Investors/Earnings Conference Call (April 30, 2008)

Moderator: Good evening ladies and gentlemen, thank you for standing by. We welcome you to the conference call of Cadila Healthcare Limited. We have with us today Mr. Pankaj Patel, Chairman and Managing Director 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 '*1'. I would now like to turn the conference over to Mr. Pankaj Patel. Over to you Sir.

Patel: Good evening and welcome to our post-result tele-conference for the fourth quarter of 2007-08.

Last year, we had achieved our first milestone of crossing $ 400 Mio. in sales, and set next target of $ 1 billion in sales by 2010. In the year 2007-08 that has gone by, we charted out strategies for achieving this milestone with sustained, rather improved business health. That is why we call this journey "the Healthy Billion".

During the year we started executing the ideas and implementing the activities forming part of this Healthy Billion exercise. We have also started making the required investment to build capabilities and infrastructure that will help us accomplish our goals. And we've made remarkable progress towards the direction of the Healthy Billion during the year.

So before I get into details of results and numbers, let me recap the achievements of the year 2007-08.

- With launch of 7 new products including blockbusters like Paroxetine and Amlodipine and day-1 launch of Carvedilol, and robust growth from existing products, the US business continued to better its performance, and posted sales of Rs. 2568 Mio., up 80% (in USD terms, it was ~64 Mio., up 105%), with healthy bottomline of Rs. 142 Mio., after charging Rs. 265 Mio. on account of product development charges by India. Profit before such charges was Rs. 407 Mio., up 55% on like-to-like basis. (70% of which is our share)

- French business also posted another year of strong performance, with sales of Rs. 1647 Mio., up 30% y-y, even after sell off of branded business. Generic business, on like-to-like basis grew by 55%. We launched over 10 new products in the French market during the year, which included 4 day-1 launches.

MORE IMPORTANTLY, FOR THE FIRST TIME AFTER THE ACQUISITION, FRENCH BUSINESS HAS BROKEN EVEN AND POSTED POSITIVE BOTTOMLINE OF RS. 129 MIO. DURING THE YEAR.

- We filed 18 new US ANDAs with US FDA, and our cumulative US ANDA filings now stand at 78 filings, of which 44 are now pending approval. We also filed 8 new US DMFs, taking cumulative US DMFs to 59.

- We received 12 more ANDA approvals from the US FDA, taking total approvals to 34 product approvals, of which 15 have been launched so far.

- We filed 17 dossiers for new products for French market, taking cumulative filings to 40, of which 15 have been approved so far.

- We also filed 16 site transfer applications for French market, taking cumulative filings to 41. During the year we received 25 approvals for site transfers, so far highest in a year, taking cumulative total to 31.

- We now produce and supply 18 products from India to France, which account for over 20% of the total sales on annualized basis.

- Domestic branded formulations business grew by 13% on the back of –

\- Launch of more than 35 new products and over 25 line extensions, including 10 first time in India. These included Slimona (Rimonabant) – the new generation anti-obesity drug, and we were the first company to launch this revolutionary drug in India.

\- Infusion of additional field force of over 150 people for rural marketing to further increase the market penetration

- Introduction of range of cosmetology products and infusion of special field force for the same in Liva Healthcare after acquisition

We gained one position in the Indian Pharma market – from 5th last year, we now rank 4th as per IMS (MAT Mar 08).

This year, we plan to strengthen our position in neutraceuticals, respiratory and orthopedic segment by adding special field forces for these businesses. We also plan to further build on our diagnostics business thru adding special task force for marketing in hospitals. Activities for these plans have already been initiated, and we plan to increase our field force by over 500 for this.

- We completed three acquisition deals during the year :

    - We acquired 100% stake in Nippon Universal Pharmaceutical Ltd., a privately held company headquartered at Tokyo.

This acquisition will provide us critical access to a ready manufacturing and marketing base as well as a strong distribution reach to more than 4000 hospitals and clinics in Japan.

This year, we plan to launch over 20 new products in the Japanese market.

    - We acquired 100% stake in Quimica e Farmaceutica Nikkho do Brasil Ltda. (Nikkho), a mid-sized, privately held company in Brazil.

This strategic acquisition brings in an added advantage of making a foray in the 'branded generics' business in Brazil, with ready manufacturing facility in Brazil, 14 launched products and nearly 50 registered products which can be launched in future.

For the year ended 31st March, 2008, Nikkho registered sales of Rs. 1010 Mio. and profit after tax of Rs. 60 Mio.

    - We also acquired remaining 50% stake in JV with Sarabhai, which is now our 100% subsidiary renamed as Zydus Animal Health Ltd. On a like-to-like basis, the animal health business posted growth of 16%, and crossed sales of Rs. 1 billion.

- Consumer business continued its journey on the growth path, and posted healthy growth of 26%.

Existing business of Sugar Free and Everyuth crossed Rs. 1 billion mark, and registered growth of 23%, while acquired business of Nutralite posted 32% growth over previous year.

- We also expanded the existing manufacturing facility for Nutralite and set up new facility for manufacturing Nutralite in tubs.

- Production and commercial supply from Sikkim facility has started. By now, production of over 50 products (>100 SKUs) for domestic market have been shifted from other locations to Sikkim, which account for approx. 20% of total domestic branded formulations sales on annualized basis.

- API business (other than Zydus Nycomed JV), in spite of passing thru huge pricing pressure due to Rupee appreciation, posted growth of 16%. API Exports (other than Zydus Nycomed JV) grew by 12%.

- We signed 7 new contracts with innovator / generic companies covering 13 products, with peak revenue potential of $ 9 Mio. With this, cumulative number of contracts signed has reached 29, with peak revenue potential of $ 43 Mio.

- Phase II clinical trials for ZYH1, our first IND for dyslipidemia, have been completed, and initial data analysis indicates "human proof of concept". We are now planning to do further clinical studies for the same.

- Phase I clinical trials of ZYO1, our NME candidate for anti-obesity and Phase II clinical trials of ZYI1, our anti-inflammatory NME candidate have started.

- Continuing with our successful research programme, we filed our fifth IND (Investigational New Drug) application for seeking DCGI's permission for conducting clinical trials for our New Molecular Entity (NME) – ZYH7, a novel drug candidate for treating dyslipidemia and metabolic disorders.

- Supply of key intermediates of Pantoprazole from Zydus Nycomed JV got impacted adversely after launch of generic version of Pantoprazole in US market, which resulted into degrowth of ~20% in the sales and ~28% in profits of the JV.

However, to reduce further impact on the operations of the JV post patent expiry, we expanded the scope of the JV agreement with Nycomed to transfer production of their global requirement for certain APIs, including Pantoprazole, from their other plants to this plant within a span of four years.

- Zydus Hospira JV completed construction of manufacturing plant at SEZ near Ahmedabad. It has also completed all validation activities and taken few exhibit batches of the oncological injectibles successfully.

Now the JV is preparing and gearing itself for establishing systems and procedures, which can meet the requirements of GMP (Good Manufacturing Practices) Code as accepted by global regulatory authorities like USFDA, MHRA, TGA etc.

- Zydus BSV JV successfully scaled up the production of Liposomal Doxorubicin at our Goa anti cancer mfg. plant, and the NDDS product was launched in the Indian market under the brand name Nudoxa, which was well accepted by the medical fraternity. Currently, about 125 patients are being treated with this product, and no major side effect has been observed so far.

The JV also completed construction of its manufacturing plant at SEZ near Ahmedabad, and qualification work has been initiated.

Now let me take you through broad financial numbers.

During the year 2007-08 on consolidated basis:

- Total operating income up by 27% y-y to Rs. 23.2 billion from Rs. 18.3 billion last year.

Income growth was mainly driven by formulations exports which grew by 72% on the back of sales growth of 80% of US subsidiary, 55% growth in generics business of French Subsidiary, and sales of Nikkho do Brazil of Rs. 1010 Mio.

Domestic branded formulations business grew by 13%. Consumer business grew by healthy 26%, while animal health business posted growth of 131% (16% on like-to-like basis).

- PBIDT up by 31% y-y to Rs. 4607 Mio. from Rs. 3522 Mio. last year.

- PBIDT margin (% to total operating income) was up by 50 bps to 19.8% against 19.3% last year, even after reduction in contribution from Zydus Nycomed JV, on the back of better product mix and overall reduction in costs.

- Operating profit before tax (excl. exceptional items and exchange rate fluctuation on forex loans) up by 30% y-y to Rs. 3194 Mio. from Rs. 2465 Mio. last year.

- Net profit from operations (excl. exceptional items and exchange rate fluctuation on forex loans) up by 23% y-y to Rs. 2536 Mio. from Rs. 2064 Mio. last year.

- Net profit stood at Rs. 2576 Mio. vis-à-vis Rs. 2338 Mio. last year, up 10%.

Thank you and we will now start the Q&A session. You may address questions on domestic market, non-regulated markets and regulated markets to me and on results and finance to Mr. M K Patel.

Over to the co-ordinator for the Q&A.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question please press '*1' on your push-button phone and await your turn to ask the 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 '#' key. We have our first question from Mr. Bhavin Shah from Dolat Capital. Mr. Shah please go ahead.

Shah: Good evening Sir and congrats on the good set of numbers for the quarter. Sir if you could share some more details on when do we commence the manufacturing for the Nycomed basket of API which we plan to manufacture for them and a little bit more in depth about the Hospira JV when do we see more of profitability coming to our consolidated P&L?

Patel: For Nycomed, currently we are planning to setup an additional manufacturing facility at our plant in Mumbai and we expect to start construction of this new facility in the second half of this year. We expect to go on full commercial production of these items by 2009 onwards.

Shah: That was for Nycomed that we were just talking about, right? As far as Hospira JV is concerned when do we see scalability coming from there on.

Patel: As far as Hospira JV is concerned, we will start commercial production this financial year and full production will be of course in the next financial year. We are currently in the process of getting regulatory approvals, we are expecting inspections during around September this year and once we have that inspection through we would start the commercial production immediately.

Shah: So it would mean better second half compared to what we perhaps do in the first few initial quarters for the Hospira joint venture?

Patel: Yeah, of course for the first 2 quarters we will not be doing any sales because we would be in the process of getting the regulatory approvals and before that the sales cannot start. So we can expect the sales to start in basically third and fourth quarter.

Shah: Sir, what was the reason for this quarter having seen more profitability contributed by the French business to the overall profits?

Patel: No, it's an overall increase but there is of course contribution coming both from US and France.

Shah: Right Sir, thank you so much I will be in the queue, thanks.

Moderator: Thank you Mr. Shah. We have our next question from Mr. Prashant Nair from Citigroup. Mr. Naik please go ahead.

Naik: I could not get all the figures for the different markets initially when you mentioned. So can you just repeat the sales and profit numbers for your subsidiaries?

Patel: So for the year the sales from French subsidiary was Rs.1647 million and the profit was Rs.129 million. In US, the sale was Rs.2568 million sales and profits are R&D allocation was Rs.99 million. In Brazil, both generics and branded business put together, the sale was Rs.1230 million and the profit is Rs.1 million. In Carnation, the sale was Rs.563 million and profit was Rs.30 million. Zydus-Nycomed JV posted sales of Rs.668 million and profit of Rs.480 million and Zydus Animal Health registered sale of Rs.1027 million and the profit is Rs.113 million.

Naik: In the Nycomed joint venture, is this now a sustainable run rate or do you expect further decline?

Patel: As per our budget for the next year we don't expect any further decline from these numbers.

Naik: Alright, thanks a lot.

Moderator: Thank you Mr. Naik. We have our next question from Mr. Nimesh from Mehta partners. Mr. Nimesh please go ahead.

Nimesh: Thanks for taking my question. In the footnote of the results you have mentioned about a charge of Rs. 246 million not being amortized. So where was this lying in the previous quarter and previous year?

Patel: It was not lying anywhere in previous quarter, this has to be accounted for only at the time of consolidation of the results. This was mainly because of goodwill arising on acquisition of Nikkho in Brazil, Liva Healthcare in India, Nippon in

Japan and remaining 50% stake in animal health JV from Sarabhai.

Nimesh: But it is mentioned that these many rupee of profits is not amortized contrary to the practice followed in earlier year?

Patel: Earlier there was no goodwill in big way, so we were writing off whatever small amount of goodwill which used to arise, since earlier we did not have big acquisitions. It was only this year, that we had three big ticket acquisitions, which resulted into considerable amount of goodwill. And goodwill arose mainly because at the time of consolidation of accounts of these subsidiaries, we compare acquisition price with book value of assets of these companies, which might be very less, so the difference between these two amounts would be huge, resulting into higher goodwill. If the acquisition price is compared with market value of the company, taking into account the market value of tangible assets of the companies and intangible assets, which might not be reflected in books of accounts, the goodwill would obviously be very minimal, or there might be negative goodwill. But that is not done at the time consolidation of accounts. So then as per the prevailing practices in the industry, we have basically moved to a practice of not writing off the goodwill in equal amount over a period, but to test if for impairment periodically, and impairment will apply only incase the market value of the assets are lower than what we acquired at and you will understand that all these assets which were acquired have significantly added value after our acquisition. So actually if we were to sell this in market then we would realize much more than what we actually paid for the acquisition. So as a result there is no impairment and hence we don’t have to provide for any write off or amortization. Earlier we used to write off small amounts of goodwill in 10 years’ time from which we basically moved to a new accounting system which is usually consistently followed by all the companies and since this is a change in accounting practice we also have put note in our results.

Nimesh: So broadly the numbers are on like-to-like basis?

Patel: Numbers are like-to-like basis.

Nimesh: Second thing I would like to know is how do you see the margins for your US and France business going forward, this had been the first year for France to breakeven. So what kind of an improvement in margin are we looking at?

Patel: We expect that the margin will remain at the similar level, this would only happen because of the fact that we are continuously driving cost reduction programmes. As the competition continues to grow, there will be some pricing pressure which will be taken care by optimizing the cost on a continuous basis. We would ensure that at least we will be able to maintain our margins.

Nimesh: This is for the France and US business both?

Patel: Right.

Nimesh: The profitability number that you gave is too low, for example in US it’s Rs. 99 million only.

Patel: US profit number of Rs. 99 million for the year is after minority interest, and after charging product development cost of Rs. 265 million by India. Profit before such charge and minority interest was Rs. 407 million, vis-à-vis Rs. 263 million last year.

Nimesh: And even for France Rs. 129 million on sales of Rs. 1647 million?

Patel: France the profits will improve because we will get the scale benefits. But when you talk about the margins the margins are at EBITDA level and that’s why I mentioned margins will remain.

Nimesh: I am talking about profitability of these two?

Patel: That will definitely improve because we are going to get the scale benefit.

Nimesh: Can you throw some light on how much can it improve?

Patel: We can provide you offline, I don’t have number in front of me but we definitely are seeing an improvement.

Nimesh: Okay, and one final question on the domestic formulation, this quarter has been better than rest of the other quarters in the year. So what is the outlook and how do you see that going forward it's about 16% growth if I am not mistaken that you mentioned?

Patel: We should continue growing at that or even better number because we have put lot of strategies in place all that are resulting into higher growth number and we expect to continue showing better growth in coming quarters. We have also added, as I mentioned, some new divisions and almost 500 people in the field, so growth should be better.

Nimesh: Any more color as to are you increasing the doctors from a geographic coverage?

Patel: Of course we are covering more therapeutic area and doctors. We've added a nutraceutical division which is going to focus on a specialized nutraceutical needs in the market place and there we have a full-fledged marketing division with over 250 representatives. We also added a COPD task force which is first time in India which will focus on particularly on COPD market. We also added a task force for rheumatoid arthritis area. We also added a task force for high-end dermatology products. So there again we would expect growth coming in. And we are now going to cover the hospital markets through our field-force by expanding our existing diagnostic business. So that also will fuel growth and other businesses which are existing will continue growing. So that's why we expect the growth will be better.

Nimesh: And do you expect growth to be better than the market growth or how far will it grow?

Patel: We would expect growth definitely better than the market.

Nimesh: Okay, thanks a lot.

Moderator: Thank you Mr. Nimesh. We move on to our next question from Mr. Karthik Mehta from MS global. Mr. Mehta please go ahead.

Mehta: Can you share with me Capex in FY-08 and what we plan to do in FY-09?

Patel: The capital expenditure for the year was Rs. 237 crore and our plan for next year is about Rs. 150 crores.

Mehta: This Rs. 150 crore will include that the new facility that we just mentioned which will be in addition in Bombay?

Patel: No, that is additional.

Mehta: Can you share how much that number will be in the joint venture in terms of our share?

Patel: Approx. Rs. 25 crores.

Mehta: And Sir, in terms of the net debt number as on date?

Patel: Rs. 861 crore in consolidated.

Mehta: And of this how much would be in rupees Sir?

Patel: I will have to get back to you but very little portion is in rupee, almost 80-85% is in foreign currency.

Mehta: And one more thing was that we are planning the Hospira JV to be operational at calendar year 2009 or it will start from FY-10 only?

Patel: Hospira JV will become operational in this year that is this financial year 2008-09. The plant is completed and the batches started now, we are waiting for regulatory approvals. We hope to have approvals in around September timeframe and thereafter we should be able to start the commercial production.

Mehta: So the earlier guidance that all that we lose due to patent expiry of Pantoprazole in FY-10 will be replaced by Hospira JV stand right?

Patel: Yeah.

Mehta: That's it, thank you.

Moderator: Thank you Mr. Mehta. We have our next question from Mr. Prashant Naik from Citigroup. Mr. Naik please go ahead.

Naik: I think you mentioned that you have around 34 ANDA approved in the US and 15 launched. Is there any reason why the others have not yet been launched apart from them being tentative approvals?

Patel: There are number of tentative approvals in that. Also, few products have been not launched strategically because we are waiting for the right opportunity to launch because they might be in area where the competition is high at this moment or the prevailing margins may not be that attractive, so we are working on cost improvement for certain products.

Naik: Do you have the number on how many tentative approval you have?

Patel: Currently I don't have, we can provide you offline.

Naik: And do you have any guidance for the next year?

Patel: As a practice we don't provide guidance.

Naik: Alright, thank you.

Moderator: We have our next question from Mr. Srivastav from UTI Mutual Fund. You may please proceed with your question Sir.

Srivastav: Sir, I just had a question on your French business, you had indicated that you have got about 25 site approvals and you would be moving substantial part of your products to India. So what kind of profitability impact it will have Sir by moving these products to India?

Patel: We usually see that by moving some products to India we get about 8-10% improvement in the margins.

Srivastav: So that will be captured in the Indian operations.

Patel: That will be captured in French operation plus of course Indian operation will have some margin to take care of the transfer pricing.

Srivastav: Sir, in your consumer business you have about 250-260 crores of revenues. Can you throw more light on the brand and what kind of market share you have and what kind of growth do you foresee in these segments?

Patel: Rs. 262 crores business comprises of mainly two business viz. consumer business which registered sales of Rs. 155 crores in FY 07-08 and animal health business which posted sales of Rs. 103 crores.

In consumer products, we have three umbrella brands. Our flagship brand is SugarFree. having Rs. 65 crore turnover and market share of over 70%. The second brand is EverYuth which is dermaceutical product which is approximately Rs.32 crore brand and the segment in which we are present, we have over 50% share. The third product we have is Neutralite which is a healthier butter substitute and there we have a market share of over 80% and brand has registered sales of Rs. 56 crore in 07-08.

Srivastav: And Sir, will it be fair to presume that all these brands are profitable on their own accounts?

Patel: Yes.

Srivastav: In spite of huge Ad spends?

Patel: Yes.

Srivastav: Okay fine, thank you Sir.

Moderator: Thank you Mr. Srivastav. We move on to our next question from Mr. Nimesh from Mehta Partners. Mr. Nimesh please go ahead.

Nimesh: Thanks for taking my question again. I wanted to know more about this expanded JV with Nycomed, actually how many more products have you now added and what is the outlook on the sales from the expanded JV?

Patel: Nycomed is basically going to discontinue all API manufacturing. There are two sites, one in Germany and one in Austria. So these plants will be discontinued and the manufacturing will move to India. We expect to produce about 17 APIs. We don't share the revenue number guidance as of now since the same are tentative and we are finalizing them. These products would be shifted to India over the period of next four years and this period includes construction of plant and thereafter validation and approval process. These products will also include Pantoprazole.

Nimesh: What is the rough sales of Nycomed from these products, if I am not wrong Nycomed was generating about $3.8 billion of sales out of which 3 billion was contributed by Pantoprazole. So is it fair to assume that $800 million of sales is coming out of 16-17 APIs?

Patel: I don't have the numbers, so I don't want to comment on that. Whatever they were producing in-house is what is getting transferred. If they were outsourcing some API then that is not included in this.

Nimesh: There is a fair chance they may be selling…

Patel: That's why I don't want to venture into to tell you exact things on that but we can provide you this information offline.

Nimesh: Okay, thanks.

Moderator: Thank you Mr. Nimesh. We have a question from Mr. Srivastav from UTI Mutual Fund. You may please proceed with your question.

Srivastav: Can you throw more light on your NCE spend Sir, how much are you spending every year on a NCE and inline with the other companies do we have any plans of de-merging it or bringing a new strategic partner for these R&D programs?

Patel: For the year just got over the total R&D spend was Rs.1317 million, of which spend on NCE was Rs. 352 million. We do not have any plans at this moment to de-merge the business or bringing any partner in.

Srivastav: Regarding your JV with Bharat Biotech, will it contribute any revenue next year Sir, or do you have any timeframe for the commercialization of the terms?

Patel: We expect commercialization in the next financial year because currently we would have some revenues coming this year but these are not going to be significant because the product is only launched in India. But it will only happen once it is launched in other markets including regulated markets. This year basically going to be spent on validating the plant and getting into the phase where we can get into regulatory approval and also completing clinical development.

Srivastav: Sir, what is the kind of market size you are looking at for this product?

Patel: This product globally the market size of about $700 million and there are no generics available in this space. So we expect to be the only competitor.

Srivastav: And in India what is the market size?

Patel: The Indian market is just evolving. We are creating the market actually.

Srivastav: Okay, thank you Sir.

Moderator: Thank you for your question Sir. We have our next question from Mr. Rahul from Karvy Stock Broking. Mr. Rahul please go ahead.

Rahul: How much did we incur on R&D for the year and for the quarter?

Patel: For the year we spent Rs.1317 million say about Rs.132 crore, for the quarter we spent Rs.35 crore.

Rahul: Okay Sir, thank you.

Moderator: Thank you Mr. Rahul. We have a question from Mr. Neelkant Misra from Credit Suisse. Mr. Misra please go ahead.

Misra: Thanks Sir, could you give some outlook on the Brazilian business based on some other companies or some generic companies have been commenting on how difficult it is to for foreign companies to operate in Brazil as there is effectively a duopoly of two local players in the market and its very expensive and very difficult to get approvals. Are you facing any similar problems are this going to affect your growth rate going forward?

Patel: No, I don't think so because we are filing and we are getting product approvals. The process is slow but that is in many markets but we are getting approvals. So we do not see any problem with respect to growing the Brazilian business as we are expecting and we have enough dossier filed every year in Brazilian market to ensure that we have products available. Second is that we already have manufacturing operation in Brazil so that helps us to get quicker approval also.

Misra: Okay, thanks so much.

Moderator: Thank you Mr. Misra. Participants who wish to ask any further questions are requested to press '*1' now. We have a question from Mr. Nimesh from Mehta Partners. Please go ahead with your question Sir.

Nimesh: Sir just wanted to know the gross margins for this quarter has been about 200 basis points higher on a y-o-y basis any special reason for this?

Patel: This quarter, the contribution of domestic branded business, which has higher margins, to overall income has been higher. US and French business have also contributed to higher gross margins this quarter.

Nimesh: Is this the kind of run rate that we can look at more or less?

Patel: Well no, I don't think so you can just put the same run rate for the year. We have continuously improved our margins by approximately 100 basis points, this year this was 50 basis point. So we would expect them next year to also improve the margin by approximately 100 basis points.

Nimesh: And this is the EBITDA margin that you are talking?

Patel: Yeah correct.

Nimesh: Okay, thanks a lot.

Moderator: Thank you Mr. Nimesh. We have a question from Mr. Rahul from Karvy Stock Broking. Mr. Rahul please go ahead.

Rahul: As regards the amortization amount, are we following the prudent practice by not writing it off?

Patel: I think if you monitor the results, most of the companies have switched over to this practice only because number of articles have appeared in newspaper and everybody has recommended this practice only.

Rahul: What we are writing it off one-time to the reserves we will be writing it off?

Patel: No, we are not going to write-off, we are talking about revaluing and then if required writing off.

Rahul: But that will be to the reserves right?

Patel: That will happen for example you acquire a business which is not listed. Now there is no reference price for that available. One way to look at it just take the asset value and then write off the difference. The other way to look at is that the business has the value and then you evaluate put to test that what is the value of this business and then based on that take a decision whether the value is eroded and if it is eroded then definitely you should write-off. But if there is no erosion then there is no write-off and this has been done now as a practice by most of the companies.

Rahul: Okay, thank you.

Moderator: Thank you Mr. Rahul. We have a question from Mr. Prashant Naik from Citigroup. Mr. Naik, please go ahead.

Naik: Could you provide the Nycomed JV numbers for the fourth quarter please?

Patel: For the fourth quarter the sale is our share Rs.193 million and the profit is Rs.153 million.

Naik: Okay, thanks.

Moderator: Thank you Mr. Naik. We move on to our next question from Mr. Neelkant Misra from Credit Suisse. Mr. Misra please go ahead.

Misra: Thanks, the withdrawal of the excise duty exemption from 1st of April, how is this going to impact the excise duty rates going forward on a consolidated basis? Should we expect a significant impact?

Patel: Mre than half of the production was coming from excise-free zones, so there was no excise impact. So there will not be a significant impact in terms of excise outgo as far as the company is concerned.

Misra: Did you say half of your production was coming from the zones where you did not have to pay excise?

Patel: Yeah, almost 70% of our domestic solid dosage turnover comes from either Baddi or Sikkim so that will not be impacted by it, only remaining 30% comes from our Moriya plant. So there we will have some marginal impact, most of that are duty free because vaccine and other things we are not excisable. So that will not get impacted but then still there will be some impact which is not worth noting.

Misra: I am sorry then I understood it wrongly, this excise duty the revision does not apply to Sikkim and Baddi?

Patel: No, they don’t apply to Baddi. Of course, the reduction in excise duty will apply to Sikkim.

Misra: Okay, thanks.

Moderator: Thank you Mr. Misra. Please press ‘*1’ to ask a question. We have a question from Mr. Bhavin Shah from Dolat Capital. Mr. Shah please go ahead.

Shah: Thanks for taking the question again. Sir your view on any further inorganic opportunity that you might look at or you wait?

Patel: Well, we can’t say anything specific at this moment but we will always be looking for a right occasion for either market access or expanding the growth portfolio.

Shah: We are looking for something in both the domestic as well as the international geographies or…?

Patel: We have very clearly articulated our acquisition policy so we are not going to acquire everywhere. We have some selected market where we definitely would like to look at acquisition from market access and in India we would be looking for expanding with therapeutic basket acquisition. So that is where we are going to look at acquisition.

Shah: And Sir, we have announced I think collaborative R&D pact with the company in biologic. So are there any further initiatives in these lines that you are looking for?

Patel: Well, we are watching on that now so this collaboration we already started working on that but we are looking at more R&D collaboration in future.

Shah: In terms of in-licensing of products?

Patel: We also have initiated this work and currently I don't want to give you because we already have number of in-licensing to put up which continuously keep on happening with our existing partner. So I will not mention about them but anything new and the efforts are on and we would be talking about it very soon.

Shah: Just a bit of more of macro question being perhaps the domestic market is kind of pipeline is more or less drying up slowly and steadily. So more and more companies have announced rural initiatives and all of that how do you plan to sustain market growth rates that you just mentioned?

Patel: I think point number one is, our growth will come from new products for sure and as on today we have identified product with our healthy billion timeline for the next three years to launch new products for every year which are free of patents. So we do not see the challenge as some people might be talking about. We are also are now working on in-licensing arrangement with several of our partner companies and others. So we are hopeful we will also get in some products from our licensing initiatives and then we are also looking at expanding the geographical reach in India including getting into interior and adding therapeutic area. So all put together should ensure that our growth will continue.

Shah: Your dominant focus would be more on the nutraceuticals that you had mentioned in the earlier…?

Patel: No, that is with the new division we started, so it's not really the dominant. We are already there focused on other therapeutic areas like women healthcare, cardiovascular, gastrointestinal, respiratory drugs, where we are already there. We have now expanded also in nutraceuticals. Last year we also expanded into dermaceuticals. So we are basically expanding the new therapeutic area, yet several therapeutic areas that we are not present and in future we have opportunity to also expand in those areas.

Shah: Okay Sir, that should be it, thank you.

Moderator: Thank you Mr. Shah. Ladies and gentlemen, for any further question you may please press '*1'. We have a question from Ms. Mallika from Sharekhan. You may please go ahead with your question.

Mallika: Good afternoon Sir, I wanted to congratulate you on a good set of numbers. I just wanted to get an idea about the US market you registered sales of about $65 million this year launched 7 new products. I just wanted to get an idea about what are your plans how many products can we expect to be launched in the coming years and what kind of growth upside would this lead to?

Patel: For the next year we plan to launch about 10 products we would expect that the sale should be growing at about 30-35%.

Mallika: Okay, thank you Sir.

Moderator: Thank you Ms. Mallika. Please press '*1' to ask a question. Mr. Patel, there are no more questions in the queue.

Patel: Okay, thank you very much and good evening.

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