as you rightly said Telmisartan, Olmesartan and other cardiac and diabetic portfolio of the company has to grow for which now we are all set by restructuring a business I am sure that in coming quarters you will find a positive traction on that.

Sudarsan P: Thanks a lot Sir. I will join back the queue.

Moderator: Thank you. The next question is from the line of Aishwarya Agarwal from Reliance Mutual Fund. Please go ahead.

Aishwarya Agarwal: I was a bit late on the call. I just want to know that whatever adjustments for revenue we are doing because of the change in our structure whether those things are done or are it still left out what kind of numbers we should expect in next quarter for these kinds of adjustments?

Bhagwat S Dhingra: Can you be clear on what kind of adjustment you are asking for?

Aishwarya Agarwal: We were changing our distribution structure so with that thing we were doing some inventory accounting so that is what I am asking that whether those things are done or still something is left to be done for the fourth quarter?

Bhagwat S Dhingra: Yes you are right. As I have already mentioned in my last call also that the structure correction is on and as of now we are through with 80% of correction and that has led to a plough back of around Rs. 17 Crores in this nine months. So balance 20% we will take up in this quarter and some in next quarters, but the major correction into our channel management has been done.

Aishwarya Agarwal: The balance is Rs. 20 Crores Sir?

Bhagwat S Dhingra: Balance is 20% of our sales it is around Rs. 13 Crores.

Aishwarya Agarwal: Rs. 13 Crores more to go, Rs. 17 Crores we have already done?

Bhagwat S Dhingra: More than that, because in nine months we have done Rs. 17 Crores plough back and we are left with 20% correction because our current 80% business is CFAs the 20% business which is around Rs. 13.5 Crores is happening through distributors so that correction is still left out, so let us see when to initiate that.

Aishwarya Agarwal: Should we expect that you will be finishing it off in this quarter or it will get spilled over to the next year, next financial year?

Bhagwat S Dhingra: Because there are certain formalities which are going on and we are also waiting for GST to rollout by next financial year so the early guidelines are expected anytime and we are evaluating whether to be in a hurry to convert in this quarter or we should really take some time looking into GST guidelines.

Aishwarya Agarwal: How GST will impact in the rollout? Do you expect some kind of benefit to flow to the company and waiting for GST rollout?

Rakesh Parikh: It depends on what is the rate at which GST is coming because right now distributor setup what was happening was that the company sells to the distributors and we are incurring CST, because MRP is anyway fixed inclusive of all taxes. Once GST comes we have to check whether it makes sense, what is the rate? and whether it makes sense. Similarly we are having fiscal incentives at Baddi and Sikkim, and what stand they are going to take is another important thing under GST.

Aishwarya Agarwal: Sir while accounting for this Rs. 17 Crores plus amount is it something we have adjusted in revenue and the impact has flowed to EBITDA and then to the PAT that is how we should look at the Rs. 17 Crores adjustment which we have done in last nine-months?

Rakesh Parikh: You are absolutely right, what happens is that let us say somebody is having a monthly sale of 100 and he has got an inventory of 200, which we have already sold to him as a distributor when we convert it, we take it back, so when we take it back, we take back the 200 whereas for that particular month and the normal monthly is only 100 so that 100, which was excess, is sales return and coming as sales return, so the inventory would have increased only to a smaller extent. Let us say around 30% or slightly more whereas the balance amount is going to hit the operating margin and bottomline.

Aishwarya Agarwal: Thank you very much.

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

Hitesh Mahida: In 2Q FY 2015 concall, we had mentioned that things will be much better as far as domestic business is concerned in the second half of the year but if I look at third quarter numbers then things have actually worsened from there so what is the thing which went wrong over the last three months, which we were not expecting during the last call and when we say that there will be an improvement from next quarter onwards so have you seen any improvement in the month of January compared to the last quarter?

Bhagwat S Dhingra: There are some factors within the business as I mentioned, in April we started restructuring our Cardio-Diabeto business so when you hire middle managers and the senior managers they also take some time to settle down and second within the business there are some business practices, which had been going on so once you are restructuring business you want to correct the all bad or good practices in a manner, which matches to industry practices, which was not in our knowledge, when we structured the business we have corrected all those practices and now our business model is at par or even better than the industry. Coming to your next part of question, when I am saying that from this quarter onward we will be better off, the results of January are at par as compared to last year but we are expecting that February and March will be better than last year. So net-net we should be having positive traction in the Q4 as compared to last year.

Hitesh Mahida: Sir we have almost more than doubled or field force over the last four years, but we are not witnessing any major growth at the domestic level so should we expect the productivity to go up from here on will things remain at current levels at least for some time?

Bhagwat S Dhingra: We have not doubled in last four years but in last two years we were at least added around 700 people. If you take out the vacancy, which are consistent at a level of 100 to 250 people not working so we have effectively added around 500 plus people into the field and therefore what I told you that we are having now 11 verticals, which are like sufficient enough to take on the challenges so when it comes to people part we are not going to add more people. In some of the verticals there is the manpower rationalization happening and there is some tweaking down happening wherever necessary.

Hitesh Mahida: Mr. Rakesh Parikh just one query, Niche generics has become net loss company again during the year after becoming a net profit company last year so what is the thing which went wrong and do we expect things to improve going ahead?

Rakesh Parikh: What had happened is that there were two- three things, which had contributed to the profit one was about the UK and the others was about in the Europe side. Unfortunately in UK where they got a benefit because of some opportunity, which they latched on and now the competition has increased, which has come into play and has come with a significantly lower prices so as a result of which the market share in this product has come down and similar is the case which has happened in Europe. Niche was supplying to a couple of parties who in turn were participating in tenders, so what has happened is prices of those tenders, which got opened at significantly lesser rates so we had to supply them at a lower price and which we have done with lower quantity. So as a result of which it is primarily been affected on the volume but much more on the price side and we are taking steps to increase sales to the other parties and other countries and the indication we got when we had a meeting with them is that there is a chance that at least in the fourth quarter the performance will be better compared to the third quarter on the bottomline but overall for this year there will be a loss and then endeavor will be made next year to come back again into profit primarily through different customers and our products.

Hitesh Mahida: Thank you and all the best.

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

Sriram Rathi: Actually my question was largely on that like last year and this year FY 2014, FY 2015 so the growth overall remains muted. So, like going forward from next year onwards since the domestic correction would have been there by that time in terms of inventory rationalization and all and your international business is doing well. So in FY 2016 what kind of growth rate it will be? Can it be like on the higher double-digit side or lower double-digit side or in fact it can remain in the single digit?

Bhagwat S Dhingra: As you rightly mentioned the first part we have already made a correction in our structure and business model. That is going to pay us dividend, but on the other hand, you know that in Unichem we have almost 48% portfolio, which is already a matured portfolio, so when you look at the market growth of those portfolios the market is showing negative growth. So at Unichem we are trying to pull that portfolio be it in chronic side, consisting of Losar or Trika or be it in acute side, consisting of Ampoxin, Unienzyme or Vizylac. These five products put together constitute to around 48% to 50%, balance 40% portfolio is in growth trajectory. If you look into the AWACS where the market is growing at 14% while that 40% portfolio is growing at around 25% for us in AWACS, then there is a 10% portfolio which is a degrowing portfolio where the market is degrowing at around -4% and we are degrowing at around -7%. So the challenge is to see that how this 40% portfolio can further show better growth and also can we arrest degrowth in the mature basket and continue to at least show a single digit growth. Keeping this in mind, I am sure that next year FY 2016 is going to be a better year in terms of growth, but it is very difficult to project as of now because the structure built in and we are trying to see that how structure start showing results. So FY 2016 will be a more positive year for Unichem as far as the domestic business is concerned.

Sriram Rathi: Another question was basically on the margin side like this quarter the margin impact from sequential basis is largely on account of other expenses so I believe that increase of around Rs. 14 odd Crores, a part of that is going to be recurring, a part will not be recurring so basically can we come back to double digit growth from next quarter onwards or it will take some time, so double digit margins next quarter or it will take?

Rakesh Parikh: Definitely we are taking all endeavors to come to that level and as you said though it may be recurring if you take a thing like selling, general and distribution expenses for the international business primarily US, we are also trying to see that even if the rate increases the US is going to grow at a very high double digit, so absolute amounts we cannot reduce their SG&A expenses but on volumes we can negotiate much better, which we have already started. If our supply increases then we can capitalize on those costs and also we can see it for which work has been started in full earnest there also we will see a reduction. The regulatory and the other kind of expenses will now be significantly lower, it just happened to happen in this quarter and we do not want any problems with the regulatory authority or inspections if any.

Sriram Rathi: So that amount has not been capitalized, it has been the expense of the P&L only?

Rakesh Parikh: Yes. It is not in the nature of capital expenditure.

Sriram Rathi: Because US business has also become profitable for you, so if the revenue growth increase is there then that should also improve right, so that should lead to the margins?

Rakesh Parikh: Absolutely! The margin expansion should come in and the current indications are that we are expected to continue this at least for some time to come, two more products just having being launched in the US.

Sriram Rathi: Thank you.

Moderator: Thank you. The next question is from the line of Krishna Kiran from Spark Capital. Please go ahead.

Krishna Kiran: Thanks for taking my questions. Sir continuing with the earlier participant question on productivity, I just want to understand like 300 MR we have added during this quarter like how many of them are middle level or middle level managers level where they can improve the productivity starting from maybe the quarter two or quarter three?

Bhagwat S Dhingra: On an annualized basis if you look we have added almost 500 people and specific to this quarter I do not have that data at present with me.

Rakesh Parikh: Sorry to interrupt, what was mentioned was that compared with the last year this quarter, there has not been any major increase in manpower except on the manufacturing side.

Krishna Kiran: So majority of the hiring has happened in manufacturing side?

Rakesh Parikh: That is sequentially compared to last year we are 500 up with about slightly less than 300 in India Formulations and around 200 odd which has got added mostly in for the manufacturing.

Bhagwat S Dhingra: In other words in last year during same time, we were having 300 people less. Secondly when it comes to productivity definitely our productivity dip is because of the large manpower. This year we are not adding manpower so therefore next year will be incremental productivity on current basis.

Rakesh Parikh: In fact in the current quarter sequentially you see, I think the growth is less than 8% or so and on the manufacturing side we are mainly hiring at the packaging levels.

Krishna Kiran: Secondly on US side can you just tell us like what is our current pipeline like R&D and how many we are planning to file or that kind of thing?

Rakesh Parikh: As I mentioned earlier one DMF has been filed in this quarter, the balance we are working on and obviously that will be followed by the ANDA and work is going on, on about 8 to 10 molecules for the ANDA filing. So maybe we are still looking and trying to come back to one or two per quarter filing of the ANDA. This is from the older lot which we were working on. Work has also started for the newer filings, which will take at least a couple of years down the line and this will be targeted for 2017 onwards. So US does remain a focus area and lot of emphasis is being provided to the R&D to see that we continue to have the filing.

In terms of the nature of filings I think we have discussed it in the past, current filings are the ones where we have focused more on our strengths such as manufacturing and backward integration., They may not be very exciting but what happens is that it has enabled us to get a reasonable share and after the launch of 12 molecules, we are already in the top three in three molecules and we are in top five in the five molecules and if you noticed that in spite of not getting many approvals in the last two, three years, our robust growth of higher double digit still continued. So initially this is the first lot, which we are focusing on in therapeutic categories like cardiac, CNS, pain management, diuretics whereas in the balance lot which we will start filing from 2016-17 onwards, where there could be different delivery systems and some slightly complexed generics.

Krishna Kiran: Thanks Sir. That is all from my side. Thanks a lot.

Moderator: Thank you. The next question is from the line of Vikas Sharda from NT Asset Management. Please go ahead.

Vikas Sharda: I had a question regarding of MRs so where do you stand in terms of the revenue per MR currently and where the industry is and how long do you think it will take you to bridge that gap?

Bhagwat S Dhingra: Comparing industry's productivity vis-à-vis Unichem will not be the correct way number one, it is not available in the data. Second it will not be right thing but we have to compare that where we are in terms of current productivity and how we can move forward in increasing the productivity of people. So as I said that today our businesses are rightly placed with an adequate manpower and with adequate portfolio. The challenge is that we have to increase our productivity by maintaining and sustaining our mature basket and making our growth basket to grow better than the market and I am sure that next financial year you will find that there is a positive incremental productivity.

Vikas Sharda: Sir secondly on the export side, Mr. Rakesh mentioned that your gross margins are better in the domestic so we see lower gross margin on the export side and there is also the cost of freight in the R&D so including all these extra expenses for the export means if you look at the standalone the export business does it breakeven currently or still remains negative?

Rakesh Parikh: The export business will definitely breakeven. What happens is the initial costs are very high. If you take US now 100% of the US purchases are manufactured in India so we have to follow the transfer pricing the market cost and all instead of being booked here or booked there and you have seen that the US subsidiary is also making profit so they are able to recover all the costs after following a conservative transfer pricing policy. The only thing what I would like to say is our R&D expenditure is still continues to be roughly between 5% and 5.5% of our total turnover and that we intend to continue so right now if you take the international businesses we are not able to fully recover on a consolidated level the entire amount of R&D. Which we should be able to recover next year.

Vikas Sharda: Thank you.

Moderator: Thank you. The next question is from the line of Sudarsan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarsan P: In probably 2013 you had sold your API unit from Mylan and you mentioned that you would be looking at probably an acquisition target in your API business. Now considering that you are looking at your export business growing, if you can broadly give us the sense on your strategy with respect to how you are planning to ramp up your facility and what was the rationale behind actually selling your API business to Mylan and probably year, year and a half down the line looking at acquiring another API unit?

Rakesh Parikh: There is some disconnect. It was what we had earlier planned for a formulation unit in SEZ. API is not allowed unless it is a chemical zone being highly polluting and requiring good backup in terms of effluent treatments etc, so what we had sold to Mylan was a formulation unit in SEZ and as you rightly mentioned, it was mentioned that time that we would be acquiring an API facility. Looking at our manufacturing set up we have a Ghaziabad plant, which is running at almost about 90%, 95% capacity, the Goa plant we expanded after expansion it was also running at 70% and one of the major reasons for selling was that the approvals were taking a much longer time and to put it at a Greenfield site you have to once again go for US FDA approval and all, which would take further couple of years, .

So what happened was, finally our neighbor at Goa decided to sell the plots of land, after they decided to close down. Then since it was adjacent to our boundary at Goa plant, it was possible to expand our facility and which would have been much more economical and could make much more sense, as a result of which we sold our SEZ plant and we acquired these lands and, the expansion of the Goa formulation unit is going on.

So the capacity which we had sold then will be ready in a year and a half or so. So that intervening gap of not having approvals and not having a problem of capacities will not affect our business; however, as I mentioned earlier our focus or strategy has been to go for those kind of products where we have backward integration and unfortunately the plants from where we got approvals both at Roha and Pithampur got bunched up and they were already working on a three-shift basis running at 100% capacity. So it was becoming very difficult for us to service it. As a result of which we have already entered into an agreement and we are in the process of transferring an API unit in Maharashtra, which was bought prior to March 2014 for which Rs. 20 Crores were already spent. Once we get the balance approvals in terms of the labor and pollution etc. we will be starting the construction work at those plants and in next two years we will have adequate capacity to meet our requirements with the expanded formulation capacity at Goa for the next five or so.

Sudarsan P: How much are we planning to overall spend in the capacity over the next couple of years? We have spent about 20 Crores as of now right?

Rakesh Parikh: That is only paying of the existing lenders and for taking over the land from them. The plant was in a very bad shape and we may not be able to use much immediately, so a significant expansion will be required, but overall what we have been saying is that if you talk of the current financial year FY 2015 plus FY 2016 and slight spillover between all our plants in formulation and API we are looking at anywhere between Rs. 200 and Rs. 300 Crores plus of capital expenditure. In the current year we would have spent about Rs. 60 -70 Crores, balance will be now spent in the next year and a little bit get spilled over to the next. This will include the expansion of Goa with the next neighboring plot of land, plus the acquisition of the API plant what we have done as well as slightly expanding and debottlenecking and modifying our Pithampur API facility also so whereby we feel that capacity there can increase by about 10%- 20%.

Sudarsan P: Primarily the incremental capacity should be funded by a combination of debt in internal accruals or how would it happen?

Rakesh Parikh: Normally as you know we are zero debt Company, but if in the interest of business it is required then we are open to it. Right now it all depends on what kind of accruals are there, we are still having net cash on the books.

Sudarsan P: Thanks a lot Rakesh. I will join back the queue.

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

Rashmi Sancheti: Good morning all. Mr. Parikh, I want to know how much is the CRAMS business as a percentage of total export this quarter as well as corresponding last quarter?

Rakesh Parikh: As we had mentioned earlier we are generally keeping it to roughly around under 10% of our total turnover.

Rashmi Sancheti: This quarter also?

Rakesh Parikh: Yes it is more or less similar last time, it would have been maybe ~9% this time having shown growth, mainly cause of new product with the existing party. **Rashmi Sancheti**: Sir in domestic business you said that for total nine months there is a Rs. 17 Crores revenue impact now this Rs. 17 Crores total is only due to NLEM impact or because of the restructuring distribution strategy also?

Bhagwat S Dhingra: I think so you heard it wrong it is not Rs. 17 Crores which is almost Rs. 28 Crores the exact numbers are not with me, just put together the plough back as well as NLEM.

Rashmi Sancheti: Okay put together is around Rs. 28 Crores and in the coming quarters how much impact would be there?

Bhagwat S Dhingra: Monish, will give you the exact numbers. As of now my exact numbers are not in front of me but it is more than what I have said.

Rashmi Sancheti: I will take that number offline and Sir what would be the capex figure for FY 2016 and FY 2017?

Rakesh Parikh: We are not looking at it year wise because normal maintenance capex of around Rs. 40 -50 Crores will always be there every year. As I also mentioned earlier we are looking at capex of something like Rs. 200 to Rs. 300 Crores over the next two years that is FY 2015 – 16 and a little of spillover to the FY 2017.

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

Moderator: Thank you. The next question is from the line of Bhavin Shah from GeeCee Investments. Please go ahead.

Bhavin Shah: I just wanted to understand the entire field force that you all have on the ground what is the allocation towards the matured portfolio, the portfolio that you have said could possibly grow in excess of 40% and the 10% degrowing portfolio? Just wanted an understanding?

Bhagwat S Dhingra: What kind of manpower is put into 40% portfolio?

Bhavin Shah: How many people are behind the matured portfolio as of date and how many people are supporting the growth agenda of the portfolio you mentioned of about 40% and how many people are towards the portfolio were trying to turnaround the 10% degrowing business?

Bhagwat S Dhingra: As of now we have 11 divisions and put together there are 2750 added people put forward. Mr. Monish may come back to you giving you exact number deployed for mature as well as for growth portfolio.

Bhavin Shah: Sir in the growth portfolio that you mentioned that there could be specific brands that could grow at more than what they are doing today to compensate for the flattish numbers that you are coming up with the matured brands. How many brands are there as such that you could feel in your assessment can beat competition?

Bhagwat S Dhingra: More brands are from chronic segment may be Telmisartan, Olmesartan, Rosuvastatin as well as in atorvastatin, anti-diabetic portfolio, Voglibose and its combination, glimipride and its combination, similarly Sertraline there as well as many four five six good Neuropsychiatry molecule even Diabetology we have around seven, eight good molecules in gynecology we have four five good molecule.

Bhavin Shah: These will be targeted towards the tier one, tier two towns to all the super specialty customers or will it be down the pyramid again?

Bhagwat S Dhingra: The neuro psychiatrist and even dermatologist and gynecologist treating infertility are the fastest growing market and we would like to capture those markets and create an increase pie of growing segment within Unichem.

Bhavin Shah: But this is tier one, tier two that you are referring to?

Bhagwat S Dhingra: Also in metro because when I talk of these specialists…

Bhavin Shah: That is right. Fair enough. Thanks so much.

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

Rahul Sharma: Sir on the other expenses how much was for regulatory and how much is freight which has come additional in this quarter?

Rakesh Parikh: I will give you the exact figures later on but as I mentioned earlier whatever increases we have been seen they are primarily contributed by these two so it is a regulatory as well as repairs, maintenance and others. So may be around anywhere between 35% upwards would be more towards the selling distribution expenses, which was used to support the US growth and balance would be roughly in the regulatory as well as the discretionary expenditure to continue to see that our plants are able to comply with various requirement of the US FDA going into the future.

Rahul Sharma: But this is the one-off which is there, which regulatory part will not occur in quarters ahead right?

Rakesh Parikh: Obviously it would be significantly lower.

Rahul Sharma: Thank you.

Moderator: Thank you. As there are no further questions I would now like to hand the floor over to Mr. Dinesh Bajaj for closing comments.

Dinesh Bajaj: Thank you Margreth. I would like to thank the management of Unichem for their valuable time for the conference call. Thank you to all the participants as well.

Rakesh Parikh: Thank you very much and thanks for coming early Monday morning.

Moderator: Thank you. On behalf of Systematix Shares & Stocks (I) Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.