"Cadila Healthcare Limited Q3FY16 Results Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q3FY16 Results Conference Call for Cadila Healthcare Limited. As a reminder, all participant lines will be in a listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Dr. Ganesh Nayak – COO & Executive Director, Cadila Healthcare Limited. Thank you and over to you, sir.

Dr. Ganesh N. Nayak: Good Evening and Welcome to our Post Result Teleconference for the Third Quarter of FY16. We have with us Mr. Pankaj Patel – Chairman and Managing Director; Mr. Nitin Parekh – CFO and Mr. Vishal Gor – Senior General Manager, Investor Relations. During the quarter gone by on a consolidated basis, our total income from operations was up by 10% year-on-year to Rs.24.3 billion. Earnings before interest, depreciation and tax was up by 25% year-on-year to Rs.5.79 billion. Our EBITDA margin improved to 23.8% in Q3FY16 from 21% in Q3FY15. Profit before tax was up by 37% to Rs.5.14 billion. The net profit was up by 38% to Rs.3.9 billion. Net profit margin improved to 16% in Q3FY16 from 12.8% in Q3FY15.

Let me share some of the Highlights of the Operations for the Quarter: Our business in the US crossed the Rs.10 million mark in revenues for the second quarter in a row and posted sales of Rs.10.72 billion which is up by 20%. We filed 20 additional ANDAs with the USFDA during the quarter. This includes filings in Oral Solids, Topicals and the Injectable space.

Our India Formulations business continues to grow in double-digits and posted sales of Rs.7.13 billion, up by 11%. We launched 12 new products including Line Extensions in India during the quarter, of which one was for the first time in India. This includes the launch of VIVITRA, the Biosimilar of Trastuzumab. We also launched Tenglyn, which is Teneligliptin 20 mg tablets, the most affordable Gliptin for diabetics in India. Tenglyn is priced at Rs.7/tablet which is almost one-sixth the price at which the gliptins were initially launched in India.

Our business in Brazil grew by 20% in constant currency. We filed five dossiers and received approval for two products from ANVISA during the quarter.

On the Biosimilars front, we have submitted dossiers for three products with the regulatory authorities of three emerging markets.

On the Vaccine front, we submitted one vaccine to the DCGI for Phase-III clinical trials. We also received permission from DCGI to initiate Phase-1 clinical trials for one of the vaccines.

On the New Chemical Entity front, we received the approval from the USFDA to initiate Phase-II clinical trials of Saroglitazar in patients with severe Hypertriglyceridemia.

On the Manufacturing front, our Transdermal Formulations facility in SEZ, received Establishment Inspection Report from the USFDA.

We received site transfer approval for three products from Moraiya to Baddi for the US market during the quarter, taking the cumulative number of site transfer approvals to 11. Out of this, we have already commenced commercial production of nine products from Baddi.

Thank you. We will now start the Q&A session. Over to the coordinator for the Q&A.

Moderator: Thank you very much. We will now begin with the Question-and-Answer Session. The first question is from the line of Ayaan Deb from Nomura. Please go ahead.

Saion: This is Saion here. Just on R&D expense, we have seen a significant increase, we are starting this trial of Saroglitazar in the US. How should we think about R&D spend over the next few years?

Pankaj Patel: The R&D spend, we have given the guidance which will remain at about 7%. In a particular quarter there could be a timing issue, so not in all quarters the similar expenditure we will incur, but we can expect between 7% and 7.5% R&D expenditure for the upcoming year.

Saion: You mentioned the four key products that you are transferring out of Moraiya. Any status update that you can share with respect to that?

Pankaj Patel: The process is on. I cannot give a further thing. I think the products batches have been taken; they are under stability and submission process.

Moderator: Thank you. The next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: I have a confusion about Asacol HD; when exactly did you started the site transfer process from Moraiya for this product?

Pankaj Patel: The specific product, I will not be able to give you the details because we are not giving any details in this conference call; however, we have initiated site transfer activity, that is what I just mentioned earlier, so we have an option of launching AG also and we are continuously evaluating the options.

Anubhav Agarwal: This is just a clarity on this option; let us say come July ’16 and we do not exercise our option of AG, later can we say that okay, if we do not get our approval let us say in the worst case, can we launch AG later?

Pankaj Patel: No.

Anubhav Agarwal: Second question is on the warning letter on the Moraiya. Certainly, you would have gone through the warning letter in more detail. How much in your view the scope of work that needs to be done here I am talking about let us say on Oral Solids, the QC investigation and FDA wanting to extend the same investigation on the Injectable products also, is it let us say very broadly if I were to talk about just at your end do you think you can finish the investigation in 3-6-months?

Pankaj Patel: I think we should be able to complete the investigation in that time period.

Anubhav Agarwal: On the second observation which was about Warfarin as a single product, is that only restricted to Warfarin or is there a possibility that FDA can extend it to the other products also?

Pankaj Patel: No, as we read, it is only for Warfarin which we have discontinued manufacturing.

Anubhav Agarwal: When FDA is asking you to submit data on all lots of Warfarin is it a time-intensive process or is this as simple as it can be done within a month?

Pankaj Patel: Yes, we should be able to complete in next month or two.

Anubhav Agarwal: One more simple doubt I had about Zyfine facility is you mentioned that of course it was not under production but FDA has certain observations on it, so is it as simple as that we close the plant and we do not need to do anything. Only if we want to operate in future we need to go for remediation?

Pankaj Patel: Yes, that is a correct observation.

Anubhav Agarwal: Right now we have chosen not to operate the plant; therefore, we do not need to do the remediation?

Pankaj Patel: The plant is there, we would definitely like to bring it to GMP, and we are doing remediation there, that is the first point. However, we do not have requirement to bring this plant to operation very soon because currently we do not have any business from this facility.

Moderator: Thank you. The next question is from the line of Girish Bakhru from HSBC Securities. Please go ahead.

Girish Bakhru: Just again on the warning letter side, do you think after reading the warning letter, would resolution require reinspection of Moraiya?

Pankaj Patel: I think so.

Girish Bakhru: Do you think still the timeline of 3-6-months hold or would it go longer because re-inspection may take long time?

Pankaj Patel: First of all, we never give a timeline of 3-6-months. I am sorry if there is impression. Earlier the person asked me whether it can be completed in 3-6-months, I said answer in affirmative, yes. Regarding FDA re-inspection will be in 6-months, we do not know.

Girish Bakhru: So you mean to say corrective action will take about 3-6-months and then we will wait when FDA comes?

Pankaj Patel: Yes.

Girish Bakhru: So when these site transfers of four products that you have done 11 successful, on an average what is the timeline in which these site transfers have been approved?

Pankaj Patel: After submission it takes about 3-6-months of approval, the submission of course takes about a year.

Girish Bakhru: So these four that we have initiated, when will we submit and then you are saying probably around 1-year from then you should get an approval, is that the right impression?

Pankaj Patel: I think it takes about 1-1.5-years for the full process. So you initiate the process, you do the site transfer activity, you generate stability data, then you compile a dossier and submit to FDA, then the FDA approvals. So approval process takes between 3-6-months. We are almost more than half way in the submission process.

Girish Bakhru: On overall say pending 160 plus odd ANDA pipeline, today, how many ANDAs would you say would have target action dates?

Pankaj Patel: There are a significant number of products where we have target action date. As I mentioned earlier, we have also facilities in SEZ and Baddi from where we have filed a significant number of ANDAs also which will also get due for approval in the year '16.

Moderator: Thank you. The next question is from the line of Surya Patra from Phillip Capital. Please go ahead.

Surya Patra: Sir, on the other operating income, whether we are having any kind of one-off numbers there because sequentially it is almost in the similar line, but in the previous two quarters we had some one-off income there?

Nitin Parekh: There is no one-off income but as you would be aware from April '15 because of the change in invoicing policy there is additional export incentive which is available and that is because of export incentive benefit. So it is of recurring nature and not one-off nature.

Surya Patra: You have already indicated the site transfer of 11-odd products already have happened. So what is the kind of visibility that you are having for launching of products in USA for let us say in next 12-months period?

Pankaj Patel: All will depend on product approval, the way we have the target action dates, etc., for our other two facilities, we believe that we should be able to get about 15-products approval from SEZ and Baddi put together.

Surya Patra: So out of the total pending pipeline, how many products have been filed from those two SEZ and Baddi?

Pankaj Patel: I think we gave it on earlier call.

Surya Patra: I think you have mentioned something like 60% of the business now comes from the Moraiya facility, that is what you had indicated?

Pankaj Patel: Also, we have given the number of filings from other facility and Moraiya facility, we gave it in the last call. I do not have just now, but you may take it from Vishal later on.

Surya Patra: Any visibility that you are currently having about Toprol and Lanzaprazole ODT, is it a kind of opportunity for FY17 now?

Pankaj Patel: We do not have the visibility currently, but we are in the process of site transfer.

Surya Patra: Regards this US business performance it has been steady since sometime. We have been supplying AG for multiple products. So this year how many AG that we are currently working on and what is the kind of contribution of the US business that we should be getting from such alliances?

Pankaj Patel: Currently, we are not working on any additional AGs. These are like opportunities keeps on coming. Whenever they come, we would take up but currently we do not have visibility of any AG for the next year.

Surya Patra: So that means right now we are not having AG alliance which is continuing as of now?

Pankaj Patel: We have alliances but we do not have any agreement for AG at this moment.

Surya Patra: On the JV front, can you give some visibility, whether we are seeing some kind of scale up there or some new product addition there or what is the kind of assumption that we should be having about the JV business?

Pankaj Patel: We expect JV business to be like stable but not growing too much.

Surya Patra: So whatever the run rate that we are seeing though this quarter to some extent weak sequentially but this is on an average this is the kind of a range we should expect for JV going ahead also?

Pankaj Patel: Yes.

Surya Patra: On the tax rate front, you had earlier indicated that this year could be slightly higher at 24% likely but subsequently 22% kind of level one should expect. So any tax benefit or advantages that you would be getting or why should we see a kind of lowering of taxation going ahead?

Nitin Parekh: This year as we have experienced in the previous two quarters because of a change in our invoicing policy to our US subsidiary and also one off income on sale of ANDAs in US, there was additional tax, and therefore the effective consol rate had gone up, for next year you can again assume around 20% as a tax rate.

Moderator: Thank you. The next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: If you can just let us know about the outlook of our Nesher facility and also remind us as to how far are we from a consent decree, that will be helpful?

Pankaj Patel: As far as Nesher facility is concerned, we are filing more ANDAs from that site. We should be expecting approvals for newer ANDAs now in the year 2016. We have initiated the process for getting out of consent decree and if everything goes well we are hoping that by 2017 we should be out of consent decree.

Nimish Mehta: Because there are quite a few control substance filings that you would have made, some of them are really important, so can we be hopeful of getting back in calendar year2017?

Pankaj Patel: Yes.

Nimish Mehta: Second on the remediation process, if you can just let us know the kind of expenses that you would have incurred this quarter or we are likely to incur going forward for the resolution?

Pankaj Patel: We do not have a major expenditure for remediation required because whatever has to be done we have been doing over the last one year assuming that the worst can happen, we have always

been working on that. Most of the expenses have been already incurred. So we do not expect a large jump into expenses because of remediation.

Nimish Mehta: So it should stay at the current level only?

Pankaj Patel: Yes, remain at the current level, with not much growth.

Nimish Mehta: Third, on the domestic pharma, now that we have the base impact on the products and all of those behind, what is stopping, I understand you also have been launching many new products every quarter. So, why are we still in lowest double-digits? When can we expect? If you can just explain that will be great.

Pankaj Patel: Our growth is improving continuously and we expect that the number will keep on going up by a percentage or two every quarter. So you will see we will come back to high growth of about 15% by about second quarter of next financial year.

Nimish Mehta: Yes, but any reason as to was it subdued for…?

Pankaj Patel: Please understand we are a very large business with a lot of mature brands and all that, so there is a base effect, so the newer brands are picking up but then there is some brand which are very matured one, which would grow at lower rate and plus some of the impact which happens from NLEM also have effected. So there is a mix of that. But we expect that going forward we will see growth picking up. That would happen also because they are launching quite a few new products including Biosimilars and also some of the important Solid Dosage Formulations.

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

Rahul Sharma: Just wanted to know the new NLEM, has there been any negative fallout on the pricing for us and in this quarter our emerging markets were also quite tepid. Any particular reason?

Pankaj Patel: So coming to NLEM, NLEM list is made public now so once the government notifies, we would expect some price thing happening, we do not expect a big difference but currently it is very difficult for us, but our preliminary understanding is that the impact could be about Rs.30 crores.

Rahul Sharma: So these on the top line or at the net level?

Pankaj Patel: Top and bottom, both. So we remove the trade margin out of it.

Rahul Sharma: Which major products have been impacted?

Pankaj Patel: Atorvastatin.

Rahul Sharma: On the emerging markets, sir?

Pankaj Patel: On the emerging markets, we had certain issues in some of the markets where the growths were not coming because of some political reasons and also currency. We expect that the bad is behind us and we should expect the growth going forward. Also, we had some issues with some products where we had to discontinue because we were basically focusing more on brand building activity, so earlier there were a number of brands and we have reduced some number of products, so we have larger brands and sustainable business in emerging markets as a part of strategy. So all put together has impact on that but I think going forward we should be seeing the growth picking up.

Rahul Sharma: Any particular markets which you like to mention?

Pankaj Patel: I would not like to mention a specific market for the time.

Moderator: Thank you. The next question is from the line of Sameer Deshpande from Fair Deal Investments. Please go ahead.

Sameer Deshpande: I would like to know, what is the gross debt, cash and the net debt?

Nitin Parekh: Gross debt is about Rs.2,440 crores, net debt is Rs.1,380 crores, so cash is about Rs.1,060 crores.

Sameer Deshpande: What are the expansion plans of the company going forward in ’16 or ’17? Are there any plans to raise equity or debt going forward?

Pankaj Patel: We expect to have a capital expenditure of about Rs.1,000 crores in 2016-17. We do not have plan to raise any equity at this moment. Most of the capital expenditure we should be able to finance from the internal cash accruals.

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

Prakash Aggarwal: Sir, I was just trying to understand, 20 filings that you have made, is it across the facilities which include Moraiya?

Pankaj Patel: This is across the facilities and it includes Moraiya.

Prakash Aggarwal: That gives you confidence that in 3-6-months you will be able to resolve it and that is the reason the filing process is on?

Pankaj Patel: We should be able to resolve it. I cannot give you a timeline.

Prakash Aggarwal: We have seen market share for most products especially the AG products, where the market share has actually improved over the last couple of quarters. So, my understanding was it gives you a good cash flow, good revenue line but at the same time though EBITDA growth happens, EBITDA margin is usually lower than the company level margins. But despite that impact we have seen your margins pretty healthy and that too with higher R&D. So just trying to understand, what are we missing here? Also we have seen in HCQS some decline. So despite that margins are healthy. So trying to understand, can these margins be sustainable sir in the next couple of quarters?

Pankaj Patel: First, the margin are sustainable. AG's numbers are actually internally lower and not higher. So we do not see any growth opportunity in AG. So we do not expect the AG to eat away on the margin. We are able to get more market share on some key products and through that we are able to maintain the margin. In HCQS there is a price erosion, but otherwise there is no issue on other products.

Prakash Aggarwal: In that case, can you highlight which products you are seeing market share improvement and value improvement?

Pankaj Patel: We will not be able to share those information.

Prakash Aggarwal: But you are saying margins from gross level as well as EBITDA level are sustainable from the current pace?

Pankaj Patel: Yes.

Prakash Aggarwal: Are you factoring in your expenses when the warning letter comes, is there a kind of market share erosion that could happen because of vendors wanting to move out in case of derisking their own portfolio?

Dr. Ganesh N. Nayak: No, we have not faced that problem yet. Generally, that does not happen.

Prakash Aggarwal: The niche products that has shift a little bit out in terms of approvals in late fiscal '17-18, so, with the site transfer, by next 12-18-months is it fair to assume that these products will be monetizable sir?

Pankaj Patel: Again, all depends on FDA approval. So you have to understand that point. But we assume that should be possible.

Prakash Aggarwal: For Nitin bhai, on the tax rate, you said that this year has been higher. So what is the tax rate for the next year and current year that we should take sir?

Nitin Parekh: Next year we should assume 20%, current year I think it will be around 25%.

Prakash Aggarwal: So we are at 9-months of 27.5%. So you expect the tax rate to be much lower for the 4Q?

Nitin Parekh: It was already lower for the current quarter also around 22%. It was high only in the initial two quarters. So we are already seeing normalization of tax rates.

Prakash Aggarwal: What would take us to that 20% mark because US profitability seems still on a good track, so is there any facility from the domestic side or what should we think about it which would lead to lower taxes?

Nitin Parekh: Prakash, as you know, we had around 20% or lower effective tax rate. Only in the current year because of the change in invoicing policy, whereby significant profit came early in terms of timeframe in standalone books, so the effective tax rate had gone up which again in the last two quarters gets normalized but this year's impact would remain because the change is effected in the current year, next year that impact would not be there, so we will go back on 20% rate.

Prakash Aggarwal: On the India business, what is our MR strength?

Pankaj Patel: 5,000.

Prakash Aggarwal: Do we plan to expand that? As you said new products are planned, any new therapy area we are planning to add?

Pankaj Patel: No new therapy area currently we are in almost all the important therapeutic areas we have represented. New products will continue to be launched even in the year 2016-17 as we have been doing in the past. We would expect field force expansion by about 3%.

Moderator: Thank you. The next question is from the line of Gagan Thareja from Comgest India. Please go ahead.

Gagan Thareja: Sir, if I recall correctly, in the last quarter's call you indicated that 9 site transfers had already been made successfully and they pertain to existing products. I want to understand that given the important of these 4 products for which you are conducting site transfers now, what was the thought process for delaying the site transfer of these 4 subsequent to those 9 earlier rather than putting these 4 on a priority?

Pankaj Patel: These products which are going to be site transferred also requires a bio study. So it takes a longer time. That is the reason why they have not been filed earlier.

Gagan Thareja: So you are saying that all these 13 would have started at the same time, it is only that these 4 require more studies and therefore will require more time, is that correct?

Pankaj Patel: Everything did not happen on one day, but one-by-one it happens.

Gagan Thareja: Second question, you indicated that CAPEX next year would be Rs.1,000 crores. That is a significant jump. If I understand correctly, this year's CAPEX would have been around Rs.500-600 crores. So if you could maybe elaborate a little more on where this is going?

Pankaj Patel: There are two important things. Our new injectable facility at Vadodara will go on stream by July this year and a significant part of the overall CAPEX will happen in the first half six months of 2016. Second is our SEZ facility where we have filed a number of ANDAs now and we would be requiring facility to actually as the approval comes to produce. So there is a major expansion being planned at SEZ facility. Third is in Sikkim, we are building a new facility obviously for Ointments, Cream and Oral Solids for future expansion of domestic market. Fourth is that our oncology facility has a good business and they need to expand by one additional injectable line there for Oncology products. So all these four are basically going to be a major investment happening in 2016 and that is why the expenditure is expected to be around Rs.1,000 crores.

Gagan Thareja: Can I also ask what would have been the price erosion that you would have experienced on your base business in US, even a ballpark would suffice sir, if you could?

Pankaj Patel: I do not have the numbers with me at this moment, I would not like to guess, we can always provide this information, I would request Vishal to give you that information

Moderator: Thank you. The next question is from the line of Rakesh Naidu from Haitong Securities. Please go ahead.

Rakesh Naidu: My question was on US base business. But since you do not intend to comment, I wanted to understand when is the next cycle for HCQS renegotiation going to come up?

Pankaj Patel: We do not expect because there are no new competition.

Moderator: Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Pankaj bhai, these 11 products that we are site switching from Moraiya, what is the dollar sales that they represent?

Pankaj Patel: I do not have the exact number in front of me in dollars, we shall definitely give you this information offline.

Sameer Baisiwala: Presently, if I am not wrong, Moraiya is about $350 million odd sales as we speak. So the question here is that how much of this do you think you will be able to site switch in whatever next 6-12-months?

Pankaj Patel: Yes, we would give you the exact number during the next week.

Sameer Baisiwala: Pankaj bhai, in the industry we have seen quite a few other companies having warning letter in an unfortunately situation like this. But it is only with Cadila that I am seeing a great urgency to site switch the current business. Can you just explain why is this so and are you quite fearful of import alert?

Pankaj Patel: There are two points; one is we started this process much before we received the warning letter. The point was that as we were doing the analysis of Moraiya site workload, we realize that we were to reduce the site's total workload. If you want to reduce, then we need to really site transfer some of the products from here so that the Moraiya site has a lesser workload because given the challenges which we are seeing and expectations are there, we needed to really from a risk perspective do this. So as a result based on both risk and also from need to reduce a number is being reduced at Moraiya to be a lower level, we shifted some of the products earlier. So the process was started because the warning letter came only in December but we already have 11 products site transfer happen. So it was not done from those perspective but basically from a long-term distribution of manufacturing across the network was basically being done, because as part of the whole risk and mitigation analysis which was done, this was already decided that some products of Moraiya will now move to other sites.

Sameer Baisiwala: But I am just wondering, that means you plan to run all your plants at much lower capacity utilization?

Pankaj Patel: Not really at lower capacity realization, but we had initially all filings from Moraiya. When new products comes, additional workload comes. Now, Moraiya, we have released capacity. So as and when Moraiya approval will come, Moraiya will have facility to manufacture, otherwise we will not be able to expand Moraiya indefinitely. That is the reason why we did that.

Sameer Baisiwala: Sir, second question is on HCQS. What you are seeing in the market in terms of competitive activity is I think quite active. What is the risk that you see over here to the revenues that you have booked in December quarter?

Pankaj Patel: We have not seen any new activity during the December quarter apart from whoever are there in the market they are there. We have seen some price erosion happening at some customer level but otherwise we have not seen volume drop.

Sameer Baisiwala: So generally the price erosion happens when there is a new entrant or someone makes a new bid or is it different this time?

Pankaj Patel: Actually here there are no new players, but still there is a price erosion.

Sameer Baisiwala: So whatever you did in December, do you think this is now sustainable or do you think this to trend down even more?

Pankaj Patel: Currently, it is sustainable unless new competition walks in.

Sameer Baisiwala: You had mentioned PEG G-CSF you plan to go to USFDA with pre-filing discussions. So any update on that?

Management: For PEG G-CSF for the EU we have already done the pre-submission in the month of February and it has been accepted, so it is decked with the EU and with the USFDA we would be doing it by March.

Sameer Baisiwala: So you would be a discussion in March with USFDA or would you be…?

Management: In Biosimilars, you are allowed to do a filing where they will do initial scrutiny and if they feel everything is appropriate then you can do the filing or they may ask you to do a few things before you do the filing. So this is a pre-filing submission.

Sameer Baisiwala: When do we expect to hear from FDA once you do this March filing?

Management: Two to three months.

Moderator: Thank you. The next question is from the line of Deep Master from Enam Holdings. Please go ahead.

Deep Master: I just missed the amount of the export incentives in the other operating income.

Pankaj Patel: I think Vishal will give you the information. I do not have the specific number. We only mentioned that the other income is mainly consist of export incentives.

Deep Master: Would you expect this to be recurring or one-time?

Pankaj Patel: It will be recurring.

Deep Master: On the QoQ increase in revenues in the US, would you attribute this mostly to your AGs?

Pankaj Patel: Not at all.

Deep Master: But then HCQS there has been some eroding?

Pankaj Patel: We should understand that we cannot go product by a product and give you exact sale of each product. But we have several large products in the market and some products may go up/down, all that keeps on happening in the market. There is also some one-time sale opportunity in this.

Deep Master: But then you would attribute the rest of it mainly to your base portfolio?

Pankaj Patel: Yes.

Moderator: Thank you. The next question is from the line of G Vivek from GS Investments. Please go ahead.

G Vivek: I just wanted to know about the opportunity size. Is it going to decrease for the US market? With the Me-2 generics players will find it increasingly difficult to grow, and what are the steps we are taking to negate it?

Pankaj Patel: So first of all, we have differentiated generics which are difficult to file or manufacture and supply. Basically it is one of the main driving forces in our portfolio. Second is that of course we are there in most of those first-to-file opportunities. Third is we are basically also working on completely differentiated products from a future perspective including 505(b)(2) filings. So we already have one 505(b)(2) filing and more in pipeline.

G Vivek: But recently there have been press reports that the opportunity size which was quite high during the last 5-years is going to drastically come down and the CAGR might get reduced to 1 or 2%. How good is that? The FDA problems are more to do with the current US presidential election, protection tendency has also come into the play. So…?

Pankaj Patel: I do not think those are the kind of comments I would like to subscribe to. We believe that there is enough opportunity still in the US market and we have enough portfolio for filing per year at our sales value are sufficient to allow us to continue grow at a good number.

G Vivek: So not much to worry for Indian pharma sector you mean to say for the next…?

Pankaj Patel: I can talk more about my company, I would not like to speak about Indian pharma sector.

Moderator: Thank you. The next question is from the line of Palav Shah from Pi-Square Investment. Please go ahead.

Palav Shah: Sir, I would like to know right now the Formulations facility which contributes to US sales would be Baddi, like any other facilities other than Baddi?

Pankaj Patel: Our Moraiya and Baddi, these are the two facilities which are currently supplying and our SEZ facility is a third facility which is approved and we should get product approval and supply will start from there and of course a facility in US which is Nesher facility which also supplies to the US market.

Palav Shah: Sir, can you give a filing run rate for next quarter or next FY17 like without Moraiya if we can get any run rate?

Pankaj Patel: We expect next year also the filing to be about 40 and that is the number we will do next year and most of the filings will happen from different sites.

Palav Shah: Mostly it would be Baddi facility I suppose because all the site transfers happening in the facility being big enough for that?

Pankaj Patel: Baddi and SEZ facility.

Palav Shah: Sir, on the Baroda Injectable facilities, like, as you said next six months, the filings would be coming from FY17 on the Injectable side?

Pankaj Patel: Yes.

Moderator: Thank you. The next question is from the line of Chirag Dagli from HDFC. Please go ahead.

Chirag Dagli: Just trying to understand the sustainability of the authorized generic sales stream. On optimal generic market formulations has more competition comes through, how should we think about this particular stream, at some point will the innovator decide to stop supplying or will we continue to make some margin on a lower level of pricing?

Pankaj Patel: When the size of the business do not remain attractive, then obviously there is no logic of our or innovator to continue. Currently, of course, the size is still decent and we do not see that as a challenge at this moment.

Chirag Dagli: Sir, you mentioned some one-time sales opportunity in US. Is this price related or some products supply related sir?

Pankaj Patel: These are mostly supply related. We usually have enough stocks of our products in the US market and the companies again and again fail in supply. So we have opportunity to basically make some one-time supply.

Chirag Dagli: Does this fully explain the QoQ jump?

Pankaj Patel: No, because I was asked to narrate different factors, that is why I tried to give you all the details. This is not a major factor. So for sure let us not overplay on it. I am only saying that how do you get growth when you do not have new product. That is the question I thought I understood. That is why I was trying to explain that these are the kinds of opportunities which comes.

Chirag Dagli: Would you have the split of the CWIP of Rs.900-odd crores where all is it and when does this basically come on stream?

Pankaj Patel: I think Vishal will give you the information.

Moderator: Thank you The next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: Pankaj bhai, you explained how CAPEX will be Rs.1,000 crores next year but once these 4 facilities are on line, of course our sales base is also increasing, but let us say in FY18 will Rs.1,000 crores become our base or will come back to a lower CAPEX base after that?

Pankaj Patel: I think it has become a base now because when you have more facilities you have more maintenance CAPEX coming up then.

Anubhav Agarwal: On the India business, not just for you, but for the markets for skinlite products, I see the market has really slowed down, not virtually growing now and it is an important product for us, what AIOCD shows is almost like 5% of our total sales. Do you think this market will revive because you are the market leader for this product?

Pankaj Patel: Yes, I think market will revive.

Anubhav Agarwal: Do you see that revival in next 6-months or it is a year away and when you say it will revive, what needs to be done here, is it the communication or anything else on the product side or what?

Pankaj Patel: Internally we do not see our business going down and we are seeing that market will revive. There is enough opportunity to it. We are actually extending the brand with addition of brands in the brand extension into that area to grow the market.

Anubhav Agarwal: When you guide that your India sales will recover in the second quarter, so I assume that in two quarters or three quarters you expect this market will revive because I am assuming that they start contributing at that time?

Pankaj Patel: Yes.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: For Asacol HD, assuming we launch sometime in July, the follow on competition after six months would be how many players?

Pankaj Patel: As per our information there are no other filers.

Dheeresh Pathak: Then this is obviously patent expiring in 2021 as per my understanding. So you expect it to be a good stream of revenue. So the first priority is to do it through site transfer and then as a last resort you will probably do it as …?

Pankaj Patel: We are evaluating both options. So I cannot give you what is my priority.

Dheeresh Pathak: Just to understand when you launch as an AG, because not for this particular product, but let us say you have other products as well in the portfolio, the price would be a function of the competitive dynamics. So when you are forced to reduce prices, the margins that the innovator is supplying the products that he allows you to keep, is the margin fixed or he supplies you on a cost plus conversion cost basis, so that whatever is the risk or the upside of lower or higher competition you get to keep that?

Pankaj Patel: It is basically margin share arrangements. So you share the margins with them. If margin is better you get more, if margin is lower you get less.

Moderator: Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: My question is related to your product basket in the US. How many products do you have?

Pankaj Patel: Currently, we have in US market about 60 products.

Charulata Gaidhani: How many approvals do you have which have not been launched?

Pankaj Patel: We have 90 approvals, so we have about 30 not launched.

Moderator: Thank you. The next question is from the line of Ashish Rathi from Infina Finance. Please go ahead.

Ashish Rathi: Sir, just a little confusion in the Asacol HD product. If you could just clarify, so we have an AG settlement and also we have application for Para-IV further product. So, as of now, our Para-IV is from Moraiya and we are looking for the site transfer. So what happens if god forbid the site transfer does not happen in time and the launch time for the AG comes in, like

are we mandatorily required to launch the AG by June-July or can we defer/annul that based on our launch expectation of our own product?

Pankaj Patel: We have to make a decision about launch of AG before June-July.

Ashish Rathi: So if our approval does not come in by the site transfer, we have to mandatorily launch the AG, is that correct?

Pankaj Patel: Not mandatory, it is at our option.

Moderator: Thank you. Ladies and Gentlemen, due to time constraints, that was the last question. I would now like to hand the floor over to Dr. Ganesh Nayak for closing comments.

Dr. Ganesh N. Nayak: Thank you very much. I look forward to seeing you again in the month of May 2016. Good night.

Moderator: Thank you. On behalf of Cadila Healthcare Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.