



“Cadila Healthcare Limited Q3 FY17 Post-Results Conference Call”

January 31, 2017



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Moderator:

Ladies and Gentlemen, Good Day and Welcome to the Q3 FY17 Post-Results Conference Call for Cadila Healthcare Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Dr. Ganesh Nayak – COO & Executive Director of Cadila Healthcare Limited. Thank you, and over to you, sir.

Dr. Ganesh Nayak:

Good Evening and Welcome to our Post-Result Teleconference for the Third Quarter of FY17. We have with us Mr. Pankaj Patel – Chairman and Managing Director; Dr. Sharvil Patel – Deputy Managing Director; Mr. Nitin Parekh – CFO; Mr. Tushar Shroff – Senior Vice President, (Corporate Finance), and Mr. Vishal Gor – Senior General Manager (Corporate Finance).

Coming to the key financial numbers, during the quarter gone by on a consolidated basis, our total income from operations was down 2% year-on-year to Rs. 23.6 billion. Earnings before interest, depreciation and tax, which is the EBITDA, was down 32% year-on-year to Rs. 4.04 billion. Our EBITDA margin declined to 17.1% in Q3 FY17 from 24.6% in Q3 FY16. Profit before tax was down 40% to Rs. 3.24 billion. Net profit was down 35% to Rs. 2.82 billion and net profit margin declined to 11.9% in Q3 FY17 from 17.9% in Q3 FY16.

Let me share some of the highlights of the operations for the quarter. Our business in the US posted sales of Rs. 8.9 billion, down 17%. We launched five new products during the quarter in the US. We filed 30 additional ANDAs with the US FDA and received approval for one new product. We recently acquired Sentyln Therapeutics Incorporation, a US based specialty pharmaceutical company. With this acquisition, we have forayed into the specialty pain market in the US, gaining access to the specialty distribution network and a large prescriber base.

Our India formulations business posted sales of Rs. 8 billion, up 10.7%. Growth excluding the impact of price reduction on NLEM products and the discontinued fixed-dosage combination drugs was 14.1%. We launched 15 new products including line extensions in India, of which five were for the first time in India. We acquired trademarks and associated rights for six products in India from MSD and its subsidiaries to strengthen our presence in the men's health, women's health, wound management and cardiovascular therapy areas. We also acquired trademarks and associated rights for select products in India from AstraZeneca to strengthen our presence in the anesthesia, gynecology and anti-infective therapy areas.

Our Latin American formulations business posted sales of Rs. 659 million, up 21%. In Brazil, we filed two more dossiers and received approval for one more product from ANVISA. We



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launched one new product in Brazil during the quarter. In Mexico, we filed one more dossier with COFEPRIS during the quarter.

Our emerging markets formulation business posted sales of Rs. 1,139 million, up 21%. Our animal health business posted sales of Rs. 1.1 bn., up 45%. Growth excluding Zoetis portfolio was 11%. Zydus Wellness Limited posted sales of Rs. 1.1 billion and a net profit of Rs. 252 million.

On the vaccines front, we received marketing authorizations from the DCGI for three more vaccines. On the manufacturing front, our Sikkim formulations facility successfully completed the WHO-GMP audit. Our topical formulations facility received the Silver Certificate from Frost & Sullivan at the India Manufacturing Excellence Awards.

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

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the question-and-answer session. First question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Sir, just trying to understand the Q-on-Q run rate in the US. So from 9.8 billion, we are now 8.9 billion, which is down 10%. So if you could explain what are the key reasons for that and would that explain the fall in gross margin and EBITDA margins?

Pankaj Patel: So one of the reasons, last year, we had a full HCQ sale in this quarter and this time we have a very miniscule sale of HCQ in terms of value. So that is a major impact. And apart from that, overall price erosion which has happened during the year also had an effect. So all these put together had an impact on the number as far as, when you look at Q-on-Q number. Some of that of course was taken care because we also launched the AG of Asacol, that has to some extent helped us to bridge the gap, but we had huge sale of HCQ during every quarter, which has become almost 10% of original sales. And I think that's where the major gap has occurred. And of course, as a result, the margin also has impact on that.

Prakash Agarwal: So you said Q-on-Q, there has been a significant fall in the HCQS sale. Is that right, what I heard?

Pankaj Patel: Not Q-on-Q. I am comparing with the last year same quarter.

Prakash Agarwal: Okay. No sir, I was asking on the Q-on-Q also, there is a big fall from Rs. 9.8 billion to 8.9 billion. So there is a big fall. Is it due to...?

Pankaj Patel: There is an impact of bupropion sale being stopped there. So there is also impact of that also in this, and of course there is also a price erosion on Tamsulosin.



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- Prakash Agarwal:** And that price erosion on base would be what? Around 7% - 8% or more than that?
- Pankaj Patel:** I don't have the exact number, but it's double-digit. That's what I understand.
- Prakash Agarwal:** It's double-digit. Okay. And sir, second question is on the acquisitions. So if you could broadly give some light in terms of building model for Sentyln acquisition in the US, so is it about \$50 million top line? And if you could also help us what is this amount we have paid so that we can accordingly adjust the balance sheet.
- Pankaj Patel:** So I think first, the sale is about 58 million, not 50 million. We are not disclosing any acquisition numbers for any acquisition we have done up till now. So unfortunately, I will not be able to give you that information. The model is basically we have a pipeline of product, which will be coming in next 12 to 18 months in the pain area, which would basically be a follow-up product on this product and for current product also there are some additional new products being planned. So we expect to launch newer products in 18 months' time in this company. Currently this product has not fully exploited the market potential. So we believe there is also an important opportunity to do that. The EBITDA margin will be definitely better, much better than what currently we have or we had historically also because this being kind of a specialty product. It also gives us opportunity to get into specialty distribution capability and which would help us to actually launch lot many products in future as well from our pipeline. Of course, the margins, as I mentioned to you, EBITDA margins are good and also we will be able to use the Neshor manufacturing and development capability there additionally. So that's what broadly I can explain to you as a model, but this basically takes us into a specialty market segment.
- Moderator:** Thank you. Next question is from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.
- Anubhav Aggarwal:** Sir, just one question on the quarter is, if I look at Asacol sales for us, the generic Asacol sales, we started selling this in the September quarter. Would you say that in the September quarter did we put in a lot more inventory than we had in the December quarter sales for Asacol? I am just trying to understand that the 10% - 11% decline that we have seen versus September quarter, is that due to Asacol or is that large part of decline in the base business?
- Pankaj Patel:** No, large part of the decline has come from base business, not from the Asacol inventory, which was sold in the last month of the September quarter.
- Anubhav Aggarwal:** Because then see, total is 11%. If we exclude that, then the base business would have declined 15% plus.
- Pankaj Patel:** Correct. That's what I think we have been telling that there is a huge price erosion impact in the US, and in fact earlier also said there is a kind of a 15% price erosion happened in the US



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market. In the last quarter also, we have mentioned that there is a price erosion. Now the price erosion going forward has declined, but already the damage has occurred in the past.

Anubhav Aggarwal: And sir, these acquisitions, you have done two in India, trademark acquisition and Sentyln, when will you start including this in quarter results? Will you include this from March, remaining quarter?

Pankaj Patel: Sentyln and other acquisition, all sale will be started accruing this quarter, the quarter one. Quarter four, of course, Q1 calendar.

Anubhav Aggarwal: And can you also give some idea, you gave sales for Sentyln. Can you also give a combined sales from what you acquired from AstraZeneca and Merck products?

Pankaj Patel: I think Vishal, can you give that number, exact number, because I don't want to just do it, but it's close to about 100 crores in total, but we will give you exact number.

Anubhav Aggarwal: Sure. And just let me ask another question. Then just on the acquisition, Sentyln acquisition, you mentioned that Sentyln did not have any product pipeline. They just had two products, right, which we have acquired? So pardon me but my understanding from the website I have gone through, it just look like Sentyln had very small field force. When we talk about that we acquired a platform, it just looks like 25 – 30 people field force, coming with two products with the company, they started just two years back, less than two years, so it did look like a product. So when you mentioned that, Cadila already had a pipeline of products, which you want to launch through Sentyln platform, can you give some more idea about it? Is it your pipeline?

Pankaj Patel: So I think, please let me explain you. Sentyln has a pipeline, but it's not disclosed on website. So that's the first point. And second is that we already have some products under development which we will see opportunity to launch through this platform, which is in the pain area in Cadila pipeline.

Anubhav Aggarwal: Okay. And sir, can you give some idea about Sentyln pipeline? Is it like late-stage pipeline, early-stage pipeline? What have we acquired?

Pankaj Patel: It's a kind of a pipeline which is more creative, I would say, and it's in late stage. So approval will be quite fast.

Anubhav Aggarwal: So can we assume it will be Phase 3 kind of pipeline then?

Pankaj Patel: Yes. I would not say phase because it's a different route of approval, but it will go on the market in 18 months' time.



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

Kunal Mehta: Sir firstly, I just wanted to understand what was the revenue recorded for Asacol, the authorized generic in this quarter?

Pankaj Patel: So we do not give product wise sales for the quarter, but I think IMS has already given number. So we are closer to that number.

Kunal Mehta: Okay. And I just wanted to understand the gross and EBITDA margin structure for this product. So is it the same as our base business or it is somewhat lower, and if lower, how much?

Pankaj Patel: It is lower. Again, we are not allowed to disclose under our agreement, the numbers.

Kunal Mehta: Right. And sir, so just wanted to understand, for this Asacol generic, the authorized generic, do we expect any other competition from a generic player or probably or some other tie-up with the innovator, the same which we have?

Pankaj Patel: At this moment, we are not expecting anything.

Kunal Mehta: Okay. Just one last question. Sir, suppose, our facilities are re-inspected and we get a green sheet, so I just wanted to understand what is the roadmap which we now have in our mind for the products?

Pankaj Patel: So point number one is now we have almost 200 products pending approval. As soon as Moraiya gets clear, we would have a number of approvals coming up and we are all geared up to launch those products. Of course, the first step would be the Moraiya getting clear. We are waiting for outcome of the inspection, which is going to happen soon and then we will be able to exactly give you timelines also.

Moderator: Thank you. We take the next question from the line of Neha Manpuria from JPMorgan. Please go ahead.

Neha Manpuria: Sir, did I hear correct that you had 30 new filings in the quarter?

Pankaj Patel: Yes.

Neha Manpuria: So, given our strong filing, and since most of this is falling under the new GDUFA, what is the number of approvals that we are expecting for FY18 when we are looking at the US business? And how much of that would actually be dependent on the approval of Moraiya?



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- Pankaj Patel:** So, if we take without Moraiya, then the approval could be approximately 20 products. If Moraiya gets approved, the number can be much larger.
- Neha Manpuria:** Okay. So even without Moraiya, we can expect 20?
- Pankaj Patel:** 20 approvals.
- Neha Manpuria:** Okay. And sir, these 30 new filings, could you give us a little bit of color in terms of which complex category are they in or all of these more plain vanilla? How much of that is oral solids versus injectable or other?
- Pankaj Patel:** Briefly I can tell you that there are six first-to-file, there are one transdermal, one injectable, one ointment and cream and one suppository. And most of them are modified release products.
- Neha Manpuria:** Okay. And sir, my last question on the CAPEX amount sir. A very sharp jump in the quarter, I mean, for the last two quarters we have been seeing a very sharp increase quarter-on-quarter. Any color there, sir, what are the key areas that we are spending the amount on?
- Pankaj Patel:** So, you know our SEZ facility, which is now coming on stream and then of course the investment has happened because SEZ facility is almost getting ready and that's why there is an investment. Apart from that, there is an investment in our new injectable facility, which is commissioned, and also our Sikkim Phase II facility and this also includes the money we spent on M&A.
- Neha Manpuria:** Okay. This includes the M&A amount what we have spent, but this obviously will not include the Sentyln acquisition amount because that was in January.
- Pankaj Patel:** That we will occur in the next quarter.
- Neha Manpuria:** Okay. And how much are we guiding to sir? Initially, the number was much lower than what we are now on a run rate basis. So what should be the CAPEX including acquisitions for the full year then?
- Pankaj Patel:** So again, CAPEX will be roughly 1,000 crore, but then M&A is going to be on top of it.
- Moderator:** Thank you. And next question is from the line of Surya Patra from PhillipCapital. Please go ahead.
- Surya Patra:** Sir, just wanted to check, the Sentyln Therapeutic acquisition, whether it is entirely on the controlled substances area and even the future product launches what we are indicating, all those would be in the controlled substances space.



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Pankaj Patel: So, currently, it is under controlled substances. Future products will be both in controlled and non-controlled space.

Surya Patra: Okay. And obviously you have indicated what is the kind of specialty strength that we have gained out of the acquisition. So what is our outlook here on for the specialty business in US, sir?

Pankaj Patel: So basically this gives us a platform to build our specialty business and we believe that over a period of next three years, almost 30% of our business should come out of specialty business.

Surya Patra: Okay. So that means any product pipeline that we have created and filed or anything or out of the filings, certain number of product is already in the specialty business and which all therapies that we would be...?

Pankaj Patel: So, we are going to focus initially only on pain area. That's the area we are going to focus as far as Sentyln is concerned and we have a few products in the pipeline.

Surya Patra: Okay. That's already been filed?

Pankaj Patel: Not filed yet. We are going to file now.

Surya Patra: Okay. And is it possible the way you have indicated for the quarterly, the filing mix, similarly, for the entire pending pipeline, what is the mix in terms of injectables?

Pankaj Patel: Vishal can provide this information.

Surya Patra: Okay. And just wanted to clarify one thing. Whether you have a filing for Gleevec and Xeloda for this year, sir? Do you expect that there is an opportunity?

Pankaj Patel: All are opportunities. I cannot give you product specific information. I am sorry.

Surya Patra: Okay. And just wanted to check whether you have filed already as a Para-III product opportunity for Gleevec and Xeloda if not as an approval opportunity.

Pankaj Patel: We would not like to comment on that because we don't talk about specific product, please.

Surya Patra: Okay. Just the recent approval, what you have got, that methotrexate tablet opportunity, how big is that?

Pankaj Patel: So it has a good size, market size is about \$200 million, and limited competition. So, it's a good opportunity.



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- Surya Patra:** So this could be a kind of important opportunity for current financial year.
- Pankaj Patel:** Yes. I think.
- Surya Patra:** Just last question, one question. Sir, HCQS, we see there is a kind of a 30% quarter-on-quarter price rise, so whether you have really realized the same?
- Pankaj Patel:** There is no price rise, sorry. I don't know from where do you pick up this. There is no price rise.
- Moderator:** Thank you. We take the next question from Aditya Gupta from Narnolia Securities. Please go ahead.
- Aditya Gupta:** Sir, is there any reason for decline in EBITDA margin in this quarter?
- Pankaj Patel:** It's basically price erosion and product mix change.
- Aditya Gupta:** And my second question. Sir, how many new filings of ANDA in the last quarter of FY17?
- Pankaj Patel:** We gave you the number, 30. Thank you.
- Moderator:** Thank you. Next question is from the line of Ayan Deb from Nomura. Please go ahead.
- Ayan Deb:** Sir, this acquisition of brands that we have done from MSD and AstraZeneca, so will there be any amortization for this acquisition? And what will be the schedule of this amortization?
- Pankaj Patel:** Vishal will give you this information, exact information, Ayan.
- Ayan Deb:** Okay, sir. And sir, one more thing. So in the beginning of the year, we were expecting 15 odd approvals. I think so far we have got seven to eight. So a bit, for overall, are we still expecting seven odd approvals in the next few months? Or has that...?
- Pankaj Patel:** Yes. We are still expecting approvals in the next quarter. I think as of today we already have -6 approvals.
- Ayan Deb:** So next quarter we are expecting nine odd approvals, is it?
- Pankaj Patel:** Yes, we are expecting approvals. Exact number, I am unable to give you because I don't have in front of me, but still we believe that we would be touching the 15 number.
- Ayan Deb:** Okay, sir. And sir, final question from my end. I think we were looking at a few decent opportunities like \$30 million to \$50 million revenue opportunities and one was from Nesher



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and one was a transdermal opportunity, I think, Exelon Patch from Zydus Technologies. So are we on track and do we have clarity? Are we getting that in the final quarter, fourth quarter?

Pankaj Patel: Yes.

Moderator: Thank you. Next question is from the line of Ashish Thakur from Motilal Oswal Asset Management. Please go ahead.

Ashish Thakur: Yes. Thanks for the opportunity. Sir, after a long time, we have seen the India business clocking around 11% growth. So now with this AstraZeneca and MSD brands coming in our portfolio, would you like to give any strategy on the India part, what growth can be...?

Pankaj Patel: We believe that we should be able to grow much better than market now because A, our market itself is looking better and also we are seeing additional sale coming out of acquisitions.

Ashish Thakur: So one would say we are now at the inflection point...

Pankaj Patel: Of course, acquisitions will not have a huge impact because our size is big, but it will still have a good impact.

Ashish Thakur: But now we are safely into that double-digit kind of territory.

Pankaj Patel: Yes. For sure.

Ashish Thakur: Okay. Sir, second question would be on this Moraiya facility. It's been pretty long and we are aware that we have invited FDA for a re-inspection, but still what is taking so long for FDA to come, because we have some interesting opportunities...?

Pankaj Patel: I am sure you must be aware that our inspection is starting on next Monday.

Ashish Thakur: So sir, the question adjacent to this thing would be, suppose if you go ahead, you successfully happen to clear the Moraiya inspection, there are a few products like, one important product being Lialda, where we have a favorable litigation. You feel, since we have a favorable litigation on our side, the approval might come through? Is there a possibility?

Pankaj Patel: Yes. There's a possibility.

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

Girish Bakhru: Sorry, just one question again on Sentyln. You said the Abstral, which is a product that has not fully exploited the market and what could be the possible expectation from that product?



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Pankaj Patel: That has a very good potential. We would see this business, this brand to grow very rapidly. It's very new for me to give you exact number, but it will be very good number, maybe (+25%).

Girish Bakhr: You mean \$25 million plus. Is that the number you had?

Pankaj Patel: No, no. Growth will be (+25%).

Girish Bakhr: Okay. And Pankaj bhai, just on the IPR of the product, I think there is a Para IV and probably patents expiring somewhere in 2019. So do you think there is a potential the generic can come by that time?

Pankaj Patel: We have some strategies. So we don't expect generic competition. However, I cannot disclose my strategy.

Girish Bakhr: Okay. And just on bupropion, any chance to re-enter the market? What was the reason for the exit?

Pankaj Patel: Yes. After the warning letter, our tolerance has become so low that we are not allowing any product to go if we have seen any defect in manufacturing process and that's why we have suspended the production. So we would expect that to start. However, I cannot give you specific timeline for that, but we believe that pretty soon we should be able to restart.

Moderator: Thank you. Next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Pankaj bhai, just on the US sequential drop of about 90 crores or 100 crores, would you say that this is largely explained by just two products, bupropion and Tamsulosin?

Pankaj Patel: Bupropion and Tamsulosin and HCQ.

Sameer Baisiwala: We are looking at sequential sir, Q2 to Q3.

Pankaj Patel: Sequentially if you look at, then it is bupropion and Tamsulosin.

Sameer Baisiwala: Okay. So these are two products which would largely explain the drop?

Pankaj Patel: Yes.

Sameer Baisiwala: No, I asked this question sir because otherwise we are getting the impression as so the whole base business has come off 15%. So it's across dozens of products which have all been, price has been taken down 15%. So just wondering which of the two is true.



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- Pankaj Patel:** These are the two mainly.
- Sameer Baisiwala:** Okay. And sir, the second question is, back on Moraiya facility, how much of this, of the current business has been de-risked? I thought earlier out of 350, you were probably saying about \$200 million odd has been sort of de-risked. So where do we stand now?
- Pankaj Patel:** Sameer, I can give you the number. I just don't have exact number in front me in terms of dollars, but I think Vishal will be happy to provide you the de-risking number. However, we have inspection next week and we should be able to tell you in 10 days' time that we had a successful inspection. We are hoping that.
- Sameer Baisiwala:** Yes, absolutely and good luck for that, sir. And just on this Moraiya once again, for the unapproved products, some of them, Prevacid, Metoprolol, etc., have we gone ahead and done the site switch filing yet?
- Pankaj Patel:** No, we haven't done site switch filing and now of course, we have reached closer to Moraiya closure as well. So maybe both the sites will be helpful.
- Sameer Baisiwala:** Okay, sir. And just one final question. So, your ANDA filing, YTD nine months, that totals up to now 40 right now, is it?
- Pankaj Patel:** Yes, 39. Exact number is 39, I think. No, 42. Sorry, 42. This quarter we filed 30.
- Moderator:** Thank you. Next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.
- Nimish Mehta:** Couple of questions, sir. The other expenses has also dropped sequentially quite a bit. Any particular reason or is it one-off or how should we look at it?
- Pankaj Patel:** So Nimish bhai, one thing you understand, when your margin is under pressure, you try to control expenditures. So I think that's the main reason. We have been controlling expenditure to make sure that the margin impact doesn't impact us too much in the bottom line.
- Nimish Mehta:** So will this continue? I mean, so then how should I look at it if this continues and margin will remain under pressure or how should I look at it?
- Pankaj Patel:** Well, expenditure margin, we cannot change overnight, know? So margin will remain under pressure for the next quarter for sure. Once we have new product approvals and launch, the margin will start improving.
- Nimish Mehta:** And other expenses also will go up?



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Pankaj Patel: Other expenses will also go up, yes. Some of them will go up. Some of them, which we can defer, we will defer.

Nimish Mehta: Understood, okay. The other question is actually on the India business and it has picked up quite healthily. Wanted to understand three things here. One, what was the impact of demonetization? I mean, did we have at all? Second, how do you see, Pankaj bhai, the impact of this Jan Aushadhi Stores, which I guess is being promoted very aggressively by the Prime Minister? And third, what is the outlook on the first-to-market launches? You mentioned that you had five product launches this quarter. So it will be great to know how many you are targeting for the year, I mean, for the next year.

Pankaj Patel: I think there are many questions. So I will answer one by one and if I miss out, please remind me. One is, I think demonetization did -have an impact on the sale number and I believe that for the first 15 days, our growth might have come down by about 7% - 8% because of that. So quarter impact could be something like 2% to 3%. And we don't see that continuing now. The Jan Aushadhi Store is something which government has done it and we welcome that because those who want to have medicine at a very, very low price without mark of quality, that's available. We would not see much impact of that because Jan Aushadhi Store has been there for many years now in different markets and different places. Wherever Jan Aushadhi Stores have been launched in past, we have not seen any impact. So we believe that there wouldn't be impact. See, what really happens then, I think we need to understand. Our country has major problem of compliance. Though prescriptions are there, medicines are prescribed, people are unable to take medicine because of the cost. They don't have the money. So this will only improve the compliance. So we do not see much impact of that on our business. This is my estimate. Again, time will tell whether what I am saying is right or wrong.

Nimish Mehta: Right, okay. So Jan Aushadhi, as far as I understand, and correct me, that will not be sourced from private players, right, like ourselves?

Pankaj Patel: I don't know what government comes out with.. Currently they are not sourcing from private players.

Nimish Mehta: Okay. And the last one on the first-to-market launches, that will be helpful. Just an outlook on that and in which therapeutic areas, that will be very helpful.

Pankaj Patel: No, that basically happens into India market.

Nimish Mehta: Yes. I am talking about India market.

Pankaj Patel: So it's in different therapeutic areas. So we basically have a wide range of therapeutic areas and exactly I will not able to tell you, Nimish bhai, which area first-to-market opportunity we



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are looking at, but we have several first-to-market products in pipeline, but Vishal can give you some more information on that.

Moderator: Thank you. Next question is from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.

Anubhav Aggarwal: Yes. Pankaj bhai, one question on Sentyln acquisition. Out of the two products, one product levorphanol for them. Just wanted to understand what is the entry barrier for other generics to come in like once Sentyln relaunched this in about 2015, the product size had become very large. It could become interesting for the generics to come in. In your due diligence or your expectation, when will other generic competition come or let's say, you don't expect them to come in next five year or something because there are some entry barriers?

Pankaj Patel: There are some entry barriers and we don't expect generic competition to come in.

Anubhav Aggarwal: What is the entry barrier? Is it like formulation, API? What's the entry barrier here?

Pankaj Patel: It's basically formulation and API, both.

Anubhav Aggarwal: Okay. In terms of the formulation complexity...?

Pankaj Patel: I cannot give you more color to this, but it's difficult. And we have some strategies for that.

Anubhav Aggarwal: And sir, in terms of R&D spend for Cadila, we typically see in quarter three in absolute number, the amount is much higher than what we do in any other quarter. In December quarter, is there something peculiar that for last three years we have seen this quarter run rate is the highest?

Pankaj Patel: One of the reason is you know we filed 50 dossiers this quarter.

Anubhav Aggarwal: No, but I was saying in FY15 and FY16 as well, third quarter was significantly higher than any other.

Pankaj Patel: No, because this is the quarter where we will see largest number of filing happening in our company, because our internal budget is calendar year. This is the last quarter of the calendar year. So you will always see the highest number of filings happening in this quarter.

Anubhav Aggarwal: One question on the transdermal. Including this quarter filing, now we have filed six of them. I think I remember initially our aim was to file seven. So once we file one more, then we will be done with transdermal filings?



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- Pankaj Patel:** Yes, then we are basically looking at other opportunity in transdermal. It might be more in specialty area.
- Anubhav Aggarwal:** And have we filed Lidocaine as yet? And has that been accepted by FDA?
- Pankaj Patel:** No, Lidocaine is still to be filed.
- Moderator:** Thank you. Next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.
- Prakash Agarwal:** Sir, question on CAPEX, just clarification. So first half was 700 crores and nine months is showing 1,600 plus.
- Pankaj Patel:** This is including M&A.
- Prakash Agarwal:** So M&A, what all is included sir, in this?
- Management:** All the trademarks, the other rights like brands that we would have purchased.
- Prakash Agarwal:** So only India related, right?
- Pankaj Patel:** Yes. India related.
- Prakash Agarwal:** And US is yet to come in, in the coming quarter?
- Pankaj Patel:** In the coming quarter, yes.
- Prakash Agarwal:** So what is our debt and cash positions, sir?
- Management:** September debt is about 3,250 crores.
- Prakash Agarwal:** Sir, December?
- Management:** Yes. It's the consolidated debt I am saying and the net debt is 2,470 crores.
- Prakash Agarwal:** Sorry sir. Can you repeat the two numbers again, sir? I got confused.
- Management:** Gross is 3,250 crores.
- Prakash Agarwal:** Three Two Five Zero.
- Management:** Yes. And net is 2,470. Net debt-equity comes to 0.37.



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- Prakash Agarwal:** 0.37, perfect. That is very helpful. Thank you for this. And sir, Pankaj bhai made a comment on in next three, four years, we expect specialty to be about 30% of the US sales. So we are about \$500 million to \$600 million. And if we assume that 10%, 15% growth, so will be about \$700 million - \$800 million. So 30% is about \$240 million. So can these brands go that big or the pipe that we are working on is very big? So if you could just give us broad highlights?
- Pankaj Patel:** So both. This brand has a potential, but also there is an opportunity to grow other products which we have in pipeline.
- Prakash Agarwal:** So these would be extensions or new product in its own?
- Pankaj Patel:** Both extension and new products.
- Prakash Agarwal:** So that could be upwards of \$200 million, \$300 million is what...?
- Pankaj Patel:** Yes. So exact numbers, I cannot give you, but I am saying that we are aiming at 30% of the US business coming out of specialty.
- Prakash Agarwal:** In three years' time?
- Pankaj Patel:** Yes.
- Moderator:** Thank you. Next question is from the line of Kunal Mehta from Vallum Capital. Please go ahead.
- Kunal Mehta:** Yes, sir. Thank you for taking my question again. Sir, please correct me if I am wrong when I say that this year, price erosion in two of our products, HCQS and Tamsulosin, double-digit erosion is behind us. Is it right?
- Pankaj Patel:** Yes, but till the next quarter, we will still have the impact and thereafter it is over.
- Kunal Mehta:** Right. So now we would expect at least the average 6% - 7% erosion, but not the double-digit erosion?
- Pankaj Patel:** Correct. The erosion started somewhere in first quarter of this financial year. So by end of the next quarter, it should be over.
- Moderator:** Thank you. Next question is from the line of Kartik Mehta from Deutsche Bank. Please go ahead.
- Kartik Mehta:** I just wanted to ask you, Pankaj bhai, in terms of EBITDA margin, would it be fair to assume that this quarter will be an absolute bottom in terms of EBITDA margin and assuming that we



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are able to launch products, how much increase would you estimate, just a ballpark number over the next two years?

Pankaj Patel: It is definitely a bottom, and I think it is going to only go up from here, but I think it will take maybe another two quarters or three quarters before we fall back to the high EBITDA margins. And obviously, gradually it will build up, but we definitely see that EBITDA margin going up next quarter onwards.

Kartik Mehta: And in terms of your ability to acquire assets outside India, now that you want to look at specialty with a very high focus, do you think there are some more gaps? I mean, do you think you would need to acquire some assets or would you think that you would be done for now and the recent acquisition, which we have done, you can expect maybe high double-digit easily in terms of your US business over the next two to three years?

Pankaj Patel: So we don't expect major acquisition to happen. We might have some bolt-on acquisition done some time, but not a major acquisition in this area happening.

Kartik Mehta: And on Lialda, is there any update that you can give in terms of FDA, in terms of query?

Pankaj Patel: So we are waiting for Moraiya approval.

Moderator: Thank you. Next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Pankaj bhai, in the past, we have seen material delays in getting product approvals for several ANDAs even before the Moraiya issue happened. What have we done to make sure that the kind of the quality of files or regulatory work that we do has improved? If you can give us some sense of what has happened over the last, say, two - three years within Cadila R&D department to make sure that incrementally files get approved in lesser number of reviews or iterations?

Pankaj Patel: So I think we have done significant things in terms of quality of dossier improvement. Certain actions have been taken to make sure that certain things are done upfront. Second thing, what we hear new from the FDA, we also do proactive work to make sure that, suppose a query comes to this particular area, we proactively keep data ready, so if there is a query, we are able to reply to that, and I think recently one of our product got approval only in 14 months. So we clearly see that and the other thing, good thing is that we don't get RTRs. We get acceptance from all our dossiers which we submit to FDA. So we do not get RTRs.

Chirag Dagli: So whatever your internal benchmark is, sir, within the R&D department, you see an improvement in the kind of regulatory.



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Pankaj Patel: Yes, significant improvement we see, definitely. We are waiting for the Moraiya approval, as I told you before. Once the Moraiya approval is there, we will have significant number of approvals.

Moderator: Thank you. Next question is from the line of Rahul Sharma from Karvy Stock Broking. Please go ahead.

Rahul Sharma: Sir, just was going through the acquisition of MSD brands, which we have done. It constitutes around 840 million in 2015 and you said around the entire acquisition for all of them is around 100 odd crore. So how much would be the other two, which would be there, sir? The major would be this and will it be reflected in this quarter numbers onwards?

Pankaj Patel: So, as far as MSD brands are concerned, will be reflected in this quarter. The AstraZeneca brand will be reflected only in the next quarter.

Rahul Sharma: Okay. So AstraZeneca, roughly what would be the numbers, sir?

Pankaj Patel: See, the AstraZeneca brands, if you look at IMS numbers, they are not showing much sale because they have not been able to continue supplying to the market for their own logistic problems. So as a result, you will not see. So we are going to basically re-launch those brands and we did not even come back to the market to say that because it was a small investment which we made in that area. So we will launch only in next quarter but it has a huge potential because at peak these brands also has had a huge sale, maybe more than Rs. 50 crores. So we would have opportunity to basically bring back those sales.

Rahul Sharma: Okay. And Sentyln, is there any upside from Sentyln which will come in, in this quarter?

Pankaj Patel: Yes. Sentyln sale will be reflected for roughly 50 days for this quarter.

Rahul Sharma: Okay. Any number is there? What is the existing revenues on that front?

Pankaj Patel: No, I cannot give you number, but it will be something close to about 70 days' sale will be reflected this quarter.

Rahul Sharma: Okay. And sir, the brand which you're talking about, which we are launching in US, is it this Methotrexate tablets which are there?

Pankaj Patel: No. That's a generic product.

Rahul Sharma: Okay. So this is a new product, which you have just mentioned, which has got a 200 million sale, you will be launching it shortly?



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- Pankaj Patel:** No. Sorry, I did not mention 200 million sale. What we discussed was that our goal is to, in three years, get 30% business coming out of specialty business. I only mentioned that Methotrexate has sale of 200 million currently in the US market, which we are launching, that's a generic. That's what I mentioned. I did not mention about brand.
- Moderator:** Thank you. We have a follow-up question from the line of Prakash Agarwal from Axis Capital. Please go ahead.
- Prakash Agarwal:** Just one more clarification. You spoke about 15%, around double-digit, about 15% price erosion in the base business, but if we remove, sir, this bupropion and Tamsulosin, what would be the erosion like?
- Pankaj Patel:** You're asking me a question for which I don't have an answer in front of me.
- Prakash Agarwal:** No, but very broadly, would it be still double-digit, sir?
- Pankaj Patel:** I don't have the number in front of me. So I don't want to guess on that. You can talk to Vishal subsequent to the call.
- Moderator:** Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand over the conference to Dr. Ganesh Nayak for his closing comments. Over to you, sir.
- Dr. Ganesh Nayak:** Thank you very much and look forward to interacting with you again at the end of the year and the last quarter in the month of April end or May. Thank you and good night.
- Moderator:** Thank you very much, sir. Ladies and gentlemen, on behalf of Cadila Healthcare Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.