Analyst/Earnings Conference Call (April 26, 2007)

Moderator: Thank you for standing by. This is Renuka, moderator for conference call today. We welcome you to the fourth quarterly results conference call of Cadila Healthcare limited. We have with us today Mr. Pankaj Patel CMD from Cadila Healthcare. At this moment, all participants are in a listen-only mode. Later we will conduct the question and answer session. At that time if you have a question please press * and 1. I would like to turn this conference over to Mr. Patel. Please go ahead Sir.

Pankaj Patel:

Good evening and welcome to our post-result tele-conference for fourth quarter of 2006-07.

Three years before, we had set our first vision of achieving sales of $ 400 Mio by 2006. It gives us immense pleasure and sense of achievement in announcing that we have touched the 1st landmark of $ 400 Mio. In fact we crossed that mark this year.

Year 2006-07 was a remarkable year, in which the company surpassed this milestone of $ 400 mn, with all round performance from all spheres of the business, and with formulations exports (US, France and ROW), APIs and Consumer business, and Research and Development activities reaching new peaks.

Before I get into details of results and numbers, let me recap the achievements of the year 2006-07.

- With excellent customer services, expansion of our customer base and two successful day-1 launches of Meloxicam and Simvastatin, we have gained unprecedented acceptance and good market share in US market.

We enjoy market share of more than 10% in 8 out of 9 products we have launched in US so far and we are rated a top tier generics company among peers in US.

Our US operations recorded sales in excess of $ 31 Mio during the year 06-07. Here, I would like to remind you that in the beginning of the year, we had given a guidance of $ 30 Mio for our US business.

- We filed 26 ANDAs with US FDA during the year, more than double from last three year's average of 12. Cumulative filings till date has reached 60, of which 23 have been approved till date.

- Zydus France has attained market share of 1.92% in the participated French Generic market (IMS MAT Dec-06). It crossed € 21 Mio mark in sales during the year 06-07.

- We filed 15 dossiers for new products and 21 site transfer applications for French market during the year, with cumulative filings for new products reaching 23 and that for site transfer touching 25.

- Exports to other emerging markets crossed Rs. 1 bn mark, and recorded sales of Rs. 1.07 bn. during the year 06-07 (up by 26%), with Brazil registering sales of Rs. 176 Mio. (~ $ 3.9 mio) and Sri Lanka crossing mark of Rs. 225 Mio. ($ 5 Mio)., with our market share in Sri Lanka touching 4.95% as pr IMS.

- Our API business turned around. With focus reconcentrated on cost improvement and better key account management, API exports grew by healthy 31%, which, coupled with good support from captive consumption for US market, turned the business profitable again.

- We filed 11 USDMFs during the year out of which 5 products are giving opportunity to have first to file status to the company.

- We launched "Novolizer" in domestic market. "Novolizer" is a third-generation refillable, breath actuated multiple dose dry powder inhaler device for Asthma and COPD, the technology for which is provided by Meda Pharma of Sweden.

- In all, we launched 39 new products (incl. Line extensions) during the year in the domestic formulations market, which contributed ~2% in the overall growth of ~10% in the domestic branded formulations business. Of these, 8 products were first in India.

- 17 of our formulation brands now feature in the top 300 brands of India as per ORG IMS (MAT Feb-07)

- With acquisition of Liva Healthcare Ltd., we entered Rs. 1,500 Cr. derma market.

- After taking over the business of Carnation Nutra Analogue Foods Ltd., we revamped and repositioned Nutralite brand, which registered sales of Rs. 427 Mio in 06-07. The business posted positive bottomline in spite of investments in terms of heavy promotional expenditures.

- Our existing consumer business grew by 23%, with Sugar Free brand crossing mark of Rs. 500 Mio. in sales.

Green field formulation project at Sikkim is on verge of completion in record period of seven months and production is scheduled to commence within short time. Zydus would be the first company in that region to achieve this landmark.

- Our Global Contract Mfg. Cell signed 12 more contracts with peak revenue potential of $10.3 Mio. With this, cumulative no. of contracts signed has reached 23, with peak revenue potential of $33.9 Mio.

- We opened up a new subsidiary in Japan - "Zydus Pharma Inc., Japan" to kick start Japanese operations. The subsidiary will market APIs and formulations in Japanese market, and start product registration process in current year.

- With recent acquisition of Nippon Universal Pharmaceuticals Ltd., which has got countrywide reach to more than 4000 hospital and clinics in Japan, we shall have critical access to a ready manufacturing and marketing base as well as a strong distribution network.

- We filed 4th IND for ZYO1, a novel drug candidate for treating obesity and related disorders.

- Our 1st IND ZYH1 has successfully completed Phase I clinical trials, and has started Phase II trials. ZYI1 has also completed Phase I trials, while ZYH2 is under going Phase I trials.

Let me give you the highlights of consolidated results of the year 06-07 -

- Total Operating Income up by 23% y-y to Rs. 18,288 Mio. from Rs. 14,845 Mio. last year. Topline growth was mainly driven by growth of 91% in formulations exports, growth in API exports by 31% and growth of 54% in Consumer business.

- PBIDT up by 30% y-y to Rs. 3,785 Mio. from Rs. 2,913 Mio. This was after spending Rs. 1,344 Mio. on R&D, which increased by 69% from Rs. 797 Mio last year. Major contributors to this improvement were -

- profit of US subsidiary (net of minority interest) of Rs. 134 Mio. against Rs. 4 Mio. last year

- one time profit of Rs. 263 mio on sale of branded business of French subsidiary

- losses of French subsidiary (excl. above profit) being lower at Rs. 155 Mio. against Rs. 238 Mio. last year - PBIDT margin (% to operating income) up by 1.1% to 20.7% against 19.6% last year.

- PAT up by 54% y-y to Rs. 2,338 Mio. from Rs. 1,524 Mio last year.

- In line with that, EPS up by 54% to Rs. 18.6 from Rs. 12.1 last year.

Coming to the details of performance for FY 06-07, on a standalone basis–

- Total Operating Income up by 14% y-y to Rs. 14,619 Mio. from Rs. 12,837 Mio. last year. Topline growth was mainly driven by formulations exports growth of 55%, growth of 33% in exports of APIs and growth of 23% in consumer products.

- PBIDT up by 12% to Rs. 3,162 Mio. from Rs. 2,820 Mio. last year. This was after growth of 58% in R&D spends which increased to Rs. 1,291 Mio from Rs. 817 Mio. last year.

- PAT up by 24% to Rs. 2,047 Mio., from Rs. 1,649 Mio. last year. PAT margin (% to total operating income) up to 14% from 12.8% last year.

- In line, EPS up by 24% to Rs. 16.30, from Rs. 13.13 in 05-06.

Coming to consolidated results of Q4,

- Total operating income up by 26% y-y to Rs. 4,357 Mio. from Rs. 3,460 Mio. last year. Topline growth was mainly driven by robust 22% growth in domestic branded formulations sales, growth in formulations exports by 54%, sales growth of API exports 24% and 65% growth in consumer business with inclusion of Carnation business.

- PBIDT up by 12% y-y to Rs. 726 Mio. from Rs. 647 Mio.

- This was after growth of 294% in R&D costs, which increased to Rs. 463 Mio. from Rs. 118 Mio. last year.

- PAT up by 27% y-y to Rs. 389 Mio. from Rs. 306 Mio last year.

During the Q4, on a standalone basis -

- Total operating income up by 17% y-y to Rs. 3,347 Mio. from Rs. 2,853 Mio. last year. Topline growth was mainly driven by 22% growth in domestic branded formulations sales, formulations exports growth of 36% and growth of 22% in consumer business.

- PBIDT up by 20% to Rs. 604 Mio. from Rs. 503 Mio. last year. This was after growth of 186% in R&D spends which increased to Rs. 415 Mio from Rs. 145 Mio. last year.

- PBT margin (% to total income) up to 11.9% from 10.1% last year.

- PAT up by 68% to Rs. 375 Mio., from Rs. 223 Mio. last year.

- In line, EPS up by 68% to Rs. 2.99, from Rs. 1.78 last year.

Thank you and we will start the Q&A session. You may address questions on business operations and R&D to me and on results and finance to Mr. Pankaj Patel.

Over to the co-ordinator for Q&A.

Moderator: Thank you very much Mr. Patel. Ladies and gentlemen we will now begin the question and answer session. If you have a question please press * and 1 on push button phone and await your turn to ask a question when guided by the facilitator. If your question has been answered before your turn and you wish to withdraw your request you may do so by pressing the hash key. We have our first question from Mr. Rahul Sharma of Karvy Stock Broking. Please go ahead Mr. Sharma.

Rahul Sharma: Congratulations for good set of numbers. I just wanted to get more clarity on the breakup from other income from operations and other incomes.

Pankaj Patel: The other income from operations includes exports incentive.

Rahul Sharma: Give the breakup Sir.

Pankaj Patel: I can give you the breakup. You want it for the year or the quarter.

Rahul Sharma: Sir, both.

Pankaj Patel: Okay, so let us start with the quarter first, the export incentive for the quarter was Rs. 47 million and for the year it was Rs. 101 million. The processing income for the quarter was Rs. 41 million and for the year it was Rs. 166 million. The global contract manufacturing income was Rs. 46 million for the quarter and for the year it was Rs. 101 million and miscellaneous income was Rs. 12 million for the quarter and Rs. 65 million for the year.

Rahul Sharma: And sir, does other (non operating) income of Rs. 264 million include any forex income?

Pankaj Patel: There is no forex gain in that.

Rahul Sharma: Sir, could you provide how much was sales and profits in Zydus Altana for the year and for the quarter.

Pankaj Patel: For the quarter, sales of Zydus Altana JV was Rs. 312 million and profit was Rs. 237 million. For the year the sales was Rs. 837 million and profit was Rs. 663 million.

Rahul Sharma: Okay. Thank you.

Moderator: Thank you very much for your question Mr. Sharma. We have a question from Mr. Chirag of Citigroup. Please go ahead Mr. Chirag.

Chirag: Good afternoon Sir. Sir if you can give us the numbers for the French and the Brazilian business in terms of the sales and the profit numbers?

Pankaj Patel: We start with the French business. In Quarter 4, sales of French subsidiary was Rs. 238 million and the loss was Rs. 30 million. The sales for the year was Rs. 1267 million and the profit was Rs. 108 million; however, please note that this profit is after including one time profit of Rs. 263 million on sale of our branded business. So, operating loss for the year of French subsidiary was Rs. 155 million. As far as Brazil is concerned, the sale for the quarter was Rs. 47 million and the loss for the quarter was Rs. 30 million, while sales for the year was Rs. 176 million and the loss was Rs. 103 million.

Chirag: Sir the similar numbers for the US.

Pankaj Patel: Okay. In US, sales for the quarter was Rs. 491 million and the profit was Rs. 62 million. For the year, US sales was Rs. 1428 million and the profit was Rs. 134 million.

Chirag: Sir I missed the R&D spend numbers.

Pankaj patel: The R&D number for the quarter was Rs. 463 million and for the year, it was Rs. 1344 million.

Chirag: Thank you Sir.

Moderator: Thank you very much for your question Mr. Chirag. We have our next question from Mr. Jesal of JP Morgan. Please go ahead Mr. Jesal.

Jesal: This is Jesal. R&D expenses side was Rs. 463 million for this quarter, how much was it last year same quarter?

Pankaj Patel: Last year, in Q4 it was Rs. 118 million.

Jesal: Rs. 118 million. Okay, can you throw some light on why the excise duty has gone up so much, I mean do you think there should have been a reduction in excise duty.

M.K. Patel: This is actually because of the conversion of external manufacturing locations from P2P to loan license. Last year many products were procured on P2P i.e. Principal to Principal basis from external manufacturers. This year majority of them have been shifted to our own plants or the terms with these external manufacturers have been changed from P2P to Loan License. When they were on P2P basis, Excise Duty and manufacturing charges paid on them was included in COGS. This year, their Excise Duty is included in Excise Duty and processing charges paid to external manufacturers is included in manufacturing expenses. This has resulted into increase in Excise Duty and manufacturing expenses as % to sales, while reduction in COGS%.

Pankaj Patel: You will see reduction in material cost and increase in excise duty.

Jesal: If I put both of them together there is still 4% point reduction on the year-on–year basis. So what would you attribute this reduction, which parts of your business are really contributing to this reduction? Is it additional contribution from you such as helping you reduce your cost or there is genuine reduction even in the domestic business?

Pankaj Patel: I think basically several factors, one is product mix, second is the API business being contributing positively which is impacting further and also a general reduction in the procurement cost.

Jesal: And coming to your US business now. Obviously this year you have achieved $30 million guidance which you had given. I do not remember whether you have given any guidance for both French and US business for the next year?

Pankaj Patel: As of today we have not issued any guidance.

Jesal: So would you like to….?

Pankaj Patel: We will be issuing the guidance very soon.

Jesal: Okay and the other thing was on your domestic business. This quarter has been very good as what you indicated earlier. To what extent do you think there has been some beneficial impact of the problems which impacted in the last few quarters and as you know to what extent you think this growth is sustainable as you move forward?

Pankaj Patel: We believe that the overall annual growth is sustainable because it is the part of the strategy. We basically have consolidated our domestic formulations business and in the process, merged certain divisions and created special rural field force. We also knew that when we do that, we will have a consolation pressure, through which we went and came out of it also. But our strategy was ultimately long term growth oriented and we are now seeing the results of that. We clearly see that we should be able to grow at rate higher than market growth for the next year for sure. So, when market is expected to grow may be at 13% or so this year, we should be growing by anywhere between 15% to 17% this year.

Jesal: This is taking to account decline in your generic business.

Pankaj Patel: Yes, this is taking in account to decline in this business.

Jesal: Okay what about your consumer business, how much is the contribution in consolidation in the fourth quarter?

Pankaj Patel: We start with Carnation numbers.

Pankaj Patel: For the quarter, sales of Carnation was Rs. 120 million and for the year, it was Rs. 427 million.

Jesal: Sir obviously you have 16% to 17% growth in domestic business this quarter which includes the acquisition which you just announced.

Pankaj Patel: No. Quarter 4 numbers do not include numbers of Liva Healthcare which we acquired.

Pankaj Patel: That will be in April.

Jesal: No so what I am thinking is indicative growth of 16% to 17% growth in next fiscal in domestic will include that.

Pankaj Patel: That is not going to impact much to the growth number because that business is small.

Jesal: Just moving to contract manufacturing, this year you have done something like Rs. 100 million in contract manufacturing. And you have announced so many other contracts. When do you see this turnover ramping up to that level?

Pankaj Patel: 2008-2009 is the year when we will see the turnover ramping up.

Jesal: Okay, The other thing is on your Altana business. We have some fluctuation on the quarter-to-quarter basis now and again you know we have reached the end of the year so for next year how do you view the Altana business?

Pankaj Patel: From whatever forecast we have available in the business plan, we believe that we would be able to protect this number or may be a little higher than what we have achieved this year.

Jesal: What about the profitability in your French business?

Pankaj Patel: This year we should breakeven in the French business. And one point I would like to highlight here. If you look at the Quarter 4 numbers, French business has grown by about 49%, but this number is not comparable, because last year the French business number also included sales of branded products business, which we sold off, and in spite of that, we grew by 49%, which clearly indicates that the growth of generics business is much higher than 49%. It is almost close to 100%. So we clearly see a great ramp up in generic business coming up, and we are very confident about the French business because now with everything in place, I think now it is on "auto pilot", and will continue to grow on its own.

Jesal: The only thing that you know you have reached about $25 to 30 million turnover in France and yet we have about you $3.5 million annual loss, so are you taking much larger amount of turnover for breakeven?

Pankaj Patel: Yes, but if you study the French market and if you look at the companies which are operating there and see the numbers, this is the reality. I think compared to lot of other companies, our overheads are low so actually we are going to breakeven much faster and make money faster in France at a lower turnover than others.

Jesal: And your announcement previously of that partnership, how is that shaping up in France?

Pankaj Patel: Currently it is not contributing much. We are now basically looking at creating may be more partnerships in that market to sell more. So we will add may be 3 or 4 distributors this year also, so that we can even further grow the business.

Jesal: Okay, and just the last question before I disconnect the call. There is the adjustment on consolidation, which is shown, what is that actually?

Pankaj Patel: It is the minority interest.

Jesal: Minority interest coming from which subsidiary?

Pankaj Patel: US subsidiary and also Carnation.

Jesal: I see. Okay thank you so much.

Moderator: Thank you very much for your question Mr. Jesal. Next in queue is Mr. Bhavin from Amit Lelen Securities. Please go ahead Mr. Bhavin.

Bhavin: Thank you. Good evening every one. Good set of numbers. I just wanted to have an understanding of French business, I mean in which segments we are present and just an understanding of our growth rate in turnover which has been so exceptional. If you can just highlight little bit more on your operations there?

Pankaj Patel: In France we are basically only present in generic market, no other segment, number one. We currently focus only on oral doses forms. Our strategy is differentiated in France because we have built a kind of a relationship with the pharmacies there, which other companies have not done. We were the first company to move in this direction by creating Zydus Club of Pharmacies, providing some specific benefits to the pharmacies there which basically would allow them to service their customers better. In the process they were benefiting in terms of getting more business in their pharmacy stores and hence they are supporting us whole heartedly. So, basically a well thought out and well implemented strategy has yielded these results and we are growing at over 100% in the French market.

Bhavin: Alright Sir and would you maintain a sustainable growth rate in the near future, I mean in the next 2 to 3 years. Do you see your business growing at 50%?

Pankaj Patel: Yes, we would continue growing at around 50% annually for next 2-3 years.

Bhavin: Right and this would include more distribution tie ups just like you have done with Evolupharm ?

Pankaj Patel: Yes. We will launch more products and have some more distribution tie ups.

Bhavin: Right sir and same way if you could help me understand the developments on the front of our JV with Mayne and after Hospira taking over Mayne, how the ramping up is going on?

Pankaj Patel: Well, the manufacturing plant for our JV with Mayne-Hospira is under final stage of completion. We expect to complete the plant fully by this May and we will start the validation now. We expect to start the commercial production in April 2008 we would be basically get filing and getting approval during that period.

Bhavin: Right Sir, any further detail you would like to share which would help us understand more?

Pankaj Patel: At this moment, we would not like to talk more on this. When we would reach closer to April 2008, we will be talking about the projections.

Bhavin: So when could we hear more news on this?

Pankaj Patel: You will hear once we commission the plant.

Bhavin: Okay sir, and thirdly my question was on the Altana business. There was some shut down in one of the facility in Germany, I believe and is everything all right there on the JV front?

Pankaj Patel: Yes, everything is fine. There is no issue and in fact even this quarter, we have grown well and we believe that we will continue doing well as far as the JV is concerned. We have full confidence of the new management also and we hope that we would be able to do even more in the future.

Bhavin: Alright Sir and would you like to discuss about the Bharat Serum JV?

Pankaj Patel: Well, it is too early to discuss about this JV as the plant for this JV is under construction and also the clinical trials for products are going on. When we have the clinical trial results, we will give you more guidance.

Bhavin: Right Sir. I will be in the queue sir in case of any further question.

Moderator: Thank you very much Mr. Bhavin for your question. We have our next question from Mr. Rahul Khaitan of Capital Market. Please go ahead Mr. Khaitan.

Khaitan: Good evening Sir. Could you please mention again the contribution of French business and US business to the total revenue for quarter and for the year?

Pankaj Patel: Sales of the French business was Rs. 238 million for quarter and Rs. 1267 million for the year and sales of US business was Rs. 491 million for the quarter and Rs. 1428 million for the year.

Khaitan: Sir what was the profit or loss of French business in full year?

Pankaj Patel: The French business for the full year had a profit of Rs. 108 million; however, I would like to draw your attention to the fact that this profit of Rs. 108 million includes one time gain of Rs. 263 million earned on sale off of branded business of the French subsidiary.

Khaitan: Could you please mention again what was the growth of consumer business on consolidated and standalone basis ?

Pankaj Patel: On consolidated as well as standalone basis, our existing consumer business grew by 22.7%. This is excluding Carnation business, which was not there last year.

Khaitan: 22.7% this is on a quarterly basis?

Pankaj Patel: This is the annual number. Growth for the quarter was 21.7%.

Khaitan: 21%.

Pankaj Patel: 21.7%. As far as the other consumer business, which is Carnation, we do not have comparable number for last year, since controlling stake in Carnation was acquired in 1st quarter of this year.

Khaitan: Okay.

Moderator: Thank you very much for you question Mr. Khaitan. We have a next question from Mr. Rajesh Vora of ICICI Securities. Please go ahead Mr. Vora.

Rajesh: Hi good evening gentlemen and congrats for good set of numbers. If you could give a bit of idea in terms of the monetization strategy for NCE pipeline that is progressing slowly and steadily in the last few quarters?

Pankaj Patel: Our strategy is basically to develop the product till phase II when we have the proof of concept and then basically look for a development partner. We are moving ahead with all four programmes. We also had recently the ICMR meeting for review of the phase II program for the ZYI1. It has been cleared and recommended for the clinical trial and we are waiting DCGI approval to come any time to start the phase II for ZYI1. As far as ZYO1 anti-obesity compound the ICMR also has recommended for starting the phase I study and recommend the DCGI. We are also expecting approvals from DCGI any time to start the phase I study for that. We are also hoping to file two more INDs during this year to basically put the total numbers of INDs to 6. As far as monetizing is concerned, our strategy would be to continue investing in the R&D programme, grow it to phase IIa, i have the proof of concept and then at that phase basically start up with monetizing. So, for the next year we do not expect any monetizing to happen but year after next we definitely are looking for some monetizing happening in this area.

Rajesh: Okay and ZYH1 which is already in phase II. Do you expect a proof of concept studies to get over by the end of this fiscal year?

Pankaj Patel: Yes, we do expect that proof of concept should be over by end of this year and we should be ready to talk to people at that time.

Rajesh: On a different note, US business is being profitable from the very first year and if you look at the numbers it is at about 10% margin at the profit level with sort of scale up in the growth happening. Do you expect significant improvement over next couple of years in the margins considering the amount of pricing pressure in the competitive environment that you operate?

Pankaj Patel: We do not expect significant jump in the margins for the reason that pricing pressure continues to be there in US and the rupee is appreciating against dollar. All these would have impact on the margins as far as US business is concerned and also at the same time there will be larger contribution on the R&D front by US. So we do not expect major jump in the margins in US going forward.

Rajesh: Okay. Thank you Mr. Patel and all the best.

Moderator: Thank you very much Mr. Vora for the question. We have our next question from Mr. Nimesh Mehta of Edelweiss Capital. Please go ahead Mr. Mehta.

Nimesh: Yeah. Good evening everybody. Just wanted to have some data points from the balance sheet. Can you tell us what was the gross block addition this year and what do you expect your CAPEX to be for the next two year and also what is the working capital condition in terms of inventory at the receivables levels?

Pankaj Patel: The gross block addition during the year was Rs. 180 Crores and next year going forward we expect CAPEX of about Rs. 120-150 Crores.

Nimesh: Okay and this will be largely towards plant of Mayne JV?

Pankaj Patel: Apart from plant for Mayne JV, this will be largely towards Sikkim plant and building some additional manufacturing facilities in both formulation and API.

Nimesh: Okay and what would be then investment in Mayne plant?

Pankaj Patel: The total investment in Mayne plant will be about Rs. 50 Crores out of that our share is Rs. 25 Crores.

Nimesh: Okay and any CAPEX from FY2009 if you can share?

Pankaj Patel: Currently, I do not have the number.

Nimesh: Is there any major CAPEX or any major facilities that you are looking at?

Pankaj Patel: No not major CAPEX.

Nimesh: So, it will be a maintenance CAPEX.

Pankaj Patel: Some additional facility will be always built and acquired to balance our capacities and it depends on how we grow in various markets. We might need to build the some facilities but no major facility has to be built because we have enough capacity otherwise.

Nimesh: Okay. What is you condition on working capital in terms of inventory and receivables?

Pankaj Patel: You are looking for level of working capital or asking about absolute term?

Nimesh: Absolute term FY2007.

Pankaj Patel: As on 31st Mar-07, the inventories on a consolidated basis were Rs. 3896 million and debtors were Rs. 2784 million.

Nimesh: Okay. Thanks a lot.

Moderator: Thank you very much Mr. Mehta for your question. We have a next question from Mr. Chirag of Citigroup. Please go ahead Mr. Chirag.

Chirag: Yeah sir if you can throw some light on the Nippon acquisition and how significant do you think this will be over the next couple of years?

Pankaj Patel: Nippon acquisition is very strategic for us. First of all, the Japanese market is a very difficult market to enter. With this acquisition, we get a manufacturing facility in the Japan, very much in Tokyo actually, and we will be able to put our product pipeline through this company. In short, this will basically provide us quick access to and acceptability in Japanese market which is critical requirement for the success in Japanese market. The second thing is that we also get a well established distribution network that covers almost 4000 hospitals and this can be expanded as we move forward. Currently, the company is doing a small business but it is not making losses so it is also gives us an opportunity to run the plant and also not lose money but actually grow the business as we go forward. So, clearly it is a very good opportunity and we believe that it will take about another 48 months before we could really kick off the operations in full fledge. Our revenues will start when our drugs get approvals in Japanese market but then this business would grow in multiples very soon.

Chirag: Can you share some revenue numbers?

Pankaj Patel: Sorry.

Chirag: Can you share some revenue numbers if at all?

Pankaj Patel: At this moment we are not sharing any revenue numbers. We are actually in the process of completing the acquisition and taking over the management. Once we are on the seat we will talk about it more.

Chirag: All right. Thank you sir.

Moderator: Thank you very much Mr. Chirag for your question. We have a next question from Mr. Rahul Sharma of Karvy Stock Broking. Please go ahead Mr. Sharma.

Rahul: Sir I just wanted to know how is the appreciating rupee affecting us and especially on API front, it would be more difficult.

Pankaj Patel: I think on a short-term we have no impact of the appreciating rupee happening because of the fact that we are forward covered but on the long-term if the rupee remains at this level, obviously then our realizations would go down, which will impact us adversely.

Rahul: But how much would it be sir if it continues at current level?

Pankaj Patel: We have not calculated it. It is changing everyday, you can imagine, but we can provide you some numbers later on. Today, I cannot provide you the exact number. Because you know we need to workout the net impact, because we will also be saving on import side.

Rahul: What is your anticipation of the rupee sir, going ahead, probably 6 months to a year?

Pankaj Patel: I am only a pharma expert (and not a money market expert).

Rahul: Okay. Thanks.

Moderator: Thank you very much Mr. Sharma. Next in queue is Mr. Bhavin from Amit Lalin Securities. Please question Mr. Bhavin.

Bhavin: My question on the Nippon was pretty much answered. My second question was on Liva, which as you said sir, it is a small business, but what kind of value addition do we plan to have, because the dermatology market, as I believe is a very profitable venture and you have gotten at the right time, if you can help me out this time, what is the growth that you see from here on.

Pankaj Patel: With acquisition of Liva, basically we are going to enhance our entry to Rs. 1500 Cr. dermatology market. We expect that by 2010, we should be something about Rs. 100 Crore plus in the dermatology segment.

Bhavin: Rs. 100 Crore plus just from this acquisition you mean?

Pankaj Patel: This acquisition then of course we will add new products. So with that we should be able to reach about Rs. 100 Crore market in the dermatology segment.

Bhavin: Right Sir, but just to fairly understand, why would Liva, you know give its business to you because just to get a fair idea that dermatology is doing pretty well as a business. What would you significantly add in with its products?

Pankaj Patel: First of all, Liva did not have the full range.

Bhavin: Okay.

Pankaj Patel: And its operations can definitely be much better managed by an experienced company with lot of good systems.

Bhavin: Okay.

Pankaj Patel: See, why did they sell their business I do not know but I think they want to focus on something else.

Bhavin: Okay.

Pankaj Patel: They are in the business of writing instruments and pharmaceuticals is not their main area of business**.** Because they wanted to focus more on their main area of business which could be the reason why they have decided to sell off Liva.

Bhavin: Right Sir. Okay thank you.

Moderator: Thank you very much Mr. Bhavin. Participants are requested to press * and 1 to ask any questions. We have our next question from Ms. Divya of B&K Securities. Please question Ms. Divya.

Rohit: Yeah I am Rohit here. I just had one question about the R&D. This time it was around Rs. 46 Crores, which was more than 10% of your total revenues. So, I think they have gone off the highest level. Is this level likely to sustain going forward and can we have the breakup of this R&D as to how much is it for generic and your NC Research Development.

Pankaj Patel: I think around 8% of the revenues is what is going to be sustainable. Higher spend of this quarter was one off as you know we have had large number of filings during this quarter, but otherwise going forward we will look at between 7% and 8% kind of R&D spend. Coming specifically to the numbers, the spending on NCE was ~2% of the turnover and for the generics it was about ~8% for the quarter, while on annual basis it was ~2% and ~6% resp.

Rohit: Okay Sir, thank you. And another question was about your alliances that you have with most of the global players wherein you are in licensing in a few most of the products like with Schering AG or with Boehringer Ingelheim. I mean could you just give us a flavor as to what is the current status now looking at the kind of consolidation that has happened. Like Schering has been now part of Bayer. So, what would be the status of those relationships that you have?

Pankaj Patel: First of all these are relationships, which has proper contracts in place. We have had meetings with the new management. We believe that new management also actually wants to enhance this relationship. So, we expect something positive development because of this. This also happened when Hospira acquired the Mayne. We see clearly an upside for us in our JV with Mayne and we also see similar things happening with Bayer acquiring Schering.

Rohit: Thank you.

Moderator: Thank you Mr. Rohit for your questions. We have our next question Mr. Jesal of JP Morgan. Please go ahead Sir.

Jesal: Yeah. The question is on your margins. In the 4th quarter we have seen that despite very significant reduction in raw material, the overall EBITDA margins are still down on a year-on-year basis because of the increase in other expenditure. So, what are the main reasons for the increase in other expense to this?

Pankaj Patel: There are two reasons, one is of course we have spent more on R&D, but more importantly what happened is that since the company crossed the $400 million mark, we declared a bonus of one month's salary for all our employees, and as a result there is a jump in the staff cost this quarter.

Jesal: Like you know apart from you staff cost, there is significant increase in your other expense.

Pankaj Patel: That is basically because of R&D.

Jesal: Okay just R&D, is it?

Pankaj Patel: Yeah.

Jesal: And so you know given this, what do you think would be the outlook on overall margins for the coming year. Do you think, given that you do not expect too much improvement in margins in US business plus your French business would still be making a small loss So, overall which are the main drivers for your margins for next year and from where do you see your ability to improve margins coming in next year?

Pankaj Patel: We have always been focusing on improving our margins and you would have observed that consistently year-on-year we have been achieving close to 1% improvement in margins. The trend is likely to continue in the next year also which would basically be driven by a few things. Firstly, we are currently running a programme, which is called Strategic Integrated Lean Manufacturing or Project SLIM. The SLIM programme is basically focusing on lean manufacturing techniques in all our manufacturing facilities. We believe that we should get some synergy out of that in terms of overall reducing costs and making our manufacturing operations more efficient, which would also help us improve margins. We also expect that because of some of the initiatives we have taken on procurement side, we would have some more reduction on material costs. The French business will not be negative but will be positive so that would basically start contributing to the margin. The domestic business will continue doing well. As far as US is concerned, we have some good products coming up, hopefully, we would have good margins on that as well. And overall we see that all this will contribute in improving the margin going forward and you know the guidance what I can give that is what we have done in past, we would basically like to continue improving margin by 1% every year, till we reach comparable numbers.

Jesal: So, what is the volume growth of your domestic business last year?

Pankaj Patel: The volume growth for the last year was about 10%.

Jesal: Is that 10%.

Pankaj Patel: Yeah.

Jesal: Okay and what kind of number of filings you expect to make in the US and in Europe?

Pankaj Patel: Next year?

Jesal: Yeah.

Pankaj Patel: In the US we have targeted 24 and for the European market, the target is 15.

Jesal: Sir, it terms of overall since you have transferred so many products to India, have you seen any kind of improvement in your gross margins in France?

Pankaj Patel: See we have done site transfer filings, after that there is an approval process which is now happening. This year, we will see margin improvement happening because of shifting of manufacturing site of some more products from France to India. Today we have only four approvals, but we have a large filing.

Jesal: I see, okay. So, these four approvals, I guess you would have already transferred to India?

Pankaj Patel: Right it is being supplied from India now.

Jesal: And do these products really contribute with even 10% to 15%?

Pankaj Patel: No. Their contribution is very low.

Jesal: Okay. And the last thing is on your API business, you talked about how something has happened in the API business and it has really improved both in terms of turnover as well as in profit. Can you elaborate on that a little bit?

Pankaj Patel: Our strategy was basically focusing on key accounts to grow the top line, which coupled with initiatives to bring down the costs through process optimisation has resulted into what we are today in API. We will continue doing the same thing for next year as well.

Jesal: I see.

Pankaj Patel: And also regulated markets are now kicking off and earning more revenues. Currently, I do not have the breakup, but basically our exports to regulated markets is growing faster and that also is contributing to the better margins. Overall, of course to some extent you can say, market mix change also helping.

Jesal: And the last thing is on your overall export strategy, now you have spent some time getting into US and you know the French market and of course you have some initiative going for Japan, but are there any other markets that you are keen to enter and have you kind of come anywhere close to implementing any of your strategies over there?

Pankaj Patel: Yes we are looking at the markets like Spain and Italy and we hope that we will be able to do something there. We are also looking for some opportunities in Brazil and South Africa.

Jesal: Right. Have you made any filings over there in any of these markets?

A: As you know we have done filings for Brazil and South African markets.

Jesal: Thanks.

Pankaj Patel: We can give you the numbers if you want later on.

Jesal: Okay. Thanks so much.

Moderator: Thank you very much Mr. Jesal for your question. Ladies and gentleman you are requested to press * and 1 to ask any questions. Participants who wish to ask any questions are requested to press * and 1 on their phone now. Next in queue is Mr. Jinesh Gandhi from Motilal Oswal. Please go ahead Mr. Gandhi.

Jinesh: Hi Sir, My question is on your US market. What kind of new product launching would you expect in FY2008?

Pankaj Patel: We expect about 8 launches this year.

Jinesh: Okay and for European business, primarily in France, how many new products do you plan?

Pankaj Patel: 6-8 products.

Jinesh: Around 6 is it?

M K. Patel: About 6-8.

Jinesh: 6-8. Okay Sir, that's all from my side.

Moderator: Thank you very much Mr. Gandhi for your question. Ladies and gentleman you are requested to press * and 1 to ask any questions. Participants who wish to ask any questions are requested to press * and 1 on their phone now. Participants are requested to press * and 1 to ask any questions. As there are no more questions. I would now like to hand over the conference to Mr. Patel. Please go ahead sir.

Pankaj Patel: Thank you and have a good evening. Bye.

Moderator: Ladies and gentleman this concludes your conference for today. We thank you for your participation and for using Tata Indicom Conferencing Services. You may please disconnect you lines now. Thank you and have a great evening.