



“Cadila Healthcare Limited Q2 FY15 Post Results Conference Call”

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

Dr. Ganesh N. Nayak: Good Evening and Welcome to our Post Result Teleconference for the Second Quarter of FY-'15. We have with us Mr. Pankaj Patel – Chairman and Managing Director; Dr. Sharvil Patel – Deputy 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 21% year-on-year to Rs.21.1 billion. Earnings before depreciation, interest and tax excluding the impact of exchange rate fluctuations was up by 61% year-on-year to Rs.4212 million. EBITDA margin as a percentage of total income from operations improved from 14.9% in the previous year to 20%. Profit before tax excluding the impact of exchange rate fluctuations and exceptional items was up by 83% to Rs.3,465 million. Excluding the impact of increase in depreciation charge, due to revision in the useful lives of the assets, growth in PBT was 92% year-on-year. Net profit excluding the impact of exchange rate fluctuations, exceptional items and reversal of tax provision in Q2 FY-'14 was up by 86% to Rs.2,792 million. Excluding the impact of increase in depreciation charge due to revision in the useful lives of the assets, growth in net profit was 96% year-on-year.

Now, let me share some of the highlights of the operations for the quarter. Our India Formulations business posted sales of Rs.6,808 million, up by 9%. Growth excluding the impact of discontinued BI products was actually 13%. We launched 16 new products including line extensions in India during the quarter, of which 6 were for the first time in India. Our business in the US posted sales of Rs.8,020 million, up by 68%. We launched 4 new products in the US market during the quarter. We received approval for 6 new products including 1 tentative approval from the US FDA during the quarter. In Brazil, we filed 2 dossiers with ANVISA taking the cumulative filings to 115. In Mexico, we launched 2 divisions – CNS and CVS. During the quarter, we launched 2 new products, taking the cumulative number of launches to 12 and received approval for 2 products, taking the cumulative number of approvals to 17. Zydus Wellness Limited posted sales of Rs.1,101 million, up by 6%. Net profit of Zydus Wellness Limited was up by 8% to Rs.273 million. Our Animal Health business posted sales of Rs.772 million, up by 13% backed by 2 new product launches in India. Thank you. And we will now start the Q&A session. Over to the coordinator for the Q&A.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Time permitting you may come back in the queue for a follow-up question. Our first question is from Anubhav Aggarwal of Credit Suisse. Please go ahead.

- Anubhav Aggarwal:** One clarity on the interest actually. You have debt of about Rs.2200 crores, but the quarterly interest cost is about Rs.17 crores to Rs.18 crores that works out to be only 3% effective interest cost. How much of a debt is in foreign currency? I used to think only 50% is in foreign currency. Why the interest cost is so low?
- Nitin Parekh:** 57% of debt is in foreign currency.
- Anubhav Aggarwal:** Then why the interest cost is only 3%? Should it not be higher with 57% of debt in foreign currency?
- Nitin Parekh:** That is a reality, so it is 3%.
- Anubhav Aggarwal:** This debt even last year remained the same?
- Nitin Parekh:** Almost the same, Yes.
- Anubhav Aggarwal:** Second question is on the Transdermal case which you have with Mylan. I was going through the changes in the case over last one year. Is it true that now the case is only restricted to two products – Clonidine and Estradiol – and the five other products are out of the case?
- Pankaj R. Patel:** There is no specific product-related case here, it is a general case and nothing specific we can say about it yet because the case has not reached where we can definitely say this is related to one product or more products.
- Anubhav Aggarwal:** Just one clarity on a couple of products in the US. Sirolimus, you have tentative, but when do you get the final approvals?
- Pankaj R. Patel:** We are expecting any time.
- Anubhav Aggarwal:** For Prevacid, have you already got complete response letter?
- Pankaj R. Patel:** Yes.
- Anubhav Aggarwal:** Last call you said that you expect to launch Prevacid by closer to end of this year or next year. That guidance still remains true?
- Pankaj R. Patel:** We should be able to launch next year.
- Anubhav Aggarwal:** Early next year?
- Pankaj R. Patel:** Exactly we cannot say, but we expect next year.

- Moderator:** Thank you. Our next question is from Nimish Mehta of Research Delta Advisors. Please go ahead.
- Nimish Mehta:** Sir, can you just throw some light on the royalty income that we have received this quarter in the other operating income part, it is substantially higher, what is it related to and whether it is sustainable or not?
- Nitin Parekh:** It is not substantial. It is of a recurring nature and therefore it is sustainable.
- Vishal Gor:** It is only a timing issue that is why you are seeing a higher number in this quarter.
- Nimish Mehta:** It is about Rs.23 crores vs. Rs.7 crores. So we can expect the same run rate going forward?
- Vishal Gor:** No, it should be taken on an annual basis.
- Nimish Mehta:** On an annual basis what is that you expect?
- Vishal Gor:** On an annual basis, we can take an average of about Rs.9 crores to Rs.10 crores. That is what I was telling last year too.
- Nimish Mehta:** Sir, my next question is on Generic Abilify where I think we have got tentative approval for 10 mg version. So, can you throw some light what is the addressable market and when do you expect to launch?
- Pankaj R. Patel:** Currently, I do not have the data, so sorry, I am unable to provide you, but surely we will provide you separately. Vishal will come back to you.
- Nimish Mehta:** But are we expecting approval for all the versions or it is something that is not expected any time soon?
- Pankaj R. Patel:** I am not aware of that detail so I cannot talk to you, but I will come back to you subsequently.
- Moderator:** Thank you. Our next question is from Prakash Aggarwal of CIMB. Please go ahead.
- Prakash Aggarwal:** Sir, first question on US. You have seen a sequential improvement. I assuming the new product launches that you have done with some limited competition products and AG ramp up. So would this have more impact than the price erosion that you have seen, because other players in the market have reported or talked about price erosion due to channel consolidation, can you throw some light?
- Pankaj R. Patel:** There is price erosion because of channel consolidation but we have been launching products and I think some of the benefits of them we are seeing clearly.

- Prakash Aggarwal:** No, have we taken the price erosion or we are yet to take the price erosion, I was trying to understand that?
- Pankaj R. Patel:** We have taken some price erosion in the numbers.
- Prakash Aggarwal:** So this is the new base which with new product approvals we will see that ramping up going forward?
- Pankaj R. Patel:** That is what we expect, yes.
- Prakash Aggarwal:** In terms of we have seen very good number of approvals and in the past year guided for 10 to 15 approvals for the year. Does that change with so many approvals on hand?
- Pankaj R. Patel:** Our guidance would remain the same. We also pray and hope that we will have more approval.
- Prakash Aggarwal:** So around 10 to 15 for this year?
- Pankaj R. Patel:** Yes.
- Prakash Aggarwal:** And about 40 filings for this year?
- Pankaj R. Patel:** Right.
- Prakash Aggarwal:** And this quarter just reconfirming, there have been no filings because of the GDUFA transition?
- Pankaj R. Patel:** Only one filing this quarter.
- Prakash Aggarwal:** Just one question on the India business. We earlier used to give color on also the NLEM impact. Last quarter, you talked about though the growth was 8%, excluding the impact of NLEM and BI discontinuation growth would have been 16%. So would we have a similar number this quarter also?
- Dr. Ganesh N. Nayak:** This is Ganesh Nayak. In my opening talk, I did make a mention of the numbers on the domestic front, I said growth is 9%, without BI it is 13%. Since you have taken this NLEM point that adds actually one more percent. Actually our growth on apple-to-apple basis is 14%, of which 1% is because of NLEM and 4% is because of the BI and the actual business-to-business growth comes to 9%.
- Prakash Aggarwal:** This would not include any recent decision by Supreme Court on the Cardio and Diabetes products. Rs.23 crores impact that you had talked about last quarter, so we have not taken that price cut as of now?

- Pankaj R. Patel:** We have not taken that price cut yet.
- Prakash Aggarwal:** That is still litigated? Do we have understanding where it stands today?
- Pankaj R. Patel:** It is on litigation at this moment.
- Prakash Aggarwal:** Other industry players already started to show double digit growth. When do we actually see – would it be post BI impact or ...?
- Pankaj R. Patel:** We expect it from the last quarter of this year.
- Prakash Aggarwal:** March quarter?
- Pankaj R. Patel:** Financial year, Yes.
- Prakash Aggarwal:** Just wanted to understand in terms of Transdermal, we have been making filings from fiscal '11 onwards. So what is our current understanding in terms of monetizing Transdermals for at least the first two products?
- Pankaj R. Patel:** Exact date we cannot give you but we expect approval may be second quarter next year.
- Moderator:** Thank you. Our next question is from Girish Bakhru of HSBC. Please go ahead.
- Girish Bakhru:** Just wanted color on the US growth. When you basically say the numbers include that of Neshor and Hercon, how much is the Hercon contribution?
- Pankaj R. Patel:** It is not significant.
- Girish Bakhru:** But they are selling a patch filing or....
- Pankaj R. Patel:** Hercon is selling only one product and we are filing from Hercon now.
- Girish Bakhru:** I would understand that most of the Transdermal filings would be from here, right?
- Pankaj R. Patel:** Yes, except the controlled substance filings, all Transdermal filings are from India, controlled substance filings will be happening from US.
- Girish Bakhru:** Just on the US side again on Abilify, I know you commented that you cannot comment on the launch, but one of your peers commenting that competition may be very limited in this product given it is such a sizeable product, how do you see if at all, any clarity that you can see a number of players that might get a launch in the first day?

- Pankaj R. Patel:** As I mentioned earlier, I cannot give you more information at this moment on the product. We are still trying to assess, so that is why I did not give anything, but as soon as we have clarity we will be happy to provide you some information on this.
- Girish Bakhru:** One color I wanted on Potassium Citrate. How has the launch been and is it a sizeable product given that you are the only generic?
- Pankaj R. Patel:** Yes.
- Girish Bakhru:** This is from Neshar, right?
- Pankaj R. Patel:** No, this is from our India.
- Girish Bakhru:** Just lastly any color on the R&D? You have been earlier doing at 6-7% rate, now it is at 5-5.5%. Where do you see that going forward?
- Pankaj R. Patel:** It is between 6% and 7% . We will maintain this year also.
- Girish Bakhru:** And largely it will be 80% Generic, right?
- Pankaj R. Patel:** Yes.
- Moderator:** Thank you. Our next question is from Manoj Garg of Bank of America-Merrill Lynch. Please go ahead.
- Manoj Garg:** Pankaj Bhai, now margins coming back to this 20th kind of range. How do you see the margin expansion trajectory over the next 2-3-years?
- Pankaj R. Patel:** I think we have been telling in our meetings and calls that we would see a margin improvement happening and we expect that, next year, the margin should be about 21%.
- Manoj Garg:** Just want to understand some color on France and Brazil, because I think both the territories still like showing the decline for the quarter as a whole. So if you can give some more color on this and how do we see the trajectory going forward?
- Dr. Ganesh N. Nayak:** First, let us talk about Brazil. In Brazil, the biggest challenge we have is the lack of new approvals, though our filings are in order, and because of that our Branded business has grown at 2% and our Generic business has grown at 1%. So coming to the Branded business, because of the lack of approvals and we had some regulatory challenges so that is why we have still maintained 2% which we feel in light of this complexity it is not bad. Coming to the Generic again, we have no new approvals and growth is 1% but volume wise the growth is around 6%. We have had some price erosions. So at this point in time it is kind of a stabilizing business. The moment we get approvals we feel this business should be growing in double-digit

numbers. Coming to France, the discount officially given or approved by the government was 17%, but now from the 1st of September they will change it to 40%. So because of that in terms of billing, the value comes down. So we have done some rationalization in terms of our distribution network to ensure that our profitability is better than what it was earlier, though on the top line you will see the revenue numbers lower, because of two reasons – one is this discount from 17% to 40%; and the other is our rationalization of the distribution.

Manoj Garg: So can we see this as a new base from here on?

Dr. Ganesh N. Nayak: Here on, okay, yes.

Manoj Garg: Last on this emerging markets again, like there was some decline during the quarter. Is there any specific geography or it was across the board, sir?

Dr. Ganesh N. Nayak: In the emerging markets, broadly, all the countries have shown positive growth except Sudan which is a major contributor in Africa and Middle East region, and there in Sudan, because of this political disturbances and due to the payment complications, we had to restrict our supplies and that is why there was a setback, but going forward, in the next quarter, we see good numbers coming in.

Moderator: Thank you. Our next question is from Lalit Kumar of Nomura. Please go ahead.

Nitin Parekh: Sir, my question is related to balance sheet. If you look at our loans and advances which include long-term as well as short-term that has increased by roughly Rs.180 crores versus March '14. So may I know the reason behind it?

Management: This is basically to support our overseas subsidiaries, loans and advances would have gone up.

Lalit Kumar: That is on consolidated basis?

Nitin Parekh: That is an ongoing phenomena. Some of the entries might have been done on the last date of the balance sheet. We might have given some advances, they are mostly short-term in nature for supplies of materials and capital goods.

Lalit Kumar: Another thing is our other current liability that also seems to have increased by roughly Rs.300 crores. Is it because of loan or is there any other component because of which it has increased?

Nitin Parekh: No, the business is as usual, there is nothing which is extraordinary.

Moderator: Thank you. Our next question is from Anubhav Aggarwal of Credit Suisse. Please go ahead.

- Anubhav Aggarwal:** A couple of questions, sir. One on Asacol HD. In your settlement with Actavis, do you have any protection clause? In case if Actavis were to shift the market to Delzicol, are you protected or it could impact Cadila?
- Pankaj R. Patel:** Yes, some protection mechanism is there in the agreement.
- Anubhav Aggarwal:** Is this a standard practice you are used to do this or this is something you?
- Pankaj R. Patel:** No, because we knew that in some of the earlier products that happened that is why we have some protection provision.
- Anubhav Aggarwal:** One question on the balance sheet. Of course you did pay out dividend which was about Rs.200 crores plus in the first half, that is why debt is pretty constant in the first half. But what about second half – can we expect that debt could go down by Rs.200 crores to Rs.300 crores?
- Pankaj R. Patel:** Yes, it is possible.
- Moderator:** Thank you. Our next question is from Prakash Aggarwal of CIMB. Please go ahead.
- Prakash Aggarwal:** Sir, just wanted some color on the US FDA issue that happened 2-3-months back and we had clarified that this is on a product basis. Could we have the current status on the same?
- Pankaj R. Patel:** There was specific inspection with respect to one of the products approval for which we had done some studies in-house. Basically they came for inspecting that and that was specifically to that product approval and it had nothing to do with general GMP inspection. We have responded to the 483. We have not heard back from them. We expect that they would accept our explanation. Even if they do not accept, the maximum impact can be that the product approval can be withheld.
- Prakash Aggarwal:** With respect to the Moraiya full facility, when was the last inspection done?
- Pankaj R. Patel:** Inspection of Moraiya facility was done a couple of months back.
- Prakash Aggarwal:** So it has been cleared now. On a general practice they come every 2-years is that correct understanding?
- Pankaj R. Patel:** Yes, we have been inspected in Moraiya over the last 2-3-years about 3-4 times. So it is an ongoing thing. Sometimes it is product related sometime it is other than product related.
- Prakash Aggarwal:** And if I may ask were there any 483s or any major ones?
- Pankaj R. Patel:** There were 483s in past inspections but no major ones.

- Prakash Aggarwal:** And second one was on Brazil actually. We just had a call in the morning on Torrent and they had done very good growth, both driven by branded and generics, and it was driven by some product approvals. So where are we missing in terms of growth? I think some product approvals have already started in the market.
- Dr. Ganesh N. Nayak:** That is what I mentioned to the question raised by your earlier colleague. But in Torrent's case, you should also look at it from a base point of view. In our case, we are expecting approvals, I gave a detailed explanation earlier. So once the approval comes, we also expect growth numbers in double-digits.
- Prakash Aggarwal:** And last question on the Mesalamine franchise. So we have already filed for Asacol HD and Lialda. So any update on Lialda? And are there any more Mesalamine products like Apriso and Asacol in our portfolio in the pipeline?
- Pankaj R. Patel** We have filed for other products as well. We cannot give you specific products. And as far as Lialda is concerned, you know the litigation is going on. So once the litigation gets cleared we should be able to move forward.
- Moderator:** Thank you. Our next question is from Hitesh Mahida of Antique Stock Broking. Please go ahead.
- Hitesh Mahida:** A query on Prevacid ODT. What is the update? I think we got a favorable verdict recently. So when can we expect a launch?
- Pankaj R. Patel** We need to have product approval and also we also expect appeal in the higher court which will happen now. Once that is over then we should launch. So we cannot give you a specific timeline. It depends upon when the higher court decision comes.
- Hitesh Mahida:** But sir, do you feel that you would be the first company to launch that product?
- Pankaj R. Patel** So when we launch, we believe that we will be the only generic in the market.
- Moderator:** Thank you. Our next question is from Manoj Garg of Bank of America-Merrill Lynch. Please go ahead.
- Manoj Garg:** Sir, this question is with regard to Lialda. Given the fact that Actavis has very recently received a complete response letter from the FDA, that means it is difficult now for Actavis to get the approval in the current form. So what is your overall understanding in the landscape? And do you see the possibility of a settlement with Shire on this product?
- Pankaj R. Patel** These are all speculations. We do not know about settlement. However, we also have received complete response letter and we are working towards approval.

- Manoj Garg:** And sir given the fact that our ANDA was filed before the FDA came out with revised guidelines on Bioequivalence. Is our application as per the new Bioequivalence guidelines or it is like the earlier one?
- Pankaj R. Patel** Because we filed earlier as per earlier guidelines and then they came out with Bioequivalence guidelines, we had to do Bioequivalence study and submit again, We submitted that as well. So our application is complete as per FDA requirement.
- Moderator:** Thank you. Our next question is from Ashish Rathi of Emkay Global. Please go ahead.
- Ashish Rathi:** Sir on the JV sales, we have seen for almost 3-years now that the run rate is around Rs.110-120-odd-crores a quarter and we have been talking about new approvals for Hospira in the coming year and for the last 2-years now. Could you just help us understand what is the growth trajectory which we see here?
- Pankaj R. Patel** We expect the JVs to remain at the current levels. They are not really going to grow much from here. We do not expect significant jump in sales of JVs now.
- Ashish Rathi:** So what about the products which we were looking to transfer for Hospira into our ...?
- Pankaj R. Patel** We are doing all that. but the exclusive product was very big. That is the reason why those numbers are not commensurate with the kind of a large number we had with exclusive products.
- Ashish Rathi:** But sir correct me if I am wrong, the exclusivity of the major products expired more than a year back and that should already been the base for us, still we are not...?
- Pankaj R. Patel** What happened is that the competition came in, but very slowly, so it is gradually declining.
- Ashish Rathi:** Secondly on Neshier sir, if you could just give us an understanding as to how many products we have already in the market and what kind of sales are we getting from our Neshier business – has it gone in line with the expectations that the management had when we did this acquisition? Is there a lot of scope for improvement?
- Pankaj R. Patel** Currently, we have three products in the market and we are expecting fourth product approval in the first quarter.
- Ashish Rathi:** Any color on what kind of sales are we getting from this?
- Pankaj R. Patel:** We can give you the number for the quarter. I do not have it just now, but Vishal will provide you that.

- Ashish Rathi:** Have we been able to ramp it up the way we had thought when we did this acquisition or you feel there are challenges around that consent decree still going on or have we recovered from that completely?
- Pankaj R. Patel:** We expect the last inspection to happen now and thereafter, we should be able to move towards removal of consent decree. So we expect that by the next financial year, the consent decree will be removed.
- Ashish Rathi:** With that can we expect a significant jump in Neshar share?
- Pankaj R. Patel:** Removal of consent decree will create opportunity to basically file more products and get more approvals in future but that will not change the sales numbers. Some of our operating cost will go down.
- Moderator:** Thank you. The next question is from Bhavin Shah of GeeCee Investments. Please go ahead.
- Bhavin Shah:** Just wanted to get a sense on Topical and Nasal. How far are we from launching them in the market?
- Pankaj R. Patel:** We have received complete response letter, So we should expect approval. Again, giving timeline for approval is a very difficult thing, but we should expect in next 2-3 quarters.
- Bhavin Shah:** Worst case scenario, Pankaj Bhai, do you feel about 5-6 odd products in these complex categories would come in next year?
- Pankaj R. Patel:** Yes.
- Moderator:** Thank you. The next question is a follow up from Nimish Mehta of Research Delta Advisors. Please go ahead.
- Nimish Mehta:** Sir, you mentioned that you launched about four products this quarter in the US market. How many of them would have been authorized generics?
- Pankaj R. Patel:** One.
- Nimish Mehta:** Can you name that?
- Pankaj R. Patel:** That authorized generic was Niacin.
- Nimish Mehta:** Has that contributed significantly or we are still to see?
- Pankaj R. Patel:** It does contribute significantly.

- Moderator:** Thank you. The next question is from Anubhav Aggarwal of Credit Suisse. Please go ahead.
- Anubhav Aggarwal:** What is the gross debt in the balance sheet for September-end?
- Nitin Parekh:** Rs.2600 crores.
- Anubhav Aggarwal:** One clarity, previously you mentioned that you will have to go through the appeal. But was not this case appeal court already decided the way they decided the district court just put a stand in the same manner. Why would it again go back to the appeal court?
- Pankaj R. Patel:** Earlier, the appeal was against this order which was done by us. Now it will go to higher court. That means it might go to Supreme Court.
- Moderator:** Thank you. The next question is from Prakash Agarwal of CIMB. Please go ahead.
- Prakash Agarwal:** A follow up on the margins. I heard you mentioning about margins of around 21% next year. We are already at 20% now and we do expect some limited competition products to start coming in from next year onwards and we are also talking about double digit growth to start from domestic business. So what is missing – do we not see a better margin expansion or are you factoring in some...?
- Pankaj R. Patel:** Please understand, this quarter the margins look high, but I think I cannot just change the guidance or talking about higher margin only on one quarter performance. If you take first half performance, then margin are still lower, about 19%, right.
- Prakash Agarwal:** I was trying to understand whether are there any risk or challenges that we foresee and that is why little conservative?
- Pankaj R. Patel:** The whole point is that if we have more approvals, then margin will expand , but we cannot specifically say when exactly this is going to happen. That is why we are not expecting margin expansion beyond 21%. We will only tell you when the approvals come in.
- Prakash Agarwal:** Last call we have talked about there is one more AG that we are expecting. Which one was that? And when we are expecting that?
- Pankaj R. Patel:** That was Niacin.
- Prakash Agarwal:** So there is no more on the AG platform or?
- Pankaj R. Patel:** There is no more on the AG platform.
- Prakash Agarwal:** So all the growth will be driven by our own products going forward?

- Pankaj R. Patel:** Our own products.
- Moderator:** Thank you. The next question is from Kartik Mehta of ICICI Securities. Please go ahead.
- Kartik Mehta:** Pankaj Bhai, will we be increasing our field force in India also now that we plan to launch some more products in India?
- Pankaj R. Patel:** At this point in time, we are not going to increase any manpower.
- Kartik Mehta:** What is the MRs we have as of now in India?
- Pankaj R. Patel:** 5,000.
- Kartik Mehta:** Second one was maybe Nitin Bhai, what should we take as CAPEX number for FY16 and FY15?
- Nitin Parekh:** FY15 about Rs.550 crores for CAPEX.
- Kartik Mehta:** Will the tax rate go up as we launch more limited period products in the US market, will it be near MAT or will it actually be still lower than that?
- Nitin Parekh:** It will be lower than MAT. We can deliver 17-18% overall consolidated rate.
- Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I now hand the floor back to the management for closing comments.
- Dr. Ganesh N. Nayak:** Thank you very much and we look forward to interacting with you again in the month of February for the third quarter results. Good night.
- Moderator:** Thank you. On behalf of Cadila Healthcare Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.