"Strides Pharma Science Limited
Q4 FY-21 Earnings Conference Call"

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MANAGEMENT:

1. **MR. ARUN KUMAR**
   – FOUNDER & NON-EXECUTIVE CHAIRMAN
2. **DR. R. ANANTHANARAYANAN**
   – MANAGING DIRECTOR & CEO
3. **MR. BADREE KOMANDUR**
   – EXECUTIVE DIRECTOR - FINANCE & GROUP CFO

INVESTOR RELATIONS: **MR. ABHISHEK SINGHAL**

Moderator: Ladies and gentlemen, good day and welcome to Strides Pharma Science Limited Q4 FY21 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhishek Singhal. Thank you and over to you, Mr. Singhal.

Abhishek Singhal: A very good afternoon and thank you for joining us today for Strides' earnings call for the Fourth Quarter and Full Year ended Financial year 2021.

Today we have with us Arun – Founder & Chairman, Dr. Ananth – Managing Director & Chief Executive Officer; and Badree – Executive Director-Finance & Group Chief Financial Officer to share the highlights of the business and financials for the quarter.

I hope you have gone through our results leaf and the quarterly investor presentation which have been uploaded on our website. The transcript for this call will be available in a week's time on our company's website. Please note that today's discussions may be forward-looking in nature and must be viewed in relation to the risks pertaining to our business.

After the end of this call in case you have any further questions, please feel free to reach out to the investor relations team.

I now hand over the call to Arun to make the opening comments.

Arun Kumar: Thank you, Abhishek. Good evening everybody and thanks for joining in what I know is a busy day of pharmaceutical companies reporting today. I do hope all of you are staying safe and your families are all in good health. The much appreciate our employees today as we complete a year of turbulent Covid phase two waves and just coming out of a very difficult second wave that has hit Bangalore and Karnataka quite severely.

Having said that our people our colleagues at Strides have worked extremely hard to ensure that the lights were on, on all the facilities and yet we were able to work most days. So before I start I would like to acknowledge their roles and thank them for all their contributions. It has also been a sad few weeks for us as we lost a few colleagues which is unfortunate and we are doing everything as a responsible corporate to take care of their interests of their family's interests and while also ensuring that we focus extensively on the quality of life of our employees.

Our focus has been for the last several months clearly on health over profits and this has resulted in some adjustments in how we conduct our business at some cost but I think these investments were necessary and were the right thing for us to do as we are engulfed in a very complicated

situation. We work in a very ambiguous environment where several countries are getting out of Covid and here in India we are getting into the midst. We are in the midst of a very severe wave and in all of these we continue to be resilient with our business strategy and I am going to let my colleague Ananth speak more about what we have achieved in the last year and what is otherwise a very difficult year we still have shining lights in terms of the pivots that we have built to take this business to the next level.

So over to Ananth and I will spend a lot of time today for those who will have questions on Stelis as I continue to spend more time in that business whenever those questions are asked. Thank you all.

R. Ananthanarayanan: Thank you, Arun. Good afternoon everyone. Again I want to thank all of you for joining today's Conference Call and I hope all of you and your families remain safe in the current Covid wave. As Arun mentioned the FY21 has really been a tough year with Covid causing significant challenges all through the year. Covid certainly has had a significant impact on our people and our business too.

We are grateful to all our employees and their families for their dedication and commitment to serving patients during this pandemic. Again as Arun mentioned earlier we are deeply saddened by the loss of few of our colleagues in the second wave of the pandemic. We continue to pursue a people first approach with safety and well being of our employees being our top priority. We have taken several initiatives to support our workforce through these challenging times including providing financial support to secure honorable living for families of deceased employees due to Covid.

We have also introduced free vaccination programs for all our employees and their families and expanded insurance coverage for Covid over and above the regular medical insurance offered by the company. We provide full medical assistance for the impacted employees and their families including hospital admissions, support for oxygen cylinders, doctor consultations and have set up a 24x7 Covid helpline assisting our employees with medications and counseling.

Covid has also post several challenges for our business in FY21. We have witnessed lower foot falls at pharmacies, lower surgeries in the hospitals throughout the year leading to lower prescription rates specifically in US, UK and Europe. While we saw weak demand for certain products in the acute portfolio the winter portfolio was a complete washout in FY21 due to the absence of the flu season. Our priority for superior customer advocacy is enabled through focus on building in market safety stocks and supply chain efficiencies. And this has been the hallmark of a very low historical failure to supply. The disruptions in manufacturing operations during the first wave had significantly depleted our safety stocks on many key products. This necessitated us to increase add shipments in the second half of the year to minimize the FTS and maintain customer advocacy despite very high freight rates. FY21 also saw significant cost increases attributable to manufacturing disruptions and cost escalations with the logistics cost increasing by about Rs. 80 crores and the FTS increasing by almost Rs. 49 crores year-on-year.

While the virtual inspections have been completed by other regulatory bodies, our warning letter position at Pondicherry continues to remain unresolved as we await resumption of travel by USFDA for re-inspection. The current Covid situation does have short term implications for the business and we have reviewed our approach from a future perspective. While the Covid first wave saw disruptions in operations and cost escalations the severity of the second wave in addition have had significant impact on our employees and their families.

In the near term the operating environment continues to be challenging, ambiguous and uncertain as we continue to adopt the people first approach to tide through this pandemic. We believe that the resilience within the organization and the strength of our product portfolio will help us pass through these turbulent times. With the near term uncertainty we have refocused to achieve our longer term objectives with the three year horizon.

With a more focused approach and a sharper execution we will continue to deliver a strong review and profitability CAGR with superior cash flows and ROC over the next three years. We are also creating a basket of products and will launch them shortly in the India market to aid treatment and supportive care with the launch of Liposomal Amphotericin B that we announced earlier today being the first one.

Also the validation batches of the Sputnik vaccine have commenced in late May from our newly commissioned Stelis facility with the large scale facility being on track. We expect to be in the market with the product as previously announced by October.

Coming to our performance for FY21, we believe we have delivered a healthy performance across all businesses amidst a tough operating environment. Our regulated market business have seen a significant ramp up in FY21 growing at 21% year-on-year in line with the outlook of 20% to 22% that we had provided during the year.

Our emerging market business witnessed a bounce back in FY21 albeit on a lower base. We have reported a strong financial performance during the year with a 29% revenue growth to Rs. 3,308 million while our EBITDA grew 67% year-on-year to Rs. 6,497 million. The EBITDA margins for the year was at 19.5% expanding 450 basis points year-on-year despite a significant cost increase of Rs. 1,293 million from logistics and the failure to supply largely owing due to Covid-19 related disruptions.

The quarter 4 FY21 revenue was at Rs. 9,115 million up 47% year-on-year and the EBITDA was at Rs. 1,602 million up 136% year-on-year. The Q4 FY21 EBITDA was impacted by significantly higher logistics cost increase of about Rs. 256 million quarter-on-quarter and Rs. 407 million year-on-year due to the Covid related disruptions leading to higher air shipments and higher freight cost. Let me now take you through the performance highlights across key markets starting with the US.

We continued to ramp up our US business during the quarter 4 growing 46% year-on-year and 10% quarter-on-quarter to $58 million. This was despite headwinds during the quarter leading to tepid foot falls in pharmacies and hospitals. The revenue for the full year in the US was at $215 million up 17% year-on-year. Our base molecules continue to witness healthy traction, new product launches and the VA business have further bolstered our growth momentum for the US business offsetting price erosion impact that we have faced in the portfolio.

As I said earlier the winter portfolio was impacted as there was no flu season in the US. We continue to invest in our R&D engine and since April 2020 have filed 11 ANDAs and received approval for 16 ANDAs in the US. We had the opportunity to launch 6 products in the financial year 21.

Moving to the other regulated markets, we have delivered a strong performance across our other regulated markets in FY21. Full year revenue from other regulated markets was $144 million, up 28% year-on-year lead by portfolio expansion and strengthening of front end presence. We continue to ramp up our supplies to Arrotex in Australia driven by increased volumes and expansion of product offerings. Our performance in the quarter 4 was temporarily impacted due to decline in the retail prescription for prescription in OTC products and weak hospital demand owing to the second wave of Covid in UK and Europe.

We believe a healthy order book and plant portfolio expansion will drive our growth going forward. We continue to expand our product portfolio for our other regulated markets and have filed 18 new products during the year and received approval for 16 new products. Long term outlook for this business continues to be robust. This business will continue to benefit from portfolio maximizations and better penetration of the front end markets.

To summarize, overall our regulated markets which now constitutes 80% of our revenues have grown 21% year-on-year in FY21 to $359 million in line with the outlook for the year at 20% to 22% growth. The US now contributes 60% of the regulated market business and the other markets have now gained critical scale contributing 40% of the regulated markets revenue.

Our emerging market business has seen a bounce back with revenues for the full year at $90 million. The business has benefitted from the launch of TLD the Tenofovir Lamivudine Dolutegravir and the Africa business returning to growth in FY21 on a smaller base. While in the near term we are witnessing operational challenges owing to a rampant second wave of Covid in India, we believe we have all the strategic pivots in place to continue on our growth momentum and deliver strong financial outcomes for our stakeholders over the next three years.

With this let me pass on the line to Badree to update you on the financial aspects.

Badree Komandur: Good evening, ladies and gentlemen. So profitability, efficiency and growth have been the pillars on which the company have been focusing for the last three years. We saw all-round growth across all parameters of performance. If you see the revenues, revenues grew at 29%, gross

margin at 32% and EBITDA at 67% and PAT at 225%. All parameters of performance we saw growth. Robust cash flow generation helped us to maintain the debt at about Rs. 12.8 billion.

Regulated markets on track in line with the growth outlook that we had given in Q2 between 20% to 22%. We ended at 21%. Gross margins maintained a 60% despite lot of headwinds as well as the withdrawal of MEIS Scheme. Interest and depreciation are at a very consistent range through the year showing a better financial leverage. Superior ETR performance with effective tax rate being within the external guidance of 10% to 12% and EBITDA to PAT conversion was also very healthy.

Reduced pharma debt also due to superior cash flow management which we had. We had an excellent operating cash flow generation during the year and we also had a healthy Return on Capital Employed of 12.6% in terms of pharma business and it expanded almost by 200bps from last year. From a balance sheet standpoint we also reduced contingent liabilities by Rs. 15 billion. We also received credit rating upgrades during the year and in H2 we also consciously maintained higher level of inventories to avoid out of stock situations to have a better customer advocacy and also to cover any situation which can arise because of Covid.

So these are the broad highlights. Overall a good growth across all parameters and with that I will pass it on to Abhishek to take it further.

Abhishek Singhal: Neerav, can we take the questions please.

Moderator: Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of Alankar Garude from Macquarie. Please go ahead.

Alankar Garude: Sir, my first question is since the last two, three quarters now we have seen price erosion for some of our products. What are the factors driving this erosion and is it possible to quantify the impact? And when is the situation likely to stabilize?

R. Ananthanarayanan: Yes, we have been seeing price erosions as we indicated during our quarter 2, quarter 3 earnings call as well and we are seeing in some of our products now significant price erosions that have been happening. Combination of the fact that with probably lower number of approvals coming in many players are now going back to the older product portfolios and getting in to launch some of those products which otherwise they would not have been interested in. And I think with more number of players that is what is causing the disruption in the market. Difficult to quantify exactly but we have seen significant erosions.

Alankar Garude: And any idea sir, when is the situation likely to stabilize and even sequentially is it better now versus what it was say in Q2 or Q3?

R. Ananthanarayanan: So the erosions have continued. We did witness some strong erosions in Q4 as well. However, what we have been able to do is there are products in our portfolio that we have been able to

gain some market share and been able to do well because of the fact that we have some uniqueness in the products there and those products have been able to offset some of the erosions. It is going to be difficult to say when it is going to stabilize. In the short term we do expect some of these to continue.

Alankar Garude: Ananth sir, one follow-up on US. So how should we look at growth once we move closer to that $90 million, $100 million quarterly run rate say may be in the next two to three years? Because we had outlined a plan in our analyst meet about 1.5 years back which included growth from private label consumer health, specialty and injectables. So does that still hold and would we be looking at outsourcing R&D in a meaningful way to drive this growth?

R. Ananthanarayanan: So we are using a number of approaches. As we said we have given the Covid scenario and given the challenges and ambiguity we have of course reviewed back to focus on our next 3 years' outlook and clearly those are important dimensions for us. As I said in my just prior commentary as well and therefore we are looking at ensuring that our objectives and pivots for the next three years continue to remain in place. We are looking at building and continuing to build on differentiated products in to the portfolio and using that as levers for growth.

Now obviously as you would appreciate what we said 1.5 years back has had an impact through the course of this year and therefore the timelines have certainly got shifted but our focus and our efforts on continuing to use our robust portfolio remains in place and we clearly believe that that will help us tied over this current scenario.

Alankar Garude: And my last question is so we have a contract with RDIF for 200 million doses. But our capacity is at least 500 million doses and you have mentioned about being in touch with other vaccine developers. Any broad timelines which you can share when it comes to signing further deals?

Arun Kumar: This is Arun. 200 million doses of the Sputnik is 400 million jabs because this is a two jabs component. So we are almost fully sold out on capacities.

Alankar Garude: Sir, no further deals likely at least not meaningfully right?

Arun Kumar: We will continue to focus on different types of vaccines and we are building in Stelis' capabilities around all kinds of vaccines including MRNA and DNA vaccines. And also the peptide based vaccines. So what can I say, watch this space.

Moderator: Thank you. The next question is from the line of Anmol from JM Financial. Please go ahead.

Anmol: So just a couple of follow ups on what got discussed earlier. So the US run rate at least from a top line perspective in the context of pricing erosions this quarter has been rather good. Just trying to understand that while timelines are shifted you did speak about $58 odd million hitting $95 million mark but what are some of the monitorables externally that we should be watching to make sure that we are on track and what is the gap between where we are versus where we

aspirationally want to be in 2, 3 years and if you look at the current exit run rate we are round to $40 million.

There is still $140 million gap versus where we want to be in the medium term and what is going to be the drivers of that given that pricing pressure in the US seems to be incessant? So any thoughts around that and what should we be watching to make sure that we are on the trajectory even though delayed?

R. Ananthanarayanan: So one certainly a major pivot for us is our portfolio and we continue to build on our strong portfolio. Our R&D engine continues to crank up products and to continue to file. So portfolio is certainly continuing to be our focus area and that will certainly help us in the part of moving towards achieving our results. The reason we have said about so what happens from an external factor.

There are two or three elements. One is clearly the ambiguity coming in with the Covid wave impacting and obviously as you would appreciate that when it does impact and like the Covid wave 2 then we do have impact to people, we need to put people first. There are disruptions in manufacturing and so on and so forth. And therefore in the short term that does create some challenge and pressure in the system. Number one.

Number two is we are still having seen US come back to pre-Covid days on the volume pickup because of prescription rates and lower number of surgery. We hope now with the vaccination drive going up in the US that hopefully some of those scenarios should start coming in.

The third dimension across is that as I mentioned in my commentary, our customer advocacy which is the focus on and highest priority for us have been on the basis of having key product inventories and safety stock in the US. With the disruptions we have had an impact on those safety stock levels and hence to be able to get that back to track, we have to do air shipments, we have to do move from take slots those are available and that has caused us some significant increased cost as well.

So coupled with price erosions, increased cost some of that have had an impact in the US. However from a positive note, our portfolio continues to be able to play out and therefore in the mid to long term that will continue to give us the benefit that we have laid out in the past for the growth of the US business and we remain pretty confident about where the US business will take us in that time horizon.

Arun Kumar: And Anmol, this is Arun here. Just to give another context from that. For the last three years prior to this our advocacy costs have been our failure to supply was less than 0.5% of our sales and if we took these efforts to incur such significant cost is only simply because we know this is a problem of the industry but we wanted to standout in the crowd even when we had competition and price erosion.

The best thing rather than to just let go off products was to retain not only the market share in most of the products where there is price erosion but also to ensure we retain the customer by ensuring that they have got the high level of service levels that they are quite used to although we ended up paying a lot more than what we would have normally paid.

So I think all of this will play out in our favor and compared to the peers in the industry we still see growth in our portfolio and with improved products being launched I am very confident that US will get to the guided numbers sooner than later.

Anmol: I have another question. Obviously we know that Covid has deeply impacted the way things are done and businesses have been disrupted. If I look at the real impact the greater part of the impact should be in this quarter while the reported quarter we probably just had 15 days in the second wave. So if you just quantify disruption in terms of what got reported today versus what is likely to happen next quarter any kind of directional guidance in terms of what the impact would be?

Arun Kumar: We do not as a company cannot give you a directional guidance I mean your statement itself is guides in terms of the challenges all of us are facing. In the first wave we had plant shutdowns mainly from lockdowns. In the second wave it has impacted people very close to us and it is a very different situation.

So we grappled through all of these and we are confident that we will come out of all of these fairly strongly but I think it is a fact of the whole industry is facing not because of lack of order book but with the human challenges that we face. So I think it is unfair to put a flavor to what it will look like. We have never done it before and we do not intent to do it in these more difficult times given these circumstances. So I hope you appreciate that.

Anmol: So, my last question before I get back into the queue is the RDIF contract with Sputnik. What all are we liberty to disclose in terms of commercials, economics and once these $400 million jab orders delivered the commercial impact on balance sheet and what happens once these orders are met? Is it capacity which is going to be used year after year although with a lower throughput thoughts around that would be extremely helpful?

And anything around the competitive landscape because we do hear about our RDIF being fairly active in terms of its vaccine roll out and using Indian spare capacity?

Arun Kumar: Well, I think for most of the players who are partners with the RDIF are not spare capacity holders. They are new players like us who have migrated from bio-pharmaceuticals to vaccines to cater to the opportunity that is there but also to ensure that we play a part which is material and trying to solve the problem that the world is facing. The RDIF has got a very significant back order of its programs worldwide and it is registered in over 65 countries and they are dependent fairly on the Indian landscape to cater and supply this demand.

Having said that the Sputnik V is a complex product as in there are two components. Component one is similar to the Johnson & Johnson product. And it is relatively easier to make and component two are very complicated products but that is what apparently delivers the better efficacy in terms of the drug. Having said that as this is s viral vector we have established a brand new facility, a brownfield facility where we from vetro fitting to validation is a 150 days.

And it is one of the largest viral vector facility in this part of the world. Obviously after Serum has got a significantly larger capacity than us. We are confident that because it is a dedicated bespoke facility for Sputnik, and it is a complicated viral vector which typically cross contaminate with each other. We are in a good stage to solve for this. We just announced that we have started our validation batches. That is a big step considering that we were last of the block from all RDIF partners who have signed up the deal and we are confident that our validation batches will get over by June.

After which we can give you an indication of what kind of yields we will get, what kind of throughput we get on this product because these are products that we have not yet have played experience manufacturing not only us but everybody else. And maybe we will have a lot more color for you in the next call. Having said that from an economics standpoint obviously for confidentialities and other reasons it is not possible for us to disclose.

But we believe that the investments will get a fast recovery with the opportunity that Sputnik for that matter for anybody and viral vector facilities are typically used mainly for gene therapy and we believe as a CDMO we can be-spoke our facility going forward once Covid is solved for if we have to move away from viral vectors to other programs.

So we have made a conscious decision of getting this space with a calculated analysis of what the opportunity stays on a tactical basis but we believe that while RDIF has got several partners eventually when they will probably narrow down that to the number of players they have to pay we strongly believe that we will be one of them. That we will continue to be a partner with them. So we are excited about this opportunity but we are yet not exuberant about what this will all lead to. So I think we should be able to call out some kind of indications in our next call.

Moderator: Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Just continuing on the vaccine front like how big is the validation batch compared to a commercial batch?

Arun Kumar: We cannot give you exact details but typically the scale is 10x typically. The validation batch to a commercial batch is 10x. And if we have to give these volumes of 200 million doses then obviously we need to have very significant capacities to deliver these numbers because these are all time contracted so you cannot just supply it over a long period of time. So the capacity we

have built is it is there in our document. It is 24,000 liters which is a very significant viral related capacity on a global basis.

Tushar Manudhane: And given that while these vaccines were not something which was under the planned under Stelis or under the CDMO thing. So as the other segments like non vaccine part how that business is shaping up on the Stelis front?

Arun Kumar: It is doing very well. Currently we have significant demand because of all the challenges and all the newer drugs that are being repurposed for Covid are typically million products, so we do have a fairly strong book. We have guided that after many years of having invested these breakeven on our non-vaccine business we are well ahead on track to get there this year.

Tushar Manudhane: And just lastly on this. The usage of the series C funding for enhancing the capacity the million block and further enhancing vaccine block, can you give timeline for this?

Arun Kumar: Sorry, what funding is there?

Tushar Manudhane: The usage of capital which has been raised at Stelis level?

Arun Kumar: The recent series C, yes, we expect all our CAPEXes to be completed within this financial year.

Moderator: Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Just one question on the unit economics of Sputnik Vaccine. So you mentioned that you would go commercial scale from October so I just want to understand we are doing the full drug substance and will finish along with that and to the MRP how much do we make is it a cost plus kind of thing or how should we understand the commercials?

Arun Kumar: Well you should not understand the commercials, Prakash, because I just told to your previous colleague that we cannot give you any details. These are contracts that are confidential in nature and we are not a marketing partner. These supplies we are a contractor to the RDIF and RDIF takes its decisions on what price it needs to sell to any country of its choice including that of India. So we have a fixed priced contract with them and then what they do with the product is entirely at their discretion.

Prakash Agarwal: And this fixed price is what I am trying to understand both for fill-finish as well as the drug substance, right?

Arun Kumar: Yes, it is.

Prakash Agarwal: And fair to assume that this would be over and above our company level average EBITDA margins or gross margins?

Arun Kumar: You have said that.

Prakash Agarwal: Okay and the quantity you said is 200 million doses over a period of time?

Arun Kumar: Yes, typically these contracts have to be executed within a year and that is the case with everybody because hopefully everybody hopes that we get the heard immunity with vaccination by then and then it depends upon how the antibodies play out and is there a need for boosters and then which by then there will be enough data on which of the vaccines are more safer, more efficace. So at this time it is tactical for everybody and then obviously we just do not know how this is going to pan out. So we are constantly looking at the opportunity and building out from there.

Prakash Agarwal: And the second one for this the tie-up you have done with the Taiwanese player Amphotericin so this would be market in anytime now and this would be comparable to the existing products by Cipla and Roche?

Arun Kumar: So, this is the equivalent to AmBisome which is the innovator Gilead, and the product will be in the market in the next few days.

Prakash Agarwal: And pricing wise, sir?

Arun Kumar: Well Prakash, you can keep asking me but you are not going to get this from us.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Sir, first question is on this increased cost of around Rs. 130 odd crores this year because of logistics and other reasons. If I sort of add it back then our EBITDA margins on a steady state could look at may be 23%, 24% instead of the reported 19%, 20%. So how should we look at it? Do you think that these will be recurring for the coming year as well or these were relatively one time?

R. Ananthanarayanan: So clearly this is not one time. This is at least we anticipate with the ambiguity this to be therefore a shorter period of time. As we said in the shorter term we do anticipate this because two things. One is clearly we need to continue to keep building the inventory of the products in the market which is what our focus is. We do not want to lose out on customer advocacy, number one. Number two is that freight costs have gone up. Whether it is sea freight or whether it is air freights in both those cases the cost have gone up significantly during these times.

So we do not see it coming down in the immediate few days or weeks or in this quarter. We believe this will continue in the shorter term period. And then probably as the Covid waves settles this would likely settle down as well. So in the shorter term I do not think it would not be right to anticipate this is one time.

Sarvesh Gupta: No, not on the shorter term but may be in the second half of this financial year and next financial year do you think that this will?

Arun Kumar: This is Arun here. If you go back to history, the company has been at this 23% to 25% EBITDA for at least 7 to 8 quarters. So we are in range to answer your question. How long will Covid last and what is it going to cost in these kind of extra cause is something what Ananth is saying rightly that we cannot establish today and it could go on for a year, 18 months, 3 months, 6 months so we do not know.

So with the adjustment that we have made this is an inline performance of what the company has done in the last two to three years where it focused on profitability and improved gross margins as a strategy and that is playing out. It has been adjusted for events that are not in our control.

Sarvesh Gupta: And on your investment book I understand what is the Stelis related investments. If you can break it up between the other joint ventures and subsidiaries as well?

Badree Komandur: So investment at certain parts, one is the CFC business as well as the Stelis. So these are the only two investments we have in our balance sheet.

Sarvesh Gupta: And finally on this Stelis resent round of around the series B round we decided to fund around $14 million so is it the end of commitments from Strides' side are there some further rounds which are being contemplated as well and further commitments owing to that?

Arun Kumar: No, this is the last and this is mainly to retain a certain ownership in the company that was critical for Strides from that perspective. And it is warrant which Strides can then convert that at leisure. There is no pressure it is mainly to do with the cap table.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from DAM Capital Advisors. Please go ahead.

Nitin Agarwal: Dr. Ananth, may be I missed your comments so when we look at your US business now for the three year target I mean in your assessment how do you differentiate yourself with the peers? If a fairly comparative, it is very crowded market now and you also saw solid in the US business. So how do you see Strides in differentiated as a business from where we are today?

R. Ananthanarayanan: So I will answer that in two dimensions, Nitin. One is clearly even with our existing portfolio while we have some products where we have now seen an increased competition and therefore some of the pricing pressures. We still continue to have a set of products in our portfolio that are differentiated and does not have enough competition there. And they have once some of them are challenging both from the scarcity of API as well as the difficulty to make the formulations.

And therefore while we have had price erosions we have been able to overcome that because of some of those products that have stood by us and therefore if you look at it in quarter 4 despite

the two seasons not being there we have been able to get to a $58 million revenue and a year-on-year growth in the market.

Having said that we are continuing to fortify our portfolio and we will continue to build a set of products that are continuing to be differentiated and complex and our portfolio choices are shifting to be more and more complex products that we believe will continue to help us take through to that three years due horizon that we talked about.

Nitin Agarwal: And at what point do you see some of these newer set of products coming through and start making an impact on the portfolio?

R. Ananthanarayanan: So we certainly expect as the approvals keep coming hopefully through the coming year and the next year. We certainly believe this should all start adding up.

Nitin Agarwal: And from a three year target perspective we see running with a $400 million number at the end of two, three years or there are different numbers that we quantify?

R. Ananthanarayanan: So look we certainly had that approach and we continue to have the approach towards building the $400 million. Having said will there be an impact in the shorter term and that can have a pressure on the timeline, yes, we are looking at several means and several opportunities to see how we can bridge that impact on time and we are doing a review on those as well. But our approach and our strategy continues to pivot on being able to get to that target that we had earlier outlined.

Nitin Agarwal: Last one on that. Any updates on our attributions ANDA acquisitions that you have done on the soft gel plant as well as on the other ANDAs that you acquired at do you see some of them start making any commercialized over the next year or so?

R. Ananthanarayanan: Yes, so let me first answer about the products that we acquired in the portfolio. Some of them have certainly been positive for us and impacted us positively and that is what has helped us the differentiation that I talked about in being able to withstand some of the pricing pressures. So clearly some of the products from that portfolio has made a positive contribution towards that and they are difficult as well as scarcity on the API that we gets benefit out of. Number one.

Number two, on the soft gelatin capsule facility, we continue to keep doing the tech transfers and filing the products to the US and again with some of the delays in the product approvals we await FDA approvals to come in and will start continuing to play on those products.

Nitin Agarwal: And if I squeeze one last question one. There have been some increase in staff cost and other operating expenses in this quarter. What have you seen in the first three quarters anything specific that you want to call out on for those two to your cost items?

Badree Komandur: You asked about staff cost, right?

Nitin Agarwal: Staff cost and the other expenses?

Badree Komandur: Yes, so there are two things. One is that if you see the last quarter call we have specifically said that the staff cost will be between 16% to 17% and we will end the year at 16.5%. That ist he exact point at which we have ended because we had alluded in the last Q3 call also. As far as the other expenses were concerned the other operating costs were impacted by the logistics as well as the pay due to supply.

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

Jigar Valia: My question pertains to this Stelis Series B rounds. So that has been $70 million or the $14 million is the gross number or it is the partly paid number and there would be an additional element?

Arun Kumar: Sorry your question was $70 million?

Jigar Valia: Yes, the $70 million the Series B round of which Strides would be subscribing this $14 million so is it the partly paid amount or is it the gross amount and the actual outflow right now is this?

Arun Kumar: So there are two parts to the fundraised. There was a $70 million and $125 million B and C series. The B was to existing shareholders, which is partly paid up but it has to be paid up fully before listing and for Series B it is a fully paid.

Jigar Valia: So the $14 million the gross number or the net number? So is this $14 million is it we have paid?

Arun Kumar: No, $14 million is the 100%.

Jigar Valia: Second is would you be able to quantify what is the present if you would be able to tell us what is the debt level at Stelis right now and broadly if any ideally what should one look at on a after debt servicing?

Arun Kumar: About Rs. 400 crores is gross debt and cash is about Rs. 300 crores.

Jigar Valia: And last question. Qualitatively how should one look at the three pieces bio-source, bio-pharma and vaccines? Vaccines we have discussed a lot but on the bio-source and the bio-pharma side qualitatively some inputs for a longer term perspective?

Arun Kumar: In bio-pharma it is insulin and GLP portfolio. We have also announced today that we have submitted our first NC Minus 1. I mean we are ready to file our first NC minus 1 GLP of $8 billion product on day one. So this is Stelis' first big program that we have partnered with another global player. And we will have one more GLP there this year so there are two GLPs that will be filed which is a large part of the diabetes business.

The glargene phase 1 studies are going on. We have completed all the clinical GLAM studies and we are waiting for the read outs. This has been impacted by Covid by a couple of weeks. So probably in about three to four months we will have the clinical readouts and that will give us the impetus to start work for the phase 1 studies for US and Europe.

So that is going well on the product standpoint. We are responding to EU queries for our first European filing which is due in August and we are on track to do that. So we expect an approval about 8 to 9 months after that. And we also have in the CDMO business which is the Stelis bio-source. We have two parts to the business. One is a drug product and a drug fill finish. On the fill-finish we are more or less fully sold out for by about 2026 for capacities.

Based on the contracts that we have signed now and where rest of the batches are being taken by customers. Our first ANDA has been filed via a customer from that facility for a potential target approval date within this year. So all the boxes have been ticked at Stelis and it is on the right track.

Moderator: Thank you very much. Ladies and gentlemen, that will be the last question for today. I will now hand the conference over to the management for closing comments.

R. Ananthanarayanan: So once again thank you all for your time today to participate in this call. Certainly we wish all of you and your loved ones remain safe during these challenging times and look forward to our connect during the next quarter. Thank you.

Moderator: Thank you very much. On behalf of Strides Pharma Science Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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