"Cadila Healthcare Limited Q4 Results Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the post Q4 Results Conference Call of Cadila Healthcare Ltd. As a reminder, for the duration of this conference all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need any assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Dr. Ganesh Nayak -- Executive Director, Cadila Healthcare Ltd. Thank you and over to you sir.

Dr. Ganesh Nayak: Good evening and welcome to our post-result tele-conference for FY 2011-12. We have with us Mr. Pankaj Patel, Chairman and Managing Director, Dr. Sharvil Patel, Dy. Managing Director, Mr. Nitin Parekh, CFO and Mr. Vishal Gor, General Manager, Investor Relations.

While the year 2010-11 marked our achievement of an important milestone of $ 1 bn in revenues, the year 2011-12 marks the beginning of our journey Beyond the Billion in pursuit of our next milestone of $ 3 bn in 2015.

During the year, we carried out a detailed exercise to work out the strategy for this journey Beyond the Billion, or "BtB" as we at Zydus call it. After a detailed study of various therapies and markets, we identified 15 markets / countries and 13 therapies where we would be focusing.

Different markets / therapies have been classified into different clusters. They are – home markets, steady growth businesses and new technology businesses.

Home markets, comprising of 2 established markets of India formulations and US generics and 2 potentially promising future markets of Brazil and Mexico.

While established home markets are expected to continue sustainable and profitable growth with significant revenue contribution, future home markets have higher growth potential and large revenue contribution in times to come.

Steady growth businesses, comprising of Europe, Japan, Emerging Markets, Consumer Wellness, Animal Health, APIs, JVs and alliances.

These markets are expected to continue steady growth momentum with low variability in business performance.

New technology businesses, comprising of Biosimilars, Transdermals, Vaccines, Injectibles, Inhalables, Creams and Ointments and NCEs.

While these businesses require high upfront investments, which we have already initiated, they have very large potential upside in future.

Vision, objectives and detailed road-map for each of these businesses have been defined. Several strategic initiatives have been identified for each of the businesses, along with their execution plan to ensure that each business achieves its own vision and BtB objectives. Key risks and their mitigation plans have also been identified for each business.

To ensure better review and monitoring process, greater accountability and better focus, we also revamped the internal governance architecture. Key initiatives and implementation plans have been laid out for improving overall organisational health in the areas of value creation, innovation, collaboration and accountability. These dimensions are referred to as VICA for growth.

The implementation of various initiatives identified in this exercise has begun, and we are confident of continuing our history of crossing milestone after milestone successfully.

With that, let me share some of the highlights and numbers for the year gone by.

On the India Formulations front,

We acquired Biochem Pharma, one of the top 40 pharma cos. in India to capitalise growth of acute segment.

With launch of new division Occucare, we forayed into the new therapy segment of Opthalmology.

We maintained strong leadership positions in the cardiology, gynecology, gastro intestinal and respiratory therapy areas in the represented markets, and continued to outpace market in nutraceuticals and rheumatology segments.

Initiated programmes to improve sales force effectiveness in key divisions.

We launched over 90 new products, including over 40 line extensions, of which 29 were First in India launches.

These included Pegstim, which is Pegylated GCSF, and Pegihep, which is Pegylated Interferon alfa-2b, both of which were from the indigenous biologics pipeline developed at Zydus research Centre.

Overall, India formulations business posted sales of Rs. 4,988 Mio. during the Q4, up 38 y-y%. Growth excluding Biochem was also a healthy 23 y-y%. And this in spite of the fact that we had a good base in the same quarter last year because of the Healthy Billion.

In the US generics space,

We launched 6 new products during the year.

With the acquisition of the assets of Nesher Pharma, we forayed into the $ 7 bn generic controlled substances market.

We filed 21 ANDAs with the USFDA, including 2 for pulmonary products, taking our cumulative ANDA filings to 148.

We entered into an agreement with Microbix to market Urokinase, a critical care therapy thrombolytic drug, the market of which is expected to touch $ 400 Mio. in the US by 2020.

In terms of prescriptions, we have recently been ranked the 11th largest generic co. in the US by IMS.

During the year, we posted sales of Rs. 12,431 Mio. in the US, up 29 % y-y. Growth excl. Nesher was 18 %.

In Brazil,

We continued our focus on brand building initiatives and launched 7 new products, incl. line extensions, with an aspiration to be the lead player in the chronic therapy segments.

We filed 18 new product dossiers for Brazil market with regulatory authority, taking cumulative filings to 82 and received approval for 7 dossiers as against only 3 last year, taking cumulative approvals to 34. This should help us increase our sales in the coming quarters.

During the year, we registered sales of Rs. 2,473 Mio. in Brazil, up 10 % y-y.

In Mexico, we filed 14 product dossiers with regulatory authority COFEPRIS, and expect revenues from 2013.

In Europe,

We continued to progress, with launch of 16 new products in France, including 6 Day-1 and 12 new products in Spain. Over half of these products were manufactured and supplied from India.

We filed 23 new product dossiers for Europe with the regulatory authorities, taking our cumulative filings to 136 and received approval for 25 dossiers, taking our cumulative approvals to 90.

During the year, Europe registered sales of Rs. 2,983 Mio., up 8 % y-y.

In Japan,

We launched two in-licensed products and received the PMDA approval for three new products including one for Day-1 launch.

We filed 8 products dossiers for the Japanese market with the regulatory authority, taking cumulative filings to 12.

During the year, Japan registered sales of Rs. 522 Mio., up 24 % y-y.

In the emerging markets space, we gained market shares in Philippines, Vietnam, and Sri Lanka.

In spite of political imbalances and regulatory changes in some of the markets, emerging markets posted sales of Rs. 555 Mio. in Q4, up by 5% y-y.

On Zydus Wellness front,

SugarFree continues to outpace the market, which now holds a commanding 91 % market share.

EverYuth scrub and peel-off grew despite stiff competition, showing signs of revival in the last quarter.

We continued investments in creating awareness for the new concept -Actilife, which progressed on expected lines.

From a degrowth of 12% in sales in Q3, Zydus Wellness achieved a positive growth of 11% in Q4, and posted sales of Rs. 857 Mio.

On the Animal Health front,

We launched 11 new products in India during the year.

We acquired Bremer Pharma GmbH, Germany to expand animal health business globally.

Overall, the Animal Health business posted sales of Rs. 2,025 Mio. during the year, up 38 % y-y. Growth excluding Bremer was 17 %. Sales growth in the Q4 excluding Bremer was 30%.

Our API facilities continued their strong support through backward integration to cater to the demand for finished formulations across the markets, and filed 10 US DMFs during the year, taking our cumulative filings to 107.

Coming to our JVs and alliances,

The Zydus Hospira's facility completed successful audits by Korea and Saudi FDA, and commenced commercial production and supply of 2 additional products for Europe and 1 for the US market.

Zydus Nycomed commenced production and supply of 7 Generic APIs to Nycomed, 3 of which were commercial supplies and 4 were validation batches.

Bayer Zydus Pharma, our JV with Bayer Schering Pharma commenced commercial operations in India successfully.

We added 7 products and 3 markets in the out-licensing deal with Abbott Labs.

Overall, our share in the sales of JVs was at Rs. 4,230 Mio. during the year, up 16%.

Talking about the new technologies,

We filed 2 ANDAs for transdermal patches with the USFDA and initiated additional projects for development and at present 8 projects are under development.

On the biosimilars front

We launched 5 biosimilar products in India, all developed in-house.

We completed toxicity studies for 2 MABs and initiated toxicity studies for one more MAB.

On the novel biologics front, we filed clinical trial applications to the DCGI for PEGEPO (which is being developed in collaboration with Prolong Pharma., USA) and Rabimabs (which is being developed in collaboration with WHO).

Now let me take you through the broad financial numbers.

During the year 2011-12, on a consolidated basis:

Our total income from operations was up by 14 % y-y to Rs. 52.6 bn from Rs. 46.3 bn last year.

Profit before interest, depreciation and tax, excluding the impact of exchange rate fluctuation loss on operating transactions, was up by 14 % y-y to Rs. 11,772 Mio. from Rs. 10,287 Mio. last year. PBIDT margin was up by 0.2 % to 22.4 % from 22.2 % last year.

Revenue spend on R&D increased by 45% to Rs. 3,638 Mio. and R&D spend as % to total income from operations increased from 5.5% last year to 6.9%.

Net profit, excluding the impact of exchange rate fluctuation loss on operating transaction and forex loans was up by 7 % y-y to Rs. 7,468 Mio. from Rs. 6,992 Mio. last year. Net profit, excluding the impact of forex loss for Q4 was up 16 % to Rs. 1781 Mio.

Sharp depreciation of the Indian Rupee vis-à-vis global currencies has resulted into a forex loss of Rs. 1,178 Mio. vs. a gain of Rs. 147 Mio. Of this, the loss of Rs. 402 Mio. was on foreign currency operating transactions and loss of Rs. 776 Mio. was on foreign currency borrowings.

EPS, after considering the impact of forex losses, stood at Rs. 31.87.

The consolidated debt at a gross level stood at Rs. 22,951 Mio. and debt net of cash stood at Rs. 18,285 Mio.

The Consolidated capex for the year was Rs. 6,495 Mio., which included acquisition of the assets of Nesher Pharma in the US. Capex on R&D, included in this, was Rs. 423 Mio.

Thank you and we will now start 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 with the question and answer session. Our first question is from the line of Grishma Shah from Envision Capital. Please go ahead.

Grishma Shah: The question pertains to Zydus Wellness. If you could tell us what is the outlook for the company and various product categories for the year ahead?

Pankaj Patel: As a principle, we do not give guidance. We can only broadly say that we clearly see a double digit growth for the upcoming year. We see that our re-entry into the market through new campaign has given good response and we are confident that for the next year we should be able to achieve the double digit growth.

Grishma Shah: What kinds of price hikes are we planning to take this year?

Pankaj Patel: It depends from product to product, so the price hike could have an impact of single digit number. I do not have specific number to give you. We are taking some price hike in some products where the cost of goods is going up. There will be some price hike. But the market has responded well to our advertising campaign. We can clearly see a revival of the brand and sales revival happening.

Grishma Shah: Do you see the margins falling for the year? Do you see that coming back on track for us?

Pankaj Patel: There are a couple of things for you to understand. The margins, the numbers are not comparable because when you see the last year, we were basically outsourcing the product. As a result, we were buying the product and we were not actually producing the product. Now, we have started producing the product. As a result the excise duty impact now is in our number. Actually, it is refunded but it is still has impact. Second is since we started manufacturing in-house, we have some additional cost because we have state of art manufacturing brand new facility, we have additional depreciations and other cost, as a result, there is an impact on the overall operating cost. The third is one of the inputs which is oil in one of our products where we see price increase has happened, we see a kind of negative impact on material cost as far as oil is considered. Some of these we are able to neutralize through price increase for sure. As we improve our production in our Sikkim facilities, we will se some synergy. So, we can see that there will be some margin improvement of about 100 basis point next year from the current level.

Grishma Shah: Okay, this would be on operating margin. And the tax rate going ahead would be?

Pankaj Patel: Tax rate going ahead would be AMP. It is approximately 19% to 20%.

Grishma Shah: Okay, one last question on Sugar Free, we did see a marginal growth kind or no growth of a scenario. We are on track on that also?

Pankaj Patel: As far as Sugar Free is concerned, it is having some growth. Though growth is not as high as we wanted but now we are seeing growth improving. We are having some strategies which you will know soon once we launch those initiatives. We are the market leaders, and we have actually consolidated the market, clearly indicating that we are going better than the market. We have done enough to grow the overall category. We are taking some action to do the category growth which should see going forward growth picking up.

Moderator: Thank you. The next question is from Ritesh Poladia form RBS. Please go ahead.

Ritesh Poladia: The question again pertains to Zydus Wellness. Last con-call you had spoken on the Sugar Free wherein industry is getting consolidated and increase the market share again in this quarter. What were the reasons that the Sugar Free has taken this lackluster growth?

Pankaj Patel: I think the overall category growth has not happened and the reason is we have not done enough to grow the category as such. I think more consumer education programs will help to grow the category, and you will see some of those actions in the next quarter.

Ritesh Poladia: Thanks, regarding new product ActiLife, which was under some legal dispute regarding regulatory stuff. Is that cleared or it is still in a limbo?

Pankaj Patel: We do not have any regulatory issue.

Ritesh Poladia: There was some ban on the health benefit kind of a publicity, is that cleared out on Acti Life?

Pankaj Patel: No we did not have any ban, we had no issue.

Ritesh Poladia: Okay, regarding the new products, what kind of product category you would like to enter in market?

Pankaj Patel: We will continue to introduce products in wellness segments, I think, you will see more brand expansion coming in the near future.

Ritesh Poladia: Any new category, where you would like to launch?

Pankaj Patel: At this moment, we do not have any plans to launch a new category.

Moderator: Thank you. The next question is from line of Kartik Mehta from Daiwa Capital. Please go ahead.

Kartik Mehta: Something on the domestic business here. How do you see FY13 over FY12 now that we have the biochem numbers for three months in this quarter and in particular the reason for this strong growth in this quarter for the domestic business?

Pankaj Patel: Domestic business is definitely looking better. There are two reasons for that. One is that we are continuously improving the productivity of the field force which has actually helped us to see a better performance in the market place. To certain extent one can also say that the market itself is looking better and we are benefiting out of it. So, going forward also we see clearly that we are on right track and we are now seeing good growth for FY13, better than the market growth. Which should be upwards of 15% without biochem.

Kartik Mehta: Okay, you said 15% in FY13, and is there any improvement in the margins for actually biochem after you acquired or how is the comfort level?

Pankaj Patel: It is too early to comment about this. It is just 3 months since we started operating this, it will take one year time before we will able to tell you that exactly how the margin improvements are taking place.

Kartik Mehta: Okay, what will the total field force for formulations in India including biochem and including Bayer.

Pankaj Patel: Including the Bayer, I do not have the number. Vishal will give you the number.

Kartik Mehta: Okay, on the US business, in the opening remarks you shared that without Nesher we grew 18%. What was this on constant dollar, if that number can be available?

Pankaj Patel: 12%.

Kartik Mehta: 12%, on the US business, any update on the US FDA issue that we have, if you would now want to highlight, if there has been a re-inspection, any thoughts?

Pankaj Patel: We were re-inspected by FDA somewhere in the month of February. Subsequent to the observation, we have made our final submission to FDA and they are reviewing currently. We expect in the next eight weeks, FDA will come back to us and we feel positive about the inspection and we should be able to resolve the issue.

Kartik Mehta: Okay, by resolving the issue, you would mean that the existing import alert which would actually allow and then..

Pankaj Patel: First of all there was no import alert, we continue supplying products to US, so there is no import alert at all. Only thing was our new product approval was under hold. So, once this is over, we will have the new product which will actually help us to go further.

Kartik Mehta: I am sorry for using the word import alert, I meant for the new approvals from the existing plant and new approvals from where we had asked for an inspection trigger?

Pankaj Patel: The point is, as far as the Baddi facility which is approved subsequently, we have also received approval from that facility. As far as, our current facility is concerned in Ahmedabad, once this is over, we should get product approval for where we are filing number of filings in past.

Kartik Mehta: My last question is including Nesher in terms of constant US dollar, would you be comfortable with 15% topline for the US in FY13 and FY14?

Pankaj Patel: We will do better than that, otherwise, we cannot achieve the three billion number. We are confident that we can achieve this kind of number.

Kartik Mehta: Are you factoring any sales in FY14 for the new products for the US markets. The ones which are now been stuck up.

Pankaj Patel: Definitely, we are expecting a lot of new product launches in FY13 and FY14 both.

Kartik Mehta: Any guidance for better number?

Pankaj Patel: Well, we do not like to talk more about that unless we have resolved this issue because it is contingent to resolving US FDA issues, and once we resolve that then we will have a number of products coming up. So, once we resolve the issue, we would like to give you guidance, before that it would not be fair to give a guidance.

Moderator: Thank you. The next question is from the line of Ravi Agrawal from Standard Chartered. Please go ahead.

Ravi Agrawal: Firstly if I look at the domestic formulation phase, you have mentioned a 23% growth is Biochem, but if I then try to do the Biochem contribution to the quarter it comes to a number of close to around 22-23 crores for the full three months. I was actually led to believe that Biochem's overall annual sales of roughly around 250-260 crores. So wondering where the disconnecters in terms of the…

Pankaj Patel: I think your calculation is somewhere wrong, maybe I would suggest that you can take this offline with Vishal, Vishal will be able to explain you exactly, the numbers are right what we have told you and your numbers on Biochem sales are wrong.

Ravi Agrawal: So what is annual contribution from Biochem revenue when we acquire what is the annual sales in Biochem?

Vishal Gor: Around 250 crores.

Ravi Agrawal: Okay, the second question is on the MTM. I would believe you would have an MTM FOREX gain on your foreign loans, I was wondering where that would be coming in the quarterly numbers?

Vishal Gor: There is a loss in the quarter and as well as the entire year on the FOREX loans.

Ravi Agrawal: Yes, but you mentioned as 9 crore FOREX loss for the quarter but the rupee from December to March would has appreciated so I am guessing there would be an MTM FOREX gain on your FOREX loans for the quarter, so I was wondering where that number is and what is that amount?

Vishal Gor: No. Rupee at the end of the March has not appreciated much and in fact we had a loss of Rs. 6 million during the quarter on FOREX loans, because we now follow hedge accounting.

Ravi Agrawal: Okay so what you are saying is that six crores is net FOREX loss number and where is it coming?

Vishal Gor: No, Rs. 6 million.

Ravi Agrawal: 6 million?

Pankaj Patel: And that is for the quarter 4.

Ravi Agrawal: Okay and then that’s the net FOREX number, there is no MTM FOREX loss or gain as such?

Pankaj Patel: That includes everything, the Rs. 6 million includes MTM as well as loss on settled loans.

Ravi Agrawal: Okay, so the final question is on your other operating income, seen a sharp jump from around 25 - 30 crores and run rate to around 53 - 54 crores. Could you just have a break up for the quarter please, how and what that constitutes?

Vishal Gor: We have already provided the details alongwith the results. If you have not got the same, we can give you.

Moderator: Thank you. The next question is from the line of Sonaal Gupta from UBS. Please go ahead.

Sonal Gupta: Just one was I just want to understand on this Microbix urokinase thing, could you just shed some light on what sort of investment is involved and when do you launch the product, etc.? So can you just talk about that?

Pankaj Patel: As far as this deal with Microbix is concerned, there was a product which was available in the US market which was known as Abbokinase, which was an Abbott product. Abbott had some regulatory issue with FDA on their manufacturing facility. And then discontinued the manufacturing and then this technology and the plant was obtained by Microbix. So it is an approved US product which has to be now reproduced at a new site and go to the US FDA approval subsequently this product can be launched into the US. So our collaboration with Microbix is basically to take this product to manufacture in India and get FDA approval and launch in the US market. There is no product currently available in the US market for Urokinase and the market potential as we mentioned is about $400 million. In fact, the product will be launched around 2015.

Sonaal Gupta: Okay, you don’t need to do any clinical trial, etc. for?

Pankaj Patel: I don’t think we need to do it, we are yet to get approval from FDA finally but we don’t expect much on the clinical trial.

Sonaal Gupta: And how much investment I mean so this sort of you got marketing right for this drug in the US?

Pankaj Patel: Yes we are not are not giving any up front money and we are going to invest basically in manufacturing and if there is any clinical trial and that could be small amount or single digit million dollars.

Sonaal Gupta: Okay and second on the domestic business, can you tell us what is your field force now for the domestic business and how many people have been added during the year?

Pankaj Patel: We can provide you that information, I will ask Vishal to provide you the information.

Moderator: Thank you. The next question is from the line Monica Joshi from Avendus Capital. Please go ahead.

Monica Joshi: Just hypothetically if you were to get an FDA clearance whenever it happens my question is from the day of even gap of 6 to 12 months, how many products would you in research would be open for approval, I mean how many approvals do you think you will clock in?

Pankaj Patel: I think we expect at least 10 or maybe 15 products approved in six months' time. Our dossiers are still being evaluated at FDA, we are completing the process and once it is over they will issue approval letter.

Monica Joshi: So you believe that whenever approval comes in a span of 6-12 months you should have at the lower end 10 and as the higher end 15 approvals from this client

Pankaj Patel: Yes.

Monica Joshi: And these would primarily be orals or they would also include injectables and transdermals.

Pankaj Patel: They will include orals and injectables and nasal products.

Monica Joshi: Okay, just your thoughts on debt levels, when and at what level would you be comfortable without your debt-to-equity and do you see the net debt actually now coming down, which is also function of do you have any more acquisitions or you know things in the pipeline, any loopholes that you want to really plug?

Pankaj Patel: I have said in the past let me repeat, our policy is that he debt-equity ratio should remain generally 0.5 and it should never exceed 1. Currently as of this year it is 0.7:1.

Monica Joshi: Okay so you think that by the end of FY13 you would be closer to 0.5?

Pankaj Patel: We should be.

Monica Joshi: Its okay great. We thought that the FOREX loss was 90 million as against 6 million and is that 90 million adjusted in other expenses?

Vishal Gor: See the total FOREX loss for the quarter was 90 million of which 6 million was adjusted in the interest cost lines and remaining Rs. 84 million was included in the other expenses above the EBITDA line.

Monica Joshi: So in that if you adjust it you have a operating margin without your other operating income at around 17.6%. Pankaj bhai your thoughts on how do you see this improving. Do you see and do you maintain a 100 basis point improvement as we go from here?

Pankaj Patel: Yes, we are currently running a program. Long back we have run a programme called Prism, which was aimed at improving operational efficiency and cost reduction. We are running now the Prism II program. Last time when we did the Prism program we could reduce significantly our non-labor spend cost and this time also we have been ambitious targets. So I clearly see that going forward also we were looking at improving the margins by 100 basis points year-on-year

Monica Joshi: You think that FY13 will be the first year you see the traction coming in?

Pankaj Patel: Yes.

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

Girish Bakhru: First on the JV business Hospira recently mentioned his market share is still pretty strong in those 50% and pricing revision is also just 40% so what is the broader color as to where this product might go in future?

Pankaj Patel: As Hospira said they have market share and we are seeing the sales and margins coming out of it. But I don't have further idea on that I think I would strongly urge that we follow Hospira guidance.

Girish Bakhru: But JV revenue as such from Hospira will see another peak right this year, given there will be further product introduction.

Pankaj Patel: Should be but we cannot comment on that because it all depends upon how Hospira does in the market place.

Girish Bakhru: Right, on the US side I mean you had mentioned that you might be launching some products including nasals. When would we see larger launches say on the aerosol, transdermal or modified released products, would this be post to FY14 or could it be even before FY14?

Pankaj Patel: Well some of them will be in FY14 and some of them post FY14. So nasal should come in FY14 but some other products can come in post FY14.

Girish Bakhru: So just to get more specific transdermals was essentially be post FY14 opportunity right.

Pankaj Patel: I think that should be the right thing to say.

Girish Bakhru: Right, any color on the introductions from Nesher? You have commented earlier that you might introduce two more products this year, FY13 so would we be able to launch?

Pankaj Patel: Yes, we should be able to launch two products this year.

Girish Bakhru: Right and incremental how many ANDAs we are filing say targeted in this year?

Pankaj Patel: This year we are targeting to file about 30 ANDAs.

Girish Bakhru: And these your filings are happening from Baddi now or where in?

Pankaj Patel: Yes they are happening from Baddi and Ahmedabad both. But we also have a new manufacturing site in Ahmedabad from where it is being filed which is located in special economic zone.

Moderator: Thank you, our next question is from the line of Bino Pathiparampil from IIFL. Please go ahead.

Bino Pathiparampil: Just a follow up question, earlier somebody had asked a doubt about that domestic business growth. Actually most of the fact that out so it would be great if you clarify it because you said Biochem revenue was about 260 crores a year. If we roughly calculate quarter's revenue and remove that then the growth doesn't come anywhere close to the 23% you are saying.

Pankaj Patel: I think there is some calculation mistake so we can actually give you the number because somebody else again will ask me the question.

Vishal Gor: Actually the 260 crore number which Mr. Pankaj Patel gave was the annualized number. The number which is reflected in our consolidated account for the quarter 4 in domestic formulation business is Rs. 56 crore. And for the entire year, it is about Rs. 71 crore because we started the reporting Biochem numbers in our consolidated accounts from last quarter only and last quarter also only 10 days sales were reported which was about, Rs. 10-11 crore, so total sales for the entire year reported in this is Rs. 71 crore.

Bino Pathiparampil: So this quarter it is 56 crores?

Vishal Gor: Yes.

Bino Pathiparampil: This Bayer joint venture revenues are they part of the joint venture revenues that you are giving?

Pankaj Patel: Yes, it is part of the joint venture revenue.

Bino Pathiparampil: Were there any existing products in Cadila's domestic business that was moved there?

Pankaj Patel: Yes.

Bino Pathiparampil: How big was that?

Pankaj Patel: Well not now, it was moved at that time when we formed the joint venture.

Bino Pathiparampil: But still I mean roughly process, the impact of that.

Vishal Gor: I believe why it is creating confusion is because after we moved these products from Cadila to Bayer Zydus, we have now started reporting the previous year number adjusting for that shift. When we said 23% growth in domestic business, excluding Biochem it is also excluding the products shifted to Bayer Zydus from the previous year corresponding quarter number. So this is the real growth on apple-to-apple comparison. Now coming to your question on the sales base shifted to Bayer Zydus it was about in excess of Rs. 90 crore. That is for the entire year.

Moderator: Thank you. Next question is from the line of Nimish Mehta from MP Advisors. Please go ahead.

Nimish Mehta: Just wanted to have your thoughts on possible approval of this products Azelastine or Astelin by Meda Pharma. Now that you are looking at the clearance of this facility, do you expect that to come in the near future?

Pankaj Patel: We expect that once we have resolved the issues with FDA we should have approval of that product.

Nimish Mehta: I see, so this would be a part of the held up approvals right?

Pankaj Patel: Yes.

Moderator: Thank you. The next question is from the line of Amit Hiremath from Enam AMC. Please go ahead.

Amit Hiremath: My question is related to the profitability we have shown during the quarter where the EBITDA margin has increased by 150 bps, although there is a slowdown in the JV business on the higher base. So just want to know if any of your verticals has shown exceptional profitability during the quarter or this is something run rate we should be looking forward?

Pankaj Patel: I think when domestic business does well, then you can see definitely see an improvement in margins.

Amit Hiremath: Okay so any guidance you can give about the domestic formation what could be the EBITDA or gross margin?

Pankaj Patel: It is difficult to say that as we don't give guidance at all.

Ganesh Nayak Also last year there was a one-time bonus payment which is not there this year this so that also improves our profitability to some extent.

Amit Hiremath: Okay and sir, what will be the CAPEX for FY13 and FY14 if possible?

Pankaj Patel: It is about 650 crores in FY 13.

Amit Hiremath: What would be the CAPEX for Wellness then in this?

Pankaj Patel: This is consolidated number of the whole company wellness will not be significant number in that.

Moderator: Thank you. Next question comes from the line of Jesal Shah from JM Financials. Please go ahead.

Jesal Shah: On the tax rate for the coming year any guidance on that?

Pankaj Patel: It will be about 20%. It will be close to MAT rate.

Jesal Shah: CAPEX number which you mentioned is straight over two years right? Or is it like one year?

Pankaj Patel: One year number.

Jesal Shah: Can you give us some update on the liposomal product that you have in the partnership?

Pankaj Patel: We are currently in the process of filing the ANDA with USA, and initial registration process in USA. We are also conducting Phase-III study in India for registering in the emerging market this product, so this is what the update is. We expect that this product should have approval and revenues coming from the developed market in FY14 onwards.

Jesal Shah: Right and just lastly on your R&D expenditure for the coming period, do you think you would be able to maintain at 7% of sales or do you think it will come down?

Pankaj Patel: It should come down little bit because we don't expect the R&D expenditure to significantly jump so it should come to around 6%.

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

Chirag Dagli: Just wanted your sense of what are the contour of the issues that were raised by the US FDA at the time of the inspection. Just to give us some incremental comfort on the issues per se, were they major, minor number of observations that were raised, if at all any color whatsoever that you can give us on?

Pankaj Patel: There were no critical major observations. There were observations which are basically not suggestive in nature. And so that's what I can only say beyond that it is very difficult to comment on individual thing.

Chirag Dagli: So the issues basically were asking you to carry out some changes post which essentially the issues would have got resolved automatically.

Pankaj Patel: That's what we think. We cannot comment on what FDA is thinking but that is what our thinking is.

Chirag Dagli: Obviously we have seen some element of pushback of approval that we were expecting through last year which have not come through, now I am thinking is there a case that some of these products the opportunity itself by virtue being not coming on time, may have got diluted significantly?

Pankaj Patel: Not for all products, but one or two products, yes.

Chirag Dagli: One or two, but if not any major loss of opportunity per se?

Pankaj Patel: There were not like surge to market big opportunities. We basically had selected products and where we see clearly an opportunity from other angle and we are seeing that those opportunities still exist.

Moderator: Thank you. The next question is from the line of Preeti Arora from Kotak. Please go ahead.

Preeti Arora: If I look at the sales growth for the year, three geographies have reported single digit number that is LATAM, emerging markets and Europe. So do you expect the growth to pick up or what are the issues here?

Pankaj Patel: We expect the growth to pick up first of all. If we go market by market then emerging market we had significant sales in some markets like Algeria, Sudan and where we saw a kind of political unrest or change in Government policy where the sale become practically to zero. So that has some impact but those are now past and going forward we clearly see that good growth will happen as far as emerging market is concerned. Lower growth in Brazil was because product approvals came late. Now we have the product approvals coming up so we see a clearly growth coming up. Also there were some delays in granting quota for Brazil, some of the controlled substances drugs in Brazilian market where some quotas were delayed during the year. They are now in, so it should be okay in terms of growing the LATAM markets. The third territory is you talked but Europe. Europe has economic problems given the overall French market is not growing. In Spain particularly the reimbursements made by government to the pharmacists were delayed and as a result the pharmacists had to resort to de-stocking the goods. Now the Government has committed to pay in the month of May and through that again the demand should pick up as far as Spanish market is concerned. So all of these combined factors was affected so I can say that for LATAM and emerging market we clearly see growth. Europe is still not very clear whether we can see significant growth or we should be able to maintain our market.

Preeti Arora: Any updates on Abbott, will you be launching product starting this year?

Pankaj Patel: We expect this financial year launch of some products with Abbott.

Preeti Arora: Okay so any sales number you can share from this JV?

Pankaj Patel: No, I don't have the numbers but approvals have started coming in for products and our expectation is that by October-November we should be able to launch them. These are going to be initially in the Eastern European market.

Preeti Arora: And how many products are you expecting to launch?

Pankaj Patel: Numbers, I don't have it with me.

Preeti Arora: Hospira JV, have all the six products been launched in US, Europe for during FY12?

Dr. Ganesh Nayak: In Europe we have launched all the six products, in US we have launched three products up till now, three more are yet to be launched.

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

Ashish Rathi: My question basically is with regard to future home market that we have categorized in our BTB. So basically Mexico as a market, any particular color or outlook you can throw on that, how are the price and the prospects from the market and what will be dynamics and when can we expect this to be actually contribute meaningful revenues for us?

Pankaj Patel: Last year we started filing production in Mexico. We expect approval to happen during this year and we expect launch in next financial year. The market has good potential, large market with good margins that much I can say.

Ashish Rathi: Just a rough number if you can tell me, it is 3 billion number target, we are achieving out of these four verticals. So, future home markets much will be the contribution say in percentage terms, what chunk of it will be from this particular area?

Pankaj Patel: They are future home market, they are not going to become the significant contributor for the 3 billion number. But we expect them to contribute approximately 10% of the sales.

Ashish Rathi: And Brazil per se we are right now around 5 to 6% of sales for the company Brazil. And do we see it is scaling up in terms of as a percentage of total sales for the company during the next couple of years or so?

Pankaj Patel: Yes.

Ashish Rathi: Any particular number that you are looking at for this?

Pankaj Patel: We do not give number guidance as a company.

Ashish Rathi: And then Japan market, I believe we had launched a couple of new products in the quarter gone by and we are supplying from India now for these couple of products?

Pankaj Patel: We are supplying products from India. We have not launched a new product in this quarter. Next coming quarter we are launching new products.

Ashish Rathi: Because the growth were in the quarter gone by is only 5% so we can expect some jump going forward with the launch of these two new products?

Pankaj Patel: Yes, we expect good growth with the launch of new products coming from India.

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

Rahul Sharma: Just wanted a clarity on the FOREX loss for the year which was there. How is the breakup come in of 117 crores which has been there?

Dr. Ganesh Nayak: Out of this 118 crores, 40 crores has been booked above the EBITDA line and 78 crores has been booked as part of the interest cost.

Rahul Sharma: And how many products have we launched in the US market in this current quarter?

Dr. Ganesh Nayak: Last quarter we did not launch any new product.

Rahul Sharma: Any new products to be launched in the first six months, is it in sight what we are looking at?

Pankaj Patel: We are looking at it, but this is subject to our resolving the FDA issues.

Moderator: Thank you. The next question is from the line of Hardik Vora from Dolat Capital. Please go ahead.

Bhavin: Just wanted to know is there any field force addition in the domestic market going forward?

Pankaj Patel: No.

Bhavin: You probably consolidate at this level and focus more on sales to come?

Pankaj Patel: Yes, that is why we are basically focusing on sales force effectiveness now.

Bhavin: Next year CAPEX that you guided, what would be prominently going to that too for the future growth drivers of……

Pankaj Patel: We have got future formulation plant expansion.

Bhavin: And should we build in numbers in the Nycomed JV, I believe the generic API, we have got any big numbers that could come in from here?

Pankaj Patel: No, we do not expect big numbers.

Moderator: Thank you. The next question is from the line of Ranvir Singh from Sharekhan. Please go ahead.

Ranvir Singh: Only book-keeping question of FOREX loss. I think previous year it was FOREX gain. So, which line item this was adjusted in?

Vishal Gor: Last year the FOREX gain was Rs. 15 crores total of which about Rs. 4 crores was booked as part of the interest cost and remaining was booked above the EBITDA line.

Ranvir Singh: And another question in relation to Zydus Wellness, the kind of gross margin we see this quarter, is it sustainable or what should I expect, what level of gross margin going forward?

Pankaj Patel: It looks sustainable if we maintain the product mix as we are now entering in this quarter and I think we see the product mix are improving because of some of the key products are showing growth.

Moderator: Thank you. The next question is from the line of Kaushik Pal from Kotak Mutual Fund. Please go ahead.

Kaushik Pal: 650 crores CAPEX seems like a pretty big number. If you can sort of guide us in which site this is being spent?

Pankaj Patel: That CAPEX is mainly in expanding the formulation manufacturing capacity and also for biological manufacturing.

Kaushik Pal: And this is in Ahmedabad itself or?

Pankaj Patel: Yes, this is in Ahmedabad.

Kaushik Pal: Secondly, what I wanted to know, you mentioned that for the full year 90 crores was the sales in the Bayer JV. Now, just wanted to know how has been the underlying performance, because almost four quarters have gone by, I think more than four quarters when this JV was formed and products were transferred. How are the underlying performance of the products and are we getting any benefit from the tie-up?

Pankaj Patel: First of all, it is not four quarters, it is less than 4 quarter, it is 3.5 quarters, the JV is doing well, they are growing the business, and they are on target, actually they are overshooting the target. So the JV is doing well.

Kaushik Pal: Any color in terms of how many products have been sold there, whether you have launched anything from the Bayer's table there?

Pankaj Patel: We have launched new products from Bayer's stable also and we are planning to launch more. However, this being the joint venture I may not be able to comment more.

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

Dheeresh Pathak: FY12 CAPEX, 650 crores you mentioned, this included the acquisition or this was excluding acquisition?

Dr. Ganesh Nayak: This included acquisition of Nesher assets.

Dheeresh Pathak: Only Nesher?

Dr. Ganesh Nayak: Yes, the other two are pure company acquisitions while in case of Nesher we acquired the assets.

Dheeresh Pathak: And Nesher was around 300 crores, right?

Dr. Ganesh Nayak: No. 200 crores.

Dheeresh Pathak: And you talked about CAPEX going into biological and formulation capacities, but it still looks high. So, is there a fund entering of the CAPEX and probably CAPEX will come down in FY14 or 15?

Pankaj Patel: That is right. Your assumption is right. Because we need the capacity to basically achieve the 3 billion numbers, so if we do not invest it now, then we will not be ready to service the market.

Dheeresh Pathak: But is it fair to say that current capacity is being fully utilized or there is still some idling of capacity right now?

Pankaj Patel: There is little capacity available, but we need to expand capacity to achieve the 3 billion number.

Dheeresh Pathak: And in other operating income, 84 crores of others, can you give a sense of what that is?

Vishal Gor: It is already given in the communication.

Dheeresh Pathak: It is mentioned as others. I am asking what is others?

Vishal Gor: That includes host of so many things, you can go ahead and you get offline.

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

Ashish Upganlawar: I had a few questions on Zydus Wellness. Just wanted to know the status of Everyuth and how are you looking at the scenario panning out for this product going ahead?

Pankaj Patel: We started re-advertising the products of Everyuth range and the market is responding well. We are also increasing significant below the line activity. So, all those put together we are seeing good response from markets. So, we see that there is a good revival of the brand and we should see the brand growing now.

Ashish Upganlawar: Apart from A&P, any other strategy that you think that is required in this case especially for Everyuth?

Pankaj Patel: I think we require more below the line activity.

Ashish Upganlawar: And how are we in terms of distribution of all the three products that we have? Can that be a driver of growth in a scenario where the competition …?

Pankaj Patel: You are absolutely right, that requires a lot of below the line activity.

Ashish Upganlawar: So distribution can bring in substantial amount of growth despite market getting crowded?

Pankaj Patel: Yes.

Ashish Upganlawar: When would you be able to share some strategic initiatives on Zydus Wellness? Because investors are waiting for this.

Pankaj Patel: After the next quarter we are planning to basically have a special meeting in Mumbai to meet all of you and basically have a specific meeting for Zydus Wellness.

Ashish Upganlawar: And on Sugar Free has the growth come back? I think the last two, three quarters were pretty bad. So, any kind of revival and what has went wrong? You said that category is not growing but given the potential that this has, it is very difficult to imagine why it would not have grown?

Pankaj Patel: Because we have not done a good job. That is the reason why the category is not growing, because we are the market. We have 90% market share, if we do not do good job, the market does not grow. And I think we identified what we need to do it and we have figured out, we are going to implement those plans, and we will see going forward the market will improve.

Ashish Upganlawar: And finally, on Nutrilite what are your views? Because there seems to be quite a bit of unorganized competition and all those stuff that we were told. So similar problems over there.

Pankaj Patel: I think we are basically focusing more on the brand building that is where we will see the future growth to come and margins to come.

Ashish Upganlawar: Any guidance on A&P? Because you are spending a lot, we saw in the last quarter, so next year it should be good increase over this last year as far as spends are concerned on advertising. Any number that you target of the top-line?

Pankaj Patel: What you see here is that last year the quarter we had zero spending on A&P and this quarter we had spent, so, you see the kind of jump there but it is basically, because last year we did not advertise and this quarter we did that is why you see that. Going forward I think we are going to see a uniform advertising campaign across the year and as a result we would see a kind of little higher but not significantly higher advertising spending. More spending would actually happen below the lines.

Ashish Upganlawar: But exactly, what would you be targeting below the line activities, anything to share on that?

Pankaj Patel: Usual stuff. A lot of field activity basically.

Ashish Upganlawar: And on the CAPEX, can you share anything that you need to spend this year, the plant is already commissioned and….

Pankaj Patel: Not significant spending is required as far as Zydus Wellness is concerned. We would add some capacity in Nutrilite area, we are expecting about Rs. 4 crores capital investment.

Ashish Upganlawar: And in Sikkim, is it 100% of production of the products that is coming from Sikkim or is it still in the transition phase?

Pankaj Patel: No, it is all fully produced in Sikkim.

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

Aniruddha Joshi: Just wanted to know further details on the strategy of Everyuth brand. So, were there most of the large players have already entered the market like HUL, Himalaya, Johnson & Johnson. So, that category will remain far more competitive going ahead though we are doing some amount of higher ad spend right now. Where do you see probably the future of Everyuth brand as such in terms of face wash over next two - three years?

Pankaj Patel: We have some differentiated products and better products. So, we clearly think going forward we will win.

Aniruddha Joshi: And in case of Sugar Free, can you just elaborate what are the activities we are doing to revive the growth in that category?

Pankaj Patel: As I mentioned, we are increasing our below the line activity which is more towards consumer education so that the overall usage goes up, more number of people started using it, that is what we are planning to do.

Aniruddha Joshi: Can you roughly indicate what was the revenue breakup for the big three brands?

Pankaj Patel: We are not giving for commercial reason breakups.

Aniruddha Joshi: And any numbers you would like to share on ActiLife?

Pankaj Patel: No, we are not sharing the numbers as I told you so we will not be able to share.

Aniruddha Joshi: Very lastly, on the Purify brand, which you had launched in hand sanitizer market, any update on that?

Pankaj Patel: Not significant traction to that.

Aniruddha Joshi: Is it withdrawn or…

Pankaj Patel: It is not withdrawn but it is not a big number sales.

Moderator: Ladies and gentlemen, that was the last question. I would now like to hand the floor back to Dr. Nayak for closing comments.

Dr. Ganesh Nayak: Thank you very much and look forward to interacting with you again after the first quarter of the new financial year in the month of July-August.

Moderator: Thank you. On behalf of Cadila Healthcare Limited that concludes this conference call. Thank you for joining us.