“Cadila Healthcare Limited Q2 FY20 Post Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY20 Post-Results Conference Call of Cadila Healthcare Limited. 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ganesh Nayak*-COO and Executive Director of Cadila Healthcare Limited. Thank you and over to you sir.

Ganesh Nayak: Good evening, ladies and gentlemen. It is my pleasure to take you through the performance and results of the second quarter of FY20. We have with us Dr. Sharvil Patel - Managing Director, Mr. Nitin Parekh – CFO, Mr. Harish Sadana – Chief Strategy Officer and Vishal Gor – Senior Vice President, Corporate Finance.

During the second quarter on a consolidated basis, our revenues grew by 14% year-on-year to Rs. 33.7 million. We posted an EBITDA of Rs. 6.2 million with a margin of 18.6%. Financials of Q2 FY20 include a one-time charge of Rs. 2.68 billion in the form of impairment of Levorphanol intangibles on account of an entry of a new generic competitor. Adjusted for this, our PAT for the quarter was Rs. 3.19 billion, up 5% compared to the preceding quarter. The sequential improvement in the profit during the quarter was despite the fact that the preceding quarter had a positive impact of seasonality in our customer wellness business.

Our India geography comprising of Human Health, Consumer Wellness and Animal Health has grown by 24% on a Y-on-Y basis registering a revenue of Rs. 14.3 billion. Contribution of the India geography in the overall business was 44%. The US geography comprising of generics and specialty portfolio registered a revenue of Rs. 14.5 billion. At 45% of the total business, the US geography posted a healthy growth of 10% year-on-year. Our rest of the world business comprising of multiple emerging markets grew at 8% during the quarter.

Now, let me give you an overview of the initiatives and outcomes for each of our business lines. Coming to the Human Health business in the India geography, as shared with you in the quarter one earnings call, we have restructured our Human Health business bifurcating it into a mass and a specialty business, so as to drive our efforts in a focused manner. In case of a mass cluster, the focus will be to improve penetration by expanding reach and in the specialty cluster, the focus will be on intensified engagement with the key opinion leaders. In addition, we have started revamping our sales operating system in the remaining 10 regions during the quarter which is likely to be over by the third quarter of the current financial year. Already revamped regions have started to stabilize, and we are seeing improvement in our sales efforts. In this quarter, we have posted a revenue of Rs. 9.8 billion with a robust year-on-year growth of 10.4% vis-à-vis a year-on-year growth of 6% registered during Q1 of FY20. While the

overall India business grew at 10.4%, the branded portfolio which excludes generic business and the discontinued brands grew at a faster pace of 11.5% during the quarter.

As per the AWACS data, the business grew by 13.7% during the quarter outperforming the overall Indian pharmaceutical market, growth of 11.5%.

In terms of the therapeutic performance, our gynaec, derma and hormone portfolio continued to grow better than the market during the quarter. Specifically, our gynaec portfolio grew by 11.5% versus the market growth of 6.5; derma registered a growth of 11.7 vis-à-vis the market growth of 8.2% while the growth in the hormone portfolio was 15.5% as against the market growth of 11.6%. Maintaining their growth momentum, our pillar brands having annual sales in excess of Rs. 500 million each has grown by 12% during the quarter. Some of these brands have outperformed the market by registering growth in excess of 15%. Further, brands having annual sales between Rs. 250 million and Rs. 500 million have also witnessed a significant improvement in their growth rates by registering a growth of over 20% during the quarter.

On the Consumer Wellness front, Zydus Wellness posted sales of Rs. 3.1 billion during the quarter, up a 135% on a year-on-year basis. While analyzing the sequential growth, the element of seasonality in the acquired portfolio, Heinz particularly in Nycil and Glucon-D needs to be considered. During the quarter, we continued our thrust on marketing initiatives to grow the categories and increase market share of our brands.

On synergies, actions have been initiated on multiple fronts including integration of our channel partners, supply chain and the procurement processes. We will start to see the impact of these actions on both revenue and the cost fronts in the coming quarters.

In spite of recovering from a drought like situation, challenges for the Animal Health industry continue, primarily due to increase in feed cost for livestock which is further aggravated by the liquidity crunch in the system. As a result, the business remained flattish on a year-on-year basis with a sales of Rs. 1.35 billion; however, on a quarter-on-quarter basis, the business grew by 12%.

Let me talk you about the next big geography which is the US. As mentioned earlier, the overall business grew by 10% on a year-on-year basis. While the growth of the entire business was 10%, our US base generics business excluding the specialty portfolio of Sentynl and the one-time AG opportunity of the Testosterone Gel grew by 22% on a year-on-year basis. On a quarter-on-quarter basis, the overall business grew by 6%. The Sentynl portfolio and the AG of Testosterone Gel saw sequential decline during the quarter. Excluding both of them, our base generic business grew by 11% on a quarter-on-quarter basis on the back of market share gain in the existing products and new product introductions. We launched 7 new products in the US during the quarter. We filed 8 additional ANDAs with the US FDA and received approvals for

6 new products. As mentioned in the last call, we expect our base generic business excluding specialty and the Testosterone gel AG to grow at a high single digit in FY20 on the back of 15 plus launches during the remaining 2 quarters of this year.

Our biologics and vaccines portfolio which presently gets clubbed in India and other geographies recorded a sales of Rs. 892 million in the current quarter as against 729 million recorded in the previous quarter.

On the operations and compliance front, recently the US FDA issued a warning letter relating to our Moraiya formulations facility. The warning letter does not affect our existing business in the US. We will continue to take all necessary steps to ensure that the US FDA is fully satisfied with our remediation efforts. We are confident of responding to the US FDA to address the observations in our assessment which shall be ready for the reinspection by the end of June 2020.

As shared with you earlier, we have already initiated site transfers of all the injectable products from Moraiya to our Liva facility and we expect the same to be over by the end of FY20. Well known to you, our other facilities have maintained their successful track record of sustained compliance. During the quarter, our oral solids dosage formulations manufacturing facility located at Baddi and our API manufacturing facility at Ankleshwar completed US FDA inspections without any observations. Further, in the month of October 2019, that is last month, our API manufacturing facility at Dabhasa also completed the US FDA inspection without any observation.

Now, this concludes the business review. I would now request Dr. Sharvil Patel to take you through the progress and initiatives in our innovation program.

Dr. Sharvil Patel: Good evening. The quarter gone by was an encouraging one from the perspective of our initiatives in the innovations space. Our lead NCE molecule**,** Saroglitazar Magnesium successfully completed Phase-2 clinical trials in the US in patients with NAFLD and NASH. Further, we also consolidated our position in the anti-rabies space where our new biological entity, RabiMabs which is now branded as Twinrab, got the marketing authorization in India and the rabies vaccine branded as Vaxirab received WHO GMP certificate, opening access to the global market.

Coming back to our NCE research, recently in the month of October 2019, we successfully completed EVIDENCE IV Phase-2 clinical trial of Saroglitazar Magnesium in patients with NAFLD and NASH as the molecule achieved the primary efficacy end-points. A statistically significant 44 plus percent reduction in ALT was observed in patients treated with Saroglitazar Magnesium. The EVIDENCE IV NASH trial was a randomized, double-blinded, placebo-controlled study that enrolled 106 patients with NAFLD, including NASH across 20 clinical

sites in the United States of America. Yesterday, we also made presentations of this clinical trial results in NASH and NAFLD at the annual meeting of the American Association for the Study of Liver diseases, the AASLD at Boston. This has been selected as one of the best top NASH, NAFLD debriefs given by the AASLD at the end of the conference. We also initiated patient enrolment for the EVIDENCE VII Phase-2 clinical trial for the evaluation of the effect of Saroglitazar Magnesium in the treatment of NAFLD in women with polycystic ovary syndrome, PCOS during the quarter. The patients have been recruited across multiple clinical sites in the US and in Mexico.

On the biologics front, we completed preclinical toxicity studies for one biosimilar and received regulatory permission to initiate a second preclinical toxicity study for one more biosimilar during the quarter. We continue to file the dossiers of different biosimilar products with the regulatory authorities of different emerging market countries.

Talking about vaccines, we have received the market authorization in India from the Drug Controller General for measles and rubella vaccine during the quarter. We have also completed a Phase-2, Phase-3 clinical trial for pentavalent vaccine and also received regulatory approval to initiate a Phase-1 clinical trial for a recombinant hepatitis E vaccine. Further, we also receive a regulatory permission to initiate Phase-IV clinical trial of rabies vaccine, Human IP to evaluate the long-term immunogenicity and safety of the product.

On our initiatives on the 55(b)2 development and on in-licensing opportunities, as informed to you earlier, we have developed a portfolio of 55(b)2 products with several products under different stages of development with the focus on neurology, pain management, dermatology and orphan diseases. During the quarter, we submitted a pre-IND request for one of our products. Our aim is to submit one NDA every year post 2020 with the focus on meeting the unmet medical needs, enhancing patient yields and offering better treatment options to physicians.

In the area of in-licensing, we obtain exclusive marketing right for an ANDA in the oral oncology space during the quarter.

Thank you and now, we will start with the Q&A session. Over to the coordinator for the Q&A.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Sir, you mentioned about strong growth in US base, 11% QoQ. Can you give some more color, I am just wondering how sustainable is that, is it sartan opportunity, some pricing, if you can give some color, so we can figure out how to think about in the quarters ahead?

Dr. Sharvil Patel: We have had market share gains on across the large portfolio of our base products. So it is not a one-off with one or two products, but multiple products, also some of the new launches that have happened during the last 6 months have scaled up in terms of market share. So I would say it is an all-round growth. Obviously, sartans have been an important one, but of the sartans, we only have losartan and not multiple sartans. So it is coming out of only one sartan. But I think base products have had good growth during the quarter.

Ganesh Nayak: See, the additional thing, Saion, is the price erosion over the previous quarter has only been about 1.8% on our portfolio and the new products have contributed a little more than 1% and plus as Sharvil bhai mentioned, we have had a very good volume expansion on our existing products.

Saion Mukherjee: And secondly, I just wanted to get some clarity on your other expenses. Now this has come down sequentially, but you mentioned last time there is 70 crores of one-time expense given that there has been a substantial fall in the wellness expenses given the seasonality, this number looks quite high. So is this the number we should look forward or there is some exceptional items that you would like to call out?

Vishal Gor: Saion, there are about 12 crores of one-off expenses again in this quarter and also as you mentioned because of Heinz business, we had higher expenditure in the last quarter. And because of Heinz portfolio or overall Zydus Wellness portfolio, this kind of quarter-on-quarter aberration in the other expenses will be seen because and we have shared with you earlier, January-March quarter again is going to be very high for that business and accordingly even the expenses would also be very high. So a normalized other expenditure is something which we will have to see ex-Zydus Wellness business. I can share more details about that maybe offline after working out the exact number excluding wellness business.

Saion Mukherjee: Vishal, just one thing. You have seen around 27 crores decline, you already had like 70 crores of base, some exceptional last quarter, almost 80 crores decline is there in wellness. So instead of 150 crore, we have seen 27 crore. So there seems to be base expenses have risen, it appears, that looks very high actually, more than 100 crores kind of an increase it appears.

Ganesh Nayak: But July-September quarter is the season for our own India business also, formulations business. So generally in that quarter, we see higher expenditure in India business mainly marketing and promotion plus US business has grown and that also gives rise to the freight and other distribution related costs which is clubbed under other expenses. So otherwise, it is more or less in line with what we had in last quarter excluding Zydus Wellness business.

Moderator: Thank you. The next question is from the line of Hari Belavat from Techfin Consultants. Please go ahead.

Hari Belavat: This is regarding this exceptional item of 268 crores. You had mentioned that some intangibles because of the entry of new competitor for Levorphanol in US. What does it mean? New competition means Levorphanol will be totally out from the market, one. Second thing is intangible losses impairment of charges, does it really mean that in the books you have to provide as losses of 268 crores in this financial year?

Dr. Sharvil Patel: The sales of Levorphanol has come down because of the entry of the generic competition, but it does not mean that we are not going to continue the business on Levorphanol, but from a very high base of close to 100 million, it has come down. So that is why we are provided for the one-time impairment charges here. The more details, I think Nitin will…

Nitin Parekh: The impairment charges as per the provisions of Indian Accounting Standards and that is to be provided in the books of accounts. So intangibles are to be tested for impairment rather than being amortized.

Hari Belavat: Second thing is at least if such big impairment is shown, there is no comment from this Deloitte Haskins, from your chartered accountant, so basically we feel it is required, justification of this 268 crores is fairly good.

Ganesh Nayak: The auditors have audited the books of accounts and this impairment is done in our overseas subsidiary and overseas subsidiaries have gone through the valuation report of the independent valuer based on which they have given clear audit report also. It is a standard requirement.

Hari Belavat: That means in the year end, it will be indicated as losses of 268 crores, finally is it that?

Ganesh Nayak: Yes, so in this particular account, yes.

Moderator: Thank you. The next question is from the line of Kunal Shah from SBI Capital. Please go ahead.

Kunal Shah: First, let me clarify on how much injectables revenue, do we generate from Moraiya plant?

Dr. Sharvil Patel: Currently, none.

Ganesh Nayak: We do not have any injectable revenue from Moraiya plant.

Kunal Shah: In quarter two, it does not have any?

Dr. Sharvil Patel: No, we do not have any. We stopped commercializing any product from Moraiya.

Kunal Shah: And secondly on Levorphanol, do we still carry any intangibles on our balance sheet after this impairment?

Ganesh Nayak: Yes, about $27 million.

Kunal Shah: And the player that we have mentioned which means it will become a 3-player market, right?

Ganesh Nayak: 2 players including us, one more player.

Moderator: Thank you. The next question is from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: If I were to look at our gross margins on a quarter-on-quarter basis, given the Zydus Wellness has come off because of seasonality, what is the reason for such a sharp increase, even if I adjusted for the 5 million that we've got, there seems to be a pretty strong increase in gross margins?

Ganesh Nayak: Neha, that is mainly because of India business coming back and the proportion of Zydus Wellness business has also come down and then in the US business also, you have seen that sequential, there has been an improvement both in the absolute sales value as well as the margins.

Neha Manpuria: The US improvement was 6% quarter-on-quarter right, base business?

Ganesh Nayak: Yes.

Dr. Sharvil Patel: 7, yes.

Neha Manpuria: So it's more because of the India and the U.S. business?

Ganesh Nayak: Yes.

Neha Manpuria: The second question on our Moraiya facility. Given that you're now expecting to complete remediation by June and the exhaustive comments from the FDA in the warning letter, could there be any additional remediation cost associated with the work that we need to do?

Dr. Sharvil Patel: We are working with external consultants for the remediation, so there will be some charge associated with it, but it will not be very significant because it is for review of documentation and review of batch record. So there is going to be a charge, but it will not be very significant, but more we can tell you in the coming quarters.

Neha Manpuria: And a related question, since we are transferring the injectable products to Liva, when was Liva inspected last?

Dr. Sharvil Patel: Liva was inspected more than a year ago. It got an EIR and we already have one product approved and we got a new product approval very recently which we had also notified in the last few weeks. August 18 is the last inspection of Liva and we received the EIR also recently.

Neha Manpuria: And we have already filed for the site transfers with the FDA for the injectable products?

Dr. Sharvil Patel: Yes, we have started, that is already in progress. Ranitidine was the first one which we got approval also.

Moderator: Thank you. The next question is from the line of Kunal Mehta from Vallum Capital. Please go ahead.

Kunal Mehta: I wanted to understand a progress on our transdermal filings, so you have mentioned in the past that this year we would not see any approval in transdermal, but any indication you getting from the FDA with respect to your filings moving forward? Can you just mention how many filings we have, dossiers we have filed as on date for transdermal?

Ganesh Nayak: In FY21, we expect with proper resolution of Moraiya and all of that, we expect 5 approvals in FY21 from transdermal. And we have filed one product, we will be filing one more product by December.

Kunal Mehta: And sir, we have bought back 15% equity in the transdermal venture, Zydus Technologies. So can you just mention who held this equity 15% prior to over buying it out?

Nitin Parekh: 15% equity was held by a technocrat, NRI, Dr. Sharad Govil in his individual capacity and in the name of his company.

Kunal Mehta: And the second question I have is on the concentration of Lialda and Asacol HD, so can you mention based on this first 6 months, what is the concentration of these two products with the US business?

Dr. Sharvil Patel: We have always stated that Asacol remains single source product right now and which is of significant value, but other than that, all products are, we do not give any other specific products, but Lialda, we had even called in the last call is not a significant part of the overall revenue now.

Moderator: Thank you. The next question is from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.

Aditya Khemka: Sir, just following with the previous participant's question, so one of the subsidiaries, I believe Zydus Technologies Limited, Sharad Govil had 15% stake and that is obviously we are buying

from him, but there are two subsidiaries you are buying right? So the second subsidiary, who is 15% holder?

Nitin Parekh: 15% shareholding of Zydus Noveltech which also is being bought by Cadila Healthcare Limited.

Aditya Khemka: So that Noveltech, who is the 15% shareholder from whom we are buying it?

Nitin Parekh: 15% was Zydus Technologies, Dr. Sharad Govil and his entity.

Aditya Khemka: And sir if I just look at your consolidated accounts and your standalone accounts, your standalone net profit for the quarter was actually somewhere in the region of 600 crores and even if you adjust for the impairment charge, the net profit in the consol entity is 300 crores. So just trying to understand this, what causes the 300 crores loss in our subsidiary, I understand some of the export profits should be recognized in standalone, is it because you manufacture in standalone entity and sell it to the subsidiary and then the subsidiary has losses, is that the right way to think about it?

Management: The real reason is that this is the quarter in which all our subsidiaries declared dividend and in turn, we also declared the dividend for the shareholders. So the dividend which is declared by all our subsidiaries get reported as income in the standalone entity, but that does not get any weightage in the consolidated results. So that gets knocked off and this happens every year in the second quarter. You can check that for last maybe 10 years.

Aditya Khemka: This would reflect in the other income line item, is it in the standalone accounts?

Management: Yes.

Aditya Khemka: And how much was the other income standalone, if you could just, how much standalone accounts in this quarter?

Vishal Gor: Aditya, the other income for the quarter which was reported in the standalone numbers was Rs. 408 crores.

Aditya Khemka: Just one last question on the US business. So, how many products we launched in the first half, all put together and how many do you expect to launch in the second half?

Ganesh Nayak: 15 products.

Aditya Khemka: 15 is what you expect to launch in the second half?

Vishal Gor: We expect to receive another 15 product approvals through the remainder of FY20 and launch the similar number of products.

Dr. Sharvil Patel: So we will have annually about 30-31 launches.

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

Surya Patra: So just one clarification. In the opening remarks, possibly you mentioned something like that the like-to-like growth in the generic business excluding the one-off and the AG business, it is 22%, is that right sir?

Ganesh Nayak: Yes, correct.

Surya Patra: Where from that 22% kind of growth that is coming? In one end, we are seeing anyway the price correction or price erosion. So that means the volume growth is that significant or what is really driving that and how sustainable the momentum be for this?

Dr. Sharvil Patel: First of all, there has not been a significant price erosion as happened in the earlier years. So that is one positive. Also, there is a lot of shortage in the US market. So, we do get a lot of opportunities. Today in the US market, if you have good inventories and good supply position and a good portfolio, there are multiple opportunities that do come up for. So we have had a good growth on overall base business, and we have gained share in multiple number of products. So it has been both volume and value growth. And we launched many new products in the last 24 months and many of them have scaled up. So the value of that is getting reflected now.

Surya Patra: So that means your base business possibly in the first half would have delivered a strong positive growth?

Dr. Sharvil Patel: Excluding this one-off, the base business is doing well.

Surya Patra: Can you just share some numbers sir to that what is the kind of base business growth?

Dr. Sharvil Patel: We already told the base business growth of 22% for this quarter.

Surya Patra: No, I am asking for the first half?

Dr. Sharvil Patel: Vishal will share offline; I do not have first quarter right now.

Surya Patra: And secondly on the domestic formulation business, now in this quarter we have obviously delivered better than the sequentially from the last quarter. So going ahead, what is the kind of

outlook that you are trying to provide there and do you still see the challenges of the trade generic issues?

Dr. Sharvil Patel: So trade generic business is challenged, we have had no growth on our trade generic business, to some extent, small degrowth. So there is still challenge on the trade generics business. The branded generic business has done well this quarter, exceptionally well compared to the market, but we are not seeing a very big revival in the market yet. So our plan always is that if we would go a little bit better than the market, but currently the market is tepid and is not very strong. So our assumption is that if the markets are growing at 10%-12%, we will be growing 12% plus on an annual basis depending on the market growth.

Surya Patra: And what kind of synergies that you have started seeing from the Heinz acquisition sir, whether we have already started seeing something?

Dr. Sharvil Patel: There are no synergies, significant synergies yet. In this calendar year, we would have got a 10 crore synergy impact benefit. Next year, we are expecting a 25 plus crore benefit, but the most critical synergy that will come through is now which we are doing which is consolidation of the sales team and distribution which will lead to our increase in direct distribution. So in the next year, we are looking to double our direct distribution from a current scale. So that will be the biggest synergy in terms of value extraction. Followed by that, as I said, there are the cost synergies which I spoke off and third is that, we would be also, the distribution and logistics part of it also is going to be synergized which will help in terms of ease of operations.

Surya Patra: But do you see any product introduction as an initiative post the acquisition and integration?

Dr. Sharvil Patel: As and when we have new product launches, we will appraise you of it. Currently for this quarter, we do not have any new introductions planned.

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

Nitin Agarwal: Sir, on the seasonality in the Heinz portfolio, you mentioned that Q1 is obviously the biggest quarter especially for Nycil and Glucon-D, how should we look at the revenue sort of trending for the next 2 quarters versus the Q2 number?

Dr. Sharvil Patel: For the acquired business, it is a 70-30 split if you take the calendar year, so Jan-June is 70% of revenue in terms of the overall revenue and the season falling off from summer, we have Glucon-D and Nycil which slowed down and Complan is the major driver from the acquired business point of view. The profitability is also very different the same way majority of the profit is driven in the first 6 months and then very little to negligible profits because we are building up for inventories for the coming season. Our endeavor is that going forward with the combined entity, now the skew is about 60-40 in terms of overall business and going forward, we are planning next year to make sure that we are prepared for a second summer as a strategy

and if you are able to do some of those important initiatives, then we will be able to balance out the quarters on a quarter-on-quarter basis, but currently for this year and may be for the next year, there will be a skew to the business but the good part is that business is on track to deliver its numbers as it has done so far.

Nitin Agarwal: Sir, I think you probably mentioned that how many transdermal filings have you made so far?

Dr. Sharvil Patel: 5.

Nitin Agarwal: Sir, and you already got one approval and expect 5 more approvals next year?

Dr. Sharvil Patel: Let me correct myself, first we have 9 filings and we are expecting 5 approvals in FY21.

Nitin Agarwal: And sir, lastly, on a housekeeping question sir, can you just help us with the gross net debt numbers and the CAPEX for this year?

Vishal Gor: Gross debt as on September was 7883 crores, there was a cash of about 1200 crores, so net debt was 6687 crores which is less by about Rs. 300 crores as compared to what it was in March and net debt to EBITDA as a result as of now is 2.31.

Nitin Agarwal: And sir, what kind of CAPEX you are looking at for this year?

Vishal Gor: About 1000 crore, 900 to 1000 crores.

Nitin Agarwal: And sir, most of the peers that we are seeing, we are seeing a fairly sharp moderation in the CAPEX intensity, do we see a similar thing happening for us also?

Dr. Sharvil Patel: We are depending on our growth projections. We are trying to see that whether we can be around the 700 to 800 crores CAPEX going forward.

Nitin Agarwal: And sir lastly, if I can squeeze last one, sir any updates on the Windlas acquisition? Have we started utilizing those assets?

Dr. Sharvil Patel: No yet, they are still filing.

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

Prakash Agarwal: Sir, just on this net debt reduction, if I can see the cash flow statement it talks about repayment of 200 crores and current borrowings of another 123 crores, so net-net it is about 70 odd crores net repayment, could you just double check this number, is 300 crores in 1H we have repaid, net debt?

Ganesh Nayak: Net debt is what you are looking at is gross debt reduction while what I said is net debt, so net debt is after the cash balance.

Dr. Sharvil Patel: Our cash balance in September as compared to March.

Prakash Agarwal: So net debt reduction in the last 6 months has been 300 crores and what is the expectation sir for the remaining of the year?

Dr. Sharvil Patel: About 300 to 400 crores reduction by March 2020.

Prakash Agarwal: Another 300 to 400 crores, thanks. And secondly on Moraiya, so what are the next steps in terms of, I am sure we already replied to the FDA but what is our current understanding in terms of the remediation measures and in terms of calling them for reinspection?

Dr. Sharvil Patel: The remediation measures, there are two intended measures. One is on the injectables front, we have closed the manufacturing and dismantling the manufacturing of injectables in Moraiya and has been site transferring these products to Liva, so that is the mitigation plan for that and we are doing all the batches, so that is the major part of that part. And on the other side, we are now working with external experts and SMEs as well as consultants to form whatever the expectations of the FDA in terms of what if they have sent us, we are trying to respond to them on the cleaning validation protocols on analysis of all batches and the data that we are providing to them. So it is a robust work going on between the teams using external consultants to verify because we are expected to verify some of this to third party, so that is the work that we are doing right now and we feel that we should be able to complete this work and request the FDA post the April-June quarter for the inspection.

Prakash Agarwal: Thank you for that information. And in terms of key assets, sir last time we spoken about Doxil and Revlimid, any update there, when are we expecting these products?

Dr. Sharvil Patel: I think we have responded to most of the queries that comes to the Doxil part, so we are just waiting unless we have further request, we are waiting for approval and planning for that and we have taken production batches to make sure we can produce effectively. On the other product Revlimid, I need to know the generic, do you know the generic INN name?

Prakash Agarwal: Lenalidomide?

Dr. Sharvil Patel: No, lenalidomide is still away I think, there could be a patent on that as well.

Prakash Agarwal: And lastly on India, so great show, just trying to understand it is a function of the acute business, we having a very good season or the last time we said that we are undergoing the restructuring of CVS, Gastro, is that largely done and we are starting to see some fruits or we are yet to see some benefit from that also going forward?

Dr. Sharvil Patel: One is our cardio-diabeto franchise has started to do better, though not better than market, but it is still growing at very healthy rate. As I said, certain therapies like women's health where we are the largest player, we are doing very well there and even in the areas of dermatology, where we have gained better share, but even in the other areas of pain and some of the other indications, we are actually doing as per market or little bit around the market growth, so I think it is an all-around growth and also, so it is not driven around only a few franchise or at the anti-infective or any of that but it is across the board growth. Some part of it is the benefit of the effort that we have done on sales force integration that we did on effectiveness, but I think still we have done a major strategical change as well where we have spoken last time that where we have changed the business units into two clusters of mass and specialty and that just we got done recently. So this is the last part of the integration that has just happened in this October quarter and hopefully from the next year onwards, we would see better gains because of our strategy alignment that has happened here.

Prakash Agarwal: Are you splitting mass and specialty in the India business, what is the kind of percentage there in each?

Dr. Sharvil Patel: 55- 45, 55 being mass and 45 being specialty.

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

Anubhav: This is Anubhav here. My question was on this Zydus Technologies 15% stake, so the price that we paid to 15% partner, was this predetermined price or we valued now based on the potential of all the 9 filings that we have done?

Ganesh Nayak: It is a negotiated price and it is significantly less than the valuation we got them.

Anubhav: So the partner agreed for such a lower price, I know there is a significant deadline there, but we are paying at this point $2 million for 15% stake there.

Dr. Sharvil Patel: Yes, see we have to understand that one is, there is deadline there and the other is that the plants have got delayed over a period of time, so the partner also understands the nature of the business there.

Anubhav: And one question was on this India business, what is the sales force number right now and what is the productivity we are running at right now?

Dr. Sharvil Patel: I don't have it on me right now exact numbers. I can request Vishal to provide that to you.

Anubhav: Sure, one question was on the balance sheet, the receivable days for us improved significantly in September 19, was it that the March 19 base was just one-off or what has helped receivable days to come down?

Vishal Gor: Anubhav, as you remember during December quarter and March quarter, we had business of this AG and two receivables which were there in March, we have collected.

Anubhav: So the March number was justified now?

Dr. Sharvil Patel: That was higher because of high WAC.

Anubhav: And Zypitamag proceeds $5 million, this is including other operating income?

Dr. Sharvil Patel: Yes.

Moderator: Thank you. The next question is from the line of Kunal Mehta from Vallum Capital. Please go ahead.

Kunal Mehta: Sir, just wanted to understand the rationale behind the CAPEX of 1000 crores which we are doing in this year, so if I am not wrong, we have already been through a round of CAPEX in the last 2 years whereby we have expanded our capacity across our plants, so can you just throw some light on which areas this CAPEX is going to be in?

Dr. Sharvil Patel: So large part of the CAPEX is driven towards the injectables sites, we have three injectable sites where we have upgradation and new lines. Then, we have upgradation of oral facility in SEZ and we have a new facility that has also been built up in SEZ, so most of those composed of the majority of CAPEX and then there are also maintenance CAPEX that happen across all the other sites.

Moderator: Thank you. The next question is from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Sir, just on CAPEX, can you split it between maintenance and expansion CAPEX and what would be the CAPEX next year or year after? I am just wondering like where we would stabilize on CAPEX?

Dr. Sharvil Patel: As of now, our endeavor is to be between 700 to 800 crores on an ongoing basis, sustainable basis.

Vishal Gor: Maintenance ones will be about 50 to 75 crores depending on specific plant and aging of the machines.

Saion Mukherjee: And the second question on Saroglitazar, what is the way forward given all the data that you have seen, you planned to license out, are you in discussion, how do we monetize this now?

Dr. Sharvil Patel: So our next step is after this, we have had a very successful Phase-2, so we will be planning for a Phase-3 and preparing ourselves in terms of what we would need to do for a Phase-3 clinical trial. At the same time, we have been approached by companies to partner and we are also going to be looking at as a partnering approach, so we will keep both, all options open whether we are able to move the program on our own or whether we can find a partner whom we can align with and we would work with the partner as well.

Saion Mukherjee: Sir do you have any approximate timeline for the commencement of Phase-3 trials?

Dr. Sharvil Patel: Not yet, we have just represented data, it is very early for me to tell you about Phase-3 right now.

Saion Mukherjee: And just one sir, how is the product doing in India, which indication is you are marketing it for? Is it still growing, or it has kind of got stagnated now?

Dr. Sharvil Patel: It is growing at a healthy growth rate. We have 1 million patients on the product. We have currently been selling it on a very limited indication of the people suffering from diabetes and high triglycerides. Now, we will soon be getting an approval for one of our major indications which is for type 2 diabetes management which will significantly expand the scope of the opportunity and we have also filed for a Phase-3 NASH data in India and we had successful trials, we should also get an approval for NASH and NAFLD and with three indications, we will significantly scale up this business in the coming two years.

Saion Mukherjee: So sir this 1 million patient that you mentioned for that, what would be the penetration of the target segment?

Vishal Gor: Today, we have endocrinologist, cardiologist and physicians prescribing this, so we have about between 8000 and 8500 of these three specialists prescribing these products and as Sharvil bhai mentioned, right now it is for diabetic dyslipidemia and very soon we should be getting approval for just type 2 diabetes.

Dr. Sharvil Patel: See, today the chronicity of the medicine prescription is not there, with the new indication, the chronicity will come in which will allow us to significantly scale up the value of the business, we have lot of prescriptions, we have lot of patients, but we need the chronicity of prescription which will come in through the new indication.

Moderator: Thank you. The next question is from the line of Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai: Two questions. Sir, Europe though it is a small part of our overall business, we are seeing continuous decline on the sales reported, so are we reducing focus on that geography or what is happening on the European part?

Dr. Sharvil Patel: Europe, there are two issues, one is obviously the market is a little challenge in terms of the generic business. We have had some supply disruptions in that market which has further aggravated the problem which we will be resolving by this quarter. So I think it is a business that we need to we have been looking at and we have been looking to see how do we improve our portfolio in these markets to improve our growth as well as profitability and the work is on but it will need a couple of years to turn around. We are also looking at some strategic options as well and if some of those work out, we will appraise you of it.

Damayanti Kerai: The sales breakup number which you have given in your press release, the revenues which we get from alliances, it is reported 15 million?

Vishal Gor: So basically, one of the businesses which we have to supply to one of our partners and that is mainly injectables from Moraiya and as Dr. Sharvil Patel mentioned, we have stopped manufacturing injectables, we have no supplies made to that partner which has resulted to this decline.

Damayanti Kerai: So this is just supply disruption to one partner which has led to?

Dr. Sharvil Patel: Yes. We have stopped injectables and that has led to the loss of business.

Damayanti Kerai: Till the time Moraiya comes back on track, it will remain in similar range?

Dr. Sharvil Patel: We are site transferring these molecules to Liva and we would finish our site transfer process by FY20 and in the coming few years, Moraiya will not be responsible for the injectables revenue.

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

Ganesh Nayak: Thank you very much and look forward to interacting with you again in the month of February 2020. Have a good night.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Cadila Healthcare Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.