



“The Cadila Healthcare Ltd Q2FY13 Earnings
Conference Call”

November 02, 2012



MODERATORS **MR. PANKAJ PATEL – CHAIRMAN AND MANAGING
DIRECTOR**
**DR. GANESH NAYAK – EXECUTIVE DIRECTOR, CADILA
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MR. NITIN PAREKH – CFO
MR. VISHAL GOR – GENERAL INVESTOR RELATIONS.



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Moderator

Ladies and gentlemen, good day and welcome to the Q2FY13 Earnings Conference Call of Cadila Healthcare Limited. We have with us today, Mr. Ganesh Nayak – Executive Director and Chief Operating Officer at Cadila Healthcare Limited. As a reminder, 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 call, please signal an operator by pressing * followed by '0' on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand over the conference to Ganesh Nayak, thank you and over to you sir.

Ganesh Nayak

Good afternoon and welcome to our post-result tele-conference for the second 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 Rs. 6,018 Mio., up by 28 %, backed by new products and acquisition of Biochem. (growth excl. Biochem : 18 %)

We launched over 15 new products, including line extensions, in India during the quarter, of which 5 were first in India.

- US business posted sales of Rs. 3,674 Mio., up by 20 %.

After the approval of Moraiya facility by US FDA in July, we received approvals for 10 ANDAs, incl. 5 for injectible products during the quarter.

We initiated commercial production and supply of 3 injectible products from Moraiya for US market (for our partner)

- We filed 3 additional ANDAs with US FDA, incl. 1 for injectible products.
- For Brazil, we filed 5 new product dossiers with regulatory authority ANVISA, and for Mexico, we filed 2 new product dossiers with regulatory authority COFEPRIS.



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- Europe business grew by 23 % and posted sales of Rs. 762 Mio., with launch of 7 products in France and 5 products in Spain.

We received approvals for 8 new product dossiers for European market.

- For Japan, we filed 4 new product dossiers and received approval for 4 new products from the regulatory authority.

- Exports to emerging markets grew by 76 % with sales of Rs. 754 Mio.

- Zydus Wellness Ltd. posted sales of Rs. 965 Mio., up by 10 %. Net Profit of Zydus Wellness Ltd. grew by 38 % to Rs. 236 Mio.

- Animal health business posted sales of Rs. 617 Mio., up by 20 %, backed by 3 new product launches in India, including 1 first in India.

- JVs posted a growth of 73 % and posted sales of Rs. 1,300 Mio.

- Zydus Hospira JV successfully completed USFDA inspection.

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 25 % y-y to 15.5 bn Rupees.
- Earnings before interest, depreciation and tax, excluding the impact of exchange rate fluctuations on operating transactions, was up by 14 % y-y to 2,930 Mio. Rupees.
- Profit before tax was up by 15 % to 1,533 Mio. Rupees.
- The Net profit stood at 951 Mio. Rupees showing a degrowth of 7 %. This was mainly because of higher tax provision.

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

- Moderator** Thank you sir. Participants we will now begin the question and answer session. We have the first question from the line of Manoj Garg of Edelweiss, please go ahead.
- Manoj Garg** My question is on gross margin. Sequentially we have seen around 160 bps kind of contraction on the gross margins. So is it largely attributed to Brazil or may be change in product mix in other geography also?
- Pankaj Patel** This is attributed to mainly the foreign exchange fluctuation impact and also the lower sale in Brazil because of ANVISA strike.
- Manoj Garg** Currency of our foreign exchange was largely more or less same in terms of, if I look at the average realizations, and I am taking out the impact of whatever the low which we have booked in terms of inventories readjustment or restatement, despite that there was around 250 to 260 bps kind of contraction in the margin on a sequential basis?
- Ganesh Nayak** We have shared the details of exchange rate fluctuations which has been booked in cost of goods in quarter 2 as well as in half 1. There was some reclassification in the exchange rate fluctuations numbers which we shared earlier in quarter 1. Now you need to look at the revised quarter 1 number and if you make this revised adjustments in the quarter 1 number and take cognizance of this exchange rate fluctuations and reduced sales of Brazil then actually quarter on quarter basis there is hardly any change in the gross margin.
- Manoj Garg** With regard to Hospira JV, though oral JV we have shown very good growth usually around 70 to 75%, but whether within JV has there been a change product mix like with regard to Hospira parse, which has relatively higher margins within among the JVs?
- Pankaj Patel** JV overall has done well during the quarter and that has happened all along so it is not only the Hospira JV. In case of Hospira JV, we had higher sales of docetaxel and in the process we also received a higher margin share.
- Manoj Garg** And for this kind of growth which we have seen around 70-75% kind of growth we have seen in JV, is attributed largely to Hospira or with regard to incremental supply in the US market?
- Pankaj Patel** Yes, it is attributed largely to Hospira, but also the Nycomed JV also continues to grow.



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- Moderator** We have the question from the line of Nimish Mehta from MP Advisors, please go ahead.
- Nimish Mehta** I wanted to know whether we have realized any margin improvement in our Biochem business or not, which was due anytime?
- Ganesh Nayak** Yes, we have our margin improvement compared to last year. We don't have the details exactly, but Vishal can talk to you later.
- Nimish Mehta** Is it significant enough to change the overall group margin and is it likely to improve further?
- Ganesh Nayak** Likely to improve further the margins because of the synergy effect we have already started realizing.
- Moderator** We have the question from the line of Aashish Rathi from Equirius, please go ahead.
- Ashish Rathi** I just wanted to understand on the tax rate, why have there been sudden increase to 32.2% on terms of PBT and could you also give us some understanding on the outlook going forward for the same?
- Ganesh Nayak** Tax rate basically has increased because of the imposition of AMT on the partnership firm so compared to last year that is the main increase.
- Ashish Rathi** As I understand we were at around 12-13% kind of tax rate in partnership structure, now this quarter has been substantially high at 32%, is it all due to that or is it also because some deferred tax?
- Pankaj Patel** No. There is 19% tax as AMT on partnership firm also and the large part of our domestic turnover comes from plant and therefore there is a impact.
- Ashish Rathi** For full year, what should we assume in terms of tax rate for the company?
- Ganesh Nayak** Annually we can assume about 25 to 27%.
- Ashish Rathi** 25 to 27% this is expected to normalize going forward. Just on the Hospira JV, have you added any new products?



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Ganesh Nayak No.

Ashish Rathi On constant currency growth in US, if you could me ?

Ganesh Nayak In constant currency in US the growth has been more or less flat.

Moderator We have the question from the line of H.R. Gala from Quest Investment Advisors, please go ahead.

H.R. Gala Can you throw some light on what is happening on the arrangement with a Bayer and Abbott?

Ganesh Nayak We are likely to start the commercial supply during the next quarter with Abbott.

H.R. Gala And Bayer?

Ganesh Nayak JV is already progressing as per the plans.

H.R. Gala So, the JV sales numbers which we are reporting would be inclusive of this, is it not?

Ganesh Nayak 50% of our share.

H.R. Gala Going ahead how do you see the outlook for the margin, which has declined mainly because of increase in material cost, which you explain is partly because of the FOREX impact and lower sales in Brazil?

Ganesh Nayak Brazil sales should normalize next quarter. Considering that ANVISA strike is over and things are getting to normalization now, so by next quarter the Brazil sales should be normalizing. Foreign exchange is very difficult subject for me to comment, so it all depends upon how the exchange rate fluctuates during this quarter and what is ultimately the 30% exchange rate and the reporting number.

H.R. Gala How much capital expenditure we have already said, but what will be the full year plan?

Ganesh Nayak We have already given guidance of Rs. 650 crores for the entire year.

H.R. Gala So, we are going to spend that much?

- Ganesh Nayak** Yes.
- Moderator** We have the question from the line of Aashish Uppanlawar from Spark Capital, please go ahead.
- Aashish Uppanlawar** What are your comments on the performance of all the four brands Zydus Wellness, how they are faring now in the market place? Any pickup that you would have seen because the numbers on top line seems to be 10%, which is lower that what historically it has been? Wanted your comments on performance of the four brands Zydus Wellness, any pickup there that you have seen after what we saw in the last year?
- Ganesh Nayak** During the quarter we have seen Sugar Free and Everyuth accelerating their growth pace and we saw the improvement in growth and the growth is already touching the double-digit number now. There was a stagnant sale on Nutrilite and that is the reason why we see a single-digit growth of 9.8% in the numbers, but we believe that Nutrilite also should pickup, growth pace should come up.
- Aashish Uppanlawar** Would you say that may be in a year's time things should normalize and we should return to maybe 15% plus kind of growth rates and any news that you can share and what we are doing to achieve any such numbers on the top line growth?
- Ganesh Nayak** You will see significant jump in growth.
- Aashish Uppanlawar** Any specific reasons?
- Ganesh Nayak** There are two reasons for growth going up. Lot of action on the marketing side are yielding results and we seeing the growth improving. Second thing, last year this quarter our sales was negatively grown. On that negative growth we are going to show better growth, so considering all that we expect good growth this quarter and hereafter maintain growth better than 15% for sure.
- Aashish Uppanlawar** Comparing on a like to like basis last year your A&P was lower, so is it not advertising in a scenario where top line is under pressure A&P would have been pushed up, just I am not getting reasons why the sales should bounce back not to say that only A&P will help it, but otherwise reading the P&L?



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- Ganesh Nayak** You see that is function of timing also. You have some products which you don't advertise in the monsoon period, so obviously you might have lower sales, lower spending of A&P and certain time of the year we might spend more, so there is kind of a continuous thing, but we are currently basically following the budget and we are going to spend better than last year.
- Aashish Uppanlawar** So the A&P increase should it be 10-15% at least higher than last year going by your budgets?
- Ganesh Nayak** I don't have exact number with me, but it will be more than last year.
- Aashish Uppanlawar** Anything to share on ActiLife because it has been sometime after its launch, so how is it faring?
- Pankaj Patel** ActiLife has consolidated now. In the market place, we have got a constant sale and we are currently focused lot on the merchandising activity and availability.
- Aashish Uppanlawar** Lastly on the tax rate, it was pretty low this quarter for Zydus Wellness, so is this quarter an aberration under annual number would be higher than this basically?
- Ganesh Nayak** Quarter on quarter because it also depends upon the proportion of Nutrilite to total business and as Mr. Pankaj Patel just shared us Nutrilite had lower share in this quarter, so annualized guidance which we are giving is about 22% tax rate.
- Aashish Uppanlawar** Is it 24%?
- Ganesh Nayak** 22%.
- Moderator** We have the question from the line of **Bhavin Shah** from Dolat Capital, please go ahead.
- Bhavin Shah** Just a few things, domestic market excluding the Biochem acquisition has been now trailing 17% growth, what are the challenges that you fore see in the second half and the year next to keep this momentum going?
- Pankaj Patel** The challenge continues to be around basically improving on the effectiveness of the sales forces and managing the new product launches.



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- Bhavin Shah** Do you think that you are at the growth peak or is there is some more room to catch up in the next second half or in the years to come?
- Pankaj Patel** Yes, we are not in the growth peak, we can still increase the growth further given the fact that we have done lot of activities and lot of action in the Indian market and now we are seeing the results of that.
- Bhavin Shah** But this regulatory framework and all that would not derail any.....
- Pankaj Patel** Well regulatory framework wherever it happen we will know what exactly is going to be impact and you can revise the number there. Today, it is very difficult to comment exactly what is going to be new regulatory framework. With respect to product approvals and things are getting little bit normalized, so I don't think we should see much challenge in getting new product approvals going forward with respect to pricing, it is all open subject, we don't know what exactly is going to come out.
- Bhavin Shah** On productivity volumes and other things being same, you think growth can further increase from year on if not come down?
- Pankaj Patel** Yes.
- Bhavin Shah** Perfect and Nesher how is that performing for the quarter? What would be the sales?
- Pankaj Patel** It is performing as per our internal targets and we are on track to launch one additional product during this quarter.
- Bhavin Shah** In terms of new launches in injectables and all of that when do we see that forthcoming?
- Pankaj Patel** It is going to happen in this quarter onwards.
- Bhavin Shah** How many products do you see, 2-3?
- Pankaj Patel** This quarter we would launch about 3 products.
- Bhavin Shah** That would be injectables purely?



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- Pankaj Patel** Injectables, we actually already supplied last quarter. This quarter we are going to supply some oral solids.
- Moderator** We have the question from the line of Anubhav Agarwal from Credit Suisse, please go ahead.
- Anubhav Agarwal** Just follow from the last question, the injectable that you supplied last quarter is that already part of the JV sales?
- Ganesh Nayak** No, it is not part of our JV sales. I don't get your question?
- Anubhav Agarwal** Just on the last question, you mentioned that you have supplied some injectables last quarter, is that already part of the sales that you reported in this quarter?
- Ganesh Nayak** No, it is reported as part of other exports, it is clubbed along with emerging markets and others, because it is not our own sales.
- Anubhav Agarwal** Just on the FOREX, just one clarity, when you book sales let us say the US sales that you book it, what will be the average dollar rate that you will at? Will it be around 55 average for the quarter?
- Ganesh Nayak** Yes, little less than that.
- Anubhav Agarwal** In the COGS line, almost a 64 crores of FOREX loss, so is basically the hedges are around less than 50, so correspondingly you are reporting a loss there?
- Pankaj Patel** Yes, during the quarter we settled around \$61 million worth of forward contracts, so that very much takes care of almost entire US sales. So effectively we realized less than 50 net.
- Anubhav Agarwal** What will be your hedge position right now?
- Ganesh Nayak** Only \$19 million worth of followed contracts are outstanding now.
- Anubhav Agarwal** At what rate? Around 50?
- Ganesh Nayak** Around 50.

- Anubhav Agarwal** Just one clarification on the Biochem business, when we acquired it, it was annualized sales of 260 crores and based on the number that you have provided, Biochem just state less than 50 crores this quarter; one based on first half, how is this seasonality at Biochem, is second half much, much stronger than first half or let us say right now once you acquired it, what is the run rate which Biochem is enjoying right now?
- Pankaj Patel** I think while calculating the differential amount of Biochem, there are certain other adjustment which are required to be done, so that I can explain to you later because it will require some more time, suffice to say that excluding Biochem the total growth was 18% in India formulations business.
- Anubhav Agarwal** Just one clarification on your tax rate as well. Somehow I had the impression that earlier after the budget when the tax was imposed in the partnership structure, you guided for a 22-23% tax rate, guidance which you have increased to 25-27%, in fact first quarter tax rate was 25%, what is the change or let us say I had a wrong impression that you had given a guidance of 22-23% on the tax rate?
- Pankaj Patel** As a guidance we say composite rate for all the entities at a consolidate levels, depending on how the mix of different entities come out in terms of profitability, that changes the rate.
- Anubhav Agarwal** For example, in terms of mix, my assumption will be in your mix, today US will be at a higher tax jurisdiction and that sales doesn't seem to be going up, so what a change significant in this quarter that the tax rate 32%?
- Ganesh Nayak** Brazil had a degrowth because of ANVISA strike that has impacted the property in Brazil, so in a particular year depending on which are the entities contributing to profit in what proportion and depending on the tax rate in respective country is the weighted average tax rate changes.
- Anubhav Agarwal** Just one last clarification on the tax rate, if I were to just split up just as an idea, what will be your tax rate just on India business? Will it be like substantially lower than that 25-27% average or will it be more?
- Ganesh Nayak** For standalone entity, it would be less, closer to MAT rate. With the other entities in India also which are having maximum fix rate like Zydus animal there other subsidiary like Liva, it changes depending on the proportion.



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- Moderator** We have the question from the line of Bino Pathiparampil from IIFL, please go ahead.
- Bino Pathiparampil** Just following up the last question, you know it should be great if you could actually given the call the adjustments regarding the Biochem because it is something important from our future projections perspective?
- Ganesh Nayak** I will explain it to you. Basically what happens Cadila Healthcare Limited supplies certain goods to other entities also, so adjustments related to those transactions have been taken into consideration while working out of pure India formulations growth.
- Moderator** We have the question from the line of Karthik Mehta from ICICI Securities, please go ahead.
- Karthik Mehta** In terms of R&D incurred in this quarter, is there any particular reason for it being so high?
- Ganesh Nayak** I think the main reason for increase the R&D cost is development for certain new market like Mexico, which have picked up and also development of certain complex products for regulatory markets.
- Karthik Mehta** What would be the normalized R&D as a percentage of sales that one should be looking at?
- Ganesh Nayak** 6 to 7%.
- Karthik Mehta** On the gross margin, if I may ask again, so we actually started sales from the US plant where in which we were able to clear the USFDA issue now in the future we will have Abbott sales, we would have incurred some expenses as well, what do you see the overall projection for the gross margin and also for the EBITDA margin because with fair amount of contracts also, have been expired we hardly have any outstanding hedges remaining, so how do you see the improvement in the gross margin from year on?
- Pankaj Patel** As we explained the large part of reduction in GC percent which you have seen in this quarter is due to cost effect due to FOREX only and some impact due to lower sales in Brazil which also has high GC products, so that being taken care of, definitely GC percentage should improve and that should also correspondingly affect positively on EBITDA margin.

- Karthik Mehta** In terms of the sales arrangement with Abbott, can you throw some light in terms of the product or in terms of the quantum, how do we build that now that we are actually very near to launch it?
- Ganesh Nayak** Repeat the question.
- Karthik Mehta** In terms of our agreement with Abbott, now that we are very close to launch?
- Ganesh Nayak** We do not have final numbers, so it will be difficult for us to give any guidance.
- Karthik Mehta** Any outlook on the French business in terms of new launches etc.,
- Ganesh Nayak** Yes, in Europe, France and Spain we have about 8 new products which we would be launching in this quarter of October to December.
- Moderator** We have the question from the line of Sudarshan Padmanabhan from HDFC Securities, please go ahead.
- Sudarshan Padmanabhan** Just wanted a bit more clarity on the domestic business. This time I think the growth is very good at about 18% as of Biochem, but just wanted to ask how much of this growth has come from your new launches and from your existing products? Second is what are the kind of therapies that have outperformed this quarter to give you this kind of growth and what do we expect going forward?
- Ganesh Nayak** Out of that 18%, new products have contributed more than maybe 2 to 3%. In terms of therapeutic categories, our cardiovascular and diabetologicals have done well in this quarter. They have grown more than 20%.
- Sudarshan Padmanabhan** Do you see this kind run rate as far as launch is going forward or how do we see this run rate as far as the domestic business?
- Ganesh Nayak** As far as the launch of new products is concerned, we are fairly well covered till the end of 2013.
- Sudarshan Padmanabhan** Coming to the US business, now that you have launch 3 injectable products there, we should definitely start seeing the ramp up of these products in the coming quarter, but



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what is the kind of launches that we can expect from the injectable side as well as from the oral side in the couple of quarters or so?

Ganesh Nayak We have a good pipeline, but I don't think we can give you more details at this point in time.

Moderator We have the question from the line of Arivnd Bothra from Bank of America, please go ahead.

Arivnd Bothra Just a couple of things, following up on the questions asked on margins just wanted to understand we are on track of 50 to 100% margin improvement on a YOY basis?

Ganesh Nayak Yes, we are, but for this FOREX movements, which are not in the control of anybody. If you don't consider FOREX impact, then we are on track as far as margin improvement is concerned.

Arivnd Bothra Just to understand, India was growth was much higher than usual 28%, is it fair to assume that the gross margins in domestic formulations is higher than the overall business and hence that should ideally have gone up?

Ganesh Nayak This 28% growth is also partially because of Biochem and as you are aware Biochem the margins are relatively lower compared to the other domestic business.

Arivnd Bothra But on the Cadila's own domestic business, the gross margins are relatively higher than the company average, right?

Ganesh Nayak Yes.

Arivnd Bothra Can you just update a bit on your outstanding loans and do we see with our increasing cash flows these loans reducing materially by end of this year?

Vishal Gor The overall debt position as on September in terms of gross level is Rs. 2540 crores and net debt is Rs. 2036 crores and net-debt equity ratio comes to 0.76 today, but going forward we expect the ratio definitely to improve.

- Arivnd Bothra** But any tangible plans of reduction of debt by say 400-500 crores with the additional profitability that we are seeing for the rest of the year, we have seen improvement in our working capital as well?
- Vishal Gor** Not this year because we have given guidance of 650 crores of CAPEX for the current year, so we don't expect net reduction in the current year, but next year it is feasible.
- Arivnd Bothra** Finally on our Wellness business, we talked about A&P spends which could be higher, but would that materially impact our SG&A as the percentage of sales from say 26% average can it go up to 27 to 27.5%.
- Vishal Gor** You should take the average for the entire year because every quarter depending on season and whether we are launching a particular new product in that period or not, it varies from quarter-to-quarter, so you should go by the annual average, so annual average percentage spent compared to last year should be higher in the current year.
- Arivnd Bothra** Final question on the Hospira JV, we have seen most of the products are getting launched and even Taxotere and Eloxatin now reaching peak sales, are there any significant more products which can scale up the JV sales much higher than the current run rate?
- Pankaj Patel** We don't have currently any significant products coming up.
- Arivnd Bothra** May be the incremental growth is going to come from Bayer and Nycomed JVs?
- Pankaj Patel** Yes.
- Moderator** We have the question from the line of Rahul Sharma from Karvy Stock Broking, please go ahead.
- Rahul Sharma** Sir, in Zydus Wellness, just wanted to know whether there has been a decline in the material cost? Any particular reason can be attributed for the same?
- Ganesh Nayak** It was mainly because of product mix and price increases taken in some of the products.
- Rahul Sharma** But this is sustainable, is it not on the decrease in the raw material front which is coming?



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- Pankaj Patel** Nutralite has a little lower margin, so the number will go down when the Nutralite sales picks up.
- Moderator** We have the question from the line of Krishna Kiran from ICICI Direct, please go ahead.
- Krishna Kiran** Just to understand your opening remarks, I think couple of questions were asked on this, but just want to know that about injectable business, in opening remarks, we have said 10 ANDAs were approved, right and five are injectables and three were launched, and how many products injectable we are going to launch this quarter?
- Ganesh Nayak** This quarter we are targeting to launch about three products.
- Krishna Kiran** We are clocking around 70% of growth in emerging markets, so from where regions or where it is really driving the growth?
- Ganesh Nayak** This is from Asia-Pacific, Africa, and Middle East, so there are some variable factors like last year for the same quarter in Sudan due to some political turmoil, our sale was low. Also in other countries where we had some initiatives taken last year, they have now started showing results and as such the emerging markets generally are growing well and considering that for quite some time, we are managing to get some good benefits and also we have launched some new products in these markets, so it is a mix of so many factors overall.
- Krishna Kiran** These sales also include that 3 injectable products which we were discussing answering the previous question you said that it is an emerging or other exports?
- Pankaj Patel** Yes, but that number is not very significant because it started in the last week of September.
- Krishna Kiran** How is our GI segment performance during the quarter, domestic market? Industry as a whole it is slightly improving or no, how we are placed compare with industry?
- Ganesh Nayak** We are on budget. Our gastro portfolio spread across so many divisions, I would not be honest in my reply to you unless I have all this data put together on the gastro segment. Whereas in the cardiovascular and diabetology, we have specific divisions, so there I can give you an answer right away.

- Moderator** We have the question from the line of Saion Mukherjee from Nomura, please go ahead.
- Saion Mukherjee** On R&D cost, you mentioned 6 to 7% going forward next two years, do you see R&D cost going up substantially or it will remain in this way?
- Ganesh Nayak** This point in time our planning is for not more than 6 to 7%.
- Saion Mukherjee** Some of the filings which you have done in US, particularly transdermal, based on the communication from the FDA, do you see you are track and what is the feedback so far for launch in fiscal '14?
- Ganesh Nayak** We are on track in the sense we are expecting a US FDA inspection very soon of our transdermal facility and if that goes through well, then we should be looking at some revenues in the beginning of 2014.
- Participant** Okay and of the total pipeline, how many so far you have filed in the transdermal space.
- Ganesh Nayak** We have filed two so far.
- Participant** And you expect additional filing in the near term.
- Ganesh Nayak** Yes.
- Saion Mukherjee** Okay, Sir one question on Lansoprazole ODT, I understand your 30-month stay has expired, is there a reason why we don't have an approval yet.
- Ganesh Nayak** Maybe if you can wait for the next quarter, we will be in a better position to answer that.
- Saion Mukherjee** I think in one the replies, you mentioned Docetaxel, you have seen some increased traction, is that sustainable, I am just wondering, what has changed, compared to...
- Ganesh Nayak** No, it is not sustainable from whatever discussion we have been having, it would be inappropriate to say that this would be sustainable, but to what extent it would reduce, that too, we are not in a position to answer, but one thing is clear, this will not be sustainable.

- Saion Mukherjee** I mean, in terms of the impact of it on your EBITDA or profit is that a significant number?
- Ganesh Nayak** Going forward, this reduction in Docetaxel margins would not be so substantial that it would be materially impacting our total bottom line.
- Moderator** We have the next question from the line of Jiten Doshi from Enam. Please go ahead.
- Jiten Doshi** Pankaj Bhai, the last 2 years, rather 18 months have seen very challenging times for Cadila. Prior to that between 2006-2011 you have shown some exemplary growth, what do you think has really gone wrong in the whole business model, where do you think we are now in terms of the correction, which you had talked of last year, because you had said in 2012, the worst is behind you, but it does not seem like that by looking at the first 6 months' performance. So where do you really think we are in the journey.
- Ganesh Nayak** Well at this point in time, we look at a growth of around 25% for the total group, even going forward for the next 3 to 4 quarters. In terms of the things which went wrong, there are quite a few things, one is this US FDA warning letter which we received, the other is the ANVISA approvals in Brazil, and the foreign exchange also took its toll, so there have been quite a few factors, which have really pulled us back in the last one year, as you have mentioned.
- Jiten Doshi** So, where do we think we are on the track to achieve the same profitability as we were experiencing before.
- Ganesh Nayak** We have two major initiatives which we have initiated for the last six months, one is on the sales force effectiveness, which we call as "Josh" and the other is "Prism", which is a major exercise on driving down cost. So, with these two initiatives, one is increasing the effectiveness in the field and then cutting down on cost, we think we should be back on track as far as top-line is concerned, as well as bottom line.
- Jiten Doshi** So do you think this is one of your worst quarters? You think from the next quarter itself we should see improvement, or from next year we should see improvement?
- Ganesh Nayak** You have used quite an extreme word, worst quarter, unless I am God, I don't think I will be able to tell you whether it is the worst quarter.

- Jiten Doshi** What I am saying is, is the worst behind you? Means in the sense that we are used to seeing very good growth from your side, you have demonstrated that in the past.
- Ganesh Nayak** Yes, but as I told you, we are expecting growths of 25%, so unless you are expecting some thing more than that....
- Jiten Doshi** I mean, I am talking about the margins.
- Ganesh Nayak** You are talking about margins?
- Jiten Doshi** I am talking about the profits. So, top line yes, you are achieving, when do you think we will go back to the old margins, and what do you really think is the new normal in terms of the sustainable profit margin.
- Pankaj Patel** Our margins were sustainable and we always intended to improve it by 0.5% or 1% every year, what was the issue that we faced in the current year in terms of FOREX fluctuations which eroded our gross margins due to impact of forward covers as well as the stock value as an impact, if you see, compared to the last year, and then there are other factors, which like, for example this time we have our higher R&D cost and things like that, but we think we are reaching again normal level and again start improving on profitability.
- Jiten Doshi** So, what do you think are the normal levels, Pankaj Bhai.
- Pankaj Patel** We also had about 20 to 23% kind of EBITDA margin, which we expect to reach very fast and then again we can talk about improvement with initiatives like “Prism” which Mr. Nayak just now talked about, which is a very ambitious project for us in terms of improving our profit margins.
- Jiten Doshi** So basically, you still stick to the \$3 billion guidance that you had given us last year.
- Pankaj Patel** We will stick to that.
- Jiten Doshi** And that you said is on an organic basis that should happen.
- Pankaj Patel** Yes.



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- Jiten Doshi** You believe that when you are going to be hitting the \$3 billion level, you would be able to record that 23 to 24% EBITDA margins.
- Ganesh Nayak** Yes.
- Jiten Doshi** So, you believe that this is an aberration and you believe that as you go into the next year, you should be able to go back to the 22% to 23% margin with the 25 to 27% growth.
- Pankaj Patel** In fact we are targeting even better margins going forward because of larger contribution of other new technology areas including transdermal which are definitely more profitable than the current businesses.
- Jiten Doshi** Okay, so I would say that, that is the reason I am saying, so in the worst case terms, the margins is now behind us, do you believe?
- Pankaj Patel** Yes. Of late there are other further adverse fluctuations in FOREX.
- Jiten Doshi** Yes, barring that.
- Pankaj Patel** Absolutely.
- Moderator** We have the next question from the line of Nitin Agarwal from IDFC Securities, please go ahead.
- Nitin Agarwal** Sir, on the US business, we are almost on a flat constant currency basis despite the launches that we have had in the current quarter, has there been any significant erosion even for larger existing mature products for the last couple of quarters.
- Ganesh Nayak** The launches, which you are talking about are injectables and they are mainly for the partners, so they are not included in the US sales.
- Nitin Agarwal** You talked about ANDA approvals for the quarter, Sir, and including five more approvals you just seem to have got for the quarter.
- Ganesh Nayak** Yes, we have not launched any product in the US from our own side.
- Nitin Agarwal** And when do you see this launches happening, these approvals that you have got.



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Ganesh Nayak In the first calendar quarter of 2013.

Nitin Agarwal Okay, so they will not happen in this quarter also.

Ganesh Nayak This quarter, we are expecting one product in Neshar towards the last month.

Moderator The next question is from the line of Girish Bakhru from HSBC. Please go ahead.

Girish Bakhru Just on US again, wanted to know the update on Metoprolol, when do we see approvals from there, any timelines.

Ganesh Nayak On Metoprolol, no, at this point in time, we are not in a position to give any fixed date.

Girish Bakhru Okay, and just on the overall sense, if we see the first half, we have done about 140 odd million, if I am taking it to the current rate, just from the FY14 perspective, would 350 be a number to look at in the US territory, if you can give a guiding ballpark number.

Ganesh Nayak Yes.

Girish Bakhru In how much would you say, the pipeline from Neshar or say approvals from nasal spray and all those complex generics play a role in that. I am just trying to get a sense would.....

Pankaj Patel Definitely, it will play a role, but I cannot give the exact breakup.

Girish Bakhru Okay, alright. Thank you.

Moderator We have the next question from the line of Manoj Garg from Edelweiss, please go ahead.

Manoj Garg Pankaj Bhai, you mentioned about the "Prism 2" the initiative which you have started in terms of cost optimizations, so whether have we started seeing the benefits of the same or it will be a little back-ended.

Ganesh Nayak We have already started getting the benefits, because this exercise was actually started in the month of April, so from this quarter, well from the last two months we started and it keeps on ramping up.



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- Pankaj Patel** But ramp ups of course, would keep on increasing over a period of time because this implementation of various measures definitely take time, and we are keeping a target of another 12 months to reach its optimum level.
- Manoj Garg** What kind of cost reduction, like, which we are estimating as a percentage of revenue because of this project.
- Ganesh Nayak** We have very ambitious targets, but right now we have not publicly disclosed that number, but it is a significant amount that much we can say.
- Manoj Garg** Okay, and like in one of the earlier conference call, we have indicated towards the scope of, like we are looking to expand the scope of two JVs, one is Nycomed, and now with the Takeda, and second is Hospira. Has there been any talks which have been initiated towards that.
- Ganesh Nayak** Yes, let us start with Hospira, we are getting into Phase-II and I can't give you the number, because it is a joint venture thing. We have around 8 to 10 products, which we are bringing to Phase-II with JV of Hospira, and for Nycomed, now that Takeda is the new owner of Nycomed, we have those 14 APIs, which we started working on and from I think March or April 2013, we should start to seeing the sales of those 10 Zydus Takeda.
- Manoj Garg** Okay, is there any talk towards the Japanese Market like where if Takeda tomorrow looks at the generic entry, Cadila could be a potential partner to manufacture those products in Japanese market.
- Ganesh Nayak** No, we do not have anything on that front.
- Manoj Garg** The 8 to 10 products, which you are talking in Hospira JV, are they into oncology.
- Ganesh Nayak** Yes, they are into oncology.
- Manoj Garg** What kind of incremental Capex, which we need to put for this JV.
- Ganesh Nayak** It is about USD10 million.
- Manoj Garg** Of our side.

- Ganesh Nayak** 20 million totally, ours will be 10.
- Moderator** Thank you. We will take the next question from the line of Anirudh Joshi from Anand Rathi, please go ahead.
- Anirudh Joshi** I want to check in terms of Zydus Wellness, what is really driving the growth, because we have seen the revenue growth momentum in terms of sugar-free or even Everyuth, both the brands, it is back on track, so basically what is driving this strong revenue growth. Is it maybe new launches or is it ad spend, or is distribution expansion, or what is going right for us now?
- Ganesh Nayak** Well, it is both distribution expansion and also some of the brand extensions, which we had launched earlier, some of them are also contributing, so it is not just one factor, and also you must understand, last year, we did not have good quarter, corresponding quarter, so it is also a base effect.
- Anirudh Joshi** Okay, so that is also the reason. In terms of Sugar Free Delight, do you want to give any more light on what is the progress?
- Ganesh Nayak** Sugar Free Delight, that is a very small extension. I do not think it has any major contribution to our growth numbers.
- Anirudh Joshi** No, I guess, we had high hopes from that category, that entire brand, Sugar Free Delight, so any update on that.
- Ganesh Nayak** No.
- Anirudh Joshi** We have the next question from the line of Prakash Agarwal from CIMB, please go ahead.
- Prakash Agarwal** On the CAPEX side, if you could give a breakup of the approximately 400 crores spent, and the likely additional 250 crores for the remaining of the year.
- Ganesh Nayak** What kind of breakup do you require?
- Prakash Agarwal** In terms of which categories or which business segments are we actually spending money, and what is the growth prospects.



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Ganesh Nayak It is different segments. I do not have all the details...

Prakash Agarwal No, the major ones.

Ganesh Nayak The major ones are formulations and biologics.

Prakash Agarwal Okay, these are setting up of factories in our Indian locations.

Ganesh Nayak Yes.

Prakash Agarwal And biologics, would be the same.

Ganesh Nayak Yes, we are setting up facility for biologics meds and in the formulation side, mainly it is India as well as refurbishing the facilities of Neshet.

Prakash Agarwal Okay, and the remaining 250 crores, which is planned Capex is also towards these two largely.

Ganesh Nayak Yes.

Prakash Agarwal Sorry, if I missed this docetaxel, you said that Q2 was higher and you said the current run rate in Q3 is actually higher. I just missed that.

Ganesh Nayak Q2 was higher.

Prakash Agarwal And that continues.

Ganesh Nayak That kind of run rate is not sustainable.

Prakash Agarwal Not sustainable in the future, but in Q3 is it continuing or is it not continuing.

Ganesh Nayak This quarter it might continue.

Prakash Agarwal Okay, got it. And lastly on the domestic formulations, obviously we have seen good growth 18% ex-BioChem, but with 16 product launches, so any color you are giving on the folio growth ex-Biochem and kind of launches we can expect?

Ganesh Nayak For this quarter, meaning October to December we are expecting growth on similar lines.



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- Prakash Agarwal** Okay, but for the full year you have any number in mind.
- Ganesh Nayak** Full year, you know, for the first six months, and January, February, and March, we do not foresee much of difference in terms of the gross numbers.
- Prakash Agarwal** Strong growth continues basically, largely this confidence comes with new product launches in future, or
- Ganesh Nayak** As I said earlier, it is not only new products, our existing business for the initiatives which we have taken plus the chronic therapy is growing better, so there are three to four factors.
- Moderator** We have the next question from the line of Monica Joshi from Avendus Securities. Please go ahead.
- Monica Joshi** Just one clarification, you said that the injectable launches are recorded in emerging markets, why is that Sir.
- Pankaj Patel** Emerging markets and others is a residual category, so basically, the injectable launches are not in our own US business, these are the injectables for a partner, so it is kind of contract manufacturing sales, and that is booked in the other category.
- Monica Joshi** But the partner is selling in US, or is the partner selling in emerging markets.
- Ganesh Nayak** The partner is selling in US, partner might be selling in any other countries, but for us, it is not our own US sales. It is only a supply of product.
- Pankaj Patel** So, what you book in US, is only your direct sales, and any other sales go through the emerging and others category.
- Pankaj Patel** Yes, that way, even Hospira JV also sells in so many countries, but we report only one number.
- Monica Joshi** You would be shipping goods from India to Brazil, right for your Latin American Sales, and I understand there was a strike there, and thus you could not put this into that inventory into the market, but have you booked any taxes on that sale that you have done from India to your Brazil subsidiaries.

- Pankaj Patel** We have to, whatever sales we make from India, is a sale, but while we prepare a consolidated results for any profit, which is there in unsold inventory, at subsidiary level, we have to remove, but then so far as India is concerned, yes it is a sale, and therefore India recognizes that as a revenue.
- Monica Joshi** And thirdly on the CAPEX side, is it possible for us to understand just a ballpark number out of the 660 crores, how much is the investment that would go into biologics and secondly in FY14 will this number of 650 crores come down substantially or are you seeing a similar kind of number.
- Pankaj Patel** We are not in a position to give the breakup but as Vishal just mentioned, the large part of overall formulation business, and then also for biologics, transdermal and Nesher, next year we have yet not formed up the numbers, but we believe it can be around 400 crores, so it should be lower than the current year.
- Monica Joshi** You said 200 crores or 400 crores.
- Pankaj Patel** 400 crores for the next year.
- Moderator** We have the next question from the line of Alok Dalal from BNP Paribas, please go ahead.
- Alok Dalal** Just wanted to understand the incremental production in the Hospira JV, is the commercial supply agreements similar to the first six products that we had.
- Ganesh Nayak** No, it is different.
- Alok Dalal** Okay, is it substantially different from what was there?
- Pankaj Patel** Entire method is different, so we cannot really comment on that. They are still quite attractive compared to any such normal contract manufacturing agreements that would be there, quite attractive that way but they are not on the same lines as over the first six products.
- Moderator** We will take the next question from the line of Praful Bohra from Nirmal Bang, please go ahead.



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- Praful Bohra** Sir can you quantify the impact because of the new pricing policy assuming the market link policy comes in.
- Pankaj Patel** Let the policy come in its right letter and then only we can evaluate on that. As you know, a lot of analysts have already given several reports, which have actually confused so many people, and therefore it is really no point discussing the policy, which is yet to be out.
- Praful Bohra** Okay fine, secondly I just missed the point on the FOREX hedges, you said, we have hedged largely below 50 is it?
- Pankaj Patel** We have now only USD19 million worth of forward covers, which have left, and the average rate there is a little more than Rs 50.
- Praful Bohra** Okay, you said, 90 right.
- Ganesh Nayak** 19.
- Praful Bohra** Any FOREX losses we have in the balance sheet, which are not yet recognized.
- Nitin Parekh** Yes, there was a balance of hedge reserve, I can share that off line, the numbers, there are two accounts, one is foreign currency monetary item, translation difference account, and there was a certain balance, and another balance is, hedge reserve, in which there was a certain balance. So these are the two items, where the FOREX loss or gain, which is not been charged to P&L, is parked in the balance sheet.
- Praful Bohra** Okay, that was a foreign gain, is it?
- Nitin Parekh** No it could be gain or it could be loss also.
- Moderator** We will take the next question from the line of Gargi Deb from Microsec, please go ahead.
- Gargi Deb** Animal healthcare segment. The margin of the animal healthcare segment.



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- Ganesh Nayak** We don't give specific margin entity wise, but we have talked about growth which is around 20% growth of animal healthcare business. But the margins are quite attractive, that much we can say.
- Moderator** We have the next question from the line of Meeta Shetty from Asian Markets, please go ahead.
- Meeta Shetty** Yes, just one thing, now that the contract manufacturing injectables that we are doing, booking the sales under the emerging, when will we start seeing some sales coming for US as well.
- Ganesh Nayak** You are talking about injectables.
- Meeta Shetty** Yes the US. I mean we had 17 filings of which 2 or 3 were our own and the rest was for the partner, so when will we see some sales booked from our sales itself?
- Ganesh Nayak** You are talking about our own injectable launch.
- Meeta Shetty** Yes.
- Ganesh Nayak** That should be, think probably in the second half of next year.
- Meeta Shetty** Second half of next year. Okay, and the new filings that we have done, the additional injectable filings, are they for the partner, or they for Cadila itself.
- Ganesh Nayak** For the partner.
- Moderator** We will take the next question from the line Kaustubh Pawaskar from Sharekhan, please go ahead.
- Kaustubh Pawaskar** I have a question on Zydus Wellness. Sir FY2012, we have seen that sugar-free category itself was grew by just 5%, so now first half is almost gone, so how is the category shaping up, are we seeing improvement in the category growth for sugar-free.
- Ganesh Nayak** See, what is happened is sugar-free, now our market share is 90% plus, and unless we grow the category, the growth of the category will be driven by what we are doing. So



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now, since the last six months we are looking at an initiative in expanding the market by way of increasing the consumer usage as well as by way of increasing distribution.

K Pawaskar

Okay, but then has that helped you to improve the growth or it is still stagnant at around 5 to 6%.

Ganesh Nayak

Now it is in double digits.

Kaustubh Pawaskar

Now it is in double digits okay. My second question is on the gross margins, you have mentioned that the improvement in revenue mix and price increases help you to achieve good gross margins in quarter 2. Now quarter 3 seasonally is a strong quarter for Nutralite, but now we have seen that vegetable oil prices have, especially the palm oil prices have corrected from their highs, and now they have stabilized, so should we expect this correction in the palm oil prices to help you to post better margins in quarter 3 as well?

Ganesh Nayak

That is a good observation you have, but see, one of the reasons we lost on Nutralite is, because to make up for the increase in the oil prices, we had to increase our selling price, because of which are volumes came down, so now there would be a correction in the volumes.

Moderator

Participants that was the last question. I would now like to hand the floor back to Mr Ganesh Nayak for closing comments. Over to you Sir.

Ganesh Nayak

Thank you very much for bearing with us for the last one hour, and look forward to again interacting with you in the month of February for our next quarterly results. Thank you very much and a good evening to you.

Moderator

Ladies and gentlemen on behalf of Cadila Healthcare Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.