



“The Cadila Healthcare Ltd Q1FY13 Earnings  
Conference Call”

**August 06, 2013**



**MODERATORS: MR. PANKAJ PATEL – CHAIRMAN AND MANAGING  
DIRECTOR  
DR. GANESH NAYAK – EXECUTIVE DIRECTOR, CADILA  
HEALTHCARE LIMITED  
MR. SHARVIL PATEL – DEPUTY MANAGING DIRECTOR  
MR. NITIN PARIKH – CFO  
MR. VISHAL GOR – GENERAL MANAGER INVESTOR  
RELATIONS..**



**Moderator**

Ladies and gentlemen, good day and welcome to the The Cadila Healthcare Ltd Post Results Conference Call for the quarter ended June 30<sup>th</sup>, 2012. 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 assistance during this conference, please signal the operator by pressing \* and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would like to hand over the conference to Dr. Ganesh Nayak – Executive Director, Cadila Healthcare Limited. Thank you and over to you sir.

**Dr. Ganesh Nayak**

Good evening and welcome to our post-result tele-conference for the first quarter of FY 2012-13. 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.

First, let me share some of the highlights of the operations for the quarter.

India formulations business posted sales of 5,818 Mio. Rupees, up by 27 %. We launched over 30 new products, including line extensions, in India during the quarter, of which 10 were first in India.

US business posted sales of 3,592 Mio. Rupees, up by 50 %.

With recent approval of Moraiya facility by US FDA, we expect to start getting new product approvals for US, which will further strengthen our US business. Recently we have received first tentative approval of Aripiprazole orally disintegrating tablets from US FDA.

We filed 9 additional ANDAs with US FDA, incl. 2 for injectable products during the quarter.

Brazil business grew by 37 % and posted sales of 645 Mio. Rupees

We filed 5 additional dossiers for Brazil market with the regulatory authority ANVISA.

For Mexico, we filed 3 additional dossiers with the regulatory authority COFEPRIS.

Zydus Wellness Ltd. posted sales of 1,033 Mio. Rupees, up by 13 %, showing signs of recovery. Net Profit of Zydus Wellness Ltd. grew by 60 % to 135 Mio. Rupees.

Emerging markets business grew by 84 % with sales of 721 Mio. Rupees.



Animal health business posted sales of 590 Mio. Rupees, up by 58 %.

We launched 3 products in Japan (incl. one “Day-1”), all developed and manufactured in India.

We filed 11 new product dossiers and received approvals for 4 new products dossiers for European market.

Now let me take you through the broad financial numbers.

During the quarter, on a consolidated basis:

Our total income from operations was up by 28 % y-y to 15.9 bn Rupees from 12.5 bn Rupees last year. Excluding one-time income from last year, growth in total income from operations was 33 %.

Profit before interest, depreciation and tax was up by 15 % to 3,551 Mio. Rupees from 3,087 Mio. Rupees last year. Excluding the impact of exchange rate fluctuations on operating transactions and excluding the one-time income from last year, growth in PBIDT was 38 % and PBIDT margin was up by 0.8 % to 22 % from 21.2 % last year.

Profit before tax was up by 1 % to 2,663 Mio. Rupees from 2,628 Mio. Rupees last year. Excluding the impact of exchange rate fluctuations on operating transactions and on foreign currency borrowings and excluding the one-time income from last year, PBT was up by 37 % and the PBT margin was up by 0.5 % to 17.4 % from 16.9 % last year.

Sharp depreciation of the Indian Rupee vis-à-vis global currencies has resulted into a forex loss of 116 Mio. Rupees during the quarter vs. a gain of 155 Mio. Rupees last year.

The Net profit stood at 1,948 Mio. Rupees vs. 2,298 Mio. Rupees last year. Excluding the impact of exchange rate fluctuations on operating transactions and on foreign currency borrowings and excluding the one-time income from last year, the net profit was up by 12 %. This was in spite of PBT growth of 37%, mainly because of increase in the tax rate during the quarter to 24.6% from 10.8% last year on account of imposition of AMT on partnership firms.

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 the question and answer session. Our first question is from Monica Joshi of Avendus Securities, please go ahead.



- Monica Joshi** On the India side, if you could point out what was the organic growth i.e. other than Biochem? And similarly for the US business, should we consider about \$8 million as national's quarterly run-rate?
- Pankaj Patel** Domestic business without Biochem grew at 16%.
- Monica Joshi** So would that mean that the Biochem is less than about 50-odd crores for the quarter?
- Pankaj Patel** No. Your calculation seems to be wrong. Can you take this up with Vishal later?
- Monica Joshi** Okay. And on the Nesher quarterly run-rate?
- Pankaj Patel** It is around \$8-9 million.
- Monica Joshi** On the US pipeline now, since your approval is in place, when do we really start seeing traction? You have got one approval, tentative, so how do we start seeing and building numbers on your final product pipeline here? So for this year for example, how many final approvals do you expect and what is the launch schedule?
- Pankaj Patel** See our expectations are we should be getting about 10 approvals.
- Monica Joshi** In FY13?
- Pankaj Patel** Yes.
- Monica Joshi** And these would be largely on oral solid side, is it?
- Pankaj Patel** Some injectable as well.
- Moderator** Our next question is from Aditya Khemka of Nomura. Please go ahead.
- Aditya Khemka** I just wanted to get some more color on your JV sales, if we can, was there any one-off lumpy sales from Nycomed JV this quarter?
- Pankaj Patel** No.
- Aditya Khemka** How have we seen the Hospira JV ramping up? How is the docetaxel market doing? Is it performing as per our expectations?
- Pankaj Patel** Yes, it is performing as per our expectations and we did not have any negative surprise I would say.



- Aditya Khemka** What would be your full-year tax rate guidance?
- Pankaj Patel** About 22%-24%.
- Moderator** Our next question is from Kartik Mehta of ICICI Securities, please go ahead.
- Kartik Mehta** On the India business again, 16% in a season for monsoon, given that we are very strong in anti-malarials. Could you elaborate if there is any lower than expected inventory in the Indian markets? We have seen some of our overall competitors maybe having relatively higher amount of India sales growth in this quarter.
- Pankaj Patel** Well, we do not know other company's sale; and whatever we know from public report which is coming from either IMS or AWACS, we are doing better than the industry and the top companies as far as growth is concerned. We do not see any negative impact yet because of delayed monsoon. Obviously yes, there is less malaria season first of all and to that extent the anti-malarial products whatever we have recorded lower sales.
- Kartik Mehta** And on the 3 billion number, if you could elaborate. Now that we have the USFDA issue actually resolved, does it help you to guide us on that part relative easily now? Having said that it is been a year since we had this issue and it has actually been resolved after a year. How do you place yourself with the US \$ 3 billion dollar number?
- Pankaj Patel** We have already spoken in our meetings and investor presentation that we have this strategy in place where we have two established home markets and two new markets, which are going to become home market and also focusing on other new markets and products and technology. And all of that put together is basically making 3 billion, but roughly two key home markets would be one third-one third and the rest of all will be another one third. So that's the way 3 billion will be spanned out between them. The resolution of the warning letter by USFDA would definitely now allow us to have more products to come in very quickly and allow us to basically improve our sales number in US going forward which should help in achieving the number.
- Kartik Mehta** FY14 the US sales, now that we would have actually measured in FY13 entirely, with the US FDA issue being entirely resolved now, would you expect with some injectables say in FY14 that would be able to grow by 20% in the US dollar terms?
- Pankaj Patel** We would have both injectable and oral products and also nasal products available to launch in FY14 and that would all help us to basically achieve the growth.
- Moderator** Our next question is from Balaji Prasad of Barclays, please go ahead.



- Balaji Prasad** My first question was on the 10 new products that you say have been introduced for the first time in India, are these the owned products or the in-license products?
- Pankaj Patel** Out of that, couple of products are in-licensed products and rest of the products are our owned products.
- Balaji Prasad** Can we take that as around two-three on the lower side?
- Pankaj Patel** Two.
- Balaji Prasad** Secondly again, on the domestic business, the 27% growth, is it possible to break it up into product launches and volume growth?
- Pankaj Patel** I do not have the numbers upfront with me, but Vishal will provide you.
- Balaji Prasad** Sure sir. I saw that you had around Rs. 196 million of R&D expenses on capitalized, is it related to any kind of product related expenses line in-license expenses?
- Pankaj Patel** This is a capital expenditure, it is not R&D expenditure being capitalized, so it is actual real capital expenditure.
- Moderator** Our next question is from Anubhav Agarwal of Credit Suisse, please go ahead.
- Anubhav Agarwal** Just one clarification on docetaxel, if you can just give us directionally saying that your sales book in March quarter versus sales book in June quarter, will the June quarter sales be higher than what you book in March quarter with docetaxel?
- Pankaj Patel** No, it is almost same.
- Anubhav Agarwal** Can you just provide the US sales in dollar million for this quarter?
- Pankaj Patel** The US sales in dollar terms is \$66 million.
- Anubhav Agarwal** One question on Wellness, this quarter the gross margin in Zydus Wellness has improved to almost 71% that is much higher than the last four quarters. While the tax rate was much higher at 23%, can you just provide some clarification on both the fronts?
- Pankaj Patel** Yes, the products mix and some of the inputs were procured at a lower cost than last year, helped us showing a better gross margin. As far as the tax rate is concerned, because AMT has been introduced during the last budget income which is coming from Sikkim manufacturing



facility requires to pay tax at the rate of around 19%. So that is why there needs to be higher tax rate.

**Anubhav Agarwal** Effective tax rate at Zydus Wellness P&L this quarter was 23% that is what I was just asking that would this come down like what you have for the Cadila, consolidated P&L also is much higher rate and what you are guiding for the year is much lower as well?

**Pankaj Patel** Going forward, our tax rate will remain around the same number because the fact that now there is AMT, so there is tax payable even in Sikkim. Of course, we have tax credit going forward, but that is to be used later on.

**Moderator** Our next question is from Bino Pathiparampil of IIFL, please go ahead.

**Bino Pathiparampil** Just revisiting the Biochem acquisition, the revenue that you reported last couple of quarters seem to be pretty much varied than it was at the time of acquisition and probably at little lower than what we were generally expecting. So how has that acquisition panned out in terms of was this your expectation over the last six months, is there any improvement in operations there, margins there? Is there any improvement in growth outlook? Could you give a few thoughts around that?

**Pankaj Patel** We see Biochem business coming on track. It is behaving as per our expectations. A lot of hygiene factors which has to be introduced, because earlier Biochem was doing sales through some distributors and we have moved into C&F distribution model.

**Bino Pathiparampil** So can we expect that, can we take this a little less than 50 crores as a quarterly base and expect a mid-teen growth from there?

**Pankaj Patel** I do not have the data with me. I request Vishal to provide you this information.

**Bino Pathiparampil** Coming to Zydus Wellness, how is the competitive scenario right now in the grooming space and what are your near term plans?

**Pankaj Patel** Competitive scenario has not changed, but we have increased our activities significantly and that clearly shows that we have started growing the business. If you see our growth, because last year our sale was inclusive of excise duty and this time because we are producing ourselves the excise duty gets deducted and that is why the sales number looks at 13% if you gross it up then the net impact is about 4%, so sales growth will be better. So, I am looking good future for this going forward.

**Bino Pathiparampil** This extra sale whatever it is 14%-15% growth, is that coming from the grooming business or more from the sugar-free/margarine business?



**Pankaj Patel** It is coming from all the businesses.

**Bino Pathiparampil** Any improvement in the regulatory scene in Brazil? Have you started getting product approvals faster than earlier?

**Pankaj Patel** We do not see much. We are getting some approvals, but we do not see any speed that is happening there.

**Moderator** Our next question is from Nimish Mehta of MP Advisors, please go ahead.

**Nimish Mehta** Once again on Biochem, whether we have seen any improvement in margin that we were expected to in the near term?

**Pankaj Patel** Yes we are already seeing that.

**Nimish Mehta** Any ballpark number that you can throw, it was about 8%-9%.

**Pankaj Patel** Synergies which we expected on those lines, we are seeing the margins improving.

**Nimish Mehta** And is it likely to improve going forward or it is going to stay at the same level whatever it is?

**Pankaj Patel** It is likely to improve going forward because by December, we would have the full benefit of it.

**Nimish Mehta** Any update on France business in terms of margin, we are seeing the same modest, moderate margin that we used to?

**Pankaj Patel** Yes basically Europe business remains moderate.

**Nimish Mehta** Any outlook on that, it is likely to continue the same way?

**Pankaj Patel** I cannot predict about Europe. I am not even qualified to do so.

**Nimish Mehta** Do you expect approvals of ASTELIN and any likelihood of getting an approval of Toprol-XL in this year?

**Pankaj Patel** We cannot give you a specific product wise approval date. We are expecting, as I said now 10-plus approvals in this financial year from USA and as and when the approval will come, we will tell you this product has come. That is the only thing I can say now. I do not know whether these two products will get approved or not.



- Nimish Mehta** Can you elaborate a little bit more on the Urokinase product where we have tied up with Microbix, how big is the market now?
- Pankaj Patel** This product was actually originally sold by Abbott Laboratories and Microbix acquired the whole thing from Abbott including the technology and other things. And this product, because Abbott was having the problems, the plan was withdrawn, it was not available in the market. So we are basically going to bring back this product into US market. So potential of this market is large and we expect that this market is of the size of about \$100 million.
- Nimish Mehta** That is the sales that we are targeting?
- Pankaj Patel** That is the kind of the thing we can expect from this product after the launch.
- Nimish Mehta** And who could be the competitor right now?
- Pankaj Patel** Currently, there is no Urokinase available in US market.
- Nimish Mehta** But any therapeutic substitution product?
- Pankaj Patel** Yes, there is therapeutic substitution available which are recombinant products and quite expensive. It is not Urokinase but some other recombinant product.
- Vikas Mantri** Urokinase is obviously not biologic?
- Pankaj Patel** It is biologic but it is basically derived from human source.
- Nimish Mehta** I would like to have the constant currency growth of US, Europe, Japan and RoW if possible.
- Pankaj Patel** I will request Vishal to provide you this information.
- Moderator** Our next question is from Sonal Gupta of UBS Securities, please go ahead.
- Sonal Gupta** Brazil, I understand we have now fairly large pipeline and we continue to file at a very high rate. So I just want to understand what are we expecting in terms of a ramp up, when do you really see this sort of really kicking in?
- Pankaj Patel** We expect that approval should come because we have been filing and ultimately, someday the approvals will start coming in and then pouring in and that is the time we will see ramp up. It is very difficult for me to predict given the kind of structure there in Brazil. But we expect this financial year, we should have some good approvals.



- Sonal Gupta** Any therapy areas that we are specifically focusing on because we seemed to have filed for a larger basket, right?
- Pankaj Patel** For our brand business, we are focused on certain therapeutic area, but for our generic we basically file for all the products where we see the potential. But, specifically, cardiovascular, gynecology, and gastroenterology are the areas where we file products.
- Sonal Gupta** I mean if you were to split it between brand and generic, how is your pipeline split between brand and generic?
- Pankaj Patel** Most of the filings are for generic. We can launch one or two brands per year, not more than that so most of the filings are for generic.
- Sonal Gupta** In terms of these filings, what are the costs to these filings versus say a USFDA filing?
- Pankaj Patel** You can take as a thumb rule half the cost.
- Sonal Gupta** On the FX side what are the sort of hedges that we currently have and at what rate?
- Nitin Parikh** We have 80 million dollars worth contracts which are outstanding and which is at Rs. 48.15.
- Sonal Gupta** When do we expect these to run off?
- Pankaj Patel** These are up to November 2012.
- Sonal Gupta** Do you think the impact of FX hedges is probably more pronounced in this quarter and we should see that improving going forward?
- Pankaj Patel** Yes subject to how the movement of FOREX rates change.
- Sonal Gupta** And finally on the R&D side, we have not really seen too much of an increase this quarter, so full year do we still expect R&D to be around 7%?
- Pankaj Patel** Yes we would be on the same line, between 6%-7%.
- Moderator** Our next question is from Amit Hiremath of Enam Asset Management, please go ahead.
- Amit Hiremath** What do you believe is your sustainable growth rate every year because if your vision is of \$3 billion, effectively you are saying you will do a 31% CAGR growth over the next four years. Does it include organic growth only or acquisitions along with that?



- Nitin Parikh** No, the \$3 billion number our aim is to achieve through organic growth, we would have to achieve those kind of numbers.
- Amit Hiremath** Basically along with that, what is your vision for the bottom line? Are you looking at the margin improvement when you reach there?
- Pankaj Patel** Yes we are looking at improving margin and generally, our goal is to improve margin about 100 basis points average year on year, so we hope to continue doing that and currently, we are running programs to ensure that while we are growing, we also improve our margins.
- Amit Hiremath** What is your hedging policy in place, many corporates are now basically having 50% of their FOREX earnings and there is number of policy framework because I think nobody is getting it right, so many companies are adopting either two quarters of hedging or they are saying 50% of all receivables will be open and 50% hedge etc. Have you followed any policy?
- Pankaj Patel** We had a policy where we were basically hedging 50% of our net open exposure. Currently, the policy is under review given the kind of significant fluctuations and changes we have seen. We are looking at options as one of the alternative.
- Amit Hiremath** What is your comfort level on debt equity?
- Pankaj Patel** 0.5 is a comfort level for our debt equity and as a policy, we would never exceed more than one.
- Amit Hiremath** Currently, you are above the comfort level.
- Pankaj Patel** Currently we are above comfort level, we are at about 0.7.
- Amit Hiremath** Would that mean that we would now not look at acquisition?
- Pankaj Patel** Well if we have to acquire, we will look at different way of financing.
- Amit Hiremath** So you are open to liquidity dilution?
- Pankaj Patel** Well we do not know. It depends upon what kind of acquisition we do, but we would look at options to finance if more creatively done. It depends upon if we get an opportunity. We are not going to be shy of acquiring.
- Amit Hiremath** So basically you are open to equity dilutions also?
- Pankaj Patel** Yes, if required of course.



**Amit Hiremath** But that is not the preferred route?

**Pankaj Patel** Because that is the last option.

**Amit Hiremath** Right. So basically you are open to it?

**Pankaj Patel** Yes.

**Amit Hiremath** And what are you looking at your US growth in constant currency terms for the next three years in dollar terms?

**Pankaj Patel** We do not give specific guidance.

**Amit Hiremath** No, no, you have just given a vision of 3 billion...

**Pankaj Patel** You would have to grow all the businesses that will achieve us 3 billion. We have to achieve a billion dollar sale that is the kind of growth we will have to achieve.

**Amit Hiremath** So you believe that the growth numbers, you are very well aware are north of 30% each year you are quite comfortable giving that guidance?

**Pankaj Patel** We are not giving any guidance at this moment, that is what I am trying to say because we as a company, as a policy, we do not give guidance. Our overall guidance is 3 billion and we are going to see the \$3 billion number.

**Amit Hiremath** So you are comfortable with your 3 billion guidance so far on organic basis?

**Pankaj Patel** Yes.

**Amit Hiremath** No change in that?

**Pankaj Patel** Yes.

**Moderator** Our next question is from Ashish Rathi of Equirus Securities, please go ahead.

**Ashish Rathi** Other emerging markets have grown very sharply year on year, I understand but sequentially also they has been like a 20-crore kind of a jump, so should we like take 70-75 crores as the run-rate going forward for this? We are talking about some political turmoil, we are talking about what we are seeing muted growth in the last four-five quarters?

**Pankaj Patel** No I think it will take that run-rate.



**Dr. Ganesh Nayak** Last time we had Sudan, we had this political turmoil going on which is now back to normal, plus in other countries, we find that whatever we had invested in marketing is now paying off because all these are brand promotion markets.

**Moderator** Our next question is from Bhavin Shah of Dolat Capital, please go ahead.

**Bhavin Shah** You get back to injectables in US and considering the shortage of opportunity and all of that, I think market share gains could be a decent number that you would forecast to in FY14 when you have the production?

**Pankaj Patel** Yes.

**Bhavin Shah** Would you give a ballpark number to that? Would it be 20-25% sort of a figure?

**Pankaj Patel** I do not want to give a number because there is a policy not to give guidance.

**Bhavin Shah** There would be still limited competition opportunity for any product that you would launch.

**Pankaj Patel** Obviously, we expect this one.

**Bhavin Shah** In Brazil, what would be the constant currency growth for the quarter? The first quarter typically seems to be...

**Pankaj Patel** I will ask Vishal to provide you with this after this conference.

**Bhavin Shah** But 25% growth do you think is a good number to target for this year in Brazil?

**Pankaj Patel** Yes.

**Bhavin Shah** Any progress made on the Bayer JV in terms of addition of new products affected?

**Pankaj Patel** Yes, we are planning to launch additional product during this financial year, two of them.

**Bhavin Shah** But it's scaling up according to your expectation?

**Pankaj Patel** Yes.

**Bhavin Shah** Abbott supply will be on time? In second half is what you had earlier...

**Pankaj Patel** Yes.



- Bhavin Shah** The number of products, can you guide in terms of how much would the first shipment be?
- Pankaj Patel** It will be very difficult for us to provide you those details. It is not yet with us, so we cannot provide you that guidance let the commercialization to begin.
- Bhavin Shah** So Q3-Q4 would really reflect the numbers in JV sales?
- Pankaj Patel** Yes mostly towards Q4.
- Bhavin Shah** And Hospira scale-up, do you think there will be new more products to be added during the year to the existing pipeline?
- Pankaj Patel** We expect so that we will add additional products.
- Bhavin Shah** One or two maybe.
- Pankaj Patel** Yes.
- Moderator** Our next question is from Rahul Sharma of Karvy, please go ahead.
- Rahul Sharma** There has been increase in staff cost QoQ, and secondly our material cost is also higher despite stronger green wag, is it only because of your FOREX loss which is there? Could you please clarify?
- Pankaj Patel** Staff cost is higher because we have impact of the acquisitions numbers also there. Staff cost obviously will go up because the new staff came in and also FOREX impact is there because people employed abroad that cost will go up because of FOREX.
- Rahul Sharma** And material cost impact is solely because of the exchange loss?
- Dr. Ganesh Nayak** Material cost impact is because of Biochem which **has lower margins compared to overall consulted averaging**. And Hospira also had some good demand in last year because of exclusivity of **docetaxel** which has gone down in this quarter.
- Rahul Sharma** Another thing, on Brazil, how many product launches are we expecting in the current year and will all of them be in branded-generic or in generic-generic and how many are more than 28-30 months old?
- Pankaj Patel** I do not have answers for all the questions. Most of the launches this year in Brazilian market we expect will be generic-generic and not branded-generic. We expect about eight products



launches this year. As far as how many products are more than 36 months of filing, I will ask Vishal to get you the data because I do not have just now.

**Rahul Sharma** Another thing on the US front, I wanted clarity on the injectable approvals coming in, are they contract manufacturing or they are owned products and how many are expected in the current year?

**Pankaj Patel** They are both contract manufacturing and owned products. They are mix of both.

**Rahul Sharma** But how many will be coming in via contract manufacturing and how many are owned launches?

**Pankaj Patel** I do not know how many products ultimately will get approved in the future, but it will be mix of both, but we expect four or five products approved; half will be contract manufacturing and half will be our own.

**Rahul Sharma** Four-five each year sir for FY13 and FY14?

**Pankaj Patel** Yes.

**Rahul Sharma** And our tax rates will remain at 22%-24% despite MAT credit or will it go down?

**Pankaj Patel** No, it will remain at that level.

**Rahul Sharma** And I would like constant currency growth as others have requested.

**Pankaj Patel** Vishal will provide you that.

**Moderator** Our next question is from Manoj Garg of Edelweiss, please go ahead.

**Manoj Garg** I just want to understand that in your notes you have written that there was an impact of foreign currency loan on the cost of goods sold to 421 million, I want to understand how it has come in the cost of goods sold?

**Nitin** The forex impact on value of supply of goods made from India to US subsidiary gets adjusted in the cost of goods at consolidated level. Vishal can provide more specific details to you letter.

**Manoj Garg** And secondly, we have seen good margin improvement sequentially over the last three-four quarters in this quarter, and as you have said that the full benefit of Biochem is yet to happen,



so do we expect that current margins to expand further in the coming quarters and how much you are anticipating further?

**Pankaj Patel** I do not have exact number to give you, I am sorry. We expect the margins to improve going forward.

**Moderator** Our next question is from Alok Dalal of BNP Paribas, please go ahead.

**Alok Dalal** Have we added any products under the Hospira JV this quarter?

**Pankaj Patel** Yes we have added one product.

**Alok Dalal** That is for both Europe and US?

**Pankaj Patel** For US. We have one product in US.

**Alok Dalal** So it is now three in US and five in Europe?

**Pankaj Patel** Six in Europe and four in US.

**Alok Dalal** Your CAPEX at 200 crores is well ahead of the 650 crores guidance that you have given for the full year, so do we expect an increase in CAPEX beyond 650 crores for FY13?

**Pankaj Patel** No, we will not have more than this.

**Moderator** Our next question is from H. R. Gala of Quest Investment Advisor, please go ahead.

**H R Gala** What is the consolidated debt and the cash?

**Pankaj Patel** Consolidated debt as on 30<sup>th</sup> June was Rs. 1839 crores.

**H R Gala** Can you provide breakup if possible?

**Pankaj Patel** Gross debt 2373 crores.

**H R Gala** And rest is cash?

**Pankaj Patel** Yes 534 crores would be cash value.

**H R Gala** These are consolidated?



**Pankaj Patel** Yes.

**H R Gala** My other question pertains to the margin front, people have talked about it. Basically, if you see say for example your wellness in this particular quarter, we have spent almost half of what we spent in the last full year on advertisement and sales promotion. So going ahead, how do you see the ad spend etc happening in Zydus Wellness?

**Pankaj Patel** Actually, we have not spent that much so my impression is not that.

**H R Gala** No, it is a consolidated we have spent advertisement and sales promotion 31.4 crores whereas in the last full year, it was 60 crores, so more than half has been spent in this first quarter itself.

**Pankaj Patel** No, I do not think that is right and we can provide you more information, but we have not spent more.

**H R Gala** Because I am just referring to the consolidated number.

**Pankaj Patel** That includes the sales promotion...

**H R Gala** I am talking about both.

**Pankaj Patel** Investment and sales promotion activity both, but overall for the year, we are very much in the budget and I do not think we should have any negative side.

**Moderator** Our next question is from Ashish Urganlawar of Spark Capital, please go ahead.

**Ashish Urganlawar** I just want to know AMP spend on Zydus, any budgets or any targets in AMP that you have for this year on spending on AMP?

**Pankaj Patel** It is going to be the same in line with what we have been spending historically, so there is not going to be a significant ramp up in advertisement. **Ashish Urganlawar** Because I remember that in previous calls you said that it would be more even now going ahead given that we thought that we were short in spending sugar free and that is what led to a problem. So is it going to be that because you have spent 30 crores already?

**Pankaj Patel** We will remain at 18%-19%.

**Ashish Urganlawar** On individual products, can you further add any comments on what are we going to do to ramp up sales in this business on a sustainable basis as it comes back to the same traction as it used to have in all sugar free?



- Pankaj Patel** Our strategy is basically to continue doing both the sales promotion activity and below the line activity.
- Ashish Upganlawar** What gives you the confidence that this 25% kind of growth rate can come back? I mean any problems that you would have identified?
- Pankaj Patel** See, we pulled back our funds last year when we saw a lot of competition there. That is history now. We have now come back with our policy, and you will see results of that.
- Ashish Upganlawar** Okay. So you are comfortable maintaining that 500 crores turnover by 14?
- Pankaj Patel** Yes absolutely.
- Ashish Upganlawar** And coming on Aculife if you could throw some light on how the product is doing and any numbers to share on top line how much it is doing now?
- Pankaj Patel** Aculife is moving as per our expectations.
- Ashish Upganlawar** But to form a substantial chunk of the business how much time do you see it to mature basically? Would it be three-four years?
- Pankaj Patel** Three years.
- Ashish Upganlawar** And anything on the margins to share, EBITDA margins of this business it used to be 25% odd in Zydus Wellness, so are we looking at maintaining those sort of numbers or achieving those going ahead?
- Pankaj Patel** Our goal is maintaining the number.
- Ashish Upganlawar** Because It seems possible to you in the near time?
- Pankaj Patel** Yes.
- Moderator** Our next question is from Ravi Agarwal of Standard Chartered Securities, please go ahead.
- Ravi Agarwal** The second question was on the US approval, you were mentioning around 10 approvals for this year and I am just looking from say last year to this year in total, we were possibly getting maybe around 10-12 approvals on a two-year timeframe. I would have thought that considering the fact that there would be a considerable bunching of approvals, our approval run-rates for this year in the US should have been far higher than that 10 which you are looking at, was there some disconnect there?



- Pankaj Patel** I would agree with you that we could have more approvals, but unfortunately the visibility we have is limited and that is why we are not able to tell you that we will get more than 10. So we said we are paying 10 plus, but yes what you say is logically right that we should get actually more approval because we know that there are lot of products where everything is done and we are just waiting for letter.
- Ravi Agarwal** Is it a possibility that you could get a few approvals in a bunched form like four-five approvals in just one particular?
- Pankaj Patel** I do not know how FDA will do. Generally see every product is handled by one project manager, so they will never come in bunch, they will come one by one.
- Ravi Agarwal** The second question was on the gross margins on a sequential cum last December quarter to this quarter, there is considerable improvement. Of course one part of it is because of I guess the domestic formulation business, but all said and done assuming like you said docetaxel has remained fairly consistent on a QoQ basis, what could explain this big improvement in the raw material cost even if you exclude the FOREX out of it?
- Pankaj Patel** Are you talking about sequential?
- Ravi Agarwal** I am talking about sequential from March to this quarter.
- Pankaj Patel** March to this quarter, because of domestic formulations as well as some improvement in the Wellness business, I mean we have seen some improvement in both these businesses and the proportion of these businesses and overall business is also high. So it is the product mix and business mix case.
- Ravi Agarwal** The final question was on Hospira. Just seeing some part of what Hospira is talking about docetaxel and they are maintaining a 50% market share and a 60% pricing is what they have mentioned, your assessment about how this move, given the fact that at least three-four approvals have already happened over the last three-four months and your pricing and market, more importantly market share has remained where it is. Do you see yourself or does the JV see itself continue for at least one or two more quarters in terms of docetaxel?
- Pankaj Patel** I think so, because marketing is done by Hospira only and that is why what Hospira has given we would also endorse that.
- Moderator** Our next question is from Mitul Mehta of Lucky Securities, please go ahead.



- Mitul Mehta** My question has more to do with your sugar-free product, despite India being such a big diabetic market, you are not seeing that acceptability with customers neither are the doctors prescribing it, so what is your view and insights on that?
- Pankaj Patel** We need to do more work to expand the market and that is what we are currently doing and you will see impact of this.
- Mitul Mehta** But the medical reports that keep coming out that it is actually not good.
- Pankaj Patel** These are not medical reports. These are anecdotal reports. If medical reports were there, the FDA would have banned the products. So these are no medical reports, these are all anecdotal reports which is like coming out of blogs and things like that. There are no scientific reports available against this product and that is why approved products like all regulatory approval across the world including USFDA. Had there been a negative impact then FDA should have acted on that.
- Mitul Mehta** And considering USA is a pretty matured market, what is the market size for sugar free product in the US as of now?
- Pankaj Patel** I have no idea. Maybe we can check but I do not have any idea.
- Mitul Mehta** Can I have the breakup of sales for this quarter for Zydus Wellness?
- Pankaj Patel** We do not provide breakup as per policies.
- Moderator** Our next question is from Bhagwan Chowdhry of India Nivesh Securities, please go ahead.
- Bhagwan Chowdhry** I had just one question on the Biochem side. In the last year, Biochem strategy for FY11-12 was I think was somewhere 265 crores and if I am taking a quarterly generated, it comes near about 66 crores. And on the basis of 16% from base business growth in this quarter, it is coming at about 50-51 crores from Biochem. Am I missing something?
- Pankaj Patel** Yes, You are missing something, therefore Vishal can explain you more.
- Moderator** Our next question is from Aniruddha Joshi of Anand Rathi Securities, please go ahead.
- Aniruddha Joshi** We have moved the production to Sikkim but when we will see the benefit of excise duty coming down for Zydus Wellness?



- Pankaj Patel** Actually, what happens in Sikkim you have to pay excise duty and claim refund, so you will always have excise duty but there is no saving of excise duty on P&L you will see. So excise duty has to be paid and then we receive refund.
- Aniruddha Joshi** When the excise duty as percentage of sales, we can see the numbers coming down.
- Pankaj Patel** Whatever excise duty is there we have to pay in Sikkim and then we claim refund and then give us the excise duty back. That is the process. So on the P&L, you will see excise duty.
- Aniruddha Joshi** For Zydus Wellness, what is the effective income tax rate you would like to say?
- Pankaj Patel** Around 22%.
- Aniruddha Joshi** In case of sugar free, would you like to give any ballpark volume growth figure?
- Pankaj Patel** No, we do not provide product wise rate details as per our policy.
- Aniruddha Joshi** But in all three categories, can you indicate which are the categories which have shown positive volume growth for the quarter?
- Pankaj Patel** All these three have shown positive volume growth.
- Aniruddha Joshi** And within Ever Youth, the three sub-segments, face wash, scrub, peel-off?
- Pankaj Patel** Even face wash is showing some revival.
- Moderators** Our next question is from Binoy Jeriwala of Sunidhi Securities, please go ahead.
- Binoy Jeriwala** Just on Zydus Wellness, a little bit more. You explained that excise duty is first to be paid and then claimed refund, so when you claim the refund, doesn't it supposed to hit the P&L?
- Pankaj Patel** Yes, it does affect the P&L.
- Binoy Jeriwala** So in that terms, I just wanted to understand when do we start claiming the refund?
- Pankaj Patel** We are only claiming the refund, so what happens is that to some extent you do not get the 100% refund. Vishal can give you exact data.
- Vishal Gor** We claim the refund, but it is not that whatever we claim would be refunded by the authority, so it depends upon the final assessment by the authority. So to be on a conservative side we have not provided for any refund repayment so far. Once something gets materialize, we will



provide in that period you will be credited. Whenever refund amount will materialize for the first year, the same will be credited in the P&L account in that period it will see some credit in the P&L

**Binoy Jeriwala**

So have we started claiming the refund?

**Vishal Gor**

The claim would be started but we would not credit it to the P&L till the time, the refund amount is finalized by the authority.

**Binoy Jeriwala**

The second question is on expansion of gross margins. What we observe is the expansion of gross margin more so in the Sugar Free or Ever Youth products. I just wanted to understand what was the case because the rupee has also depreciated and I believe our raw materials are imported.

**Pankaj Patel**

Yes but we could procure raw materials at lower cost than last year.

**Vishal Gor**

See you are looking at the gross margin as a percentage to total net sales, but you should appreciate that last year we did not have any excise duty, now we have excise duty. So you should minus the excise duty and then work out the gross margins and if you do that, that way the improvement in the gross margin is not to the tune of 7% but it is to the tune of 1.5% only.

**Binoy Jeriwala**

And it is because of better procurement?

**Vishal Gor**

Yes.

**Moderator**

Our next question is from Krishna Prasad of Kotak, please go ahead.

**Krishna Prasad**

On these 46 crores of FOREX transaction and translation gain that we have talked about in the other operating income, if you could help us understand how much of this is actually realized and what is the nature of this gain that we have had?

**Pankaj Patel**

I do not have the exact breakup of realized and unrealized expertise. I will get back to you once I have the information.

**Krishna Prasad**

Earlier to a question you talked about the increase in staff cost also being due to the currency. If you could give us a sense of how much would be the YoY growth in staff cost let's say excluding the currency in part, I mean what is the underlying sort of staff cost growing?

**Pankaj Patel**

The underlying growth would be about 16%.



- Krishna Prasad** On a YoY basis?
- Pankaj Patel** Yes.
- Krishna Prasad** Of this 42% YoY growth that we are seeing in staff cost, essentially most of it is really currency?
- Pankaj Patel** No, total growth in staff cost is high because of acquisitions. So excluding acquisitions, the growth is 21% and excluding FOREX, growth is 16-17%.
- Krishna Prasad** Finally maybe it can also help us understand the FOREX hit which is happening in the interest line, what is the nature of this?
- Pankaj Patel** The FOREX loss on the interest line is basically the loss on the long-term foreign currency borrowing, which we charge to foreign currency monetary accounts fluctuations and from there, we amortize the portion of that depending upon the tenure of the loan. That is following the Accounting Standards on treatment of our long-term foreign currency monetary items.
- Krishna Prasad** Sure. So this is essentially relating to the quarter?
- Pankaj Patel** Yes.
- Moderator** Thank you very much. I would now like to hand the floor back to Dr. Ganesh Nayak for closing comments.
- Dr. Ganesh Nayak** Thank you very much. It was a pleasure interacting with you and look forward to see you in the month of November for our second quarter results.
- Moderator** Thank you very much. Ladies and gentlemen on behalf of Cadila Healthcare Limited, that concludes this conference call. Thank you for joining us.