MOREPEN

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Subject: **Transcript of Investor and Analyst Conference Call on Results for Q3 of FY 2017-18 of Morepen Laboratories Limited**

Dear Sir,

Please find attached transcript of Investor and Analyst Conference Call organised on Tuesday, 23rd January, 2018 at 2.30 p.m. (IST) with regard to post declaration of Financial Results for the quarter and nine months ended 31st December 2017.

This is for your information and records.

Thanking you.

Yours faithfully,
For Morepen Laboratories Limited

(Thomas P. Joshua)
Company Secretary

Encl.: *As Above*

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"Morepen Laboratories Limited Q3 FY18
Post Results Conference Call"

January 23, 2018

ANALYST: **MR. SONAL KUMAR SHRIVASTAVA - KIRIN ADVISORS PRIVATE LIMITED**

MANAGEMENT: **MR SUSHIL SURI - CHAIRMAN & MANAGING DIRECTOR - MOREPEN LABORATORIES LIMITED**
MR AJAY SHARMA - CHIEF FINANCIAL OFFICER - MOREPEN LABORATORIES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Morepen Laboratories Q3 FY2018 Earnings Conference Call, hosted by Kirin Advisors. 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 the 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. Sonal Kumar Shrivastava from Kirin Advisors Private Limited. Thank you and over to you Sir!

Sonal K Shrivastava: Good afternoon everybody. I welcome you all to Q3 FY2018 post results conference call of Morepen Laboratories. Today on the call, we have Mr. Sushil Suri, Chairman & Managing Director of Morepen Labs and Mr. Ajay Sharma, Chief Financial Officer of Morepen Labs with us addressing the conference. I would ask Mr. Suri to brief the participants about Morepen and highlights of the Q3 results then we will subsequently open the floor for questions and answers. Over to you Sir, you can take it from here.

Sushil Suri: Good afternoon everybody. Welcome to the conference call. I am Sushil Suri, Chairman and Managing Director of Morepen and I have my colleague, Ajay Sharma with me. I will give you a quick background of the company that where we are coming from and where do we really want to go as a company. Then we can jump quickly on the Q3 results and the nine months performance as we proceed.

Just to give a quick background, we are a company, which established a small base in Himachal in 1984. That is like 34 year old now. We started as an API company, which is bulk drugs, so we did not start as a finished dosage company; we are an API company to begin with. We started with small products like Ampicillin and Amoxicillin, which are semisynthetic penicillin's and then we did a backward integration into six API.

In 1992 when we had our first IPO and we got listed in January 1993, so we started manufacturing or we started diversifying into the new molecules like Loratadine, Cisapride and Montelukast and these were complex molecules, which did larger scales and large facilities along with R&D. So that is how the new journey of Morepen started and as we stand today we are a multiproduct, multifacility company with international approvals and all product categories.

Coming directly to the product categories, we operate in four business segments, which are within the pharmaceutical area only. One is the bulk drug so APIs we call it short. Then there is a finished dosage where we go directly to the doctor. Third component is the diagnostic devices. All the diagnostic devices, which are used at home, like BP monitor, gluco monitor, weighing scales. And the fourth element is consumer product or a consumer line, which is Dr. Morepen. That again is a pharmaceutical space only that is health products within the pharma category, but not only Burnol, Lemolate but other product category where you do not need even doctor prescription. These are the four categories we operate.

I will give you quickly in that how each category works and in which plant it is produced. We have three plants, three manufacturing facilities. All the facilities are in Himachal. One is Masulkhana where we started from and that is an API facility and then there is another facility in Parwanoo, which is our finished dosage and the third and the main facility, which is spread over 60 acres of land in Baddi. That was a new area developed. So we were one of the first in that area, rather the area, where our plant is that is situated , called Morepen Village. So we were the pioneers in that area. Now Baddi is also very well developed. In Baddi, we have a facility for API, for finished dosage and even for the Diagnostic Devices, which we recently started manufacturing.

Masulkhana Plant is also inspected. It is approved by US FDA for Loratadine, Desloratadine and recently it has been approved for the Montelukast also and other facilities have been approved by various authorities, TGA Australia, EU Slovenia and Korean Industries, Japanese people, so different approvals for different products.

Coming straightaway to our core product line, which is API, which is the bulk drugs division, as a company, around 60% of the sales come from API. Out of the Rs. 588 Crores topline last year, the 59% were coming from API. That is the core of the company and Rs. 340 Crores were from APIs. This is how we started and this is how I would say that over the last 10 years, 40% of the company has been built in by domestic business i.e. formulations, devices, OTC, etc., but API has always maintained its core share and all the segments whether it is finished dosage, OTC, diagnostics every business has maintained its share and all the segments are growing.

Most of the growth segments are 15% to 20% CAGR that is the compounding annual growth rate for the last five years, the devices have grown much higher. Diagnostic devices have grown at a rate of 20% versus the PAT. Now come to the API business. Our key product is Loratadine. This was the first product where we got US FDA approvals. There were a lot of pains that we had to go through to get this US FDA approval for this. Immediately after the patent expiry the product had gone into the OTC and the prices have fallen and that is the time where the company had got into financial crises at that time because Loratadine, we were banking very heavily and we were expecting USD 100 to 200 million back in 1999 to 2000, but the prices in market crashed. So we had to go through a lot of pain, but we survived. And we had to go for a financial restructuring with the bank at that stage in the year 2002-2003 and finally the bank's restructured our loans in 2006.

I will come to the financials later, but after Loratadine, we have a product Desloratadine, which is similar to Loratadine, a better version that is also FDA approved. Then there is Montelukast that is also FDA approved which is for asthma and allergies. It is very popular in combination forms in India. All products even typical Fexofenadine, which is Allegra is coming in combination with Montelukast. There also it is used in combination and related to environment, dusts, pollution, everywhere people use Montelukast. Then we have a series of statins. We have Atorvastatin, which is the largest cholesterol control drug used in the world. Then we have Rosuvastatin, which is also growing pretty fast. Then we have anti-allergy Fexofinadine and of course then there is a series of sartans. We have Olmesartan, Candesartan. These are all Anti- Hypertensive. Then we have Voglibose, which is for diabetes.

So net-net on the API segment we have large drugs, which are catering to the domestic market as well as international markets. Three products are FDA approved. One facility is FDA approved and going forward we are planning more and more FDA approvals and expanding both into domestic and international on the API side.

Then particularly talking of the regulatory approvals for the business or the plant we have got US FDA approvals, TGA, Australia, EU GMP, we have got WHO GMP. Then for the Baddi facilities we have got EU GMP, then we have got Korean GMP, the WHO GMP and for Finished Dosage we have two facilities which was not approved internationally and those are only Indian GMP approved.

Just to stop here most of the pharma companies in India they are more focused on the finished dosage and they have, ANDA and worldwide and they have regulatory approval of finished dosage product so as a Morepen, as a strategy we are not into international ANDA and we are not into international finished dosages products company. We are only in the domestic finished dosages and OTC and all our international products are based on the Drug Master Files, which we file for the APIs. So one way we have a safety factor here that our exposure to the international market is low in terms of APIs and we do not have high investments and we do not have high risk of regulatory approvals and patents worldwide because of finished dosage and we do not have any FDA challenges, which in the recent past most of the pharmaceutical companies have been subjected to FDA inspections. So thankfully, we do not have any 483, we do not have any pending objections from the FDA because we are an API facility.

Now for the finished dosages in the regulatory markets, we file Drug Master Files for product we have to file in every single country. We have 45 Drug Master Files, which are active. We have filed for Loratadine. We have filed in US, Canada, Europe, Russia, Japan, then different products in different countries, so China, Europe, Canada, and, Japan these area all products, Loratadine, Desloratadine, Atorvastatin, Montelukast, Fexofinadine, these are all filed worldwide. Then for

European countries there is a certificate of suitability, which we have filed for 28 European countries so that is also in place for our customers who approach us, they come from the DMF. They get a letter of access from us so that is how we start the servicing to them.

All the API facilities are focus and based on our in-house R&D. We do not have any outsourced R&D. So R&D is our in-house and it started way back in 1992-1993 when we started developing Loratadine and Desloratadine. All the molecules, which we have launched have been developed in-house and we do not outsource any R&D. R&D division helps us new product development and processes, it helps in cost reduction and it helps in formulizing specialized chemical synthesis and then being part as intellectual property.

R&D department also parallelly works with creating its own wealth of its several patents, other than the chemical synthesis and other than for the cost reduction. When it comes to intellectual property so we have as on today 45 patents, which have been filed worldwide on various platforms for different products. We have patents for Desloratadine, for Atorvastatin, for Montelukast and for other products also.

So either these are related to new process or innovative process or cost reduction or different form of polymorphs, which are used in the pharmaceutical products. IP is our core strength. This is the IP or the intellectual property of the patent, which gives us an edge in the market where we talk of competition, where we talk of entry into any multinational markets and if we say that we have a unique process, which is not infringing with any other companies, where we get a better access.

Then R&D helps us in giving a pipeline with our products. We have a strong pipeline for the next two to three years. Again it is in the lifestyle drugs related to cardiac and diabetics. I am not getting into the names. API drugs have been our core and like I said earlier that that is how we started. Now presently we are exporting to over 75 countries, which is our active list and these countries include all the Asian countries whether it is Singapore or Hong Kong or Bangkok, Philippines, Japan and whether it is Latin American countries, Brazil, Argentina, Uruguay, Paraguay, Guatemala and all of the European countries, whether Germany, Spain, Croatia, Western Europe, all the countries except African countries, we are present almost everywhere including China, Russia and US. So since we have a large base in the international market so this helps us that whenever any new products has introduced that new product immediately goes to 75 countries, it is available to all the customers but as new molecules are more accepted in the Middle East market, these are more accepted in the South American markets and in the other developed markets first, it takes time for US and European markets to approve and it to come in phase II.

Coming on the financials. API has been growing at a CAGR of 16% and out of which export has been growing at 15%. The export is constantly coming up. Within the API our main product Loratadine still contributes 40% of the share, so it is still the large drug within our portfolio and Montelukast and Atorvastatin again another20% each, so basically around 80% of business come from Montelukast, Atorvastatin and Loratadine and both have been growing at a CAGR of 15% so year-after-year for last five years with a 15% CAGR.

On the top of the export growth there have been inconsistent growth in the domestic market also, so in domestic market we have grown at the rate of 18% CAGR in the last five years, which is very promising because earlier as a strategy, we were doing only exports and we were not focusing on domestic markets because our capacities were low, our costs were very high and thanks to our R&D that we have been able to come up with new cost reduction methods and we have been able to provide cost effective solutions to our customers in India and our exports, our domestic market is now growing.

Within the domestic market, Montelukast is a leader in domestic market 52% of our domestic sales is Montelukast then we have Atorvastatin and Rosuvastatin and certainly Loratadine is also there in the domestic market, but more the half of the pie is occupied by Montelukast.

In the recent past last two quarters there has been some adjustments in the GST regime that certain type of exports, which are there in the merchant trade those were earlier being treated as exports but the new GST regime those are being recorded as our domestic sales but on the product profile it does not matter but the same product whether it goes though one sale or the other still the same.

That is the overall conclusion of the API, basically led Loratadine followed by Montelukast and then Atorvastatin, international approvals, FDAs then DMF and patents, it is basically a core of API business and this is how here everything happens at the plant level. We do not need any marketing and we do not have any huge infrastructure to market everything, whatever we produce sell, we always short of inventories and rather to an extent that is always there are pending orders because we do not have surplus capital to invest in the capex and in the working capital. Since we have lot of pressures last few years to settle and pay our banks, we had done the our CDR back in 2006 and then it was finally the disbursement was made in 2007 and from 2007 onwards we have been expecting the CDR, doing the repayments and our debt, which was at Rs. 750 Crores has now been reduced to only 21 Crores. In next quarter coming quarter, the debt will become zero and the company will be debt free. At that stage we will be able to invest more in the API, in the capex and will be able to invest more in the capacity building and maybe some balancing equipments, which would enhance the capacities immediately.

Now, coming to the second segment i.e. the Diagnostic Devices. Diagnostic Devices is a very new term, which we started in India. Most of the pharmaceutical companies in India they were doing Diagnostic Devices related to the hospitals and most of the consumers remain unattended and only source of buying these Diagnostics Devices were the unorganized markets like where you get smuggled products and we could see that while we travel abroad these Diagnostic Devices were easily available over-the-counter so even though the Indian laws were permitting but no company in the country was aggressive to market them. We started outsourcing from Korea and China and of course we started with Europe earlier. Slowly we started our own manufacturing there. We got a private label there, but as we stand today now we are one of the largest Diagnostic Devices company in the home diagnostic center in India under the brand Dr. Morepen and we have over 1000 distributors countrywide who directly sell our products month-after-month, year-after-year and as I shared earlier our Diagnostic Devices are products like BP Monitors, Gluco Monitors, Nebulizers, Weighing Scales, Thermometers, Air Purifiers then we have BP Monitors for the doctors who have typical mercury thermometer, mercury BP monitor for any device, which people use at home and as that is the promise of that Dr. Morepen brand.

Dr. Morepen brand's motto is health in your hands, anything which you can do at home for your health, it is your health, you are responsible for your health, and you should do it at home that is what Dr. Morepen Diagnostic Device business says. Our latest product is Air Purifier and it is quite helpful particularly in the northern part of the country where there is lot of pollution and the air pollution parameters are at sometime hazardous level or danger level.. We have Gluco Monitor, our leading product, one of the star products where we are still investing. Here as a company we invest in marketing or placing gluco monitors in the market and then we can generate the strips consumption so we sell the monitors and as we stand today we have more than 1.8million meters already started in last two to three years and by end of March, we will be touching 2 million users of Dr. Morepen Gluco Monitors, which will give a company a big edge, a big advantage that we will get a regular business of selling strips. The target is that we need to have 5 million active users in the three to five years so that we keep on building the base.

India being a large country we have 60 million diabetic patients as per WHO's report so out of 60 million even if we are able to reach 10 million over a period of next seven to eight years that will be a big achievement and everybody who owns the Gluco Monitors he would be needing regular strips that is how this business model is made. In a country like India, it is not possible to import all the things at a costly prices so over a period of time, we have started manufacturing Gluco Monitors in India. First we started assembly line, slowly we can add on. In the coming fiscal we will be starting even manufacturing the strip in India. Now we are only cutting strips and added it to the Gluco Monitor. As we go forward we have all the ideas and planning so that all the diagnostic devices which are presently being imported should be produced in India at a cost effective price and we should be able to reach to every nook and corner of the country where we can give affordable devices.

When we started marketing these Gluco Monitors, Gluco Monitors were in the range of Rs.2000 to Rs.3000 and actually there were very few users and now the price is between Rs.500 and Rs.600 if you want to buy a Gluco Monitor because for a country like India where we know the buying power is not very high so we try to minimize the cost and also respect the Government of India's tradition to go with the India's vision to have Made in India report. The Gluco Monitors is one product, in which we are doing very good. Gluco Monitor business has been growing at a CAGR of 52% so 52% year-after-year last five years it is growing. Last year the total sale of diagnostic devices was Rs. 77 Crores and this year in nine-month sell over we have done Rs.79 Crores so we will be touching around Rs.100 Crores in the segment growing at a CAGR of 20% that is in the diagnostic devices.

Then we have a business of the third segment is finished dosages. Finished dosages we have common products where we have antibiotics, we have gastro, we have cardio, we have neuro, we have all the different products. We have 400 products in various categories. Here we have two things to share. One is that we have doctor prescription product, which are called branded generics and then there is another plain generics, which are sold directly into the market for a better reach. In a generic product we have innovated in a different system to cut down the cost of prescriptions, to cut down the cost of the retailers, to cut down the cost of the intermediaries, we directly go to the retailers to wholesale route and sell the product at affordable price and the prices of these drugs are much lower than the same product but these are produced in the same plant, same facility but are offered to the customer at a lower price. So this gives us good edge in the market in terms of marketing and out of the Rs. 107 Crores Rs. 81 Crores is generic business and Rs. 36 Crores in the branded business both have been growing at a CAGR of 12% so comfortable growth year-after-year and this finished dosage market this gives us a very good reach, around 400 products and with this reach and Dr. Morepen, which is a OTC brand we get a full combination, we get finished dosage also, we get devices also and then we go in our health products also.

Then coming to our favorite OTC brand, Dr. Morepen. Dr. Morepen is a lifestyle brand, which was created in 2001-2002 and it was launched with a big fan fare, so that people are able to identify themselves, people are able to get to know our new product. Dr. Morepen is first of its kind brand in the country where any pharmaceutical company India with the new brands. Most of the brands which are there in the market those are old brands like maybe fifty years old, hundred years old that all old brands which even we might have heard are related to that. So we created a new brand, which was a more lifestyle brand, which is more dynamic, versatile and directly approachable by the consumer. So just to give an overall view, Dr. Morepen is not a brand, which is related to a doctor. It is a doctor, which helps to have health in your hands. Dr. Morepen can work on pharmaceutical, it can work on health and fitness, it can do bearable, it can do any white mails, it can do an even device that is how Dr. Morepen comes in.

Here we acquired old product like Burnol. Burnol has a history of around 70 years and that should given a good reach to the company then we have brand called Lemolate, which is a cough and cold/ Burnol is for burns of course then we have a pregnancy test QuickCheck, then we have a natural husk Sat-Isabgol and of course that there is a range of products Pain-X, Fever-X, Head-X in all categories. Here also we have a combination of large no. of branded products, which are sold through our main channel. Then we have the generic products, which are sold directly for wholesale channel. So there also the topline is growing very fast so we are growing at 14% as a CAGR and the direct to the customer category has grown by 56%, a remarkable growth in the direct to customer category also.

Then the last edition in our Dr. Morepen family is the service segment. Dr. Morepen was always on a product category. Recently we added a service wing to that. That is where the rubber hits the road so we have launched our Heart Care Centers where Dr. Morepen has in a way tried to say that okay no need to go to hospital, if you can treat yourself at early centers. The name of the center is Nation on Wellness in short, we call it NOW. Now it is Dr. Morepen's NOW. Here we have put some special machines called ECP machine External Counter Pulsation. So these machines have an international company Renew, so we have collaborated with the company. This machine improves the blood circulation in the body. It basically pumps up blood from your lower limbs up to the heart and if it is done regularly they after 15 or 20 sittings so only develops natural bypass so if you have a cardiac problem you do not have to necessarily go for angiography, you do not have to necessarily go for a bypass surgery, the bypass surgery in the hospital is an artificial process but what we do at now is the natural process where without going to hospitalization, without going for any exercise. We have a nutritionist, yoga teacher, we have blood testing facility, so it is a comprehensive treatment and this is a drive for the company that we should try to reduce our dependence of the hospitalization and empower the customers more and more so that you can take care of control of yourself. It is a 360 degree control of your health when it comes to heart. So this is broadly the business.

Now we can come down quickly on the financials where we go to the quarterly results. On the financial performance, the company as I told that we had a bad face in 2003-2004 and our company got restructured in 2006. When it got restructured we had a consolidated topline of only Rs. 125 Crores and last year we have closer to Rs. 588 Crores so it is almost five times a little less than five times and the CAGR is of course 15% in last, five years and EBITDA has been growing consistency in 2008 we were at Rs. (5) Crores and now last year EBITDA was Rs. 64 Crores so this is now the real test that company have not only grown in topline it has grown in the bottomline also and in the EBITDA percentage, EBITDA percentage which has nominal 2% to 3% now it is at 12% stabilized. So going forward EBITDA would improve as and when like I told you that we have cash constrains as on today so when the company becomes debt free in the coming quarter so we will have a lot of cash which we will be ploughing in the business and we will be able to use that cash for better buying power and of course at a negotiations and EBITDA margins is certainly going to go up and of course better capacity utilization.

Coming to the profitability part so company has gone through' very bad face, but after one decade almost we started recording profits. Last three fiscals and the nine months we are into profit. Last year our standalone net profit was Rs. 23 Crores and now in nine months we are almost Rs. 22 Crores. We are almost if we say apple-to-apple it is almost nine months we have completed what we did in one-year last year so we expect that if we could grow at the same pace, we will be very comfortable in the coming year. And net profit margins also have gone up. We were sometime losing heavily however now net profit margins have started improving 3%, 4% and in nine months the margin is 5% the cash profit has also gone up and is also slowly inching upwards.

The big news is that I always shared that Rs.750 Crores debt has been reduced to Rs. 21 Crores in December so in the next quarter it will be reduce to zero and of course we will be out of CDR and then in the past we had fixed deposit holders, which have also been settled through our court order that we have gave some shares to them, shares were given to all the FD holders at Rs.11.32 and of course these FD holders are happily enjoying the upsides.

Broadly speaking we have shared the strength and weakness of the company on account of the limited cash flows and because of cash constraints we are not able to fulfill the orders in hand and we are not able to execute the capex plan. However that was the temporary thing and we will overcome all weaknesses, once we have little cash coming from back from the business.

That is the macro picture of the company, so now we can quickly go to the quarterly results, which are already declared, and we had our board meeting yesterday. Just to speak of the team part we have a very dedicated loyal team and we have got most of the senior team are like 10 to 15 years old and it is practically zero attrition in our plants and in our offices. The marketing division certainly does see the attrition rates, which are according to our market, and our corporate offices and plants we have very good old loyal people, which are there at company 15 to 17 years.

Coming to the quarterly results, during the quarter we had a net standalone revenues of Rs.142 Crores against which we have EBITDA of Rs. 18 Crores, which is 18% higher than the last year same quarter. We have a net profit of 9.67 Crores, which is 107% up as compared to the last same quarter last year. Last year it was 3.4% and it is 6.8%, but as we see of course the EBITDA was higher, second was the interest component has reduced to only 40% against Rs.2.23 Crores interest last year it is Rs. 90 lakhs now, hopefully this also will go down this quarter and the coming quarter and it will become zero.

Depreciation and amortization of course remains same. 107% increase in the topline in the quarter and when we look at the nine-month performance, we have a topline of Rs.406 Crores in the topline in the nine months. The revenue is almost same as last year, just 1% up, but there is a 3% increase in the EBITDA. This was Rs.47 Crores and it is Rs.49 Crores. Here again interest component has reduced by half from Rs.6.32 Crores to Rs.3.5 Crores and cash surplus of course is high and there is a 38% increase in the net profit when we look at the nine months period against a Rs.15.31 Crores profit for the nine months last year there is a Rs. 22 Crores profit for the current year. If you now look at the growth part, so for the quarter, net revenues have gone up by 3%, EBITDA has grown up by 18% and cash profit has gone up by 32%, which is very good and net profit of course goes up by 107% and in case we look at the categories that what gives the profitability where is the jump coming from. Domestic API sales have gone up by 59% during the quarter and of course this has some adjustment of the GST sales, which has migrated from exports to domestic then diagnostic devices sales for the quarter has gone up by 53% so half of the sales have gone up so by the devices sector. Gluco Monitor sales have gone up by 61%. This is very high because more and more meters are being sold, more and more strips are being sold and BP monitors we had 99% jump of sales during this quarter and for the nine months domestic sales have gone up by 49% and then the gluco monitor sales have gone by 45% so all around I would say domestic sales, devices, BP monitors and gluco monitors that is leading the impact.

Just to quickly wrap up the highlights and then of course we are open for question and answer session. For the quarter there was 107% increase in net profit and there is a marginal increase in the topline. Domestic sales are up as we discussed earlier. Interest burden has dropped. Montelukast records a highest growth of the bulk drugs. Montelukast and Atorvastatin have grown by 25% and 23% for the quarter, which is again very high.

BP monitors we discussed have grown by 99%, Gluco monitor is 61% and the company becoming debt free in the next quarter and all these things, which have increase in our revenue, cost reduction, higher EBITDA so this is all leading for the company to show better positive results and just to share a news that in the last month, in the month of November we had got approval of US FDA for bulk drug Montelukast. So we are expecting orders to begin in the Q2 of next fiscal and supply will start in the next quarter after that so there is Rs.2000 Crores global API market of Montelukast, which is available for immediate capturing.

We had entered into a joint venture with Vésale Pharma of Belgium, a probiotics market in India. It is a Rs.1000 Crores market in India, which we recently tied-up with the company with Vésale. Vésale is very good strong player in the probiotics. Probiotics is the one, which is very recent market in India. It is expected to grow at a very large base. So this also would start contributing in the Q1 or Q2 in the next year. Already the implementation of the JV is there.

These are the broad contours of the quarterly performance and the nine-month performance, but just to wrap up everything together so the company was in struggle for last ten to twelve years. It has come back over its own foot without any external borrowings and now it is available for next jump for its own feet with its own cash accruals and in today's world when all the companies or the banks are struggling for fighting for NPAs and recoveries and NCLT, so we are happy that we are getting into a debt free stage and this is a celebration time for the company and the motto of the company, the logo of the company says the joy of growing together so we are happy to have lot of joy with the counterparts and happy to share if there are questions. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Nikunj Doshi from Bay Capital. Please go ahead.

Nikunj Doshi: Good afternoon and congrats on good set of numbers. Just wanted to understand this Montelukast opportunity. I read in Business India that it is likely to be a Rs.500 Crores kind of opportunity for the company so what is your take on that and when do we see that happening?

Sushil Suri: Montelukast is the $300 billion product in the US market that is like Rs.2000 Crores so even if we get 10% to 15% share I think here so over a next period of three to four years we will be getting to the Rs.500 Crores value from this will add to our topline.

Nikunj Doshi: So 500 Crores per year you are expecting?

Sushil Suri: Cumulative. To begin with cumulative but I am going with you. I wish that I can garner 25% share within one year so but that is very difficult so slowly it will come to that stage.

Nikunj Doshi: And how many ANDAs are filed based on our India?

Sushil Suri: We are not into the ANDA business.

Nikunj Doshi: No but Sir your partner would have filed based on your DMF or something?

Sushil Suri: This is a product which is not a Paragraph IV so this is already approved by our partners there so they have approved our supplies so there is no competition. It is a ready market but I assume there are three four more ANDAs which are active.

Nikunj Doshi: Besides these Loratadine, Montelukast any other opportunities that you are targeting in US in near-term?

Sushil Suri: I would say all the new products, which we decide these are all based on the US market but earlier our strategy was to be aggressive and go for Paragraph IV challenge but over a period of time, we realized that Paragraph IV challenge is a mirage and we end up getting into litigation. We have we have 45 DMFs in place all products, will be handled are according to that, but as and when it comes, so we will be able to give you clearer picture.

Nikunj Doshi: And in terms of your ambition what will be the ambitious target you have say while in next five years or so?

Sushil Suri: Look as I shared with you that we have been growing consistently with CAGR of 15% to 20% so I would say if we are able to maintain 15%, CAGR it in today's environment that we were that is very good but we expect that as we are now getting out of the debt territory, we have some surplus cash in the table so we would certainly be growing at around 20% year-after-year and now the numbers are large even 20%, 25% topline would be a good growth.

Nikunj Doshi: And margins and what kind of margins you are expecting?

Sushil Suri: Margin like I shared that our EBITDA have started coming back. We are only at 12% but industry average is between 18% and 20% and as we go forward our EBITDA margins are going to go up because as on today we do not have favorable purchase conditions, we do not have much negotiation power and of course the volumes are also better. So I expect that EBITDA should constantly go up.

Nikunj Doshi: You being in CDR, is there any restriction on you for further borrowings or fund raising or anything?

Sushil Suri: Technically it is not but according to the traditional banking and as a conservative company so we also do not want to get into a fresh funding till our old debts are cleared, in fact there is no restriction.

Nikunj Doshi: And are we looking at any fund raise in near-term, equity raise?

Sushil Suri: Not immediate so all we are looking is increased cash flow.

Nikunj Doshi: Thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Jaishankar Dwivedi an Individual Shareholder. Please go ahead.

Jaishankar Dwivedi: Very good afternoon Sir. Government of India is bringing a policy on farm areas that is for farmers wellness, healthcare centers, which maybe a very huge market so what is the planning of the company to tap and tap that potential?

Sushil Suri: We have introduced our product of Nation On Wellness, NOW so typically a service side. To begin with it starts with a heart care center and we have already approached Government of India for approaching these and making these centers in the rural areas where hospitalization is not possible but you would appreciate that working with the government is not very fast and it is not immediate, we have a model available as and when things open up so we have the technology, we have the people ready so we just be it space maybe the government primary health centers can be converted into heart care centers we may be able to say few lives.

Jaishankar Dwivedi: Thanks.

Moderator: Thank you. We take the next question from the line of Kishore Kumar an Individual Investor. Please go ahead.

Kishore Kumar: Just wanted to know with the approval of Montelukast, your market in US has opened up for Rs.2000 Crores just wanted to know moving forward what market opportunity do you see in the US for us?

Sushil Suri: We have a range of products. Of course, all products as I shared with the listeners, and colleague of yours that all products are for the US market but naturally as and when we get a US FDA approval we will be announcing that.

Kishore Kumar: But if you could give some guidance in terms of what do you expect or let us say we get over the years 10% to 15% market share in the newer approvals what would that approval market size be for FY2019?

Sushil Suri: FY 2019 of course we start getting orders in Q2 as per the customer's commutation with us is June, July in the coming fiscal so we may start supplies in the coming years and I would not be able to give a right number now because I would like to play safe with the numbers. We are a conservative company. We do not give any guidance but like we had given in our press release that over a period of three to four years we getting around Rs.500 Crores business.

Kishore Kumar: What is the margin profile for your Diagnostic Device business versus your API business versus your fixed dosage business?

Sushil Suri: In the fixed dosage business is a typical business where we have to do a lot of marketing but in the API business we have EBITDA of between 15% and 16% and devices is between 15% and 18% and

Dr. Morepen as a whole as we actually invest lot on the marketing also and finished dosage also so we have higher EBITDAs but the spend is higher so the debt profit remains the same but I would say 15% to 20% average EBITDA for all the product lines.

Kishore Kumar: So as US pass by you would like to get consolidated margins up to 15% to 20%.

Sushil Suri: Net margins between today we have 5% to 6% but net margins will start going up now because we had interest also being serviced and we had some cost restrictions and limitations on the working capital, so as we grow from here so the margins would improve I would say substantially.

Kishore Kumar: And you will become debt free next quarter?

Sushil Suri: It will be.

Kishore Kumar: That is it Sir.

Moderator: Thank you. We will take the next question from the line of Ramachandra Dattatrya an Individual Investor. Please go ahead. As there is no response from the current participant we will move on to the next that is from the line of Paresh Sabhaya an individual investor. Please go ahead.

Paresh Sabhaya: I want to know that Montelukast US FDA approval so how much revenue coming from FY2020 and net profit margin of this product?

Sushil Suri: We are expecting our business of around Rs.500 Crores of Montelukast in next three to five years' time but net margins are much better in the US market so against the EBITDA of 15% to 20% as in all APIs. It may be between 18% and 20%. Of course expenses are already involved.

Paresh Sabhaya: Okay but the net profit margin how much here is expected?

Sushil Suri: I will not be able to give the numbers now, but I would say these are better than what we are doing now.

Paresh Sabhaya: Thank you.

Moderator: Thank you. We will take the next question from the line of Karan Doshi from Subhkam Ventures. Please go ahead.

Karan Doshi: Thank you for taking my question. Sir just if you could briefly tell us this 20%, 25% growth that we are expecting would be primarily to the API business, right?

Sushil Suri: API and devices.

Karan Doshi: API and devices.

Sushil Suri: Devices group diagnostics.

Karan Doshi: No because since the larger amount, if we see the size comes from the API business?

Sushil Suri: Yes, but the CAGR of the API business is at 12%. For the devices business it the CAGR is 20%. Gluco meters are going up 52% CAGR. So devices business is one area where it practically I would say are competitive not with multinational. We are getting a good run in the market because we are getting an opportunity in diabetic self-care sector, while other companies are supplying the medicines, they are working with the doctors with their devices.

Karan Doshi: Sir, I was going through the press release on Montelukast, Rs.2000 Crores is the size of the ANDA opportunity, right?

Sushil Suri: That is the size of global API market.

Karan Doshi: API market, so we typically would be supplying to multiple formulation players out there?

Sushil Suri: Today we got approval of the plants. Plant is approved based on the ANDA of one customer, so as we go ahead, more and more customers will start adding.

Karan Doshi: Cumulatively we are expecting around Rs.500 Crores to come through this product?

Sushil Suri: That is a conservative estimate, which means that we are not going to give any numbers depending on how the markets play up. Once we know that our costs are very low, so we will be able to compete and we will be able to give quality input product. Regarding market, we are also number one player. So, we know our strengths. We are confident. All depends on the market.

Karan Doshi: Sir, if I look at the gross block currently we have not done any capex for a long period of time so currently what is the utilisation rate and do we need further incremental capex?

Sushil Suri: Last couple of years or rather I would say last almost one decade, we were short of the cash surplus in repaying the banks and we have not had investments, we have done routine capex, but as of today we are operating between 90% and 95% of capacities and we surely have capacity constraints, we have small capex to begin with. There additions are planned, so we do not need to save Rs.100 to 200 Crores capex, routine capex requirements will be there, which will be met from the internal accruals.

Karan Doshi: Sir, what would be our capex plan for 2018-2019 and 2019-2020?

Sushil Suri: 2018-2019 and 2019-2020 so I would not be giving you the exact number, but between Rs.22 Crores and 25 Crores.

Karan Doshi: With this incremental capex, I am just trying to understand the asset turns out here because like currently we had full utilisation and incrementally we are talking about 25% kind of a growth so would it be sufficient?

Sushil Suri: We have the basics in place. We have the capacity in place. What we need to add in is the utilities. We need to add only the balancing part wherever we need to add a new plant, so maybe not in I would say 2018-2019 may be 2019-2020 we would add an extra plant. In Baddi facility we have got 10 production units, which are sufficiently equipped to handle everything so what we almost fall short of either the utilities. We have to invest more on the equipments, the R&D and QC equipments. Actually, we need more and more capacities, more equipment are required. In the last few years, major of our investments have gone into QC and R&D. When we started working, we had a couple of HPLCs and GCs and now we have tens of that. Every year we keep on adding more GCs, HPLCs. Every lab and every system need that.

Karan Doshi: Sir, we have filed around 45 DMFs so till date how many DMFs are we supplying? Or are we supplying all the products?

Sushil Suri: The US market we have only Loratadine, Desloratadine and Montelukast. Other DMFs are in other countries. Of course, out of the 45 DMFs we are in US, Canada, Europe, Russia, Japan, Taiwan, basically all these products are supplied everywhere. Only US market is only limited, but other markets whether it is Eastern Europe or Russia, Taiwan, Korea, China so different products, even in China we have Montelukast, so it goes to that place. In Japan we have Atorvastatin and Fexofenadine, in different markets, different products. So all are active except US, which was slow.

Karan Doshi: Sir what will be our current contribution from export of API?

Sushil Suri: Export of API is 60% of the total.

Karan Doshi: Of the total API, right?

Sushil Suri: Of the total API, but this year there is some adjustment happening because of the new GST regime, some of the sales of export is not recorded as because there were some sales like merchant exports those are being recorded in the domestic sales, but technically it is export only.

Karan Doshi: Sir, out of this 60% which would be the biggest geography for us?

Sushil Suri: US, biggest is US only.

Karan Doshi: US only and that would be around?

Sushil Suri: Out of the 60% I would say another 60%.

Karan Doshi: Sir from two products we are earning approximately 60% kind of, because since we got Montelukast approval right now?

Sushil Suri: Loratadine is our core, which was giving around Rs.100 Crores topline to us in the beginning and it has maintained itself. So Loratadine has maintained its course, then Montelukast and Atorvastatin these are also there. This is the US market, yes it is only in US. Loratadine market, if we talk of the full year numbers, Rs.100 Crores is Loratadine and almost Rs.100 Crores is Montelukast and another Rs.58 Crores is Atorvastatin.

Karan Doshi: Thank you very much.

Moderator: Thank you. The next question is from the line of Mahesh Sarda an individual investor. Please go ahead.

Mahesh Sarda: If you can please elaborate on this JV with Vésale Pharma you are saying that the market for probiotic is 1000 Crores. How should one look at or how do you look at the future over the next five years for you?

Sushil Suri: Vésale Pharma basically is a very strong probiotic company. Here we also look at the probiotic market in India is very huge and as I shared earlier it is at a decent stage and it is very upcoming market and Vésale has got product line, which is very similar to what we like in India. We have got good products for kids, they have got good products for pregnancy and of course for all the gastric disorders. So we are expecting again 10% to 20% of the market share in this, but it will take some time and because it is a new type of thing in India but we expect that out of a 100 Crores market again, I am saying 10% to 15% market share over the period of three to four years.

Mahesh Sarda: Sir, you said that your margins currently are at 12% whereas the industry is heading to 20% and because you are coming out of CDR you will have some sensibility in future to improve. So can you elaborate which are the areas where you can improve your margins?

Sushil Suri: Margin improvement I would say it is all over. It starts from our purchases. It starts from our bargaining power and we can negotiate better we can open LCs as of today we have looked at even at LC facility with a company. We do not have any imports. We are still there with a company who can buy at cheaper prices and secondly would be cost reduction by way of capacity balancing. We may be investing some amount of money on the capex so that our costs go down and third measure would be that once my volumes go up, so there would be efficiency coming up. Fourth area which we always look is when we go for any marketing so, if we are having for example in Diagnostic Devices in Dr. Morepen if we have volumes, we can offer better schemes in the market and we can offer better production facilities. Diagnostic devices, if we have got large volumes, more and more products can be produced in India. For example, Gluco monitors when we were selling 5000 Gluco Monitors per month even though logic of producing those meters in India. That is the quantity. So we have 70000 meters every month. So we can produce it in India. Similarly BP monitors. Now we are focusing on the BP monitors. Once we reach to a critical mass, we will start producing it in India. People take like thermometers, nebulisers, so there is no need to import thermometers, which are small, but if a large volumes we can produce it in India and reduce the cost.

Mahesh Sarda: Thank you.

Moderator: Thank you. The next question is from the line of Vainathevan BT an individual investor. Please go ahead.

Vainathevan BT: Good afternoon Sir. I was more interested in your R&D factor. Are you by any chance going to do any contract research work for any outside party? Do you foresee a growth in that or any opportunities in that?

Sushil Suri: There is a lot of opportunity, but it all depends on our in-house strategies. As on today, our focus is on the in-house, but we do keep getting offers for special contracts if any third party wants to do it, but as on today, we do not have anything on the cards, but actually we are open to that.

Vainathevan BT: With the existing R&D facility and the manpower, is there any thing where we can at least do the first initial work without any additional investment? Use the existing facilities for research and development for outside parties?

Sushil Suri: Existing facility that is what I am saying. Teams are occupied with our old system where we do not have any extra resources but if we have to start, we will always do that, but if we have to do a specialty we can always create a special network specialty. As of today, we do not have.

Vainathevan BT: Nowadays all pharma companies in general are getting into specialty chemicals. Are there any future plans for you all to get into it?

Sushil Suri: The focus is the API without the chemicals parts but naturally within the APIs then there are certain intermediates which presently we are importing through China or Korea or Europe and we know that these are costly and may be there are safety issue, so our R&D help us recalibrate those things for our domestic market and we produce that in India. That is for any specialty chemical for say, we do work for our own intermediates.

Vainathevan BT: What will be the next big thing from the US you will be expecting after this Loratadine and Montelukast Sodium what is the next big thing, which one should expect from this company?

Sushil Suri: You have to wait.

Vainathevan BT: Thanks. One last question any mergers, takeovers or anything on the anvil? Anything which is being looked into?

Sushil Suri: I would say this is a very open subject. As a pharma company we keep getting offers for some sort of JVs from international companies on the API front, but since that is our core and we do not want to partner there, but in case if we get any international options for any combination where we can share our joys with others we are open and on the acquisition front, Dr. Morepen is a brand where we go to the market with a bang and we have growth plans. So we are open for acquiring any OTC products or any health products which will get us a better reach.

Vainathevan BT: And how about this Gluco meters and everything for the international market? I assume that they have got and meet the international standards so do we have a market abroad for all these tools?

Sushil Suri: That is the objective of starting production in India because our counterparts in Korea and Japan, they also eventually manufacture either in China or local where they are having problems. If we start manufacturing it in India all the things, so we can do export also out of India.

Vainathevan BT: And how about the countries like Africa where generally all the pharma companies do not actually have a very great presence. Do you foresee any growth in Africa because Dr. Morepen, I presume does not have a very strong presence in Africa? Do you foresee the next marketing strategy for Africa, anything on that side, please?

Sushil Suri: We are in Egypt and Nepal and to a small extent in Bangladesh to the neighbouring markets where we are selling these things, but in a bigger market like you said that is a large and huge market, but we have to wait for another two years before we move heavily into exports because these are very low-cost markets.

Vainathevan BT: I congratulate you once more for actually getting the company out of the red, which is a very rare thing to do. It shows a lot of guts and a lot of teamwork, so I congratulate the whole team of Morepen for having done this job. I wish you all the best for the future too.

Sushil Suri: So you are part of the team.

Vainathevan BT: Yes. I will be for sure. You will be listening to me. I will be on your concall every quarter. You will be listening to me and I will have the pleasure of listening to you.

Moderator: Thank you. We will take the next question from the line of Ramchandra Mirkut an individual investor. Please go ahead. As there is no response from the current participant, we will move on to the next. That is from the line of Vivek Kumar an individual investor. Please go ahead. As there is no response from the current participant, we will move on to the next that is from the line of Parsad Agarwal from Madhav Trade &Finance Limited. Please go ahead.

Parsad Agarwal: Congratulations, Mr. Suri. I am your hardcore fan. I want to know about pending court cases and SEBI cases etc., do you have still pending or all is cleared?

Sushil Suri: Basically, we had a lot of litigation around FD holders which we have settled back in 2009 and we had given them the shares. The Government of India has filed an appeal, which is pending in Himachal High Court and there it is in NCLT, but it is just a follow up because shares have been given. SEBI we had issues regarding listing of promoter shares, which have been recently listed, bank shares and listed shares those have been listed. We do have routine litigation regarding commercial matters where we file cases on a routine basis.

Parsad Agarwal: Thank you, Mr. Suri.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Sonal Kumar Shrivastava for his closing comments.

Sonal K Shrivastava: I thank everybody for attending this call and if there are any queries or any question, you can very happily reach out to us and the management. I thank Mr. Suri and Mr. Ajay Sharma for taking this call on behalf of Kirin Advisors for the investors. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Kirin Advisors that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.