



“Cadila Healthcare Limited Q2FY14 Post results
Conference Call”

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MANAGEMENT

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Moderator: Ladies and gentlemen, good day and welcome to the Cadila Healthcare Q2 FY-14 Post Results Conference Call. As a reminder, all participants' lines will be in a 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'. Please note that this conference is recorded.

At this time I would like to hand the conference over to Dr. Ganesh Nayak -- COO and Executive Director. Thank you. And over to you, sir.

Dr. Ganesh N. Nayak: Good evening and welcome to our post results tele-conference for the second quarter of FY14. We have with us Mr. Pankaj Patel – Chairman and Managing Director; Mr. Nitin Parekh – CFO; and Mr. Vishal Gor – Senior General Manager, Investor Relations.

During the quarter gone by, on a consolidated basis, our total income from operations was up by 13% year-on-year to Rs.17.5 billion. Profit before tax was up by 32% to Rs.2,016 million. The net profit was up 94% to Rs.1,833 million.

Let me share some of the highlights of the operations for the quarter. Our India formulations business posted sales of Rs.6,263 million, up by 4%. We launched 19 new products, including lined extensions, in India during the quarter, of which 4 were for the first time in India. This included the launch of Lipaglyn (Saroglitazar), which is the first NCE discovered and developed indigenously by an Indian pharmaceutical company.

Our business in the US posted sales of Rs.4,730 million up by 29%. We launched 2 new products in the US during the quarter. We filed 12 additional ANDAs with the US FDA including 2 for Injectable products and we also received approvals for 2 products during the quarter.

Our Brazil business grew by 28% and posted sales of Rs.622 million during this quarter. In Mexico, we launched 3 new products during the quarter, taking the cumulative number of launches to 4.

During the quarter, we made 4 filings with the Mexican regulatory authority COFEPRIS and received approval for 1 more product, taking our total approvals to 6.

Our business in Europe grew by 24% and posted sales of Rs.942 million with the launch of 3 products each in France and Spain. We received approvals for 4 new product dossiers for the European market.

Exports to emerging markets grew by 32% and registered sales of Rs.981 million on the back of 20 new product launches in different markets during the quarter.

Zydus Wellness posted sales of Rs.1,039 million, up by 8%. Net profit of Zydus Wellness grew by 7% to Rs.182 million.

Our API business grew by 22% and posted sales of Rs.857 million during the quarter. Our animal health business posted sales of Rs.683 million, up by 11% backed by 3 new product launches in India. Thank you, and we will now start the Q&A session. Over to the coordinator for the question-and-answer session.

Moderator: Thank you very much sir. Ladies and gentlemen, at this time if you got to ask a question please press “*” then “1” on your touchtone telephone. Thank you very much. Our first question is from Ashish Urganlawar of Elara Capital. Please go ahead.

Ashish Urganlawar: My question is on Zydus Wellness. Just wanted to understand what are the headwinds that we are facing on the top line for this company and how do you see the outlook for each of the 3 products that are there?

Dr. Ganesh N. Nayak: Sugar Free is continuing to do well. It has a good growth of 24%. On the Nutrilite front, we are trying to establish our Omega Fatty Acid variant which we had launched. On the Everyuth front, 1 SKU is under pressure, the balance 2 are doing okay. On the ActiLife front, which is the fourth pillar, we still need some more inputs to increase the sales.

Pankaj R. Patel: Just to add to what Mr. Nayak said is that the overall business of Zydus Wellness has seen a lower growth this quarter, mainly as Mr. Nayak mentioned is driven by the lower growth in other 3 variants and then the Sugar Free category. Going forward, we expect the growth to pickup. Next quarter, we would see definitely more than double-digit growth and thereafter again the growth to further pickup. There are several actions are being planned including some special promotional efforts which would actually help the business to grow at a faster pace.

Ashish Urganlawar: How confident would you be with the assumptions of better growth in the next two quarters because the base of last year was pretty high, I think Q3-Q4 you grew by 27% and given the scenario that is prevailing between the two painful categories of Nutrilite and Everyuth, what are the kind of actions that you would be taking, if you could elaborate a bit on that, that would give us some better confidence on estimating growth?

Pankaj R. Patel: As I mentioned to you, we are taking actions including some actions which are related to the consumer and trade, some promotional efforts, both above the line and below the line efforts which is being already in action now and which will result into success of this. Apart from

that, we would have additional line extensions in the market, which would further boost the sales.

Moderator: Our next question is from Saion Mukherjee of Nomura. Please go ahead.

Saion Mukherjee: On the US market can you throw some light as to where we are in the approval process? What is the kind of approvals that you were looking at? And it would be helpful if we have some visibility of some of the key products like Toprol in the US?

Pankaj R. Patel: Last quarter if you remember I specifically mentioned that I am unable to give you a more clear guidance because of the fact that we have not heard from FDA, this quarter we have better information, we have heard on several products from FDA with respect to the status of the approval process and if at all, there are any deficiency, etc. to be addressed as such on that. So we expect that, in the next 12-15 months, we would have (+20) approvals of many new products; some of the key products also have been taken up for expedited review. So we expect that in 2014 calendar year approvals of may be up to 2 products that you mentioned. As I was mentioning there is a complete response letter we receive from FDA when they complete the first review of our dossier and based on the CRL which we are receiving, we clearly see that there are no major concerns or major roadblocks to get approval. As a result, we are confident that we will get (+20) approvals in the next 12-15 months and that should be very good for us for growing the business as far as 2014 is concerned.

Saion Mukherjee: In your base portfolio just wanted to check whether you have launched Depakote ER and anything particularly you want to highlight on the pricing trend on your base business?

Pankaj R. Patel: We are seeing two things. One is that we have launched Depakote ER. Up to last quarter, we were saying pricing pressure, but now we see that, on selective products we are able to actually up the price. So it is the kind of a mixed scenario at this moment. We are seeing some visibility where pricing are firming up given the kind of challenges companies are facing, many players are going out of the market, and as a result there are opportunities to basically products with low margins to increase prices. So at least in 3 or 4 products, we have seen price being better and increases are ranging between 10-15% and we also see that the trend is likely to continue given the revised wisdom the industry is getting.

Saion Mukherjee: Sir you mentioned you launched Depakote ER, right?

Pankaj Patel: Yes.

Saion Mukherjee: And sir, approximately, what percentage of your portfolio would have seen such increase?

- Pankaj R. Patel:** As I mentioned to you, currently of our portfolio about 7-8%.
- Saion Mukherjee:** One question on the JV performance. There seems to be sequential decline significant one. Anything that you would like to mention about the JV performance and how should we think this going forward?
- Pankaj R. Patel:** We have told important JVs which contribute to numbers. One is with Nycomed i.e. Takeda and other one is with Hospira. As far as the Takeda JV is concerned, it is a timing issue because we supply API and in some quarter API listing is more and in some quarter API listing can be little lower. As far as Hospira is concerned, we have the ace product which was contributing a lot. Due to the competition, price erosion has taken place and as a result we are seeing some decline. Going forward, I think we are almost at the bottom now and going forward it should stabilize and then go up because of the fact that we are now going to start supplying more products to them.
- Saion Mukherjee:** One last question on CAPEX. I think you did more than 400 crores first half which is above the guidance that you gave for the full year I think 650 crores. So can you throw some light as to are you changing your guidance on CAPEX or you would remain within 650 crores?
- Nitin Parekh:** Annual CAPEX would be 550 crores.
- Dr. Ganesh N. Nayak:** Just to add, though the total half yearly CAPEX was 417 crores that also includes the increase in value of fixed assets because of change in exchange rate. So the translation of the fixed assets held by the foreign entities which we do for our consolidation got impacted because of exchange rate and that itself is more than Rs.100 crores.
- Moderator:** Our next question is from Jiten Doshi of Enam Asset Management. Please go ahead.
- Jiten Doshi:** Pankaj bhai, just one single question. I think we are hovering in that 700-750 crores of profit band for quite some time. How do you see 2014-15, do you believe we will break out of our mold and we will be going into a high growth mode again?
- Pankaj R. Patel:** Jiten bhai, your observation is correct, but I think we are breaking up, We can only say you that approvals are in sight and with that we are geared up to get out of this kind of a jinx we are in which is a 700-800 number and we definitely see, going forward next year, we would see a significant growth in both top line and bottom line.
- Jiten Doshi:** Can we take some sort of a commitment that we may hit the 4-digit kind of a mark in the PAT next year?

Pankaj R. Patel: I cannot give you a number because we do not give guidance, Jiten bhai, but I am going to see a significant growth.

Jiten Doshi: So you believe the worst is behind us now at Cadila?

Pankaj R. Patel: Yes.

Jiten Doshi: That is what we want. And anything else you believe in terms of things that really are worrying us now apart from US FDA permission?

Pankaj R. Patel: Even FDA permission also, we see visibility now because we have received response letters and we know what is there in the response with us. So we see the approval possibility very clearly. So nothing is worrying. One thing I want to tell you. Our company from calendar year 2013 till date has faced 4 US FDA inspections, all of them went out very well including both the transdermal plants. Last quarter, we had two inspections, both were for transdermal facilities, both of them went out very well. So clearly we are seeing that there are no roadblocks, no concern of worry, we are seeing clearly a very bright 2014.

Jiten Doshi: Last question Pankaj bhai is you feel the same for Zydus Wellness?

Pankaj R. Patel: Zydus Wellness, yes, we need to do some more work. We see that the Wellness business currently is wanting for growth because 2 of the 3 products are not showing significant growth. Actions are being planned on distribution, on promotion mix and I think we expect good results.

Moderator: Our next question is from Sudarshan Padmanabhan of Sundaram Mutual Fund. Please go ahead.

Sudarshan Padmanabhan: Sir if I am looking at your debt figure, more or less from March to September, the debt has increased but if I am adjusting for your FOREX gain that is there in your interest component your interest cost has actually come down from March. If you can explain what is the reason for this?

Nitin Parekh: You are looking at the interest cost net of the FOREX?

Sudarshan Padmanabhan: Yeah, interest cost net of the FOREX. So it is still lower on a year-on-year basis but actually your debt has gone up. So I just wanted to know, is debt has gone up only because of the restatement of dollar, how is the debt component right now in terms of dollar as well as in terms of rupee and why is that increase in interest cost?

Nitin Parekh: Numbers I will give you later, but just to make you understand that in the current year we have foreign exchange gains whereas previous year we had foreign exchange loss.

Sudarshan Padmanabhan: No, but the gain has been adjusted with interest cost which is why it shows a relatively lower number but even if you adjust for that number and you look at it on a year-on-year basis the number seems to be lower. If your debt is going up, the interest cost has actually come down.

Vishal Gor: You need to look at the interest cost and the FOREX fluctuation separately. Pure interest cost has gone up.

Nitin Parekh: From 27 crores to about 32 crores.

Vishal Gor: That is mostly in line. FOREX fluctuation has too many components including foreign currency monetary item translation difference account and amortization thereof. So I can explain to you that in greater detail once the call is over.

Sudarshan Padmanabhan: You had mentioned that we have hit more or less a trough as far as the JV performance and US is expected to now move up. But what is your view on the Domestic business? Have we more or less bottomed out and do we see things moving up from here on?

Pankaj R. Patel: I think the domestic business cannot go below this point. I do not think that anybody can say that Indian market is going to become a 10% negative. So overall market is not growing -- two factors are responsible for that. One is of course the impact of NLEM and subsequent agitation by the Chemists Association; and the second is, overall, there is a kind of a good healthy season for all of us where the Infectives have been on a lower side. Going forward, we clearly see that the market has to look up only because there is nothing beyond this that the market can go down. So that is from a market perspective. From Zydus perspective, we continue to beat the market and we are very confident that we would continue doing so.

Sudarshan Padmanabhan: On the tax, this time the tax outgo is significantly lower which is what you had guided in the first quarter also. What is the kind of run rate do we see for the entire year? Are we looking at reducing the tax guidance further?

Nitin Parekh: For the current full year, you can assume it at about 12-13% and going forward, you can assume 12-15% tax rate.

Moderator: Our next question is from Sriram Rathi of Anand Rathi. Please go ahead.

Sriram Rathi: One question, basically your gross margin has decreased by almost 30% on a y-o-y basis, any particular reason for that?

- Nitin Parekh:** Basically 2-3 reasons; one is the contribution of high margin India business is low in this particular quarter. The growth is only 4% vis-à-vis the overall top line growth of 13%. Then the high margin business of JVs has also come down in this quarter. So basically it is a business mix and product mix issue.
- Sriram Rathi:** Can you guide how basically the next quarters will be in terms of gross margins or should we take this as a benchmark now?
- Pankaj R. Patel:** It is too early to comment on that because it all depends upon when and how the business mix is going back to normal but we do not see this kind of a gross margin going forward, we should have a better gross margin than this.
- Anirudh:** This is Anirudh here. I want to ask 2-3 questions on Zydus Wellness. Can you indicate the market shares of Sugar Free, Nutrilite and Everyuth, and their subcategories for this quarter as well as the ...?
- Pankaj R. Patel:** Can we take Zydus Wellness questions offline because we would basically like to focus more on Cadila questions, then you can raise the Zydus Wellness question separately please? We will give you all the data whatever you want.
- Moderator:** Our next question is from Nimesh Mehta of Research Delta Advisors. Please go ahead.
- Nimesh Mehta:** First of all, coming back to the margin issue, I understand it is a sales mix issue but the INR depreciation led pricing and the benefit also would have been sharp enough. So any pricing pressure in any of the markets is what I am trying to understand?
- Nitin Parekh:** Nimish, the details which we have shared would clearly give you the understanding that we have not gained much because of the currency depreciation because we had to book hedge losses in sales as well as in cost of goods. So that has also impacted us in terms of margin. So we have not been able to realize the exports at a higher rate.
- Nimesh Mehta:** How much hedge do we have and at what rate?
- Nitin Parekh:** We have a total of about \$160 million worth of hedge which are open...
- Vishal Gor** Around Rs.59 is the rate.
- Nimesh Mehta:** Secondly, if you can just comment a little bit on the Brazil business which has shown robust growth. I understand the market condition is not very conducive. So what is it that is driving the growth and how do we see that going forward?

- Nitin Parekh:** Primarily it is due to the base effect because last year we had suffered some setbacks.
- Participant:** Are we also witnessing pricing pressure there as per the market condition?
- Nitin Parekh:** We do not have pricing pressure there. We have competition pressure there and mainly it is the approval because we are not getting approvals there.
- Nimesh Mehta:** How many products we would have launched this quarter in this market?
- Pankaj R. Patel:** None.
- Moderator:** Our next question is from Girish Bakhru of HSBC. Please go ahead.
- Girish Bakhru:** Just on the US side again, this quarter has seen good growth; you had mentioned about price hikes. So would large component of growth be driven by price hikes or the new product introductions Lanzo and Divalproex have actually contributed this quarter?
- Pankaj R. Patel:** This quarter, the major growth has come from price improvement and not actually from new product. New product growth, in fact, we would see, may be in the next quarter.
- Girish Bakhru:** Just to get a clarity, Neshor products are only 3, right now, right? Would there be any incremental launch in next one year or so?
- Pankaj R. Patel:** We expect 1 more product to be approved very soon. We currently are undergoing FDA final inspection to bring back the product. So this quarter we should expect one more product to come in the market, and first quarter of FY2015 should see another product to be on the market.
- Girish Bakhru:** Pankaj, lastly on the R&D front, you had said last quarter that R&D would probably remain flattish. This quarter we have seen some bump up and you have already started trials on your DPP-4 and things like that. So where would the R&D go?
- Pankaj R. Patel:** I do not think we would see that. What I said we will continue to remain the same, and quarter-to-quarter there could be some things, we cannot spend exactly the same amount every quarter. So the new DPP-4 Inhibitor clinical trial, I do not see that is not a significant number that we cannot absorb in our overall R&D budget.
- Girish Bakhru:** Any color on what would be the cost of such Phase-1 studies and all?

- Pankaj R. Patel:** Depends upon what product you are talking about. The Phase-1 study can vary between 1 million to 4 million depending on what protocol you are following.
- Moderator:** Our next question is from Surjit Pal of Prabhudas Lilladher. Please go ahead.
- Surjit Pal:** I have just two questions; one thing is that you have given guidance of around 12-15 months and (+20) product approvals in US. Does it after consideration of the shut down impact because I believe there has been quite a big backlog is there?
- Pankaj R. Patel:** I do not think that shutdown has impacted because I think the OCD continued working during the shut down period except only it stopped accepting new ANDA applications, and they were still working because I think under the roof they had money available, so the shut down did not happen at the OCD front. The OCD inspection activity and accepting new applications stopped but some of the departments still worked. We filed our ANDA during that period and we have also got approval of ANDA during that period from another department of FDA. They continue working during that period.
- Surjit Pal:** Another thing is that, is there any particular product you were expecting to be added to the existing product agreement for Hospira?
- Pankaj R. Patel:** Yes, we have added products to our agreement. We are unable to give you exact details because only Hospira will make a formal announcement for this but we have added products and we are currently doing the exhibit batches for that to basically launch. We expect that product to be on the market in 2015.
- Surjit Pal:** 2015 calendar year you are saying?
- Pankaj R. Patel:** Yeah calendar year.
- Surjit Pal:** And when can we expect that announcement to come by?
- Pankaj R. Patel:** We do not know; we have not checked with Hospira. Hospira will only make a further announcement.
- Surjit Pal:** Just you can give us an idea about the time?
- Pankaj R. Patel:** Because I do not have a timeline for this, that is why I am unable to give you.
- Surjit Pal:** But it is a patented product?

- Pankaj R. Patel:** They are not.
- Moderator:** The next question is from Manoj Garg, you can begin Sir.
- Manoj Garg** You have indicated that two of your transdermal facilities have been successfully inspected by the FDA, and as per your earlier guidance like you have indicated that you expect at least one or two product launches of transdermal in FY15. Just want to understand what is your outlook now?
- Pankaj R. Patel:** We continue to believe that would happen.
- Manoj Garg** So expect FY15 at least we will have one or two launches?
- Pankaj R. Patel:** We are hoping that now. I cannot give you timelines because it is again FDA. But definitely if they come and inspect it, we would have approvals.
- Manoj Garg** And second question Pankaj bhai, just would like to understand that have we seen the full impact of the domestic pricing policy in this quarter or what could be the quantum of the total impact because of this policy to our overall profit?
- Pankaj R. Patel:** As far as the new pricing policy is concerned, last quarter has not seen the full impact, only now, this quarter onwards, we will see the impact of the domestic pricing policy. As we told you before, some of that would get adjusted because of the opportunities we have in terms of either increase in volume or changing prices of certain products, etc. etc., so put together the overall impact we expect to be around Rs.75 crores annually.
- Manoj Garg** Sir, another thing, just wanted to understand, particularly like Vishal had explained about the gross margins, but if we look at in terms of even sequentially the gross margins have almost come down by 500 bps kind of range despite better currency realizations maybe even at 59, because the currency realization was almost around 7-8% higher. I do agree that there was some impact because of one of the products from Hospira and maybe some impact on domestic side, but this 500 bps kind of margin contractions on a sequential basis is still not understandable, if you can put some little light on this.
- Pankaj R. Patel:** Manoj, actually you know, 4% growth in Domestic Formulations market is a very important reason which brings down gross contribution. As you know, Domestic Formulations margins are definitely much better and possibly the highest in all the businesses, and that overall growth is 13% and Domestic Formulations only 4%, that affects significantly. and second impact is because of JV contribution; JVs definitely contribute significantly and this quarter there is de-growth in terms of the profit contribution. So these two are largely responsible for

lower gross contribution lower in the current **quarter** Also, the impact of Domestic Formulations comes in the form of reduced NLEM pricing apart from the business mix, because margins of Domestic Formulations business have come down because of NLEM price reduction.

Manoj Garg So, you feel that all these three factors put together has pulled down almost around 400 bps kind of margins?

Nitin Parekh: That is right.

Manoj Garg About the tax rate, which shows for the quarter was just 5-6%, though you have indicated that for the year as a whole we should take into consideration around 12-13%, like first quarter we had around 9% kind of tax, does it mean that in the second half, the tax provision would be on much higher side?

Nitin Parekh: Yes, that is right, because in the current quarter, apart from impact of merger, which reduced the taxes on other entities which are now merged and which were otherwise paying maximum rate there has been reversal of tax provision which in those companies have made because merger is effective from 1st April 2012. So earlier they had made provision at the maximum marginal tax rate, and after the merger which is the retrospective rate effective, tax provision is now reversed.

Manoj Garg We would also like to understand that now since in India like most of the profits are under MAT, how we are able to manage the 12-13% kind of tax rate.

Nitin Parekh: There are businesses where we have AMT, and in case of AMT, because we are taking the credit for that to the extent of our ability to ultimately set off this AMT in the future profits, so because of that we are taking credit for that. **So that profit to a large extent gets nullified in terms of the net tax provision, which brings down overall tax rate.**

Manoj Garg And you expect this will continue to remain at least for the next 2-3 years?

Pankaj R. Patel: Yeah, I believe so.

Manoj Garg And Sir, like you said that this quarter contribution in the US was largely driven by price increases and the new launches including Depakote not contributed much so far. While we have seen that one of your competitors have been able to monetize that opportunity because of shortages and significant price hikes, which have been done in this product, so what is your outlook like, are we facing some manufacturing or scaling up issues, or why the product was not being able to contribute to the extent which probably it has potential to?

- Pankaj R. Patel:** Subsequent to the resolution of problems, we have now started manufacturing and now we have supply available and we will see the impact of those in the next quarters.
- Moderator:** Our next question is from the line of Sonal Gupta of UBS Securities, please go ahead.
- Sonal Gupta:** Sir, just wanted to understand what is your net debt for the first half, just to understand if there is anything included in current liabilities, etc.?
- Nitin Parekh:** So net debt is Rs.2,676 crores.
- Sonal Gupta:** How much of this would be US-dollar denominated?
- Nitin Parekh:** Not dollar-denominated debt, but the foreign currency debt is Rs.1,100 crores.
- Sonal Gupta:** Anything that you can share with respect to Asacol or Lialda, in that sense, have you heard back from the FDA on these products?
- Pankaj R. Patel:** We do not have any update available at this moment on either of the products.
- Sonal Gupta:** I thought the Bayer JV was also a meaningful contributor in terms of your overall JV business or is that no longer the case, has something changed there because otherwise the JV business drop on a sequential basis seems pretty sharp, so I would have thought that Bayer was also a meaningful business?
- Pankaj R. Patel:** It is a meaningful business, but it is not a significant contributor compared to the other two JVs, both in topline and bottomline.
- Sonal Gupta:** What is the sort of outlook that you have for India for the second half?
- Pankaj R. Patel:** Market is going to remain like this and single-digit growth is what we are going to see.
- Moderator:** Our next question is from the line of Saion Mukherjee of Nomura, please go ahead.
- Saion Mukherjee:** You had this licensing agreement for Buscopan and Dulcolax. So what is the status there, and what are the chances that this brand will remain with us?
- Pankaj R. Patel:** As we mentioned to you earlier, our agreement is ending in December 2013.
- Saion Mukherjee:** Are we in the negotiation stage, can you throw some light?
- Pankaj R. Patel:** There is no additional input; the agreement will end in December 2013.

- Saion Mukherjee:** How large are these two brands put together for you?
- Pankaj R. Patel:** About Rs.90 crores.
- Saion Mukherjee:** The earlier question on Asacol and Lialda, just wanted to understand, is this a possibility in fiscal 2015 you think?
- Pankaj R. Patel:** Yes, one of them.
- Saion Mukherjee:** Do you expect it to be limited competition, what is your assessment of the competitive landscape there?
- Pankaj R. Patel:** As per our understanding, we do not expect competition in either of the products.
- Saion Mukherjee:** You expect to be the first and the only player?
- Pankaj R. Patel:** Let us see when the approval comes. We expect to be the only player.
- Saion Mukherjee:** And Sir, on Lipaglyn, what is the kind of response and how large this brand can be? Any thoughts or any efforts for the other markets, or regulated markets, partnerships etc.?
- Dr. Ganesh N. Nayak:** Response has been very good by the top endocrinologists as well as the diabetologists. In the first month, we have done a sale of Rs 60 lakhs, which is of course the primary sale, and we already have more than 2500 patients on this product.
- Saion Mukherjee:** On partnership in other markets?
- Pankaj R. Patel:** That is work in progress, so for other markets, applications are being made for approvals, our target is to file applications during this quarter and next quarter, and with respect to licensing, we have not initiated action yet.
- Moderator:** Our next question is from the line of Surya Patra of PhillipCapital. Please go ahead.
- Surya Patra:** Just wanted to check, though we have already indicated that the likely implication of the new pricing policy is something like 70-80 odd crores this is because of the price impact, but what could be the impact of this de-stocking that is what you are currently seeing for the quarter?
- Pankaj R. Patel:** The de-stocking issue no more exists. I think it is more an issue around the noncooperation which the Chemists Association is doing with the industry, #1, and #2, overall market has

impacted both because of the price reduction and also because of overall lesser demand of Anti-Infective class of drugs.

Surya Patra: Once again just wanted to clarify again, whether the full impact of the pricing policy and all that will be there in the running quarter, that would see the full impact of this?

Pankaj R. Patel: Yes.

Surya Patra: Regards the US business, we have in the initial comments mentioned that we filed 12 kind of ANDAs this quarter, it is for the quarter or for the YTD period?

Pankaj R. Patel: It is for the quarter.

Surya Patra: So that means that we have stepped up our filing process to some extent for the US site, and we already have around 100 pending filings so far for US market and we are filing 12 for the quarter. So what is the kind of run rate or what is the thought process or what is the kind of strategy that we are currently following for our US business, can you talk something more on that?

Pankaj R. Patel: I think overall we are stepping up our filing. I think we started filing other Dosage Forms also. So all put together our filings numbers are going to go up. Going forward, you will see that happening more. The idea is really to build up a huge pipeline for future growth, to ensure that there is enough pending applications with FDA, and we have more approvals on a continuous basis.

Surya Patra: Any number that you can provide, okay, annually this many kind of ANDAs you are targeting, compared to the historical trend of around ...?

Pankaj R. Patel: Our target is to file anything more than 30 ANDA per year, and that is what we are going to maintain.

Surya Patra: So that is why you have stepped up kind of filing for the US side then?

Pankaj R. Patel: Yes.

Surya Patra: Again Sir, out of the 100 current pending, what portion of that would be differentiated generic or the niche generic or complex product class or limited competition class kind of product?

Pankaj R. Patel: Out of the pending, about 10% we call it kind of differentiated products. There would be also products which would be like drug-delivery based, but I would not include them in differentiated products.

Surya Patra: You also talked something like a few products are seeing expedited kind of approval process. So that means whether a few injectables are there in the pipeline which are obviously not the Para-IV opportunities?.

Pankaj R. Patel: There are no injectable Para-IV opportunities at this moment. , but we have some other oral products where we have expedited reviews.

Surya Patra: Just last one question sir, obviously somebody has already talked about the Bayer JV and it has on the top line front, obviously has witnessed a kind of good growth YOY in the recent period, and it was sort of breaking even at the EBITDA level. So whether it has reached kind of significant sort of EBITDA positive number so far?

Pankaj R. Patel: I think it is always good to remain at break even, or slightly above the break even, because I think the way we produce the product and transfer in the way that JV does not make profit, profit is made by us. So going forward also, we will see that that company is not going to contribute to the bottom line, because bottom line is indirectly contributed through supply of goods.

Surya Patra: that means even if it achieves some sort of critical mass, then it might not possibly reduce or protect the margins of the overall JV profitability?

Pankaj R. Patel: No, no, ultimately, you should look at consolidated margins and consolidated profit, and as the sales goes up, it will contribute to the bottom-line, but it will not reflect in the JV account.

Moderator: Our next question is from the line of Alok Dalal of Motilal Oswal, please go ahead.

Alok Dalal: Pankaj bhai, there is a litigation going on with Mylan for transdermals. Can you give some update on that litigation?

Pankaj R. Patel: The case is expected to be in prosecution in next quarter, and we would see at the end of that the final outcome. We are advised by our lawyers that Cadila is not to worry about this.

Alok Dalal: In case you get approvals next year for transdermals you would be able to launch those?

Pankaj R. Patel: Yes, of course.

Alok Dalal: Pankaj Bhai, second question was about the company itself, in the sense that last two years, three years have been kind of consolidation phase, a challenging phase for us. What have been the key learning here, or what have been the key changes that you have incorporated wherein we could look at more consistent sales and earnings growth for the company over the next two years?

Pankaj R. Patel: The question is that whether we have grown at 26% or 22% or 18%, but we have continued growing. The question is that we had some high margin opportunities which came up to us, and those high margin opportunities were only short living. I think we did not have enough in the pipeline to create newer opportunities which also would have similar high margin opportunities. So, two things which have been done based on the learning -- one is, we have looked at overall cost structure and see that how we optimize the cost structure -- second thing what we are trying to do is, how do we create more attractive pipelines so that you have more opportunities going forward. And these two are basically going to ensure the things work in future.

Alok Dalal: Would you agree with the fact that our business model is far well diversified. So diversification with our business model to some extent has hurt us in the past, is that understanding correct?

Pankaj R. Patel: That is not the learning, because our diversified model actually would give us more opportunities, so I do not see that is the way there is an issue at all, the issue is around that we had certain great opportunities came up in our side, particularly in the JVs, and when those opportunities went out, we had a significant reduction in the numbers. Though overall numbers look low, but if you see the JV numbers, they have almost become half over a period. So other businesses continue contributing, but because the JVs did not contribute, and we did not have enough newer opportunities to take care of both the de-growth in JV plus the growth expectations, we ultimately ended up into these numbers. So if you analyze this, overall, you will realize that the dependence on JV has significantly reduced as far as both topline and bottomline is concerned and I think that would ensure that, going forward, we will have a robust growth both on top and bottomline.

Moderator: Thank you Mr. Dalal. Our next question is from line of Ram Hegde of Primus Investment Advisors, please go ahead.

Ram Hegde:: Pankaj bhai hi, just on the US FDA, last quarter if I heard you correct, you said that there was some sort of a change in the process which meant that you sort of cut the guidance in terms of the launches and approvals that you would probably receive, but now we are seeing an

increased pick up again. So could you just give some more color in what really changed in the last one quarter?

Pankaj R. Patel:

Yes, I think Ram it is a good question. What I shared last quarter has been unfortunately not correctly understood. What I said last quarter is that the process is now US FDA does not give you idea about what is happening. But once they complete the review they give you a complete response letter, which contains their observations on different sections of the ANDA, and typically there are three or four sections of ANDA which are important, and all those sections, comprehensive things they are giving. Previously what was happening, individual sections comments were received independently and that is why we were knowing that things are progressing. . At that time we had complete blackout of information. Because I did not have any information I was unable to say that, but whatever information I had , I thought a lower number of approvals were there. Between then and now, we have received a number of complete response letters for products and because we have received a number of complete response letters, we have seen the complete response letters, we know what are the additional information FDA is asking. We are very confident that this kind of approval is possible. So I think my mistake that I did not very clearly clarify so everybody perceived, “Oh! There is a problem, they are not going to get approval.” But it is not the case.

Ram Hegde::

When we are hearing this from you now, you have seen now the response letters, the product queries that they have raised, and that gives you the confidence to say that in 12 to 15 months a lot of approvals that we are going to receive?

Pankaj R. Patel:

That is correct Ram.

Ram Hegde::

Coming back to the transdermal litigation question which was asked earlier, and if I heard you correctly, you said the prosecution has done all the hearings and all of that, whatever, the judgment is going to be in the next one quarter, right?

Pankaj R. Patel:

What we said was that the case is moving and we expect the judgment to come in the next quarter or so, so that is what I said. As per our lawyer’s advice, Zydus is not going to get impacted irrespective of whatever judgment comes, that is what I wanted to tell you. It is the case against the partner actually.

Moderator:

Thank you Mr. Hedge. Our next question is from the line of Krishna Prasad from Kotak, please go ahead.

Krishna Prasad:

Just continuing on the transdermal front, if you could help us understand how many transdermal filings would happen in the current year and next year, and would that sort of complete our entire transdermal activities for the US market?

- Pankaj R. Patel:** So, we expect that our transdermal ANDA filing activity would conclude by next financial year, and subsequently we will only be focusing on newer opportunities in transdermal, which is more of 505(b)(2) kind of opportunities.
- Krishna Prasad:** So by FY15, how many would we have filed for in transdermals?
- Pankaj R. Patel:** FY15, total number of filings would be about 7.
- Krishna Prasad:** Just on the other question on **Buscopan and Dulcolax** products that you talked about, the impact that you mentioned, does that also include the NLEM impact, the pricing policy impact or what would be the net number there?
- Pankaj R. Patel:** Net number will be lower.
- Nitin Parekh:** 90 crores of rupees.
- Pankaj R. Patel:** But there is an impact of NLEM, you have to reduce the number by 25%.
- Krishna Prasad:** So essentially this would start from January onwards?
- Pankaj R. Patel:** Yes.
- Krishna Prasad:** And just finally, one last question, any Nasal Spray approvals that you are expecting in FY14-FY15.
- Vishal Gor:** In FY15, nasal product approvals, we have received CRL and we expect that approval will happen.
- Moderator:** Thank you Mr. Prasad. Our next question is from the line of Anubhav Agarwal of Credit Suisse, please go ahead.
- Anubhav Agarwal:** Just two questions; one on Divalproex, when exactly did you launch it, and have you got any market share so far, any contract with any other customer?
- Pankaj R. Patel:** We have launched the product only in the last month of last quarter. It is too early to tell you about market share, but we expect usual market share which we get, so we should be looking at something like 20% market share.
- Anubhav Agarwal:** You launched in September, so now it has been almost in the market by two months. Have you got any contract so far, just checking on that?

- Pankaj R. Patel:** Yes, we already got contracts and we have made supplies.
- Anubhav Agarwal:** Second question was on JV. You mentioned the JV performance now has bottomed out. Because I am not getting a sense that profitability has bottomed out, so what is the consideration of a largest product here?
- Pankaj R. Patel:** I do not know the data, but I am happy to discuss with you off line.
- Anubhav Agarwal:** The question which was asked earlier, Bayer JV, you said it is minimal to the topline, my estimate was it is about at least 15% of JV sales, is that very off?
- Pankaj R. Patel:** I do not have the data in front of me, I do not want to comment, I can take this question offline with you after I have the data in front of me and then we can give you more color to the whole thing.
- Moderator:** Our next question is from the line of Rahul Sharma of Karvy Stock Broking, please go ahead.
- Rahul Sharma:** Sir after the inspections which you had in the current year, just wanted to know what type of approvals you are looking at in the current year, from the US FDA side, and next year would it be fair to assume that we will get around 12 to 15 approvals?
- Pankaj R. Patel:** Yes, we just mentioned, in the next 12 to 15 months we should have about 20 approvals and launch the products.
- Rahul Sharma:** And any niche approvals or any differentiated products apart from the transdermal which you mentioned and Lialda, which could come in?
- Pankaj R. Patel:** Yes, we have several of them and I think we expect that a couple of those products should get approval during the next financial year.
- Rahul Sharma:** Would it be fair to assume around 25% would be differentiated apart from the two products?
- Management:** 2 out of 20 is 10%.
- Rahul Sharma:** On the tax rate, wanted to get a view, in FY16, will we yet continue in 12-15% or our deferred tax credit will be exhausted by that time?
- Vishal Gor:** No, it will continue in 12-15%.
- Rahul Sharma:** Till what time?



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Vishal Gor: Till 2017.

Moderator: Thank you Mr. Sharma. Ladies and gentlemen, due to time constraints that was the last question. I now hand the conference over to Mr. Ganesh Nayak for closing comments.

Dr. Ganesh N. Nayak: So, thank you very much and we look forward to interacting with you again in the month of February 2014 for the next teleconference. Thank you very much and good night.

Moderator: Thank you very much members of the management team. Ladies and gentlemen, on behalf of Cadila Healthcare, that concludes this conference call. Thank you for joining us, you may now disconnect your lines.